

Matson, Inc.  
Form 10-K  
February 27, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

**OR**

**o 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 001-34187

**Matson, Inc.**

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**1411 Sand Island Parkway**

**Honolulu, HI 96819**

(Address of principal executive offices and zip code)

**(808) 848-1211**

(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, without par value	New York Stock Exchange

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

**None**

Number of shares of Common Stock outstanding at February 24, 2015:

**43,385,305**

Aggregate market value of Common Stock held by non-affiliates at June 30, 2014:

**\$1,144,794,947**

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

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  No

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  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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.

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

### Documents Incorporated By Reference

The following document is incorporated by reference in Part III of the Annual Report on Form 10-K to the extent described therein: Proxy statement for the annual meeting of shareholders of Matson, Inc. to be held April 23, 2015.

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**MATSON, INC.**

**FORM 10-K**

**Annual Report for the Fiscal Year**

**Ended December 31, 2014**

**PART I**

**ITEM 1. BUSINESS**

Matson, Inc., a holding company incorporated in January 2012, in the State of Hawaii, and its subsidiaries ( *Matson* or the *Company* ), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics. For financial information by segment for the years ended December 31, 2014, 2013 and 2012, see Note 14 to the consolidated financial statements in Item 8 of Part II below.

***Ocean Transportation:*** Matson's Ocean Transportation business is conducted through Matson Navigation Company, Inc. ( *MatNav* ), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav is an asset-based business that provides a vital lifeline of ocean freight transportation services to the island economies of Hawaii, Guam and Micronesia, and also operates a premium, expedited service from China to Long Beach, California. In January 2013, Matson began providing ocean services to various islands in the South Pacific including New Zealand, Fiji, Samoa, American Samoa, Tonga and the Cook Islands, and later expanded service to include Australia to the Solomon Islands, and Nauru. Matson's fleet consists of 18 owned and three chartered vessels including containerships, combination container/roll-on/roll-off ships, and custom-designed barges.

Matson also provides container stevedoring, container equipment maintenance and other terminal services for MatNav and other ocean carriers through Matson Terminals, Inc. ( *Matson Terminals* ), a wholly-owned subsidiary of MatNav, on the islands of Oahu, Hawaii, Maui and Kauai.

Matson has a 35 percent ownership interest in SSA Terminals, LLC ( *SSAT* ) through a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc. ( *SSA* ), a subsidiary of Carrix, Inc. SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the U.S. West Coast, including to MatNav at several of those facilities. Matson records its share of income in the joint venture in operating expenses within the Ocean Transportation segment due to the nature of SSAT's operations.

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**Logistics:** Matson's Logistics business is conducted through Matson Logistics, Inc. ( Matson Logistics or Logistics ), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides multimodal transportation, including domestic and international rail intermodal service ( Intermodal ); long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload services, expedited freight services (collectively Highway ); and warehousing and distribution services. The warehousing and distribution services are provided in the U.S. by Matson Logistics Warehousing, Inc. ( Matson Logistics Warehousing ), a wholly-owned subsidiary of Matson Logistics.

**Horizon Acquisition:** On November 11, 2014, Matson and Horizon Lines, Inc. ( Horizon ) announced that MatNav and Horizon entered into a definitive merger agreement pursuant to which Horizon will be merged with a subsidiary of MatNav. As a result, Matson will acquire Horizon's Alaska operations and assume all of Horizon's non-Hawaii assets and liabilities (the Horizon Transaction ). Separately, on the same day, Horizon announced that it agreed to sell its Hawaii operations to The Pasha Group ( Pasha ), (the Pasha Transaction ), and cease all of its operations in Puerto Rico. On February 25, 2015, the stockholders of Horizon approved the adoption of the definitive merger agreement. The Horizon Transaction is conditioned on the Pasha Transaction closing and other customary closing conditions. The Pasha Transaction is subject to clearance by the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

The total value for the Horizon Transaction is approximately \$456.0 million (before transaction costs), based on Horizon's net debt outstanding as of September 21, 2014, less the anticipated proceeds from the Pasha Transaction. The Company will fund the Horizon Transaction from cash on hand and available borrowings under its revolving credit facility.

**Separation Transaction:** On December 1, 2011, Alexander & Baldwin, Inc., the former parent company of MatNav (the Former Parent Company ), announced that its Board of Directors unanimously approved a plan to pursue the separation (the Separation ) of the Former Parent Company to create two independent, publicly traded companies, Matson, Inc., and Alexander & Baldwin, Inc. ( A&B ), a Hawaii-based land company with interests in real estate development, commercial real estate and agriculture.



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As part of the Separation, a holding company, Alexander & Baldwin, Holdings, Inc. ( Holdings ) was formed to facilitate the organization and segregation of the assets of the two businesses. The Separation was completed on June 29, 2012. In the Separation, the shareholders of Holdings received one share of common stock of A&B for every share of Holdings held of record as of June 18, 2012. Immediately following the Separation, Holdings changed its name to Matson, Inc. For accounting purposes, Matson is the successor company to the Former Parent Company.

**A. BUSINESS DESCRIPTION**

**(1) Ocean Transportation**

Matson's Hawaii service provides ocean freight services (lift-on/lift-off, roll-on/roll-off and conventional services) between the ports of Long Beach, Oakland, Seattle, and the major ports in Hawaii on the islands of Oahu, Kauai, Maui and Hawaii. Matson is the largest carrier of ocean cargo between the U.S. West Coast and Hawaii. Westbound cargo carried by Matson to Hawaii includes dry containers of mixed commodities, refrigerated commodities, packaged foods, building materials, automobiles and household goods. Matson's eastbound cargo from Hawaii includes automobiles, household goods, dry containers of mixed commodities, food and beverages, and livestock. The majority of Matson's Hawaii service revenue is derived from the westbound carriage of containerized freight and automobiles.

Matson's China service is part of an integrated Hawaii/Guam/China service. This service employs five of Matson's containerships in a weekly service that carries cargo from Long Beach to Honolulu and then to Guam. The vessels continue to the ports of Xiamen, Ningbo and Shanghai in China, where they are loaded with cargo to be discharged in Long Beach. These vessels also carry cargo destined to and originating from the Guam and Micronesia services.

Matson's Guam service provides weekly container and conventional freight services between the U.S. West Coast and Guam. Additionally, Matson provides freight services from Guam to the Commonwealth of the Northern Mariana Islands.

Matson's Micronesia service provides container and conventional freight services between the U.S. West Coast and the islands of Kwajalein, Ebeye and Majuro in the Republic of the Marshall Islands, the islands of Yap, Pohnpei, Chuuk and Kosrae in the Federated States of Micronesia, and the Republic of Palau. Cargo destined for these locations is transhipped through Guam.

In January 2013, Matson purchased the primary assets of a South Pacific ocean freight carrier based in Auckland, New Zealand. Matson named this new business Matson South Pacific, which currently transports freight between New Zealand, Australia and other South Pacific Islands including Nauru, Fiji, Samoa, American Samoa, Tonga, the Cook Islands, and the Solomon Islands.

*Matson's Vessel Information:* Matson's fleet includes 18 owned and three chartered vessels. The Matson-owned fleet represents an initial investment of approximately \$1.3 billion and consists of: 11 containerships; three combination container/roll-on/roll-off ships; one roll-on/roll-off barge; and three container barges equipped with cranes. The majority of vessels in the Matson-owned fleet have been acquired with the assistance of withdrawals from a Capital Construction Fund ( CCF ) established under Section 607 of the Merchant Marine Act of 1936

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(see Note 6 to the consolidated financial statements in Item 8 of Part II below for additional information about the CCF).

During the fourth quarter of 2013, MatNav and Aker Philadelphia Shipyard, Inc. ( APSI ) entered into definitive agreements pursuant to which APSI will construct two new 3,600 twenty-foot equivalent unit ( TEU ) Aloha-class containerships with dual-fuel capable engines, which are expected to be delivered during the third and fourth quarters of 2018 (the Shipbuilding Agreements ), at a cost of approximately \$418.0 million. APSI 's obligations under the Shipbuilding Agreements are guaranteed by Aker Philadelphia Shipyard ASA.

As a complement to its fleet, as of December 31, 2014, Matson owns approximately 32,400 containers and 9,800 chassis, which represents an initial investment of approximately \$278 million, and miscellaneous other equipment. Matson also leases approximately 8,100 containers and 7,200 chassis. Capital expenditures incurred by Ocean Transportation in 2014 for vessels, equipment and systems totaled approximately \$27.8 million.

Matson 's U.S. flagged vessels must meet specified seaworthiness standards established by U.S. Coast Guard rules and classification society requirements. These standards require that our ships undergo two dry-docking inspections within a five-year period. However, all of Matson 's U.S. flagged vessels are enrolled in the U.S. Coast Guard 's Underwater Survey in Lieu of Dry-docking ( UWILD ) program. The UWILD program allows eligible ships to meet their intermediate dry-docking requirement with a far less costly underwater inspection.

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Matson operates four non-U.S. flag vessels (one owned; one under a bareboat charter arrangement; and the remaining two on time charter) in the Pacific Islands. Matson is responsible for ensuring that the owned and bareboat chartered ships meet international standards for seaworthiness, which among other requirements generally mandate that Matson perform two dry-docking inspections every five years. The dry-dockings of Matson's time chartered vessels are the responsibility of the ships' owners.

Vessels owned and chartered by Matson as of December 31, 2014 are as follows:

Vessel Name	Owned/ Chartered	Official Number	Year Built	Length	Maximum Speed (Knots)	Maximum Deadweight (Long Tons)	Usable Cargo Capacity			
							Reefer Slots	Containers TEUs(1)	Vehicles Autos Trailers	
<u>Diesel-Powered Ships</u>										
MAUNALEI	Owned	1181627	2006	681	1	22	33,771	328	1,992	
MANULANI	Owned	1168529	2005	712	0	23	29,517	284	2,378	
MAUNAWILI	Owned	1153166	2004	711	9	23	29,517	326	2,378	
MANUKAI	Owned	1141163	2003	711	9	23	29,517	326	2,378	
OLOMANA (4)	Owned	1559	1999	381	5	14	5,364	68	521	
R.J. PFEIFFER	Owned	979814	1992	713	6	23	27,100	300	2,245	
MOKIHANA	Owned	655397	1983	860	2	23	29,484	354	1,994	1,323 38
MANOA	Owned	651627	1982	860	2	23	30,187	408	2,824	
MAHIMAHI	Owned	653424	1982	860	2	23	30,167	408	2,824	
LILOA (4)	Chartered	4681	2003	358	11	15	5,934	30	513	
IMUA II (4)	Chartered	9184237	2005	388	6	15	8,071	90	630	
MANA (4)	Chartered	4958	1997	329	9	13	4,508	60	384	
<u>Steam-Powered Ships</u>										
KAUAI	Owned	621042	1980	720	5	22	26,308	276	1,644	44
MAUI	Owned	591709	1978	720	5	22	26,623	252	1,644	
MATSONIA	Owned	553090	1973	760	0	21	22,501	258	1,727	450 85
LURLINE	Owned	549900	1973	826	6	21	22,213	246	1,646	761 55
LIHUE	Owned	530137	1971	787	8	21	38,656	188	2,018	
<u>Barges</u>										
WAIALEALE (2)	Owned	978516	1991	345	0		5,621	36		230 45
MAUNA KEA (3)	Owned	933804	1988	372	0		6,837	70	379	
MAUNA LOA (3)	Owned	676973	1984	350	0		4,658	78	335	
HALEAKALA (3)	Owned	676972	1984	350	0		4,658	78	335	

(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 barges equipped with cranes.

(4) Except for these four foreign-flagged vessels, all vessels are U.S. flagged and are Jones Act qualified.

### (2) Terminals

Matson Terminals provides container stevedoring, container equipment maintenance and other terminal services for Matson and another ocean carrier at a 105-acre marine terminal in Honolulu.

The terminal facility, which can accommodate three vessels at one time, is leased through September 2016 from the State of Hawaii. Matson is currently in the process of renewing this lease. Matson Terminals owns and operates seven cranes at the terminal. Matson Terminals also provides container stevedoring and other terminal services to Matson and other vessel operators on the islands of Hawaii, Maui and Kauai. SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the U.S. West Coast and to MatNav at several of those facilities. Matson records its share of income in the joint venture in operating expenses within the Ocean Transportation segment due to the nature of SSAT's operations.

**(3) Logistics and Other Services**

Matson Logistics is a transportation intermediary that provides intermodal rail services, highway, warehousing and distribution, and other third-party logistics services for North American customers and international ocean carrier customers, including MatNav.

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Matson Logistics also provides freight forwarding, consolidation, customs brokerage, purchase order management and non-vessel operating common carrier services. Matson Logistics Warehousing provides warehousing and distribution services in Northern and Southern California, and in Georgia. Through Matson Logistics Warehousing, Matson Logistics provides its customers with a full suite of rail, highway, warehousing and distribution services.

Matson Logistics is able to reduce transportation costs for its customers through volume purchases of rail, motor carrier and ocean transportation services, augmented by such services as shipment tracking and tracing, and single-vendor invoicing. Matson Logistics operates six customer service centers, including one in China (for supply chain services), and has sales offices throughout the United States.

**(4) Maritime Laws and the Jones Act**

*Maritime Laws:* All interstate and intrastate marine commerce within the U.S. falls under the Merchant Marine Act of 1920 (commonly referred to as the Jones Act).

The Jones Act is a long-standing cornerstone of U.S. maritime policy. Under the Jones Act, all vessels transporting cargo between covered U.S. ports must, subject to limited exceptions, be built in the U.S., registered under the U.S. flag, manned by predominantly U.S. crews, and owned and operated by U.S.-organized companies that are controlled and 75 percent owned by U.S. citizens. U.S.-flagged vessels are generally required to be maintained at higher standards than foreign-flagged vessels and are subject to rigorous supervision and inspections by, or on behalf of, the U.S. Coast Guard, which requires appropriate certifications and background checks of the crew members. Under Section 27 of the Jones Act, the carriage of cargo between the U.S. West Coast, Hawaii and Alaska on foreign-built or foreign-documented vessels is prohibited.

During 2014, approximately 63 percent of Matson's revenues generated by ocean transportation services came from trades that were subject to the Jones Act. Matson's trade route between the U.S. West Coast and Hawaii is included within the non-contiguous Jones Act market. As an island economy, Hawaii is highly dependent on ocean transportation. The Jones Act ensures frequent, reliable, roundtrip service to keep store shelves stocked, reduces inventory costs and helps move local products to market. Matson's vessels operating in this trade route are fully Jones Act qualified.

Matson is a member of the American Maritime Partnership (AMP), which supports the retention of the Jones Act and similar cabotage laws. The Jones Act has broad support from both houses of Congress. Matson also believes that the ongoing war on terrorism has further solidified political support for U.S. flagged vessels because a vital and dedicated U.S. merchant marine is a cornerstone for a strong homeland defense, as well as a critical source of trained U.S. mariners for wartime support. AMP 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. Repeal of the Jones Act would allow foreign-flag vessel operators that do not have to abide by all U.S. laws and regulations, to sail between U.S. ports in direct competition with Matson and other U.S. domestic operators that must comply with all such laws and regulations.

Other U.S. maritime laws require vessels operating between Guam, a U.S. territory, and U.S. ports to be U.S.-flagged and predominantly U.S. crewed, but not U.S. built.

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Cabotage laws are not unique to the United States, and similar laws exist around the world in over 50 countries, including regions in which Matson provides ocean transportation services. Any changes in such laws may have an impact on the services provided by Matson in those regions.

### (5) Competition

*Hawaii Service:* Matson's Hawaii service has one major containership competitor, Horizon Lines, Inc. ( Horizon ), which serves Long Beach and Oakland, California, Tacoma, Washington, and Honolulu, Hawaii. The Hawaii service also has one additional liner competitor, Pasha Hawaii Transport Lines, LLC, a subsidiary of Pasha, that operates a roll-on/roll-off ship, specializing in the carriage of automobiles, large pieces of rolling stock, such as trucks and buses, as well as a limited amount of household goods and containers. Pasha is also expected to launch a new combination container/ roll-on/roll off vessel during the first half of 2015, which will increase containership capacity in the Hawaii trade. In addition, if the Pasha Transaction (see Horizon Acquisition above) is cleared by the U.S. Department of Justice and Pasha acquires Horizon's Hawaii operations, Pasha will be the second major liner carrier operating in Hawaii instead of Horizon.

There also are two barge operators, Aloha Marine Lines and Sause Brothers, which offer service between the U.S. West Coast and Hawaii.

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Foreign-flag vessels carrying cargo to Hawaii from non-U.S. locations also provide competition for Matson's Hawaii service. Asia, Australia, New Zealand, and the South Pacific islands have direct foreign-flag services to Hawaii. Mexico, South America and Europe have indirect foreign-flag services to Hawaii. Other competitors in the Hawaii service include two common carrier barge services, unregulated proprietary operators, and contract carriers of bulk cargoes. Air freight competition for time-sensitive and perishable cargoes exists; however, inroads by such competition in terms of cargo volume are limited by the amount of cargo space available in passenger aircrafts and by relatively high air freight rates. Over the years, additional barge competitors periodically have entered and left the U.S.-Hawaii trades, mostly from the Pacific Northwest.

Matson vessels are operated on schedules that provide 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 an average of three westbound sailings per week, though this amount may be adjusted according to seasonal demand and market conditions. Matson provides over 150 westbound sailings per year, which is greater than its domestic liner ocean competitors' combined sailings. One of Matson's westbound sailings each week continues on to Guam and China, so the number of eastbound sailings from Hawaii to the U.S. Mainland averages two per week. 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 container equipment, a dedicated neighbor islands barge network, its efficiency and experience in handling cargoes of all types, and competitive pricing.

*China Service:* Major competitors to Matson's China service include large international carriers such as COSCO, Hanjin, MSC, Evergreen, China Shipping, Maersk, APL, K Line, OOCL, Hyundai and NYK Line. Matson competes by offering fast and reliable freight availability from the ports of Xiamen, Ningbo and Shanghai in China to Long Beach, California using its newest and most fuel efficient ships, providing fixed day arrivals in Long Beach and next-day cargo availability. Matson's service is further differentiated by offering a dedicated Long Beach terminal providing fast truck turn times, an off-dock container yard, one-stop intermodal connections, and providing state-of-the-art technology and world-class customer service. Matson has offices in Hong Kong, Xiamen, Ningbo and Shanghai, and has contracted with terminal operators in Xiamen, Ningbo and Shanghai.

*Guam Service:* Matson's Guam service competes with several foreign carriers that call at Guam with less frequent service, along with Waterman Steamship Corporation, a U.S.-flagged carrier, which periodically calls at Guam.

*Micronesia and the South Pacific Services:* Matson's Micronesia and South Pacific services have competition from a variety of local and international carriers that provide freight services to the area.

*Logistics:* Matson Logistics competes with hundreds of local, regional, national and international companies that provide transportation and third-party logistics services. The industry is highly fragmented and, therefore, competition varies by geography and areas of service. Matson Logistics competes most directly with C.H. Robinson Worldwide, the Hub Group, and other large and small freight brokers and intermodal marketing companies, and asset-invested market leaders like JB Hunt. Competition is differentiated by the depth, scale and scope of customer relationships; vendor relationships and rates; network capacity; and real-time visibility into the movement of customers' goods and other technology solutions. Additionally, while Matson Logistics primarily provides surface transportation brokerage, it also competes to a lesser degree with other forms of transportation for the movement of cargo, including air services.

For 2014, the Company's ten largest Ocean Transportation customers accounted for approximately 25 percent of the Company's Ocean Transportation revenue, and the Company's ten largest Logistics customers accounted for approximately 26 percent of the Company's Logistics revenue. None of these customers accounted for more than 10 percent of the Company's revenues in their respective operating segments.

**(6) Rate Regulations and Fuel Costs**

Matson is subject to the jurisdiction of the Surface Transportation Board with respect to its domestic ocean 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.



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During 2014, Matson applied the following general rate increases per container, and terminal handling charge increases per container, in its Hawaii and Guam services:

Effective date:	General Rate Increase			Terminal Handling Charge Increase		
	Hawaii			Hawaii		
	Westbound	Eastbound	Guam (1)	Westbound	Eastbound	Guam (1)
January 5, 2014	\$ 175	\$ 85		\$ 50	\$ 25	
January 26, 2014			\$ 275			\$ 75

(1) Increases in Guam apply to both westbound and eastbound containers.

Matson's Ocean Transportation services engaged in U.S. foreign commerce are subject to the jurisdiction of the Federal Maritime Commission (FMC). The FMC is an independent regulatory agency that is responsible for the regulation of ocean-borne international transportation of the U.S. Conducting business in foreign shipping markets subjects the Company to certain risks (see Item 1A of Part I below for additional information about such risks).

During 2014, Matson's fuel-related surcharges for its Hawaii and Guam services were as follows:

Effective date:	Fuel-related Surcharge	
	Hawaii	Guam
December 31, 2013	34.5%	36.5%
March 23, 2014	39.5%	41.5%
June 8, 2014	42.5%	43.0%
November 2, 2014	37.5%	38.0%
December 21, 2014	35.5%	36.0%

### (7) Seasonality

Matson's Ocean Transportation services typically experience seasonality in volume, generally following a pattern of increasing volumes starting in the second quarter of each year, culminating in a peak season throughout the third quarter, with subsequent weakening of demand in the fourth and first quarters. As a result, earnings tend to follow a similar pattern, offset by periodic vessel dry-docking and other episodic cost factors, which can lead to earning variability. In addition, in the China trade, volume is driven primarily by U.S. consumer demand for goods during key retail selling seasons while freight rates are impacted mainly by macro supply and demand variables. Matson's Logistics services are not significantly impacted by seasonality factors.

## B. EMPLOYEES AND LABOR RELATIONS

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As of December 31, 2014, Matson and its subsidiaries had 1,056 employees, of which 285 employees were covered by collective bargaining agreements with unions. Of these covered employees, 252 are subject to collective bargaining agreements that expired in 2014. These numbers do not include billets on ships discussed below, employees of SSAT or contractors.

Matson and SSAT are members of the Pacific Maritime Association ( PMA ), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union ( ILWU ) on the U.S. West Coast. The PMA/ILWU collective bargaining agreements that cover substantially all U.S. West Coast longshore labor expired on July 1, 2014. On February 20, 2015, the PMA and the ILWU announced a tentative agreement on a new five-year contract covering longshore workers at all 29 U.S. West Coast ports. The tentative agreement is subject to ratification by both the PMA and ILWU, and no assurance can be given that the tentative agreement will be ratified by both parties. If the tentative agreement is not ratified, Matson and SSAT could be subject to future slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's or SSAT's operations.

Matson also has collective bargaining agreements with ILWU labor in Hawaii, and ILWU office clerical workers in Oakland, each of which expired on June 30, 2014. Workers under these agreements are operating under extensions with the unions. With a tentative agreement reached between the PMA and the ILWU, negotiations with the ILWU labor in Hawaii are expected to resume, and negotiations with the ILWU office clerical workers in Oakland are expected to commence; however no assurance can be given that agreements will be reached without slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's operations.

At December 31, 2014, the active Matson fleet employed seagoing personnel in 235 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. 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 unlicensed union contracts with the Seafarer's International Union, the Sailors Union of the Pacific and the Marine Firemen's Union were renewed in mid-2013 and extend through June 30, 2017. Matson's contracts with the American Radio Association were renewed in mid-2013 and extend through August 15, 2016. Matson's contracts with the Masters, Mates & Pilots will expire on June 15, 2023 for 13 vessels and on August 15, 2023 for one managed vessel. Matson's contract with the Marine Engineers Beneficial Association will expire on August 15, 2018.

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The absence of strikes and the availability of labor through hiring halls are important to the maintenance of profitable operations by Matson. Over the past 40 years, Matson's operations have been significantly disrupted by only one labor dispute, which occurred in 2002 when the ILWU workers were locked out for ten days on the U.S. West Coast.

During 2014, Matson contributed to multiemployer pension plans for vessel crews. If Matson were to withdraw from or significantly reduce its obligation to contribute to any one of the plans, Matson would review and evaluate data, actuarial assumptions, calculations and other factors used in determining its withdrawal liability, if any. If 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 also participates in a multiemployer pension plan for its office clerical workers in Long Beach. Matson Terminals participates in two multiemployer pension plans for its Hawaii ILWU non-clerical employees (see Note 9 to the consolidated financial statements in Item 8 of Part II below for a discussion of withdrawal liabilities under certain multiemployer pension plans).

**C. ENERGY**

Matson purchases fuel oil, lubricants and gasoline for its operations, and also pays fuel surcharges to drayage providers and rail carriers. Fuel oil is by far Matson's largest energy-related expense. In 2014, Matson used approximately 306,000 metric tons of fuel oil for its vessels, compared with 302,000 metric tons in 2013, at an average price per metric ton of \$661 and \$691 for the years ended December 31, 2014 and 2013, respectively.

**D. AVAILABLE INFORMATION**

Matson makes available, free of charge on or through its Internet website, Matson'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 Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission (SEC). The address of Matson's Internet website is [www.matson.com](http://www.matson.com). The contents of our website are not incorporated by reference into this Form 10-K.

The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding Matson and other issuers that file electronically with the SEC. The public may read and copy any materials Matson 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 address of the SEC's Internet website is [www.sec.gov](http://www.sec.gov).

**ITEM 1A. RISK FACTORS**

The Company's business faces the risks set forth below, which may adversely affect our business, financial condition and operating results. All forward-looking statements made by the Company or on the Company's behalf are qualified by the risks described below.

*Risks Relating To Operations*

**Changes in U.S., global, or regional economic conditions that result in a decrease in consumer confidence or market demand for the Company's services and products in Hawaii, the U.S. Mainland, Guam, Asia or South Pacific may adversely affect the Company's financial position, results of operations, liquidity, or cash flows.**

A weakening of the U.S., Guam, Asian, South Pacific or global economies may adversely impact the level of freight volumes and freight rates. Within the U.S., a weakening of economic drivers in Hawaii, which include tourism, military spending, construction starts, personal income growth, and employment, or the weakening of consumer confidence, market demand, the economy in the U.S. Mainland, or the effect of a change in the strength of the U.S. dollar against other foreign currencies, may further reduce the demand for goods to and from Hawaii and Asia, travel to Hawaii and domestic transportation of goods, adversely affecting inland and ocean transportation volumes or rates. We are unable to determine the full impact of congressional budget action on our carriage of military cargo, but we believe it continues to negatively impact us, and we could continue to be impacted by future cuts to federal programs, including Defense Department programs as a result of congressional budget action. In addition, overcapacity in the global or transpacific ocean transportation markets or a change in the cost of goods or currency exchange rates may adversely affect freight volumes and rates in the Company's China service.

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**The Company may face new or increased competition.**

The Company 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 volumes and rates.

One current competitor, Pasha, expects to launch a new combination container/roll-on/roll off vessel during the first half of 2015, which will increase containership capacity in the Hawaii trade, and could affect rates and volumes in the Hawaii trade lane on an intermediate term basis. In addition, Pasha has agreed to buy Horizon's Hawaii business, which could alter the competitive dynamics in the Hawaii trade.

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

The Company's businesses are dependent on their relationships with key vendors, agents and customers, and derive a significant portion of their revenues from the Company's largest customers. The Company could be adversely affected by any changes in the services provided, or changes to the costs of services provided by key vendors and agents. Relationships with railroads and shipping companies and agents are important in the Company's intermodal business. The Company's business also relies on its relationships with the military, freight forwarders, large retailers and consumer goods and automobile manufacturers, as well as other larger customers. For 2014, the Company's Ocean Transportation segment's ten largest customers accounted for approximately 25 percent of the business revenue. For 2014, the Company's Logistics segment's ten largest customers accounted for approximately 26 percent of the business revenue. The loss of or damage to any of these key relationships may adversely affect the Company's business and revenue.

**An increase in fuel prices, or changes in the Company's ability to collect fuel surcharges, may adversely affect the Company's profits.**

Fuel is a significant operating expense for the Company's Ocean Transportation business. The price and supply of fuel are unpredictable and fluctuate 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, for example, increased costs of energy and purchased transportation services. In the Company's Ocean Transportation and Logistics services 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 also may adversely affect its results of operations.

**Work stoppages or other labor disruptions caused by unionized workers of the Company, other workers or their unions in related industries may adversely affect the Company's operations.**

As of December 31, 2014, Matson and its subsidiaries had 1,056 employees, of which 285 employees were covered by collective bargaining agreements with unions. Of these covered employees, 252 are subject to collective bargaining agreements that expired in 2014. In addition, at December 31, 2014, the active Matson fleet employed seagoing personnel in 235 billets. Each billet corresponds to a position on a ship that

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typically is filled by two or more employees, because seagoing personnel rotate between active sea-duty and time ashore. Such employees are also subject to collective bargaining agreements. Furthermore, the Company relies on the services of third-parties including SSAT and its parent company, SSA, that employ persons covered by collective bargaining agreements.

Matson and SSAT are members of the Pacific Maritime Association ( PMA ), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union ( ILWU ) on the U.S. West Coast. The PMA/ILWU collective bargaining agreements that cover substantially all U.S. West Coast longshore labor expired on July 1, 2014. On February 20, 2015, the PMA and the ILWU announced a tentative agreement on a new five-year contract covering longshore workers at all 29 U.S. West Coast ports. The tentative agreement is subject to ratification by both the PMA and ILWU, and no assurance can be given that the tentative agreement will be ratified by both parties. If the tentative agreement is not ratified, Matson and SSAT could be subject to future slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's or SSAT's operations.

Matson also has collective bargaining agreements with ILWU labor in Hawaii, and ILWU office clerical workers in Oakland, each of which expired on June 30, 2014. Workers under these agreements are operating under extensions with the unions. With a tentative agreement reached between the PMA and the ILWU, negotiations with the ILWU labor in Hawaii are expected to resume, and negotiations with the ILWU office clerical workers in Oakland are expected to commence; however no assurance can be given that agreements will be reached without slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's operations.

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**The Company is susceptible to weather and natural disasters.**

The Company's 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.

The Company maintains casualty and liability insurance policies, which are generally subject to large retentions and deductibles. Some types of losses, such as losses resulting from a port blockage, generally are not insured. In some cases the Company retains the entire risk of loss because it is not economically prudent to purchase insurance coverage or because of the perceived remoteness of the risk. Other risks are uninsured because insurance coverage may not be commercially available. Finally, the Company retains all risk of loss that exceeds the limits of its insurance.

**The Company's significant operating agreements and leases could be replaced on less favorable terms or may not be replaced.**

The significant operating agreements and leases of the Company in its various businesses expire at various points in the future and may not be replaced or could be replaced on less favorable terms, thereby adversely affecting the Company's future financial position, results of operations and cash flows. The Company leases a 105-acre marine terminal at Honolulu, Hawaii that expires in September 2016. The Company is currently in the process of renewing this lease.

**If we are not able to use our information technology and communications systems effectively, our ability to conduct business might be negatively impacted.**

The Company is highly dependent on the proper functioning of our information technology systems to enable operations and compete effectively. Our information technology systems rely on third party service providers for access to the Internet, satellite-based communications systems, the electric grid, database storage facilities and telecommunications providers. We have no control over the operations of these third-party service providers. If our information technology and communications systems experience reliability issues, integration or compatibility concerns or if our third party providers are unable to perform effectively or experience disruptions or failures, there could be an adverse impact on the availability and functioning of our information technology and communications systems, which could lead to business disruption or inefficiencies, reputational harm or a loss of customers that could have an adverse effect on our business.

**Our information technology systems may be exposed to cybersecurity risks and other disruptions that could impair the Company's ability to operate and adversely affect its business.**

The Company relies extensively on its information technology systems and third party service providers, including for accounting, billing, disbursement, cargo booking and tracking, vessel scheduling and stowage, equipment tracking, customer service, banking, payroll and employee

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communication systems. Despite our continuous efforts to make investments in our information technology systems, the implementation of security measures to protect our data and infrastructure against breaches and other cyber threats, and our use of internal processes and controls designed to protect the security and availability of our systems, our information technology and communication systems may be vulnerable to cybersecurity risks faced by other large companies in our industry. Our systems may be susceptible to computer viruses, hacking, malware, denial of service attacks, cyber terrorism, circumvention of security systems, malfeasance, breaches due to employee error, natural disasters, telecommunications failure, or other catastrophic events at the Company's facilities, aboard its vessels or at third-party locations. Any failure, breach or unauthorized access to the Company's or third-party systems could result in the loss of confidential, sensitive or proprietary information, interruptions in its service or production or otherwise impact our ability to conduct business operations, and could result in potential reductions in revenue and profits, damage to its reputation or liability.

### **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 the Company's future operating results because of such employees' experience and knowledge of the Company's business and customer relationships. If key employees depart, the Company may have to incur significant costs to replace them, and the Company's ability to execute its business model could be impaired if it cannot replace them in a timely manner. The Company does not maintain key person insurance on any of its key personnel.



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

The Company is involved in a terminal joint venture, SSAT, 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 partner;
- The joint venture partner at any time may have economic or business interests that are inconsistent with the Company's;
- The joint venture partner may fail to fund its share of capital for operations or to fulfill its other commitments, including providing accurate and timely accounting and financial information to the Company;
- The joint venture may experience operating difficulties and financial losses, which may lead to asset write-downs or impairment charges that could negatively impact the operating results of the joint venture and the Company;
- The joint venture or venture partner could lose key personnel; and
- The joint venture partner could become bankrupt requiring the Company to assume all risks and capital requirements related to the joint venture project, and the related bankruptcy proceedings could have an adverse impact on the operation of the partnership or joint venture.

In addition, the Company relies on the terminal joint venture, SSAT, and SSA for its stevedoring services on the U.S. West Coast. The Company could be adversely affected by any changes in the services provided, or to the costs of such services provided by the Company's terminal joint venture, SSAT, and SSA.

**The Company is subject to risks associated with conducting business in foreign shipping markets.**

Matson's China, Micronesia and South Pacific services are subject to risks associated with conducting business in a foreign shipping market, which include:

- Challenges associated with operating in foreign countries and doing business and developing relationships with foreign companies;
- Challenges in working with and maintaining good relationships with joint venture partners in our foreign operations;
- Difficulties in staffing and managing foreign operations;

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- U.S. and foreign legal and regulatory restrictions, including compliance with the Foreign Corrupt Practices Act and foreign laws that prohibit corrupt payments to government officials;
- Global vessel overcapacity that may lead to decreases in volumes and shipping rates;
- Competition with established and new carriers;
- Currency exchange rate fluctuations and our ability to manage these fluctuations;
- Political and economic instability;
- Protectionist measures that may affect the Company's operation of its wholly-owned foreign enterprise; and
- Challenges caused by cultural differences.

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

**The Company's Logistics segment is dependent upon third parties for equipment, capacity and services essential to operate the Company's Logistics business, and if the Company fails to secure sufficient third party services, its business could be adversely affected.**

The Company's Logistics segment is dependent upon rail, truck and ocean transportation services provided by independent third parties. If the Company cannot secure sufficient transportation equipment, capacity or services from these third parties at reasonable rates to meet its 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 Company is subject to risks related to a marine accident or spill event.**

The Company's vessel and terminal operations could be faced with a maritime accident, oil or other spill, or other environmental mishap. Such event may lead to personal injury, loss of life, damage of property, pollution and suspension of operations. As a result, such event could have an adverse effect on the Company's business.

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**The Company's Shipbuilding Agreements with Aker Philadelphia Shipyard, Inc. are subject to risks.**

On November 6, 2013, MatNav and APSI entered into definitive agreements pursuant to which APSI will construct two new 3,600-TEU Aloha-class dual-fuel capable containerships, with expected delivery dates during the third and fourth quarters of 2018. Failure of either party to the shipbuilding agreement to fulfill its obligations under the agreement could have an adverse effect on the Company's financial position and results of operations.

**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 or willingness of tourists to travel to Hawaii, thereby adversely affecting Hawaii's economy and the Company. Additionally, future terrorist attacks could increase volatility in the U.S. and worldwide financial markets. Acts of war or terrorism may be directed at the Company's shipping operations, or may cause the U.S. government to take control of Matson's vessels for military operation. Heightened security measures potentially slow the movement and increase the cost 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.

**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 assets or companies, and may result in the diversion of the Company's capital and its management 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 may pay a premium for an acquisition, resulting in goodwill that may later be determined to be impaired, adversely affecting the Company's financial condition and results of operations. For a discussion of risks related to the pending acquisition of the stock of Horizon Lines, Inc., see *Risks Related to the Pending Acquisition of Horizon* set forth below.

***Risks Relating to the Pending Acquisition of Horizon***

**The pending acquisition of Horizon is subject to conditions that may not be satisfied on a timely basis, or at all.**

The consummation of the pending acquisition of Horizon is subject to a number of conditions that must be satisfied or waived, including, among others, the absence of a material adverse effect in connection with Horizon's non-Hawaii business and that there is no significant financial impact as a result of Horizon operating the main engines on its Alaska ships on ultra-low-sulfur fuel (Horizon announced it received an exemption from the requirement that it operate its ships on ultra-low-sulfur fuel on January 9, 2015). There can be no assurance that the conditions to closing the merger will be satisfied or that the merger will be completed.

If the acquisition of Horizon is not completed on a timely basis, or at all, the Company's business could be adversely affected, and the Company will be subject to a number of risks, including the following:

- We may not realize any of the benefits expected from its consummation;
- Time and resources committed by our management to matters relating to the acquisition of Horizon (including integration planning) could otherwise have been devoted to pursuing other beneficial opportunities; and
- The market price of our common stock could decline to the extent that the current market price reflects a market assumption that the acquisition of Horizon will be completed.

This loss of benefits, or the increase in risks, could have a material adverse effect on our business.

**Completion of the Horizon acquisition is conditioned upon the consummation of Horizon's pending transaction with Pasha, which may take longer than expected or not occur at all.**

The consummation of the Horizon Transaction is conditioned upon the completion of the Pasha Transaction. Before the Pasha Transaction may be completed, the waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended must have been terminated or expired, Pasha must have funds necessary to pay its purchase price, and other customary closing conditions must be satisfied. On January 12, 2015, Horizon and Pasha received a second request for additional information and documentary material from the U.S. Department of Justice, which has the effect of extending the waiting period until 30 days after both Horizon and Pasha have substantially complied with the second request. Although Horizon and Pasha have agreed to use their best efforts to obtain the requisite governmental approvals, there can be no assurances that these approvals will be obtained, or to the timing of such approvals.

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**The Company may fail to realize the anticipated benefits of the Horizon acquisition, and the continuing integration process could adversely impact our ongoing operations.**

We may fail to realize some or all of the anticipated benefits of the Horizon acquisition if the integration process takes longer or is more costly than expected or otherwise fails to meet our expectations. In addition, we anticipate that the overall integration of Horizon's non-Hawaii business will be a time-consuming and expensive process that could significantly disrupt our business.

Potential difficulties and challenges we may encounter in the integration process include the following:

- The integration of key employees, strategies and operations;
- The disruption of ongoing businesses and distraction of our management team from ongoing business concerns;
- The creation of a need for additional compliance, documentation, risk management and internal control procedures;
- Costs necessary to establish and maintain effective internal controls for Horizon;
- Inability to maintain the key business and customer relationships of Horizon;
- Harm to our existing business relationships;
- Litigation for activities of Horizon, including claims from terminated employees, customers, former stockholders or other third parties;
- The creation of uniform standards, controls, procedures, policies and information systems; and
- The integration of corporate cultures and maintenance of employee morale.

**The acquisition of Horizon may expose us to unknown liabilities.**

Following the completion of the acquisition of Horizon, we will be subject to all of the liabilities of Horizon's non-Hawaii business. If there are unknown liabilities or other obligations, including contingent liabilities, our business could be materially affected. We may learn additional information about Horizon's non-Hawaii business that adversely affects us, such as unknown liabilities or other issues that could affect our ability to comply with other applicable laws. Moreover, Horizon may not be able to collect in full on its indemnification rights against Hawaii liabilities under the agreements in the Pasha Transaction.

**We may be required to record a significant charge to earnings if recorded goodwill associated with the Horizon Acquisition becomes impaired.**

Following the completion of the acquisition of Horizon, we expect to record a significant intangible asset related to goodwill. We are required to test goodwill for impairment annually, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Factors that could lead to an impairment of goodwill include any significant adverse changes affecting the reporting unit's financial condition, results of operations, and future cash flows.

We may be required to record future charges to earnings if goodwill associated with the Horizon Acquisition becomes impaired. Any such charge would adversely impact our financial results.

**We have incurred, and expect to continue incurring, substantial expenses related to the pending acquisition.**

We have incurred, and expect to continue incurring, substantial expenses in connection with completing the acquisition of Horizon and integrating the operations of Horizon with our operations. While we have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our transaction and integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. As a result, the transaction and integration expenses associated with the acquisition of Horizon could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of Horizon following the completion of the acquisition of Horizon.

***Risks Relating to Financial Matters***

**A deterioration of the Company's credit profile or disruptions of the credit markets could restrict its ability to access the debt capital markets or increase the cost of debt.**

Deterioration in the Company's credit profile may have an adverse effect on the Company's ability to access the private or public debt markets and also may increase its borrowing costs. If the Company's credit profile deteriorates significantly, its access to the debt

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capital markets or its ability to renew its committed lines of credit may become restricted, or the Company may not be able to refinance debt at the same levels or on the same terms. Because the Company relies on its ability to draw on its revolving credit facilities to support its operations, when required, any volatility in the credit and financial markets that prevents the Company from accessing funds (for example, a lender that does not fulfill its lending obligation) could have an adverse effect on the Company's financial condition and cash flows. Additionally, the Company's credit agreements generally include an increase in borrowing rates if the Company's credit profile deteriorates. Furthermore, the Company incurs interest under its revolving credit facilities based on floating rates. Floating rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect the Company's cash flow and results of operations.

**Failure to comply with certain restrictive financial covenants contained in the Company's credit facilities could preclude the payment of dividends, impose restrictions on the Company's business segments, capital resources or other activities or otherwise adversely affect the Company.**

The Company's credit facilities contain certain restrictive financial covenants, the most restrictive of which include the maintenance of minimum shareholders' equity levels, a maximum ratio of debt to earnings before interest, taxes, depreciation and amortization, and the maintenance of no more than a maximum amount of priority debt as a percentage of consolidated tangible assets. If the Company does not maintain the required covenants, and that breach of covenants is not cured timely or waived by the lenders, resulting in default, the Company's access to credit may be limited or terminated, dividends may be suspended, and the lenders could declare any outstanding amounts due and payable. The Company's continued ability to borrow under its credit facilities is subject to compliance with these financial and other non-financial covenants.

**The Company's effective income tax rate may vary.**

Various internal and external factors may have favorable or unfavorable, material or immaterial effects on the Company's effective income tax rate and, therefore, the Company's net income and earnings per share. These factors include, but are not limited to changes in tax rates; changes in tax laws, regulations, and rulings; changes in interpretations of existing tax laws, regulations and rulings; changes in the Company's evaluation of collectability of deferred tax assets and uncertain tax positions; changes in accounting principles; changes in current pre-tax income as well as changes in forecasted pre-tax income; changes in the level of CCF deductions, non-deductible expenses, and expenses eligible for tax credits; changes in the mix of earnings among countries with varying tax rates; acquisitions and changes in the Company's corporate structure. These factors may result in periodic revisions to our effective income tax rate, which could affect the Company's cash flow and results of operations.

**Changes in the value of pension assets, or a change in pension law or key assumptions, may adversely affect the Company's financial performance.**

The amount of the Company's employee pension and post-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, changes in discount rates, higher health care costs, or lower actual or expected 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 or Pension Benefit Guaranty Corporation premiums, may adversely affect the Company's single-employer and multiemployer pension plans and plan funding. These factors, as well as a decline in the fair value of pension plan assets, may put upward pressure on the cost of providing pension and medical benefits and may increase future pension expense and required funding contributions. There can be no assurance that it will be successful in limiting future cost and expense increases, and continued upward pressure in costs and expenses could further reduce the profitability of the Company's businesses.

**The Company may have exposure under its multiemployer pension and post-retirement 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. If 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.



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*Risks Relating to Legal and Legislative Matters*

**The impact of the molasses release in September 2013 may have an adverse effect on the Company's financial position, results of operations, or cash flows.**

The Company could be faced with regulatory compliance obligations, third party or governmental agency claims, disputes, legal or other proceedings, fines, penalties, natural resource damages, inquiries or investigations or other regulatory actions in connection with the release of molasses into Honolulu Harbor in September 2013. The Company cannot currently estimate the potential impact of any such events, but such events 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 financial position, results of operations, or cash flows. See Legal Proceedings below.

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

The nature of the Company's business exposes it to the potential for disputes, legal or other proceedings, or government inquiries or investigations, relating to antitrust matters, labor and employment matters, personal injury and property damage, environmental and other matters, as discussed in the other risk factors disclosed in this section or in other Company filings with the SEC. For example, 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 or judicial proceedings. 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.

**Repeal, substantial amendment, or waiver of the Jones Act or its application could have an adverse effect on the Company's business.**

If the Jones Act was to be repealed, substantially amended, or waived and, as a consequence, competitors were to enter the Hawaii or Alaska markets with lower operating costs by utilizing their ability to acquire and operate foreign-flag and foreign-built vessels, the Company's business would be adversely affected. In addition, the Company's advantage as a U.S.-citizen operator of Jones Act vessels could be eroded by periodic efforts and attempts by foreign interests to circumvent certain aspects of the Jones Act. If maritime cabotage services were included in the General Agreement on Trade in Services, the North American Free Trade Agreement or other international trade agreements, or if the restrictions contained in the Jones Act were otherwise altered, the shipping of cargo between covered U.S. ports could be opened to foreign-flag or foreign-built vessels.

**Non-compliance with, or changes to, federal, state or local law or regulations, including passage of climate change legislation or regulation, may adversely affect the Company's business.**

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The Company is subject to federal, state and local laws and regulations, including cabotage laws, government rate regulations, and environmental regulations including those relating to air quality initiatives at port locations, including, but not limited to, the Oil Pollution Act of 1990, the Comprehensive Environmental Response Compensation & Liability Act of 1980, the Rivers and Harbors Act of 1899, the Clean Water Act, the Invasive Species Act and the Clean Air Act. Continued compliance with these laws and regulations may result in additional costs and changes in operating procedures that may adversely affect the Company's business. Noncompliance with, or 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 and results of operations. In addition, changes in environmental laws impacting the business, including passage of climate change legislation or other regulatory initiatives that restrict emissions of greenhouse gasses, may require costly vessel modifications, the use of higher-priced fuel and changes in operating practices that may not be recoverable through increased payments from customers. Further changes to these laws and regulations could adversely affect the Company. Climate change legislation, such as limiting and reducing greenhouse gas emissions through a cap and trade system of allowances and credits, if enacted, may have an adverse effect on the Company's business.

Table of Contents*Risks Related to Capital Structure*

**The Company's business could be adversely affected if the Company were determined not to be a U.S. citizen under the Jones Act.**

Certain provisions of the Company's articles of incorporation protect the Company's ability to maintain its status as a U.S. citizen under the Jones Act. Although the Company believes it currently is a U.S. citizen under the Jones Act, if non-U.S. citizens were able to defeat such articles of incorporation restrictions and own in the aggregate more than 25 percent of the Company's common stock, the Company would no longer be considered a U.S. citizen under the Jones Act. Such an event could result in the Company's ineligibility to engage in coastwise trade and the imposition of substantial penalties against it, including seizure or forfeiture of its vessels, which could have an adverse effect on the Company's financial condition and results of operation.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company leases a 105-acre marine terminal at Honolulu, Hawaii. The lease expires in September 2016, and the Company is currently in the process of renewing this lease. The Company's other primary terminal facilities located at the Port of Seattle, Washington, and the Ports of Oakland and Long Beach, California, are leased by the Company's terminal joint venture partner, SSAT. The Company leases seven acres at West Oahu, Hawaii, and 30 acres at Polaris Point, Guam that are used as container depots. The following is a summary of the Company's other significant facilities:

Location	Description of Facility	Square Footage
Honolulu, Hawaii	Corporate headquarters	16,444
Oakland, California	Office	47,580
Phoenix, Arizona	Office	22,808
Oakbrook Terrace, Illinois	Office	17,004
Concord, California	Office	7,974
Auckland, New Zealand	Office	3,832
Shanghai, China	Office	7,240
Pooler, Georgia	Warehouse facility	710,844
Oakland, California	Warehouse facility	400,000
Black Creek, Georgia	Warehouse facility	367,265
Pooler, Georgia	Warehouse facility	324,832
Hayward, California	Warehouse facility	214,000
Rancho Dominguez, California	Warehouse facility	141,000
Oakland, California	Warehouse facility	132,000
Alameda, California	Storage facility	47,500

For additional information about the Company's properties, refer to Business Description in Item 1 of Part 1 above.

### ITEM 3. LEGAL PROCEEDINGS

See Business Description - Rate Regulations and Fuel Costs above for a discussion of rate and other regulatory matters in which Matson is routinely involved.

*Environmental Matter:* Molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company in September 2013. The Company is cooperating with federal and state agencies involved in responding to and investigating the incident. On September 20, 2013, the Hawaii Department of Health ( DOH ) and other responding governmental agencies announced that they had officially transitioned their role from a response phase to a recovery and restoration phase. The DOH also reported on September 20, 2013 that dissolved oxygen and pH levels in the harbor and nearby Keehi Lagoon had returned to normal target levels and that there was no longer discoloration of the water in those same areas attributable to the molasses release. Keehi Lagoon was reopened to the public on September 21, 2013.

On October 10, 2013, the Company was served with a federal grand jury subpoena seeking documents in connection with a criminal investigation into the release of molasses into Honolulu Harbor. In addition, in April 2014, the Company received two subpoenas from the Hawaii Attorney General and written requests for information regarding the release from the following governmental agencies: (i) the DOH; (ii) the State of Hawaii Office of Hawaiian Affairs; and (iii) the U.S. Environmental Protection Agency (the EPA ) (Region IX).

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On October 21, 2014, the U.S. Attorney for the District of Hawaii (the U.S. Attorney ) filed an Information with the U.S. District Court for the District of Hawaii (the Court ) charging Matson Terminals, Inc. ( MTI ), the subsidiary of the Company that operated the pipeline, with two misdemeanor violations of Section 407 of the Rivers and Harbors Act of 1899 (the Refuse Act ) arising from the molasses release. The U.S. Attorney also filed a Memorandum of Plea Agreement (the Plea Agreement ), subject to the approval of the Court, to resolve federal criminal charges arising from the molasses release. Pursuant to the Plea Agreement, MTI agreed to plead guilty to the two violations of the Refuse Act and to pay \$1.0 million, comprised of a \$0.4 million fine and restitution payments of \$0.6 million to community organizations involved in the protection of the shoreline. On October 24, 2014, MTI entered a guilty plea in the Court. On January 29, 2015, MTI executed an Amended Plea Agreement that was accepted by the Court which then sentenced MTI to make the payments described above. On February 24, 2015, the EPA informed the Company that it will not seek to debar MTI and its affiliates from obtaining future U.S. government contracts.

Furthermore, the Company has not yet resolved any potential civil claims by the governmental agencies arising out of the molasses release. However, except with respect to the matters discussed above, government agencies have not initiated any legal actions in connection with the release of molasses. Therefore, the Company is not able to estimate the future costs, penalties, damages or expenses that it may incur related to the incident. As a result, at this time no assurance can be given that the impact of the incident on the Company's financial position, results of operations, or cash flows will not be material. The Company continues to respond to governmental requests for information, and is engaging in dialogue with governmental agencies in order to reasonably resolve these matters.

In addition to the molasses release discussed above, the Company's shipping business has certain other risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company's financial condition, results of operations, or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

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**PART II**

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

Matson's common stock is traded on the New York Stock Exchange under the ticker symbol MATX. As of February 24, 2015, there were 2,515 shareholders of record of Matson common stock. In addition, Cede & Co., which appears as a single record holder, represents the holdings of thousands of beneficial owners of Matson common stock.

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\* \$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.

Trading volume averaged 273,309 shares a day in 2014 compared with 228,479 shares a day in 2013 and 245,085 shares a day in 2012.

The quarterly intra-day high and low sales prices and end of quarter closing prices, as reported by the New York Stock Exchange, and cash dividends paid per share of common stock, for each fiscal quarter during 2014 and 2013, were as follows:

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	Dividends Paid	High	Market Price Low	Close
<b>2014</b>				
First Quarter	\$ 0.160	\$ 26.88	\$ 22.50	\$ 24.69
Second Quarter	\$ 0.160	\$ 26.91	\$ 22.48	\$ 26.84
Third Quarter	\$ 0.170	\$ 29.54	\$ 25.02	\$ 25.03
Fourth Quarter	\$ 0.170	\$ 36.73	\$ 24.48	\$ 34.52
<b>2013</b>				
First Quarter	\$ 0.150	\$ 27.69	\$ 23.92	\$ 24.60
Second Quarter	\$ 0.150	\$ 26.44	\$ 21.51	\$ 25.00
Third Quarter	\$ 0.160	\$ 29.47	\$ 25.00	\$ 26.23
Fourth Quarter	\$ 0.160	\$ 27.85	\$ 23.46	\$ 26.11

Although Matson expects to continue paying quarterly cash dividends on its common stock, the declaration and payment of dividends are subject to the discretion of the Board of Directors and will depend upon Matson's financial condition, results of operations, cash requirements and other factors deemed relevant by the Board of Directors. Matson's Board of Directors declared a cash dividend of \$0.17 per share payable on March 5, 2015 to shareholders of record on February 12, 2015.

The Company did not repurchase any of its common stock in 2014, 2013 or 2012.

See the subsection captioned "Equity Compensation Plan Information" in Matson's 2015 Proxy Statement for information regarding securities authorized for issuance under the Company's equity compensation plans, which subsection is incorporated herein by reference.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following 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 shareholders of record and per-share amounts):

	2014	2013	2012	2011	2010
<b>Operating Revenue:</b>					
Ocean Transportation	\$ 1,278.4	\$ 1,229.4	\$ 1,189.8	\$ 1,076.2	\$ 1,015.0
Logistics	435.8	407.8	370.2	386.4	355.6
Total Operating Revenue	\$ 1,714.2	\$ 1,637.2	\$ 1,560.0	\$ 1,462.6	\$ 1,370.6
<b>Operating Income:</b>					
Ocean Transportation (1)	\$ 131.1	\$ 94.3	\$ 96.6	\$ 73.7	\$ 118.3
Logistics	8.9	6.0	0.1	4.9	7.1
Total Operating Income	140.0	100.3	96.7	78.6	125.4
Interest expense	(17.3)	(14.4)	(11.7)	(7.7)	(8.2)
<b>Income from Continuing Operations Before Income Taxes</b>					
Taxes	122.7	85.9	85.0	70.9	117.2
Income tax expense	(51.9)	(32.2)	(33.0)	(25.1)	(46.7)
Income From Continuing Operations	70.8	53.7	52.0	45.8	70.5
<b>(Loss) Income From Discontinued Operations (net of income taxes)</b>					
			(6.1)	(11.6)	21.6
Net Income	\$ 70.8	\$ 53.7	\$ 45.9	\$ 34.2	\$ 92.1
<b>Identifiable Assets:</b>					
Ocean Transportation (2)	\$ 1,313.9	\$ 1,168.6	\$ 1,097.2	\$ 1,083.9	\$ 1,084.7
Logistics	87.9	79.7	77.1	76.4	73.8
Other (3)				1,384.0	1,336.1
Total Assets	\$ 1,401.8	\$ 1,248.3	\$ 1,174.3	\$ 2,544.3	\$ 2,494.6
<b>Capital Expenditure from Continuing Operations (4):</b>					
Ocean Transportation	\$ 27.8	\$ 33.8	\$ 37.0	\$ 44.2	\$ 69.4
Logistics	0.1	1.4	1.1	3.0	1.8
Total Capital Expenditures	\$ 27.9	\$ 35.2	\$ 38.1	\$ 47.2	\$ 71.2
<b>Depreciation and Amortization from Continuing Operations:</b>					
Ocean Transportation	\$ 66.6	\$ 66.4	\$ 69.1	\$ 68.4	\$ 67.6
Logistics	3.1	3.3	3.4	3.2	3.2
Total Depreciation and Amortization	\$ 69.7	\$ 69.7	\$ 72.5	\$ 71.6	\$ 70.8
<b>Earnings Per Share in Income from continuing operations:</b>					
Basic	\$ 1.65	\$ 1.26	\$ 1.23	\$ 1.10	\$ 1.71
Diluted	\$ 1.63	\$ 1.25	\$ 1.22	\$ 1.09	\$ 1.70
<b>Earnings Per Share in Net Income:</b>					
Basic	\$ 1.65	\$ 1.26	\$ 1.09	\$ 0.82	\$ 2.23
Diluted	\$ 1.63	\$ 1.25	\$ 1.08	\$ 0.81	\$ 2.22
Cash dividends per share declared	\$ 0.66	\$ 0.62	\$ 0.93	\$ 1.26	\$ 1.26



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As of December 31:

Shareholders of record	2,509	2,607	2,729	2,923	3,079
Shares outstanding	43.2	42.8	42.6	41.7	41.3
Long-term debt non-current	\$ 352.0	\$ 273.6	\$ 302.7	\$ 180.1	\$ 136.6

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(1) The Ocean Transportation segment includes \$6.6 million, \$(2.0) million, \$3.2 million, \$8.6 million, and \$12.8 million, of equity in (loss) income from the Company's terminal joint venture, SSAT, for 2014, 2013, 2012, 2011, and 2010, respectively.

(2) The Ocean Transportation segment includes \$64.4 million, \$57.6 million, \$59.6 million, \$56.5 million, and \$52.9 million, related to the Company's terminal joint venture equity investment in SSAT as of December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(3) Other identifiable assets related to discontinued operations from A&B and the Company's second China Long Beach Express Service ( CLX2 ) of \$1.4 billion, and \$1.3 billion, as of December 31, 2011, and 2010, respectively.

(4) Excludes expenditures related to Matson's acquisitions, which are classified as payments for acquisitions in Cash Flows used in Investing Activities from Continuing Operations within the consolidated statements of cash flows.

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**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 2015 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 consolidated 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 consolidated 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 consolidated financial statements in Item 8 of Part II below. MD&A is presented in the following sections:

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

- Other Matters

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**BUSINESS OUTLOOK**

The Business Outlook provides the Company's views on current conditions and trends in the various markets it serves, recent Company performance and its near-term prospects. The following information updates the quarterly filings made by the Company throughout 2014. All forward-looking statements made herein are qualified by the inherent risks of the Company's operations and the markets it serves, as more fully described in the Risk Factors set out in Item 1A.

The Company serves multiple domestic and international transportation markets and its operations are therefore impacted by regional, national and international economic conditions. Given its large operational presence in Hawaii, the Company's volumes in the Hawaii trade are highly dependent on the future results of the overall Hawaii economy, competitive activity related to capacity and pricing, and to specific economic sub-categories including construction. In addition, the timing of fuel surcharge collections can lead to fluctuations in quarterly operating income performance on a comparable year over year basis, but does not typically lead to a material annual year over year fluctuation in operating income performance.

In the China trade, volume is driven primarily by U.S. consumer demand for goods during key retail selling seasons while freight rates are impacted mainly by macro supply and demand variables. Currently, there is a global surplus of container vessel capacity, and a recent market survey conducted by Alphaliner estimates that 1.75 million TEUs of new vessel capacity will be delivered in 2015. While excess vessel capacity may be mitigated through vessel scrapping, deferral of new vessel deliveries, vessel lay-ups and slow steaming, transpacific freight rates depend primarily upon rational carrier management of industry capacity.

In the Guam trade, the competitive environment has historically impacted financial results, and to a lesser degree, overall market volume. Currently, the Company is the sole carrier of containerized freight from the U.S. West Coast to Guam following the departure of its major competitor from the trade lane in mid-November of 2011.

All trade lanes for Matson's Ocean Transportation services typically experience seasonality in volume and generally follow a pattern of increasing volumes starting in the second quarter of each year culminating in a peak season throughout the third quarter, with subsequent weakening of demand in the fourth and first quarters. As a result, earnings tend to follow a similar pattern, offset by periodic vessel dry-docking and other episodic cost factors, which can lead to earnings variability.

*Ocean Transportation:* Market growth continued in Hawaii during the fourth quarter 2014; however, the Company experienced modest competitive losses in eastbound backhaul freight. The Company believes that the Hawaii economy is in a multi-year recovery and is anticipating modest market growth in the trade in 2015. However, containership capacity is projected to increase in the first half of 2015 as a competitor is expected to launch an additional new vessel into the trade. As a result, the Company expects its 2015 Hawaii container volume to approximate the 2014 level.

During the fourth quarter 2014, the Company realized significantly higher freight rates in its China trade, reflecting the high demand for its expedited transpacific service, which was amplified by cargo availability delays experienced by other ocean carriers associated with port congestion on the U.S. West Coast. International vessel overcapacity is expected to continue in 2015 with vessel deliveries outpacing demand growth. The Company expects strong demand for its expedited service to continue in 2015 resulting in high vessel utilization levels and

premium freight rates.

In Guam, the Company's container volume increased modestly in the fourth quarter due to general market growth. In 2015, the Company expects market growth in Guam to result in flat to modestly higher container volume compared to 2014, assuming no new competitors enter the market.

The Company plans to maintain its core nine-ship fleet deployment throughout 2015 for the trade lanes referenced above.

The Company's terminal joint venture, SSAT, showed slight year over year improvement in operating results during the fourth quarter. Notwithstanding the productivity challenges resulting from the ongoing port congestion on the U.S. West Coast, the Company expects modest profit at SSAT for 2015.

Additionally, Matson incurred \$4.6 million in legal fees, penalties, and other expenses in 2014 related to the molasses released into Honolulu Harbor in September 2013. At this stage in the proceedings, the Company is not able to estimate the future costs, penalties, damages or expenses that it may incur related to the incident.

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For the full year 2015, Ocean Transportation operating income is expected to be modestly higher than 2014. The Company expects operating income for the first quarter of 2015 to approach levels achieved in the fourth quarter 2014 due to higher freight rates in the China trade, the timing of fuel surcharge collections, and modest volume growth in our core trade lanes.

The Company's outlook for 2015 excludes any future effects from the September 2013 molasses incident and the pending transaction with Horizon Lines, Inc., pursuant to which the Company will acquire the stock of Horizon, which will include Horizon's Alaska operations and the assumption of all of Horizon's non-Hawaii business assets and liabilities.

*Logistics:* Volume growth in Logistics' highway businesses extended into the fourth quarter 2014 and, combined with highway yield improvements, drove an increase in operating income margin to 2.8 percent. The Company expects 2015 operating income to exceed the 2014 level of \$8.9 million, driven by continued volume growth, expense control and improvements in warehouse operations.

*Interest Expense:* The Company expects its interest expense in 2015 to decrease slightly from the 2014 amount of \$17.3 million.

*Income Tax Expense:* The effective tax rate for the fourth quarter 2014 was 38.4 percent as compared to 49.3 percent in the fourth quarter 2013. The rate for the fourth quarter 2013 was higher primarily due to the impact of the litigation charge, and a change in timing of CCF deposits that led to a corresponding increase in tax expense. The Company expects its 2015 effective tax rate to be approximately 38.5 percent.

*Other:* The Company expects maintenance capital expenditures for 2015 to be approximately \$40.0 million and, in addition, has scheduled contract payments of \$33.4 million in 2015 relating to its two vessels under construction. The Company also expects to make additional contributions to its CCF in 2015, which may exceed the \$65.5 million net contribution made in 2014.

### **CONSOLIDATED RESULTS OF OPERATIONS**

The following analysis of the financial condition and results of operations of Matson should be read in conjunction with the consolidated financial statements in Item 8 of Part II below.

#### **Consolidated Results: 2014 compared with 2013:**

(dollars in millions, except per share amounts)	Years Ended December 31,		Change
	2014	2013	
Operating revenue	\$ 1,714.2	\$ 1,637.2	4.7%
Operating costs and expenses	(1,574.2)	(1,536.9)	2.4%
Operating income	140.0	100.3	39.6%

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Interest expense		(17.3)		(14.4)	20.1%
Income before income taxes		122.7		85.9	42.8%
Income tax expense		(51.9)		(32.2)	61.2%
Net income	\$	70.8	\$	53.7	31.8%
Basic earnings per share	\$	1.65	\$	1.26	31.0%
Diluted earnings per share	\$	1.63	\$	1.25	30.4%

*Consolidated Operating Revenue* for the year ended December 31, 2014 increased \$77.0 million, or 4.7 percent, compared to the prior year. This increase was due to \$49.0 million and \$28.0 million higher revenues for Ocean Transportation and Logistics, respectively. The reasons for the operating revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

*Operating Costs and Expenses* for the year ended December 31, 2014 increased \$37.3 million, or 2.4 percent, compared to the prior year. The increase was due to increases of \$12.2 million and \$25.1 million in costs for Ocean Transportation and Logistics, respectively. The reasons for the operating expense changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

*Income Tax Expense* during the year ended December 31, 2014 was \$51.9 million, or 42.3 percent, of income before income taxes, as compared to \$32.2 million, or 37.5 percent on income before income taxes, in the prior year. The increase in income tax rate was principally due to a non-cash valuation allowance recorded against deferred tax assets related to foreign operations, and non-deductible charges related to the acquisition, offset by the release of uncertain tax positions.

Table of Contents**Consolidated Results: 2013 compared with 2012:**

(dollars in millions, except per share amounts)	Years Ended December 31,		Change
	2013	2012	
Operating revenue	\$ 1,637.2	\$ 1,560.0	4.9%
Operating costs and expenses	(1,536.9)	(1,463.3)	5.0%
Operating income	100.3	96.7	3.7%
Interest expense	(14.4)	(11.7)	23.1%
Income from continuing operations before income taxes	85.9	85.0	1.1%
Income tax expense	(32.2)	(33.0)	(2.4%)
Income from continuing operations	53.7	52.0	3.3%
Loss from discontinued operations (net of income taxes)		(6.1)	
Net income	\$ 53.7	\$ 45.9	17.0%
Basic earnings per share	\$ 1.26	\$ 1.09	15.6%
Diluted earnings per share	\$ 1.25	\$ 1.08	15.7%

*Consolidated Operating Revenue* for the year ended December 31, 2013 increased \$77.2 million, or 4.9 percent, compared to the prior year. This increase was due to \$39.6 million and \$37.6 million higher revenues for Ocean Transportation and Logistics, respectively. The reasons for the operating revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

*Operating Costs and Expenses* for the year ended December 31, 2013 increased \$73.6 million, or 5.0 percent, compared to the prior year. The increase was due to increases of \$41.9 million and \$31.7 million in costs for Ocean Transportation and Logistics, respectively. The reasons for the operating expense changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

*Income Tax Expense* during the year ended December 31, 2013 was \$32.2 million, or 37.5 percent of income from continuing operations before income tax, as compared to \$33.0 million, or 38.8 percent, in the prior year. The change in tax rate percent is due principally to a tax benefit in 2013 from the re-measurement of uncertain tax positions and a non-recurring tax increase in the prior year from non-deductible charges related to the Separation.

*Loss from Discontinued Operations* was \$6.1 million for the year ended December 31, 2012 related to the Separation and the shutdown of the Company's CLX2 operations. There were no discontinued operations during 2013.



Table of Contents**ANALYSIS OF OPERATING REVENUE AND INCOME BY SEGMENT**

Additional detailed information related to the operations and financial performance of the Company's Reportable Segments is included in Part II Item 6 and Note 14 to the consolidated financial statements in Item 8 of Part II below. The following information should be read in relation to the information contained in those sections.

**Ocean Transportation: 2014 compared with 2013:**

(dollars in millions)	Years Ended December 31,		Change
	2014	2013	
Ocean Transportation revenue	\$ 1,278.4	\$ 1,229.4	4.0%
Operating costs and expenses	1,147.3	1,135.1	1.1%
Operating income	\$ 131.1	\$ 94.3	39.0%
Operating income margin	10.3%	7.7%	
Volume (Units) (1)			
Hawaii containers	138,300	138,500	(0.1%)
Hawaii automobiles	70,600	81,500	(13.4%)
China containers	62,000	61,300	1.1%
Guam containers	24,600	24,100	2.1%
Micronesia/South Pacific Containers	14,800	12,800	15.6%

(1) Approximate container volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages that straddle the beginning or end of each reporting period.

Ocean Transportation revenue increased \$49.0 million, or 4.0 percent during the year ended December 31, 2014 compared to the prior year. This increase was due primarily to higher freight yields across major trade lanes, higher fuel surcharge revenue, and increased volume in the South Pacific, partially offset by lower automobile volume.

During the year ended December 31, 2014, container volumes in Hawaii and China were relatively flat; Guam volume increased modestly due to timing of shipments; and Micronesia/South Pacific volume increased 15.6 percent reflecting a full year of operations and service reconfiguration in the South Pacific. Hawaii automobile volume decreased 13.4 percent primarily due to certain customer losses.

Ocean Transportation operating income increased \$36.8 million, or 39.0 percent during the year ended December 31, 2014. The increase was primarily due to higher freight yields across major trade lanes, the timing of fuel surcharge collections, lower outside transportation costs, and improved results at the Company's terminal joint venture, SSAT, partially offset by higher terminal handling expenses and higher general and administrative expenses some of which were attributable to the Company's pending acquisition of Horizon Lines Alaska operations. In addition, the fourth quarter 2013 was negatively impacted by the \$9.95 million litigation charge. In 2014, the Company incurred \$4.6 million in penalties, legal and other expenses related to the molasses released into Honolulu Harbor in September 2013 compared to \$3.0 million in 2013.

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The Company's terminal joint venture, SSAT, contributed \$6.6 million during the year ended December 31, 2014, compared to a \$2.0 million loss in 2013. The increase was primarily attributable to increased lift volume and the absence of transition costs related to the Oakland terminal expansion in 2013.

Table of Contents**Ocean Transportation: 2013 compared with 2012:**

(dollars in millions)	Years Ended December 31,		Change
	2013	2012	
Ocean Transportation revenue	\$ 1,229.4	\$ 1,189.8	3.3%
Operating costs and expenses	1,135.1	1,093.2	3.8%
Operating income	\$ 94.3	\$ 96.6	(2.4%)
Operating income margin	7.7%	8.1%	
Volume (Units) (1)			
Hawaii containers	138,500	137,200	0.9%
Hawaii automobiles	81,500	78,800	3.4%
China containers	61,300	60,000	2.2%
Guam containers	24,100	24,500	(1.6%)
Micronesia/South Pacific Containers	12,800	5,600	128.6%

(1) Approximate container volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages that straddle the beginning or end of each reporting period.

Ocean Transportation revenue increased \$39.6 million, or 3.3 percent, during the year ended December 31, 2013 compared to the prior year. The increase was primarily due to new volume associated with the Company's Micronesia/South Pacific service and improved freight rates and favorable cargo mix changes in Hawaii, partially offset by lower fuel surcharges resulting from lower fuel prices.

During the year ended December 31, 2013, Hawaii container and automobile volume increased 0.9 percent and 3.4 percent, respectively, due to modest market growth; China volume was 2.2 percent higher primarily the result of an additional sailing in 2013; Guam volume was slightly lower due to general market conditions; and Micronesia/South Pacific volume increased due to the acquisition of the assets of a South Pacific ocean freight carrier based in Auckland, New Zealand, early in the year.

Ocean Transportation operating income decreased \$2.3 million, or 2.4 percent, during the year ended December 31, 2013. The decrease in operating income was principally due to the litigation charge of \$9.95 million, start-up costs and service reconfiguration expenses in the South Pacific trade, higher general and administrative expenses, and other non-recurring unfavorable items. In addition, the Company incurred \$3.0 million in response costs, legal expenses and third party claims related to the molasses released into Honolulu Harbor. The decrease in operating income was partially offset by freight rate and cargo mix improvements in Hawaii, lower vessel expenses from the full year deployment of a nine-ship fleet, lower outside transportation costs due to barge dry-dockings in the prior year, and the absence of Separation costs.

Losses attributable to the Company's terminal joint venture, SSAT, were \$2.0 million during the year ended December 31, 2013, compared to an income contribution of \$3.2 million in the prior year. The loss reflected past customer losses that resulted in lower lift volume and higher than expected transition costs related to the expansion of its terminal operations in Oakland, partially offset by new customers and volumes at the expanded Oakland terminal in the fourth quarter 2013.

**Logistics: 2014 compared with 2013:**

(dollars in millions)	Years Ended December 31,			Change
	2014	2013	2013	
Intermodal revenue	\$ 243.5	\$ 244.2		(0.3%)
Highway revenue	192.3	163.6		17.5%
Total Logistics Revenue	435.8	407.8		6.9%
Operating costs and expenses	426.9	401.8		6.2%
Operating income	\$ 8.9	\$ 6.0		
Operating income margin	2.0%	1.5%		

Logistics revenue increased \$28.0 million, or 6.9 percent, during the year ended December 31, 2014 compared to 2013. This increase was primarily due to higher highway and international intermodal volume, partially offset by lower domestic intermodal volume.

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Logistics operating income increased by \$2.9 million during the year ended December 31, 2014 compared to 2013. The increase was primarily due to increased highway yield and volume, warehouse operating improvements, and a favorable litigation settlement, partially offset by lower intermodal yield.

**Logistics: 2013 compared with 2012:**

(dollars in millions)	Years Ended December 31,		Change
	2013	2012	
Intermodal revenue	\$ 244.2	\$ 229.1	6.6%
Highway revenue	163.6	141.1	15.9%
Total Logistics Revenue	407.8	370.2	10.2%
Operating costs and expenses	401.8	370.1	8.6%
Operating income	\$ 6.0	\$ 0.1	
Operating income margin	1.5%	0.0%	

Logistics revenue for the year ended December 31, 2013, increased \$37.6 million, or 10.2 percent, compared to the prior year. This increase was the result of higher intermodal and highway volume.

Logistics operating income for the year ended December 31, 2013, increased by \$5.9 million compared to the prior year. The increase was primarily due to the absence of a \$3.9 million charge taken in 2012 related to intangible asset impairment and a warehouse lease restructuring charge. In addition, Logistics operating income in 2013 benefited from lower general and administrative expenses and higher intermodal volume than in 2012.

**LIQUIDITY AND CAPITAL RESOURCES****Overview:**

Additional sources of liquidity for the Company, consisting of cash and cash equivalents, and receivables totaled \$491.0 million at December 31, 2014, an increase of \$194.2 million from December 31, 2013. The increase was due to a \$178.9 million increase in cash and cash equivalents, primarily due to proceeds from the \$100 million Notes financing that closed on January 28, 2014, and from an increase in accounts receivable of \$15.3 million.

**Cash Flows:**

Net cash flows provided by operating activities from continuing operations continue to be the Company's most significant source of liquidity, and were \$165.7 million in 2014, compared with \$195.7 million in 2013 and \$94.0 million in 2012. The decrease in 2014 over 2013 was due

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principally to changes in deferred income taxes of \$54.8 million as a result of decreased contributions to the CCF, increased account receivables as a result of increases in operating revenues, offset by an increase in income from continuing operations, and a reduction in prepaid and other assets. The increase in 2013 over 2012 was due principally to changes in deferred income taxes of \$66.3 million as a result of increased contributions to the Capital Construction Fund, lower cash outflows related to the dry-docking of vessels during 2013, and increased accounts payable and accrued liabilities.

Net cash flows used in investing activities from continuing operations were \$50.5 million for 2014, compared to \$40.0 million and \$6.3 million used in 2013 and 2012, respectively. The increase in 2014 over 2013 was due principally to increased deposits into the CCF, partially offset by a reduction in capital expenditures and no acquisition related payments in 2014. The increase in 2013 over 2012 was due principally to the reduction in contribution from the Former Parent Company, and payment for acquisitions, partially offset by a reduction of capital expenditures. No contributions were received from the Former Parent Company during 2013 as compared to \$25.0 million in 2012. This contribution represents dividends paid by the Former Parent Company to its shareholders prior to the Separation. The Company also made payments of \$9.3 million in 2013 related to the acquisition of Matson's South Pacific service.

Capital expenditures were \$27.9 million for 2014, compared with \$35.2 million and \$38.1 million for 2013 and 2012, respectively. The 2014 capital expenditures included \$27.8 million for the purchase of Ocean Transportation-related assets and \$0.1 million related to the purchase of Logistics-related assets. Capital expenditures for the year ended December 31, 2013 included \$33.8 million for the purchase of Ocean Transportation-related assets and \$1.4 million related to the purchase of Logistics-related assets. Capital expenditures for the year ended December 31, 2012 included \$37.0 million for the purchase of Ocean Transportation-related assets and \$1.1 million related to the purchase of Logistics-related assets.

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The Company also expects to make payments of \$33.4 million in 2015 under the Shipbuilding Agreements with APSI related to the construction of two new vessels from Matson's cash on hand. Furthermore, the Company expects to make additional contributions to its CCF in 2015, which may exceed the \$65.5 million net contribution made in 2014.

Net cash flows provided by financing activities from continuing operations were \$63.7 million for 2014, compared to \$61.1 million and \$74.5 million used in 2013 and 2012, respectively. The increase in 2014 compared to prior year was due principally to proceeds of \$100 million from the issuance of long-term debt, and reductions in repayments of credit facility borrowings. The decrease in cash flows used in financing activities in 2013 compared to 2012 was due principally to reductions in payments of long-term debt and dividends, and the net change in proceeds from the issuance of long-term debt less contributions and other distributions to A&B as part of the Separation, partially offset by the increase in credit facility payments, and a reduction in proceeds from the issuance of capital stock.

**Other Sources of Liquidity:**

***Description of Debt:***

***Term Debt:*** In May 2005, the Company partially financed the delivery of the MV *Manulani* by issuing \$105.0 million of Series B Notes with a coupon of 4.79 percent and 15-year final maturity. The notes amortize by semi-annual principal payments of \$3.5 million plus interest. The Company negotiated the release of the MV *Manulani* as security for the remaining long-term debt of \$56.0 million as part of the Company's debt restructuring completed during the Separation, resulting in an increase in the interest rate to 5.79 percent.

During the second quarter of 2012, Matson issued new unsecured, fixed rate, amortizing long-term debt of \$170.0 million, which was funded in three tranches, \$77.5 million at an interest rate of 3.66 percent maturing in 2023, \$55.0 million at an interest rate of 4.16 percent maturing in 2027, and \$37.5 million at an interest rate of 4.31 percent maturing in 2032. Interest is payable semi-annually. The weighted average coupon and average life of the three tranches of debt are 3.97 percent and 9.2 years, respectively. The notes will begin to amortize in 2015, with aggregate semi-annual payments of \$4.6 million through 2016, \$8.4 million in 2017 through mid-year 2023, \$3.8 million through mid-year 2027, and \$1.2 million thereafter.

In January 2014, Matson issued \$100 million of 30-year senior unsecured notes (the *Notes*). The Notes have a weighted average life of 14.5 years and bear interest at a rate of 4.35 percent, payable semi-annually. The Notes will begin to amortize in 2021, with annual principal payments of \$5.0 million in 2021, \$7.5 million in 2022 and 2023, \$10.0 million from 2024 to 2027, and \$8.0 million in 2028. Starting in 2029, and in each year thereafter until 2044, annual principal payments will be \$2.0 million.

***Title XI Bonds:*** In September 2003, the Company issued \$55.0 million in U.S. Government guaranteed ship finance bonds (Title XI) to partially finance the delivery of the MV *Manukai*. The secured bonds have a final maturity in September 2028 with a coupon of 5.34 percent. The bonds are amortized by fifty semi-annual payments of \$1.1 million plus interest. In August 2004, the Company issued \$55.0 million of U.S. Government guaranteed ship finance bonds (Title XI) to partially finance the delivery of the MV *Maunawili*. The secured bonds have a final maturity in July 2029, with a coupon of 5.27 percent. The bonds are amortized by fifty semi-annual payments of \$1.1 million plus interest.

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*Revolving Credit Facility:* During the second quarter of 2012, the Company entered into a \$375.0 million, five-year unsecured revolving credit facility with a syndicate of banks to provide the Company with additional sources of liquidity for working capital requirements and investment opportunities (the Credit Facility). The Credit Facility includes a \$100 million sub-limit for the issuance of standby and commercial letters of credit, and a \$50 million sub-limit for swing line loans. The Credit Facility also includes an uncommitted option to increase the Credit Facility by \$75 million.

The Credit Facility is subject to commitment fees, letter of credit fees, and interest on borrowings based on the Company's ratio of total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) (the Leverage Ratio). Commitment fees and letter of credit fees are computed using rates tied to a sliding scale, which range from 0.15 percent to 0.40 percent, and 1.00 percent to 2.25 percent, respectively, based upon the Leverage Ratio. Interest rates on borrowings are based upon the London Interbank Offered Rate (LIBOR) plus 1.00 percent to 2.25 percent using a sliding scale based on the Leverage Ratio. The Company may also select an interest rate for borrowings at a base rate as defined within the agreement, plus a margin that ranges from 0.0 percent to 1.25 percent. Based upon the Company's Leverage Ratio, the interest rate applicable to any borrowings would have been approximately 1.7 percent at December 31, 2014.

As of December 31, 2014, the used portion of the Company's Credit Facility was \$6.0 million, all of which was from letters of credit.



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*Capital Leases:* As of December 31, 2014, Matson had capital lease obligations of \$1.3 million, consisting of specialized and standard containers used in the Company's South Pacific service. Capital leases have been classified as current and long-term debt in the Company's consolidated balance sheets.

Matson's total debt was \$373.6 million as of December 31, 2014, compared with \$286.1 million as of December 31, 2013. All of Matson's outstanding debt was fixed rate debt as of December 31, 2014, and was unsecured, except for \$63.8 million in Title XI bonds, which is guaranteed by the Company's significant subsidiaries.

***Debt Covenants:***

Principal financial covenants as defined in Matson's Credit Facility and long term fixed rate debt include, but are not limited to:

- The ratio of debt to consolidated EBITDA cannot exceed 3.25 to 1.00 for each fiscal four quarter period;
- The ratio of consolidated EBITDA to interest expense as of the end of any fiscal four quarter period cannot be less than 3.50 to 1.00; and
- The principal amount of priority debt at any time cannot exceed 20 percent of consolidated tangible assets; and the principal amount of priority debt that is not Title XI priority debt at any time cannot exceed 10 percent of consolidated tangible assets. Priority debt, as further defined in the Credit Facility agreement, is all debt secured by a lien on the Company's assets or subsidiary debt.

The Company was in compliance with these covenants as of December 31, 2014, with a debt to consolidated EBITDA ratio of 1.77, consolidated EBITDA to interest expense ratio of 12.21, and priority debt to consolidated tangible assets ratio of 4.7 percent.

**Horizon Acquisition:**

If the Horizon acquisition is consummated (see Item 1 of Part 1 above for additional information on the Horizon Acquisition), under the terms of the definitive merger agreement with Horizon, Matson will pay \$0.72 per share for Horizon's stock with an equity value of approximately \$69.2 million, plus repayment of Horizon's debt at the close of the Horizon Transaction. The total value for the Horizon Transaction is approximately \$456.0 million (before transaction costs), based on Horizon's net debt outstanding as of September 21, 2014. Matson expects to fund the acquisition through a combination of Matson's cash on hand and borrowings under its Credit Facility. Matson also expects to incur pre-tax one-time transaction related closing costs of approximately \$25.0 million, and one-time restructuring and integration costs of between \$20.0 million to \$25.0 million. The total value of the Horizon Transaction at time of closing is subject to change based upon Horizon's interim corporate cash flow performance and outstanding debt balance at close.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS**

**Contractual Obligations:**

At December 31, 2014, the Company had the following estimated contractual obligations (in millions):

Contractual Obligations	(1)	Payment due by period				Total
		2015	2016-2017	2018-2019	Thereafter	
Construction of new vessels	(2)	\$ 33.4	\$ 213.8	\$ 162.8	\$	\$ 410.0
Long-term debt obligations (including current portion)	(3)	21.6	48.9	56.4	246.7	373.6
Estimated interest on debt	(4)	16.5	29.9	24.9	67.9	139.2
Purchase obligations	(5)	14.0				14.0
Qualified pension benefit obligations	(6)	11.4	24.3	26.1	70.9	132.7
Non-qualified benefit obligations	(7)	1.6	1.1	1.2	2.4	6.3
Post-retirement obligations	(8)	2.5	5.1	5.5	15.3	28.4
Operating lease obligations	(9)	20.8	22.2	6.0	8.1	57.1
<b>Total</b>		<b>\$ 121.8</b>	<b>\$ 345.3</b>	<b>\$ 282.9</b>	<b>\$ 411.3</b>	<b>\$ 1,161.3</b>

(1) The table excludes Matson's contractual obligations that arise as a result of entering into the definitive merger agreement with Horizon. Under the terms of this agreement, Matson will pay \$0.72 per share for Horizon's stock with an equity value of approximately \$69.2 million, plus repayment of Horizon's debt at the close of the Horizon Transaction. The total value for the Horizon Transaction is approximately \$456.0 million (before transaction costs), based on Horizon's net debt outstanding as of September 21, 2014 (see Item 1 of Part 1 above for additional information on the Horizon Transaction).

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- (2) Payment for the construction of new vessels is based upon the shipbuilding agreements with APSI and the expected delivery times of the vessels in 2018.
- (3) Long-term debt obligations (including current portion) include principal repayments of outstanding short-term and long-term debt for the respective periods, and capital leases. Capital lease obligations were \$1.3 million at December 31, 2014, of which \$1.1 million will be repaid in 2015, and the balance in 2016.
- (4) Estimated cash payments for interest on debt is determined based on the stated interest rate for fixed debt.
- (5) Purchase obligations include only non-cancellable contractual obligations for the purchases of goods and services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Any amounts reflected on the consolidated balance sheets as accounts payable and accrued liabilities are excluded from the table above.
- (6) Qualified pension benefit obligations include estimated payments for the next ten years. The \$70.9 million noted in the column labeled "Thereafter" comprises estimated benefit payments for 2020 through 2024 (see Note 9 to the consolidated financial statements in Item 8 of Part II below, for additional information about the Company's non-qualified plans).
- (7) Non-qualified benefit obligations include estimated payments to executives and directors under the Company's four non-qualified plans for the next ten years. The \$2.4 million noted in the column labeled "Thereafter" comprises estimated benefit payments for 2020 through 2024 (see Note 9 to the consolidated financial statements in Item 8 of Part II below, for additional information about the Company's non-qualified plans).
- (8) Post-retirement obligations include estimated payments to medical service providers in connection with providing benefits to the Company's employees and Retirees for the next ten years. The \$15.3 million noted in the column labeled "Thereafter" comprises estimated post-retirement benefit payments for 2020 through 2024 (see Note 9 to the consolidated financial statements in Item 8 of Part II below, for additional information about the Company's post-retirement obligations).
- (9) Operating lease obligations include principally land, office and terminal facilities, containers and equipment under non-cancellable, long-term lease arrangements that do not transfer the rights and risks of ownership to the Company (see Note 8 to the consolidated financial statements in Item 8 of Part II below, for additional information about the Company's leases).

Estimated timing and amount of payments related to uncertain tax position liabilities of \$6.7 million as of December 31, 2014, is excluded from the table due to the uncertainty of such timing and payments, if any.

**Commitments, Contingencies and Off-Balance Sheet Arrangements:**

A description of commitments and contingencies is set forth in Note 12 to the consolidated financial statements in Item 8 of Part II below, and is incorporated herein by reference. The Company does not have any off-balance sheet arrangements.

**Other Matters:**

Matson's Board of Directors declared a cash dividend of \$0.17 per share payable on March 5, 2015 to shareholders of record on February 12, 2015.

**CRITICAL ACCOUNTING ESTIMATES**

The Company's significant accounting policies are described in Note 2 to the consolidated financial statements. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, upon which the MD&A is based, requires that management exercise judgment when making estimates and assumptions about future events that may affect the amounts reported in the consolidated financial statements and accompanying notes. Future events and their effects cannot be determined with 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)(a) 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, (b) changes in the estimate are reasonably likely to occur in periods after the period in which the estimate was made, or (c) use of different estimates by the Company could have been used, and (ii) changes in those assumptions or estimates would have had a material impact on the financial condition or results of operations of the Company. The critical accounting estimates inherent in the preparation of the Company's consolidated financial statements are described below. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors.

**Impairment of Investments:** The Company's investment in its Terminal Joint Venture is reviewed for impairment annually and whenever there is evidence that fair value may be below carrying cost. An investment is written down to fair value if fair value is below carrying cost and the impairment is other-than-temporary. In evaluating the fair value of an investment and whether any identified impairment is other-than-temporary, significant estimates and considerable judgments are involved. These estimates and judgments are based, in part, on the Company's current and future evaluation of economic conditions in general, as well as the Terminal Joint Venture's current and future plans. These fair value calculations are highly subjective because they require

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management to make assumptions and apply judgments to estimates regarding the timing and amount of future cash flows, probabilities related to various cash flow scenarios, and appropriate discount rates based on the perceived risks, among others. In evaluating whether an impairment is other-than-temporary, the Company considers all available information, including the length of time and extent of the impairment, the financial condition and near-term prospects of the Terminal Joint Venture, the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, and projected industry and economic trends, among others. Changes in these and other assumptions could affect the projected operational results and fair value of the Terminal Joint Venture, and accordingly, may require valuation adjustments to the Company's investment that may materially impact the Company's financial condition or its future operating results.

The Company has evaluated its investment in its Terminal Joint Venture for impairment and no impairment charges were recorded for the years ended December 31, 2014, 2013, and 2012.

**Impairment of Long-Lived Assets and Finite-Lived Intangible Assets:** The Company reviews its long-lived assets, including finite-lived intangible assets for possible impairment annually, or whenever events or circumstances indicate that their carrying values may not be recoverable. The Company's long-lived assets, including finite-lived intangible assets are grouped at the Ocean Transportation and Logistics asset group level, which represents the lowest level for which identifiable cash flows are available. In evaluating impairment, the estimated future undiscounted cash flows generated by each of these asset groups is compared with the amount recorded for each asset group to determine if its carrying value is not recoverable. If this review determines that the amount recorded will not be recovered, the amount recorded for the asset group is reduced to estimated fair value.

These asset impairment analyses are highly subjective because they require management to make assumptions and apply considerable judgments to, among other things, estimates of the timing and amount of future cash flows, expected useful lives of the assets, uncertainty about future events, including changes in economic conditions, changes in operating performance, changes in the use of the assets, and ongoing costs of maintenance and improvements of the assets, 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.

The Company has evaluated its long-lived assets, including finite-lived intangible assets for impairment and no impairment charges were recorded for the years ended December 31, 2014 and 2013. During 2012, the Company determined that it had an impairment related to the finite-lived intangible assets at Logistics. The Company recorded impairment expense of \$2.1 million for the year ended December 31, 2012, which is included in operating expense in the consolidated statements of income and comprehensive income.

Additional information about Matson's vessels included in property and equipment as of December 31, 2014 is as follows (in millions):

	Purchase Date	Cost	Net Book Value
MAUNALEI	September 2006	\$ 158.2	\$ 115.0
MANULANI	June 2005	152.7	104.9
MAUNAWILI	September 2004	104.8	70.4
MANUKAI	September 2003	107.5	68.8
R.J. PFEIFFER	August 1992	163.0	47.6
MOKIHANA	January 1996	100.8	29.3

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MAHIMAHI	January 1996	64.5	16.6
MANOA	January 1996	65.4	15.8
KAUAI	September 1980	91.5	14.1
MAUI	June 1978	80.6	10.1
WAIALEALE	November 1991	11.4	3.1
OLOMANA	January 2013	3.7	2.8
LURLINE	August 1998	17.9	2.0
MATSONIA	October 1987	95.6	2.0
MAUNA KEA	August 1988	10.2	1.5
HALEAKALA	December 1984	15.3	0.3
LIHUE	January 1996	7.8	1.6
MAUNA LOA	December 1984	12.9	0.2
Total		\$ 1,263.8	\$ 506.1

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**Impairment of Goodwill:** The Company reviews goodwill for impairment annually in the fourth quarter, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In estimating the fair value of a reporting unit, the Company uses a combination of a discounted cash flow model and fair value based on market multiples of EBITDA. The discounted cash flow approach requires the Company to use a number of assumptions, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a discount rate that considers the risks related to the amount and timing of the cash flows. Although the assumptions used by the Company in its discounted cash flow model are consistent with the assumptions the Company uses to generate its internal strategic plans and forecasts, significant judgment is required to estimate the amount and timing of future cash flows from the reporting unit and the risk of achieving those cash flows. When using market multiples of EBITDA, the Company must make judgments about the comparability of those multiples in closed and proposed transactions. Accordingly, changes in assumptions and estimates, including, but not limited to, changes driven by external factors, such as industry and economic trends, and those driven by internal factors, such as changes in the Company's business strategy and its internal forecasts, could have a material effect on the Company's financial condition or its future operating results.

The Company has evaluated its goodwill for impairment and no impairment charges were recorded for the years ended December 31, 2014, 2013 and 2012, respectively.

**Legal Contingencies:** The Company's results of operations could be affected by significant litigation adverse to the Company, including, but not limited to, liability claims, antitrust claims, claims related to coastwise trading matters, lawsuits involving private plaintiffs or government agencies, and environment related matters. The Company records accruals for legal matters when the information available indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management makes adjustments to these accruals to reflect the impact and status of negotiations, settlements, rulings, advice of outside legal counsel and other information and events that may pertain to a particular matter. Predicting the outcome of claims and lawsuits and estimating related costs and exposure involves substantial uncertainties that could cause actual costs to vary materially from those estimates. In making determinations of likely outcomes of litigation matters, the Company considers many factors. These factors include, but are not limited to, the nature of specific claims including un-asserted claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative dispute resolution mechanisms and the matter's current status.

A detailed discussion of significant litigation matters is contained in Note 12 to the consolidated financial statements included in Item 8 of Part II below.

**Uninsured Liabilities:** The Company is uninsured for certain losses including, but not limited to, employee health, workers' compensation, general liability, real and personal property. Where feasible, the Company obtains third-party excess insurance coverage to limit its exposure to these claims. When estimating its uninsured 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 uninsured liabilities. The Company's uninsured 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 or its future operating results could be materially impacted.

**Pension and Post-Retirement Estimates:** The estimation of the Company's pension and post-retirement benefit expenses and liabilities requires that the Company make various assumptions. These assumptions include factors such as discount rates, expected long-term rate of return on pension plan assets, salary growth, health care cost trend rates, inflation, retirement rates, mortality rates and expected contributions. Actual results that differ from the assumptions made could materially affect the Company's financial condition or its future operating results.

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The effects of changing assumptions are included in unamortized net gains and losses, which directly affect accumulated other comprehensive income. Additionally, these unamortized gains and losses are amortized and reclassified to income (loss) over future periods.

Additional information about the Company's benefit plans and assumptions used is included in Note 9 to the consolidated financial statements in Item 8 of Part II below.

**Income Taxes:** The Company makes certain estimates and judgments in determining income tax expense for consolidated financial statement purposes. These estimates and judgments are applied in the calculation of tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and consolidated financial statement purposes. In addition, judgment is required in determining if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. A valuation allowance would be established if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. Significant changes to these estimates may result in an increase or decrease to the Company's tax provision in a subsequent period.



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During 2014, the Company recorded a full valuation allowance against deferred tax assets related to accumulated operating losses of a foreign subsidiary of \$4.1 million (see Note 10 to the consolidated financial statements included in Item 8 of Part II below).

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 or its future operating results.

**OTHER MATTERS**

**Accounting Standards Updates:** New accounting standards issued as of December 31, 2014, with an effective after December 31, 2014, are not expected to have a material effect on the Company's financial position or results of operations.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Matson is exposed to changes in interest rates, primarily as a result of its borrowing and investing activities used to maintain liquidity and to fund business operations. In order to manage its exposure to changes in interest rates, Matson utilizes a balanced mix of both fixed-rate and variable-rate debt. The nature and amount of Matson's long-term and short-term debt can be expected to fluctuate as a result of future business requirements, market conditions and other factors. Matson's fixed-rate debt was \$373.6 million as of December 31, 2014. Currently, Matson does not have any variable rate debt outstanding under its revolving credit facilities.

Other than in certain events of default, the Company does not have an obligation to prepay its fixed-rate debt prior to maturity and, as a result, interest rate fluctuations and the resulting changes in fair value would not have an impact on the Company's financial condition or results of operations unless the Company was required to refinance such debt. Additional information about the Company's debt is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation, under Liquidity and Capital Resources above.

From time to time, Matson may invest its excess cash in short-term money market funds that purchase government securities or corporate debt securities, or in other deposit products allowed under Matson's Cash Investment Policy. At December 31, 2014, the Company had \$92.5 million invested in money market funds and other interest bearing deposits. These money market funds and deposits maintain a weighted average maturity of less than 90 days, and accordingly, a one percent change in interest rates is not expected to have a material impact on the fair value of these investments or on interest income.

Through its Capital Construction Fund, the Company may, from time to time, invest in money market funds or other eligible investments. At December 31, 2014, the Company had \$27.5 million in such investments.

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Matson has no material exposure to foreign currency risks, although it is indirectly affected by changes in currency rates to the extent that changes in rates affect tourism in Hawaii. Transactions related to its China service are primarily denominated in U.S. dollars, and therefore, a one percent change in the Chinese Yuan exchange rate would not have a material effect on the Company's results of operations. Transactions related to Matson's South Pacific service are primarily denominated in New Zealand dollars. However a one percent change in the New Zealand dollar exchange rate is not expected to have a material effect on the Company's results of operations.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Matson, Inc. and subsidiaries (the Company) has the responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting only provides reasonable assurance with respect to financial statement presentation and preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on its assessment, management believes that, as of December 31, 2014, the Company's internal control over financial reporting is effective. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company's internal control over financial reporting.

/s/ Matthew J. Cox  
Matthew J. Cox  
President and Chief Executive Officer  
February 27, 2015

/s/ Joel M. Wine  
Joel M. Wine  
Senior Vice President and Chief Financial Officer  
February 27, 2015

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of**

**Matson, Inc.**

**Honolulu, Hawaii**

We have audited the accompanying consolidated balance sheets of Matson, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Matson, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Honolulu, Hawaii  
February 27, 2015

Table of Contents**MATSON, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(In millions, except per-share amounts)

	Years Ended December 31,		
	2014	2013	2012
<b>Operating Revenue:</b>			
Ocean Transportation	\$ 1,278.4	\$ 1,229.4	\$ 1,189.8
Logistics	435.8	407.8	370.2
Total Operating Revenue	1,714.2	1,637.2	1,560.0
<b>Costs and Expenses:</b>			
Operating costs	1,433.5	1,402.3	1,338.1
Equity in (income) loss of terminal joint venture	(6.6)	2.0	(3.2)
Selling, general and administrative	147.3	132.6	119.8
Separation costs			8.6
Total costs and expenses	1,574.2	1,536.9	1,463.3
Operating Income	140.0	100.3	96.7
Interest expense	(17.3)	(14.4)	(11.7)
Income from Continuing Operations Before Income Taxes	122.7	85.9	85.0
Income tax expense	(51.9)	(32.2)	(33.0)
Income From Continuing Operations	70.8	53.7	52.0
Loss From Discontinued Operations (net of income taxes)			(6.1)
Net Income	\$ 70.8	\$ 53.7	\$ 45.9
<b>Other Comprehensive Income (Loss), Net of Income Taxes:</b>			
Net Income	\$ 70.8	\$ 53.7	\$ 45.9
<b>Other Comprehensive Income (Loss):</b>			
Net (loss) gain in prior service cost	(31.4)	18.7	(4.6)
Amortization of prior service cost included in net periodic pension cost	(1.3)	(1.3)	(1.4)
Amortization of net loss included in net periodic pension cost	2.5	4.7	4.8
Foreign currency translation adjustment	0.4	(0.1)	
Other comprehensive income from discontinued operations			0.7
Total Other Comprehensive (Loss) Income	(29.8)	22.0	(0.5)
Comprehensive Income	\$ 41.0	\$ 75.7	\$ 45.4
<b>Basic Earnings (Loss) Per Share:</b>			
Continuing operations	\$ 1.65	\$ 1.26	\$ 1.23
Discontinued operations			(0.14)
Basic Earnings Per Share	\$ 1.65	\$ 1.26	\$ 1.09
<b>Diluted Earnings (Loss) Per Share:</b>			
Continuing operations	\$ 1.63	\$ 1.25	\$ 1.22
Discontinued operations			(0.14)
Diluted Earnings Per Share	\$ 1.63	\$ 1.25	\$ 1.08
<b>Weighted Average Number of Shares Outstanding:</b>			
Basic	43.0	42.7	42.3
Diluted	43.4	43.1	42.7

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See notes to consolidated financial statements.



Table of Contents**MATSON, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In millions, except per-share amount)

	December 31,	
	2014	2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 293.4	\$ 114.5
Accounts receivable, net	197.6	182.3
Deferred income taxes	8.0	9.1
Prepaid expenses and other assets	20.5	43.0
Total current assets	519.5	348.9
Investment in terminal joint venture	64.4	57.6
Property and equipment, net	691.2	735.4
Goodwill and intangible assets, net	29.9	31.2
Capital Construction Fund deposits	27.5	
Other long-term assets	69.3	75.2
Total assets	\$ 1,401.8	\$ 1,248.3
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of debt	\$ 21.6	\$ 12.5
Accounts payable	133.2	124.0
Payroll and vacation benefits	17.3	16.9
Uninsured liabilities	24.5	15.1
Accrued and other liabilities	26.9	32.1
Total current liabilities	223.5	200.6
Long-term Liabilities:		
Long-term debt	352.0	273.6
Deferred income taxes	308.4	326.1
Employee benefit plans	118.6	74.4
Uninsured and other liabilities	35.5	35.4
Total long-term liabilities	814.5	709.5
Commitments and Contingencies		
Shareholders' Equity:		
Capital stock - common stock without par value; authorized, 150 million shares (\$0.75 stated value per share); outstanding, 43.2 million shares in 2014 and 42.8 million shares in 2013	32.4	32.1
Additional paid in capital	274.9	261.9
Accumulated other comprehensive loss	(53.3)	(23.5)
Retained earnings	109.8	67.7
Total shareholders' equity	363.8	338.2
Total liabilities and shareholders' equity	\$ 1,401.8	\$ 1,248.3

See notes to consolidated financial statements.

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## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Cash Flows From Operating Activities:</b>			
Net income from continuing operations	\$ 70.8	\$ 53.7	\$ 52.0
<b>Reconciling adjustments:</b>			
Depreciation and amortization	69.7	69.7	72.5
Deferred income taxes	2.7	57.5	(8.8)
(Gain) loss on disposal of property	(1.5)	0.2	(1.2)
Post-retirement (income) expense	(5.9)	1.6	2.6
Share-based compensation expense	8.7	5.9	4.0
Equity in (income) loss of terminal joint venture	(6.6)	2.0	(3.2)
Impairment of intangible assets			2.1
Tax benefit from equity issuance	0.8	1.8	
Excess tax benefit from stock-based compensation	(1.1)	(0.6)	
<b>Changes in assets and liabilities:</b>			
Accounts receivable	(15.3)	(7.6)	(7.0)
Deferred dry-docking payments	(14.1)	(14.0)	(44.8)
Deferred dry-docking amortization	21.1	22.0	23.3
Prepaid expenses and other assets	17.3	(11.8)	(10.4)
Accounts payable and accrued liabilities	13.5	2.2	(7.9)
Other liabilities	5.6	13.1	20.8
Net cash provided by operating activities from continuing operations	165.7	195.7	94.0
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(27.9)	(35.2)	(38.1)
Proceeds from disposal of property and equipment	4.9	4.5	6.8
Deposits into Capital Construction Fund	(31.9)	(4.4)	(4.4)
Withdrawals from Capital Construction Fund	4.4	4.4	4.4
Payments for acquisitions		(9.3)	
Contribution from the Former Parent Company			25.0
Net cash used in investing activities from continuing operations	(50.5)	(40.0)	(6.3)
<b>Cash Flows From Financing Activities:</b>			
Excess tax benefit from stock-based compensation	1.1	0.6	
Proceeds from issuance of debt	100.0	21.0	197.0
Payments of debt	(11.4)	(45.4)	(80.4)
(Payments) to/ proceeds from line-of-credit agreements, net		(11.0)	5.0
Payment of financing costs			(1.9)
Payment of capital leases	(1.1)	(1.2)	
Proceeds from issuance of capital stock	5.8	1.7	25.2
Tax withholding related to net share settlements of restricted stock units	(2.0)		
Dividends paid	(28.7)	(26.8)	(39.5)
Contribution to A&B upon Separation			(155.7)
Cash assumed by A&B upon Separation			(2.5)
Distribution to Former Parent Company from issuance of capital stock			(21.7)
Net cash provided by (used in) financing activities from continuing operations	63.7	(61.1)	(74.5)
<b>Cash Flows From Discontinued Operations:</b>			

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Cash flows used in operating activities of discontinued operations				(29.9)
Cash flows used in investing activities of discontinued operations				(18.8)
Cash flows provided by financing activities of discontinued operations				33.9
Net cash flows used in discontinued operations				(14.8)
Net Increase (Decrease) in Cash and Cash Equivalents	178.9	94.6		(1.6)
Cash and cash equivalents, beginning of the year	114.5	19.9		21.5
Cash and cash equivalents, end of the year	\$ 293.4	\$ 114.5	\$	19.9
<b>Supplemental Cash Flow Information:</b>				
Interest paid	\$ 15.2	\$ 13.8	\$	11.3
Income tax (refund) paid	\$ 30.2	\$ (3.4)	\$	42.7
<b>Non-cash Information:</b>				
Capital expenditures included in accounts payable and accrued liabilities	\$ 1.6	\$ 2.1	\$	4.2
Capital lease obligations	\$	\$ 2.9	\$	

See notes to consolidated financial statements.

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## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

For the three years ended December 31, 2014

(In millions, except per-share amounts)

	Common Stock	Stated	Treasury		Additional	Accumulated	Retained	
	Shares	Value	Shares	Cost	Paid In	Other	Earnings	Total
					Capital	Comprehensive		
						Income (Loss)		
Balance at December 31, 2011	45.3	\$ 34.0	(3.6)	\$ (10.9)	\$ 238.3	\$ (91.9)	\$ 953.0	\$ 1,122.5
Net income							45.9	45.9
Other comprehensive loss, net of tax						(0.5)		(0.5)
Excess tax benefit and share withholding	(0.1)	(0.1)			0.5		(2.4)	(2.0)
Share-based compensation					6.5			6.5
Shares issued	1.0	0.7			22.4			23.1
Retirement of treasury shares	(3.6)	(2.7)	3.6	10.9	(8.2)			
Dividends (\$0.93 per share)							(39.5)	(39.5)
Distribution of A&B Stock					(6.8)	46.9	(916.2)	(876.1)
Balance at December 31, 2012	42.6	31.9			252.7	(45.5)	40.8	279.9
Net income							53.7	53.7
Other comprehensive income, net of tax						22.0		22.0
Excess tax benefit and share withholding					1.8			1.8
Share-based compensation					5.9			5.9
Shares issued	0.2	0.2			1.5			1.7
Dividends (\$0.62 per share)							(26.8)	(26.8)
Balance at December 31, 2013	42.8	32.1			261.9	(23.5)	67.7	338.2
Net income							70.8	70.8
Other comprehensive income, net of tax						(29.8)		(29.8)
Excess tax benefit and share withholding					0.8			0.8
Share-based compensation					8.7			8.7
Shares issued	0.4	0.3			3.5			3.8
Dividends (\$0.66 per share)							(28.7)	(28.7)
Balance at December 31, 2014	43.2	\$ 32.4		\$	\$ 274.9	\$ (53.3)	\$ 109.8	\$ 363.8

See notes to consolidated financial statements.

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**MATSON, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF THE BUSINESS**

Matson, Inc., a holding company incorporated in January 2012, in the State of Hawaii, and its subsidiaries ( *Matson* or the *Company* ), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics (see Note 14).

***Ocean Transportation:*** Matson's Ocean Transportation business is conducted through Matson Navigation Company, Inc. ( *MatNav* ), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav is an asset-based business that provides a vital lifeline of ocean freight transportation services to the island economies of Hawaii, Guam and Micronesia, and also operates a premium, expedited service from the ports of Xiamen, Ningbo, and Shanghai in China, to Long Beach, California. In January 2013, Matson began providing ocean services to various islands in the South Pacific including New Zealand, Fiji, Samoa, American Samoa, Tonga and the Cook Islands, and later expanded service to include Australia to the Solomon Islands, and Nauru. Matson's fleet consists of 18 owned and three chartered vessels including containerships, combination container/roll-on/roll-off ships, and custom-designed barges.

The Company also provides container stevedoring, container equipment maintenance and other terminal services for MatNav and other ocean carriers through Matson Terminals, Inc. ( *Matson Terminals* ), a wholly-owned subsidiary of MatNav, on the islands of Oahu, Hawaii, Maui and Kauai.

The Company has a 35 percent ownership interest in SSA Terminals, LLC ( *SSAT* ) through a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc. ( *SSA* ), a subsidiary of Carrix, Inc. (the *Terminal Joint Venture* ). SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the United States of America ( *U.S.* ) Pacific Coast, including to MatNav at several of those facilities. Matson records its share of income (loss) in the joint venture in operating expenses within the Ocean Transportation segment due to the nature of SSAT's operations.

***Logistics:*** The Company's Logistics business is conducted through Matson Logistics, Inc. ( *Matson Logistics* or *Logistics* ), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides multimodal transportation, including domestic and international rail intermodal service ( *Intermodal* ); long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload services, expedited freight services (collectively *Highway* ); and warehousing and distribution services. The warehousing and distribution services are provided by Matson Logistics Warehousing, Inc. ( *Matson Logistics Warehousing* ), a wholly-owned subsidiary of Matson Logistics.

***Horizon Acquisition:*** On November 11, 2014, Matson and Horizon Lines, Inc. ( *Horizon* ) announced that MatNav and Horizon entered into a definitive merger agreement pursuant to which Horizon will be merged with a subsidiary of MatNav. As a result, Matson will acquire Horizon's Alaska operations and assume all of Horizon's non-Hawaii assets and liabilities (the *Horizon Transaction* ). Separately, on the same day, Horizon announced that it agreed to sell its Hawaii operations to The Pasha Group ( *Pasha* ), (the *Pasha Transaction* ), and cease all of its operations in

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Puerto Rico. On February 25, 2015, the stockholders of Horizon approved the adoption of the definitive merger agreement. The Horizon Transaction is conditioned on the Pasha Transaction closing, and other customary closing conditions. The Pasha Transaction is subject to clearance by the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

The total value for the Horizon Transaction is approximately \$456.0 million (before transaction costs), based on Horizon's net debt outstanding as of September 21, 2014, less the anticipated proceeds from the Pasha Transaction. The Company will fund the Horizon Transaction from cash on hand and available borrowings under its revolving credit facility.

**Separation Transaction:** On December 1, 2011, Alexander & Baldwin, Inc., the former parent company of MatNav (the Former Parent Company), announced that its Board of Directors unanimously approved a plan to pursue the separation (the Separation) of the Former Parent Company to create two independent, publicly traded companies, Matson, Inc., and Alexander & Baldwin, Inc. (A&B), a Hawaii-based land company with interests in real estate development, commercial real estate and agriculture.

On February 13, 2012, the Former Parent Company entered into an Agreement and Plan of Merger to reorganize itself by forming a holding company incorporated in Hawaii, Alexander & Baldwin Holdings, Inc. (Holdings). The holding company structure helped facilitate the Separation through the organization and segregation of the assets of the two businesses. In addition, the holding company reorganization was intended to help preserve the Company's status as a U.S. citizen under certain U.S. maritime and vessel documentation laws by, among other things, limiting the percentage of outstanding shares of common stock in the holding company that may be owned or controlled in the aggregate by non-U.S. citizens to a maximum permitted percentage of 22 percent.

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The Separation was completed on June 29, 2012. In the Separation, the shareholders of Holdings received one share of common stock of A&B for every share of Holdings held of record as of June 18, 2012. Immediately following the Separation, Holdings changed its name to Matson, Inc. For accounting purposes, Matson is the successor company to the Former Parent Company.

Prior to the completion of the Separation, Matson and A&B entered into a Separation and Distribution Agreement, Tax Sharing Agreement and an Employee Matters Agreement, each dated June 8, 2012, to govern the post-Separation relationship. In addition, Matson and A&B entered into a Transition Services Agreement, dated June 8, 2012, under which each company agreed to provide the other with various services on an interim transitional basis, for up to 24 months. Also in relation to the Separation, intercompany receivables, payables, loans and other accounts between Matson and A&B, in existence immediately prior to the Separation, were satisfied and/or settled; and intercompany agreements and all other arrangements in effect immediately prior to the distribution were terminated or canceled, subject to certain exceptions.

During the year ended December 31, 2012, the Company incurred total cash outflows of \$166.2 million in relation to the Separation. Separation related expenses, referred to as Separation costs in the consolidated statements of income and comprehensive income, are reported under the cash flows provided by operating activities from continuing operations, and capitalized debt financing costs under cash flows used in financing activities from continuing operations, as these costs do not qualify as discontinued operations.

The breakdown of Separation cash outflows for the year ended December 31, 2012 were as follows (in millions):

	<b>Separation Cash Outflows</b>	
Capital contribution to A&B	\$	155.7
Separation costs		8.6
Capitalized debt financing costs		1.9
Total cash outflow related to the Separation	\$	166.2

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation:* The consolidated financial statements include the accounts of Matson, Inc. and all wholly-owned subsidiaries, after elimination of significant intercompany amounts. Significant investments in businesses, partnerships, and limited liability companies in which the Company does not have a controlling financial interest, but has the ability to exercise significant influence, are accounted for under the equity method. A controlling financial interest is one in which the Company has a majority voting interest or one in which the Company is the primary beneficiary of a variable interest entity.

*Fiscal Year:* The period end for Matson, Inc. is December 31. The period end for MatNav occurred on the last Friday in December, except for Matson Logistics Warehousing whose period closed on December 31. There were 52 weeks included in the MatNav 2014, 2013 and 2012 fiscal years.

*Use of Estimates:* The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates and assumptions are used for, but not

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limited to: impairment of investments, long-lived vessel and equipment impairment, legal contingencies, allowance for doubtful accounts, uninsured liabilities, goodwill and other finite-lived intangible assets impairment, pension and post-retirement estimates, and income taxes. Future results could be materially affected if actual results differ from these estimates and assumptions.

*Cash and Cash Equivalents:* Cash equivalents consist of highly liquid investments with an original maturity of three months or less at the date of purchase. The Company carries these investments at cost, which approximates fair value. Outstanding checks in excess of funds on deposit totaled \$18.9 million and \$19.8 million at December 31, 2014 and 2013, respectively, and are reflected as current liabilities in the consolidated balance sheets.

*Fair Value of Financial Instruments:* The Company values its financial instruments based on the fair value hierarchy of valuation techniques for fair value measurements. Level 1 inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. If the technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy, the lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.



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The Company uses Level 1 inputs for the fair values of its cash and cash equivalents. The Company uses Level 2 inputs for its accounts receivable, and debt. The fair values of cash and cash equivalents, accounts receivable, and short-term debt approximate their carrying values due to the short-term nature of the instruments. The fair value of the Company's long-term debt is calculated based upon interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

(in millions)	Carrying Value at December 31, 2014		Fair Value Measurements at December 31, 2014		
	Total	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 293.4	\$ 293.4	\$ 293.4	\$	\$
Accounts receivable, net	197.6	197.6		197.6	
Fixed rate debt	373.6	395.7		395.7	

(in millions)	Carrying Value at December 31, 2013		Fair Value Measurements at December 31, 2013		
	Total	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 114.5	\$ 114.5	\$ 114.5	\$	\$
Accounts receivable, net	182.3	182.3		182.3	
Fixed rate debt	286.1	292.7		292.7	

*Accounts Receivable:* Accounts receivable are shown net of allowance for doubtful accounts in the consolidated balance sheets. At December 31, 2014, and December 31, 2013, the Company had assigned \$150.7 million and \$112.0 million of eligible accounts receivable, respectively, to the Capital Construction Fund (see Note 6).

*Allowance for Doubtful Accounts:* Allowances for doubtful accounts receivable are established by management based on estimates of collectability. Estimates of collectability are principally based on an evaluation of the current financial condition of the Company's customers and their payment history, which are regularly monitored by the Company. The changes in the allowance for doubtful accounts receivable for the three years ended December 31, 2014 were as follows (in millions):

Year	Balance at Beginning of Year	Expense	Write-offs and Other	Balance at End of Year
2014	\$ 4.1	\$ 1.8	\$ (0.9)	\$ 5.0
2013	4.7	0.6	(1.2)	4.1
2012	5.3	0.7	(1.3)	4.7

*Prepaid and Other Assets:* Prepaid expenses and other assets in the consolidated balance sheets includes \$11.0 million and \$13.8 million of diesel and heavy fuel oil that is primarily aboard the Company's vessels and is recorded at cost, \$0.0 million and \$14.2 million of income tax receivable, and \$9.5 million and \$15.0 million related to other prepaid expenses at December 31, 2014 and 2013, respectively.

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*Impairment of Investment:* The Company's investment in its Terminal Joint Venture is reviewed for impairment annually, or whenever there is evidence that fair value may be below carrying cost. An investment is written down to fair value if fair value is below carrying cost and the impairment is other-than-temporary. In evaluating the fair value of an investment and whether any identified impairment is other-than-temporary, significant estimates and considerable judgments are involved. These estimates and judgments are based, in part, on the Company's current and future evaluation of economic conditions in general, as well as the Terminal Joint Venture's current and future plans. These fair value calculations are highly subjective because they require management to make assumptions and apply judgments to estimates regarding the timing and amount of future cash flows, probabilities related to various cash flow scenarios, and appropriate discount rates based on the perceived risks, among others. In evaluating whether an impairment is other-than-temporary, the Company considers all available information, including the length of time and extent of the impairment, the financial condition and near-term prospects of the Terminal Joint Venture, the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, and projected industry and economic trends, among others. Changes in these and other assumptions could affect the projected operational results and fair value of the Terminal Joint Venture, and accordingly, may require valuation adjustments to the Company's investment that may materially impact the Company's financial condition or its future operating results.

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The Company has evaluated its investment in its Terminal Joint Venture for impairment and no impairment charges were recorded for the years ended December 31, 2014, 2013, and 2012.

*Property and Equipment:* Property and equipment are stated at cost. Certain costs incurred in the development of internal-use software are capitalized. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

<b>Classification</b>	<b>Range of Life</b>
Vessels	5 to 40 years
Machinery and equipment	2 to 20 years
Terminal facilities	2 to 35 years

*Impairment of Long-Lived Assets and Finite-Lived Intangible Assets:* The Company reviews its long-lived assets, including finite-lived intangible assets for possible impairment annually, or whenever events or circumstances indicate that their carrying values may not be recoverable. The Company's long-lived assets, including finite-lived intangible assets are grouped at the Ocean Transportation and Logistics asset group level, which represents the lowest level for which identifiable cash flows are available. In evaluating impairment, the estimated future undiscounted cash flows generated by each of these asset groups is compared with the amount recorded for each asset group to determine if its carrying value is not recoverable. If this review determines that the amount recorded will not be recovered, the amount recorded for the asset group is reduced to its estimated fair value. These asset impairment analyses are highly subjective because they require management to make assumptions and apply considerable judgments to, among other things, estimates of the timing and amount of future cash flows, expected useful lives of the assets, uncertainty about future events, including changes in economic conditions, changes in operating performance, changes in the use of the assets, and ongoing costs of maintenance and improvements of the assets, 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.

The Company has evaluated its long-lived assets, including finite-lived intangible assets for impairment and no impairment charges were recorded for the years ended December 31, 2014 and 2013. During 2012, the Company determined that it had an impairment related to the finite-lived intangible assets at Logistics. The Company recorded impairment expense of \$2.1 million for the year ended December 31, 2012, which is included in operating expense on the consolidated statements of income and comprehensive income.

*Dry-docking Costs:* The Company's U.S. flagged vessels must meet specified seaworthiness standards established by U.S. Coast Guard rules and Classification society requirements. These standards require that the Company's ships undergo two dry-docking inspections within a five-year period. However, all of the Company's U.S. flagged vessels are enrolled in the U.S. Coast Guard's Underwater Survey in Lieu of Dry-docking ( UWILD ) program. The UWILD program allows eligible ships to have their intermediate dry-docking requirement met with far less costly underwater inspection.

The Company operates four non-U.S. flag vessels (one owned; one under a bareboat charter arrangement; and the remaining two on time charter) in the Pacific Islands. The Company is responsible for ensuring that the owned and bareboat chartered ships meet international standards for seaworthiness, which among other requirements generally mandate that the Company perform two dry-docking inspections every five years. The dry-dockings of the Company's time chartered vessels are the responsibility of the ships' owners.

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As the costs associated with these dry-docking inspections provide future economic benefits to the Company through continued operation of the vessels, the costs are deferred and amortized until the next regularly scheduled dry-docking, which is usually over a two to five-year period.

Routine vessel maintenance and repairs that do not improve or extend asset lives are charged to expense as incurred. Deferred dry-docking costs were \$47.5 million and \$56.9 million as of December 31, 2014 and 2013, respectively, and are included in other long-term assets in the consolidated balance sheets. Amortized amounts are charged to operating expenses in the consolidated statements of income and comprehensive income. Changes in deferred dry-docking costs are included in the consolidated statements of cash flows.

*Goodwill and Intangible Assets:* Recorded goodwill arises as a result of acquisitions made by the Company. Intangible assets at December 31, 2014, consisted of customer lists and other intangibles that are being amortized using the straight-line method over the expected useful lives ranging from 3 to 13 years.

*Impairment of Goodwill:* The Company reviews goodwill for impairment annually in the fourth quarter, and whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In estimating the fair value of a reporting unit, the Company uses a combination of a discounted cash flow model and fair value based on market multiples of earnings before interest, taxes, depreciation and amortization ( EBITDA ). The discounted cash flow

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approach requires the Company to use a number of assumptions, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a discount rate that considers the risks related to the amount and timing of the cash flows. Although the assumptions used by the Company in its discounted cash flow model are consistent with the assumptions the Company used to generate its internal strategic plans and forecasts, significant judgment is required to estimate the amount and timing of future cash flows from the reporting unit and the risk of achieving those cash flows. When using market multiples of EBITDA, the Company must make judgments about the comparability of those multiples in closed and proposed transactions. Accordingly, changes in assumptions and estimates, including, but not limited to, changes driven by external factors, such as industry and economic trends, and those driven by internal factors, such as changes in the Company's business strategy and its internal forecasts, could have a material effect on the Company's financial condition or its future operating results.

The Company has evaluated its goodwill for impairment and no impairment charges were recorded for the years ended December 31, 2014, 2013 and 2012, respectively.

*Capital Construction Fund Deposits:* Deposits in the Capital Construction Fund were \$27.5 million at December 31, 2014. There were no deposits in the Capital Construction Fund at December 31, 2013 (see Note 6).

*Other Long-term Assets:* Other long-term assets include deferred dry-docking costs of \$47.5 million and \$56.9 million (see Note 2), and other assets and deferred charges of \$21.8 million and \$18.3 million, at December 31, 2014 and 2013, respectively.

*Pension and Post-Retirement Plans:* Certain Ocean Transportation subsidiaries are members of the Pacific Maritime Association (PMA) and the Hawaii Stevedoring Industry Committee, which negotiate multiemployer pension plans covering certain shoreside bargaining unit personnel. The subsidiaries directly negotiate multiemployer pension plans covering other bargaining unit personnel. Pension costs are accrued in accordance with contribution rates established by the PMA, the parties to a plan or the trustees of a plan. Several trustee, non-contributory, single-employer defined benefit plans and defined contribution plans cover substantially all other employees.

The estimation of the Company's pension and post-retirement benefit expenses and liabilities requires that the Company make various assumptions. These assumptions include factors such as discount rates, expected long-term rate of return on pension plan assets, salary growth, health care cost trend rates, inflation, retirement rates, mortality rates, and expected contributions. Actual results that differ from the assumptions made could materially affect the Company's financial condition 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. Additionally, these unamortized gains and losses are amortized and reclassified to income (loss) over future periods. Additional information about the Company's benefit plans is included in Note 9.

*Uninsured Liabilities:* The Company is uninsured for certain losses including, but not limited to, employee health, workers' compensation, general liability, real and personal property. Where feasible, the Company obtains third-party excess insurance coverage to limit its exposure to these claims. When estimating its uninsured 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 uninsured liabilities. The Company's uninsured 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 or its future operating results could be materially impacted.

*Legal Contingencies:* The Company's results of operations could be affected by significant litigation adverse to the Company, including, but not limited to, liability claims, antitrust claims, claims related to coastwise trading matters, lawsuits involving private plaintiffs or government agencies, and environmental related matters. The Company records accruals for legal matters when the information available indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management makes adjustments to these accruals to reflect the impact and status of negotiations, settlements, rulings, advice of outside legal counsel and other information and events that may pertain to a particular matter. Predicting the outcome of claims and lawsuits and estimating related costs and exposure involves substantial uncertainties that could cause actual costs to vary materially from those estimates. In making determinations of likely outcomes of litigation matters, the Company considers many factors. These factors include, but are not limited to, the nature of specific claims including un-asserted claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative dispute resolution mechanisms and the matter's current status. A detailed discussion of significant litigation matters is contained in Note 12.

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*Recognition of Revenues and Expenses:* Voyage revenue is recognized ratably over the duration of a voyage based on the relative transit time in each reporting period. Voyage expenses are recognized as incurred. Hawaii, Guam, and certain Pacific island service freight rates are provided in tariffs filed with the Surface Transportation Board of the U.S. Department of Transportation; for other Pacific island services, the rates are filed with the Federal Maritime Commission. The China service rates are predominately established by individual contracts with customers.

The revenue for Logistics services includes the total amount billed to customers for transportation services. The primary costs include purchased transportation services. Revenue and the related purchased transportation costs are recognized based on relative transit time. The Company reports revenue on a gross basis. The Company serves as principal in transactions because it is responsible for the contractual relationship with the customer, has latitude in establishing prices, has discretion in supplier selection, and retains credit risk.

The primary sources of revenue for warehousing services are storage, handling, and value-added packaging. For customer dedicated warehouses, storage revenue is recognized as earned over the life of the contract. Storage revenue generated by the public warehouses is recognized in the month the service is provided according to the terms of the contract. Handling and value-added packaging revenue and expense are recognized in proportion to the services completed.

*Non-voyage Costs:* Non-voyage costs such as terminal operating overhead, and general and administrative expenses are charged to expense as incurred.

*Share-Based Compensation:* The Company records compensation expense for all share-based payment awards made to employees and directors. The Company's various equity plans are more fully described in Note 11.

*Income Taxes:* Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and deferred tax liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse. Adjustments may be required to deferred tax assets and deferred tax liabilities due to changes in tax laws and audit adjustments by tax authorities. To the extent adjustments are required in any given period, the adjustments would be included within the tax provision in the consolidated statements of income and comprehensive income and/or consolidated balance sheets.

The Company makes certain estimates and judgments in determining income tax expense for consolidated financial statement purposes. These estimates and judgments are applied in the calculation of tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and consolidated financial statement purposes. In addition, judgment is required in determining if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. A valuation allowance would be established if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. 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

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expectations could materially affect the Company's financial condition or its future operating results.

*Discontinued Operations:* The termination of certain business lines are classified as discontinued operations if the operations and cash flows of the assets clearly can be distinguished from the remaining assets of the Company, if cash flows for the assets have been, or will be, eliminated from the ongoing operations of the Company, if the Company will not have a significant continuing involvement in the operations of the assets sold, and if the amount is considered material.



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There were no discontinued operations during the years ended December 31, 2014 and 2013. Loss from discontinued operations for the year ended December 31, 2012 consisted of the following (in millions):

<b>Discontinued Operations</b>	<b>Year Ended December 31, 2012</b>	
<b>Discontinued operations, net of income taxes:</b>		
Income from A&B	\$	116.4
Expenses from A&B		(118.1)
Tax expense from A&B		(1.6)
Loss from A&B		(3.3)
Expenses from CLX2		(4.4)
Tax benefit from CLX2		1.6
Loss from discontinued operations, net of tax	\$	(6.1)

The Separation from A&B was completed on June 29, 2012 and is further discussed in Note 1. In the third quarter of 2011, the Company terminated its second China Long Beach Express Service ( CLX2 ), due to the longer-term outlook for sustained high fuel prices and increasingly volatile transpacific rates. The Company's termination plans were substantially completed as of September 30, 2011, however, the off-hiring of excess leased containers continued through 2012, and two of the five ships were offered for sub-charter until they were returned to the lessors in July 2012. As of December 31, 2012, the Company had no future liabilities related to CLX2.

*Comprehensive Income (Loss):* Comprehensive income (loss) includes all changes in Shareholders' Equity, except those resulting from capital stock transactions. Other comprehensive income (loss) in the consolidated statements of income and comprehensive income are shown net of tax benefit (expense) of \$19.4 million, (\$14.1) million, and (\$0.3) million for the years ended December 2014, 2013, and 2012, respectively. Accumulated other comprehensive loss of \$53.3 million and \$23.5 million at December 31, 2014 and 2013, respectively, primarily included amortization of deferred pension, post-retirement costs and non-qualified plans of \$52.9 million and \$22.6 million, respectively.

*Basic and Diluted Earnings per Share ( EPS ) of Common Stock:* Basic earnings per share are determined by dividing net income by the weighted-average common shares outstanding during the year. The calculation of diluted earnings per share includes the dilutive effect of unexercised non-qualified stock options and non-vested stock units. The computation of weighted average dilutive shares outstanding excluded non-qualified stock options to purchase 0.1 million, 0.1 million and 0.5 million shares of common stock for 2014, 2013, and 2012, respectively. These amounts were excluded because the options' exercise prices were greater than the average market price of the Company's common stock for the periods presented and, therefore, the effect would be anti-dilutive.

The denominator used to compute basic and diluted earnings per share is as follows (in millions):

	Year Ended December 31, 2014			Year Ended December 31, 2013			Year Ended December 31, 2012		
	Net Income	Weighted Average Common Shares	Per Common Share Amount	Net Income	Weighted Average Common Shares	Per Common Share Amount	Net Income	Weighted Average Common Shares	Per Common Share Amount
<b>Basic:</b>									
Income from continuing operations	\$ 70.8	43.0	\$ 1.65	\$ 53.7	42.7	\$ 1.26	\$ 52.0	42.3	\$ 1.23
		43.0			42.7		(6.1)	42.3	(0.14)

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Loss from discontinued operations															
Net Income	\$	70.8		\$	1.65	\$	53.7		\$	1.26	\$	45.9		\$	1.09
Effect of Dilutive Securities			0.4					0.4							0.4
Diluted:															
Income from continuing operations	\$	70.8	43.4	\$	1.63	\$	53.7	43.1	\$	1.25	\$	52.0	42.7	\$	1.22
Loss from discontinued operations			43.4					43.1				(6.1)	42.7		(0.14)
Net Income	\$	70.8		\$	1.63	\$	53.7		\$	1.25	\$	45.9		\$	1.08

*Rounding:* Amounts in the consolidated financial statements and Notes are rounded to millions, but per-share calculations and percentages were determined based on amounts before rounding. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different.

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The Company accounts for its 35 percent ownership interest in the Terminal Joint Venture under the equity method of accounting. The Company records its share of income (loss) in the Terminal Joint Venture in operating expenses within the Ocean Transportation segment, due to operations of the Terminal Joint Venture being an integral part of the Company's business. The Company's investment in the Terminal Joint Venture was \$64.4 million and \$57.6 million at December 31, 2014 and 2013, respectively.

No dividends and distributions were received from the Terminal Joint Venture in 2014, 2013 or 2012. The Company's operating costs include \$164.8 million, \$164.3 million and \$163.8 million, for 2014, 2013 and 2012, respectively, for terminal services provided by SSAT. Accounts payable and accrued liabilities in the consolidated balance sheets include \$17.5 million and \$15.3 million for terminal services payable to the Terminal Joint Venture at December 31, 2014 and 2013, respectively.

A summary of financial information for the Terminal Joint Venture at December 31, 2014 and 2013 is as follows (in millions):

Balance Sheet	As of December 31,			
		2014		2013
Current assets	\$	80.7	\$	73.5
Noncurrent assets		140.9		137.1
Total Assets	\$	221.6	\$	210.6
Current liabilities	\$	40.9	\$	43.2
Noncurrent liabilities		7.1		15.7
Equity		173.6		151.7
Total Liabilities and Equity	\$	221.6	\$	210.6

Operating revenue	\$	586.2	\$	498.4	\$	503.9
Operating costs and expenses		589.7		517.4		506.4
Operating loss		(3.5)		(19.0)		(2.5)
Net Income (Loss) (1)	\$	21.2	\$	(5.7)	\$	9.5
Company Share of Net Income (Loss)	\$	6.6	\$	(2.0)	\$	3.2

(1) Includes earnings from equity method investments held by the Terminal Joint Venture.

Table of Contents**4. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2014 and 2013 includes the following (in millions):

	As of December 31, 2014		
	Cost	Accumulated Depreciation	Net Book Value
Vessels	\$ 1,263.8	\$ 757.7	\$ 506.1
Containers and equipment	466.8	316.1	150.7
Terminal facilities and other property	39.2	33.2	6.0
Construction in progress	28.4		28.4
Total	\$ 1,798.2	\$ 1,107.0	\$ 691.2

	As of December 31, 2013		
	Cost	Accumulated Depreciation	Net Book Value
Vessels	\$ 1,260.2	\$ 718.1	\$ 542.1
Containers and equipment	470.6	310.4	160.2
Terminal facilities and other property	38.9	30.9	8.0
Construction in progress	25.1		25.1
Total	\$ 1,794.8	\$ 1,059.4	\$ 735.4

	Years Ended December 31,		
	2014	2013	2012
Depreciation Expense	\$ 66.8	\$ 67.4	\$ 70.6

Property and equipment subject to capital leases was \$2.6 million and \$3.1 million at December 31, 2014 and 2013, respectively. Amortization recorded in the consolidated statement of income and comprehensive income was \$0.3 million and \$0.3 million for the years ended December 31, 2014 and 2013, respectively.

During the fourth quarter of 2013, the Company entered into agreements with a shipyard for the construction of two new 3,600 twenty-foot equivalent units Aloha-class container ships at a cost of \$418.0 million. The container ships are expected to be delivered during 2018. The Company made an initial payment of \$8.4 million to the shipyard during 2013, which is included in construction in progress. No payments were made in 2014.

**5. GOODWILL AND INTANGIBLE ASSETS**

Changes in the Company's goodwill for the years ended December 31, 2014 and 2013 consist of the following (in millions):

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	Goodwill		Ocean		
	Logistics	Transportation			Total
Balance at December 31, 2012	\$ 26.6	\$ 0.4	\$		\$ 27.0
Additions		0.4			0.4
Balance at December 31, 2013	26.6	0.8			27.4
Additions					
Balance at December 31, 2014	\$ 26.6	\$ 0.8	\$		\$ 27.4

Goodwill related to the Company's Ocean Transportation segment increased by \$0.4 million in 2013 related to the Company's acquisition of Matson's South Pacific service. There was no accumulated impairment related to goodwill as of December 31, 2014 and 2013.

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Intangible assets as of December 31, 2014 and 2013 include the following (in millions):

Intangible Assets	Gross Cost	As of December 31, 2014		Net Book Value
			Accumulated Amortization	
Customer lists and other	\$ 10.4	\$ (7.9)	\$ 2.5	
Tradenames	3.9	(3.9)		
Total intangible assets	\$ 14.3	\$ (11.8)	\$ 2.5	

Intangible Assets	Gross Cost	As of December 31, 2013		Net Book Value
			Accumulated Amortization	
Customer lists and other	\$ 10.4	\$ (6.8)	\$ 3.6	
Tradenames	3.9	(3.7)	0.2	
Total intangible assets	\$ 14.3	\$ (10.5)	\$ 3.8	

Aggregate intangible asset amortization was \$1.3 million, \$0.8 million, and \$0.7 million for 2014, 2013, and 2012, respectively. Estimated amortization expenses related to intangible assets over the next five years are as follows (in millions):

Year	Estimated Amortization
2015	\$ 0.5
2016	0.5
2017	0.4
2018	0.3
2019	0.3
Thereafter	0.5
Total	\$ 2.5

## 6. CAPITAL CONSTRUCTION FUND

The Company is party to an agreement with the U.S. Department of Transportation, Maritime Administration ( MARAD ) that established a Capital Construction Fund ( CCF ) program under provisions of the Merchant Marine Act of 1936, as amended (the Merchant Marine Act ). The CCF program was created to assist owners and operators of U.S. flag vessels in raising capital necessary for the modernization and expansion of the U.S. merchant marine. CCF funds may be used for the acquisition, construction, or reconstruction of vessels, and for repayment of existing vessel indebtedness through the deferment of federal income taxes on certain deposits of monies and other property placed into the CCF. Qualified withdrawals from the CCF must be used for investment in vessels and certain related equipment built in the U.S., and for use between covered U.S. ports as described by the Merchant Marine Act (see Item 1 of Part 1 for additional information on Maritime Laws and the Jones Act). Participants of the CCF must also meet certain U.S. citizenship requirements.

Deposits into the CCF are limited by certain applicable earnings and other conditions. Such deposits, once made, are available as tax deductions in the Company s tax provision. Qualified withdrawals from the CCF do not give rise to a current tax liability, but reduce the depreciable basis of the vessels or certain related equipment for income tax purposes. However, if withdrawals are made from the CCF for general corporate purposes or other non-qualified purposes, or upon termination of the agreement, they are taxable with interest payable from the year of deposit.

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Amounts deposited into the CCF are a preference item for calculating federal alternative minimum taxable income. Deposits not committed for qualified purposes within 25 years from the date of deposit will be treated as non-qualified withdrawals over the subsequent five years. Under the terms of the CCF agreement, the Company may designate certain qualified earnings as accrued deposits or may designate, as obligations of the CCF, qualified withdrawals to reimburse qualified expenditures initially made with operating funds. Such accrued deposits to, and withdrawals from, the CCF are reflected on the consolidated balance sheets either as obligations of the Company's current assets or as receivables from the CCF.

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Activity in the Company's CCF for the years ended December 31, 2014 and 2013 consist of the following (in millions):

	CCF Deposits and Withdrawals	Eligible Accounts Receivable Assigned to CCF	Total
Balance at December 31, 2012	\$	\$	\$
Deposits	4.4	111.8	116.2
Qualified Withdrawals	(4.4)		(4.4)
Interest Earned		0.2	0.2
Balance at December 31, 2013		112.0	112.0
Deposits	31.9	38.0	69.9
Qualified Withdrawals	(4.4)		(4.4)
Interest Earned		0.7	0.7
Balance at December 31, 2014	\$ 27.5	\$ 150.7	\$ 178.2

Due to the nature of the assignment of eligible accounts receivables into the CCF, such assigned amounts are classified as part of accounts receivable in the consolidated balance sheets. At December 31, 2014, the Company had \$27.5 million on deposit in the CCF invested in a money market fund, and is classified as a long-term asset in the Company's consolidated balance sheet.

## 7. DEBT

At December 31, 2014 and 2013, debt consisted of the following (in millions):

	2014	As of December 31,		2012
		2013		
<b>Term Loans:</b>				
5.79%, payable through 2020	\$ 38.5	\$ 45.5	\$ 52.5	
3.66%, payable through 2023	77.5	77.5	77.5	
4.16%, payable through 2027	55.0	55.0	55.0	
4.31%, payable through 2032	37.5	37.5	37.5	
4.35%, payable through 2044	100.0			
<b>Title XI Bonds:</b>				
5.34%, payable through 2028	30.8	33.0	35.2	
5.27%, payable through 2029	33.0	35.2	37.4	
<b>Revolving Credit Borrowings (1.69% for 2012)</b>				24.0
Capital leases	1.3	2.4		
<b>Total debt</b>	<b>373.6</b>	<b>286.1</b>		<b>319.1</b>
Less current portion	(21.6)	(12.5)		(16.4)
<b>Total long-term debt</b>	<b>\$ 352.0</b>	<b>\$ 273.6</b>	<b>\$</b>	<b>302.7</b>

*Debt Maturities:* At December 31, 2014, debt maturities during the next five years and thereafter are as follows (in millions):



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Year	Debt Repayments	
2015	\$	21.6
2016		20.7
2017		28.2
2018		28.2
2019		28.2
Thereafter		246.7
Total debt	\$	373.6

*Term Loans:* In May 2005, the Company partially financed the delivery of the MV *Manulani* by issuing \$105.0 million of Series B Notes with a coupon of 4.79 percent and 15-year final maturity. The notes amortize by semi-annual principal payments of \$3.5 million plus interest. The Company negotiated the release of the MV *Manulani* as security for the remaining long-term debt of \$56.0 million as part of the Company's debt restructuring completed during the Separation, resulting in an increase in the interest rate to 5.79 percent.

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During the second quarter of 2012, the Company issued new unsecured, fixed rate, amortizing long-term debt of \$170.0 million, which was funded in three tranches, \$77.5 million at an interest rate of 3.66 percent maturing in 2023, \$55.0 million at an interest rate of 4.16 percent maturing in 2027, and \$37.5 million at an interest rate of 4.31 percent maturing in 2032. Interest is payable semi-annually. The weighted average coupon and average life of the three tranches of debt is 3.97 percent and 9.2 years, respectively. The notes will begin to amortize in 2015, with aggregate semi-annual payments of \$4.6 million through 2016, \$8.4 million in 2017 through mid-year 2023, \$3.8 million through mid-year 2027, and \$1.2 million thereafter.

In January 2014, the Company issued \$100 million of 30-year senior unsecured notes (the Notes). The Notes have a weighted average life of 14.5 years and bear interest at a rate of 4.35 percent, payable semi-annually. The proceeds are expected to be used for general corporate purposes. The Notes will begin to amortize in 2021, with annual principal payments of \$5.0 million in 2021, \$7.5 million in 2022 and 2023, \$10.0 million from 2024 to 2027, and \$8.0 million in 2028. Starting in 2029, and in each year thereafter until 2044, annual principal payments will be \$2.0 million.

*Title XI Bonds:* In September 2003, the Company issued \$55.0 million in U.S. Government guaranteed ship finance bonds (Title XI) to partially finance the delivery of the MV *Manukai*. The secured bonds have a final maturity in September 2028 with a coupon of 5.34 percent. The bonds are amortized by fifty semi-annual payments of \$1.1 million plus interest. In July 2004, the Company issued \$55.0 million of U.S. Government guaranteed ship finance bonds (Title XI) to partially finance the delivery of the MV *Maunawili*. The secured bonds have a final maturity in July 2029, with a coupon of 5.27 percent. The bonds are amortized by fifty semi-annual payments of \$1.1 million plus interest.

*Revolving Credit Facility:* During the second quarter of 2012, the Company entered into a \$375.0 million, five-year unsecured revolving credit facility with a syndicate of banks to provide the Company with additional sources of liquidity for working capital requirements and investment opportunities (the Credit Facility). The Credit Facility includes a \$100 million sub-limit for the issuance of standby and commercial letters of credit, and a \$50 million sub-limit for swing line loans. The Credit Facility also includes an uncommitted option to increase the Credit Facility by \$75 million.

The Credit Facility is subject to commitment fees, letter of credit fees, and interest on borrowings based on the Company's ratio of total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) (the Leverage Ratio). Commitment fees and letter of credit fees are computed using rates tied to a sliding scale, which range from 0.15 percent to 0.40 percent, and 1.00 percent to 2.25 percent, respectively, based upon the Leverage Ratio. Interest rates on borrowings are based upon the London Interbank Offered Rate (LIBOR) plus 1.00 percent to 2.25 percent using a sliding scale based on the Leverage Ratio. The Company may also select an interest rate for borrowings at a base rate as defined within the agreement, plus a margin that ranges from 0.0 percent to 1.25 percent.

As of December 31, 2014 and 2013, the used portion of the Company's Credit Facility was \$6.0 million and \$5.8 million, respectively, all of which was from letters of credit.

In August 2011, the Company renewed its revolving credit facility with a commitment of \$125.0 million and an expiration date of August 2016. As part of the Company's debt restructuring completed in June 2012, in connection with the Separation, the outstanding balance of \$72.0 million was paid off and the facility was terminated.

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*Capital Leases:* The Company's capital lease obligations relate to the leasing of specialized and standard containers used in the Company's South Pacific service. Capital leases have been classified within current and long-term debt in the Company's consolidated balance sheets.

*Debt Guarantees:* The Company's total debt was \$373.6 million and \$286.1 million as of December 31, 2014 and 2013, respectively. The outstanding debt was unsecured, except for \$63.8 million and \$68.2 million as of December 31, 2014 and 2013, respectively, which is guaranteed by the Company's significant subsidiaries.

*Covenants:* Principal financial covenants as defined in the Company's five-year revolving credit facility and long-term fixed rate debt include, but are not limited to:

- The ratio of debt to consolidated EBITDA cannot exceed 3.25 to 1.00 for each fiscal four quarter period;
- The ratio of consolidated EBITDA to interest expense as of the end of any fiscal four quarter period cannot be less than 3.50 to 1.00; and
- The principal amount of priority debt at any time cannot exceed 20 percent of consolidated tangible assets; and the principal amount of priority debt that is not Title XI priority debt at any time cannot exceed 10 percent of consolidated tangible assets. Priority debt, as further defined in the revolving credit facility agreement, is all debt secured by a lien on the Company's assets or subsidiary debt.

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The Company was in compliance with these covenants as of December 31, 2014.

## 8. LEASES

The Company leases certain property and equipment, and other facilities under operating lease agreements, with terms that range from 1 to 50 years. Such leases generally include provisions for the maintenance of the leased assets, options to purchase the assets at fair value, and renewal options to extend the lease agreement. The minimum lease terms of the Company's non-cancelable operating leases are as follows:

Classification	Range of Life (in years)
Vessels, machinery and equipment	2015 to 2022
Office and warehouse	2015 to 2021
Terminal facilities and land	2016 to 2036

Rent expense under operating leases totaled \$58.3 million in 2014, \$58.2 million in 2013, and \$52.3 million in 2012, which includes volume-based terminal rent. Additionally, rent expense for short-term and cancelable equipment rentals was \$27.6 million, \$20.5 million, and \$17.8 million in 2014, 2013, and 2012, respectively. Management expects that in the normal course of business most operating leases will be renewed or replaced by other similar leases.

Future minimum payments under operating leases as of December 31, 2014 were as follows (in millions):

Year	Total Operating Leases
2015	\$ 20.8
2016	13.0
2017	9.2
2018	3.7
2019	2.3
Thereafter	8.1
Total minimum lease payments	\$ 57.1

In addition to the future minimum lease payments above, the Company's operating lease for terminal facilities in Honolulu includes a minimum annual commitment, which is calculated by the lessor based on capital improvements by the lessor and an allocation of lessor operating expenses. The Company has met these minimum annual commitments in 2014, 2013 and 2012.

## 9. PENSION AND POST-RETIREMENT PLANS

### *Non-bargaining Plans:*

The Company has two funded qualified single-employer defined benefit pension plans that cover certain non-bargaining unit employees and bargaining unit employees. In addition, the Company has plans that provide certain retiree health care and life insurance benefits to substantially all salaried, non-bargaining employees hired before 2008 and to certain bargaining unit employees. Employees are generally eligible for such benefits upon retirement and completion of a specified number of years of service. The Company does not pre-fund these health care and life insurance benefits, and has the right to modify or terminate certain of these plans in the future. Certain groups of retirees pay a portion of the benefit costs.

*Plan Administration, Investments and Asset Allocations:* The Company has an Investment Committee that meets regularly with investment advisors to establish investment policies, direct investments and select investment options for the qualified plans. The Investment Committee is also responsible for appointing investment managers and monitoring their performance. The Company's investment policy permits investments in marketable equity securities, such as domestic and foreign stocks, domestic and foreign bonds, venture capital, real estate investments, and cash equivalents. The Company's investment policy does not permit direct investment in certain types of assets, such as options or commodities, or the use of certain strategies, such as short selling or the purchase of securities on margin.

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The Company's investment strategy for its qualified pension plan assets is to achieve a diversified mix of investments that provides for long-term growth at an acceptable level of risk, and to provide sufficient liquidity to fund ongoing benefit payments. The Company has engaged a number of investment managers to implement various investment strategies to achieve the desired asset class mix, liquidity and risk diversification objectives.

The Company's target and actual asset allocations at December 31, 2014 and 2013 were as follows:

Asset Category	Target	2014	2013
Domestic equity securities	53%	63%	58%
International equity securities	15%	14%	15%
Debt securities	22%	17%	18%
Real estate	5%	5%	5%
Other and cash	5%	1%	4%
Total	100%	100%	100%

The Company's investments in equity securities primarily include domestic large-cap and mid-cap companies, but also includes an allocation to small-cap and international equity securities. Equity investments do not include any direct holdings of the Company's stock but may include such holdings to the extent that the stock is included as part of certain mutual fund holdings. Debt securities include investment-grade and high-yield corporate bonds from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include funds that invest in commercial real estate assets, and to a lesser extent, private equity investments in technology companies. All assets within specific funds are allocated to the targeted asset allocation of the fund.

The expected return on plan assets is principally based on the Company's historical returns combined with the Company's long-term future expectations regarding asset class returns, the mix of plan assets, and inflation assumptions. The one-, three-, and five-year pension asset returns (losses) were 5.8 percent, 13.8 percent, and 10.3 percent, respectively, and the long-term average return (since plan inception in 1989) has been approximately 8.7 percent. Over the long-term, the actual returns have generally exceeded the benchmark returns used by the Company to evaluate performance of its fund managers.

The Company's pension plan assets are held in a master trust and are stated at estimated fair values of the underlying investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

*Equity Securities:* Domestic and international common stocks are valued by obtaining quoted prices on recognized and highly liquid exchanges.

*Fixed Income Securities:* Corporate bonds and U.S. government treasury and agency securities are valued based upon the closing price reported in the market in which the security is traded. U.S. government agency and corporate asset-backed securities may utilize models, such as a matrix pricing model, that incorporate other observable inputs when broker/dealer quotes are not available, such as cash flow, security structure, or market information.

*Real Estate, Private Equity and Insurance Contract Interests:* The fair value of real estate, private equity and insurance contract interests are determined by the issuer based on the unit values of the funds. Unit values are determined by dividing the fund's net assets by the number of units outstanding at the valuation date. Fair value for underlying investments in real estate is determined through independent property appraisals. Fair value of underlying investments in private equity is determined based on information provided by the general partner taking into consideration the purchase price of the underlying securities, developments concerning the investee company subsequent to the acquisition of the investment, financial data and projections of the investee company provided by the general partner, and such other factors as the general partner deems relevant. Insurance contracts are principally invested in real estate assets, which are valued based upon independent appraisals.

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The fair values of the Company's pension plan assets at December 31, 2014 and 2013, by asset category, are as follows (in millions):

Asset Category	Total	Fair Value Measurements at December 31, 2014		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 19.4	\$ 19.4	\$	\$
Equity securities:				
U.S. large-cap	69.5	69.5		
U.S. mid- and small-cap	35.6	35.6		
International large-cap (1)	17.6	5.9	11.7	
International small-cap (1)	6.9		6.9	
Fixed income securities:				
U.S. Treasuries	0.4		0.4	
Municipal bonds	0.1		0.1	
Investment grade U.S. corporate bonds	2.3		2.3	
High-yield U.S. corporate bonds	6.7		6.7	
Emerging markets fixed income	10.8	10.8		
Other types of investments:				
Real estate partnership interests	9.3			9.3
Private equity partnership interests	0.3			0.3
Total	\$ 178.9	\$ 141.2	\$ 28.1	\$ 9.6

(1) Certain amounts in these categories classified as Level 1 in 2013, were classified as Level 2 in 2014 as there is no longer an active market for these securities.

Asset Category	Total	Fair Value Measurements at December 31, 2013		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 6.9	\$ 6.9	\$	\$
Equity securities:				
U.S. large-cap	64.2	64.2		
U.S. mid- and small-cap	35.7	35.7		
International large-cap	19.0	19.0		
International small-cap	7.2	7.2		
Fixed income securities:				
U.S. Treasuries	0.6		0.6	
Municipal bonds	0.1		0.1	
Investment grade U.S. corporate bonds	1.9		1.9	
High-yield U.S. corporate bonds	6.7		6.7	
Emerging markets fixed income	8.9	8.9		
Mortgage-backed securities	12.7		12.7	
Other types of investments:				
Real estate partnership interests	8.6			8.6
Private equity partnership interests	0.3			0.3
Total	\$ 172.8	\$ 141.9	\$ 22.0	\$ 8.9





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The table below presents a reconciliation of all pension plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013 (in millions):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total		
	Real Estate		Private Equity			
Balance at December 31, 2012	\$	7.8	\$	0.8	\$	8.6
Actual return (loss) on plan assets:						
Assets held at the reporting date		0.9		(0.2)		0.7
Assets sold during the period		0.3		0.1		0.4
Purchases, sales and settlements, net		(0.4)		(0.4)		(0.8)
Balance at December 31, 2013		8.6		0.3		8.9
Actual return (loss) on plan assets:						
Assets held at the reporting date		0.8				0.8
Assets sold during the period		0.3				0.3
Purchases, sales and settlements, net		(0.4)				(0.4)
Balance at December 31, 2014	\$	9.3	\$	0.3	\$	9.6

Contributions to each of the qualified single-employer defined benefit pension plans are determined annually by the Company's pension administrative committee, based upon the actuarially determined minimum required contribution under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, the Pension Protection Act of 2006, and the maximum deductible contribution allowed for tax purposes. In 2014, 2013 and 2012, the Company contributed \$6.5 million, \$3.5 million, and \$13.3 million, respectively. The Company's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements.

The benefit formulas for employees who are members of collective bargaining units are determined according to the collective bargaining agreements, either using final average pay as the base or a flat dollar amount per year of service.

Effective December 31, 2011, the Company froze benefit accruals under the final average pay formula for salaried, non-bargaining unit employees hired before January 1, 2008 and transitioned them to the same cash balance formula for employees hired on or after January 1, 2008. Retirement benefits under the cash balance formula are based on a fixed percentage of employee eligible compensation, plus interest. The plan interest credit rate will vary from year to year based on the ten-year U.S. Treasury rate.

*Benefit Plan Assets and Obligations:* The measurement date for the Company's benefit plan disclosures is December 31 of each year.

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The status of the funded qualified defined benefit pension plans and the unfunded post-retirement benefit plans at December 31, 2014 and 2013 are shown below (in millions):

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year	\$ 197.5	\$ 210.1	\$ 52.1	\$ 49.2
Service cost	3.3	2.9	1.1	1.1
Interest cost	9.4	8.6	2.6	2.1
Plan participants' contributions			0.7	0.9
Actuarial (gain) loss	38.2	(13.3)	9.7	2.0
Benefits paid	(10.0)	(9.8)	(3.6)	(3.2)
Expenses paid	(1.0)	(1.0)		
Benefit obligation at end of year	\$ 237.4	\$ 197.5	\$ 62.6	\$ 52.1
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	\$ 172.8	\$ 149.2	\$	\$
Actual return on plan assets	10.6	30.8		
Plan participants' contributions			0.7	0.9
Employer contributions	6.5	3.5	2.9	2.3
Benefits paid	(10.0)	(9.8)	(3.6)	(3.2)
Expenses paid	(1.0)	(0.9)		
Fair value of plan assets at end of year	178.9	172.8		
Funded Status and Recognized Liability	\$ (58.5)	\$ (24.7)	\$ (62.6)	\$ (52.1)

Amounts recognized on the consolidated balance sheets and in accumulated other comprehensive loss at December 31, 2014 and 2013 were as follows (in millions):

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
Current liabilities	\$	\$	\$ (2.5)	\$ (2.4)
Non-current liabilities, net	(58.5)	(24.7)	(60.1)	(49.7)
Total	\$ (58.5)	\$ (24.7)	\$ (62.6)	\$ (52.1)
Net loss (net of taxes)	\$ 55.5	\$ 32.0	\$ 7.2	\$ 1.7
Prior service cost (net of taxes)	(10.6)	(12.0)		
Total	\$ 44.9	\$ 20.0	\$ 7.2	\$ 1.7

The information for qualified pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2014 and 2013 is shown below (in millions):

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	2014	2013
Projected benefit obligation	\$ 235.0	\$ 197.5
Accumulated benefit obligation	\$ 234.6	\$ 197.2
Fair value of plan assets	\$ 176.1	\$ 172.8

The estimated net loss and prior service credit for the qualified pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost, net of tax, in 2015 is \$2.5 million. The estimated net loss and prior service cost for the other post-retirement benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost, net of tax, in 2015 is \$1.4 million.

Unrecognized gains and losses of the post-retirement benefit plans are amortized over five years. Although current health care costs are expected to increase, the Company attempts to mitigate these increases by maintaining caps on certain of its benefit plans, using lower cost health care plan options where possible, requiring that certain groups of employees pay a portion of their benefit costs, self-insuring for certain insurance plans, encouraging wellness programs for employees, and implementing measures to mitigate future benefit cost increases.

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Components of the net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for the qualified pension plans and the post-retirement health care and life insurance benefit plans during 2014, 2013, and 2012, are shown below (in millions):

	Pension Benefits			Other Post-retirement Benefits		
	2014	2013	2012	2014	2013	2012
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ 3.3	\$ 2.9	\$ 2.7	\$ 1.1	\$ 1.1	\$ 1.0
Interest cost	9.4	8.6	9.0	2.6	2.1	2.3
Expected return on plan assets	(14.1)	(11.9)	(10.7)			
Amortization of net loss (gain)	3.0	6.8	7.0	0.6	0.3	0.6
Amortization of prior service cost	(2.3)	(2.3)	(2.3)			0.1
Net periodic benefit cost	\$ (0.7)	\$ 4.1	\$ 5.7	\$ 4.3	\$ 3.5	\$ 4.0
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income (net of tax)</b>						
Net loss (gain)	\$ 25.4	\$ (19.6)	\$ 4.0	\$ 5.9	\$ 1.2	\$ (0.4)
Amortization of unrecognized loss	(1.8)	(4.2)	(4.2)	(0.4)	(0.2)	(0.3)
Amortization of prior service cost	1.4	1.4	1.4			
Total recognized in other comprehensive income	\$ 25.0	\$ (22.4)	\$ 1.2	\$ 5.5	\$ 1.0	\$ (0.7)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 24.3	\$ (18.3)	\$ 6.9	\$ 9.8	\$ 4.5	\$ 3.3

The weighted average assumptions used to determine benefit information during 2014, 2013, and 2012, were as follows:

Weighted Average Assumptions:	Pension Benefits			Other Post-retirement Benefits		
	2014	2013	2012	2014	2013	2012
Discount rate	4.10%	4.90%	4.20%	4.20%	5.00%	4.30%
Expected return on plan assets	8.25%	8.25%	8.25%			
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Initial health care cost trend rate				7.10%	7.30%	8.00%
Ultimate health care cost trend rate				4.50%	4.50%	4.50%
Year ultimate health care cost trend rate is reached				2027	2027	2020

The Company adopted a modified version of the new mortality table (RP-2014) issued by the Society of Actuaries in October 2014 along with a modified mortality improvement scale for the purposes of determining the Company's mortality assumption used in its defined benefit and other post-retirement plan liability calculations. The use of the new table resulted in an increase of approximately \$17.6 million and \$3.9 million to the projected benefit obligation for pension and other post-retirement benefits, respectively as of December 31, 2014.

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If the assumed health care cost trend rate were increased or decreased by one percentage point, the accumulated post-retirement benefit obligation, as of December 31, 2014, 2013, and 2012 and the net periodic post-retirement benefit cost for 2014, 2013 and 2012, would have increased or decreased as follows (in millions):

	Other Post-retirement Benefits One Percentage Point					
	2014	Increase 2013	2012	2014	Decrease 2013	2012
Effect on total of service and interest cost components	\$ 0.7	\$ 0.6	\$ 0.6	\$ (0.5)	\$ (0.5)	\$ (0.4)
Effect on post-retirement benefit obligation	\$ 10.0	\$ 7.1	\$ 6.5	\$ (7.8)	\$ (5.7)	\$ (5.2)

Current liabilities of \$4.1 million and \$5.0 million, related to non-qualified pension benefits and post-retirement benefits, are classified as accrued and other liabilities in the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

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**Non-qualified Pension Plans:** The Company has non-qualified supplemental pension plans covering certain employees and retirees, which provide for incremental pension payments from the Company's general funds so that total pension benefits would be substantially equal to amounts that would have been payable from the Company's qualified pension plans if it were not for limitations imposed by income tax law. A few employees and retirees receive additional supplemental pension benefits. The Company also has a frozen non-qualified pension plan that covers one outside director and pays retirement benefits in a lump sum from the Company's general funds. The obligations relating to these plans totaled \$5.4 million and \$7.3 million at December 31, 2014 and 2013, respectively. The expense associated with the non-qualified plans was \$0.6 million, \$0.6 million, and \$0.3 million in 2014, 2013, and 2012, respectively. A 3.0 percent discount rate was used to determine the 2014 obligation.

As of December 31, 2014, the amount recognized in accumulated other comprehensive income for net loss, net of tax, was \$1.2 million, and the amount recognized as prior service credit, net of tax, was \$0.7 million. The net loss amortization for the nonqualified plans to be recognized into net periodic pension costs in 2015 is \$0.2 million for net periodic benefit cost, and \$(0.2) million for prior service credit amortization.

**Estimated Benefit Payments:** The estimated future benefit payments for the next ten years are as follows (in millions):

Year	Qualified Pension Benefits	Non-qualified Pension Benefits	Post-retirement Benefits (1)
2015	\$ 11.4	\$ 1.6	\$ 2.5
2016	11.9	0.9	2.5
2017	12.4	0.2	2.6
2018	12.9	1.0	2.7
2019	13.2	0.2	2.8
2020-2024	70.9	2.4	15.3
Total	\$ 132.7	\$ 6.3	\$ 28.4

(1) Net of plan participants' contributions and Medicare D subsidies.

**Defined Contribution Plans:** The Company sponsors defined contribution plans that qualify under Sections 401(a) and 401(k) of the Internal Revenue Code. These plans provide matching contributions of up to 4 percent of eligible employee compensation. The Company's matching contributions expensed under these plans totaled \$1.6 million for each of the years ended December 31, 2014, 2013, and 2012, respectively. The Company also provides profit sharing contributions under the qualified defined contribution plans; if a minimum threshold of the Company's performance is achieved, the Company provides contributions to salaried, non-bargaining unit employees of up to 3 percent based on a formula that may change on an annual basis. For certain eligible employees, supplemental profit sharing contributions are credited under a non-qualified plan to be paid after separation from service from the Company's general funds so that total profit sharing contributions would be substantially equal to amounts that would have been contributed to the Company's qualified defined contribution plans if it were not for limitations imposed by income tax law. Profit sharing expenses recorded in 2014, 2013 and 2012 under this plan totaled \$1.6 million, \$1.2 million and \$1.2 million, respectively.

**Multi-employer Bargaining Plans:**

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The Company contributes to ten multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its bargaining unit employees. Contributions are generally based on amounts paid for union labor or cargo volume.

The risks of participating in multiemployer plans are different from single-employer plans because assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. Additionally, if one employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The multiemployer pension plans are subject to the plan termination insurance provisions of ERISA and are paying premiums to the Pension Benefit Guaranty Corporation ( PBGC ). The statutes provide that an employer who withdraws from, or significantly reduces its contribution obligation to, a multiemployer plan generally will be required to continue funding its proportional share of the plan's unfunded vested benefits. As of December 31, 2014, the Company's benefit plan withdrawal obligations were \$94.8 million. No withdrawal obligations have been recorded by the Company in the consolidated balance sheets at December 31, 2014 and 2013 as the Company has no present intention of withdrawing from and does not anticipate termination of any of these plans.



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Information regarding the Company's participation in multiemployer pension plans is outlined in the table below. The EIN/Pension Plan Number column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2014 and 2013 is for the plan's year-end at December 31, 2014 and 2013, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The funding improvement plan (FIP) or rehabilitation plan (RP) column indicates the status which is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status as of December 31,		FIP/RP Status	Contributions of Matson (\$ in millions)			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2014	2013	Pending/Implemented	2014	2013	2012		
Hawaii Terminals Multiemployer Pension Plan	20-0389370/001	Yellow	Yellow	Implemented	\$ 5.1	\$ 5.3	\$ 5.1	No	6/30/2014
Hawaii Stevedoring Multiemployer Retirement Plan	99-0314293/001	Yellow	Yellow	Implemented	2.9	2.7	2.4	No	6/30/2014
Master, Mates and Pilots Pension Plan	13-6372630/001(1)	Green	Green	None	1.9	2.1	3.4	No	(3) 8/15/2023
Masters, Mates and Pilots Adjustable Pension Plan	37-1719247/001(1)	(2)	(2)	None	1.0	0.8		No	(3) 8/15/2023
MEBA Pension Trust - Defined Benefit Plan	51-6029896/001(4)	Green	Green	None	2.1	2.1	2.1	No	8/15/2018
OCU Trust Pension	26-1574440/001	Green	Green	None	0.1	0.1	0.1	No	6/30/2016
<b>Total</b>					<b>\$ 13.1</b>	<b>\$ 13.1</b>	<b>\$ 13.1</b>		

(1) Effective December 31, 2012, the Masters, Mates and Pilots Pension Plan was frozen for all new benefit accruals. Commencing January 1, 2013, all new benefits accrue under a new Masters, Mates and Pilots Adjustable Pension Plan.

(2) The Plan is not subject to the PPA funding requirements under IRS Section 432 as the Plan was not in effect on July 16, 2006.

(3) The Company is party to two collective-bargaining agreements based upon vessels that require contributions to this plan: Contract A, covering thirteen vessels, expires on June 15, 2023, and Contract B, covering one managed vessel, expires on August 15, 2023.

(4) In 2012, the Company agreed to contribute at least 11.7 percent of total wages paid to employees in covered Marine Engineer Benefits Association (MEBA) employment to the MEBA Pension Trust by a reallocation of the total labor cost under the collective bargaining agreement. The pension contribution rate was determined by the plan's actuary to be necessary to maintain full funding of the pension plan and is fully offset by a reallocation of wages and other benefits.

The Company was listed in its plans' Forms 5500 as providing more than five percent of the total contributions for the following plans and plan years:

Pension Plans	Year Contributions to Plan Exceeded More than 5 Percent of Total Contributions (as of December 31 of the Plan's Year-End)
Hawaii Terminals Multiemployer Pension Plan	2014, 2013 and 2012
Hawaii Stevedoring Multiemployer Retirement Plan	2014, 2013 and 2012

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Masters, Mates and Pilots Pension Plan (5)	2013 and 2012
Masters, Mates and Pilots Adjustable Pension Plan (5)	2013
MEBA Pension Trust - Defined Benefit Plan (5)	2013 and 2012

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(5) As of the date the consolidated financial statements were issued, Form 5500s were not available for the plan years ending in 2014 for this and other plans.

The Company contributes to seven multiemployer plans that provide post-retirement benefits other than pensions under the terms of collective-bargaining agreements with American Radio Association AFL-CIO; ILWU Local 142; ILWU Local 63, Office Clerical Unit Marine Clerk Association; International Organization of Masters, Mates and Pilots, AFL-CIO; Marine Engineers Beneficial Association, AFL-CIO District No. 1 PCD, MEBA; Marine Firemen's Union; and Sailors Union of the Pacific. Benefits provided to active and retired employees and their eligible dependents under these plans include medical, dental, vision, hearing, prescription drug, death, accidental death and dismemberment, disability, legal aid, training in maritime electronics, scholarship program, wage insurance and license insurance, although not all of these benefits are provided by each plan. These plans are not subject to the PBGC plan termination and withdrawal liability provisions of ERISA applicable to multiemployer defined benefit pension plans. Contributions made to these plans by the Company were \$11.1 million, \$10.5 million and \$10.8 million in 2014, 2013 and 2012, respectively.

*Multiemployer Defined Contribution Plans:* The Company contributes to six multi-employer defined contribution pension plans. These plans are not subject to the withdrawal liability provisions of ERISA or the PBGC applicable to multi-employer defined benefit pension plans. Contributions made to these plans by the Company were \$3.0 million, \$3.0 million and \$3.3 million in 2014, 2013 and 2012, respectively.

Table of Contents**10. INCOME TAXES**

The income tax expense on income from continuing operations for the years ended December 31, 2014, 2013 and 2012 consisted of the following (in millions):

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ 45.5	\$ (24.3)	\$ 38.9
State	3.7	(1.0)	3.2
Total	49.2	(25.3)	42.1
Deferred	2.7	57.5	(9.1)
Total income tax expense	\$ 51.9	\$ 32.2	\$ 33.0

Income tax expense for 2014, 2013, and 2012 differs from amounts computed by applying the statutory federal rate to income from continuing operations before income taxes for the following reasons:

	Years Ended December 31,		
	2014	2013	2012
Computed federal income tax expense	35.0%	35.0%	35.0%
State income tax	2.2%	2.9%	0.6%
Deferred tax adjustment	(0.9%)	0.0%	(1.6%)
Separation costs	0.0%	0.0%	2.0%
Transaction costs	1.4%	0.0%	0.0%
Unrecognized tax benefits	(0.4%)	(2.1%)	1.7%
Valuation allowance	3.3%	0.0%	0.0%
Other net	1.7%	1.7%	1.1%
Effective income tax rate	42.3%	37.5%	38.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 of each year are as follows (in millions):

	As of December 31,	
	2014	2013
Deferred tax assets:		
Benefit plans	\$ 63.6	\$ 41.8
Insurance reserves	11.4	10.0
Allowance for doubtful accounts	1.4	1.3
Reserves	2.1	6.0
Foreign losses	4.1	3.1
Alternative minimum tax credits	1.5	1.4
Other	0.8	(0.2)
Total deferred tax assets	84.9	63.4
Valuation allowance	(4.1)	

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Total Deferred tax assets, net of valuation allowance	80.8	63.4
Deferred tax liabilities:		
Basis differences for property and equipment	252.7	278.0
Capital Construction Fund	106.9	83.4
Joint ventures and other investments	7.7	4.6
Deferred revenue	10.1	11.4
Amortization	3.8	3.0
Total deferred tax liabilities	381.2	380.4
Deferred tax liability, net	\$ 300.4	\$ 317.0

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During 2014, the Company recorded a full valuation allowance against deferred tax assets related to accumulated operating losses of a foreign subsidiary of \$4.1 million.

The Company's income taxes payable has been reduced by the tax benefits from share-based compensation. The Company receives an income tax benefit for exercised stock options calculated as the difference between the fair market value of the stock issued at the time of exercise and the option exercise price, tax effected. The Company also receives an income tax benefit for non-vested stock when it vests, measured as the fair market value of the stock at the time of vesting, tax effected. The net tax benefits from share-based transactions were \$0.8 million and \$0.6 million for 2014 and 2013, respectively, and the portion of the tax benefit related to the excess of the amount reported as the tax deduction over expense was reflected as an increase to additional paid in capital in the consolidated statements of shareholders' equity. The Company's deferred tax liabilities incurred during 2014 and 2013 are primarily due to increased contributions to the CCF (see Note 6).

*Unrecognized Tax Benefits:* A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in millions):

Balance at December 31, 2011	\$	2.6
Additions for tax positions of prior years		4.0
Reductions for tax positions of current year		3.7
Reductions for tax positions of prior years		(1.0)
Reductions for lapse of statute of limitations		(1.0)
Balance at December 31, 2012		8.3
Additions for tax positions of prior years		2.0
Reductions for lapse of statute of limitations		(3.1)
Balance at December 31, 2013		7.2
Additions for tax positions of prior years		0.5
Reductions for lapse of statute of limitations		(1.0)
Balance at December 31, 2014	\$	6.7

Of the total unrecognized benefits, \$6.7 million, \$7.2 million, and \$8.3 million at December 31, 2014, 2013 and 2012, respectively, represent the amount that, if recognized, would favorably affect the Company's effective rate in future periods. The Company does not expect a material change in gross unrecognized benefits in the next twelve months.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. To the extent interest and penalties are not ultimately assessed with respect to the settlement of uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. Interest accrued related to the balance of unrecognized tax benefits totaled \$0.2 million, \$0.3 million, and \$0.4 million as of December 31, 2014, 2013 and 2012, respectively.

The Company is no longer subject to U.S. federal income tax audits for years before 2011, and substantially all material income tax matters have been concluded for years through 2009. The Company is routinely involved in state, local income and excise tax audits.

## 11. SHARE-BASED AWARDS

*2007 Incentive Compensation Plan:* The 2007 Incentive Compensation Plan (the 2007 Plan ) serves as a successor to the 1998 Stock Option/Stock Incentive Plan, the 1998 Non-Employee Director Stock Option Plan, the Restricted Stock Bonus Plan and the Non-Employee Director Stock Retainer Plan (the Predecessor Plans ). Under the 2007 Plan, approximately 2.2 million shares of common stock were initially reserved for issuance. On January 28, 2010, the Board of Directors adopted an amended and restated 2007 Plan, which, among other things, authorized the issuance of an additional approximately 2.2 million shares of stock under the 2007 Plan. Shareholders approved the amended 2007 Plan at the 2010 Annual Meeting of Shareholders.

In connection with the Separation, on June 29, 2012, each stock option held by a Matson employee was converted into an adjusted Matson stock option. The exercise prices of the adjusted Matson stock options and the number of shares subject to each such stock option reflects a mechanism that was intended to preserve the intrinsic value of the original stock option. The modification of the awards did not result in any additional stock compensation expense to be recorded upon Separation. The resulting Matson stock options are subject to substantially the same terms, vesting conditions and other restrictions, if any, that were applicable to the Former Parent Company stock options immediately prior to the Separation. Also, in connection with the Separation, any non-vested restricted stock units ( RSUs ) granted to Matson employees were converted into Matson RSUs. The RSU grants were converted in a manner that was intended to preserve the fair market value of the awards. The resulting Matson RSU grants are subject to substantially the same terms, vesting conditions and other restrictions, if any, that were applicable to the grants immediately prior to the Separation.

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After the Separation was completed, approximately 8.7 million shares of the Company's common stock were reserved for issuance under the plans, with approximately 6.1 million shares remaining as available for future issuance under all equity compensation plans (excluding 0.9 million shares to be issued upon exercise of outstanding options, warrants and rights as of December 31, 2014).

The 2007 Plan consists of four separate incentive compensation programs: (i) the discretionary grant program, (ii) the stock issuance program, (iii) the incentive bonus program and (iv) the automatic grant program for the non-employee members of the Company's Board of Directors. Share-based compensation is generally awarded under three of the four programs, as more fully described below.

*Discretionary Grant Program* Under the Discretionary Grant Program, stock options may be granted with an exercise price no less than 100 percent of the fair market value (defined as the closing market price) of the Company's common stock on the date of the grant. Options generally become exercisable ratably over three years and have a maximum contractual term of 10 years.

*Stock Issuance Program* Under the Stock Issuance Program, shares of common stock, restricted stock units or performance shares may be granted. Time-based equity awards vest ratably over three years. Provided certain three-year performance targets are achieved, performance-based equity awards vest on the three-year anniversary date of the grant. During the first quarter of 2013, the Company granted performance-based awards tied to the Company's average annual return on invested capital (which the Company refers to as average ROIC), as measured over the three-year period beginning January 1, 2013 and ending December 31, 2015. During the first quarter of 2014, the Company granted similarly structured performance share awards that will be measured over the three-year period beginning January 1, 2014 and ending December 31, 2016. Performance Share awards for the senior leadership team will also be modified based on total shareholder return performance (which the Company refers to as the TSR modifier) measured over the same respective three-year period. The relative TSR is based on the Company's total shareholder return over the three-year measurement period relative to the shareholder return over the same period for the companies comprising the S&P Transportation Select Industry Index and S&P Mid-Cap 400 Index (with each index weighted 50 percent). The service-vesting provisions of each performance-based award require the award recipient to remain in continuous service with the Company until the end of the three-year measurement period, subject to certain exceptions due to retirement, disability, or death, in order to vest in any shares that become issuable on the basis of the performance-vesting criteria.

*Automatic Grant Program* The Automatic Grant Program supersedes and replaces the Company's 1998 Non-Employee Director Stock Option Plan and the Non-Employee Director Stock Retainer Plan. At each annual shareholder meeting, non-employee directors will receive an award of restricted stock units that entitle the holder to an equivalent number of shares of common stock upon vesting. Awards of restricted stock units granted under the program generally vest ratably over three years.

The shares of common stock authorized to be issued under the 2007 Plan may be drawn from shares of the Company's authorized but unissued common stock or from shares of its common stock that the Company acquires, including shares purchased on the open market or in private transactions.

*Predecessor Plans:* Adopted in 1998, the Company's 1998 Stock Option/Stock Incentive Plan (1998 Plan) provided for the issuance of non-qualified stock options and common stock to employees of the Company. Under the 1998 Plan, option prices could not be less than the fair market value of the Company's common stock on the dates of grant and the options became exercisable over periods determined, at the dates of grant, by the Compensation Committee of the Former Parent Company Board of Directors that administer the plan. Generally, options vested ratably over three years and expired ten years from the date of grant. Payments for options exercised may be made in cash or in shares of the Company's stock. If an option to purchase shares is exercised within five years of the date of grant and if payment is made in shares of the Company's stock, the option holder may receive, under a reload feature, a new stock option grant for such number of shares as is equal to the

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number surrendered, with an option price not less than the greater of the fair market value of the Company's stock on the date of exercise or one and one-half times the original option price. The 1998 Plan also permitted the issuance of shares of the Company's common stock. Generally, grants of time-based, non-vested stock vested ratably over three years and performance-based, non-vested stock vested in one year, provided that certain performance targets were achieved. The 1998 Plan was superseded by the 2007 Plan, and no further grants have been or will be made under the 1998 Plan.

*Director Stock Option Plans:* The 1998 Non-Employee Director Stock Option Plan ( 1998 Director Plan ) was superseded by the 2007 Plan. Under the 1998 Director Plan, each non-employee Director of the Company, elected at an Annual Meeting of Shareholders, was automatically granted, on the date of each such Annual Meeting, an option to purchase 8,000 shares of the Company's common stock at the fair market value of the shares on the date of grant. Each option to purchase shares generally became exercisable ratably over three years following the date granted.



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The Company estimates the grant-date fair value of its stock options using a Black-Scholes option-pricing model. The weighted average grant-date fair values, prior to the Separation, of the options granted during 2012 was \$10.74 per option. No options were granted after the Separation; therefore all weighted average assumptions provided in the table below are prior to the Separation:

	Year Ended December 31, 2012
Expected volatility (1)	31.8%
Expected term (in years) (2)	6.1
Risk-free interest rate (3)	1.2%
Dividend yield (4)	2.7%

(1) Expected volatility was primarily determined using the historical volatility of the Company's common stock over the expected term, but the Company could also consider future events and other factors that it reasonably concluded marketplace participants might consider.

(2) The expected term of the awards represents expectations of future employee exercise and post-vesting termination behavior and was primarily based on historical experience. The Company analyzed various groups of employees and considers expected or unusual trends that would likely affect this assumption.

(3) The risk free interest rate was based on U.S. Government treasury yields for periods equal to the expected term of the option on the grant date.

(4) The expected dividend yield was based on the Company's current and historical dividend policy.

Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation and, consequently, significantly affect the related amounts recognized in the consolidated statements of income and comprehensive income.

Activity in the Company's stock option plans for the year ended December 31, 2014, was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

	2007 Plan	1998 Plan	1998 Director Plan	Total Shares	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2013	844	208	140	1,192	\$ 21.24		
Granted							
Exercised	(187)	(70)	(62)	(319)	\$ 21.10		
Forfeited and expired		(6)	(15)	(21)	\$ 23.17		
Outstanding at December 31, 2014	657	132	63	852	\$ 21.24	4.1	\$ 11,294
Exercisable at December 31, 2014	620	132	63	815	\$ 21.13	4.0	\$ 10,895

The following table summarizes non-vested restricted stock unit activity through December 31, 2014, (in thousands, except weighted average grant-date fair value amounts):

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	<b>2007 Plan Restricted Stock Units</b>		<b>Weighted Average Grant- Date Fair Value</b>
Outstanding at December 31, 2013	555	\$	25.61
Granted	352		23.61
Exercised	(193)		25.05
Canceled	(36)		24.78
Outstanding at December 31, 2014	678	\$	24.78

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A summary of compensation cost related to share-based payments for each of the three years in the period ended December 31, 2014, is as follows (in millions):

	Years Ended December 31,		
	2014	2013	2012
Share-based expense (net of estimated forfeitures):			
Stock options	\$ 0.3	\$ 0.4	\$ 0.9
Non-vested stock and restricted stock units	8.4	5.5	3.1
Total share-based expense	8.7	5.9	4.0
Total recognized tax benefit	(3.4)	(2.2)	(1.6)
Total share-based expense (net of tax)	\$ 5.3	\$ 3.7	\$ 2.4
Cash received by Matson upon option exercise			
	\$ 5.8	\$ 1.7	\$ 3.5
Intrinsic value of options exercised	\$ 3.4	\$ 1.1	\$ 5.2
Tax benefit realized upon option exercise	\$ 1.9	\$ 1.7	\$ 1.5
Fair value of stock vested	\$ 5.0	\$ 4.4	\$ 3.8

As of December 31, 2014, there was no unrecognized compensation cost related to non-vested stock options. As of December 31, 2014, unrecognized compensation cost related to non-vested stock and restricted stock units was \$9.0 million. That unrecognized compensation cost is expected to be recognized over a weighted average period of approximately 1.7 years.

## 12. COMMITMENTS AND CONTINGENCIES

*Commitments and Contingencies:* Commitments and financial arrangements, excluding lease commitments that are described in Note 8, included the following as of December 31, 2014 (in millions):

Standby letters of credit (1)	\$ 6.0
Bonds (2)	\$ 20.6
Benefit plan withdrawal obligations (3)	\$ 94.8

(1) Includes \$4.8 million in letters of credit, which are required for the Company's uninsured workers' compensation programs and its other insurance programs, and \$1.2 million in letters of credit used to support various credit enhancement needs.

(2) Consists of \$19.2 million in U.S. Custom bonds, and \$1.4 million related to transportation and other matters.

(3) Represents the withdrawal liabilities as of the most recent valuation dates for multiemployer pension plans, in which the Company is a participant. Management has no present intention of withdrawing from, and does not anticipate the termination of, any of the aforementioned plans.

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These amounts are not recorded on the Company's consolidated balance sheets and it is not expected that the Company or its subsidiaries will be called upon to advance funds under these commitments.

*Employee Matters:* As of December 31, 2014, Matson and its subsidiaries had 1,056 employees, of which 285 employees were covered by collective bargaining agreements with unions. Of these covered employees, 252 are subject to collective bargaining agreements that expired in 2014. These numbers do not include billets on ships, employees of SSAT or contractors.

Matson and SSAT are members of the Pacific Maritime Association (PMA), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union (ILWU) on the U.S. West Coast. The PMA/ILWU collective bargaining agreements that cover substantially all U.S. West Coast longshore labor expired on July 1, 2014. On February 20, 2015, the PMA and the ILWU announced a tentative agreement on a new five-year contract covering longshore workers at all 29 U.S. West Coast ports. The tentative agreement is subject to ratification by both the PMA and ILWU, and no assurance can be given that the tentative agreement will be ratified by both parties. If the tentative agreement is not ratified, Matson and SSAT could be subject to future slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's or SSAT's operations.

Matson also has collective bargaining agreements with ILWU labor in Hawaii, and ILWU office clerical workers in Oakland, each of which expired on June 30, 2014. Workers under these agreements are operating under extensions with the unions. With a tentative agreement reached between the PMA and the ILWU, negotiations with the ILWU labor in Hawaii are expected to resume, and negotiations with the ILWU office clerical workers in Oakland are expected to commence; however no assurance can be given that agreements will be reached without slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson's operations.

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*Environmental Matter:* Molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company in September 2013. The Company is cooperating with federal and state agencies involved in responding to and investigating the incident. On September 20, 2013, the Hawaii Department of Health ( DOH ) and other responding governmental agencies announced that they had officially transitioned their role from a response phase to a recovery and restoration phase. The DOH also reported on September 20, 2013 that dissolved oxygen and pH levels in the harbor and nearby Keehi Lagoon had returned to normal target levels and that there was no longer discoloration of the water in those same areas attributable to the molasses release. Keehi Lagoon was reopened to the public on September 21, 2013.

On October 10, 2013, the Company was served with a federal grand jury subpoena seeking documents in connection with a criminal investigation into the release of molasses into Honolulu Harbor. In addition, in April 2014, the Company received two subpoenas from the Hawaii Attorney General and written requests for information regarding the release from the following governmental agencies: (i) the DOH; (ii) the State of Hawaii Office of Hawaiian Affairs; and (iii) the U.S. Environmental Protection Agency (the EPA ) (Region IX).

On October 21, 2014, the U.S. Attorney for the District of Hawaii (the U.S. Attorney ) filed an Information (the Information ) with the U.S. District Court for the District of Hawaii (the Court ) charging Matson Terminals, Inc. ( MTI ), the subsidiary of the Company that operated the pipeline, with two misdemeanor violations of Section 407 of the Rivers and Harbors Act of 1899 (the Refuse Act ) arising from the molasses release. The U.S. Attorney also filed a Memorandum of Plea Agreement (the Plea Agreement ), subject to the approval of the Court, to resolve federal criminal charges arising from the molasses release. Pursuant to the Plea Agreement, MTI agreed to plead guilty to the two violations of the Refuse Act and to pay \$1.0 million, comprised of a \$0.4 million fine and restitution payments of \$0.6 million to community organizations involved in the protection of the shoreline and ocean resources. On October 24, 2014, MTI entered a guilty plea in the Court. On January 29, 2015, MTI executed an Amended Plea Agreement that was accepted by the Court which then sentenced MTI to make the payments described above. On February 24, 2015, the EPA informed the Company that it will not seek to debar MTI and its affiliates from obtaining future U.S. government contracts. The Company has included the \$1.0 million in accrued and other liabilities in the consolidated balance sheet at December 31, 2014.

Furthermore, the Company has not yet resolved any potential civil claims by the governmental agencies arising out of the molasses release. However, except with respect to the matters discussed above, government agencies have not initiated any legal actions in connection with the release of molasses. Therefore, the Company is not able to estimate the future costs, penalties, damages or expenses that it may incur related to the incident. As a result, at this time no assurance can be given that the impact of the incident on the Company's financial position, results of operations, or cash flows will not be material. The Company continues to respond to governmental requests for information, and is engaging in dialogue with governmental agencies in order to reasonably resolve these matters.

In addition to the molasses release discussed above, the Company's shipping business has certain other risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company's financial condition, results of operations, or cash flows.

**13. RELATED PARTY TRANSACTIONS**

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Effective upon the completion of the Separation, the Company ceased to be a related party of the Former Parent Company. Prior to the Separation, transactions with Former Parent Company were considered related party transactions, as discussed below.

Historically, the Company provided vessel management services to A&B for its bulk sugar vessel, the MV *Moku Pahu*, the income of which is included in Ocean Transportation segment. Additionally, the Company expensed operating costs related to a lease for industrial warehouse space in Savannah, Georgia, that was leased from A&B. The Company also recognized the cost for equipment and repair services to the vessel and other various services provided by A&B in operating costs.

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There were no related party transactions entered into after the completion of the Separation on June 29, 2012. Prior to the Separation, the related party transactions were as follows (in millions):

<b>Related Party Transactions</b>	<b>Years Ended December 31, 2012</b>	
Vessel management services income	\$	2.0
Lease expense to A&B		(2.1)
Equipment and repair services expense and other		(1.4)
Related party expense, net	\$	(1.5)

Contributions to A&B totaled \$155.7 million for the year ended December 31, 2012, which related to the Separation. Contributions to the Former Parent Company for the proceeds from the issuance of capital stock of \$21.7 million for the year ended December 31, 2012 have been included in the consolidated financial statements due to Matson being the successor company of the Former Parent Company for accounting purposes. No contributions were made subsequent to 2012. Contributions from the Former Parent Company of \$25.0 million, for the year ended December 31, 2012, represent dividends paid by the Former Parent Company to its shareholders prior to the Separation offset by distributions to the Former Parent Company for stock based compensation and are reflected in the consolidated financial statements due to Matson being the successor company of the Former Parent Company for accounting purposes. No distributions were made subsequent to 2012.

#### **14. REPORTABLE SEGMENTS**

Reportable segments are components of an enterprise that engage in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's chief operating decision maker is its Chief Executive Officer.

The Company consists of two segments, Ocean Transportation and Logistics, which are further described in Note 1. Reportable segments are measured based on operating profit, exclusive of interest expense, general corporate expenses, and income taxes. In arrangements where the customer purchases ocean transportation and logistics services, the revenues are allocated to each reportable segment based upon the contractual amounts for each type of service.

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Reportable segment information for 2014, 2013, and 2012 is summarized below (in millions):

	Years Ended December 31,		
	2014	2013	2012
<b>Revenue:</b>			
Ocean Transportation	\$ 1,278.4	\$ 1,229.4	\$ 1,189.8
Logistics	435.8	407.8	370.2
Total revenue	\$ 1,714.2	\$ 1,637.2	\$ 1,560.0
<b>Operating Income:</b>			
Ocean Transportation (1)	\$ 131.1	\$ 94.3	\$ 96.6
Logistics	8.9	6.0	0.1
Total operating income	140.0	100.3	96.7
Interest expense, net	(17.3)	(14.4)	(11.7)
Income before income taxes	122.7	85.9	85.0
Income taxes	(51.9)	(32.2)	(33.0)
Income from continuing operations	70.8	53.7	52.0
Discontinued operations			(6.1)
Net income	\$ 70.8	\$ 53.7	\$ 45.9

(1) The Ocean Transportation segment includes \$6.6 million, \$(2.0) million and \$3.2 million of equity in income (loss) from the Company's Terminal Joint Venture, SSAT, for 2014, 2013, and 2012, respectively.

	As of December 31,		
	2014	2013	2012
<b>As of December 31:</b>			
<b>Identifiable Assets:</b>			
Ocean Transportation (2)	\$ 1,313.9	\$ 1,168.6	\$ 1,097.2
Logistics	87.9	79.7	77.1
Total assets	\$ 1,401.8	\$ 1,248.3	\$ 1,174.3
<b>Capital Expenditures:</b>			
Ocean Transportation	\$ 27.8	\$ 33.8	\$ 37.0
Logistics	0.1	1.4	1.1
Total capital expenditures	\$ 27.9	\$ 35.2	\$ 38.1
<b>Depreciation and Amortization from Continuing Operations:</b>			
Ocean Transportation	\$ 66.6	\$ 66.4	\$ 69.1
Logistics	3.1	3.3	3.4
Total depreciation and amortization	\$ 69.7	\$ 69.7	\$ 72.5

(2) The Ocean Transportation segment includes \$64.4 million, \$57.6 million, and \$59.6 million related to the Company's Terminal Joint Venture equity investment in SSAT as of December 31, 2014, 2013, and 2012, respectively.



Table of Contents**15. QUARTERLY INFORMATION (Unaudited)**

Segment results by quarter for 2013 and 2012 are listed below (in millions, except per-share amounts):

	Quarters During the Year Ended December 31, 2014			
	Q1	Q2	Q3	Q4
<b>Revenue:</b>				
Ocean Transportation	\$ 294.6	\$ 321.1	\$ 329.5	\$ 333.2
Logistics	97.9	115.3	112.3	110.3
Total operating revenue	\$ 392.5	\$ 436.4	\$ 441.8	\$ 443.5
<b>Operating Income:</b>				
Ocean Transportation	\$ 9.4	\$ 32.8	\$ 42.6	\$ 46.3
Logistics	0.5	2.9	2.4	3.1
Total operating income	9.9	35.7	45.0	49.4
Interest Expense	(4.1)	(4.5)	(4.4)	(4.3)
Income before Income Taxes	5.8	31.2	40.6	45.1
Income tax expense	(2.4)	(13.1)	(19.1)	(17.3)
Net Income	\$ 3.4	\$ 18.1	\$ 21.5	\$ 27.8
Basic Earnings Per Share:	\$ 0.08	\$ 0.42	\$ 0.50	\$ 0.65
Diluted Earnings Per Share:	\$ 0.08	\$ 0.42	\$ 0.50	\$ 0.63

	Quarters During the Year Ended December 31, 2013			
	Q1	Q2	Q3	Q4
<b>Revenue:</b>				
Ocean Transportation	\$ 299.9	\$ 310.0	\$ 310.1	\$ 309.4
Logistics	94.8	106.6	104.9	101.5
Total operating revenue	\$ 394.7	\$ 416.6	\$ 415.0	\$ 410.9
<b>Operating Income (loss):</b>				
Ocean Transportation	\$ 18.5	\$ 34.3	\$ 25.5	\$ 16.0
Logistics	0.2	2.2	1.7	1.9
Total operating income	18.7	36.5	27.2	17.9
Interest Expense	(3.7)	(3.6)	(3.6)	(3.5)
Income before Income Taxes	15.0	32.9	23.6	14.4
Income tax expense	(5.9)	(12.8)	(6.4)	(7.1)
Net Income	\$ 9.1	\$ 20.1	\$ 17.2	\$ 7.3
Basic Earnings Per Share:	\$ 0.21	\$ 0.47	\$ 0.40	\$ 0.17
Diluted Earnings Per Share:	\$ 0.21	\$ 0.47	\$ 0.40	\$ 0.17

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusion Regarding Effectiveness of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

**Internal Control over Financial Reporting**

See page 33, for management's annual report on internal control over financial reporting, which is incorporated herein by reference.

See page 34, for the attestation report of the independent registered public accounting firm on the Company's internal control over financial reporting, which is incorporated herein by reference.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fiscal fourth quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**A. Directors**

For information about the directors of Matson, see the section captioned "Election of Directors" in Matson's proxy statement for the 2015 Annual Meeting of Shareholders ( "Matson's 2015 Proxy Statement" ), which section is incorporated herein by reference.

**B. Executive Officers**

For information about the executive officers of Matson, see the section captioned "Executive Officers" in Matson's 2015 Proxy Statement, which section is incorporated herein by reference.

**C. Corporate Governance**

For information about the Audit Committee of the Matson Board of Directors and compliance with Section 16 (a) of the Exchange Act, see the sections captioned "Board of Directors and Committees of Board" and "Section 16 (a) Beneficial Ownership Reporting Compliance" in Matson's 2015 Proxy Statement, which sections are incorporated herein by reference.

**D. Code of Ethics**

For information about Matson's Code of Ethics, see the subsection captioned "Code of Ethics" in Matson's 2015 Proxy Statement, which subsection is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

See the section captioned "Executive Compensation" and the subsections captioned "Compensation of Directors" and "Pay Risk Assessment" in Matson's 2015 Proxy Statement, which section and subsections are incorporated herein by reference.

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**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

See the section captioned "Security Ownership of Certain Shareholders" and the subsections titled "Security Ownership of Directors and Executive Officers" and "Equity Compensation Plan Information" in Matson's 2015 Proxy Statement, which section and subsections are incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See the section captioned "Election of Directors" and the subsection captioned "Certain Relationships and Transactions" in Matson's 2015 Proxy Statement, which section and subsection are incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information concerning principal accountant fees and services appears in the sections captioned "Audit Committee Report" and "Ratification of Appointment of Independent Registered Public Accounting Firm" in Matson's 2015 Proxy Statement, which sections are incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**A. Financial Statements**

The consolidated financial statements are set forth in Item 8 of Part II above.

**B. Financial Statement Schedules**

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All schedules are omitted because of the absence of the conditions under which they are required or because the information called for is included in the consolidated financial statements or notes thereto.

### **C. Exhibits Required by Item 601 of Regulation S-K**

Exhibits not filed herewith are incorporated by reference to the exhibit number and previous filing shown in parentheses. All previous exhibits were filed with the Securities and Exchange Commission in Washington, D.C.

Exhibits filed pursuant to the Securities Exchange Act of 1934 were filed under file number 001-34187. Shareholders may obtain copies of exhibits for a copying and handling charge of \$0.15 per page by writing to, Corporate Secretary, Matson, Inc., 555 12th Street, Oakland, California 94607.

2. Plan of acquisition, reorganization, arrangement, liquidation or succession.

2.1 Agreement and Plan of Merger, dated as of November 11, 2014, by and among Matson Navigation Company, Inc., Hogan Acquisition Inc. and Horizon Lines, Inc. (incorporated by reference to Exhibit 2.1 of Matson's Form 8-K dated November 11, 2014).

2.2 Amendment No. 1 to Agreement and Plan of Merger, dated as of February 13, 2015, by and among Matson Navigation Company, Inc., Hogan Acquisition Inc. and Horizon Lines, Inc. (incorporated by reference to Exhibit 2.1 of Matson's Form 8-K dated February 13, 2015).

3. Articles of incorporation and bylaws.

3.1 Amended and Restated Articles of Incorporation of Matson, Inc. (incorporated by reference to Exhibit 3.1 of Matson's Form 10-Q for the quarter ended June 30, 2012).

3.2 Articles of Amendment to Change Corporate Name (incorporated by reference to Exhibit 4.2 of Matson's Form S-8 dated October 26, 2012).

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3.3 Amended and Restated Bylaws of Matson, Inc. (as amended as of November 6, 2013) (incorporated by reference to Exhibit 3.1 of Matson's Form 10-Q for the quarter ended September 30, 2013).

10. Material contracts.

10.1 Transition Services Agreement, dated as of June 8, 2012, by and between Matson, Inc. (formerly known as Alexander & Baldwin Holdings, Inc.) and A & B II, Inc. (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated June 8, 2012).

10.2 Employee Matters Agreement, dated as of June 8, 2012, by and between Matson, Inc. (formerly known as Alexander & Baldwin Holdings, Inc.) and A & B II, Inc. (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated June 8, 2012).

10.3 Tax Sharing Agreement, dated as of June 8, 2012, by and between Matson, Inc. (formerly known as Alexander & Baldwin Holdings, Inc.) and A & B II, Inc. (incorporated by reference to Exhibit 10.3 of Matson's Form 8-K dated June 8, 2012).

10.4 Second Amended and Restated Note Agreement among Matson Navigation Company, Inc., Prudential Investment Management, Inc. and the other purchasers party thereto, dated as of June 4, 2012 (incorporated by reference to Exhibit 10.4 of Alexander & Baldwin, Inc.'s Form 8-K dated June 7, 2012).

10.5 Limited Consent Amended and Restated Note Agreement between Matson Navigation Company and The Prudential Insurance Company of America and Pruco Life Insurance Company, dated as of June 4, 2012 (incorporated by reference to Exhibit 10.5 of Alexander & Baldwin, Inc.'s Form 8-K dated June 4, 2012).

10.6 Credit Agreement between Matson Navigation Company, Inc., First Hawaiian Bank, Bank of America, N.A. and the other lenders party thereto, dated as of June 4, 2012 (incorporated by reference to Exhibit 10.6 of Alexander & Baldwin, Inc.'s Form 8-K dated June 4, 2012).

10.7 Amended and Restated Limited Liability Company Agreement of SSA Terminal LLC by and between SSA Ventures, Inc. and Matson Ventures, Inc., dated as of April 24, 2002 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.1 of Matson's Form 10-Q for the quarter ended June 30, 2012).

10.8 Parent Company Agreement, dated as of April 24, 2002, by and among SSA Pacific Terminals, Inc., formerly known as Stevedoring Services of America, Inc., SSA Ventures, Inc., Matson Navigation Company, Inc. and Matson Ventures, Inc. (incorporated by reference to Exhibit 10.2 of Matson's Form 10-Q for the quarter ended June 30, 2012).

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10.9 Borrower Assignment, Assumption, and Release among Bank of America, N.A., Matson Navigation Company, Inc. and Matson, Inc., dated as of June 28, 2012 (incorporated by reference to Exhibit 10.3 of Matson's Form 10-Q for the quarter ended June 30, 2012).

10.10 Company Assignment, Assumption and Release Agreement among The Prudential Insurance Company of America, Pruco Life Insurance Company, The Prudential Life Insurance Company, Ltd., Gibraltar Life Insurance Co. Ltd., Prudential Annuities Life Assurance Corporation and Prudential Arizona Reinsurance Universal Company, Matson Navigation Company, Inc. and Matson, Inc. dated June 29, 2012 (incorporated by reference to Exhibit 10.4 of Matson's Form 10-Q for the quarter ended June 30, 2012).

10.11 Security Agreement between Matson Navigation Company, Inc. and the United States of America, with respect to \$55 million of Title XI ship financing bonds, dated July 29, 2004 (incorporated by reference to Exhibit 10.a.(xxvi) of Alexander & Baldwin, Inc.'s Form 10-Q for the quarter ended September 30, 2004).

10.12 Amendment No. 1 dated September 21, 2007, to Security Agreement between Matson Navigation Company, Inc. and the United States of America, with respect to \$55 million of Title XI ship financing bonds, dated July 29, 2004 (incorporated by reference to Exhibit 10.a.(xxx) of Alexander & Baldwin, Inc.'s Form 10-Q for the quarter ended September 30, 2007).

10.13 Matson, Inc. 2007 Incentive Compensation Plan, amended and restated, effective January 29, 2015.

10.14 Form of Notice of Performance Share Award Grant (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated January 29, 2013).

10.15 Form of Matson, Inc. Performance Share Award Agreement (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated January 29, 2013).

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10.16 Form of Notice of Stock Option Grant (incorporated by reference to Exhibit 99.2 to Matson's Form S-8 dated October 26, 2012).

10.17 Form of Stock Option Agreement for Non-Executive Employees (incorporated by reference to Exhibit 99.3 of Matson's Form S-8 dated October 26, 2012).

10.18 Form of Stock Option Agreement for Executive Employees (incorporated by reference to Exhibit 99.4 of Matson's Form S-8 dated October 26, 2012).

10.19 Form of Notice of Time-Based Restricted Stock Unit Grant (incorporated by reference to Exhibit 99.5 of Matson's Form S-8 dated October 26, 2012).

10.20 Form of Time-Based Restricted Stock Unit Agreement for Non-Executive Employees (incorporated by reference to Exhibit 99.6 of Matson's Form S-8 dated October 26, 2012).

10.21 Form of Time-Based Restricted Stock Unit Agreement for Executive Employees (incorporated by reference to Exhibit 99.7 of Matson's Form S-8 dated October 26, 2012).

10.22 Form of Amended and Restated Restricted Stock Unit Award Agreement for Non-Employee Directors (No Deferral) (incorporated by reference to Exhibit 10.20 of Matson's Form 10-K for the year ended December 31, 2013).

10.23 Form of Amended and Restated Restricted Stock Unit Award Agreement for Non-Employee Directors (Deferral Election) (incorporated by reference to Exhibit 10.21 of Matson's Form 10-K for the year ended December 31, 2013).

10.24 Form of Anti-Dilution Adjustment Amendment to Restricted Stock Unit Award Agreements (incorporated by reference to Exhibit 99.10 of Matson's Form S-8 dated October 26, 2012).

10.25 Form of Anti-Dilution Adjustment Amendment to Stock Option Agreements (incorporated by reference to Exhibit 99.11 of Matson's Form S-8 dated October 26, 2012).

10.26 Form of Anti-Dilution Adjustment Amendment to 2012 Performance-Based Restricted Stock Unit Award Agreements (incorporated by reference to Exhibit 99.12 of Matson's Form S-8 dated October 26, 2012).



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10.27 Matson, Inc. 1998 Stock Option/Stock Incentive Plan (formerly known as the Alexander & Baldwin, Inc. 1998 Stock Option/Stock Incentive Plan) (incorporated by reference to Exhibit 99.1 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.28 Matson, Inc. 1998 Non-Employee Director Stock Option Plan (formerly known as the Alexander & Baldwin, Inc. 1998 Non-Employee Director Stock Option Plan) (incorporated by reference to Exhibit 99.2 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.29 Form of Restricted Stock Unit Assumption Agreement (incorporated by reference to Exhibit 99.3 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.30 Form of Stock Option Assumption Agreement (incorporated by reference to Exhibit 99.4 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.31 Special Form of Restricted Stock Unit Assumption Agreement (incorporated by reference to Exhibit 99.5 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.32 Special Form of Stock Option Assumption Agreement (incorporated by reference to Exhibit 99.6 of Post-Effective Amendment No. 2 to Alexander & Baldwin, Inc. s Form S-8 dated June 6, 2012).

10.33 Matson, Inc. Deferred Compensation Plan for Outside Directors (incorporated by reference to Exhibit 10.34 of Matson s Form 10-K for the year ended December 31, 2012).

10.34 Matson, Inc. Excess Benefits Plan, amended and restated effective August 27, 2014 (incorporated by reference to Exhibit 10.1 of Matson s Form 8-K dated August 28, 2014).

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10.35 Matson, Inc. Executive Survivor/Retirement Benefit Plan (formerly known as the Alexander & Baldwin, Inc. Executive Survivor/Retirement Benefit Plan), amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.b.1.(I) of Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.36 Matson, Inc. Executive Survivor/Retirement Benefit Plan (formerly known as the Alexander & Baldwin, Inc. Executive Survivor/Retirement Benefit Plan), amended and restated effective February 27, 2008 (incorporated by reference to Exhibit 10.b.1.(li) of Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.37 Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), amended and restated effective as of January 1, 2008 (incorporated by reference to Exhibit 10.b.1.(lii) of Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.38 Amendment No. 1 to the Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), effective as of December 31, 2011 (incorporated by reference to Exhibit 10.b.1.(liii) of Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.39 Amendment No. 2 to the Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), effective as of January 1, 2012 (incorporated by reference to Exhibit 10.b.1.(liv) of Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.40 Matson, Inc. Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.44 of Matson s Form 10-K for the year ended December 31, 2012).

10.41 Form of Letter Agreement entered into with certain executive officers (incorporated by reference to Exhibit 10.45 of Matson s Form 10-K for the year ended December 31, 2012).

10.42 Schedule identifying executive officers who have entered into Form of Letter Agreement.

10.43 Form of Letter Agreement entered into with executive officer (incorporated by reference to Exhibit 10.1 of Matson s Form 8-K dated October 24, 2014).

10.44 Letter Agreement Counter Party (incorporated by reference to Exhibit 10.2 of Matson s Form 8-K dated October 24, 2014).

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10.45 Matson, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.47 of Matson's Form 10-K for the year ended December 31, 2012).

10.46 Matson, Inc. One-Year Performance Improvement Incentive Plan (incorporated by reference to Exhibit 10.48 of Matson's Form 10-K for the year ended December 31, 2012).

10.47 Matson, Inc. Cash Incentive Plan (incorporated by reference to Exhibit 10.49 of Matson's Form 10-K for the year ended December 31, 2012).

10.48 Matson, Inc. Three-Year Performance Improvement Incentive Plan (formerly known as the Alexander & Baldwin, Inc. Three-Year Performance Improvement Incentive Plan), as restated effective October 22, 1992 (incorporated by reference to Exhibit 10.b.1.(lxxi) of Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).

10.49 Matson, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.51 of Matson's Form 10-K for the year ended December 31, 2012).

10.50 Matson, Inc. Restricted Stock Bonus Plan (formerly known as the Alexander & Baldwin, Inc. Restricted Stock Bonus Plan), as restated effective April 28, 1988 (incorporated by reference to Exhibit 10.b.1.(lxxiv) of Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).

10.51 Amendment No. 1 to the Matson Restricted Stock Bonus Plan (formerly known as the Alexander & Baldwin, Inc. Restricted Stock Bonus Plan), effective December 11, 1997 (incorporated by reference to Exhibit 10.b.1.(lxxv) to Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).

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10.52 Amendment No. 2 to the Matson Restricted Stock Bonus Plan (formerly known as the Alexander & Baldwin, Inc. Restricted Stock Bonus Plan), dated June 25, 1998 (incorporated by reference to Exhibit 10.b.1.(lxxvi) to Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.53 Amendment No. 3 to the Matson Restricted Stock Bonus Plan (formerly known as the Alexander & Baldwin, Inc. Restricted Stock Bonus Plan), dated December 8, 2004 (incorporated by reference to Exhibit 10.b.1.(lxxvii) to Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.54 Amendment No. 4 to the Matson Restricted Stock Bonus Plan (formerly known as the Alexander & Baldwin, Inc. Restricted Stock Bonus Plan), dated December 13, 2007 (incorporated by reference to Exhibit 10.b.1.(lxxvii) to Alexander & Baldwin, Inc. s Form 10-K for the year ended December 31, 2011).

10.55 Agreement and Plan of Merger, dated as of February 13, 2012, by and among Alexander & Baldwin, Inc., Alexander & Baldwin Holdings, Inc. and A&B Merger Corporation (incorporated by reference to Exhibit 2.1 of Alexander & Baldwin, Inc. s Form 8-K dated February 13, 2012).

10.56 Separation and Distribution Agreement, dated as of June 8, 2012, by and between Alexander & Baldwin Holdings, Inc. and A&B II, Inc. (incorporated by reference to Exhibit 2.1 of Matson s Form 8-K dated June 8, 2012).

10.57 Shipbuilding Contract, by and between Aker Philadelphia Shipyard, Inc. and Matson Navigation Company, Inc., dated as of November 6, 2013 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.56 of Matson s Form 10-K for the year ended December 31, 2013).

10.58 Shipbuilding Contract, by and between Aker Philadelphia Shipyard, Inc. and Matson Navigation Company, Inc., dated as of November 6, 2013 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.57 of Matson s Form 10-K for the year ended December 31, 2013).

10.59 Guaranty Agreement by Aker Philadelphia Shipyard ASA, in favor of Matson Navigation Company, Inc., dated as of November 6, 2013 (incorporated by reference to Exhibit 10.58 of Matson s Form 10-K for the year ended December 31, 2013).

10.60 Note Purchase Agreement among Matson, Inc., and the purchasers party thereto, dated as of November 5, 2013 (incorporated by reference to Exhibit 10.1 of Matson s Form 8-K dated January 29, 2014).

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10.61 Form of Capital Construction Fund Agreement with Matson Navigation Company, as amended by Addendums No. 2, No. 5, No. 18, No. 20 and No. 31, thereto (incorporated by reference to Exhibit 10.60 of Matson's Form 10-K for the year ended December 31, 2013).

10.62 Form of Consulting Agreement by and between Matson Navigation Company, Inc., and Kevin C. O'Rourke (incorporated by reference to Exhibit 10.61 of Matson's Form 10-K for the year ended December 31, 2013).

10.63 Form of Notice of Performance Share Award Grant (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated January 29, 2013).

10.64 Form of Performance Share Award Agreement (incorporated by reference to Exhibit 10-2 of Matson's Form 8-K dated January 29, 2013).

10.65 Settlement Agreement, dated as of July 17, 2014, among the United States of America, acting through the United States Department of Justice and on behalf of the United States Surface Deployment and Distribution Command, Matson Navigation Company, Inc., and Mario Rizzo (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated July 22, 2014).

10.66 Form of Voting Agreement, dated as of November 11, 2014, among Matson Navigation Company, Inc. and certain holders of voting securities of Horizon Lines, Inc. (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated November 11, 2014).

21. Matson, Inc. Subsidiaries as of February 1, 2015.

23. Consent of Deloitte & Touche, LLP dated February 27, 2015.

31.1 Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2 Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATSON, INC.  
(Registrant)

Date: February 27, 2015

/s/ Matthew J. Cox  
Matthew J. Cox  
President,  
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Matthew J. Cox Matthew J. Cox	President, Chief Executive Officer and Director	February 27, 2015
/s/ Walter A. Dods, Jr. Walter A. Dods, Jr.	Chairman of the Board and Director	February 27, 2015
/s/ W. Blake Baird W. Blake Baird	Director	February 27, 2015
/s/ Michael J. Chun Michael J. Chun	Director	February 27, 2015
/s/ Thomas B. Fargo Thomas B. Fargo	Director	February 27, 2015
/s/ Constance H. Lau Constance H. Lau	Director	February 27, 2015
/s/ Jeffrey N. Watanabe Jeffrey N. Watanabe	Director	February 27, 2015
/s/ Joel M. Wine Joel M. Wine	Senior Vice President and Chief Financial Officer	February 27, 2015
/s/ Dale B. Hendler Dale B. Hendler	Vice President and Controller, (principal accounting officer)	February 27, 2015

