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Alexander & Baldwin, Inc.

Form 10-K

February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [] to []

Commission file number 001-35492

Alexander & Baldwin, Inc.

(Exact name of registrant as specified in its charter)

Hawai'i 45-4849780

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

822 Bishop Street

Post Office Box 3440, Honolulu, Hawai'i 96801

(Address of principal executive offices and zip code)

808-525-6611

(Registrant's telephone number, including area code)

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

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

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

None

Number of shares of Common Stock outstanding at February 15, 2019:

72,092,013

Aggregate market value of Common Stock held by non-affiliates at June 30, 2018:

\$1,596,749,025

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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. ☒

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Portions of Registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders (Part III of Form 10-K)

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ALEXANDER & BALDWIN, INC.

FORM 10-K

Annual Report for the Fiscal Year

Ended December 31, 2018

PART I

ITEM 1. BUSINESS

Business and Strategy

Alexander & Baldwin, Inc. ("A&B" or the "Company") is a fully integrated real estate investment trust ("REIT") whose history in Hawai'i dates back to 1870. Over time, we have evolved from a 571-acre sugar plantation on Maui to become one of Hawai'i's premier real estate companies and the owner of the largest anchored neighborhood shopping center portfolio in the state. After a long period as a holding company of operationally and geographically disperse business interests and assets, the Company has established a strategic intent to become a Hawai'i-focused commercial real estate company. This strategy is intended to leverage the Company's extensive local market knowledge and real estate expertise to create value for both shareholders and the community. The Company has made significant progress in implementing that strategy, including the complete migration of its commercial real estate portfolio to Hawai'i ("Migration Strategy") such that the share of cash net operating income ("NOI") generated by Hawai'i commercial assets has grown from about 43% in 2012 to 98% in 2018 and will be 100% in 2019.

The Company owns 18 retail centers in Hawai'i, nine industrial assets, four office properties for a total portfolio gross leasable area ("GLA") of 3.5 million square feet at the end of 2018. A&B also owns a portfolio of ground leases comprising 108.7 acres in Hawai'i and over 45,000 acres of land in Hawai'i, primarily conservation- and agriculture-zoned, but also urban-zoned land suitable for future development.

A&B's real estate legacy began in 1949 as a developer, master planning the community of Kahului, Maui and providing homes for sale to the Company's plantation employees. While our historic development activity has included both for-sale and for-hold projects, today, we are emphasizing development of income-producing commercial real estate in Hawai'i. Where the Company owns lands for which the highest and best use is residential development or other for-sale product, we seek to monetize these land assets earlier in the development cycle. In addition, through our wholly owned subsidiary, Grace Pacific LLC ("Grace" or "GP"), the Company operates a materials and construction company in Hawai'i and, through McBryde Resources, LLC, owns and operates several renewable energy assets.

Our Company has a long history, deep relationships and a strong reputation in Hawai'i. In order to maximize value to shareholders and our communities, we are committed to working as "Partners for Hawai'i" and emphasizing investments and activities that enhance the quality of life in the Hawai'i community. Through this commitment and the underpinning of our vision, mission and values, which emphasize integrity and community, we have excelled throughout our 149-year history and have the opportunity to create value for our shareholders in the future.

The Company operates three segments: Commercial Real Estate; Land Operations; and Materials & Construction. A description of each of the Company's reporting segments follows:

Commercial Real Estate ("CRE"): includes leasing, property management, redevelopment and development-for-hold activities. Significant assets include improved commercial real estate and urban ground leases. Income from this segment is principally generated by leasing and operating real estate assets.

Land Operations: involves the management and optimization of A&B's land and related assets primarily through the following activities: planning, zoning, financing, constructing, selling, and investing in real property; leasing agricultural land; and renewable energy. Primary assets include landholdings, renewable energy assets (investments in hydroelectric and solar facilities and power purchase agreements) and development-for-sale projects and investments. Financial results from this segment are principally derived from renewable energy operations, income/loss from real estate joint ventures, real estate development sales and fees, and land parcel sales.

Materials & Construction ("M&C"): performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells basalt aggregate; produces and sells asphaltic concrete; provides and sells various construction- and traffic-control-related products; and manufactures and sells precast concrete products.

Assets

include two grade A (prime) rock quarries, an asphalt storage terminal, hot mix asphalt plants and quarry and paving equipment. Income is generated principally by materials supply and paving construction.

Proportionately, the CRE segment represents 68.8% of the Company's business, Land Operations represents 15.7% and Materials & Construction represents 13.4% (determined based upon segment assets as a percentage of total assets at December 31, 2018). Additional information about our business segments is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Notes to Consolidated Financial Statements," which are included elsewhere in this Form 10-K.

The Company's strategy is principally focused on:

- Growing recurring income streams by leveraging several sources of CRE portfolio growth, including effective leasing and property management, investments in repositioning and redevelopment of existing assets, ground-up development of new assets, purchase of new assets using tax-deferred exchange funds from land sales, and purchase of new assets using the Company's balance sheet;

- Monetization of development-for-sale pipeline and related investments;

- Employing landholdings at their highest and best use or monetizing them when realizable values exceed the NPV of alternative uses;

- Leveraging the Materials & Construction's segment's strong market position and vertical integration to increase earnings and cash flow; and

- Continuing to practice disciplined and prudent financial management and capital allocation to maintain balance sheet strength and financial flexibility.

Key strategic activities and initiatives by segment are discussed below.

Commercial Real Estate Strategy

Our commercial real estate strategy focuses on Hawai'i, where we benefit from the Company's deep relationships in the islands, as well as a market positioned for stability and growth, given the state's robust economic performance and lack of commercially-entitled lands. With a median household income nearly 28.9% above the U.S. national average, the lowest unemployment rate in the nation at 2.4%, solid personal income growth exceeding 2.0% per annum, and a comparatively low square footage of strip retail GLA per capita on Oahu, the Hawai'i retail market compares favorably with other top-tier retail markets in the U.S. Similarly, given the severe shortage of industrial land supply in Hawai'i, industrial market rents and per square foot values exceed those achieved in other U.S. markets, making Hawai'i a high-performing industrial market despite its geographic isolation. In addition to strong resident demographics and market fundamentals, the Hawai'i commercial real estate market is supported by a growing and resilient tourism industry as well as consistently high levels of government spending due to Hawai'i's strategic defense location between the U.S. and Asia. Therefore, as a result of the Company's Migration Strategy, not only have our assets been concentrated where management is best able to enhance portfolio performance, but the overall asset quality of our portfolio has significantly improved.

To further enhance asset quality and increase the recurring income stream from our commercial portfolio, the Company intends to:

- Grow income and optimize returns on A&B's commercial portfolio by:

- Being the landlord of choice by providing desirable locations, quality properties, landlord services and community amenities;

- Leveraging internal property management to efficiently manage operations and maximize cash returns;

- Executing effective marketing and leasing strategies that attract quality tenants in the marketplace and new tenants to Hawai'i by leveraging our position as the largest owner of grocery/drug anchored shopping centers in Hawai'i;

- Investing in the repositioning and redevelopment of existing assets at an appropriate risk-adjusted return on capital;

- Developing new commercial properties at an appropriate risk adjusted return on capital; and

- Selectively acquiring commercial real estate assets in Hawai'i markets at returns that exceed the Company's risk-adjusted cost of capital.

- Evaluate other commercial property investment opportunities, such as leased fee assets or other commercial real estate types, when the acquisitions are strategically consistent with the value creation objectives of the Company.

Land Operations Strategy

A&B strives to maximize value in its landholdings by employing land at its highest and best use to the benefit of shareholders, employees, its communities and other key stakeholder groups. Certain lands owned by the Company are designated for current or future urban uses and are in various stages of entitlement. For those lands, we intend to continue the entitlement processes and pursue either development of commercial real estate assets for our own portfolio, or monetization over time through sales of land or developed properties. In pursuit of these objectives, the Company intends to:

- Actively market and sell available development inventory;
- Entitle certain Hawai'i lands to respond to market demand while meeting community needs;
- Monetize development-for-sale assets when appropriate to manage risk and return and shift capital to CRE uses;
- Utilize joint venture structures and third-party capital when pursuit of development-for-sale projects is warranted; and
- Maintain a disciplined approach to risk management that includes careful assessment of market conditions/risks, prudent structuring of transactions, and maintaining fiscal discipline.

The Company also owns land that is not designated for development including agricultural lands, conservation/watershed lands, quarry sites and land underlying or supporting renewable energy assets. To employ these landholdings at their highest and best use, the Company intends to:

- Generate revenue by leasing or selling land to diversified agricultural producers;
- Maintain access to irrigation water to support current and future diversified agriculture activities; and
- Ensure the effective management and stewardship of watershed and supporting lands.

Materials & Construction Strategy

The Materials & Construction segment of A&B is principally comprised of its subsidiary Grace Pacific. GP is a diversified and vertically integrated construction materials and hot mix asphalt paving contractor based in Kapolei, Hawai'i with operations throughout the Hawaiian Islands. The majority of GP's paving operations serves public sector clients at the Federal, State and County/Municipal levels. GP owns seven hot-mix asphalt plants throughout the state that support its internal paving operations and third-party customers. GP also owns and operates a rock quarry and processing plant in Makakilo, Hawai'i that is strategically located on the west side of Oahu. Due to the high cost of transporting aggregate and the limited shelf life of asphaltic concrete once it is produced, GP's Makakilo quarry and hot mix plant are ideally located to service Oahu's growth areas.

GP's vertically integrated production model includes partial ownership of an import terminal for liquid asphalt. These additional resources ensure GP's access to raw materials and enable it to compete cost effectively. In addition, GP offers a variety of related for-sale and for-rent services including temporary and permanent roadway traffic control (GP Roadway Solutions), Microguard HVAC and tile coatings (GP Maintenance Solutions), custom signage (Peterson Sign Company), unistrut (Unistrut Hawai'i), and structural precast/prestressed concrete (GPRM Prestress). GP is a 50% owner of Maui Paving, LLC ("Maui Paving") which operates primarily on the island of Maui.

GP has undergone a review of operations over the past year, and certain improvements were identified that are expected to be implemented in 2019. In addition, as part of its broader intent to become a focused Hawai'i commercial real estate company, A&B is evaluating strategic options for the eventual monetization of some or all of the GP businesses. No timeline has been established for pursuit of these options.

Financial Strategy

The Company values a strong balance sheet with levels of debt and repayment schedules that would enable it to protect its ownership of assets through market cycles and to provide capital for opportunities to invest at attractive risk-adjusted returns.

To maintain this desired balance sheet posture, the Company intends to:

- Maintain a disciplined capital allocation strategy with a focus on investments that have attractive risk-adjusted returns relative to the Company's cost of capital.
- Continue to enhance leverage metrics through earnings growth and debt reduction;
- Ensure well-laddered debt maturities and minimize near-term maturing debt;
- Maintain a high proportion of fixed-rate debt and a longer weighted-average maturity; and
- Maintain a large unencumbered portfolio of assets

ITEM 2. PROPERTIES BY BUSINESS SEGMENTS

A. Commercial Real Estate Segment

A summary of GLA and Cash NOI¹ percentage by geographic location and property type as of and for the year ended December 31, 2018 were as follows:

	Current					
	GLA (sq.					
	ft.)					
Retail	2,238,500					
Industrial	1,115,800					
Office	143,600					
Total	3,497,900					
(\$ in thousands)						
	Cash NOI by Geography and Type ¹			Cash NOI as a % of Total Cash NOI ¹		
	Hawai`i	Mainland	Total	Hawai`i	Mainland	Total
Retail	\$56,525	\$ 548	\$57,073	65.2%	0.6%	65.8%
Industrial	12,822	516	13,338	14.8%	0.6%	15.4%
Office	4,191	446	4,637	4.8%	0.5%	5.3%
Ground	11,688	—	11,688	13.5%	—%	13.5%
Total	\$85,226	\$ 1,510	\$86,736	98.3%	1.7%	100.0%

¹ Refer to page 42 for a discussion of management's use of non-GAAP financial measures and the required reconciliation of non-GAAP measures to GAAP measures.

(1) Commercial Properties

A&B's commercial real estate portfolio consists of retail, industrial and office properties, comprising approximately 3.5 million square feet of GLA at December 31, 2018. Most of the commercial properties are located on Oahu and Maui, with smaller holdings on Kauai and the Island of Hawai`i. The occupancy for the portfolio was 92.4% and 93.5% at December 31, 2018 and 2017, respectively.

The commercial properties owned and their annualized base rent ("ABR") at December 31, 2018 were as follows:

Property	Island	Year Built/ Renovated	Current GLA (SF)	Occupancy	ABR (\$ in 000's)	ABR PSF
Retail:						
1 Pearl Highlands Center	Oahu	1992-1994	411,300	93.4%	\$9,777	\$26.11
2 Kailua Retail	Oahu	1947-2014, 2018	365,200	95.3%	11,596	35.84
3 Laulani Village	Oahu	2012	175,600	94.4%	6,121	36.91
4 Waianae Mall	Oahu	1975	170,300	87.4%	3,025	20.67
5 Manoa Marketplace	Oahu	1977	140,200	92.2%	4,304	33.83
6 Kaneohe Bay Shopping Center (Leasehold)	Oahu	1971	125,400	100.0%	3,050	24.32
7 Hokulei Village	Kauai	2015	119,200	98.4%	4,126	35.41
8 Waipio Shopping Center	Oahu	1986, 2004	113,800	95.6%	3,167	29.28
9 Aikahi Park Shopping Center	Oahu	1971	98,000	79.2%	1,711	22.05
10 The Shops at Kukui`ula	Kauai	2009	89,100	93.2%	4,206	52.06
11 Lanihau Marketplace	Hawai`i Island	1987	88,300	99.9%	1,850	20.96
12 Kunia Shopping Center	Oahu	2004	60,600	95.1%	2,120	39.65
13 Kahului Shopping Center	Maui	1951	45,300	96.9%	655	14.92
14 Napili Plaza	Maui	1991	45,600	73.0%	1,058	31.78
15 Gateway at Mililani Mauka	Oahu	2008, 2013	34,900	97.7%	1,827	53.63
16 Port Allen Marina Center	Kauai	2002	23,600	92.0%	574	26.49
17 The Collection	Oahu	2017	12,000	100.0%	98	54.02
18 Pu`unene Shopping Center	Maui	2017	120,100	N/A	—	—
Subtotal – Retail			2,238,500	93.4%	\$59,265	\$30.83
Industrial:						
19 Komohana Industrial Park	Oahu	1990	238,300	81.2%	\$2,422	\$12.52
20 Kaka`ako Commerce Center	Oahu	1969	193,900	90.4%	2,626	15.08
21 Waipio Industrial	Oahu	1988-1989	158,400	100.0%	2,493	15.84
22 Opule Street Industrial	Oahu	2005-2006, 2018	151,500	N/A	—	—
23 P&L Warehouse	Maui	1970	104,100	90.9%	1,345	14.33
24 Honokohau Industrial	Hawai`i Island	2004-2006, 2008	85,700	98.3%	1,012	12.02
25 Kailua Industrial/Other	Oahu	1951-1974	69,000	89.7%	964	16.07
26 Port Allen	Kauai	1983, 1993	63,800	100.0%	702	11.00
27 Harbor Industrial	Maui	1930	51,100	72.2%	425	11.53
Subtotal – Industrial			1,115,800	90.1%	\$11,989	\$13.88
Office:						
28 Kahului Office Building	Maui	1974	59,400	93.2%	\$1,597	\$29.40
29 Gateway at Mililani Mauka South	Oahu	1992, 2006	37,100	100.0%	1,638	44.10
30 Kahului Office Center	Maui	1991	33,400	85.2%	687	25.83
31 Lono Center	Maui	1973	13,700	100.0%	311	22.76
Subtotal – Office			143,600	93.8%	\$4,233	\$32.14
Total – Hawai`i Portfolio			3,497,900	92.4%	\$75,487	\$25.87

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A&B also has a portfolio of commercial ground leases at December 31, 2018, as follows:

Ground Leases *	Location (City, Island)	Acres	Property Type	Exp. Year	Current ABR	Next Rent Step	Step Type	Next ABR (\$ in \$000)	Previous Rent Step	Previous Step Type	Previous ABR (\$ in \$000)
#1	Kaneohe, Oahu	15.4	Retail	2035	\$2,800	2023	FMV Reset	FMV 2017		Fixed Step	\$2,100
#2	Honolulu, Oahu	2.8	Retail	2040	1,344	2020	FMV Reset	FMV 2016		Fixed Step	1,296
#3	Kaneohe, Oahu	3.7	Retail	2048	990	2023	Fixed Step	1,059	2018	Option	694
#4	Kailua, Oahu	3.4	Retail	2062	753	2022	Fixed Step	963	2012	FMV Reset	160
#5	Pu`unene, Maui	52.0	Industrial	2034	751	2019	FMV Reset	FMV 2014		Fixed Step	626
#6	Kailua, Oahu	1.6	Retail	—	565	Month-to-Month	Month-to-Month	—	2017	Option	538
#7	Kailua, Oahu	2.2	Retail	2062	485	2022	Fixed Step	621	2012	FMV Reset	unknown
#8	Honolulu, Oahu	0.5	Retail	2028	340	2019	Fixed Step	348	2018	Fixed Step	252
#9	Honolulu, Oahu	0.5	Parking	2023	310	2019	Fixed Step	319	2018	Fixed Step	270
#10	Kailua, Oahu	1.2	Retail	2022	237	—	—	—	2013	FMV Reset	120
#11	Kahului, Maui	0.8	Retail	2026	235	2019	Fixed Step	242	2018	Fixed Step	228
#12	Kahului, Maui	0.4	Retail	2020	207	2019	Fixed Step	214	2018	Fixed Step	201
#13	Kailua, Oahu	3.3	Office	2037	200	2022	FMV Reset	FMV 2012		Negotiated	100
#14	Kahului, Maui	0.8	Industrial	2020	192	2019	Fixed Step	200	2018	Fixed Step	183
#15	Kailua, Oahu	0.9	Retail	2033	181	2019	FMV Reset	FMV 2014		Fixed Step	167
#16	Kahului, Maui	0.5	Retail	2029	168	2019	Fixed Step	173	2018	Fixed Step	163
#17	Kahului, Maui	0.4	Retail	2027	158	2022	Fixed Step	181	2017	Negotiated	128
#18	Kailua, Oahu	0.4	Retail	2022	144	2019	Fixed Step	151	2018	Negotiated	130
#19	Kailua, Oahu	0.4	Retail	2026	126	—	—	—	2017	Negotiated	63
#20	Kailua, Oahu	0.3	Retail	2026	110	—	—	—	2017	Negotiated	77
Remainder Total	Various	17.2 108.7	Various	Various	1,263 \$11,559	Various	Various				

* Excludes intersegment ground leases, primarily from our Materials & Construction segment, which are eliminated in our consolidated results of operations.

(2) Tenant Concentrations

A&B's top ten tenants at December 31, 2018 (ranked by ABR) were as follows:

Tenant (a)	ABR (\$ in 000's)	% of Total Portfolio ABR	GLA (SF)	% of Total Portfolio GLA
Albertsons Companies (including Safeway)	\$4,470	5.9 %	226,208	6.4 %
Sam's Club	3,308	4.4 %	180,908	5.2 %
CVS Corporation (including Longs Drugs)	2,697	3.6 %	150,411	4.3 %
Foodland Supermarket & related companies	2,033	2.7 %	114,739	3.2 %
Ross Dress for Less	1,795	2.4 %	65,484	1.9 %
Coleman World Group	1,780	2.4 %	115,495	3.3 %
Ulta Salon, Cosmetics, & Fragrance, Inc.	1,508	2.0 %	33,985	1.0 %
24 Hour Fitness USA	1,375	1.8 %	45,870	1.3 %
Petco Animal Supplies Stores	1,316	1.7 %	34,282	1.0 %
Whole Foods Market	1,210	1.6 %	31,647	0.9 %
Total	\$21,492	28.5 %	999,029	28.5 %

(a) Excludes intersegment ground leases, primarily from the Materials & Construction segment, which are eliminated in consolidated results.

(3) Lease Expirations

The Company's schedule of lease expirations for its total portfolio is as follows:

Expiration Year	Number of Leases	ABR Expiring (\$ in 000's)	% of Total Portfolio Expiring ABR	Square Footage of Expiring Leases	% of Total Portfolio Leased GLA
2019	133	\$8,276	9.7%	308,681	10.4%
2020	144	10,800	12.7%	433,778	14.5%
2021	129	11,666	13.7%	508,622	17.2%
2022	107	10,400	12.2%	335,294	11.2%
2023	98	8,045	9.4%	242,186	8.1%
2024	26	7,864	9.2%	313,726	10.5%
2025	22	3,450	4.0%	90,348	3.0%
2026	11	1,689	2.0%	35,424	1.2%
2027	12	3,031	3.6%	108,826	3.6%
Thereafter	50	16,889	19.8%	456,053	15.3%
Month-to-month	77	3,167	3.7%	149,357	5.0%
Total	809	\$85,277	100%	2,982,295	100%

B. Land Operations Segment

A&B's Land Operations segment creates value through actively deploying the Company's land and real estate-related assets to their highest and best use, and monetizing developments and land assets as appropriate. Primary activities of the Land Operations segment include managing and leasing agricultural land; stewarding conservation lands; planning, zoning, financing, constructing, purchasing, managing, selling, and investing in real property; and operating, investing in or leasing land for renewable energy assets.

At December 31, 2018, A&B owned 45,348 acres as follows:

Type	Segment	Maui	Kauai	Oahu	Molokai	Hawai'i Island	Total Acres
Land under commercial properties/ urban ground leases	CRE	99	33	206	—	15	353
Land in active development	CRE/Land Operations	188	—	2	—	—	190
Land used in other operations	Land Operations	21	20	—	—	—	41
Urban land, not in active development/use							
Developable, with full or partial infrastructure	Land Operations	146	7	—	—	—	153
Developable, with limited or no infrastructure	Land Operations	186	29	—	—	—	215
Other	Land Operations	12	6	—	—	—	18
Subtotal - Urban land, not in active development		344	42	—	—	—	386
Agriculture-related							
Agriculture	Land Operations	8,600	6,358	75	—	—	15,033
In urban entitlement process	Land Operations	357	260	—	—	—	617
Conservation & preservation	Land Operations	14,103	13,309	509	—	—	27,921
Subtotal - Agriculture-related		23,060	19,927	584	—	—	43,571
Materials & Construction	M&C	1	—	542	264	—	807
Total Landholdings		23,713	20,022	1,334	264	15	45,348

In December 2018, A&B sold approximately 41,000 acres of agricultural land located on the island of Maui to Mahi Pono, LLC, a third-party entity. In connection with the sale, on February 1, 2019, the Company sold 50% of its interest in East Maui Irrigation Company, LLC, which includes approximately 15,000 acres of agriculture-related land.

(2) Development-for-sale Projects

The Company has an active development pipeline encompassing primary residential, resort residential and light industrial lots for sale across the State of Hawai'i. The following is a summary of the Company's real estate development-for-sale portfolio at December 31, 2018:

Project	Location	Product Type	Est. Economic Interest	Planned Units or Saleable Acres	Units/ Acres Closed	Target Sales Price Range per SF/per Unit for Remaining	(\$ in millions)	
							Est. Total Project/ Investment Cost	A&B Gross Investment (Life to Date)
Wholly Owned:								
Kahala Avenue Portfolio	Honolulu, Oahu	Residential	100%	17.0 acres	14.0 acres	\$150-\$385	\$ 135.0	\$ 134.0
Kamalani (Increment 1)	Kihei, Maui	Primary residential	100%	170 units	126 units	\$432	\$60.0	\$ 54.0
Maui Business Park (Phase II)	Kahului, Maui	Light industrial lots	100%	125.0 acres	35.0 acres	\$38-\$60	\$77.0	\$ 59.0
Joint Ventures:								
Kukui`ula	Poipu, Kauai	Resort residential	85% +/- 5%	1,425 units	191 units	\$1.1M per unit	\$ 1,071.0	\$ 323.0
Other Kukui`ula Related Investments	Poipu, Kauai	Resort residential	75% +/- 5%	60 units	49 units	\$3.0M per unit	\$ 118.0	\$ 58.4

Kahala Avenue Portfolio: The Kahala Avenue Portfolio, on Oahu, was acquired for \$128 million in 2013, primarily consisting of 30 properties totaling 17 acres in the prestigious Kahala neighborhood of East Honolulu. Through December 31, 2018, cumulative revenue from sales totaled \$162.9 million. At December 31, 2018, 14.0 acres were sold, and 5 lots totaling 3.0 acres remain available.

Kamalani: Increment 1 of A&B's Kamalani project is a 630-unit residential project on 95 acres in Kihei, Maui. Preliminary subdivision approval was secured in April 2015. Grading and site-work on the 170-unit Increment 1 commenced in 2016. At December 31, 2018, 44 units remained available for sale. As of February 28, 2019 the 44 remaining units were all under contract to be sold.

Maui Business Park: Maui Business Park II ("MBP II") represents the second phase of the Company's Maui Business Park project in Kahului, Maui. MBP II is zoned for light industrial, retail and office use. At December 31, 2018, approximately 90 saleable acres remain available.

Kukui`ula and Other Kukui`ula Related Investments: In April 2002, A&B entered into a joint venture with DMB Communities II ("DMBC"), an affiliate of DMB Associates, Inc. ("DMB"), an Arizona-based developer of master-planned communities, for the development of Kukui`ula on acreage that consisted of historical A&B landholdings. As of December 31, 2018, total capital contributed to the project was approximately \$323.0 million, which included \$30.0 million representing the value of land initially contributed by the Company. As of December 31, 2018, DMB has contributed approximately \$195.0 million. In 2018, the joint venture recorded 28 sales of lots or homes.

Other Kukui`ula Related Investments includes joint venture investments in three vertical construction, development-for-sale projects at Kukui`ula, as well as notes receivable from a Kukui`ula development-for-sale project.

(3) Renewable Energy

A&B is actively involved in the renewable energy field. It has renewable hydroelectric and solar power facilities on Kauai, operated by its wholly-owned subsidiary, McBryde Resources, Inc. ("McBryde"), and has invested over \$37 million in solar projects on Kauai and Oahu.

In 2018, an estimated 23% of the energy used by Kauai residents was produced through renewable energy facilities that A&B operates, invests in, or leases the underlying land to third-party renewable energy operators. Through its own projects, investments and land leases, A&B played an important part in Kauai's achievement of 50% renewable energy in 2018.

McBryde produced 25,753 MWH of hydroelectric power (compared to 27,019 MWH in 2017) and 11,203 MWH of solar power from its Port Allen Solar Facility (compared with 11,056 MWH in 2017). To the extent it is not used in A&B-related operations, McBryde sells electricity to Kauai Island Utility Cooperative ("KIUC"). Power sales in 2018 amounted to 31,800 MWH (compared with 30,861 MWH in 2017).

In 2018, prior to the sale of its hydroelectric power facilities on Maui in conjunction with the sale of certain agricultural landholdings to Mahi Pono, the Company generated a limited amount of hydroelectric power in connection with irrigation operations to support diversified agricultural activities on Maui. The power was used in A&B-related operations, with any unused power being supplied for use by the Maui community. The Maui hydro-electric facility was sold in December 2018.

C. Materials & Construction

(1) Quarries and Quarry Facilities

Grace owns 542 acres in Makakilo, Oahu, approximately 200 acres of which are used for its quarrying operations. Approximately 718,000 tons of rock were mined and processed by Grace in 2018. The operation of the quarry is governed by special and conditional use permits, which allow Grace to extract aggregate through 2032. Grace also owns approximately 264 acres on Molokai, which are licensed to a third-party operator for quarrying operations.

(2) Equipment

Grace owns approximately 850 pieces of on- and off-highway rolling stock, which consist of heavy duty trucks, passenger vehicles and various road paving, quarrying and operations equipment. Additionally, Grace owns approximately 580 pieces of non-rolling stock items used in its operations, such as generators, transit tankers, light towers, message boards and nuclear gauges. The Materials & Construction segment has six rock crushing plants and seven asphaltic concrete plants (three on Oahu, one on Maui, one on Kauai, one on the Island of Hawai'i, and one on Molokai).

(3) Backlog

A change in the way local government entities are contracting for paving services has reduced the amount of paving work that meets the definition of backlog. Certain counties are now awarding "maintenance contracts" under which a contractor can secure all paving work within a certain geographic area, but jobs are not identified in advance, meeting the requirement for inclusion in backlog. This contributes, in part, to the year-over-year declines shown here in backlog.

At December 31, 2018, total backlog, including the backlog of Grace, GPRS, GP/RM Prestress, LLC ("GP/RM") and Maui Paving, a 50-percent-owned unconsolidated affiliate, was approximately \$128.7 million, compared to \$202.1 million at December 31, 2017. For purposes of calculating backlog, the entire estimated revenue attributable to Grace's consolidated subsidiaries and the entire backlog of Maui Paving, which was approximately \$4.1 million and \$10.6 million at December 31, 2018 and 2017, respectively, were included. Backlog represents the amount of revenue that Grace and Maui Paving expect to realize on contracts awarded or on government contracts in which Grace has been confirmed to be the lowest bidder and formal communication of the award is deemed to be perfunctory at the time of this disclosure. Circumstances outside the Company's control such as procurement or technical protests may arise that prevent the finalization of such contracts.

The length of time that projects remain in backlog can span from a few days for a small volume of work to approximately 36 months for large paving contracts and contracts performed in phases. Backlog includes estimated revenue from the remaining portion of contracts not yet completed, as well as revenue from approved change orders.

Employees and Labor Relations

As of December 31, 2018, A&B and its subsidiaries had 875 regular full-time employees, as compared to 836 regular full-time employees in the prior year. At the end of 2018, the Company's Materials & Construction segment employed 639 regular full-time employees. Approximately 51% of A&B's employees are covered by collective bargaining agreements with unions.

The 18 bargaining unit employees at Kahului Trucking & Storage, Inc. ("KT&S") are covered by a collective bargaining agreement with the ILWU that expires on March 31, 2021. There are two collective bargaining agreements with 19 A&B Fleet

Services employees on the Big Island and Kauai, represented by the ILWU. Both the Kauai and Big Island agreements expire on August 31, 2020.

A collective bargaining agreement with the International Union of Operating Engineers AFL-CIO, Local Union 3 (“IUOE”) covers 180 of Grace’s employees, who are primarily classified as heavy-duty equipment operators, paving construction site workers, quarry workers, truck drivers and mechanics. The agreement expires on September 2, 2019. Collective bargaining agreements with Laborers International Union of North America Local 368 (“Laborers”) cover 221 Grace employees. The traffic and rentals Laborers’ agreement expires on August 31, 2021; the precast/prestress concrete Laborers’ agreement expires on August 31, 2019; and the Laborers’ agreement with fence, guardrail and sign installation workers expires on September 30, 2019.

A collective bargaining agreement with the Hawai‘i Regional Council of Carpenters, United Brotherhood of Carpenters and Joiners of America, and its Affiliated Local Unions and General Contractors Labor Association and the Building Industry Labor Association of Hawai‘i (“Carpenters”) cover 16 Grace employees. The Carpenters agreement expires on August 31, 2019.

Available Information

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

The SEC maintains a website at www.sec.gov, which contains reports, proxy and information statements, and other information regarding A&B and other issuers that file electronically with the SEC.

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

ITEM 1A. RISK FACTORS

A&B’s business and its common stock are subject to a number of risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Form 10-K and the Company’s filings with the U.S. Securities and Exchange Commission. The risks and uncertainties faced by A&B are not limited to those described below, nor are they listed in order of significance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may affect our business. Additional risks and uncertainties not presently known to A&B or that it currently believes to be immaterial may also materially adversely affect A&B’s business, liquidity, financial condition, results of operation and cash flows. This Form 10-K also contains forward-looking statements that involve risks and uncertainties.

If any of the following events occur, A&B’s business, liquidity, financial condition, results of operations and cash flows could be materially adversely affected, and the trading price of A&B common stock could materially decline.

Risks Related to REIT Status

Qualification as a REIT involves highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the “Code”).

Qualification as a REIT involves the application of highly technical and complex Code provisions to our operations and finances, as well as various factual determinations concerning matters and circumstances not entirely within our control. There are only limited judicial and administrative interpretations of these provisions. Even a technical or inadvertent violation could jeopardize our REIT qualification. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence.

If we fail to remain qualified as a REIT, we would be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our shareholders.

We have determined that we operated in compliance with the REIT requirements commencing with the taxable year ended December 31, 2017. Our qualification and taxation as a REIT depends on our ability to meet, on a continuing basis, various requirements concerning, among other things, the sources of our income, the nature of our assets, the diversity of our share ownership and the amounts we distribute to our shareholders. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Although we intend to operate in a manner consistent with the REIT requirements, we cannot assure you that we will remain so qualified. If, in any taxable year, we fail to qualify as a REIT, we would be subject to U.S. federal and state income tax on our taxable income at regular corporate rates, and we would not be allowed a deduction for distributions to shareholders in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which, in turn, could have an adverse impact on the value of our common stock. In addition, unless we are entitled to relief under certain Code provisions, we also would be disqualified from re-electing REIT status for the four taxable years following the year in which we failed to qualify as a REIT.

Our significant use of taxable REIT subsidiaries (“TRSs”) may cause us to fail to qualify as a REIT.

The net income of our TRSs is not required to be transferred to us, and such TRS income that is not transferred to us is generally not subject to our REIT distribution requirements. However, if the accumulation of cash or reinvestment of significant earnings in our TRSs causes the fair market value of our securities in those entities, taken together with other non-qualifying assets, to represent more than 25% of the fair market value of our total assets, or causes the fair market value of our TRS securities alone to exceed 20% of the fair market value of our total assets, in each case as determined for REIT asset testing purposes, we would, absent timely responsive action, fail to qualify as a REIT.

Complying with the REIT requirements may cause us to sell assets or forgo otherwise attractive investment opportunities.

To maintain our qualification as a REIT, we must continually satisfy various requirements concerning, among other things, the nature of our assets, the sources of our income and the amounts we distribute to our shareholders. For example, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our total assets consists of some combination of “real estate assets” (as defined in the Code), cash, cash items and U.S. government securities. The remainder of our investments (other than government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to sell assets or forgo otherwise attractive investment opportunities. These actions could have the effect of reducing our income, amounts available for distribution to our shareholders and amounts available for making payments on our indebtedness.

We may be required to borrow funds, sell assets or raise equity to satisfy our REIT distribution requirements, which could adversely affect our ability to execute our business plan and grow.

We generally must distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, to maintain our qualification as a REIT. To the extent that we satisfy this distribution requirement and qualify as a REIT but distribute less than 100% of our REIT taxable income, including any net capital gains, we will be subject to tax at ordinary corporate tax rates on the retained portion. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code and avoid corporate income tax and the 4% annual excise tax.

From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity or adversely impact our ability to raise short- and long- term debt. Furthermore, the REIT distribution requirements may increase the financing we need to fund capital expenditures and further growth and expansion

initiatives. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Whether we issue equity, at what price and the amount and other terms of any such issuances will depend on many factors, including alternative sources of capital, our then-existing leverage, our need for additional capital, market conditions and other factors beyond our control. If we raise additional funds through the issuance of equity securities or debt convertible into equity securities, the percentage of stock owned by our existing shareholders may be reduced. In addition, new equity securities or convertible debt securities could have rights, preferences and privileges senior to those of our current shareholders, which could substantially decrease the value of our securities owned by them. Depending on the share price we are able to obtain, we may have to sell a significant number of shares to raise the capital we deem necessary to execute our long-term strategy, and our shareholders may experience dilution in the value of their shares as a result.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to income from “qualified dividends” payable to U.S. shareholders that are individuals, trusts and estates is currently 20%, exclusive of the 3.8% investment tax surcharge. Dividends payable by REITs, however, generally are not eligible for the reduced rates applicable to qualified dividends. Although these rules do not adversely affect the taxation of REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. However, for taxable years that begin after December 31, 2017 and before January 1, 2026, shareholders that are individuals, trusts or estates are generally entitled to a deduction equal to 20% of the aggregate amount of ordinary income dividends received from a REIT, subject to certain limitations.

The REIT ownership limitations and transfer restrictions contained in our articles of incorporation may restrict or prevent you from engaging in certain transfers of our common stock, could have unintended antitakeover effects, and may not be successful in preserving our qualification for taxation as a REIT.

For us to remain qualified for taxation as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, beneficially or constructively, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year beginning with our 2018 taxable year. Also, our capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year beginning with our 2018 taxable year. In addition, a person actually or constructively owning 10% or more of the vote or value of the shares of our capital stock could lead to a level of affiliation between the Company and one or more of its tenants that could cause our revenues from such affiliated tenants to not qualify as rents from real property.

Subject to certain exceptions, our articles of incorporation prohibit any stockholder from owning beneficially or constructively more than (i) 9.8% in value of the outstanding shares of all classes or series of our capital stock or (ii) 9.8% in value or number, whichever is more restrictive, of the outstanding shares of any class or series of our capital stock. The constructive ownership rules under the Code are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of our outstanding common stock (or the outstanding shares of any class or series of our stock) by an individual or entity could cause that individual or entity or another individual or entity to own constructively in excess of the relevant ownership limits. Any attempt to own or transfer shares of our common stock or of any of our other capital stock in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

We refer to these restrictions collectively as the “ownership limits” and we included them in our articles of incorporation to facilitate our compliance with REIT tax rules. These ownership limitations may prevent you from engaging in certain transfers of our common stock. Even though our articles of incorporation contain the ownership limits, there can be no assurance that these provisions will be effective to prevent our qualification for taxation as a REIT from being jeopardized, including under the affiliated tenant rule. Furthermore, there can be no assurance that we will be able to enforce the ownership limits. If the restrictions in our articles of incorporation are not effective and as a result

we fail to satisfy the REIT tax rules described above, then absent an applicable relief provision, we will fail to remain qualified for taxation as a REIT.

The ownership limitations and transfer restrictions contained in our articles of incorporation may delay, deter or prevent a transaction or a change in control that might involve a premium price for our stock or otherwise be in the best interests of our shareholders. As a result, the overall effect of the ownership limitations and transfer restrictions may be to render more difficult or discourage any attempt to acquire us, even if such acquisition may be favorable to the interests of our shareholders. This potential inability to obtain a premium could reduce the price of our common stock.

Our cash distributions are not guaranteed and may fluctuate.

A REIT generally is required to distribute at least 90% of its REIT taxable income to its shareholders (determined without regard to the dividends paid deduction and excluding any net capital gains). Generally, we expect to distribute all or substantially all of our REIT taxable income, including net capital gains, so as to not be subject to the income or excise tax on undistributed REIT taxable income. Our board of directors, in its sole discretion, will determine on a quarterly basis the amount of cash to be distributed to our shareholders based on a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions, that may impose limitations on cash payments and plans for future acquisitions and divestitures. Consequently, our distribution levels may fluctuate. Certain of our business activities may be subject to corporate level income tax and other taxes, which would reduce our cash flows, and would cause potential deferred and contingent tax liabilities.

Our TRS assets and operations will continue to be subject to U.S. federal income taxes at regular corporate rates. We also may be subject to a variety of other taxes, including payroll taxes and state, local, and foreign income, property, transfer and other taxes on assets and operations. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax, which could be significant in amount, in order to utilize one or more relief provisions under the Code to maintain qualification for taxation as a REIT. We also could incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm's length basis, or we also could be subject to tax in situations and on transactions not presently contemplated. Any of these taxes would decrease our earnings and our available cash. If we dispose of an asset held at the REIT level during our first five years as a REIT and do not execute a qualifying tax-deferred exchange, we also will be subject to a federal and state corporate level tax on the gain recognized from such sale, up to the amount of the built-in gain that existed on January 1, 2017, which is based on the fair market value of such asset in excess of our tax basis in such asset as of January 1, 2017. We currently do not expect to sell any asset if the sale would result in the imposition of a material tax liability. We cannot, however, assure you that we will not change our plans in this regard.

In addition, the Internal Revenue Service ("IRS") and any state or local tax authority may successfully assert liabilities against us for corporate income taxes for taxable years prior to the time we qualified as a REIT, in which case we will owe these taxes plus applicable interest and penalties, if any. Moreover, any increase in taxable income for these pre-REIT periods will likely result in an increase in pre-REIT accumulated earnings and profits, which could cause us to pay an additional taxable distribution to our shareholders after the relevant determination.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. The term "prohibited transaction" generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of our trade or business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a prohibited transaction for U.S. federal income tax purposes.

We intend to conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% prohibited transaction tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to prevent prohibited transaction characterization.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to maintain our qualification as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs are constantly under review by persons involved in the legislative process, the

IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. We cannot predict how changes in the tax laws might affect our investors or us. Revisions in U.S. federal tax laws and interpretations thereof could significantly and negatively affect our ability to qualify as a REIT and the tax considerations relevant to an investment in us, or could cause us to change our investments and commitments.

You are urged to consult with your tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our stock.

Changes to the Hawai`i tax code could result in increased state-level taxation of REITs doing business in Hawai`i or mandated state-level withholding of taxes on REIT dividends.

The Hawai`i State legislature has recently considered legislation that would eliminate the REIT dividends paid deduction for Hawai`i State income tax purposes for income generated in Hawai`i for a number of years or permanently. Such a repeal could result in double taxation of REIT income in Hawai`i under the Hawai`i tax code, reduce returns to shareholders and make our stock less attractive to investors, which could in turn lower the value of our stock. The Hawai`i State legislature also has considered mandating withholding of Hawai`i State income tax on dividends paid to out-of-state shareholders. Such shareholders may not be able to receive a credit of these taxes from their home state, thereby resulting in double taxation of such dividends. This could reduce returns to shareholders and make our stock less attractive to investors, which could in turn lower the value of our stock.

The ability of our board of directors to revoke our REIT qualification, without shareholder approval, may cause adverse consequences to our shareholders.

Our articles of incorporation provide that the board of directors may revoke or otherwise terminate our REIT election, without the approval of our shareholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to shareholders in computing our taxable income, and we will be subject to U.S. federal income tax at regular corporate rates, which may have adverse consequences on our total return to our shareholders.

We have limited experience operating as a REIT, which may adversely affect our financial condition, results of operations, cash flow and ability to satisfy debt service obligations, as well as the per share trading price of our common stock.

We began operating in compliance with the REIT requirements commencing with the taxable year ended December 31, 2017. Accordingly, our senior management team has limited experience operating a REIT, and we cannot assure you that our past operating experience will be sufficient to operate our company successfully as a REIT. Our limited experience operating as a REIT could, by adversely affecting our ability to remain qualified as a REIT or otherwise, adversely affect our financial condition, results of operations, cash flow and ability to satisfy debt service obligations, as well as the per share trading price of our common stock.

Risks Related to Our Business

Changes in economic conditions, particularly in Hawai`i, may adversely affect our Commercial Real Estate, Land Operations, and Materials & Construction segments.

Our business, including our assets and operations, is concentrated in Hawai`i, which exposes us to greater risks than if our assets and operations were more diversely located. A weakening of economic drivers in Hawai`i, which include tourism, military and consumer spending, public and private construction starts and spending, personal income growth, and employment, or the weakening of consumer confidence, market demand, or economic conditions on the Mainland and elsewhere, may adversely affect the level of real estate leasing activity in Hawai`i, the demand for or sale of Hawai`i real estate, and demand for our materials and construction products. In addition, an increase in interest rates or other factors could reduce the market value of our real estate holdings, as well as increase the cost of buyer financing that may reduce the demand for our real estate assets.

We may face new or increased competition.

There are numerous other developers, buyers, managers and owners of commercial and residential real estate and undeveloped land that compete or may compete with us for management and leasing revenues, land for development, properties for acquisition and disposition, and for tenants and purchasers of properties. Intense competition could lead to increased vacancies, increased tenant incentives, decreased rents, sales prices or sales volume, or lack of

development opportunities.

Grace Pacific competes in an industry that favors the lowest bid. Increasing competitive market conditions, including out-of-state or new in-state contractors competing for a limited number of projects available, could adversely impact our results of operations through market share erosion due to lost bids, as well as lower pricing and thus lower margins realized on successful

bids. Grace also mines aggregate and imports asphalt for sale. Grace's customers could seek alternative sources of supply, similar to some of its competitors that are importing liquid asphalt and aggregate.

We may face potential difficulties in obtaining operating and development capital.

The successful execution of our strategy requires substantial amounts of operating and development capital. Sources of such capital could include banks, life insurance companies, public and private offerings of debt or equity, including rights offerings, sale of certain assets and joint venture partners. If our credit profile deteriorates significantly, our access to the debt capital markets or our ability to renew our committed lines of credit may become restricted, the cost to borrow may increase, or we may not be able to refinance debt at the same levels or on the same terms. Further, we rely on our ability to obtain and draw on a revolving credit facility to support our operations. Volatility in the credit and financial markets or deterioration in our credit profile may prevent us from accessing funds. There is no assurance that any capital will be available on terms acceptable to us or at all to satisfy our short or long-term cash needs.

We may raise additional capital in the future on terms that are more stringent to us, that could provide holders of new issuances rights, preferences and privileges that are senior to those currently held by our common stockholders, or that could result in dilution of common stock ownership.

To execute our business strategy, we may require additional capital. If we incur additional debt or raise equity, the terms of the debt or equity issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of any new debt may also impose additional and more stringent restrictions on our operations than currently in place. If we issue additional common equity, either through public or private offerings or rights offerings, your percentage ownership in us would decline if you do not participate on a ratable basis.

Failure to comply with certain restrictive financial covenants contained in our credit facilities could impose restrictions on our business segments, capital availability or the ability to pursue other activities.

Our credit facilities and term debt contain certain restrictive financial covenants. If we breach any of the covenants and such breach is not cured in a timely manner or waived by the lenders, and results in default, our access to credit may be limited or terminated and the lenders could declare any outstanding amounts immediately due and payable. Increasing interest rates would increase our overall interest expense.

Interest expense on our floating-rate debt (\$196.4 million as of December 31, 2018) would increase if interest rates rise. Additionally, the interest expense associated with fixed-rate debt could rise in future periods when the debt matures and is refinanced. Furthermore, the value of our commercial real estate portfolio and the market price of our stock could decline if market interest rates increase and investors seek alternative investments with higher distribution rates.

Our significant agreements and leases could be replaced on less favorable terms or may not be replaced.

Our various businesses have significant agreements and leases that expire at various points in the future. These agreements and leases may not be renewed or could be replaced on less favorable terms.

An increase in fuel prices may adversely affect our operating environment and costs.

Fuel prices have a direct impact on the health of the Hawai'i economy. Increases in the price of fuel may result in higher transportation costs to Hawai'i and adversely affect visitor counts and the cost of goods shipped to Hawai'i, thereby affecting the strength of the Hawai'i economy and its consumers. Increases in fuel costs also can lead to other non-recoverable, direct expense increases to us through, for example, increased costs of energy and petroleum-based raw materials used in the production of aggregate, and the manufacture, transportation, and placement of hot mix asphalt. Increases in energy costs for our leased real estate portfolio are typically recovered from lessees, although our share of energy costs increases as a result of lower occupancies, and higher operating cost reimbursements impact the ability to increase underlying rents. Rising fuel prices also may increase the cost of construction, including delivery costs to Hawai'i, and the cost of materials that are petroleum-based, thus affecting our real estate development projects and margins.

Noncompliance with, or changes to, federal, state or local law or regulations may adversely affect our business.

We are subject to federal, state and local laws and regulations, including government rate, land use, environmental and tax regulations. Noncompliance with, or changes to, the laws and regulations governing our business could impose significant additional costs on us and adversely affect our financial condition and results of operations. For example,

the real estate segments are subject to numerous federal, state and local laws and regulations, which, if changed, or not complied with may adversely affect

our business. We frequently utilize §1031 of the Code to defer taxes when selling qualifying real estate and reinvesting the proceeds in replacement properties. This often occurs when we sell bulk parcels of land in Hawai'i or commercial properties in Hawai'i, all of which typically have a very low tax basis. A repeal of or adverse amendment to §1031 of the Code, which has often been considered by Congress, could impose significant additional costs on us. We are subject to Occupational Safety and Health Administration regulations, Environmental Protection Agency regulations, and state and county permits related to our operations. The Materials & Construction segment is additionally subject to Mine Safety and Health Administration regulations.

Changes to, or our violation of or inability to comply with any of the laws, regulations and permits mentioned above could increase our operating costs or ability to operate the affected line of business.

Work stoppages or other labor disruptions by our unionized employees or those of other companies in related industries may increase operating costs or adversely affect our ability to conduct business.

As of December 31, 2018, approximately 51% of our regular full-time employees were covered by collective bargaining agreements with unions. We may be adversely affected by actions taken by our employees or those of other companies in related industries against efforts by management to control labor costs, restrain wage or benefits increases or modify work practices. Strikes and disruptions may occur as a result of our failure or that of other companies in our industry to negotiate collective bargaining agreements with such unions successfully. For example, in our Materials & Construction segment, a labor disruption resulting from a unionized workforce stoppage may significantly impede our production and ability to complete projects that are in process. Additionally, in our Land Operations segment, we may be unable to complete construction of a development-for-sale project if building materials or labor are unavailable due to labor disruptions in the relevant trade groups.

The loss of or damage to key vendor and customer relationships may impact our ability to conduct business and adversely affect our profitability.

Our business is dependent on our relationships with key vendors, customers and tenants. The loss of or damage to any of these key relationships may impact our ability to conduct business and adversely affect our profitability.

Interruption, breaches or failure of our information technology and communications systems could impair our ability to operate, adversely affect our financial condition, and damage our reputation.

We rely extensively on information technology and communication systems to process transactions and to operate and manage our business. Information technology and communication systems are subject to reliability issues, integration and compatibility concerns, and cybersecurity-threatening intrusions. Further, we may experience failures caused by the occurrence of a natural disaster, terrorism, war, the intentional or inadvertent acts and errors by our employees or vendors, or other problems at our facilities. Despite our implementation of security measures, there can be no assurance that our efforts to maintain the security and integrity of our systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. Any failure, or security breaches, of our systems could result in improper uses of our systems and networks and interruptions in our operations, which in turn could have a material adverse effect on our income, cash flow, results of operations, financial condition, liquidity, and reputation. We may incur significant costs to remedy damages caused by disruptions to our systems. Similarly, our vendors and tenants rely extensively on computer systems to process transactions and manage their businesses and, thus, are also at risk from and may be impacted by cybersecurity attacks. An interruption in the business operations of our vendors and tenants resulting from a cybersecurity attack could indirectly impact our business operations.

We are susceptible to weather and natural disasters.

Our Commercial Real Estate and Land Operations segments are vulnerable to natural disasters, such as hurricanes, earthquakes, tsunamis, floods, fires, tornadoes and unusually heavy or prolonged rain, which could cause personal injury and loss of life. In addition, natural disasters could damage our real estate holdings, which could result in substantial repair or replacement costs to the extent not covered by insurance, a reduction in property values, or a loss of revenue, and could have an adverse effect on our ability to develop, lease and sell properties. The occurrence of natural disasters could also cause increases in property insurance rates and deductibles, which could reduce demand for, or increase the cost of owning or developing our properties.

Drought, greater than normal rainfall, hurricanes, low-wind conditions, earthquakes, tsunamis, floods, fires, other natural disasters, agricultural pestilence, or negligence or intentional malfeasance by individuals, may also adversely

impact the conditions of the land and thereby harming the prospects for the Land Operations segment, including our renewable energy operations, and our land infrastructure and facilities, including dams and reservoirs. For the Materials & Construction segment, because nearly all of the segment's activities are performed outdoors, its operations are substantially dependent on weather conditions. For example, periods of wet or other adverse weather conditions

could interrupt paving activities, resulting in delayed or loss of revenue, under-utilization of crews and equipment and less efficient rates of overhead recovery. Adverse weather conditions also restrict the demand for aggregate products, increase aggregate production costs and impede its ability to efficiently transport material.

We maintain casualty insurance under policies we believe to be adequate and appropriate. These policies are generally subject to large retentions and deductibles. Some types of losses, such as losses resulting from physical damage to dams, generally are not insured. In some cases we retain 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, we retain all risk of loss that exceeds the limits of our insurance.

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

As our business is concentrated in Hawai'i, an attack on Hawai'i as a result of war or terrorism may severely or irreparably harm the Company, including our real estate holdings, our facilities and information technology systems, and personnel.

War, geopolitical instability, terrorist attacks and other acts of violence may also cause consumer confidence and spending to decrease, or may affect the ability or willingness of tourists to travel to Hawai'i, thereby adversely affecting Hawai'i's economy and us. Future terrorist attacks could also increase the volatility in the U.S. and worldwide financial markets

Loss of our key personnel could adversely affect our business.

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

We are 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 us.

The nature of our business exposes us to the potential for disputes, legal or other proceedings, or government inquiries or investigations, relating to labor and employment matters, contractual disputes, personal injury and property damage, environmental matters, construction litigation, business practices, and other matters, as discussed in the other risk factors disclosed in this section. These disputes, individually or collectively, could harm our business by distracting our management from the operation of our business. If these disputes develop into proceedings, these proceedings, individually or collectively, could involve or result in significant expenditures or losses by us. As a real estate developer, we may face warranty and construction defect claims, as described below under "Risks Relating to Our Land Operations Segment."

Changes in the value of pension assets, or a change in pension law or key assumptions, may result in increased expenses or plan contributions.

The amount of our employee pension and postretirement 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 result in increased cost or required plan contributions. In addition, a change in federal law, including changes to the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums, may adversely affect our single-employer 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. Although we have actively sought to control increases in these costs, there can be no assurance that we will be successful in limiting future cost and expense increases.

Impairment in the carrying value of long-lived assets and goodwill could negatively affect our operating results.

We have a significant amount of long-lived assets and goodwill on our consolidated balance sheet. Under generally accepted accounting principles, long-lived assets are required to be reviewed for impairment whenever adverse events

or changes in circumstances indicate a possible impairment. If business conditions or other factors cause profitability and cash flows to decline, we may be required to record non-cash impairment charges. Goodwill must be evaluated for impairment annually or more frequently if events indicate it is warranted. If the carrying value of our reporting units exceeds their current fair value as determined based on the discounted future cash flows of the related business, the goodwill is considered impaired and is reduced to fair value by a non-cash charge to earnings. Events and conditions that could result in impairment in the value of our long-lived assets and goodwill include changes in the industries in which we operate, particularly the impact of a downturn in the global or Hawai'i economy,

as well as competition and advances in technology, adverse changes in the regulatory environment, or other factors leading to reduction in expected long-term sales or profitability.

Risks Relating to Our Commercial Real Estate Segment

We are subject to a number of factors that could cause leasing rental income to decline.

We own a portfolio of commercial real estate assets. Factors that may adversely affect the portfolio's profitability include, but are not limited to:

- a significant number of our tenants are unable to meet their obligations;
- increases in non-recoverable operating and ownership costs;
- we are unable to lease space at our properties when the space becomes available;
- the rental rates upon a renewal or a new lease are significantly lower than prior rents or do not increase sufficiently to cover increases in operating and ownership costs;
- the providing of lease concessions, such as free or discounted rents and tenant improvement allowances; and
- the discovery of hazardous or toxic substances, or other environmental, culturally-sensitive, or related issues at the property.

The bankruptcy or loss of key tenants in our commercial real estate portfolio may adversely affect our cash flows and profitability.

We may derive significant cash flows and earnings from certain key tenants. If one or more of these tenants declares bankruptcy or voluntarily vacates from the leased premise and we are unable to re-lease such space or to re-lease it on comparable or more favorable terms, we may be adversely impacted. Additionally, we may be further adversely impacted by an impairment or "write-down" of intangible assets, such as lease-in-place value, favorable lease asset, or a deferred asset related to straight-line lease rent, associated with a tenant bankruptcy or vacancy.

We may be unable to renew leases, lease vacant space, or re-lease space as leases expire, thereby increasing or prolonging vacancies, which could adversely affect our financial condition, results of operations, and cash flows.

We may not be able to renew leases, lease vacant space, or re-let space as leases expire. In addition, we may need to offer substantial rent abatements, tenant improvements, early termination rights, or below-market renewal options to retain existing tenants or attract new tenants. If the rental rates for our properties decrease, our existing tenants do not renew their leases, or we do not re-let our available space, our financial condition, results of operations, and cash flows could be adversely affected.

Increases in operating expenses could adversely affect our operating results.

Our operating expenses include but are not limited to property taxes, insurance, utilities, repairs, and the maintenance of the common areas of our commercial real estate. We may experience increases in our operating expenses, some or all of which may be out of our control. Most of our leases require that tenants pay for a share of property taxes, insurance, and common area maintenance costs. However, if any property is not fully occupied or if recovery income from tenants is not sufficient to cover operating expenses, then we could be required to expend our own funds for operating expenses. In addition, we may be unable to renew leases or negotiate new leases with terms requiring our tenants to pay all the property tax, insurance, and common area maintenance costs that tenants currently pay, which could adversely affect our operating results.

Our retail centers may depend on anchor stores or major tenants to attract shoppers and could be adversely affected by the loss of, or a store closure by, one or more of these tenants.

Some of our retail centers are anchored by large tenants. At any time, our tenants may experience a downturn in their business that may significantly weaken their financial condition. As a result, our tenants, including our anchor and other major tenants, may fail to comply with their contractual obligations to us, seek concessions in order to continue operations, or declare bankruptcy, any of which could result in the termination of such tenants' leases and the loss of rental income attributable to the terminated leases. In addition, certain of our tenants may cease operations while continuing to pay rent, which could decrease customer traffic, thereby decreasing sales for our other tenants at the applicable retail property. In addition, mergers or consolidations among retail establishments could result in the closure of existing stores or the duplication or geographic overlapping of store locations, which could include stores at our retail centers.

Loss of, or a store closure by, an anchor store or major tenant could significantly reduce our occupancy level or the rent that we receive from our retail centers. We may be unable to re-lease vacated space or to re-lease it on comparable or more

favorable terms, or at all. In the event of default by an anchor store or major tenant, we may experience delays and costs in enforcing our rights as landlord to recover amounts due to us under the terms of our agreements with such parties.

Certain of our leases at our retail centers contain “co-tenancy” or “go-dark” provisions, which, if triggered, may allow tenants to pay reduced rent, cease operations, or terminate their leases, which could adversely affect our performance or the value of the applicable retail property.

Certain of the leases at our retail centers contain “co-tenancy” provisions that establish conditions related to a tenant’s obligation to remain open, the amount of rent payable by the tenant, or a tenant’s obligation to continue occupying space, including (i) the presence of a certain anchor tenant, (ii) the continued operation of an anchor tenant’s store, and (iii) minimum occupancy levels at the applicable retail center. If a co-tenancy provision is triggered by a failure of any of these conditions, a tenant could have the right to cease operations, to terminate its lease early, or to a reduction of its rent. In addition to these co-tenancy provisions, certain of the leases at our retail centers contain “go-dark” provisions that allow the tenant to cease operations while continuing to pay rent. This could result in decreased customer traffic at the applicable retail center, thereby decreasing sales for our other tenants at such retail center, which may result in our other tenants being unable to pay their minimum rents or expense recovery charges. Such provisions may also result in lower rental revenue generated under the applicable leases. To the extent co-tenancy or go-dark provisions in our leases result in lower revenue or tenant sales, tenants’ rights to terminate their leases early, or to a reduction of their rent, our performance or the value of the applicable retail center could be adversely affected.

We are subject to risks that affect the general retail environment, such as weakness in the economy, the level of consumer spending, the adverse financial condition of retailing companies, and competition from discount and internet retailers, which could adversely affect market rents for retail space and the willingness or ability of retailers to lease space in our retail center.

As of December 31, 2018, the Company owned 18 retail commercial real estate assets. The retail environment and the market for retail space could be adversely affected by weakness in the local and broader economy, the level of consumer spending and consumer confidence, the adverse financial condition of large retail companies, consolidation in the retail sector, excess amount of retail space, and increasing competition from discount retailers, outlet malls, internet retailers, and other online businesses.

Our financial results are significantly influenced by the economic growth and strength of Hawai`i.

All of our redevelopment and development-for-hold activity is conducted in Hawai`i. Consequently, the growth and strength of Hawai`i’s economy has a significant impact on the demand for our real estate development projects. As a result, any adverse change to the growth or health of Hawai`i’s economy could have an adverse effect on our commercial real estate business.

The value of our development-for-hold projects and commercial properties is affected by a number of factors.

We have significant investments in various commercial real estate properties and development-for-hold projects.

Weakness in the real estate sector, especially in Hawai`i, difficulty in obtaining or renewing project-level financing, and changes in our investment and redevelopment and development-for-hold strategy, among other factors, may affect the fair value of these real estate assets. If the undiscounted cash flows of our commercial properties or redevelopment or development-for-hold projects were to decline below the carrying value of those assets, we would be required to recognize an impairment loss if the fair value of those assets were below their carrying value.

We may be unable to identify and complete acquisitions of properties that meet our criteria, which may impede our growth.

Our business strategy involves the acquisition of retail, office, industrial, and other properties. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria. We evaluate the market of available properties and may attempt to acquire properties when strategic opportunities exist. We may be unable to acquire properties that we have identified as potential acquisition opportunities due to various factors, including but not limited to, the inability to (i) negotiate terms agreeable to the parties involved, (ii) satisfy conditions to closing, or (iii) finance the acquisition on favorable terms or at all. In addition, we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently not able to complete. If we are unable to acquire properties on favorable terms, or at all, our

financial condition, results of operations, and cash flow could be adversely affected.

We face competition for the acquisition and development of real estate properties, which may impede our ability to grow our operations or may increase the cost of these activities.

We compete with many other entities for the acquisition of commercial real estate and land suitable for new developments, including other REITs, private institutional investors, and other owner-operators of commercial real estate. Larger REITs may enjoy competitive advantages that result from, among other things, a lower cost of capital. These competitors may increase the

market prices we would have to pay in order to acquire properties. If we are unable to acquire properties that meet our criteria at prices we deem reasonable, our ability to grow may be adversely affected.

We are subject to risks associated with real estate construction and development.

Our redevelopment and development-for-hold projects are subject to risks relating to our ability to complete our projects on time and on budget. Factors that may result in a development project exceeding budget or being prevented from completion include, but are not limited to:

- our inability to secure sufficient financing or insurance on favorable terms, or at all;
- construction delays, defects, or cost overruns, which may increase project development costs;
- an increase in commodity or construction costs, including labor costs;
- the discovery of hazardous or toxic substances, or other environmental, culturally-sensitive, or related issues;
- an inability to obtain, or a significant delay in obtaining, zoning, construction, occupancy and other required governmental permits and authorizations;
- difficulty in complying with local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities, and water quality, as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats;
- insufficient infrastructure capacity or availability (e.g., water, sewer and roads) to serve the needs of our projects;
- an inability to secure tenants necessary to support the project or maintain compliance with debt covenants;
- failure to achieve or sustain anticipated occupancy levels;
- condemnation of all or parts of development or operating properties, which could adversely affect the value or viability of such projects; and
- instability in the financial industry could reduce the availability of financing.

Significant instability in the financial industry like that experienced during the financial crisis of 2008-2009, may result in, among other things, declining property values and increasing defaults on loans. This, in turn, could lead to increased regulations, tightened credit requirements, reduced liquidity and increased credit risk premiums for virtually all borrowers. Deterioration in the credit environment may also impact us in other ways, including the credit or solvency of vendors, tenants, or joint venture partners, the ability of partners to fund their financial obligations to joint ventures and our access to mortgage financing for our own properties.

Commercial real estate investments are relatively illiquid.

Real estate investments are relatively illiquid. Our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, supply and demand, availability of financing, interest rates, and other factors that are beyond our control. We cannot be certain that we will be able to sell any property for the price and other terms we seek, or that any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot estimate with certainty the length of time needed to find a willing purchaser and to complete the sale of a property. Factors that impede our ability to dispose of properties could adversely affect our financial condition and operating results.

Risks Relating to Our Land Operations Segment

We are subject to risks associated with real estate construction and development.

Our development-for-sale projects are subject to risks that are similar to those described in the “We are subject to risks associated with real estate construction and development” risk factor above, under the “Risks Relating to Our Commercial Real Estate Segment” section.

Significant instability in the financial industry like that experienced during the financial crisis of 2008-2009, may result in, among other things, declining property values and increasing defaults on loans. This, in turn, could lead to increased regulations, tightened credit requirements, reduced liquidity and increased credit risk premiums for virtually all borrowers. Fewer loan products and strict loan qualifications make it more difficult for borrowers to finance the purchase of units in our projects. Additionally, more stringent requirements to obtain financing for buyers of commercial properties make it significantly more difficult for us to sell commercial properties and may negatively impact the sales prices and other terms of such sales. Deterioration in the credit environment may also impact us in

other ways, including the credit or solvency of customers, vendors, or joint venture partners, the ability of partners to fund their financial obligations to joint ventures and our access to mortgage financing for our own properties.

Governmental entities have adopted or may adopt regulatory requirements that may restrict our development activity. We are subject to extensive and complex laws and regulations that affect the land development process, including laws and regulations related to zoning and permitted land uses. Government entities have adopted or may approve regulations or laws that could negatively impact the availability of land and development opportunities within those areas. It is possible that increasingly stringent requirements will be imposed on developers in the future that could adversely affect our ability to develop projects in the affected markets or could require that we satisfy additional administrative and regulatory requirements, which could delay development progress or increase the development costs to us.

Real estate development projects are subject to warranty and construction defect claims in the ordinary course of business that can be significant.

In our development-for-sale projects, we are subject to warranty and construction defect claims arising in the ordinary course of business. The amounts payable under these claims, both in legal fees and remedying any construction defects, can be significant and could exceed the profits made from the project. As a consequence, we may maintain liability insurance, obtain indemnities and certificates of insurance from contractors generally covering claims related to workmanship and materials, and create warranty and other reserves for projects based on historical experience and qualitative risks associated with the type of project built. Because of the uncertainties inherent in these matters, we cannot provide any assurance that our insurance coverage, contractor arrangements and reserves will be adequate to address some or all of our warranty and construction defect claims in the future. For example, contractual indemnities may be difficult to enforce, we may be responsible for applicable self-insured retentions, and certain claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered and the availability of liability insurance for construction defects could be limited or costly. Accordingly, we cannot provide any assurance that such coverage will be adequate, available at an acceptable cost, or available at all.

We are involved in joint ventures and subject to risks associated with joint venture relationships.

We are involved in joint venture relationships and may initiate future joint venture projects. A joint venture involves certain risks such as, among others:

- we may not have voting control over the joint venture;
- we may not be able to maintain good relationships with our venture partners;
- the venture partner at any time may have economic or business interests that are inconsistent with our economic or business interests;
- the venture partner may fail to fund its share of capital for operations and development activities or to fulfill its other commitments, including providing accurate and timely accounting and financial information to us;
- the joint venture or venture partner could lose key personnel;
- the venture partner could become insolvent, requiring us to assume all risks and capital requirements related to the joint venture project, and any resulting bankruptcy proceedings could have an adverse impact on the operation of the project or the joint venture; and
- we may be required to perform on guarantees we have provided or agree to provide in the future related to the completion of a joint venture's construction and development of a project, joint venture indebtedness, or on indemnification of a third party serving as surety for a joint venture's bonds for such completion.

Our financial results are significantly influenced by the economic growth and strength of Hawai'i.

Virtually all of our real estate development activity is conducted in Hawai'i. Consequently, the growth and strength of Hawai'i's economy has a significant impact on the demand for our real estate development projects. As a result, any adverse change to the growth or health of Hawai'i's economy could have an adverse effect on our real estate business. The value of our development projects and/or our joint venture investments is affected by a number of factors.

We have significant investments in various development projects and joint venture investments. Weakness in the real estate sector, especially in Hawai'i, difficulty in obtaining or renewing project-level financing, difficulty in obtaining governmental permits and authorizations, difficulty in securing infrastructure capacity or availability (e.g., water, sewer, and roads), and changes in our investment and development strategy, among other factors, may affect the fair value of these real estate assets owned by us or by our joint ventures. If the fair value of our joint venture development

projects were to decline below the carrying value of those assets, and that decline was other-than-temporary, we would be required to recognize an impairment loss. Additionally, if the undiscounted cash flows of our development projects were to decline below the carrying value of those assets, we would be required to recognize an impairment loss if the fair value of those assets were below their carrying value.

Our ability to use or lease agricultural lands for agricultural purposes may be limited by government regulation. Given the large scale of our agricultural landholdings on Kauai, many of the third parties to whom we lease land for agricultural purposes may be characterized as large scale commercial agricultural operations. Legislation passed on Kauai placed restrictions on the ability of such operations to use land within specified distances of highways, schools, oceans, streams, residences, parks, care homes, hospitals and other similar uses, to grow crops other than ground cover. This legislation also put significant restrictions regarding, and public notification obligations concerning, pesticide use on such operations and limited their ability to use genetically modified organism (GMO) crops. In November 2016, the Kauai legislation was invalidated by the courts. If additional legislative agricultural restrictions are passed, such as restrictions on the use of pesticides, our ability to use or lease lands for large scale agricultural purposes, and any rents that we can achieve for those lands, may be adversely affected. Agricultural land is illiquid and difficult to value.

Even if qualified farm lessees can be identified and engaged in leases, agricultural operations are high risk by nature and turnover can be expected. From a landlord's perspective, agricultural leases produce only modest rents that could imply a valuation of the land that could materially understate other methods of appraising asset value.

Our power sales contracts could be replaced on less favorable terms or may not be replaced.

Our power sales contracts expire at various points in the future and may not be replaced or could be replaced on less favorable terms, which could adversely affect Land Operations profitability.

The market for power sales in Hawai'i is limited.

The power distribution systems in Hawai'i are small and island-specific; currently, there is no ability to move power generated on one island to any other island. In addition, Hawai'i law generally limits the ability of independent power producers, such as us, to sell their output to firms other than the respective utilities on each island, without themselves becoming utilities and subject to the State's Public Utilities Commission (PUC) regulation. Further, any sales of electricity by us to the utilities on each island are subject to the approval of the PUC. Unlike some areas in the Mainland, Hawai'i's independent power producers have no ability to use utility infrastructure to transfer power to other locations.

The lack of water for agricultural irrigation could adversely affect the operations and profitability of the Land Operations segment.

It is crucial for our land to have access to sufficient, reliable and affordable sources of water in order to conduct any agricultural activity. If we are limited in our ability to divert stream waters for our use or there is insufficient rainfall on an extended basis, this would have a significant, adverse effect on the utility of the land and our ability to employ the land in active agricultural use.

Water availability also is critical to the successful implementation of farming plans on those lands purchased from us by Mahi Pono, LLC. As described our public filings associated with that sale, the inability to secure sufficient water for farming operations could trigger certain financial obligations. On Maui and Kauai, there are regulatory and legal challenges to water diversion from streams. If we or Mahi Pono are limited in our ability to divert stream waters for their use, this could trigger the aforementioned financial obligations.

Governmental entities have adopted or may adopt regulatory requirements related to our dams, reservoirs, and other water infrastructure that may adversely affect our operations.

We are subject to inspections and regulations that apply to certain of our dams, reservoirs, and other water infrastructure. Certain of these facilities have deficiencies noted by the State of Hawai'i, which we are working with the regulators to resolve. It is possible that current or future requirements imposed on landowners and dam owners/operators may require that we satisfy additional administrative and regulatory requirements and thereby increase the holding costs to us and/or decrease the operational utility of the subject facilities.

Risks Relating to Our Materials & Construction Segment

Our Materials & Construction segment's revenue growth and profitability are dependent on factors outside of our control.

Our Materials & Construction segment's ability to grow its revenues and improve profitability is dependent on factors outside of our control, which include, but are not limited to:

decreased government funding for infrastructure projects (see the "Economic downturns or reductions in government funding of infrastructure projects could reduce our revenues and profits from our materials and construction businesses" risk factor below);

reduced spending by private sector customers resulting from poor economic conditions in Hawai'i;

an increased number of competitors;

less success in competitive bidding for contracts;

a decline in transportation and logistical costs, which may result in customers purchasing material from sources located outside of Hawai'i in a more cost-efficient manner;

limitations on access to necessary working capital and investment capital to sustain growth; and

inability to hire and retain essential personnel and to acquire equipment to support growth.

Economic downturns or reductions in government funding of infrastructure projects could reduce our revenues and profits from our materials and construction businesses.

The segment's products are used in public infrastructure projects, which include the construction, maintenance and improvement of highways, streets, roads, airport runways and similar projects. Our materials and construction businesses, including our aggregates business, are highly dependent on the amount and timing of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and federal, state or local government spending levels. We cannot be assured of the existence, amount and timing of appropriations for spending on these and other future projects, including state and federal spending on roads and highways. Spending on infrastructure could decline for numerous reasons, including decreased revenues received by state and local governments for spending on such projects (including federal funding), and other competing priorities for available state, local and federal funds. State spending on highway and other projects can be adversely affected by decreases or delays in, or uncertainties regarding, federal highway funding. The segment is reliant upon contracts with the City and County of Honolulu, the State of Hawai'i and the Federal Government for a significant portion of its revenues. If revenues and profits are impacted by economic downturns or reductions in government funding, the segment's long-lived assets and goodwill may become impaired.

We may face community opposition to the operation or expansion of quarries or other facilities.

Quarries and other segment facilities require special and conditional use permits to operate. Permitting and licensing applications and proceedings and regulatory enforcement proceedings are all matters open to public scrutiny and comment. In addition, the Makakilo quarry is adjacent to residential areas and heavy equipment and explosives are used in the mining process. As a result, from time to time, our Materials & Construction segment operations may be subject to community opposition and adverse publicity that may have a negative effect on operations and delay or limit any future expansion or development of segment operations.

Significant contracts may be canceled, or we may be disqualified from bidding for new contracts.

Governmental entities typically have the right to cancel their contracts with our construction businesses at any time with payment generally only for the work already completed plus a negotiated compensatory overhead recovery amount. In addition, our construction businesses could be prohibited from bidding on certain governmental contracts if we fail to maintain qualifications required by those entities, such as maintaining an acceptable safety record.

If our materials and construction businesses are unable to accurately estimate the overall risks, requirements or costs when bidding on or negotiating a contract that we are ultimately awarded, the segment may achieve a lower than anticipated profit or incur a loss on the contract.

The majority of the Materials & Construction segment's revenues are derived from "quantity pricing" (fixed unit price) contracts. Quantity pricing contracts require the provision of line-item materials at a fixed unit price based on

approved quantities irrespective of actual per unit costs. Expected profits on contracts are realized only if costs are accurately estimated and then successfully controlled. If cost estimates for a contract are inaccurate, or if the contract is not performed within cost estimates, then cost overruns may result in losses or cause the contract not to be as profitable as expected.

If our materials and construction businesses are unable to attract and retain key personnel and skilled labor, or encounter labor difficulties, the ability to bid for and successfully complete contracts may be negatively impacted. The ability to attract and retain reliable, qualified personnel is a significant factor that enables our materials and construction businesses to successfully bid for and profitably complete their work. This includes members of management, project managers, estimators, supervisors, and foremen. The segment's future success also will depend on its ability to hire, train and retain, or to attract, when needed, highly skilled management personnel. If competition for these employees is intense, it could be difficult to hire and retain the personnel necessary to support operations. If we do not succeed in retaining our current employees and attracting, developing and retaining new highly skilled employees, segment operations and future earnings may be negatively impacted.

A majority of segment personnel are unionized. Any work stoppage or other labor dispute involving unionized workforce, or inability to renew contracts with the unions, could have an adverse effect on operations.

Our construction and construction-related businesses may fail to meet schedule or performance requirements of our paving contracts.

Asphalt paving contracts have penalties for late completion. In most instances, projects must be completed within an allotted number of business or calendar days from the time the notice to proceed is received, subject to allowances for additional days due to weather delays or additional work requested by the customer. If our construction businesses subsequently fail to complete the project as scheduled, we may be responsible for contractually agreed-upon liquidated damages, an amount assessed per day beyond the contractually allotted days, at the discretion of the customer. Under these circumstances, the total project cost could exceed original estimates and could result in a loss of profit or a loss on the project. Additionally, our construction businesses enter into lump sum and quantity pricing contracts where profits can be adversely affected by a number of factors beyond our control, which can cause actual costs to materially exceed the costs estimated at the time of our original bid.

Timing of the award and performance of new contracts could have an adverse effect on Materials & Construction segment operating results and cash flow.

It is generally very difficult to predict whether and when bids for new projects will be offered for tender, as these projects frequently involve a lengthy and complex design and bidding process, which is affected by a number of factors, such as market conditions, funding arrangements and governmental approvals. Because of these factors, segment results of operations and cash flows may fluctuate from quarter to quarter and year to year, and the fluctuation may be substantial.

The uncertainty of the timing of contract awards after a winning bid is submitted may also present difficulties in matching the size of equipment fleet and work crews with contract needs. In some cases, our materials and construction businesses may maintain and bear the cost of more equipment than is currently required, in anticipation of future needs for existing contracts or expected future contracts.

In addition, the timing of the revenues, earnings and cash flows from contracts can be delayed by a number of factors, including delays in receiving material and equipment from suppliers and services from subcontractors and changes in the scope of work to be performed.

Dependence on a limited number of customers could adversely affect our materials and construction businesses and results of operations.

Due to the size and nature of the segment's construction contracts, one or a few customers, such as the Federal Government, the State of Hawai'i, and the various counties in Hawai'i, have in the past and may in the future represent a substantial portion of consolidated segment revenues and gross profits in any one year or over a period of several consecutive years. Similarly, segment backlog frequently reflects multiple contracts for certain customers; therefore, one customer may comprise a significant percentage of backlog at a certain point in time. The loss of business from any such customer, or a default or delay in payment on a significant scale by a customer, could have an adverse effect on our materials and construction businesses or results of operations.

Our materials and construction businesses are likely to require more capital over the longer term.

The property and machinery needed to produce aggregate products and perform asphaltic concrete paving contracts are expensive. Although capital needs over the next five years are expected to be relatively modest, over the longer term, our materials and construction businesses may require increasing annual capital expenditures. The segment's

ability to generate sufficient cash flow to fund these expenditures depends on future performance, which will be subject to general economic conditions, industry cycles and financial, business, and other factors affecting operations, many of which are beyond our control. If the segment is unable to generate sufficient cash to operate its business, it may be required, among other things, to further reduce or delay planned capital or operating expenditures.

An inability to obtain bonding could limit the aggregate dollar amount of contracts that our materials and construction businesses are able to pursue.

As is customary in the construction industry, we may be required to provide surety bonds to our customers to secure our performance under construction contracts. Our ability to obtain surety bonds primarily depends upon our capitalization, working capital, past performance, management expertise and reputation and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relationship to the amount of backlog and their underwriting standards, which may change from time to time. Events that adversely affect the insurance and bonding markets generally may result in bonding becoming more difficult to obtain in the future, or being available only at a significantly greater cost. The inability to obtain adequate bonding would limit the amount that our construction businesses are able to bid on new contracts and could have an adverse effect on the segment's future revenues and business prospects.

Our Materials & Construction segment operations are subject to hazards that may cause personal injury or property damage, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance.

Segment employees are subject to the usual hazards associated with performing construction activities on road construction sites, plants and quarries. Operating hazards can cause personal injury and loss of life, damage to or destruction of property, plant and equipment and environmental damage. We maintain general liability and excess liability insurance, workers' compensation insurance, auto insurance and other types of insurance, all in amounts consistent with our materials and construction businesses' risk of loss and industry practice, but this insurance may not be adequate to cover all losses or liabilities incurred in operations.

Insurance liabilities are difficult to assess and quantify due to unknown factors, including the severity of an injury, the determination of liability in proportion to other parties, the number of incidents not reported and the effectiveness of the segment's safety program. If insurance claims or costs were above our estimates, our materials and construction businesses might be required to use working capital to satisfy these claims, which could impact their ability to maintain or expand their operations.

Environmental and other regulatory matters could adversely affect our materials and construction businesses' ability to conduct business and could require significant expenditures.

Segment operations are subject to various environmental laws and regulations relating to the management, disposal and remediation of hazardous substances, climate change and the emission and discharge of pollutants into the air and water. Our materials and construction businesses could be held liable for such contamination created not only from their own activities but also from the historical activities of others on properties that the segment acquires or leases. Segment operations are also subject to laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances. Violations of such laws and regulations could subject us to substantial fines and penalties, cleanup costs, third-party property damage or personal injury claims. In addition, these laws and regulations have become, and enforcement practices and compliance standards are becoming, increasingly stringent. Moreover, we cannot predict the nature, scope or effect of legislation or regulatory requirements that could be imposed, or how existing or future laws or regulations will be administered or interpreted, with respect to products or activities to which they have not been previously applied. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of the regulatory agencies, could require substantial expenditures for, among other things, equipment not currently possessed, or the acquisition or modification of permits applicable to segment activities.

Short supplies and volatility in the costs of fuel, energy and raw materials may adversely affect our materials and construction businesses.

Our materials and construction businesses require a continued supply of diesel fuel, electricity and other energy sources for production and transportation. The financial results of these businesses have at times been affected by the high costs of these energy sources. Significant increases in costs or reduced availability of these energy sources have and may in the future reduce financial results. Moreover, fluctuations in the supply and costs of these energy sources can make planning business operations more difficult. We do not hedge our fuel price risk, but instead focus on volume-related price reductions, fuel efficiency, alternative fuel sources, consumption and the natural hedge created by the ability to increase aggregate prices.

Similarly, segment operations also require a continued supply of liquid asphalt, which serves as a key raw material in the production of asphaltic concrete. Liquid asphalt is subject to potential supply constraints and significant price fluctuations, which are generally correlated to the price of crude oil, though not as closely as diesel or gasoline, and are beyond the control of our materials and construction business. Accordingly, significant increases in the price of crude oil will have an adverse impact on the financial results of the Materials & Construction segment due to higher costs of production of asphaltic concrete. Conversely, significant declines in the price of oil had, and in the future, may have an adverse impact on our material and construction sales

of liquid asphalt concrete, due to lower costs of importing asphalt to Hawai`i, which may result in customers sourcing liquid asphalt from competition located outside of Hawai`i.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the "Legal Proceedings and Other Contingencies" section in Note 14 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report, is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulations S-K (17 CFR 229.104) is included in Exhibit 95 to this Annual Report on Form 10-K.

PART II

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

At February 15, 2019, there were 2,131 shareholders of record of A&B common stock. In addition, Cede & Co., which appears as a single record holder, represents the holdings of thousands of beneficial owners of A&B common stock.

The following performance graph compares the monthly dollar change in the cumulative shareholder return on the Company's common stock:

The Company has decided to transition from displaying the Dow Jones US Real Estate, the Dow Jones US Industrial Average and the S&P Midcap 400 Indexes to displaying the FTSE Nareit All Equity REITs and the FTSE Nareit Equity Shopping Centers Indexes. With A&B's recent conversion to a REIT, these REIT-related indexes provide a more applicable comparison to A&B.

Trading volume averaged 352,578 shares a day in 2018, 213,042 shares a day in 2017, and 178,858 shares a day in 2016. A&B stock is traded on the New York Stock Exchange under the ticker symbol "ALEX." A&B common stock is included in the Russell 2000 Index, Russell 3000 Index, and the S&P 400 Diversified REITs Sub Industry Index.

Securities authorized for issuance under equity compensation plans at December 31, 2018, included:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) ¹	Weighted-average exercise price of outstanding options, warrants and rights (b) ¹	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) ²
Equity compensation plans approved by security holders	580,100	\$12.91	1,936,052
Total	580,100	\$12.91	1,936,052

¹ Number of securities reflects the antidilutive adjustments to outstanding stock option awards, including the number of stock options and the weighted average price for such awards, as a result of the Company's Special Distribution that was declared on November 16, 2017 and settled on January 23, 2018 in connection with its conversion to a REIT.

² Under the 2012 Incentive Compensation Plan, 1,936,052 shares may be issued either as restricted stock grants, restricted stock unit grants, or stock option grants.

The following are the Company's recent purchases of equity securities and use of proceeds for the fourth quarter of fiscal year 2018.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2018	—	\$ —	—	—
November 1-30, 2018	—	\$ —	—	—
December 1-31, 2018	23,069	\$19.87	—	—

¹Represents shares accepted in satisfaction of tax withholding obligations arising upon the vesting of restricted stock unit awards.

ITEM 6. SELECTED FINANCIAL DATA

The following should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8, “Financial Statements and Supplementary Data.”

	Year Ended December 31,				
(dollars in millions, except per share amounts)	2018 ⁷	2017	2016	2015	2014
Operating Revenue:					
Commercial Real Estate	\$140.3	\$136.9	\$134.7	\$133.6	\$125.3
Land Operations	289.5	84.5	61.9	120.2	96.7
Materials & Construction	214.6	204.1	190.9	219.0	234.3
Total operating revenue	644.4	425.5	387.5	472.8	456.3
Operating Costs and Expenses:					
Cost of Commercial Real Estate	77.2	75.5	79.0	80.4	78.0
Cost of Land Operations	117.1	60.4	35.0	71.1	57.4
Cost of Materials & Construction	188.1	166.1	154.5	175.7	191.3
Selling, general and administrative	61.2	66.4	52.0	51.6	52.9
REIT evaluation/conversion costs ¹	—	15.2	9.5	—	—
Impairment of assets ²	79.4	22.4	11.7	—	—
Total operating costs and expenses	523.0	406.0	341.7	378.8	379.6
Gain (loss) on the sale of improved property, net	51.4	9.3	8.1	(1.8)	—
Operating Income (Loss)	172.8	28.8	53.9	92.2	76.7
Other Income and (Expenses):					
Income (loss) related to joint ventures	(4.1)	7.2	19.2	36.8	1.8
Impairment of equity method investments ³	(188.6)	—	—	—	—
Interest and other income (expense), net	2.8	2.1	(1.7)	(2.5)	6.1
Reductions in solar investments, net ⁴	(0.5)	(2.6)	(9.8)	(2.6)	(14.7)
Interest expense	(35.3)	(25.6)	(26.3)	(26.8)	(29.0)
Income (Loss) from Continuing Operations Before Income Taxes	(52.9)	9.9	35.3	97.1	40.9
Income tax benefit (expense)	(16.3)	218.2	(2.6)	(36.3)	(4.1)
Income (Loss) from Continuing Operations	(69.2)	228.1	32.7	60.8	36.8
Income (loss) from discontinued operations, net of income taxes	(0.6)	2.4	(41.1)	(29.7)	27.7
Net Income (Loss)	(69.8)	230.5	(8.4)	31.1	64.5
Income attributable to noncontrolling interest	(2.2)	(2.2)	(1.8)	(1.5)	(3.1)
Net Income (Loss) Attributable to A&B Shareholders	\$(72.0)	\$228.3	\$(10.2)	\$29.6	\$61.4
Capital expenditures ^{5,6}	\$296.1	\$42.5	\$119.6	\$44.7	\$75.1
Depreciation and amortization ⁶	\$42.8	\$41.4	\$119.5	\$55.7	\$55.0
Earnings (Loss) Per Share Available to A&B Shareholders:					
Basic Earnings (Loss) Per Share of Common Stock:					
Continuing operations available to A&B shareholders	\$(1.01)	\$4.63	\$0.66	\$1.15	\$0.69
Discontinued operations available to A&B shareholders	(0.01)	0.05	(0.84)	(0.61)	0.57
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.68	\$(0.18)	\$0.54	\$1.26
Diluted Earnings (Loss) Per Share of Common Stock:					
Continuing operations available to A&B shareholders	\$(1.01)	\$4.30	\$0.65	\$1.14	\$0.68
Discontinued operations available to A&B shareholders	(0.01)	0.04	(0.83)	(0.60)	0.57
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.34	\$(0.18)	\$0.54	\$1.25
Cash dividends declared per common share	\$—	\$4.48	\$0.25	\$0.21	\$0.17

(In millions)	December 31,				
	2018	2017	2016	2015	2014
Consolidated balance sheet data:					
Total assets	\$2,225.2	\$2,231.2	\$2,156.3	\$2,242.3	\$2,321.1
Total liabilities	\$1,009.0	\$1,572.1	\$932.3	\$1,003.6	\$1,107.3
Long-term debt – non-current	\$739.1	\$585.2	\$472.7	\$496.6	\$632.0
Redeemable noncontrolling interest	\$7.9	\$8.0	\$10.8	\$11.6	\$—
Total equity (includes noncontrolling interest) ⁸	\$1,208.3	\$651.1	\$1,213.2	\$1,227.1	\$1,213.8

¹ Costs related to the Company's in-depth evaluation of and conversion to a REIT.

² During the year ended December 31, 2018, the Company recorded non-cash impairment charges for goodwill and other assets, primarily related to the Materials and Construction segment. During the year ended December 31, 2017, the Company recorded non-cash impairment charges related to three mainland commercial properties classified as held for sale at December 31, 2017. During the year ended December 31, 2016, A&B recorded non-cash impairment charges related to certain non-active, long-term development projects in its Land Operations segment.

³ During the year ended December 31, 2018, the Company recorded non-cash impairment charges to its equity method investments primarily related to the Company's change in strategy regarding its long term Kukui`ula development joint venture.

⁴ Represents non-cash reductions in the carrying value of A&B's KRS II and Waihonu joint venture solar investments. Tax benefits associated with joint venture solar investments are included in Income tax benefit (expense).

⁵ Excludes capital expenditures for real estate developments to be held and sold as real estate development inventory, which are classified in the consolidated statement of cash flows as operating activities.

⁶ Includes amounts from discontinued operations.

⁷ 2018 amounts are presented on a different basis from prior periods due to the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the modified retrospective transition method.

⁸ 2018 amounts are reflective of the early adoption of ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

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

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. Such forward-looking statements speak only as of the date the statements were made and are not guarantees of future performance. Forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from those expressed in or implied by the forward-looking statements. These factors include, but are not limited to, prevailing market conditions and other factors related to the company's REIT status and the company's business as well as the evaluation of alternatives by the company related to its materials and construction business and by the company's joint venture related to the development of Kukui'ula, generally discussed in the Company's most recent Form 10-K, Form 10-Q and other filings with the SEC. The information in this Form 10-K should be evaluated in light of these important risk factors. We do not undertake any obligation to update the Company's forward-looking statements.

The risk factors discussed in "Risk Factors" could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides additional information about A&B's business, recent developments, financial condition, liquidity and capital resources, cash flows, results of operations and how certain accounting principles, policies and estimates affect A&B's financial statements. MD&A is organized as follows:

Business Overview: This section provides a general description of A&B's business, as well as recent developments that A&B believes are important in understanding its results of operations and financial condition or in understanding anticipated future trends.

Critical Accounting Estimates: This section identifies and summarizes those accounting policies that significantly impact A&B's reported results of operations and financial condition and require significant judgment or estimates on the part of management in their application.

Consolidated Results of Operations: This section provides an analysis of A&B's consolidated results of operations for the years ended December 31, 2018, 2017 and 2016.

Analysis of Operating Revenue and Profit by Segment: This section provides an analysis of A&B's results of operations by business segment.

Liquidity and Capital Resources: This section provides a discussion of A&B's financial condition and an analysis of A&B's cash flows for the years ended December 31, 2018, 2017 and 2016, as well as a discussion of A&B's ability to fund its future commitments and ongoing operating activities through internal and external sources of capital.

Contractual Obligations, Commitments, Contingencies and Off-Balance-Sheet Arrangements: This section provides a discussion of A&B's contractual obligations and other commitments and contingencies that existed at December 31, 2018.

Quantitative and Qualitative Disclosures about Market Risk: This section discusses how A&B monitors and manages exposure to potential gains and losses associated with changes in interest rates.

Rounding: Amounts in the MD&A are rounded to the nearest tenth of a million. Accordingly, a recalculation of totals and percentages, if based on the reported data, may be slightly different.

BUSINESS OVERVIEW

A&B, whose history dates back to 1870, is a REIT headquartered in Honolulu and operates through three reportable segments: Commercial Real Estate; Land Operations; and Materials & Construction.

Commercial Real Estate

Commercial Real Estate ("CRE"): includes leasing, property management, redevelopment and development-for-hold activities. Significant assets include improved commercial real estate and urban ground leases. Income from this segment is principally generated by leasing and operating real estate assets.

Land Operations

Land Operations: involves the management and optimization of A&B's land and related assets primarily through the following activities: planning, zoning, financing, constructing, selling, and investing in real property; leasing agricultural land; and renewable energy. Primary assets include landholdings, renewable energy assets (investments in hydroelectric and solar facilities and power purchase agreements) and development-for-sale projects and investments. Financial results from this segment are principally derived from renewable energy operations, income/loss from real estate joint ventures, real estate development sales and fees, and land parcel sales.

As a result of its conversion to a REIT and consequent de-emphasis of real estate development-for-sale, the Company is undergoing efforts to accelerate the monetization of and/or to reduce its capital requirement through joint venture or other arrangements.

Materials & Construction

Materials & Construction ("M&C"): performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells basalt aggregate; produces and sells asphaltic concrete; provides and sells various construction- and traffic-control-related products; and manufactures and sells precast concrete products.

Assets include two grade A (prime) rock quarries, an asphalt storage terminal, hot mix asphalt plants and quarry and paving equipment. Income is generated principally by materials supply and paving construction.

As a result of its conversion to a REIT and consequent de-emphasis of non-REIT operating businesses, the Company is evaluating strategic options for the eventual monetization of some or all of its Materials & Construction businesses.

CRITICAL ACCOUNTING ESTIMATES

A&B's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States, 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 financial statements and accompanying notes. Future events and their effects cannot be determined with certainty and actual results may differ from those critical accounting estimates. These differences could be material.

A&B considers an accounting estimate to be critical if: (i)(a) the accounting estimate requires A&B to make assumptions that are 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 subsequent to the period in which the estimate was made, or (c) different estimates by A&B 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 A&B. The critical accounting estimates inherent in the preparation of A&B's financial statements are described below.

Impairment of Long-Lived Assets and Finite-Lived Intangible Assets

Long-lived assets, including finite-lived intangible assets, are reviewed for possible impairment when events or circumstances indicate that the carrying value may not be recoverable. In such an evaluation, the estimated future undiscounted cash flows generated by the asset are compared with the amount recorded for the asset to determine if its carrying value is not recoverable. If this review determines that the recorded value will not be recovered, the amount recorded for the asset 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, A&B's financial condition or its future financial results could be materially impacted. During the year ended December 31, 2018, the Company recorded long-lived asset impairment charges of \$40.6 million related to its Materials and Construction segment.

Impairment of Investments in Unconsolidated Affiliates

The Company's investments in unconsolidated affiliates are reviewed for impairment 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 believed to be 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 a joint venture's current and future plans. Additionally, these impairment 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 that may consider various factors, including sales prices, development costs, market conditions and absorption rates, 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 but not limited to the financial condition and near-term prospects of the affiliate, 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 unconsolidated affiliates, and accordingly, may require valuation adjustments to the Company's investments that may materially impact the Company's financial condition or its future operating results.

Economic conditions in particular real estate markets, difficulty in obtaining or renewing project-level financing or development approvals, and changes in the Company's development strategy, among other factors, may affect the value or feasibility of certain development projects owned by the Company or by its joint ventures and could lead to additional impairment charges in the future.

During the fourth quarter of 2018, the Company determined that its investment in Kukui`ula was other-than-temporarily impaired due to the Company changing its strategy and no longer intending to hold its investment through the duration of the project. As a result, the Company estimated the fair value of its investment in Kukui`ula using a discounted cash flow model and recorded a non-cash, other-than-temporary impairment of \$186.8 million.

Goodwill

The Company reviews goodwill for impairment at the reporting unit level annually and whenever events or changes in circumstances indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The goodwill impairment test estimates the fair value of a reporting unit using various methodologies, including an income approach that is based on a discounted cash flow analysis and a market approach that involves the application of market-derived multiples. The discounted cash flow approach relies on a number of assumptions, including future macroeconomic conditions, market factors specific to the reporting unit, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time and a discount rate that considers the risks related to the amount and timing of the cash flows, among others. Under the market multiple methodology, the estimate of fair value is based on market multiples of EBITDA (earnings before interest, taxes, depreciation and amortization) or revenues. When using market multiples of EBITDA or revenues, the Company must make judgments about the comparability of those multiples in closed and proposed transactions and comparability of multiples for similar companies.

If the results of the Company's test indicates that a reporting unit's estimated fair value is less than its carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

The Company's goodwill balance primarily relates to the acquisition of Grace Pacific in 2013. Grace Pacific has three reporting units in the Materials & Construction segment: GPC (primarily consisting of the Grace Pacific's quarry, paving, and liquid asphalt operations), GPRS (primarily consisting of Grace Pacific's roadway and maintenance solutions operations) and GPRM (primarily consisting of Grace Pacific's prestressed and precast concrete operations).

The valuation that was performed of each reporting unit assumes that each is an unrelated business to be sold separately and independently from the other reporting units.

Based upon the results of the valuation, the GPC and GPRS reporting unit's carrying values exceeded their estimated fair values and goodwill was determined to be impaired. Therefore, the Company recorded a non-cash charge of \$37.2 million during

the fourth quarter of 2018. The GPRM reporting unit goodwill was not deemed to be impaired as the weighted average percentage by which GPRM's carrying value of the reporting unit exceeded its fair value was approximately 33 percent.

As of December 31, 2018, the Company's goodwill balance was \$65.1 million, of which, \$56.4 million related to Grace Pacific.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Financial Statements for a full description of the impact of recently issued accounting standards, which is incorporated herein by reference, including the expected dates of adoption and estimated effects on A&B's results of operations and financial condition.

CONSOLIDATED RESULTS OF OPERATIONS

The following analysis of the consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries should be read in conjunction with the consolidated financial statements and related notes thereto. Amounts in this narrative are rounded to millions, but per-share calculations and percentages were calculated based on thousands. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different than the amounts included herein. The financial information included in the following table and narrative reflects the presentation of the Company's former sugar operations as discontinued operations for all periods presented.

Consolidated - 2018 vs. 2017 and 2017 vs. 2016

Net income (loss) attributable to A&B shareholders for the years ended December 31, 2018, 2017 and 2016 were as follows:

				2018 vs 2017		2017 vs 2016	
(dollars in millions, except per share amounts)	2018	2017	2016	\$	%	\$	%
Operating revenue	\$644.4	\$425.5	\$387.5	\$218.9	51.4 %	\$38.0	9.8 %
Cost of operations	(382.4)	(302.0)	(268.5)	(80.4)	(26.6)%	(33.5)	(12.5)%
Selling, general and administrative	(61.2)	(66.4)	(52.0)	5.2	7.8 %	(14.4)	(27.7)%
REIT evaluation/conversion costs	—	(15.2)	(9.5)	15.2	100.0 %	(5.7)	(60.0)%
Impairment of assets	(79.4)	(22.4)	(11.7)	(57.0)	3X	(10.7)	(91.5)%
Gain (loss) on the sale of commercial real estate properties	51.4	9.3	8.1	42.1	5X	1.2	14.8 %
Operating income (loss)	172.8	28.8	53.9	144.0	5X	(25.1)	(46.6)%
Income (loss) related to joint ventures	(4.1)	7.2	19.2	(11.3)	NM	(12.0)	(62.5)%
Impairment of equity method investments	(188.6)	—	—	(188.6)	— %	—	— %
Other income (expense), net	(33.0)	(26.1)	(37.8)	(6.9)	(26.4)%	11.7	31.0 %
Income tax benefit (expense)	(16.3)	218.2	(2.6)	(234.5)	NM	220.8	NM
Income (loss) from continuing operations	(69.2)	228.1	32.7	(297.3)	NM	195.4	6X
Discontinued operations (net of income taxes)	(0.6)	2.4	(41.1)	(3.0)	NM	43.5	NM
Net income (loss)	(69.8)	230.5	(8.4)	(300.3)	NM	238.9	NM
Income attributable to noncontrolling interest	(2.2)	(2.2)	(1.8)	—	— %	(0.4)	(22.2)%
Net income (loss) attributable to A&B	\$(72.0)	\$228.3	\$(10.2)	\$(300.3)	NM	\$238.5	NM
Basic - Continuing operations available to A&B shareholders	\$(1.01)	\$4.63	\$0.66	\$(5.64)	NM	\$3.97	6X
Basic - Discontinued operations available to A&B shareholders	(0.01)	0.05	(0.84)	(0.06)	NM	0.89	NM
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.68	\$(0.18)	\$(5.70)	NM	\$4.86	NM
Diluted - Continuing operations available to A&B shareholders	\$(1.01)	\$4.30	\$0.65	\$(5.31)	NM	\$3.65	6X
Diluted - Discontinued operations available to A&B shareholders	(0.01)	0.04	(0.83)	(0.05)	NM	0.87	NM
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.34	\$(0.18)	\$(5.36)	NM	\$4.52	NM

2018 vs. 2017

Operating revenue for 2018 increased 51.4%, or \$218.9 million, to \$644.4 million, primarily due to higher revenue from the Land Operations segment. The reasons for business and segment-specific year-to-year fluctuations in revenue are further described in the Analysis of Operating Revenue and Profit by Segment.

Cost of operations for 2018 increased 26.6%, or \$80.4 million, to \$382.4 million, primarily due to increases in operating expenses incurred by the Land Operations and Materials & Construction segments. The reasons for business and segment-specific year-to-year fluctuations in cost of operations are further described in the Analysis of Operating

Revenue and Profit by Segment.

Selling, general and administrative for 2018 decreased 7.8%, or \$5.2 million, to \$61.2 million, primarily due to decreases in professional services costs and personnel related costs in 2018.

REIT evaluation/conversion costs for 2017 were \$15.2 million related to the Company's conversion to a real estate investment trust, while no costs were incurred in 2018.

Impairment of assets for 2018 increased 3X, or \$57.0 million, to \$79.4 million, primarily due to asset impairments incurred in the Company's Materials & Construction Segment. The reasons for business and segment-specific year-to-year fluctuations in impairment of assets are further described in the Analysis of Operating Revenue and Profit by Segment.

Gain (loss) on sale of commercial real estate properties for 2018 increased 5X, or \$42.1 million, to \$51.4 million. The change from the prior year was primarily due to the sales of nine improved properties and a ground lease in 2018 as compared to a gain on the sale of two improved properties during 2017.

Income (loss) related to joint ventures for 2018 decreased by \$11.3 million, to a loss of \$4.1 million as compared to 2017, primarily due to joint venture activity in the Land Operations segment. The reasons for business and segment-specific year-to-year fluctuations in income (loss) related to joint ventures are further described in the Analysis of Operating Revenue and Profit by Segment.

Impairment of equity method investments for 2018 was \$188.6 million, as compared to 2017 when no such charges were incurred. The reasons for business and segment-specific year-to-year fluctuations in equity method investments are further described in the Analysis of Operating Revenue and Profit by Segment.

Other income (expense), net was a net expense for 2018 and increased 26.4%, or \$6.9 million, to \$33.0 million, primarily due to an increase of \$9.7 million related to interest expense as a result of higher debt levels in 2018, offset by lower reductions to the carrying amount of tax equity solar investments in 2018 of \$2.1 million.

Income tax (expense) benefit was an expense of \$16.3 million for 2018 and primarily reflected the establishment of a valuation allowance related to the Company's deferred tax assets on the balance sheet due to cumulative losses incurred in the Company's TRS. Income tax benefit for 2017 of \$218.2 million primarily reflected the reversal of approximately \$223.0 million of net deferred tax liabilities in connection with the Company's conversion to a REIT, offset by approximately \$3.0 million due to the impact of the enactment of the Tax Cuts and Jobs Act of 2017.

Income attributable to noncontrolling interest of \$2.2 million for 2018 approximated 2017. The noncontrolling interest represents third-party noncontrolling interests in two entities consolidated by Grace Pacific in which Grace Pacific owns a 70% and 51% share.

2017 vs. 2016

Operating revenue for 2017 increased 9.8%, or \$38.0 million, to \$425.5 million, primarily due to higher revenue from the Land Operations and Materials & Construction segments. The reasons for business and segment-specific year-to-year fluctuations in revenue are further described in the Analysis of Operating Revenue and Profit by Segment.

Cost of operations for 2017 increased 12.5%, or \$33.5 million, to \$302.0 million, primarily due to increases in operating expenses incurred by the Land Operations and Materials & Construction segments. The reasons for business and segment-specific year-to-year fluctuations in cost of operations are further described in the Analysis of Operating Revenue and Profit by Segment.

Selling, general and administrative for 2017 increased 27.7%, or \$14.4 million, to \$66.4 million, primarily due to strategic initiatives taken to grow the commercial real estate business such as costs incurred to transition third-party property management and leasing functions internally.

REIT evaluation/conversion costs for 2017 increased 60.0%, or \$5.7 million, to \$15.2 million related to the Company's conversion to a real estate investment trust, compared to \$9.5 million in 2016.

Impairment of assets for 2017 increased 91.5%, or \$10.7 million, to \$22.4 million, primarily due to certain of its U.S. Mainland properties that were classified as held for sale as of December 31, 2017.

Gain (loss) on sale of commercial real estate properties for 2017 was \$9.3 million realized on the sales of two commercial properties during 2017, as compared to \$8.1 million realized on commercial property sales during 2016. Additionally, following our conversion to a REIT, sales of improved properties are no longer subject to taxation.

Income (loss) related to joint ventures for 2017 decreased 62.5%, or \$12.0 million to \$7.2 million as compared to 2016 primarily due to joint venture activity in the Land Operations segment. The reasons for business and segment-specific year-to-

year fluctuations in income (loss) related to joint ventures are further described in the Analysis of Operating Revenue and Profit by Segment.

Other income (expense), net was a net expense of \$26.1 million in 2017 compared to a net expense of \$37.8 million in 2016. The change from the prior year was primarily due to an increase of \$3.5 million in interest income, a \$0.4 million decrease in pension and post retirement other expense and a \$7.2 million increase in the adjustment to reduce the carrying amount of tax equity solar investments.

Income tax benefit (expense) was a benefit of \$218.2 million in 2017, primarily due to the reversal of approximately \$223.0 million of net deferred liabilities in connection with the Company's conversion to a REIT, partially offset by approximately \$3.0 million due to the impact of the enactment of the Tax Cuts and Jobs Act of 2017. Income tax expense was \$2.6 million for 2016 due to taxable income generated by the Company and reduced by a non-refundable federal tax credit related to the Company's Waihonu tax equity solar investment.

Income attributable to noncontrolling interest increased \$0.4 million in 2017 compared to 2016. The noncontrolling interest represents third-party noncontrolling interests in two entities consolidated by Grace Pacific and in which Grace Pacific owns a 70% and 51% share.

ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

Commercial Real Estate

2018 vs. 2017

Operating profit (loss) margin, cash and same store net operating income for the years ended December 31, 2018 and 2017 and number of Hawai'i ground leases at December 31, 2018 and 2017 were as follows:

(dollars in millions, unaudited)	2018	2017	\$ Change	Change
Commercial Real Estate operating revenue	\$140.3	\$136.9	\$ 3.4	2.5 %
Commercial Real Estate operating costs and expenses	(77.2)	(75.5)	(1.7)	(2.3)%
Selling, general and administrative	(6.9)	(6.8)	(0.1)	(1.5)%
Intersegment operating revenue, net ¹	2.6	2.5	0.1	4.0 %
Impairment of assets	—	(22.4)	22.4	100.0 %
Other income/(expense), net	(0.3)	(0.3)	—	— %
Commercial Real Estate operating profit (loss)	\$58.5	\$34.4	\$ 24.1	70.1 %
Operating profit (loss) margin	41.7 %	25.1 %		
Cash Net Operating Income ("Cash NOI") ²				
Hawai'i	\$85.2	\$74.0		
Mainland	1.5	10.9		
Total	\$86.7	\$84.9		
Same-Store Cash Net Operating Income ("Same-Store Cash NOI") ²	\$74.2	\$71.6		
Gross Leasable Area ("GLA") (million sq. ft.) - Improved (at year end)				
Hawai'i	3.5	3.0		
Mainland	—	1.0		
Total improved	3.5	4.0		
Hawai'i ground leases (acres at end of period)	108.7	117.0		

¹ Intersegment operating revenue, net for Commercial Real Estate is primarily from the Materials & Construction segment and is eliminated in the consolidated results of operations.

² Refer to page 42 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

Commercial Real Estate operating revenue for 2018 increased 2.5%, or \$3.4 million, to \$140.3 million, primarily due to increases in Hawai'i same-store rents. "Same-store" refers to properties that were owned and operated for the entirety of the prior calendar year. The same-store pool excludes properties under development or redevelopment, properties held for sale and also excludes properties acquired or sold during the comparable reporting periods, including stabilized properties. New developments and redevelopments are moved into the same-store pool upon one full calendar year of stabilized operation. New developments and redevelopments are generally considered stabilized upon the initial attainment of 90% occupancy.

Commercial Real Estate Operating profit (loss) for 2018 increased 70.1%, or \$24.1 million, to \$58.5 million, primarily due to aggregate impairment charges of \$22.4 million recognized in 2017 related to certain U.S. Mainland properties that were classified as held for sale as of December 31, 2017.

Occupancy represents the percentage of square footage leased and commenced to gross leasable space at the end of the period reported. The Company's commercial portfolio's occupancy and same-store occupancy percentage summarized by property type at December 31, 2018 and 2017 was as follows:

Occupancy

	December 31, 2018	December 31, 2017	Percentage Point Change
Retail	93.4%	93.1%	0.3
Industrial	90.1%	95.1%	(5.0)
Office	93.8%	89.1%	4.7
Total	92.4%	93.5%	(1.1)

Same-Store Occupancy

	December 31, 2018	December 31, 2017	Percentage Point Change
Retail	93.0%	93.3%	(0.3)
Industrial	89.3%	95.3%	(6.0)
Office	93.8%	89.8%	4.0
Total	91.9%	93.7%	(1.8)

In 2018, the Company signed or renewed 240 leases or 825,239 square feet, at an average spread of 8.4%, and the change in average annual rental income on renewals as compared to the prior rental income was approximately 9.3%. Total expenditures for tenant improvement costs and leasing commissions were \$11.9 million in 2018 and \$10.6 million in 2017.

GLA was 3.5 million square feet at December 31, 2018, compared to 4.0 million square feet at of December 31, 2017, as a result of the following activity:

Dispositions			Acquisitions		
Date	Property	GLA (SF)	Date	Property	GLA (SF)
11/18	Lahaina Square	44,800	12/18	Opule Street Industrial	151,500
3/18	Sparks Business Center	396,100	7/18	The Collection	12,000
3/18	Preston Park	198,800	2/18	Laulani Village	175,600
3/18	Little Cottonwood Center	141,500	2/18	Hokulei Village	119,200
3/18	Royal MacArthur Center	44,900	2/18	Pu`unene Shopping Center	120,400
3/18	Stangenwald Building	27,100			
3/18	Judd Building	20,200			
3/18	Kaiser Permanente Ground Lease	N/A			
2/18	Deer Valley Financial Center	126,600			
1/18	Concorde Commerce Center	138,700			
	Total improved dispositions	1,138,700		Total improved acquisitions	578,700

2017 vs. 2016

Operating profit (loss) margin, cash and same store net operating income for the years ended December 31, 2017 and 2016 and number of Hawai'i ground leases at December 31, 2017 and 2016 were as follows:

(dollars in millions, unaudited)	2017	2016	\$ Change	Change	
Commercial Real Estate operating revenue	\$136.9	\$134.7	\$2.2	1.6	%
Commercial Real Estate operating costs and expenses	(75.5)	(79.0)	3.5	4.4	%
Selling, general and administrative	(6.8)	(2.5)	(4.3)	(172.0)	%
Intersegment operating revenue, net ¹	2.5	2.0	0.5	25.0	%
Impairment of assets	(22.4)	—	(22.4)	NM	
Other income/(expense), net	(0.3)	(0.4)	0.1	25.0	%
Commercial Real Estate operating profit (loss)	\$34.4	\$54.8	\$(20.4)	(37.2)	%
Operating profit (loss) margin	25.1 %	40.7 %			

Cash Net Operating Income ("Cash NOI")²

Hawai'i	\$74.0	69.8
Mainland	10.9	13.2
Total	\$84.9	\$83.0

Same-Store Cash Net Operating Income ("Same-Store Cash NOI")²

Gross Leasable Area ("GLA") (million sq. ft.) - Improved (at year end)	\$71.6	\$72.2
Hawai'i	3.0	2.9
Mainland	1.0	1.8
Total improved	4.0	4.7
Hawai'i ground leases (acres at end of period)	117.0	106.0

¹ Intersegment operating revenue, net for Commercial Real Estate is primarily from the Materials & Construction segment and is eliminated in the consolidated results of operations.

² Refer to page 42 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

Commercial Real Estate operating revenue for 2017 was 1.6% higher than 2016, primarily attributable to the increases in Hawai'i same-store rents. Results reflect increases in Hawai'i same-store rents. "Same-store" refers to properties that were owned and operated for the entirety of the prior calendar year. The same-store pool excludes properties under development or redevelopment, properties held for sale and also excludes properties acquired or sold during the comparable reporting periods, including stabilized properties. New developments and redevelopments are moved into the same-store pool upon one full calendar year of stabilized operation. New developments and redevelopments are generally considered stabilized upon the initial attainment of 90% occupancy.

Operating profit was 37.2% lower in 2017, compared with 2016, primarily due to aggregate impairment charges of \$22.4 million related to certain of its U.S. Mainland properties that were classified as held for sale as of December 31, 2017.

GLA was 4.0 million square feet at December 31, 2017, compared to 4.7 million square feet at December 31, 2016 as a result of the following activity:

Dispositions			Acquisitions		
Date	Property	GLA	Date	Property	GLA
1/17	The Maui Clinic Building	16,600	6/17	Honokohau Industrial	73,200
11/17	Midstate 99 Distribution Center	790,200			
	Total dispositions	806,800		Total improved	73,200

acquisitions

Use of Non-GAAP Financial Measures

The Company uses non-GAAP measures when evaluating operating performance because management believes that they provide additional insight into the Company's and segments' core operating results, and/or the underlying business trends affecting performance on a consistent and comparable basis from period to period. These measures generally are provided to investors as an additional means of evaluating the performance of ongoing core operations. Cash Net Operating Income ("Cash NOI") is a non-GAAP measure used internally in evaluating the unlevered performance of the Company's Commercial Real Estate portfolio. The Company believes Cash NOI provides useful information to investors regarding the Company's financial condition and results of operations because it reflects only those cash income and expense items that are incurred at the property level, and when compared across periods, can be used to determine trends in earnings of the Company's properties as this measure is not affected by non-cash revenue and expense recognition items, the impact of depreciation and amortization expenses or other gains or losses that relate to the Company's ownership of properties. The Company believes the exclusion of these items from operating profit (loss) is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating the Company's Commercial Real Estate portfolio as well as trends in occupancy rates, rental rates, and operating costs. Cash NOI should not be viewed as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

Cash NOI is calculated as total Commercial Real Estate operating revenues less direct property-related operating expenses. Cash NOI excludes straight-line lease adjustments, amortization of favorable/unfavorable leases, amortization of lease incentives, selling, general and administrative expenses, impairment of commercial real estate assets, lease termination income, and depreciation and amortization (including amortization of maintenance capital, tenant improvements and leasing commissions).

The Company's methods of calculating non-GAAP measures may differ from methods employed by other companies and thus may not be comparable to such other companies.

A reconciliation of Commercial Real Estate operating profit (loss) to Commercial Real Estate Cash NOI for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

(dollars in millions, unaudited)	2018	2017	2016
Commercial Real Estate Operating Profit (Loss)	\$58.5	\$34.4	\$54.8
Plus: Depreciation and amortization	28.0	26.0	28.4
Less: Straight-line lease adjustments	(4.0)	(1.6)	(2.1)
Plus: Lease incentive amortization	—	—	0.1
Less: Favorable/(unfavorable) lease amortization	(1.9)	(2.9)	(3.3)
Less: Termination income	(1.1)	(1.7)	(0.1)
Plus: Other (income)/expense, net	0.3	0.3	0.4
Plus: Impairment of assets	—	22.4	—
Plus: Selling, general, administrative and other expenses	6.9	7.9	4.8
Commercial Real Estate Cash NOI	\$86.7	\$84.8	\$83.0

Land Operations

2018 vs. 2017 vs. 2016

Direct year-over-year comparison of the Land Operations segment results may not provide a consistent, measurable indicator of future performance because results from period to period are significantly affected by the mix and timing of property sales. Operating results, by virtue of each project's asset class, geography and timing are inherently variable. Earnings from joint venture investments are not included in segment revenue, but are included in operating profit. The mix of real estate sales in any year or quarter can be diverse and can include developed residential real estate, developable subdivision lots, undeveloped land, and property sold under threat of condemnation. The sale of undeveloped land and vacant parcels in Hawai'i generally provides higher margins than does the sale of developed property, due to the low historical cost basis of the Company's land owned in Hawai'i. Consequently, Land Operations revenue trends, cash flows from the sales of real estate, and the amount of real estate held for sale on the Company's balance sheet do not necessarily indicate future profitability trends for this segment. Additionally, the operating profit reported in each quarter does not necessarily follow a percentage of sales trend because the cost basis of property sold

can differ significantly between transactions.

Land Operations operating profit (loss) for the years ended December 31, 2018, 2017 and 2016 were as follows:

(in millions, unaudited)	2018	2017	2016
Development sales revenue	\$54.3	\$35.0	\$12.5
Unimproved/other property sales revenue	210.5	25.6	28.7
Other operating revenues ¹	24.7	23.9	20.7
Total Land Operations operating revenue	289.5	84.5	61.9
Land operations costs and operating expenses	(124.0)	(73.9)	(46.3)
Impairment of assets	(1.6)	—	(11.7)
Impairment of equity method investment	(188.6)	—	—
Earnings (loss) from joint ventures	(4.7)	3.3	15.1
Reductions in solar investments, net	(0.5)	(2.6)	(9.8)
Interest and other income (expense), net	3.2	2.9	(2.2)
Total Land Operations operating profit (loss)	\$(26.7)	\$14.2	\$7.0

¹ Other operating revenues includes revenue related to trucking, renewable energy and diversified agriculture.

2018: Land Operations revenue of \$289.5 million was significantly impacted in 2018 by the bulk sale of approximately 41,000 of our Maui agricultural lands and certain ownership interests to Mahi Pono, LLC ("Agricultural Land Sale"). Land Operations revenue also included sales of 91 units for the Company's Kamalani project in Kihei, Maui, the sale of one Kahala Avenue parcel, the sale of 313 acres to the State of Hawai'i for the expansion of the Kahului airport on Maui, the sale of 262 acres to the County of Maui for the expansion of the Kula Agricultural Park on Maui, and trucking service and power sales revenues.

Operating loss for the year ended December 31, 2018 was \$26.7 million and included the gross profit of \$162.2 million related to the Agricultural Land Sale, the sale of a 313 acre land parcel in Kahului, Maui, and a decrease in earnings from the Company's real estate development-related joint ventures and investments. The segment results also included equity method investment impairments of \$188.6 million, primarily related to the Company's Kukui'ula joint venture. During the fourth quarter, the Company changed its strategy and will no longer hold its investment in Kukui'ula long-term, although it remains committed to positioning the project for longer term success and transition. As a result of the change in intent, the Company concluded that its investment in Kukui'ula was other-than-temporarily impaired and recognized a non-cash impairment of \$186.8 million during the fourth quarter of 2018. Operating profit also includes interest and other income (expense), net, of \$3.2 million, primarily related to a gain on the sale of a real estate development joint venture.

2017: Land Operations revenue was \$84.5 million and included sales of one Kahala Avenue parcel, 35 units on Maui, a 293-acre parcel in Haiku, Maui, a 273-acre parcel on the island of Kauai, six lots at Maui Business Park, a 146-acre parcel in Kihei, Maui, a three-acre parcel in Wailea, Maui, and a 0.8-acre vacant, urban parcel on Maui, along with trucking service and power sales revenues.

Operating profit for the year ended December 31, 2017 was \$14.2 million and included earnings from the Company's real estate development-related joint ventures and investments. The segment results also included a \$2.6 million non-cash reduction in the carrying value of the Company's Solar Investment and \$2.9 million of interest and other income primarily related to notes receivable on a third-party development-for-sale project that was repaid during the fourth quarter of 2017.

2016: Land Operations revenue was \$61.9 million, principally related to the sales of three vacant parcels of \$27.7 million on Maui, two residential lots on Oahu of \$6.9 million, The Collection developer fee of \$4.4 million, 0.5 acres at Maui Business Park II of \$1.0 million, trucking service revenue, and power sales revenue.

Operating profit for the year ended December 31, 2016 and included joint venture residential sales of 451 residential units at The Collection, 14 units at Kukui'ula on Kauai and 10 units at Ka Milo on the Island of Hawai'i. The margin on these sales was partially offset by joint venture expenses. During the fourth quarter of 2016, as a result of a change in its strategy for development activities, the Company recorded non-cash impairment charges of \$11.7 million related to certain non-active, long-term development projects. The impairment loss recorded reduced the carrying amounts to the estimated fair value, reflecting the change to the Company's development-for-sale strategy to de-risk its portfolio by not pursuing certain long-term projects that were not in active development and instead focus on projects with a

shorter-term investment period, generally 3 to 5 years. Operating profit includes the reduction of the Company's solar energy investments of \$9.8 million in 2016.

Discontinued Operations

2018 vs. 2017 vs. 2016

The revenue, operating income (loss), and after-tax effects of discontinued operations for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

(dollars in millions, unaudited)	2018	2017	2016
Sugar operations revenue	\$—	\$22.9	\$98.4
Cost of discontinued sugar operations	—	22.5	87.5
Operating income (loss) from sugar operations	—	0.4	10.9
Sugar operations cessation costs	(0.6)	(2.7)	(77.6)
Gain (loss) on asset dispositions	—	6.0	—
Income (loss) from discontinued operations before income taxes	(0.6)	3.7	(66.7)
Income tax benefit (expense)	—	(1.3)	25.6
Income (loss) from discontinued operations, net of income taxes	\$(0.6)	\$2.4	\$(41.1)

2018: Loss from discontinued operations, net of income taxes was \$0.6 million during the year ended December 31, 2018; see Note 18 "Cessation of Sugar Operations".

2017: Income from discontinued operations of \$2.4 million for 2017 reflected gains realized on asset dispositions during the year, as well as the results of operations related to the final sugar voyage that was completed in January 2017 and other exit related costs related to the cessation of the sugar operations. See Note 18, "Cessation of Sugar Operations" for further discussion regarding the cessation and the related costs associated with such exit and disposal activities.

2016: Loss from discontinued operations of \$41.1 million for 2016 reflected sugar cessation charges of \$77.6 million related to the cessation of the Hawaiian Commercial & Sugar Company ("HC&S") sugar operation. The cessation charges included asset write-offs and accelerated depreciation, employee severance benefits and related costs, and property removal, restoration and other exit-related costs. See Note 18, "Cessation of Sugar Operations" for further discussion regarding the cessation and the related costs associated with such exit and disposal activities.

Materials & Construction

2018 vs. 2017

Selected financial data for Materials & Construction for the years ended December 31, 2018 and 2017 and backlog at December 31, 2018 and 2017 were as follows:

(dollars in millions, unaudited)	2018	2017	\$ Change	Change
Materials & Construction operating revenue	\$214.6	\$204.1	10.5	5.1%
Operating Profit (Loss)	\$(73.2)	\$22.0	(95.2)	(432.7)%
Operating margin percentage	(34.1)%	10.8 %		
Depreciation and amortization	\$12.1	\$12.2	0.1	0.8%
Aggregate tons delivered (tons in thousands)	718.2	691.6	26.6	3.8%
Asphalt tons delivered (tons in thousands)	498.2	553.8	(55.6)	(10.0)%
Backlog ^{1,2} at period end	128.7	202.1	(73.4)	(36.3)%

¹ Backlog represents the total amount of revenue that Grace Pacific and Maui Paving, LLC, a 50-percent-owned unconsolidated affiliate, expect to realize on contracts awarded. Backlog primarily consists of asphalt paving and, to a lesser extent, Grace Pacific's consolidated revenue from its prestress and construction-and traffic control-related products. Backlog includes estimated revenue from the remaining portion of contracts not yet completed, as well as revenue from approved change orders. The length of time that projects remain in backlog can span from a few days for a small volume of work to 36 months for large paving contracts and contracts performed in phases. At December 31, 2018 and 2017, these amounts include \$10.7 million and \$17.2 million of opportunity backlog consisting of government contracts in which Grace Pacific has been confirmed to be the lowest bidder and formal communication of the award is deemed perfunctory at the time of this disclosure. Circumstances outside the Company's control such as procurement or technical protests may arise that prevent the finalization of such contracts. Maui Paving's backlog at December 31, 2018 and 2017 was \$4.1 million and \$10.6 million, respectively.

² At December 31, 2018 and 2017, the backlog included contractual revenue with related parties of \$2.1 million and \$1.0 million, respectively.

Materials & Construction revenue was \$214.6 million for the year ended December 31, 2018, compared to \$204.1 million for the year ended December 31, 2017.

Operating loss was \$73.2 million for the year ended December 31, 2018, compared to operating profit of \$22.0 million for the year ended December 31, 2017. Operating loss included non-cash impairment charges of approximately \$77.8 million related to goodwill and long-lived assets in the quarry and paving operations. Materials & Construction segment operating loss was also impacted by lower margins due to reduced quarry production and paving volumes, lower pricing margins, lower joint venture earnings and higher general and administrative expenses related to process improvement initiatives and personnel transition costs. Earnings from joint venture investments are not included in segment revenue but are included in operating loss.

A change in the way local government entities are contracting for paving services has reduced the amount of paving work that meets the definition of backlog. Certain counties are now awarding "maintenance contracts" under which a contractor can secure all paving work within a certain geographic area, but jobs are not identified in advance, meeting the requirement for inclusion in backlog. This contributes, in part, to the year-over-year declines shown here in backlog.

2017 vs. 2016

Selected financial data for Materials & Construction for the years ended December 31, 2017 and 2016 and back log at December 31, 2017 and 2016 were as follows:

(dollars in millions, unaudited)	2017	2016	\$ Change	Change
Materials & Construction operating revenue	\$204.1	\$190.9	13.2	6.9%
Operating Profit (Loss)	\$22.0	\$23.3	(1.3)	(5.6)%
Operating margin percentage	10.8 %	12.2 %		
Depreciation and amortization	\$12.2	\$11.7	(0.5)	(4.3)%
Aggregate tons delivered (tons in thousands)	691.6	696.1	(4.5)	(0.6)%
Asphalt tons delivered (tons in thousands)	553.8	444.9	108.9	24.5%
Backlog at period end	\$202.1	\$242.9	(40.8)	(16.8)%

Materials & Construction revenue was \$204.1 million in 2017, compared to \$190.9 million in 2016. Revenue increased 6.9% primarily due to higher overall net material and construction volumes. Backlog at the end of December 31, 2017 was \$202.1 million, compared to \$242.9 million at December 31, 2016.

Operating profit was \$22.0 million for 2017, compared to \$23.3 million for 2016, primarily due to lower paving margins as a result of competitive market pressures, as well as lower earnings from a materials joint venture. Earnings from joint venture investments are not included in segment revenue but are included in operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Overview: A&B's primary liquidity needs have historically been to support working capital requirements and fund capital expenditures, commercial real estate acquisitions and real estate developments. A&B's principal sources of liquidity have been cash flows provided by operating activities, available cash and cash equivalent balances, and borrowing capacity under its various credit facilities.

A&B's operating income (loss) is generated by its subsidiaries. There are no material restrictions on the ability of A&B's wholly owned subsidiaries to pay dividends or make other distributions to A&B. A&B regularly evaluates investment opportunities, including development projects, commercial real estate acquisitions, joint venture investments, share repurchases, business acquisitions and other strategic transactions to increase shareholder value. A&B cannot predict whether or when it may make investments or what impact any such transactions could have on A&B's results of operations, cash flows or financial condition. A&B's cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section entitled "Risk Factors" beginning on page 11.

Cash Flows: Cash flows from operations was \$309.9 million for the year ended December 31, 2018, while cash flows used in operations for the year ended December 31, 2017 was \$1.3 million and cash flows from operations for the year ended December 31, 2016 was \$111.2 million. The change in cash flows from operating activities is primarily attributable to an increase in cash and restricted cash received from the Agricultural Land Sale and the Company's real estate development sales, as well as a decrease in cash outlays related to the Company's pension and postretirement

plans and severance payments for cessation related liabilities during the year ended December 31, 2018 as compared to prior year.

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Cash flows used in investing activities was \$104.7 million, \$3.9 million, and \$33.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. During the year ended December 31, 2018, the net cash used in investing activities included cash outlays of \$296.1 million related to capital expenditures, including cash outlays of \$241.7 million due to the Company's acquisitions of Laulani Village Shopping Center ("Laulani Village"), Hokulei Village Shopping Center, and Pu'unene Shopping Center (collectively, "TRC Acquisition"), cash outlays of \$6.9 million due to the Company's acquisition of the five commercial units at The Collection high-rise residential condominium project on Oahu from its joint venture partners, and cash outlays of \$40.1 million due to the Company's acquisition of Class A industrial warehouse buildings on Oahu. Cash outlays for investing activities during the year ended December 31, 2018 also included contributions of \$22.6 million related to investments in unconsolidated affiliates. Cash inflows from investing activities during the year ended December 31, 2018 included proceeds of \$171.7 million resulting from the sales of nine improved properties and a ground lease in 2018. Other investing cash flow activity during the year ended December 31, 2018 included \$42.3 million of proceeds from joint ventures and other investments.

Net cash flows used in investing activities for capital expenditures were as follows:

(dollars in millions)	2018	2017	Change
Commercial real estate property acquisitions/improvements	\$274.0	\$26.7	9X
Tenant improvements	8.7	6.1	42.6%
Quarrying and paving	11.0	6.3	74.6%
Agribusiness and other	2.4	3.4	(29.4)%
Total capital expenditures ¹	\$296.1	\$42.5	6X

¹ Excludes capital expenditures for real estate developments to be held and sold as real estate development inventory, which are classified in the consolidated statement of cash flows as operating activities and are excluded from the tables above.

In 2019, A&B expects that its required capital expenditures for growth, maintenance and acquisition capital will be approximately \$260-\$270 million for the Commercial Real Estate portfolio, which is primarily related to acquisition capital and includes the use of tax deferred sales and condemnation proceeds. An additional \$9-\$13 million and \$25-\$30 million have been projected for Materials & Construction and Land Operations, respectively. Should investment opportunities in excess of the amounts budgeted arise, A&B believes it has adequate sources of liquidity to fund these investments.

Net cash flows used in financing activities was \$73.5 million for the year ended December 31, 2018, as compared to net cash from financing activities for the year ended December 31, 2017 of \$96.1 million and net cash used in financing activities for the year ended December 31, 2016 of \$84.7 million. The change in cash flows used in financing activities in 2018 as compared to 2017 was primarily due to \$156.6 million of cash dividends paid to the Company's shareholders in January 2018 related to the Company's conversion to a REIT, offset by the net impact of proceeds from the issuance and payments of long-term debt.

The Company believes that funds generated from results of operations, available cash and cash equivalents, and available borrowings under credit facilities will be sufficient to finance the Company's business requirements for the next year, including working capital, capital expenditures, potential acquisitions and stock repurchases. There can be no assurance, however, that the Company will continue to generate cash flows at or above current levels or that it will be able to maintain its ability to borrow under its available credit facilities.

Other Sources of Liquidity: Additional sources of liquidity for the Company consisted of cash and cash equivalents, trade and income tax receivables, contracts retention, and inventories, totaling \$122.9 million at December 31, 2018, a decrease of \$51.2 million from December 31, 2017. The decrease is primarily due to a reduction in cash from capital expenditures and asset acquisitions during the year ended December 31, 2018.

The Company also has revolving credit and term facilities that provide additional sources of liquidity for working capital requirements or investment opportunities on a short-term as well as longer-term basis. At December 31, 2018, the Company had \$136.6 million of revolving credit borrowings outstanding, \$11.3 million in letters of credit had been issued against the facility, and \$302.1 million remained unused.

Balance Sheet: The Company had working capital of \$51.3 million at December 31, 2018, which is an increase of \$703.3 million, from a \$652.0 million working capital deficit at December 31, 2017. The change in the working capital is primarily due to cash dividends of \$156.6 million paid reducing the dividends payable liability and stock dividends of \$626.4 million issued in January 2018, offset by a decrease in cash due primarily to capital expenditures and asset acquisitions.

Tax-Deferred Real Estate Exchanges:

Sales: During the year ended December 31, 2018, sales and condemnation proceeds that qualified for potential tax-deferral treatment under Code §1031 and §1033 totaled approximately \$432.3 million from the sales of U.S. Mainland commercial properties, four Hawai'i commercial properties, and land parcels on Maui.

Purchases: During the year ended December 31, 2018, the Company utilized \$214.3 million from tax-deferred sales or condemnations for the TRC Acquisition, the acquisition of five commercial units at The Collection, and the acquisition of Class A industrial warehouse buildings on Oahu.

Proceeds from §1031 tax-deferred sales are held in escrow pending future use to purchase new real estate assets. The proceeds from §1033 condemnations are held by the Company until the funds are redeployed. As of December 31, 2018, there were approximately \$237.7 million from tax-deferred sales or condemnations that had not yet been reinvested.

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

Contractual Obligations: At December 31, 2018, the Company had the following estimated contractual obligations (in millions):

Contractual Obligations	Total	Payment due by period			
		2019	2020-2021	2022-2023	Thereafter
Debt obligations	(a) \$779.2	\$ 29.9	\$ 81.7	\$ 249.5	\$ 418.1
Estimated interest on debt	(b) 196.9	35.1	65.4	49.7	46.7
Purchase obligations	(c) 37.0	37.0	—	—	—
Pension benefits	128.2	13.2	26.1	26.0	62.9
Post-retirement obligations	(d) 7.1	0.8	1.6	1.4	3.3
Non-qualified benefit obligations	(e) 3.5	0.3	1.2	—	2.0
Operating lease obligations	(f) 39.9	5.5	10.7	9.8	13.9
Total	\$1,191.8	\$121.8	\$ 186.7	\$ 336.4	\$ 546.9

(a) Long-term debt obligations (including current portion, but excluding debt premium or discount) include principal repayments of short-term and long-term debt for the respective period(s) described (see Note 8 to the Consolidated Financial Statements for principal repayments for each of the next five years). Long-term debt includes amounts borrowed under revolving credit facilities, which have been reflected as payments due in 2022. This amount does not include the debt issuance cost.

(b) Estimated cash paid for interest on debt is determined based on (1) the stated interest rate for fixed debt and (2) the rate in effect at December 31, 2018 for variable rate debt. Because the Company's variable rate debt may be rolled over, actual interest may be greater or less than the amounts indicated. Estimated interest on debt also includes swap payments on the Company's interest rate swaps.

(c) Purchase obligations include only non-cancelable 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 sheet as accounts payable and accrued liabilities are excluded from the table above.

(d) Post-retirement obligations include expected payments to medical service providers in connection with providing benefits to the Company's employees and retirees. The \$3.3 million noted in the column labeled "Thereafter" comprises estimated benefit payments for 2024 through 2028. Post-retirement obligations are described further in Note 11 to the Consolidated Financial Statements. The obligation for pensions reflected on the Company's consolidated balance sheet is excluded from the table above because the Company is unable to reliably estimate the timing and amount of contributions.

(e) Non-qualified benefit obligations include estimated payments to executives and directors under the Company's non-qualified plans. The \$2.0 million noted in the column labeled "Thereafter" comprises estimated benefit payments for 2024 through 2028. Additional information about the Company's non-qualified plans is included in Note 11 to the

Consolidated Financial Statements.

(f) Operating lease obligations primarily include land, office space and equipment under non-cancelable, long-term lease arrangements that do not transfer the rights and risks of ownership to A&B. These amounts are further described in Note 9 to the Consolidated Financial Statements.

Commitments, Contingencies and Off-balance Sheet Arrangements: A description of other commitments, contingencies, and off-balance sheet arrangements at December 31, 2018, and herein incorporated by reference, is included in Note 14 to the consolidated financial statements of Item 8 in this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A&B 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, A&B utilizes a balanced mix of debt maturities, along with both fixed-rate and variable-rate debt. The nature and amount of A&B's long-term and short-term debt can be expected to fluctuate as a result of future business requirements, market conditions, and other factors.

A&B's fixed rate debt, excluding debt premium or discount and debt issuance costs, consists of \$582.8 million in principal term notes. A&B's variable rate debt consists of \$137.0 million under its revolving credit facilities, \$50.0 million under a bank syndicated loan, and \$9.4 million under a term loan. Other than in default, A&B does not have an obligation, nor the option in some cases, 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 A&B's financial condition or results of operations unless A&B was required to refinance such debt. For A&B's variable rate debt, a one percent increase in interest rates would have approximately a \$1.2 million impact on A&B's results of operations for 2018, assuming the December 31, 2018 balance of the variable rate debt was outstanding throughout 2018.

The following table summarizes A&B's debt obligations at December 31, 2018, presenting principal cash flows and related interest rates by the expected fiscal year of repayment.

	Expected Fiscal Year of Repayment at December 31, 2018							Fair Value at December 31, 2018
(dollars in millions)	2019	2020	2021	2022	2023	Thereafter	Total	
Liabilities								
Fixed rate	\$29.9	\$29.7	\$42.2	\$29.1	\$33.8	\$418.1	\$582.8	\$ 561.6
Average interest rate	4.51 %	4.56 %	4.48 %	4.37 %	4.32 %	3.82 %	4.34 %	
Variable rate	\$—	\$0.4	\$9.4	\$136.6	\$50.0	\$—	\$196.4	\$ 196.4
Average interest rate*	4.47 %	4.47 %	4.48 %	4.60 %	4.30 %	— %	4.46 %	

*Estimated interest rates on variable debt are determined based on the rate in effect on December 31, 2018. Actual interest rates may be greater or less than the amounts indicated when variable rate debt is rolled over.

From time to time, the Company may invest its excess cash in short-term money market funds that purchase government securities or corporate debt securities. At December 31, 2018, the amount invested in money market funds was immaterial. These money market funds maintain a weighted average maturity of less than 60 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.

A&B has no material exposure to foreign currency risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Alexander & Baldwin, Inc.

Opinion on the Financial Statement

We have audited the accompanying consolidated balance sheets of Alexander & Baldwin, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Honolulu, Hawai`i
February 28, 2019

We have served as the Company's auditor since 1950.

ALEXANDER & BALDWIN, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Operating Revenue:			
Commercial Real Estate	\$140.3	\$136.9	\$134.7
Land Operations	289.5	84.5	61.9
Materials & Construction	214.6	204.1	190.9
Total operating revenue	644.4	425.5	387.5
Operating Costs and Expenses:			
Cost of Commercial Real Estate	77.2	75.5	79.0
Cost of Land Operations	117.1	60.4	35.0
Cost of Materials & Construction	188.1	166.1	154.5
Selling, general and administrative	61.2	66.4	52.0
REIT evaluation/conversion costs	—	15.2	9.5
Impairment of assets	79.4	22.4	11.7
Total operating costs and expenses	523.0	406.0	341.7
Gain (loss) on the sale of commercial real estate properties	51.4	9.3	8.1
Operating Income (Loss)	172.8	28.8	53.9
Other Income and (Expenses):			
Income (loss) related to joint ventures	(4.1)	7.2	19.2
Impairment of equity method investment	(188.6)	—	—
Interest and other income (expense), net (Note 2)	2.8	2.1	(1.7)
Reductions in solar investments, net	(0.5)	(2.6)	(9.8)
Interest expense	(35.3)	(25.6)	(26.3)
Income (Loss) from Continuing Operations Before Income Taxes	(52.9)	9.9	35.3
Income tax benefit (expense)	(16.3)	218.2	(2.6)
Income (Loss) from Continuing Operations	(69.2)	228.1	32.7
Income (loss) from discontinued operations, net of income taxes (Note 4)	(0.6)	2.4	(41.1)
Net Income (Loss)	(69.8)	230.5	(8.4)
Income attributable to noncontrolling interest	(2.2)	(2.2)	(1.8)
Net Income (Loss) Attributable to A&B Shareholders	\$(72.0)	\$228.3	\$(10.2)
Earnings (Loss) Per Share Available to A&B Shareholders:			
Basic Earnings (Loss) Per Share of Common Stock:			
Continuing operations available to A&B shareholders	\$(1.01)	\$4.63	\$0.66
Discontinued operations available to A&B shareholders	(0.01)	0.05	(0.84)
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.68	\$(0.18)
Diluted Earnings (Loss) Per Share of Common Stock:			
Continuing operations available to A&B shareholders	\$(1.01)	\$4.30	\$0.65
Discontinued operations available to A&B shareholders	(0.01)	0.04	(0.83)
Net income (loss) available to A&B shareholders	\$(1.02)	\$4.34	\$(0.18)
Weighted-Average Number of Shares Outstanding:			
Basic	70.6	49.2	49.0
Diluted	70.6	53.0	49.4

Amounts Available to A&B Shareholders (Note 16):

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Continuing operations available to A&B shareholders	\$(71.4)	\$227.7	\$32.2
Discontinued operations available to A&B shareholders	(0.6)	2.4	(41.1)
Net income (loss) available to A&B shareholders	\$(72.0)	\$230.1	\$(8.9)
See Notes to Consolidated Financial Statements.			

ALEXANDER & BALDWIN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Year Ended December 31,		
	2018	2017	2016
Net Income (Loss)	\$(69.8)	\$230.5	\$(8.4)
Other Comprehensive Income (Loss), net of tax:			
Unrealized interest rate hedging gain (loss)	1.0	(0.4)	) 2.6
Reclassification adjustment for interest expense included in net income (loss)	—	0.5	0.4
Defined benefit pension plans:			
Actuarial loss	(4.9)	) (3.2)	) (4.5)
Amortization of net loss included in net periodic pension cost	4.6	4.3	7.5
Amortization of prior service credit included in net periodic pension cost	(0.7)	) (0.8)	) (1.0)
Amortization of curtailment (gain)/loss	(0.6)	) (0.3)	) (1.5)
Amortization of settlement (gain)/loss	0.1	1.4	—
Income taxes related to other comprehensive income (loss)	—	(0.6)	) (1.4)
Other comprehensive income (loss), net of tax	(0.5)	) 0.9	2.1
Comprehensive Income (Loss)	(70.3)	) 231.4	(6.3)
Comprehensive income (loss) attributable to noncontrolling interest	(2.2)	) (2.2)	) (1.8)
Comprehensive Income (Loss) Attributable to A&B Shareholders	\$(72.5)	\$229.2	\$(8.1)
See Notes to Consolidated Financial Statements.			

ALEXANDER & BALDWIN, INC.
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31,	
	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$11.4	\$68.9
Accounts receivable, net	49.6	34.1
Contracts retention	11.6	13.2
Costs and estimated earnings in excess of billings on uncompleted contracts	9.2	20.2
Inventories	26.5	31.9
Real estate development inventory and property held for sale	31.1	67.4
Income tax receivable	25.4	27.7
Prepaid expenses and other assets	15.9	11.4
Total current assets	180.7	274.8
Investments in Affiliates	171.4	401.7
Real Estate Developments	124.1	151.0
Property – Net	1,322.0	1,147.5
Intangible Assets – Net	68.4	46.9
Deferred Income Taxes	—	16.5
Goodwill	65.1	102.3
Restricted Cash	223.5	34.3
Other Assets	70.0	56.2
Total assets	\$2,225.2	\$2,231.2
LIABILITIES AND EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	\$39.0	\$46.0
Accounts payable	34.2	43.3
Billings in excess of costs and estimated earnings on uncompleted contracts	5.9	5.7
Indemnity holdback related to Grace acquisition	8.8	9.3
Accrued dividends	—	783.0
Accrued and other liabilities	41.5	39.5
Total current liabilities	129.4	926.8
Long-term Liabilities:		
Long-term debt	739.1	585.2
Accrued retirement benefits	28.3	22.7
Deferred revenue	63.1	2.5
Other non-current liabilities	49.1	34.9
Total long-term liabilities	879.6	645.3
Total liabilities	1,009.0	1,572.1
Redeemable Noncontrolling Interest (Note 17)	7.9	8.0
Equity:		
Common stock - no par value; authorized, 150 million shares; outstanding, 72.0 million and 49.3 million shares at December 31, 2018 and December 31, 2017, respectively	1,793.4	1,161.7
Accumulated other comprehensive income (loss)	(51.9)	(42.3)
(Distribution in excess of accumulated earnings) Earnings surplus	(538.9)	(473.0)
Total A&B shareholders' equity	1,202.6	646.4

Noncontrolling interest	5.7	4.7
Total equity	1,208.3	651.1
Total liabilities and equity	\$2,225.2	\$2,231.2
See Notes to Consolidated Financial Statements.		

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ALEXANDER & BALDWIN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net income (loss)	\$(69.8)	\$230.5	\$(8.4)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation and amortization	42.8	41.4	119.5
Deferred income taxes	16.6	(199.0)	(20.1)
Gains on asset transactions, net	(54.0)	(35.1)	(23.3)
Impairment of assets and equity method investments	268.0	22.4	11.7
Share-based compensation expense	4.7	4.4	4.1
Income (loss) from affiliates, net of distributions of income	12.9	5.5	1.4
Changes in operating assets and liabilities:			
Trade, contracts retention, and other contract receivables	(4.2)	(2.4)	5.0
Inventories	5.5	11.4	12.7
Prepaid expenses, income tax receivable and other assets	(13.2)	(23.0)	(0.1)
Accrued pension and post-retirement benefits	3.6	(47.4)	6.3
Accounts payable	(9.0)	3.3	(0.4)
Accrued and other liabilities	74.2	(40.1)	10.7
Real estate inventory sales (real estate developments held for sale)	58.4	47.6	7.4
Expenditures for real estate inventory (real estate developments held for sale)	(26.6)	(20.8)	(15.3)
Net cash provided by (used in) operations	309.9	(1.3)	111.2
Cash Flows from Investing Activities:			
Capital expenditures for acquisitions	(241.7)	(10.1)	(82.4)
Capital expenditures for property, plant and equipment	(54.4)	(32.4)	(33.7)
Proceeds from disposal of property and other assets	171.7	47.2	88.8
Payments for purchases of investments in affiliates and other	(22.6)	(41.9)	(47.2)
Distributions of capital from investments in affiliates and other investments	42.3	33.3	41.3
Net cash provided by (used in) investing activities	(104.7)	(3.9)	(33.2)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	548.4	292.5	272.0
Payments of long-term debt and deferred financing costs	(467.8)	(181.0)	(334.3)
Borrowings (payments) on line-of-credit agreement, net	4.7	2.6	(9.9)
Distribution to noncontrolling interests	(0.7)	(0.5)	(1.4)
Cash dividends paid	(156.6)	(10.3)	(12.3)
Proceeds from issuance (repurchase) of capital stock and other, net	(1.5)	(7.2)	1.2
Net cash provided by (used in) financing activities	(73.5)	96.1	(84.7)
Cash, Cash Equivalents and Restricted Cash			
Net increase (decrease) in cash, cash equivalents and restricted cash	131.7	90.9	(6.7)
Balance, beginning of period	103.2	12.3	19.0
Balance, end of period	\$234.9	\$103.2	\$12.3

	Year Ended December 31,		
	2018	2017	2016
Other Cash Flow Information:			
Interest paid, net of capitalized interest	\$(34.4)	\$(24.9)	\$(26.2)
Income tax (payments)/refunds, net	\$2.6	\$(4.0)	\$—
Noncash Investing and Financing Activities:			
Issuance of shares for stock dividend	\$626.4	\$—	\$—
Fair value of loan assumed in connection with acquisition	\$61.0	\$—	\$—
Capital expenditures included in accounts payable and accrued expenses	\$1.4	\$4.5	\$1.3
Dividends declared	\$—	\$783.0	\$—
Uncollected proceeds from disposal of equipment	\$—	\$1.9	\$—
Real estate exchanged for note receivable	\$—	\$2.5	\$—
Declared distribution from investment in affiliate	\$—	\$—	\$8.0
Declared distribution to noncontrolling interest	\$—	\$—	\$0.9
Asset retirement obligations	\$—	\$—	\$5.4
Reconciliation of cash, cash equivalents and restricted cash:			
Beginning of the period:			
Cash and cash equivalents	\$68.9	\$2.2	\$1.3
Restricted cash	34.3	10.1	17.7
Cash, cash equivalents and restricted cash	\$103.2	\$12.3	\$19.0
End of the period:			
Cash and cash equivalents	\$11.4	\$68.9	\$2.2
Restricted cash	223.5	34.3	10.1
Cash, cash equivalents and restricted cash	\$234.9	\$103.2	\$12.3
See Notes to Consolidated Financial Statements.			

ALEXANDER & BALDWIN, INC.
CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

Total Equity

Accumulated

Other

Comprehensive

Stockholders

Income

(Loss)