

March 3, 2006

Mr. Joseph F. Mesa  
General Manager  
Port Authority of Guam  
Government of Guam  
1026 Cabras Highway, Suite 201  
Piti, Guam 96915

Subject: PAG Crane No. 1 – Condition Status

Dear Mr. Mesa:

The purpose of this letter is to advise the Port Authority of Guam (PAG) as to Matson's position as to the condition of Crane No. 1.

Under the MOA executed in July 2003, Matson undertook responsibility for management services for repair and maintenance of Crane No. 1. Prior to entering into the MOA in May 2003 Matson concluded and reported that Crane No. 1 would have to be replaced within 12 to 36 months; 36 months being the outside limit if a very high level of funding were provided to address deficiencies. Paceco Corp. conducted a survey in December 2003 which concluded that the crane could be operated for another 18 months. These periods have now passed.

In response to concerns of Matson and PAG about Crane No. 1, a structural inspection and steel gauging of the crane was undertaken by Paceco Corp. to determine whether or not the crane has the structural integrity to continue in service. The survey was completed in February and a copy of their report is attached. Based on Paceco's report dated February 9, 2006, Matson has concluded that Crane No. 1 should be taken out of service and that we are no longer willing to be responsible for maintenance of the crane.

We are confident that taking Crane No. 1 out of service will not impact the discharge and loading of the primary vessels from the U.S. and that the Port will continue to work with Matson and Horizon Lines to assure the smooth handling of transship cargo to the transship vessels.

While we don't anticipate delays only using 2 cranes:

1) cargo discharge will be slower and thus cargo availabilities could be delayed as well.

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2) any subsequent problems with crane 2 or crane 3 will result in only 1 crane available to work the ships, also delaying cargo availabilites. essentially we no longer have any buffer in the event of issues

3) having only 2 cranes is going to require much more emphasis on scheduling with the barges to avoid delays getting cargo to/from Saipan

We realize that this is not an insignificant matter for PAG. Please call me if you have any concerns that you wish to further discuss.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary J. North", written in a cursive style.

Gary J. North

cc: T Ahillen

bcc: Brian Taylor  
Mar Labrador  
Joe Cruz