ALASKA RAILROAD CORPORATION

1990 ANNUAL REPORT

Mission Statement

Our mission is to operate as a self-sustaining, fully integrated, quality and service-oriented transportation company.

The Alaska Railroad Corporation is a full-service rail transportation company. We conduct business in southcentral and interior Alaska with connecting freight services to the western and northern portions of the state. We also provide freight connections to the continental United States and Canada via several water carriers.

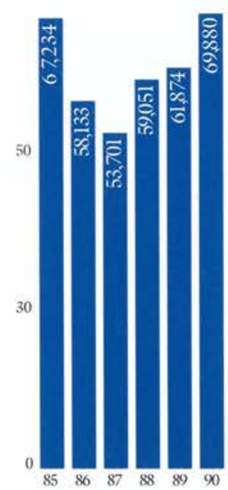
The Alaska Railroad was commissioned by Congress in 1914. Construction began in 1915 and was completed in 1923. The federal government operated the line until January 5, 1985 when the State of Alaska assumed ownership. Today, the railroad operates as a for-profit corporation overseen by a board of directors appointed by the governor. Annual earnings of the corporation are reinvested in the corporation as capital improvements.

Through our freight, passenger and real estate departments, the Alaska Railroad provides several services. We transport bulk fuels, natural resource products (such as coal, gravel and logs), construction equipment and materials, durable and non-durable goods, plus trailer and containerized cargo. We carry scheduled and chartered passengers. And we provide services for permitting and leasing railroad property.

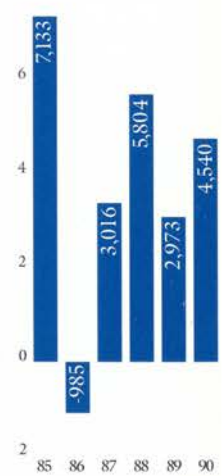
Financial Overview

The sixth year of operation for the Alaska Railroad as a for-profit, state-owned corporation began and ended with a flurry of activity, both programmed and unanticipated. During the course of the year, the railroad enjoyed steady freight and passenger growth, earning gross revenues of $69.8 million or 13 percent above projections. Despite nearly $7 million in unbudgeted expenses for moose protection, a shop fire, a fuel spill clean-up and expanded operations as a result of cold weather, the corporation closed 1990 with earnings of $4.5 million.

The earnings will be channeled back into the business as capital improvements in 1991, allowing the railroad to continue to offer safe, dependable, quality transportation services. Since the railroad's purchase by the state in 1985, we have earned $22.5 million, which with some borrowed funds has financed $78.8 million in capital programs to improve track, build new facilities, purchase new equipment and modernize systems. As a result of these improvements, the asset value of the railroad at year-end totalled $99.5 million, reflecting an average annual return on the state's investment of nearly 11 percent.



REVENUE
(In Thousands)



INCOME (LOSS)
(In Thousands)

Cover photo: Locomotive Engineer Gary Beitinger

Fellow Alaskans,

This letter is my opportunity to look back on the past few years and assess what went right at the Alaska Railroad and what did not. It is also my opportunity to try to predict the future for this railroad. Both are tough chores made even more difficult by the fact that this is my last letter as president and there is so much I want to write.

The first year of the '90s was a tough one for the Alaska Railroad. Extreme cold weather, a major derailment and fuel spill at Dunbar, and a record number of moose kills drew public and media attention and affected our bottom line. Yet, we worked through these tough times and earnings for the year reached $4.5 million.

Working through tough issues is how we have succeeded every year. The fine men and women who work at the railroad have a way of facing issues head-on. I am certain that is how issues will always be handled at the Alaska Railroad. That is what I liked about the people when I first came to work here in 1985. The railroad has a reputation as a "can-do" organization—we look at a situation and say, "We can do that." I am proud that others recognize this trait in our company and I am proud of the people who have helped shape that reputation.

The corporation has faced some interesting challenges since the state bought the railroad in 1985 and established it as a for-profit business. Some were fun to work out; others tested each of us to the limit. First, we had to reorganize from a federal agency to a quasi-private company. We stuck together through a faltering economy and subsequent layoffs. We had several costly derailments, a major flood, and more than one record year for snow.

On the plus side, we streamlined our operation to provide our freight customers and passengers with quality, affordable and dependable service. We added new freight and passenger services and bought new freight and passenger equipment to help us do a better job. Since state ownership, we have spent nearly $80 million on capital projects to improve the track structure, build new buildings, computerize our systems and buy or lease new equipment.

We negotiated a three-year labor contract that was unique to the railroad industry. All five of our unions consented to a Master Agreement that provides equal benefits and policies for all represented employees. Appendices were negotiated to accommodate work rules specific to each craft. At the end of the three-year contract, it was extended for another year at the mutual consent of management and labor.

We took the bad experiences, such as Crown Point and Dunbar, and turned them into learning experiences from which we could improve our operation. At the close of 1990 we had begun a major revision to our contingency plans that will guide us through derailments and other incidents that require swift, well-coordinated responses.

All of these things and many more were accomplished because the Alaska Railroad Corporation has one very valuable asset: its people. They are clerks, track laborers, train engineers, conductors, mechanics, machinists, accountants, computer programmers, ticket agents, sales representatives and secretaries. They live in communities from Seward to North Pole where they are raising families, going to church and spending their hard-earned wages.

The Alaska Railroad really is Alaska and I think its future is very bright.

Frank G. Turpin
President and Chief Executive Officer

FRANK G. TURPIN
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

At mid-year, Alaska Railroad President and CEO Frank Turpin, shown here with Locomotive Engineer Jeff Rognes, announced his retirement, initiating a search by the board of directors for a new railroad president. In November, Robert S. Hatfield, Jr., a 17-year veteran of the Southern Pacific Transportation Company, was hired as the new president and CEO. He began work January 2, 1991.

Last year's focus was, and continues to be, operation of the safest, high-quality rail transportation system anywhere. That challenge, coupled with the harsh conditions and expensive operational environment Alaska offers, put the Alaska Railroad to the test in 1990.

Entering into our sixth year of business, 1990 began with unseasonably cold weather and ensuing problems in several areas. The low temperatures prevented air lines and hoses which control critical brake systems from maintaining adequate pressure, causing the railroad to resort to shorter trains for freight delivery. Shorter trains meant more trains as the railroad adapted operating procedures to safely meet operating conditions and service requirements. The biggest impact was increased labor costs for additional train crews and support labor to handle the increased demand on equipment and personnel.

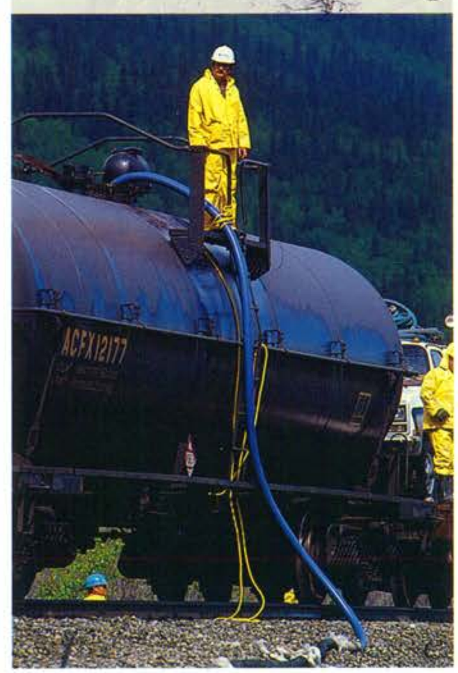
On the heels of the cold weather came heavy snowfalls along the Railbelt, particularly in the area north of Willow and south of Talkeetna. The winter snowpack was greater than the previous five years and forced starving moose onto the track, significantly increasing moose-train encounters. As a result, 722 moose were killed on the track last year. The Alaska Railroad spent more than $400,000 on moose protection. By winter's end, we had greatly reduced the number of moose incidents by deploying hi-rail pilot cars as track-clearing vehicles. Through an intensive series of meetings and strategic planning sessions with the Alaska Department of Fish and Game, moose experts, the media, environmental groups, interested citizens, military personnel and others, programs were developed for dealing with moose during high snowpack years.

A facility fire sparked by a faulty electrical system at the Fairbanks Yard caused some $350,000 in damage to a maintenance shop. The damage was limited primarily to a non-operational area of the shop. Railroad building crews closed off the damaged area and repaired the minimal damage to the main equipment shop, restoring it to operational use.

In May, 19 cars on an Alaska Railroad train carrying diesel and jet fuel derailed, spilling 170,000 gallons of petroleum products onto the ground and into two adjacent beaver ponds at Dunbar, about 40 miles south of Fairbanks. The ensuing cleanup operation received heavy public and media scrutiny and involved several petroleum spill cleanup contractors, railroad crews, Alaska Department of Environmental Conservation staff, environmental advisors, landowners and Native groups. At a cost to the railroad of more than $6 million, railroad and contract crews restored the area and agreed to monitor the site to ensure no lasting environmental damage occurred. Ultimately, regulatory and monitoring agencies indicated satisfaction with our efforts and the initial Dunbar cleanup was completed.

Also in May, the Alaska Railroad kicked off the 1990 summer tourist season with an inaugural "Mayors' Run" on newly acquired passenger equipment—six state-of-the-art passenger cars and two new dining cars costing $4.5 million. Built by DaeWoo Heavy Industries of South Korea, the cars were ridden by local mayors who served as honorary conductors on the kick-off trip from Anchorage to Fairbanks. Overall, 1990 was the biggest passenger year in railroad history, with revenues totalling nearly $7 million or 16 percent above 1989 figures. Ridership totalled 436,964 for all routes, a 19 percent increase over 1989.

Among the railroad's on-going information programs is participation in the national Operation Lifesaver program that promotes track safety awareness and enforcement. Railroad employees presented programs at schools, health fairs and



A)
Unseasonably cold weathr and record snowfall led to increased labor costs in early 1990

B)
Heavy snowfall forced starving moose onto the track, resulting in a record number of moose-train encounters.

C)
A derailment and fuel spill at Dunbar, south of Fairbanks, cost more than $6 million to clean up.

civic organizations throughout the Railbelt, reaching more than 5,000 persons of all ages.

In 1990, representatives from the safety and security departments continued a program in which safety precautions regarding grade crossings were discussed with all Railbelt school bus drivers, tour company operators and several private trucking firms. During the year, approximately 400 professional drivers were trained.

As a result of these and other community safety programs, the Alaska Railroad received the National Safety Council's Public Safety Activities Award, also known as the "Golden Spike." The Golden Spike was awarded by the council's railroad section for off-the-job railroad safety programs during 1989. The award is the National Safety Council's way of recognizing outstanding programs addressing grade-crossing safety, employee safety, safety education programs in schools and overall community service.

An initiative that could have caused significant changes in railroad operations made its way onto the 1990 statewide primary ballot, threatening to cut earnings and relegate the railroad to little more than a freight forwarder. A statewide awareness campaign and a ground-swell of public support for the railroad resulted in 78 percent of voters rejecting the initiative—an obvious show of support for the Alaska Railroad from nearly every corner of Alaska.

Equally as significant as the landslide vote was the hard work and support of employees who campaigned to defeat the initiative. Many organized into "Alaskans for Alaska's Railroad" and developed a statewide public information program that explained the workings of the railroad and how the initiative, if passed, would affect their jobs and the service they could provide. The camaraderie developed during the course of the two concurrent information campaigns—that of the railroad and the citizens group—was important in strengthening the corporation's dedication to providing quality transportation services.

During 1990, freight revenues increased dramatically in many areas. Compared to 1989, shipments of gravel, interline and petroleum grew by 47, 22 and 17 percent respectively, and export coal was up 15 percent while local coal remained constant. TOFC/COFC (trailer on flat car/container on flat car) freight dropped 10 percent and loads of pipe for the oil industry fell a dramatic 57 percent. Total freight revenues were up 10 percent over the previous year.

Real estate, historically one of the more profitable aspects of the railroad's year-round operation, saw a 4 percent decrease from 1989. This decrease is indicative of the slow turnaround in real estate values after the declining economy of the late 1980s. However, the department expects a gradual increase over the next few years as the corporation's aggressive real estate marketing and planning takes shape in the form of redevelopment and improvements planned in several Railbelt communities.

Overall, 1990 can be looked upon as a successful year for the Alaska Railroad Corporation. It included hardships, budget-breaking expenses and record revenues. Most importantly, steps were taken in all departments to improve and promote the quality services the railroad offers its employees, its customers, the communities it serves and the state.


A)
Overall revenues increased in 1990, including a record year for passenger services of $6.9 million.

B)
Plans began to take shape for redevelopment of the Ship Creek area near the Anchorage headquarters and passenger depot.

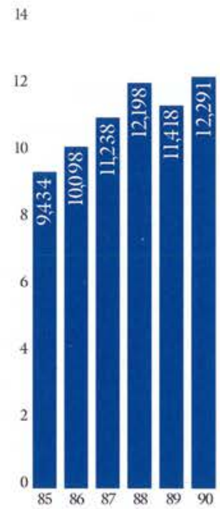
COAL

The Alaska Railroad is the primary means of shipping coal in Alaska for use both within the state and for export to foreign markets.

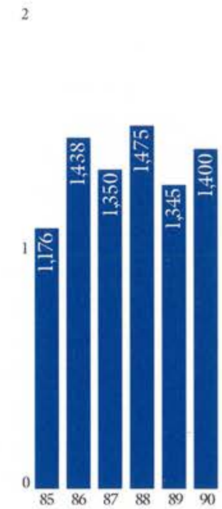
Coal originates at the Usibelli Coal Mine in Healy. It is distributed north for use by power generation facilities at three military installations in the Fairbanks area, the University of Alaska Fairbanks and the Fairbanks North Star Borough.

Export coal also originates at the Usibelli Coal Mine and is carried by the Alaska Railroad south to the port at Seward. After delivery to port, the coal is loaded into ships for the journey across the Pacific to Korea Electric Power Company. Export coal is the major international export commodity shipped on the Alaska Railroad.

Total coal revenue for 1990 reached $12.3 million, an 8 percent increase over 1989. Tonnage increased 8 percent from 1.3 million to 1.4 million tons. Export and local coal collectively represent 25 percent of total freight revenue for the Alaska Railroad and 20 percent of the carloads hauled.



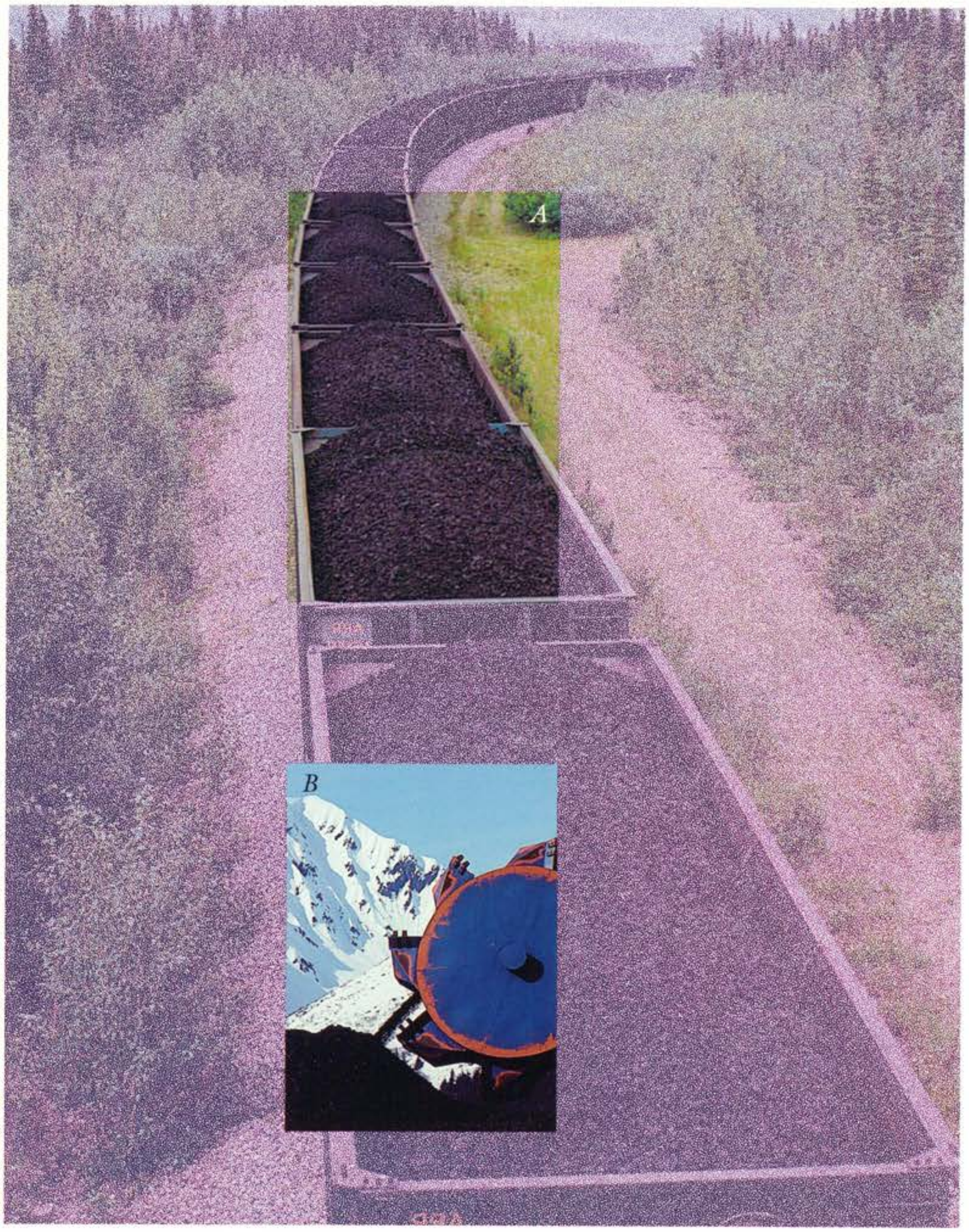
REVENUE
(In Thousands)



TONNAGE
(In Thousands)

"When we first started mining coal in interior Alaska in 1943, the Alaska Railroad was there to offer the transportation services we needed to deliver the coal to market. Over the years, those markets have expanded internationally. And the Alaska Railroad is still there, delivering the goods."

Joe Usibelli, Jr.
President
USIBELLI COAL MINE, INC.



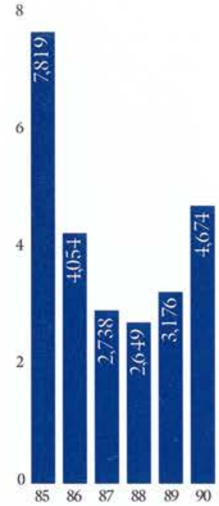
A)
More than 1.4 million tons of coal were hauled on the Alaska Railroad in 1990.

B)
Coal is exported from Seward to Korea for use in electric power generation.

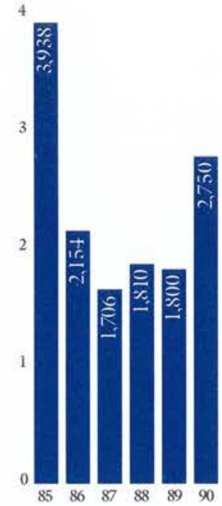
C)
Mining and transportation of coal creates jobs for Alaskans.

Gravel is hauled by the Alaska Railroad from Matanuska-Susitna Valley producers to distribution centers in Anchorage. Gravel production declined in the late '80s because of a drop in state construction projects.

However, shipments picked up in 1990. Gravel distributors Anchorage Sand & Gravel and Wilder Construction saw increases in their orders for gravel and gravel products, resulting in a 33 percent increase in 1990 carloads for the Alaska Railroad. Total revenue reached $4.7 million for hauling 2.6 million tons of gravel. This represents a 47 percent increase in revenue compared to 1989. Gravel loads accounted for nearly 38 percent of the total revenue carloads in 1990 and nearly 9 percent of total freight revenue for the Alaska Railroad.



REVENUE
(In Thousands)

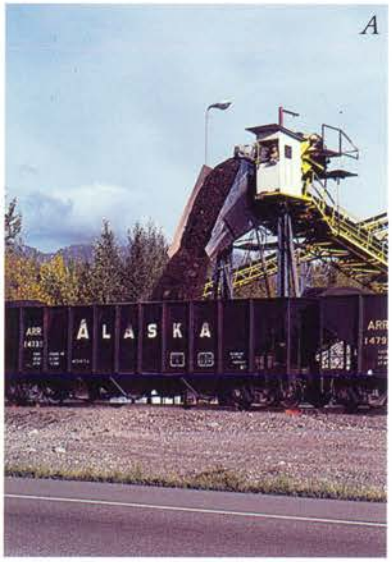


TONNAGE
(In Thousands)

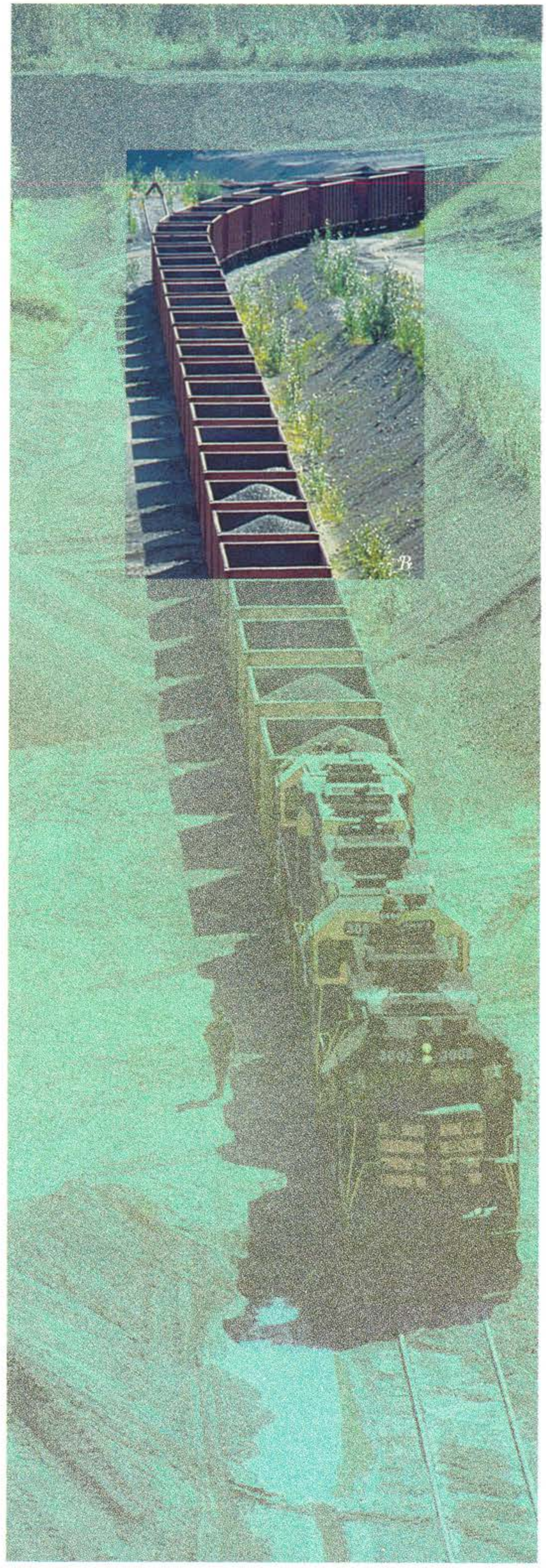
"Getting our product to market is a tough job. For more than 50 years, we've come to rely on the Alaska Railroad to deliver our product to industry, government and private customers. It's cost-effective, safe and dependable—it's good business."

Herb Lang
President
ANCHORAGE SAND & GRAVEL

A)
Unit trains of gravel hauled 2.6 million tons from the Matanuska-Susitna Valley.



B)
Production of gravel and distribution by rail increased 33 percent in 1990.

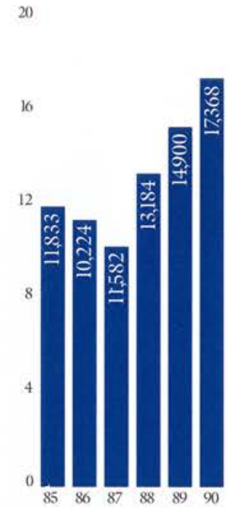


C)
Gravel is used primarily in state construction projects, especially in building roads.

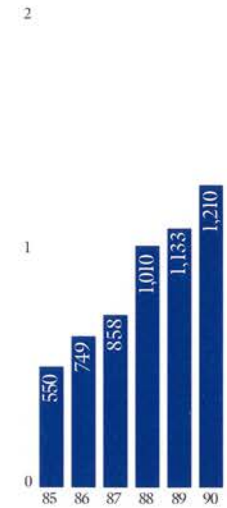
PETROLEUM

Alaska petroleum products from refineries in the Interior and Cook Inlet were hauled on the Alaska Railroad in 1990. Shipments of jet fuel, gasoline, heating oil and diesel fuel accounted for $17.4 million in revenue or 33 percent of the 1990 freight revenue—an increase of more than 17 percent over the previous year. In total, the Alaska Railroad transported more than 1.3 million tons or about 400 million gallons of petroleum products within Alaska in 1990. The state's aviation industry and military complexes, such as Anchorage International Airport, Fairbanks International Airport, Eielson Air Force Base, Elmendorf Air Force Base and other customers, depended heavily on the Alaska Railroad for delivery of aviation fuel.

The Alaska Railroad helps keep down the cost of heating fuel and automotive gasoline by providing bulk transfer of petroleum products between Anchorage and Fairbanks. Some of the fuel makes its way as far south as Seward for use by truckers, local industry and fishing vessels.



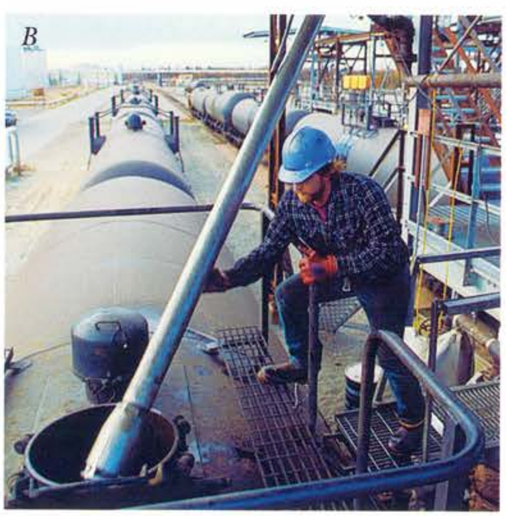
REVENUE
(In Thousands)



TONNAGE
(In Thousands)

"Without the Alaska Railroad, it is fair to say that MAPCO would not be able to provide competitively priced petroleum products to southcentral and western Alaska consumers. The ability of the Alaska Railroad to maintain on-time and low-cost deliveries is key to our success."

A. L. "Buki" Wright, Jr.
Vice President-Alaska
MAPCO ALASKA PETROLEUM, INC.



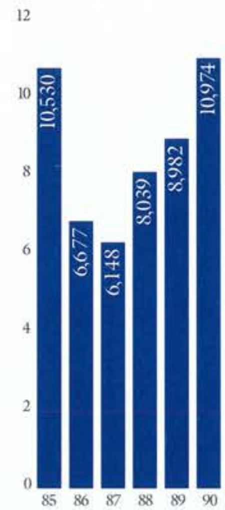
A)
In 1990, MAPCO Alaska Petroleum and Tesoro Alaska shipped more than 400 million gallons of petroleum products by rail.

B)
Locally refined fuel hauled on the Alaska Railroad is used by the aviation and fishing industries, the military, and for automobiles and home heating.

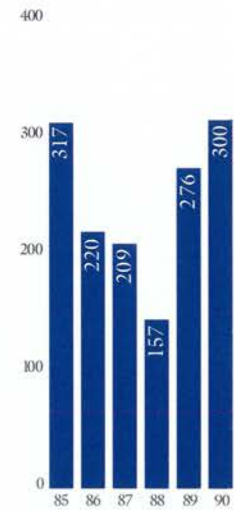
Comprised of rail cars entering and leaving Alaska through the Port of Whittier, interline service is essentially the transfer of cars from other railroads. This traffic enters or leaves Alaska by way of barges operated by Alaska Hydro-Train out of Seattle, and Canadian National AquaTrain through Prince Rupert, British Columbia. Interline freight in 1990 totaled $10.9 million or 20 percent of total freight revenue—an increase over 1989 revenue by 22 percent.

Interline freight varies from equipment and machinery to liquid natural gas, frozen fish, animal feed, cars, scrap metal, building supplies, newsprint, flour and staple goods. Oil-field products also are frequently transported in interline movements. In 1990 these included drag-reducing agents designed to reduce oil-flow turbulence in the Trans-Alaska Pipeline, plus drilling and anti-freezing compounds.

Products are shipped to Alaska in rail cars via such railroads as Burlington Northern, Southern Pacific, Union Pacific and Canadian National. Local businesses and consumers all benefit from the efficiencies created through bulk interline traffic.



REVENUE
(In Thousands)

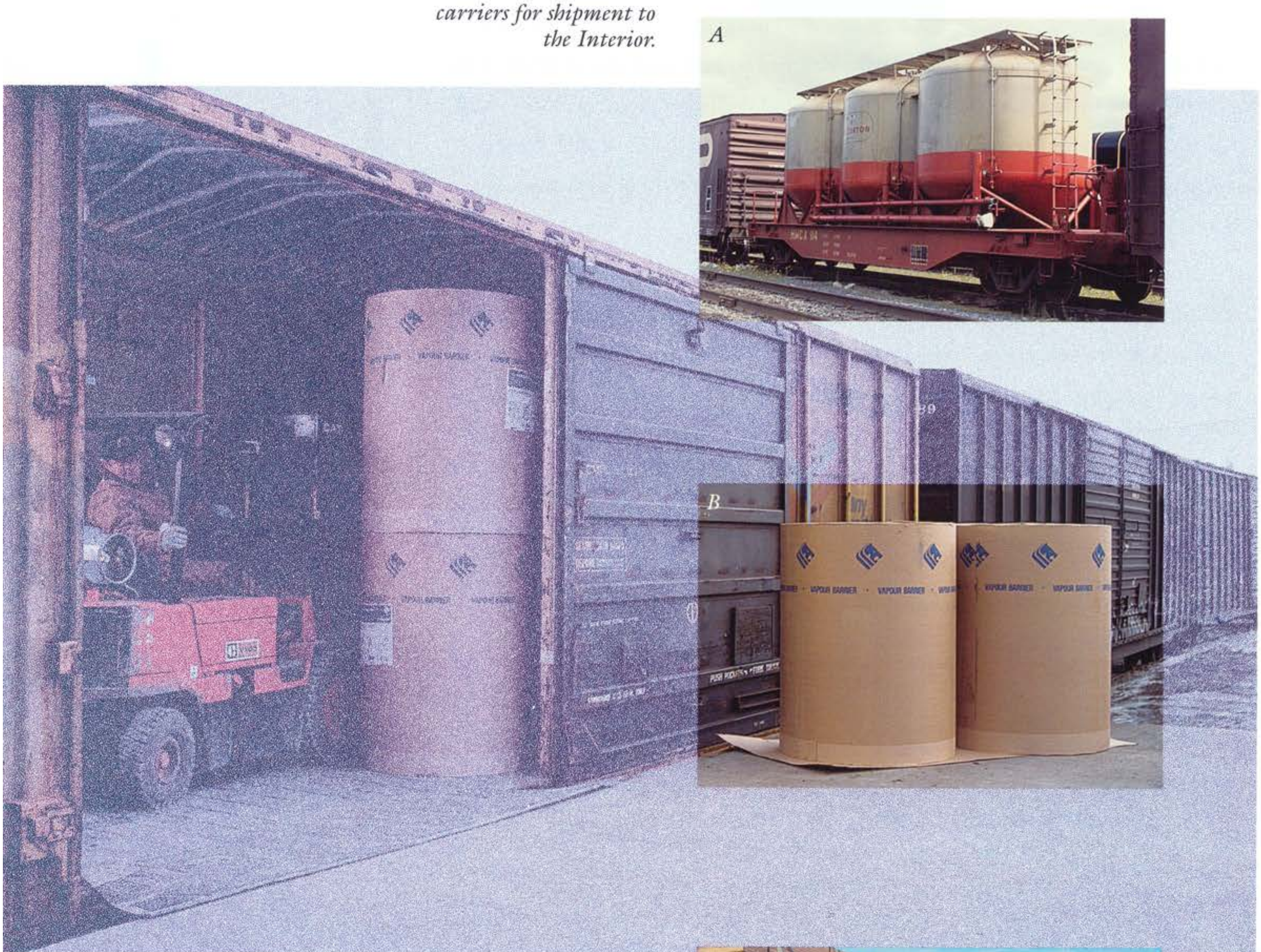


TONNAGE
(In Thousands)

"We're in the news business. Putting out a statewide daily requires a lot of newsprint, and we depend on the Alaska Railroad to deliver the goods for the Anchorage Times."

Gene Arehart
General Manager
THE ANCHORAGE TIMES

A)
Many oil-field supplies are moved in specialized rail carriers for shipment to the Interior.



B)
Newsprint for all the major newspapers along the Railbelt are hauled in boxcars as interline freight.

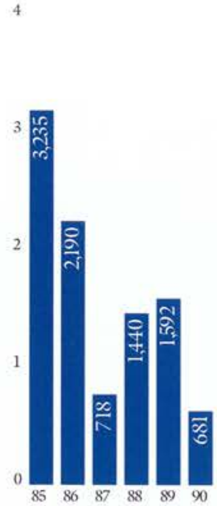
C)
Building supplies are delivered to Alaska via interline.

PIPE

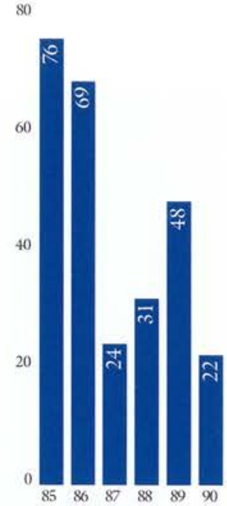
During its development in Alaska, the oil industry depended on the Alaska Railroad to help open the oil fields of the North Slope by bringing heavy construction and drilling equipment from several ports to Fairbanks for transport along the Haul Road to Prudhoe Bay. In the 1990s, the industry still depends on the Alaska Railroad to help keep refined products flowing to market.

Iron and steel products—primarily pipe—and equipment destined for the oil fields of the North Slope continue to be moved on the Alaska Railroad, although not to the same degree as during the oil-boom '70s and '80s. Pipe of foreign origin is shipped from the Port of Seward to Fairbanks, where it is transported by truck to Prudhoe Bay. Domestic pipe is carried on interline movements from the Lower 48 through the Port of Whittier to Prudhoe Bay via Fairbanks.

A resurgence in oil field production and exploration in 1989 did not carry over into 1990. About 36,000 tons of foreign-made pipe were shipped via the Alaska Railroad from Seward to Fairbanks, compared to 48,000 tons in 1989. Pipe revenue totalled $681,000 for 1990.



REVENUE
(In Thousands)



TONNAGE
(In Thousands)

"The Alaska oil industry relies quite heavily on the Alaska Railroad. Movement of bulk commodities and equipment via the railroad is a key component of our logistics program. We depend on the railroad's service in our operations."

Curtis W. Foster
Manager, Transportation Services
ARCO ALASKA, INC.

C)
Oilfield supplies, construction and drilling equipment are hauled by train to Fairbanks and transported by truck to the North Slope.

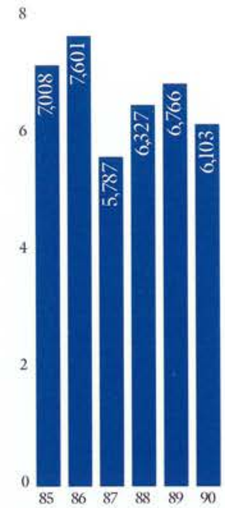
A)
Pipe of varying dimensions, including this jumbo 60-inch pipe, is hauled on the Alaska Railroad.

B)
The oil industry depends on the Alaska Railroad to help keep oil flowing to market

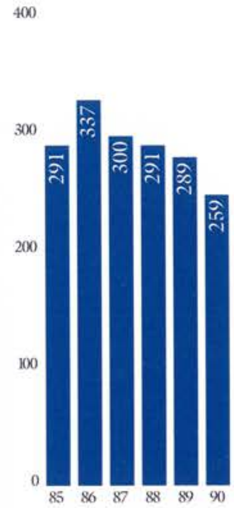
TOFC

Typically trailers and containers moved on flat cars, intermodal freight is received by the Alaska Railroad from the barge lines of Alaska Hydro-Train at Whittier and from Sea-Land and TOTE, which dock at the Port of Anchorage. Intermodal traffic, also known as TOFC and COFC (trailers on flat cars and containers on flat cars), represents both interstate and intrastate freight movements. During 1990, revenue dropped 10 percent to \$6.1 million and trailer count dropped 6 percent from the previous year. About 63 percent of TOFC and COFC freight is transported north to Fairbanks from Anchorage, and represents about 11 percent of the total freight revenue.

People throughout the Railbelt, and even more distant parts of Alaska, benefit from this facet of the railroad's freight operation. Groceries, beverages, building supplies, electronic equipment, automotive supplies and other high-use consumer commodities are delivered more economically by rail than other means. The corresponding savings in transportation and handling costs can be passed along to consumers.



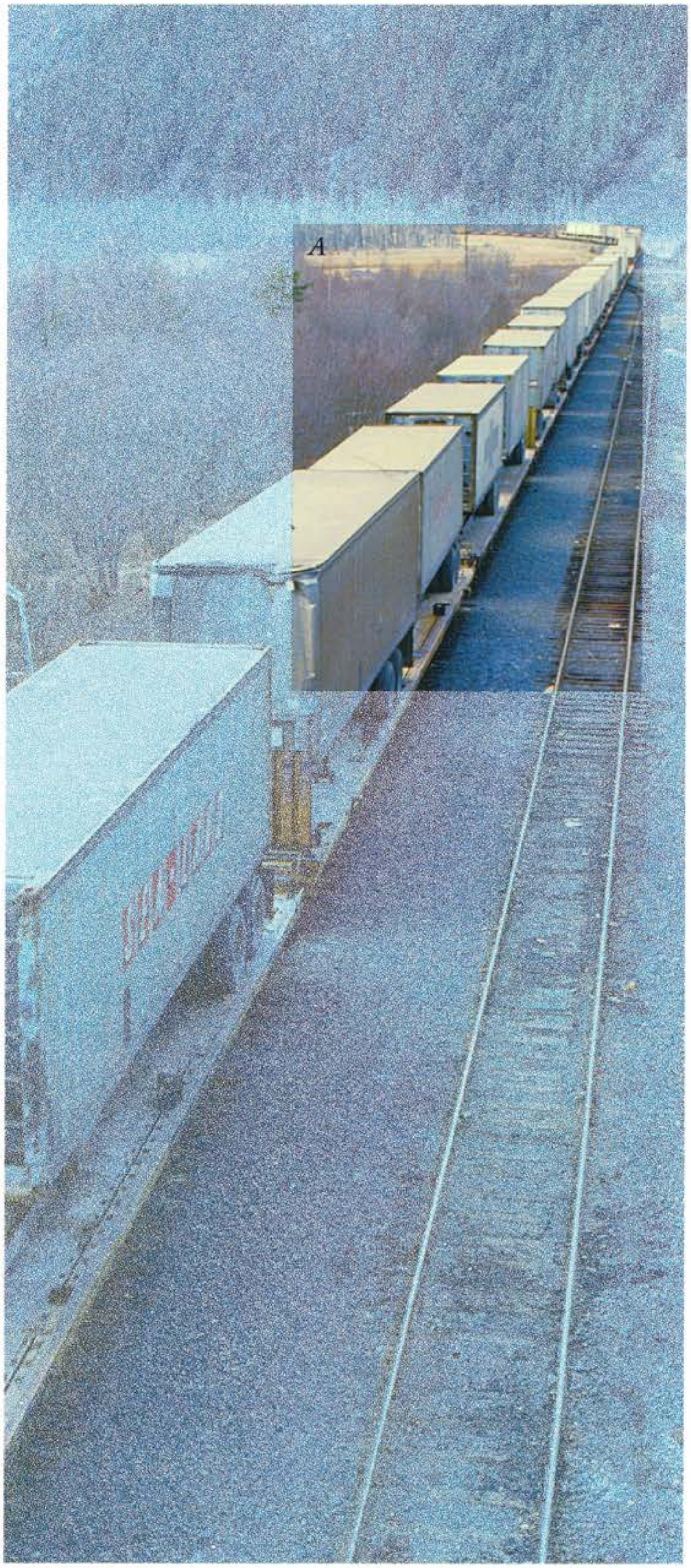
REVENUE
(In Thousands)



TONNAGE
(In Thousands)

"At Carrs, our job is getting groceries on the table at the lowest possible prices throughout the Railbelt. Our relationship with the Alaska Railroad allows us to do that quickly and efficiently."

Jerry Barnes
Marketing Director
CARRS QUALITY CENTERS



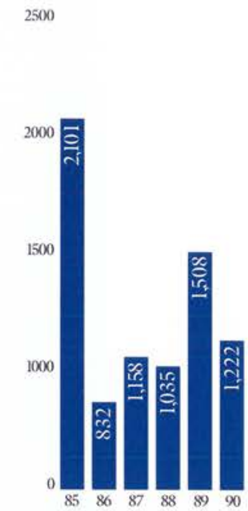
B)
Everything from groceries to automotive supplies are hauled by rail in trailers.

C)
The Alaska Railroad provides overnight express trailer service between Anchorage and Fairbanks.

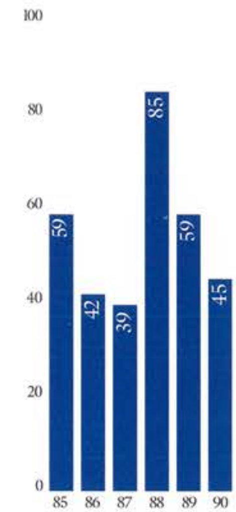
A)
Trailers are moved on the railroad on flat cars from the ports of Whittier and Anchorage to the Interior.

Construction equipment and supplies make up the bulk of this freight category, primarily moved between Anchorage and Fairbanks. Various commodities, including logs and cement, were included in this category in 1990 from which more than $1 million in revenue was received. For example, more than 12,000 tons of logs were cut in Interior Alaska and shipped to markets in the Pacific Rim. This movement resulted in $202,000 in revenue.

Railroad revenue is also derived from reimbursable construction and maintenance projects, wharfage, surplus sales, earned interest, dockage, switching and baggage storage.



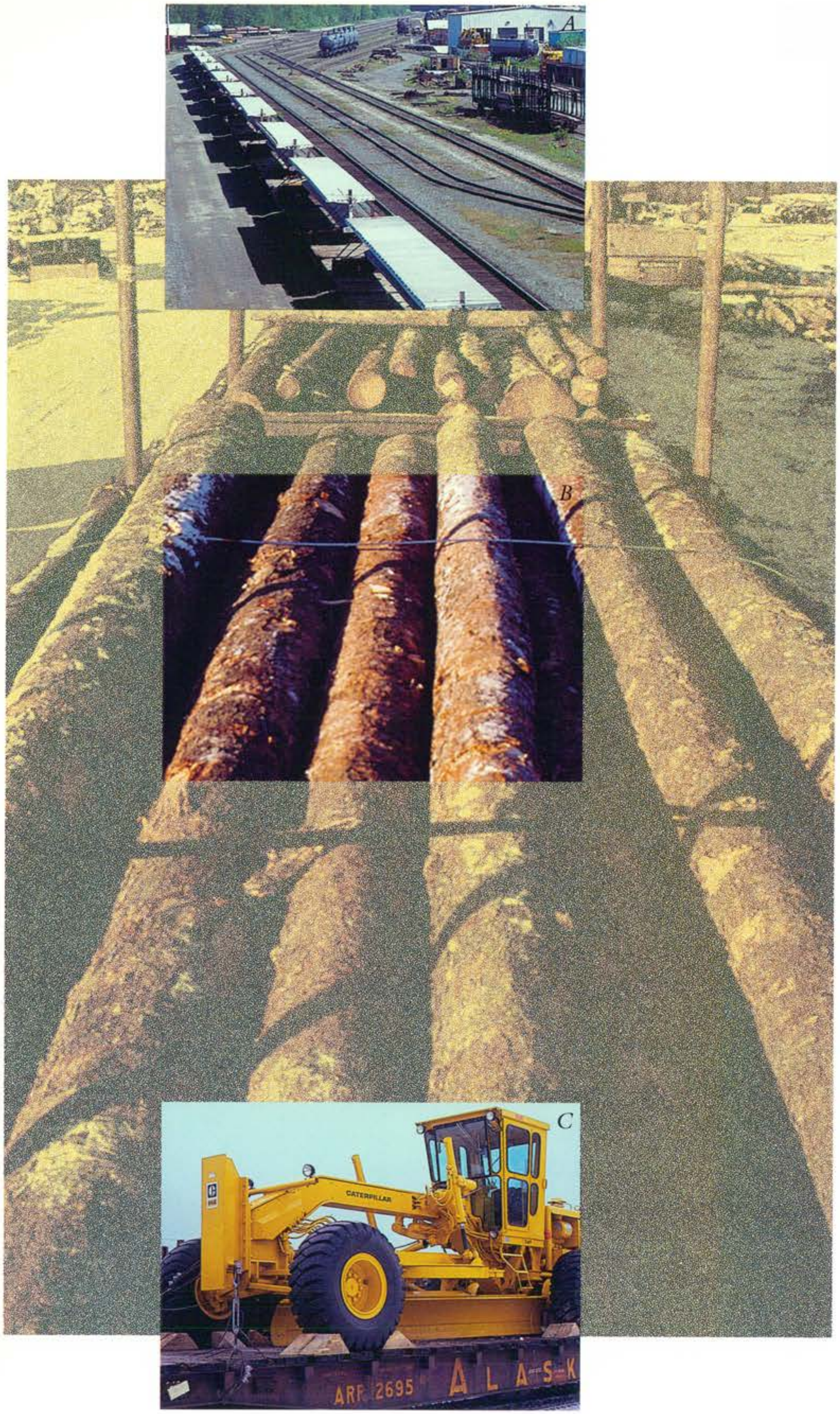
REVENUE
(In Thousands)



TONNAGE
(In Thousands)

"We depend on a timely, dependable, cost-effective transportation system. The Alaska Railroad provides the best method of transporting Anchorage Cold Storage's products to Fairbanks. The results of our long-term relationship have benefited both of our companies. We plan on continuing to take advantage of the services offered by the Alaska Railroad."

J. P. Dunn
General Manager
ANCHORAGE COLD STORAGE COMPANY



A)
Specialty construction items such as these concrete beams are hauled by rail.

B)
Logs for export to the Pacific Rim are shipped annually on the Alaska Railroad.

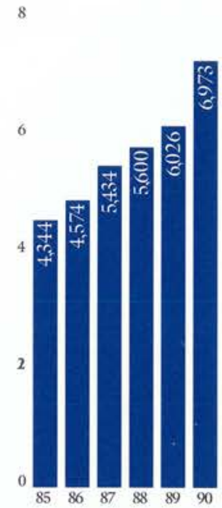
C)
Construction equipment of all sizes is regularly moved on railroad flat cars.

The Alaska Railroad's passenger service operation is one of the most visible facets of the corporation's activities in Alaska. Last year, 436,964 passengers rode the rails. Although the railroad enjoys high ridership from Alaskans, many of these passengers were tourists from Outside. The passenger service portion of the Alaska Railroad is supported through a variety of equipment types and services: the Whittier Shuttle, the Seward rail diesel cars, the summer Denali Express between Anchorage and Fairbanks that stops at Denali National Park, and winter rural service.

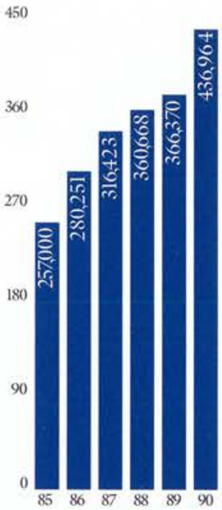
The summer of 1990 was the first season the Alaska Railroad put new passenger cars into use full-time, breaking in the $4.5 million cars with an inaugural "Mayors' Run" from Anchorage to Fairbanks to kick off the 1990 season. The eight new cars—six passenger and two food service—were built by DaeWoo Heavy Industries in South Korea to the Alaska Railroad's specifications. The passenger cars are outfitted with modern amenities including large viewing windows and comfortable seating, while the food-service cars offer china-plate dining, which proved to be very popular during the 1990 visitor season.

The Alaska Railroad's investment in the tourism industry also included a record year in cooperation with Westours' McKinley Explorer and Princess Tours' Midnight Sun dome car excursions between Anchorage and Fairbanks with a stop at Denali Park.

The Alaska Railroad's Whittier shuttle service also experienced significant growth in 1990, with a 19 percent increase over last year and record numbers expected for 1991. This popular route allows passengers to travel with vehicle or boat to the Prince William Sound port of Whittier for the myriad recreational opportunities the Sound offers and connections with the Alaska Marine Highway ferry system.



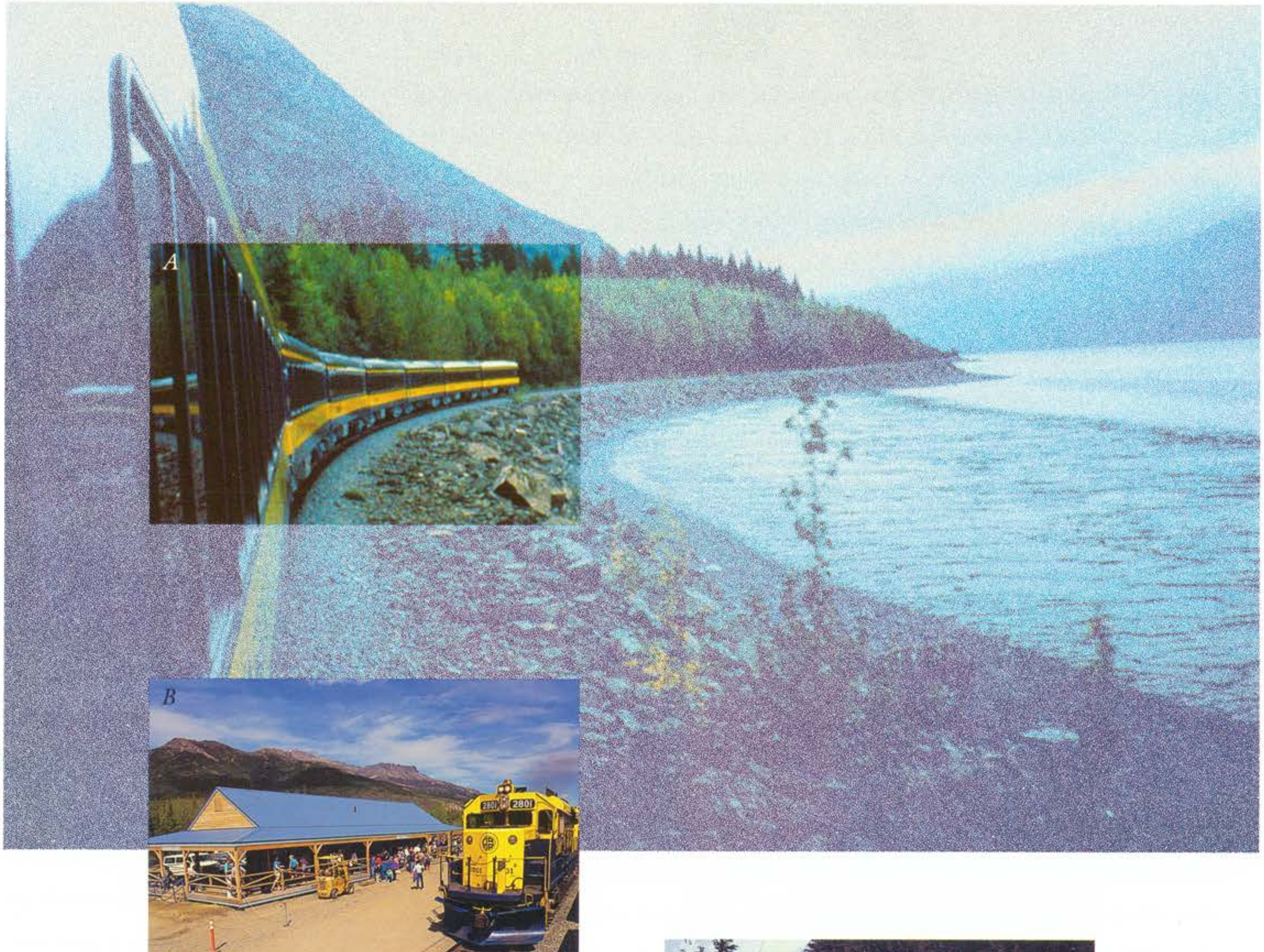
REVENUE
(In Thousands)



RIDERSHIP

"We bring hundreds of thousands of visitors to Alaska—those people love the Alaska Railroad, and so do we. As a transportation and marketing partner for our various luxury rail-car products, the railroad is pivotal in our Alaska success story. We're excited about future opportunities with the Alaska Railroad."

Phil Broderick
Director of Alaska/
Yukon Operations
GRAYLINE/WESTOURS



A)
New passenger equipment was introduced for the 1990 summer express service between Anchorage and Fairbanks.

B)
Nearly 437,000 passengers rode the Alaska Railroad in 1990, many stopping at Denali National Park.

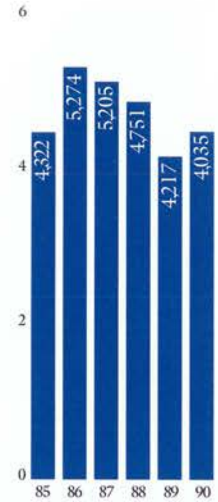
C)
Special charters are available for events such as the annual ski train to Grandview.

A lesser-known, but highly successful part of the Alaska Railroad Corporation's operation involves leasing or permitting railroad-owned real estate. The railroad's land-use policies positively affect many Alaska communities along the Railbelt from Seward to Fairbanks where 70 percent of all Alaskans reside.

The Alaska Railroad owns approximately 36,000 acres, of which 14,000 acres are right-of-way and 8,000 acres are used in operations. About 12,000 acres are currently unused and are situated primarily in rural areas with little economic value at this time. The remaining 2,300 acres are leased for industrial, commercial and residential uses. Revenues generated from more than 250 ground leases and more than 500 permits exceeded $4 million in 1990.

As the Alaska Railroad moves into the 1990s, its real estate activities are shifting from passively leasing ground to actively seeking development opportunities. One of the most exciting new projects is the redevelopment of the south side of Ship Creek in Anchorage. This project encompasses 120 acres of underdeveloped industrial property and involves changing it to commercial and tourist uses in a joint venture with the Anchorage Economic Development Corporation and the Municipality of Anchorage. In 1990, a $2.5 million state grant was secured to assist with infrastructure improvements. Specifically, the grant funds new roads and a 16-foot-wide pedestrian bridge to be situated on the existing Ship Creek dam. Plans call for developing pedestrian access, trails and other amenities. To date, $25 million in new projects for the area are on the drawing board with more expected.

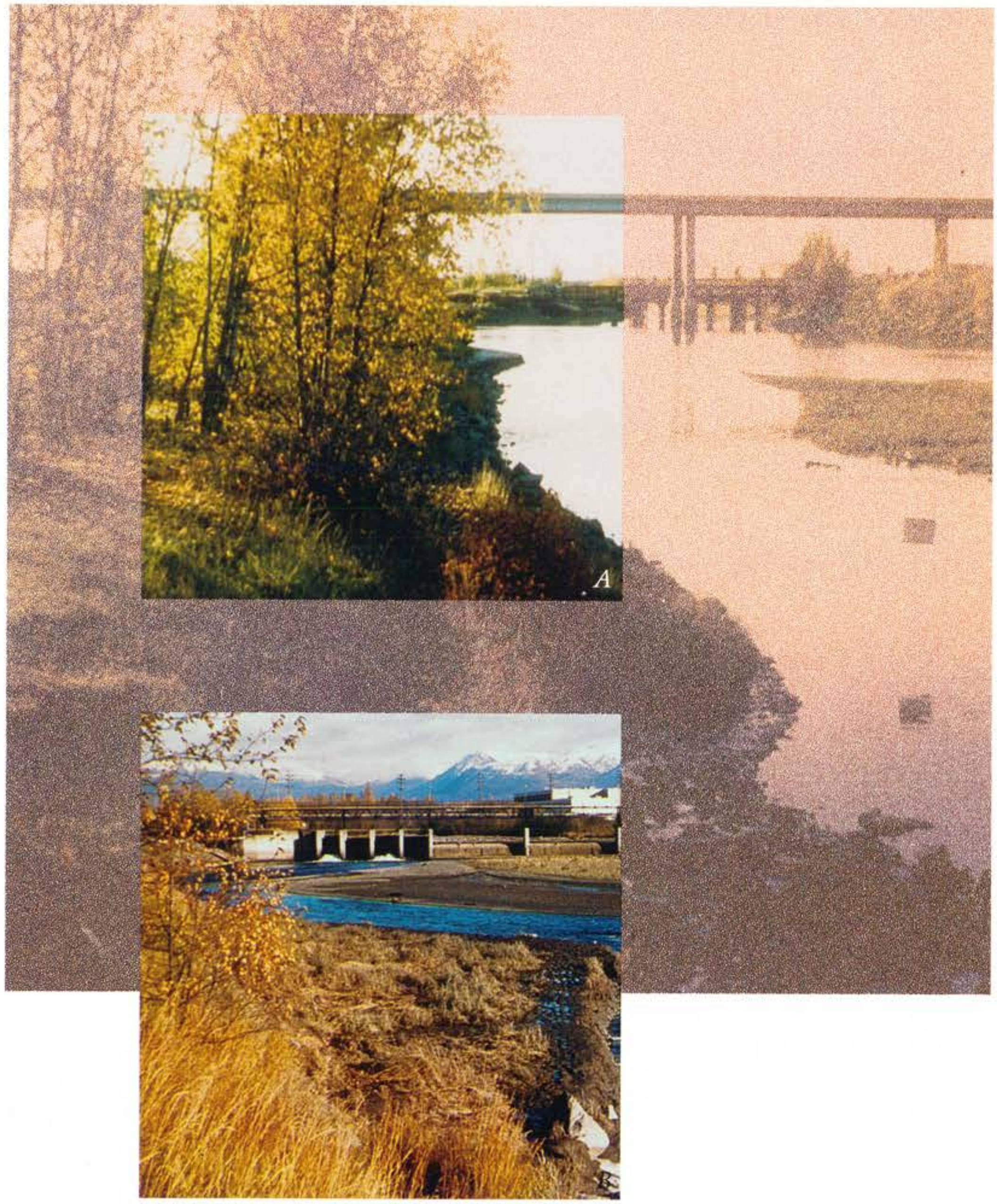
The Alaska Railroad also provides significant benefit to Railbelt communities by making land available at nominal costs for use as parks and greenbelts. Examples include the 30-acre Government Hill greenbelt in Anchorage and a 150-acre park in Talkeetna. The railroad plans to work with the Fairbanks North Star Borough to provide a greenbelt along the Chena River and with the Municipality of Anchorage to provide for a Ship Creek greenbelt. The total annual value of these public-use agreements is estimated to exceed $3 million, which the Alaska Railroad considers as its contribution to the communities where it operates.



REVENUE
(In Thousands)

"The Alaska Railroad is more than a transportation system – it's a major economic player in the continued growth of Anchorage and Alaska. For example, the Alaska Railroad's leadership on the Ship Creek basin redevelopment project will ultimately benefit all of Anchorage. As a state-owned, for-profit business, the Alaska Railroad is an experiment that is obviously working."

Scott E. Hawkins
President
ANCHORAGE ECONOMIC DEVELOPMENT CORPORATION



A)
The redevelopment of the Ship Creek area of Anchorage is expected to result in increased revenue from leases.

B)
Ship Creek improvements have already begun with roads and a pedestrian bridge over the creek.

Board Of Directors

The 1990 Board of Directors (left to right): Dale Lindsay, Transportation and Public Facilities Commissioner Mark Hickey, George Sullivan, Myron Christy, Frank Chapados, Gerald Valinske and Commerce and Economic Development Commissioner Jane Angvik.

Chairman's Statement

The Alaska Railroad is more than a transportation system. It is a tool for economic growth and a means for industry expansion. It is the vehicle for thousands of tourists who come to visit our great state. In many ways, the Alaska Railroad is Alaska—part frontier spirit and part innovation. It is a corporation that is at once people and hardware, the best Alaska has to offer. In the six years since the railroad became a state corporation, we have made some tremendous strides.

The lean years of the mid-1980s saw us tighten our belts and look hard at ways to trim costs and improve the bottom line. Soon, a streamlined operation became a profitable corporation and the Alaska Railroad moved ahead. Revenues have increased over the years and resulted in earnings of $4.5 million in 1990, even with a costly fuel spill cleanup and other emergencies.

One need only look at the crowds gathering at our depot in the summer to see how popular the railroad is among Alaskans and tourists alike. Freight customers, though not as readily apparent to the viewing public, also want railroad service—because we offer dependable, cost-effective transportation.

The future holds new challenges for the Alaska Railroad. Even as we improve and maintain the track and equipment, Alaska's harsh conditions are working against us, providing new challenges for maintenance crews. The Alaska Railroad has rarely been the subject of so much public interest, from those who envision a rail system penetrating interior Alaska to those who would curtail the railroad's operation. It is incumbent on railroad management, employees and the board of directors to insure our progress is measured and profitable and that every consideration be given to the people of Alaska and their transportation needs. Growth will come, but never at the expense of safety and quality.

In 1991 and beyond, those two factors—safety and quality—will be the watchword of everything we do. Safe, economical, high-quality rail transportation is the promise we offer. We stand behind that commitment to Alaska.

George M Sullivan

George M. Sullivan
Chairman of the Board

Management's Statement

Management is responsible for the preparation, integrity and objectivity of the Corporation's financial statements and other financial information appearing in this report. The financial statements are prepared in conformity with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the Corporation's financial position and results of operations.

Throughout 1990, the Corporation maintained a system of internal accounting controls and procedures which are continually reviewed and supported by written policies and guidelines and supplemented by audit review. The system provides reasonable assurance that assets are safeguarded against loss from unauthorized use and that the books and records reflect the transactions of the Corporation and are reliable for the preparation of financial statements. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

During 1990, a new revenue billing system became operational, allowing same-day billing to customers—which substantially accelerated the Corporation's cash flow. A new data base payroll personnel system was also finalized which will allow the Railroad to keep pace with new IRS regulations as well as changes to labor contracts.

The 1990 financial results were severely impacted by a major derailment. In excess of $6 million was expended at Dunbar to clean up about 170,000 gallons of petroleum products and to restore the affected wetlands.

The Board of Directors pursues its oversight responsibilities for the financial statements and corporate conduct through its Audit Committee. It meets regularly with members of management and independent accountants to discuss the adequacy of the Alaska Railroad's internal controls and financial statements.

The Corporation's financial statements are audited by Ernst & Young, independent certified public accountants, who are appointed by the Board of Directors. Their audit is conducted in accordance with generally accepted auditing standards which include a study and evaluation of the Corporation's system of internal accounting controls. The report of the independent accountants is below.

February 22, 1991

Marvin J. Yetter

Marvin J. Yetter,
Vice President, Finance

Report of Independent Auditors

We have audited the accompanying balance sheets of Alaska Railroad Corporation as of December 31, 1990 and 1989, and the related statements of income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Anchorage, Alaska
February 22, 1991

Ernst + Young

Balance Sheets
Alaska Railroad Corporation
December 31, 1990 & 1989

	1990	1989
	(In Thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents—Note C	**$ 2,346**	$ 814
Accounts receivable, less allowance for bad debts of $368,000 in 1990 and $203,000 in 1989	**9,964**	6,828
Operating materials and supplies	**2,968**	2,534
Other current assets	**188**	309
	15,466	10,485
PROPERTY AND EQUIPMENT—Note D		
Road	**41,443**	37,548
Equipment	**34,681**	33,558
Road materials and supplies	**2,651**	2,291
Construction in progress	**2,269**	1,216
	81,044	74,613
Less accumulated depreciation	**(20,056)**	(15,566)
	60,988	59,047
Land—Note E	**13,850**	13,850
	74,838	72,897
OTHER ASSETS		
Restricted lease proceeds—Note D	**220**	220
Restricted cash - Wishbone Hill—Note F	**9,000**	-0-
	9,220	220
	$99,524	$83,602
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 3,274**	$ 2,665
Payroll liabilities	**4,126**	4,444
Notes payable—Note G	**3,000**	3,400
Other accrued liabilities	**1,417**	2,089
Deferred revenues	**578**	310
Current portion of capital lease obligations—Note D	**2,733**	2,655
Current portion of long-term debt—Note G	**1,401**	450
	16,529	16,013
DEFERRED REVENUE, Wishbone Hill—Note F	**9,000**	
LONG-TERM DEBT, less current portion—Note G	**11,216**	6,617
CAPITAL LEASE OBLIGATIONS, less current portion—Note D	**6,117**	8,850
EQUITY		
Contributed capital	**34,174**	34,174
Retained earnings	**22,488**	17,948
	56,662	52,122
	$99,524	$83,602

See notes to financial statements.

Statements Of Income
Alaska Railroad Corporation
December 31, 1990 & 1989

	1990	1989
	(In Thousands)	
OPERATING REVENUE:		
Freight—Note I	**$53,312**	$48,343
Passenger	**6,974**	6,025
Other	**5,446**	3,083
	65,732	57,451
OPERATING EXPENSE:		
Transportation	**16,187**	15,645
Ways and structures	**12,357**	11,248
Equipment	**13,928**	12,044
General and administrative	**15,993**	13,977
Depreciation and amortization	**4,490**	4,495
	62,955	57,409
INCOME FROM OPERATIONS	**2,777**	42
OTHER INCOME (EXPENSE):		
Real estate, less direct expenses of $318,000 in 1990 and $286,000 in 1989	**3,718**	3,932
Interest income	**111**	207
Interest expense	**(2,066)**	(1,204)
	1,763	2,935
NET INCOME	**$4,540**	$2,977

Statements Of Equity

	Contributed Capital	Retained Earnings
	(In Thousands)	
Balance at December 31, 1988	**$34,174**	$14,971
Net income for the year ended December 31, 1989		2,977
Balance at December 31, 1989	**34,174**	17,948
Net income for the year ended December 31, 1990		4,540
Balance at December 31, 1990	**$34,174**	$22,488

See notes to financial statements.

Statements Of Cash Flows
Alaska Railroad Corporation
December 31, 1990 & 1989

	1990	1989
	(In Thousands)	
OPERATING ACTIVITIES		
Net income	**$ 4,540**	$ 2,977
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**4,490**	4,495
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	**(3,136)**	770
Increase in operating materials and supplies	**(434)**	(37)
Decrease (increase) in other current assets	**121**	(31)
Increase (decrease) in accounts payable and payroll liabilities	291	1,719
Increase (decrease) in other accrued liabilities	**(672)**	317
Increase (decrease) in deferred revenues	**268**	(34)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**5,468**	10,176
INVESTING ACTIVITIES		
Purchase of road and equipment	**(5,018)**	(15,967)
Increase in road materials and supplies	**(360)**	(590)
Increase in construction in progress	**(1,053)**	(71)
Investment of proceeds for Wishbone Hill	**(9,000)**	
NET CASH USED IN INVESTING ACTIVITIES	**(15,431)**	(16,628)
FINANCING ACTIVITIES		
Proceeds from short-term debt	**4,000**	4,000
Payments on short-term debt	**(4,400)**	(600)
Proceeds from long-term debt	**6,633**	4,837
Payments on long-term debt	**(1,083)**	(422)
Payments on capital lease obligations	**(2,655)**	(2,411)
Proceeds for Wishbone Hill	**9,000**	
NET CASH PROVIDED BY FINANCING ACTIVITIES	**11,495**	5,404
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,532**	(1,048)
Cash and cash equivalents at beginning of year	**814**	1,862
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 2,346**	$ 814

See notes to financial statements.

NOTE A—ORGANIZATION AND OPERATIONS

Congress authorized construction of the Alaska Railroad (Railroad) in 1914 and operations began in 1923. The federal government operated the Railroad until its sale to the State of Alaska in January 1985. The sale of the Railroad to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA), which was signed into law on January 14, 1983. The Alaska Railroad Corporation (ARRC) is a public corporation created by the State of Alaska legislature to own and operate the Railroad and manage the Railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985 and adopted the accounting policies of a commercial enterprise.

The ARRC operates 525 route miles, providing both freight and passenger services. The ARRC serves the Alaskan cities of Anchorage and Fairbanks as well as the ports of Whittier, Seward, and Anchorage; Denali National Park; and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia.

NOTE B—SIGNIFICANT ACCOUNTING POLICIES

Materials and Supplies Inventories: Operating materials and supplies are carried at the lower of cost (average cost) or market. Road materials and supplies include rail, ties, ballast, and other track materials. Because these items will generally be capitalized when placed into service, they are included in property and equipment.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets. Preacquisition depreciable property has been depreciated on a straight-line basis over its estimated original remaining life of five years.

Capitalized Interest: The ARRC capitalizes interest costs as part of the cost of constructing major facilities and equipment. Interest costs of $212,000 and $312,000 were capitalized in 1990 and 1989, respectively.

Income Taxes: As a public corporation, the ARRC is exempt from Federal and State income taxes.

NOTE C—CASH AND TEMPORARY INVESTMENTS

For purposes of the Statements of Cash Flows, cash and cash equivalents include time deposits, certificates of deposit and repurchase agreements with original maturities of three months or less. Temporary investments are carried at cost which approximates market value.

Cash and temporary investments are summarized at December 31, 1990 as follows (in thousands):

	Carrying Amount	Bank Statement Balance
Checking accounts	$ 1,239	$ 2,411
Repurchase agreements	1,107	1,107
TOTAL CASH AND TEMPORARY INVESTMENTS	2,346	3,518
Time certificates of deposit (Wishbone Hill restricted funds)	9,000	9,000
TOTAL DEPOSITS	11,346	12,518
Insured by FDIC	300	300
Uninsured and uncollateralized	$11,046	$12,218

NOTE D—LEASES

The ARRC leases certain locomotives, freight cars, computer equipment and other property under capital leases. Future minimum lease payments for capital leases as of December 31, 1990 are summarized as follows (in thousands):

Year Ending December 31, 1991	$3,410
1992	3,283
1993	2,371
1994	990
1995	85
Thereafter	42
Total minimum lease payments	10,181
Less interest	(1,331)
Present value of net minimum lease payments (including $2,733 classified as current)	$8,850

During 1990, the ARRC acquired no additional equipment under capital lease agreements. The cost of equipment held under capital leases aggregated $20,032,059 and $20,166,648 at December 31, 1990 and 1989, respectively. The related accumulated amortization was $6,634,124 and $5,202,275 at December 31, 1990 and 1989, respectively. Amortization expense is included in depreciation expense in the statement of income.

A lease for freight cars requires that $220,000 be kept on deposit with a financial institution for the term of the lease agreement.

NOTE E—LAND

Certain parcels of land are leased under agreements which are cancellable upon 90 days notice by the lessee. The lease terms vary from two to 55 years. Annual rentals on the leases were approximately $4,036,000 in 1990 and $4,219,000 in 1989.

NOTE F—WISHBONE HILL

The ARRC received $9,000,000 from the State of Alaska for the purchase of locomotives and coal hopper cars for the Wishbone Hill Coal project. Any remaining funds, along with interest earned on the $9,000,000 while in the possession of the ARRC, may be used to purchase other equipment and improvements related to the project. This contribution from the State is accounted for as deferred revenue, which will be amortized over the life of the project.

NOTE G—LONG-TERM DEBT

Long-term debt at December 31, 1990 consists of the following, in thousands:

Note payable, secured by equipment, paid through freight credits, including interest at 8%.	$1,717
Note payable, secured by equipment, due in semi-annual payments of $203,105 beginning 1992 plus interest at the two-year Treasury Note rate. Interest is accrued at 9% until 1992.	4,836
Note payable, secured by various assets, requires maintenance of a net worth of at least $30 million and a debt service coverage ratio of at least 1.25, due in monthly payments of $118,659, including interest at 8%. The ARRC was in compliance with loan covenants at December 31, 1990.	5,357
Other notes payable, secured by equipment, with varying maturities through 1997 with interest from 7.82% to 8.75%.	707
	12,617
Less current portion	1,401
	$11,216

Long-term debt maturities are as follows (in thousands):

Year Ending December 31, 1991	$ 1,401
1992	3,034
1993	1,735
1994	1,814
1995	1,097
Thereafter	3,536
	$12,617

NOTE G—LONG-TERM DEBT ~ Continued

The ARRC has arrangements for short-term operating borrowing up to $20,000,000 with two banks at December 31, 1990. The amount outstanding on the first line is $3,000,000 at December 31, 1990 with interest at 75 percent of the prime rate of a major bank. There is no outstanding balance on the second line at December 31, 1990. In addition, the ARRC has available a line of credit of up to $20 million for the purpose of financing self insurance claims. There is no outstanding balance on the self insurance line at December 31, 1990.

NOTE H—EMPLOYEE BENEFITS

The ARRC has a defined benefit pension plan (the Plan) that covers all nonrepresented permanent employees who have not remained in the Civil Service Retirement System and permanent employees who are members of collective bargaining units which have bargained to become covered by this plan. Benefits under this plan are generally based upon the employee's years of service and final average compensation. The ARRC's funding policy is to contribute to the Plan for each year the amount equal to the net periodic pension cost. Contributions are made continuously throughout the year.

The funded status of the pension plan at December 31, 1990 and 1989 is as follows, in thousands:

	1990	1989
Actuarial present value of benefit obligations:		
Accumulated benefit obligation-vested	$(3,200)	$(2,739)
Accumulated benefit obligation-nonvested	(200)	(620)
	$(3,400)	$(3,359)
Projected benefit obligation for service rendered to date	$(4,800)	$(4,787)
Plan assets at fair value	6,460	5,233
Projected benefit obligation less than plan assets	1,660	446
Unrecognized net transition obligation	669	730
Unrecognized net gain	(2,329)	(1,176)
PENSION LIABILITY	$ -0-	$ -0-

Net pension costs at December 31, 1990 and 1989 are included in the following components, in thousands:

	1990	1989
Service cost—benefits earned during the period	$273	$631
Interest cost on projected benefit obligation	380	369
Return on plan assets	(371)	(640)
Net amortization and deferral	(100)	370
NET PERIODIC PENSION COSTS	$182	$730

Actuarial assumptions used in 1990 and 1989 to develop net periodic pension costs were:

	1990	1989
Assumed discount rate	8.0%	8.0%
Assumed salary increase rate	5.5%	5.5%
Expected long-term rate of investment return	8.0%	8.0%

Assets of the ARRC's pension plan are invested in fixed income securities and common stocks.

Federal employees who transferred to the ARRC will continue participation in the Civil Service Retirement System. The contribution required of the ARRC is 7 percent of the transferred employees' base pay. Pension expense related to the Civil Service Retirement System is $1,001,882 and $1,065,732 for 1990 and 1989, respectively.

In December 1990, The Financial Accounting Standards Board issued Statement 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," with required implementation by 1993. The statement will change the prevalent current practice of accounting for postretirement health care benefits on a pay-as-you-go basis by requiring an actuarial based accrual of the cost of the employees' benefits during the years of service prior to the vestment of the benefits.

The ARRC currently offers continued enrollment in the medical insurance program to qualified retiring employees. The costs of these benefits were $9,000 in 1990 and $3,000 in 1989. The ARRC elected not to implement SFAS 106 in 1990. Adoption of this statement is not expected to have a material effect on the ARRC's financial position.

NOTE I—MAJOR CUSTOMERS

Two ARRC customers accounted for 28% and 13% of freight revenue for the year ended December 31, 1990. In 1989, two customers accounted for 27% and 12% of freight revenue.

NOTE J—CONTINGENCIES

In 1990, an action was commenced against the ARRC and several of its present and former officers, alleging that in 1986, the ARRC made a verbal agreement with the plaintiff for very favorable wharfage and transportation rates. The complaint seeks up to $74,000,000 in damages. The Court is currently considering the ARRC's motion to dismiss. Regardless of the Court's action, the ARRC believes that the suit is without merit, and the ARRC intends to litigate vigorously the asserted claims.

The ARRC is a defendant in other legal proceedings related to the conduct of its business. Provision has been made in the financial statements for possible losses from litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

NOTE K—INSURANCE

The ARRC is self-insured to certain limits for employee health benefits, and personal property and casualty damage. The ARRC is also self-insured against workers' compensation claims. The ARRC employs a full time "Risk Manager" who monitors all cases involving ARRC liability.

NOTE L—RESULTS OF 1990 OPERATIONS

Net income for the year ended December 31, 1990 includes three items from prior years that increase 1990 net income by $900,000. These items are prior years' wharfage invoiced in 1990, improved freight revenue estimates at year end and partial reimbursement by a shipper for a prior year's chemical spill cleanup.

Officers

Robert S. Hatfield, Jr.
President and
Chief Executive Officer

Arnold T. Polanchek
Vice President, Operations

Richard J. Knapp
Vice President, Marketing

Marvin J. Yetter
Vice President, Finance

Larry D. Wood
General Counsel

James B. Blasingame
Director, Administration

Ronald W. Stocker
Director, Personnel

Vivian M. Hamilton
Corporate Communications Manager

John E. Kincaid
Chief Mechanical Officer

Francis C. Weeks
Chief Engineer

Terry R. Blackwell
Superintendent, Transportation

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