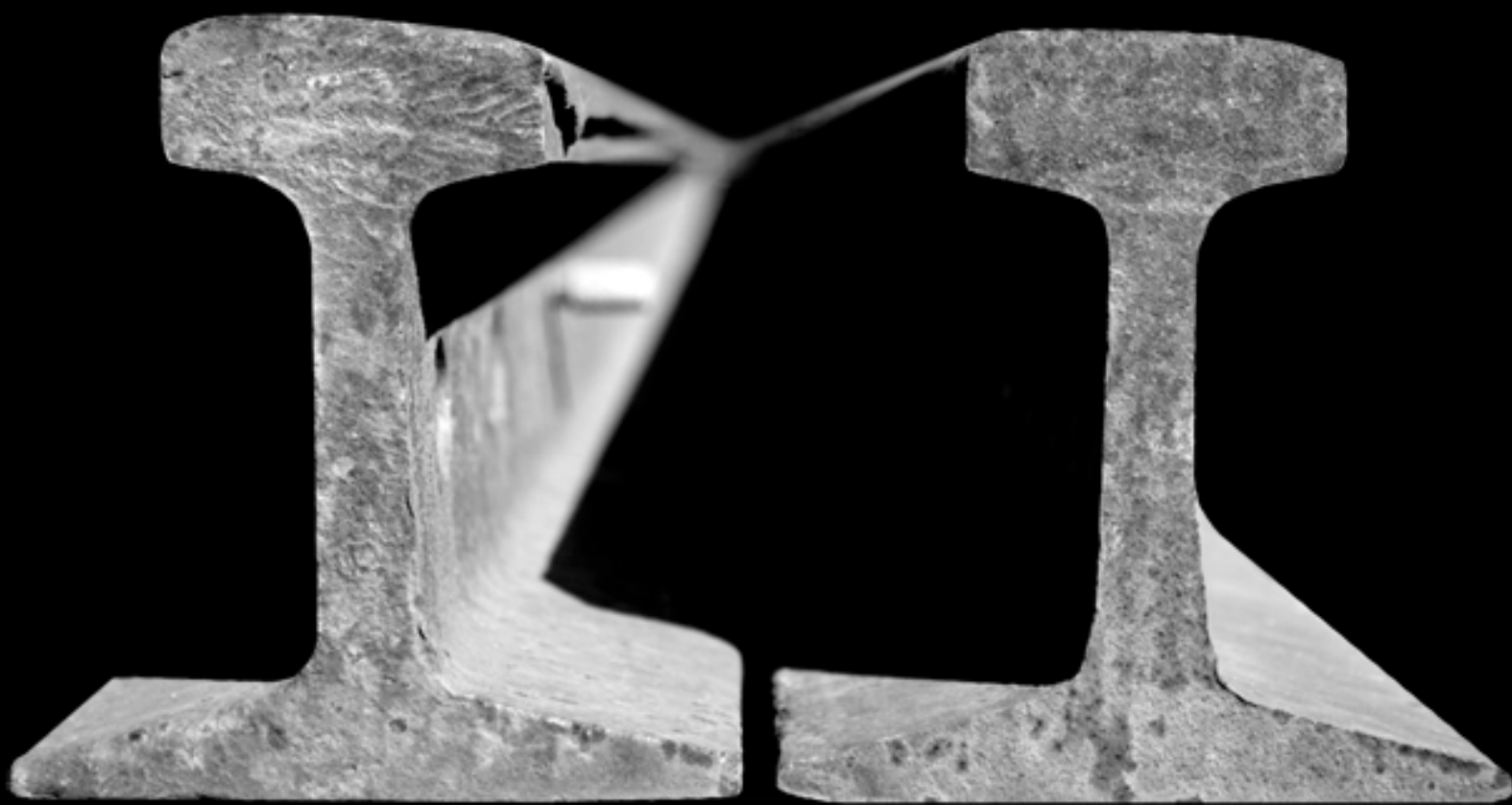


WHAT WE'RE MADE OF.



Alaska Railroad 2009 Annual Report







I'm pleased to report that despite the economic challenges of 2009 the Alaska Railroad Corporation has remained financially solid. We are poised to weather any further economic downturn or to take

advantage of any major Alaska projects in the future. 2009 revenues were \$169.4 million, total expenses were \$155.5 million and corporate net income was \$13.9 million. Total assets grew from \$854 million to \$861 million. Cash flow remained solid all year long.

Reducing and offsetting operating costs had been underway during 2008, when our fuel shipments from Flint Hills began a steepening decline. Reducing costs were further pursued throughout 2009. As difficult as it has been, employee downsizing was a major component of cost control.

All areas of spending came under close scrutiny; despite the dramatic belt-tightening, we continued making calculated safety and infrastructure investments. We completed phase one (utility and track work) of the Ship Creek Intermodal Transportation Center in Anchorage. We have been working closely with the Surface Transportation Board (STB) on the long-term project to extend the rail line from Fairbanks south and east to Delta Junction. The recent Environmental Impact Statement approval for that project has given us a green light to move forward with permitting and final design. The first order of business will be to complete a major road-rail bridge to federal and military land across the Tanana River.

In 2009 we mourned the passing of our close friend and fellow Director, Matanuska-Susitna Borough Mayor Curtis Menard. Mayor Menard was a true gentleman, as well as a tough and determined fighter for Alaska's transportation development. Curt's presence and wisdom is greatly missed. We want to



specifically thank his son, Steve Menard, for stepping in and making a significant contribution in his service to the board as he very ably served out his father's term.

The Board would like to acknowledge the support of Governor Sean Parnell, who has quickly come up to speed on railroad issues and who has appointed two highly qualified directors to the board, Linda Leary of Eagle River and Jon Cook from Fairbanks. These appointments helped fill the other vacant position held by long-time board member Orie Williams, who the board would like to thank for his leadership and dedicated service to the corporation.

Our entire Alaska Congressional Delegation deserves recognition and thanks for their tireless efforts to support Alaska's railroad. The legislative work of our delegation and their talented staffs has had an enormous positive impact on the Alaska Railroad's ability to secure important corporate and infrastructure development legislation.

We appreciate the keen interest of the Alaska Legislature as they keep a watchful eye on the railroad's environmental stewardship and community involvement as it courses through 13 of the towns and boroughs they represent.

Finally, we would like to personally thank President and CEO Pat Gamble, who will be leaving the railroad after nine years of service to become president of the University of Alaska. Pat's guidance and leadership have been integral to the corporation's steady growth and success. We wish him well in his new position as he continues to serve the people of Alaska.

On behalf of the Board of Directors and our many dedicated Alaska Railroad employees across this great state, I am pleased to present the 2009 annual report.

What we're made of.

A MESSAGE FROM PAT GAMBLE, PRESIDENT AND CEO



It's hard to think of a year in the history of the Alaska Railroad in which we've had to dig deeper, work smarter or be more resourceful than in 2009. As additional layoffs occurred, we had to implement more efficient operational ideas. Departments reorganized, employees adjusted to taking on more individual responsibility, and managers created new ways to get things done.

We lost a lot of good people – experienced railroaders – in the downsizing. Corporate belt-tightening efforts of this nature understandably put strain on everyone.

Despite pressure that could easily have put people off their game, there were notable accomplishments throughout the year that are attributable to the strength of our core values.

We upheld important community and business partnerships. These relationships enable our transition to a more profitable future when economic conditions

improve. Take, for example, the response that took place in April when a huge rockslide shut down the only highway access to Whittier. The slide came at a most inopportune time for the community, just a month away from the summer visitor season. Within 24 hours the Alaska Railroad, working hand in glove with Alaska Department of Transportation, was railing in everything from teachers to emergency medical personnel. Our response continued for weeks as Whittier looked to rail for food and other essential supplies. We even took out the trash.

Our growing relationship with the U.S. Forest Service brought about the springtime delivery of a commuter railcar called a Diesel Multiple Unit, or DMU. The self-propelled bi-level Chugach Explorer currently serves the Spencer Glacier Whistle Stop and, within the next few years, a series of new whistle-stop stations being developed to support direct access deep into the pristine Chugach National Forest.

Eventually, we hope to use similar DMU cars when we provide commuter rail service to support business





and recreation between Anchorage, the Matanuska-Susitna Valley and Girdwood. Deploying an operational commuter rail service will increase the amount of fast passenger traffic on the rail line. Support for a gas pipeline will bring on lots more freight...longer, slower, heavier trains. With increasing train traffic, the Alaska Railroad is engaging the cutting edge of rail technology and will employ a fully functioning Collision Avoidance System (Positive Train Control). This system is designed specifically to eliminate typical causes of human error and other historical causes of train collisions. We will be one of the few railroads to operate a fully implemented Collision Avoidance System, by the mandated federal deadline of December 31, 2015. We will welcome the tremendously improved safety and environmental protection that this system brings to Alaska and gladly add it to our overall rail safety success story.

Building a solid operating and maintenance foundation out of our facilities and utility infrastructure is a top priority. Many of our buildings are World War II vintage or older. As part of the American Recovery and Reinvestment Act of 2009, the Alaska Railroad received nearly \$26 million in stimulus funding from the federal government. Funding included shovel-ready projects in Fairbanks at the intermodal depot, in Seward at the depot, for new public restroom facilities in Talkeetna and Seward, and for the start of phase two of the Ship Creek Intermodal Transportation Center project, which will renovate the Anchorage Historic Depot. Construction of these capital projects and several others will provide a much-needed employment shot in the arm for many of our communities. We will help to keep Alaskans working.

Unsustainable revenue losses in our core train business throughout the recession year of 2009 triggered the Alaska Railroad to make substantial operational changes to the way we deliver our rail services. We expect this effort to continue as we face even more core business uncertainty in 2010. For example, Usibelli coal exports out of Seward to places like Asia and Chile reached an all time high in 2009. There was no time for celebration, however, as we acted quickly and positively to address allegations being made by environmental groups regarding coal dust in Seward. Flint Hills Refinery in North Pole, a principal customer, is continuing to forecast significant reductions in the overall amount of jet fuel production. A drilling slowdown on the North Slope is having a pronounced effect on our rail barge business. Based on cruise ship and airline company announcements, the forecast for passengers riding the rails in Alaska this year will continue to be flat at best. Dealing with uncertainty is part of railroading in Alaska. We are up to the task.

The actions we have taken in 2009 have set the course for a leaner and more focused railroad in 2010, perhaps on into 2011. It is while facing challenge that we often reach deep down and tap our greatest source of strength and resilience. Clearly, that strength issues from our people. In tough times more than ever, railroaders find a way to prevail and show what we're made of. Our employees are part of our steel and all of our heart.



Determination, grit and innovative engineering. Today, like it's always been, the Alaska Railroad is putting down track that will carry the Railbelt well into the future.



FINANCIAL HIGHLIGHTS

Earnings (in thousands):	2009	2008
Operating Revenue:		
Freight	\$ 84,939	\$ 96,337
Passenger	21,455	24,550
Other	704	895
Grant	36,515	37,013
Total Operating Revenue	143,613	158,795
Operating Expenses	137,993	155,490
Operating Income	5,620	3,305
Non-operating Revenue (Expenses):		
Net Real Estate Income	9,365	10,407
Gain (Loss) on Sale of Capital Assets	517	(13)
Investment Income	115	377
Interest Expense, Net of Grant Revenue	(1,715)	(1,519)
Net Income	13,902	12,557

Balance Sheet (in thousands):

Assets:		
Current Assets	\$ 73,928	\$ 76,867
Non-current Assets	741,154	709,213
Restricted Assets	46,155	68,024
Other Assets	18	18
Total Assets	861,255	854,122
Liabilities:		
Current Liabilities	40,768	44,464
Non-current Liabilities	606,714	629,927
Total Liabilities	647,482	674,391
Fund Equity	213,773	179,731
Total Liabilities & Fund Equity	861,255	854,122
Operating Ratio	0.96	0.98

[Click here for full financial report.](#)



The 2010 Alaska Railroad commemorative print, "Next stop, Anchorage" by Stefan Wilson, depicts a passenger train moving northwest along scenic Turnagain Arm.





BOARD OF DIRECTORS (L to R)

Jack Burton, Track Inspector, Alaska Railroad Corporation

Jon Cook, Chief Financial Officer, Airport Equipment Rentals, Inc., Fairbanks

Governor Bill Sheffield (Vice-Chairman), Port Director, Municipality of Anchorage

John Binkley (Chairman), President, Alaska Cruise Ship Association

Leo von Scheben, Jr., Commissioner, Department of Transportation and Public Facilities

Linda Leary, President, Carlile Transportation Systems

Emil Notti, Commissioner, Department of Commerce, Community and Economic Development

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 2009, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260.



