



# BLUE & GOLD



MAKE

**Green**



The Alaska Railroad is on solid financial ground and continuing effective efforts to position itself to respond to uncertain economic challenges.

Two years ago we began to see our rail revenues leveling off following several years of good steady growth. While 2007 brought record net earnings and excellent increases in our real estate and passenger services business, it also heralded the start of a gradual erosion in key revenue sources. The Board of Directors, sensing the approaching economic uncertainty in our largest customers, charged management to start tightening its corporate belt, specifically in all areas of controllable and avoidable costs.

Economic forces outside the company clearly became manifest in 2008 through reduced business and exceptionally high energy costs. From the original \$16 million net income budgeted for 2008 we ended up struggling to offset downside market forces all year long. We ended the year with a respectable \$180.4 million in total revenues, \$167.8 million in total expense and \$12.6 million net income. Furthermore, we grew our total assets another \$20 million to \$854 million. Cost control included downsizing the Railroad, particularly non-union positions, by over 80 positions, and then streamlining the departments for greater efficiency as a result.

Despite all, a number of notable accomplishments defined our success in 2008.

We conducted the largest military mobilization move to date with the Railroad transporting nearly 1,000



military vehicles from Fort Wainwright to the Port of Anchorage in support of the 1-25th Stryker Brigade combat Team's eventual deployment to Iraq. Our passenger services business turned out another record ridership and revenue year. Our capital program remained vigorous, consisting of several major bridge and track upgrades, new equipment purchases, and continued long-term legacy project work throughout the railbelt.

Forward progress through these uncertain times can be attributed to our whole team of loyal employees who are meeting a host of tough challenges head-on. Special thanks goes to the longstanding support from our congressional delegation whose wisdom to underwrite the Railroad's infrastructure improvement becomes more evident with each passing year. I also want to thank Governor Sarah Palin and Commissioner Tom Irwin for their commitment to help pursue the Flint Hills refinery viability issue, and to do what's best for all Alaskans.

We appreciate the State Legislature's confidence and support for allowing us to operate as a growing and profitable state enterprise. And finally, I want to recognize my fellow Board of Directors. Their time and talent steers the Alaska Railroad's business efforts and keep us on course to benefit our great state.

On behalf of the Alaska Railroad Board of Directors and our 700 dedicated employees, I am pleased to present the 2008 annual report.



*Sales for ARRC's summer service trains broke another record in 2008, increasing rail revenue by \$1.2 million over the prior year's sales.*

## *What does the term “green business” bring to mind?*

Regulatory compliance? Emissions reduction? Energy conservation? Clean technology? How about cash flow? For the Alaska Railroad Corporation (ARRC), being green means “all the above.” Even as our blue and gold engines drive our trains, combined financial and environmental impacts are driving our business decisions. Whether we are generating revenue or responding to a growing concern for the planet, Blue and Gold make Green.

It’s not necessarily intuitive that a railroad could be green. Railroads burn soot-emitting diesel ... that’s bad. But railroads can also move two tons of freight 500 miles on one gallon of diesel ... that’s good. So, how do we economically reconcile this dilemma? The answer lies in technology.

For example, we have burned ultra-low sulfur diesel fuel in all of our locomotives since 2007, well ahead of the federal 2010 deadline. Looking ahead, we are already planning to upgrade to new locomotive engines that are much cleaner burning and mileage efficient. Considering that ARRC moved 6.1 million tons of freight and over 500,000 passengers in 2008, the economical and environmental benefits add up significantly.

Railroad buildings are also being targeted for efficiency and energy improvements. The Real Estate and Facilities Department has used thermal imaging to identify and repair sources of heat loss in more than

70 railroad facilities, resulting in immediate energy savings. In 2008, energy demand on the Anchorage rail yard boiler plant dropped by nearly a third, and so did the cost.

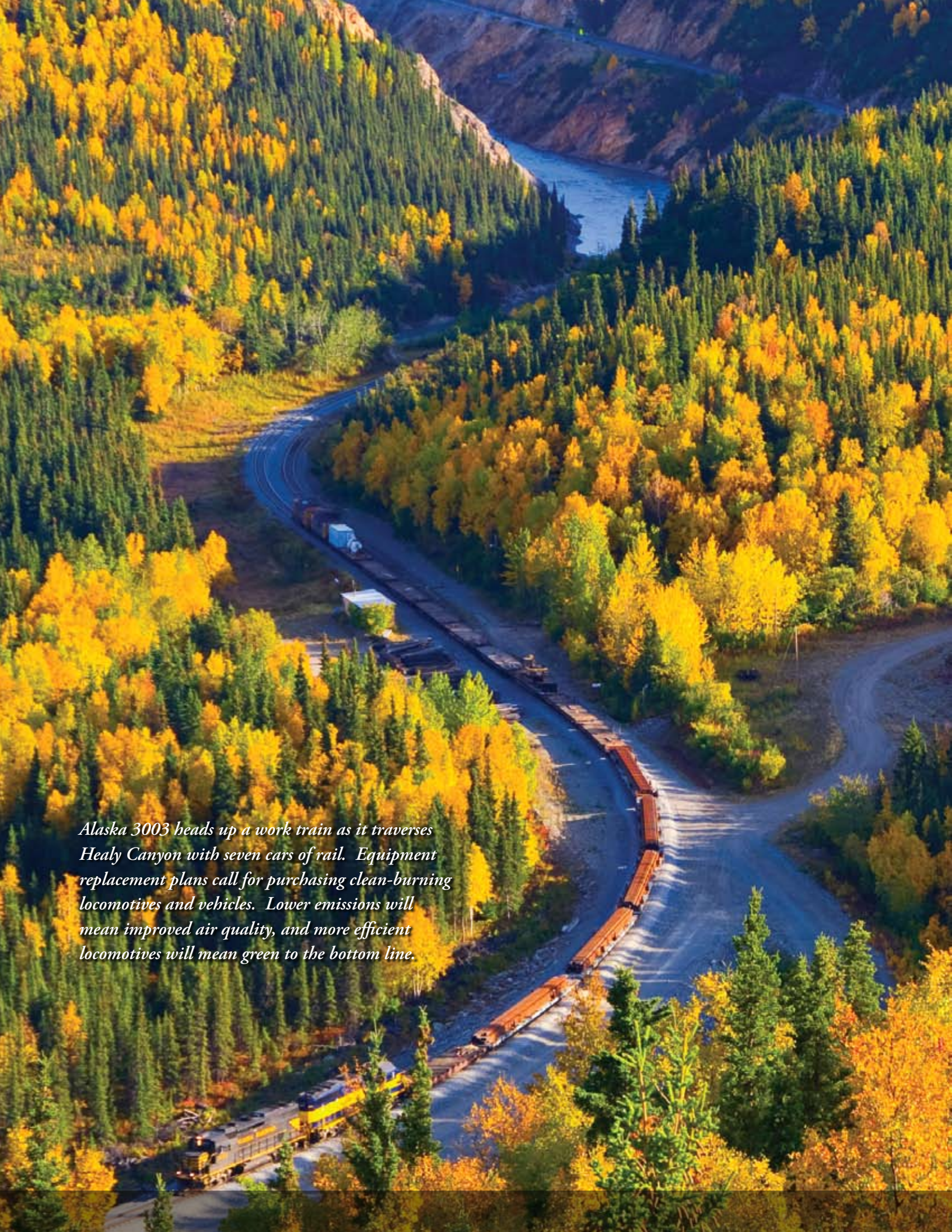


Facility crews are upgrading smart thermostats to drop down to lower nighttime temperatures, installing light switch motion detectors to minimize wasted wattage, and replacing inefficient fluorescent lamps and garage doors. Finally, ARRC began transforming a 1940s-era freight shed in Anchorage into Alaska’s first Leadership in Energy and Environmental Design (LEED) certified historic office building.

Vegetation management is another way of greening our focus. Controlling plant growth along our track right-of-way is far more complex than just weed-eating. Root-based track-bed erosion is a serious safety issue, and after 25 years of fighting a losing battle with right-of-way undergrowth, we have concluded, along with the Federal Railroad Administration, that our best effort at using non-chemical means to control weeds is failing. Recognizing this, along with the public concern about chemical applications, the ARRC partnered with scientists at the University of Alaska Fairbanks to determine Alaska-specific effects of a select group of weed control chemicals that have been commonly used across the United States and Europe for dozens of years. Our goal is to resolve this significant challenge to our infrastructure through the least invasive means possible, successfully balancing business needs with environmental precautions.



*The Alaska Railroad is committed to protecting Alaska’s environment, and recently earned its Green Star Award certification, as well as an Air Quality Award recertification. The Alaska Railroad recently invested in new, more efficient and lower-emission locomotives, and switched to ultra-low-sulfur diesel ahead of U.S. Environmental Protection Agency mandates.*

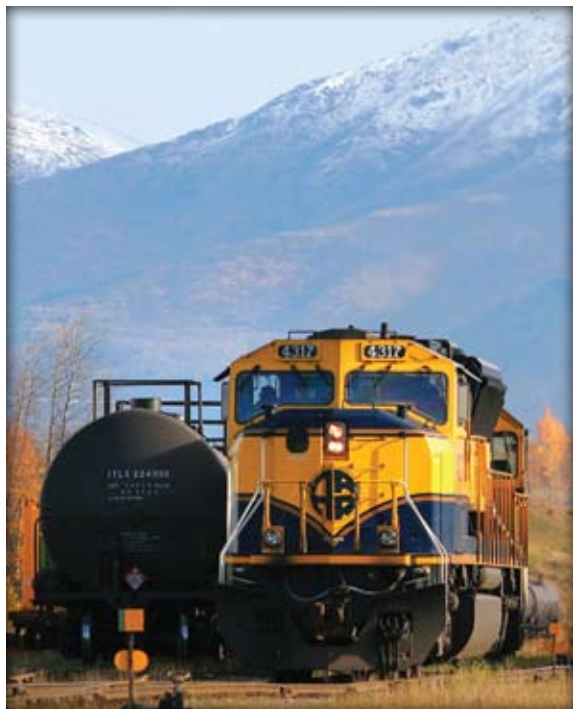


*Alaska 3003 heads up a work train as it traverses Healy Canyon with seven cars of rail. Equipment replacement plans call for purchasing clean-burning locomotives and vehicles. Lower emissions will mean improved air quality, and more efficient locomotives will mean green to the bottom line.*

# *Blue & gold makes* **PROGRESS**

Controlling weeds more effectively is just one of the measures the ARRC is undertaking to keep our track in the safest, most efficient condition. In less than seven years we will have invested \$200 million to rehabilitate the mainline from Anchorage to Fairbanks. In 2008, crews laid more than 95 miles of rail, installed nearly 60,000 ties, and resurfaced track with more than 100,000 tons of Alaskan high quality ballast rock.

Efforts to expand Alaska Railroad infrastructure include two projects that will put track into new territory. The Northern Rail Extension would extend the rail line to Delta Junction, and the Port Mackenzie Rail Extension would connect the mainline to the Matanuska-Susitna Borough port. The federal Surface Transportation Board is overseeing environmental impact statements (EIS) for both projects. In 2008, the Port Mackenzie EIS got underway, and a final Northern Rail Extension EIS is expected by late summer of 2009.



Planning for future opportunities requires a solid foundation from which to build. ARRC responded to volatile markets and rising expenses in 2008 by lowering fuel requirements, controlling maintenance costs, conserving energy, continuing a long-running hiring freeze and eliminating about four dozen positions, mostly through attrition. Subsequent to that, company restructuring locked in a host of new organizational improvements.

The future profitability of rail transportation will depend on compliance with environmental regulations and public expectations without being operationally hamstrung, priced out of business, or both. Our commitment to safety, service and profitability will propel us on a course of environmental stewardship, building upon our experience as a Green Star certified business. Understanding all of that is one thing, but ultimately we will be judged by our actions. We believe our future corporate viability is directly linked to documented success as a responsible and profitable corporate citizen. We are up to the new challenges. At the Alaska Railroad, we're as committed to the Blue and Gold as we are to the Green that surrounds us.



*The ARRC's SD70MAC locomotives provide the hauling capacity needed for freight loads with electrical head-end power units used to generate power for the electrical requirements of Alaska Railroad passenger cars.*

## FINANCIAL HIGHLIGHTS

Earnings (in thousands):	2008	2007
Operating Revenue:		
Freight	\$ 96,337	\$ 91,783
Passenger	24,550	23,304
Other	895	526
Grant	37,013	32,949
Total Operating Revenue	158,795	148,562
Operating Expenses	155,490	138,878
Operating Income	3,305	9,684
Non-operating Revenue (Expenses):		
Net Real Estate Income	10,407	6,670
Gain (Loss) on Sale of Capital Assets	(13)	478
Investment Income	377	945
Interest Expense, Net of Grant Revenue	(1,519)	(1,527)
Net Income	12,557	16,250

### Balance Sheet (in thousands):

Assets:		
Current Assets	\$ 76,867	\$ 59,702
Non-current Assets	709,213	664,608
Restricted Assets	68,024	108,863
Regulatory Assets	—	1,324
Other Assets	18	17
Total Assets	854,122	834,514
Liabilities:		
Current Liabilities	44,464	38,108
Non-current Liabilities	629,927	598,350
Total Liabilities	674,391	636,458
Fund Equity	179,731	198,056
Total Liabilities & Fund Equity	854,122	834,514
Operating Ratio	0.98	0.93

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 2008, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260.



*The 2009 Alaska Railroad commemorative print, "Clearing the Way," shows a Jordan Spreader pushing snow off the Hurricane Gulch Bridge south of Denali Park. This is artist Taffina Katkus' first time creating the artwork annually solicited by the Alaska Railroad Corporation.*



BOARD OF DIRECTORS (L to R )

(Front row)

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

John Binkley (Chairman)

(Back row)

Curt Menard,  
Mayor, Matanuska-Susitna Borough

Jack Burton,  
Track Inspector, Alaska Railroad Corporation

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

Orie Williams,  
Vice President, Public Relations and Marketing,  
Airport Equipment Rental, Sales and Services

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



*For complete Financial Statements  
insert this disc in your cd-rom drive  
or log on to [AlaskaRailroad.com](http://AlaskaRailroad.com)  
for an online version of the 2008  
Alaska Railroad annual report.*

BLUE & GOLD MAKE

**Green**

The Alaska Railroad Corporation  
2008 Annual Report Financial Section





*Photo taken by Elizabeth Carmer, Alaska Railroad passenger.*

