



A N N U A L R E P O R T 1 9 9 9

ALASKA RAILROAD CORPORATION

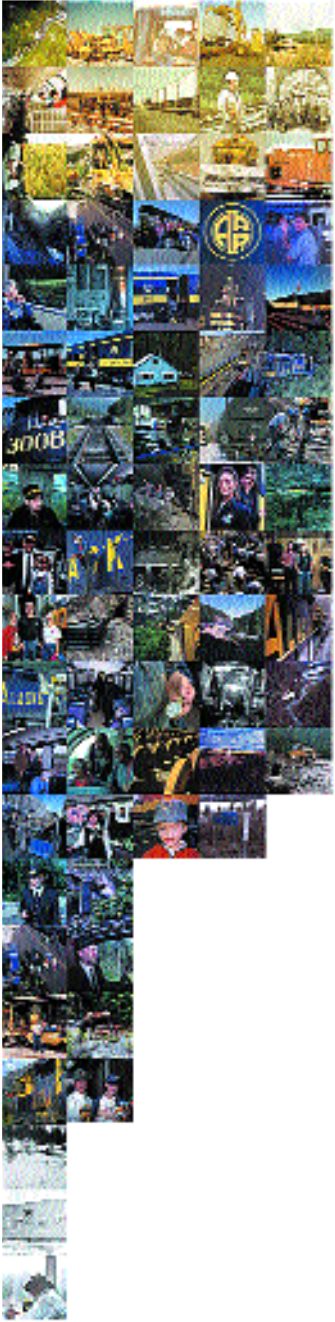


TABLE OF CONTENTS

Chairman's message	1
President's message	2
Year in review	3
Commodities	4
Project review	8
Project timeline	9
Rail line map	10
Employee listing	11
Management statement	13
Independent auditor's report	13
Financials	14
Board of Directors/Management	32
Contact numbers	Inside back cover

CHAIRMAN'S MESSAGE



*Chairman of the Board
John Binkley*

Take a close look at the cover of this 1999 annual report for the Alaska Railroad Corporation. You might need a magnifying glass to see exactly what makes up this image. Hundreds and hundreds of images were taken by railroaders and the Alaska public and put together by computer science to make a larger picture of the Alaska Railroad.

In a way, that's exactly what makes up this public corporation – hundreds of customers we serve, thousands of Alaskans who take pride in owning and operating a key piece of the state's transportation system, and more than 700 Alaskans who run it. It all fits together to make a larger picture of the Alaska Railroad.

Unlike most regional railroads, the Alaska Railroad carries a mix of passenger and freight traffic for a diverse set of customers – from families sending materials to their cabins off the road system to Williams Energy, one of Alaska's largest and most successful value-added resource companies. We make sure rural dwellers get into town and back to their quiet piece of Alaska, and we carry hundreds of thousands of annual visitors so they can see the Alaska of their dreams.

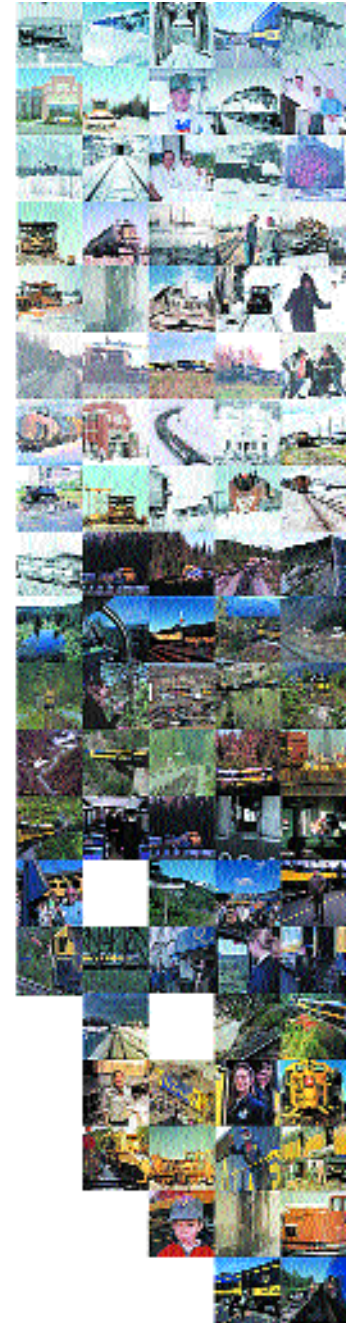
Each of these contacts influences another set of potential customers – the building supply company, the booming air

cargo and passenger business, the friends and relatives who hear testimony about the vistas seen from the railroad and make plans to visit.

For our owners, the Alaska public, we pursue a mission of economic development and community growth, not just revenue and profit for the Alaska Railroad Corporation. We are careful about keeping an eye on the bottom line, but we leverage the success of a profitable railroad to improve the value of the asset, bring new business to the state and maintain this critical transportation corridor for the public good.

And then there are our employees. Several of the photos in the mosaic on the cover were taken by employees or feature employees. Take a closer look and you get a sense of the pride our people have in this railroad. Many of the folks in the pictures are second and third-generation Alaska Railroaders. Many more have been with the company for 15, 20 and 30 years or more. We have one of the most stable, dedicated and experienced employee populations in Alaska business.

They are all there in that photomosaic – customers, owners and employees – and we're lucky to have them. Over the next decade, the Alaska Railroad will continue its mission of safety, service and economic development. We are improving and investing in our track and roadbed, new equipment and new facilities to better serve Alaska.





PRESIDENT'S MESSAGE



*President & CEO
Bill Sheffield*

Over the last half of 1999, the Alaska Railroad showed a dramatic turnaround in employee injury trends after implementing a new, more aggressive safety system. From June 30 through the end of the year, the Alaska Railroad's injury frequency rate dropped to among the lowest for railroads our size, helping us finish the year with the lowest rate we've had in four years.

That's an indication to me that our railroad and our employees are capable of meeting the ambitious goals for safety we set at the beginning of 1999. The safety improvements in 1999 were marred by the death of Kerry Brookman, a 21-year employee of the Railroad. As we mourn his passing, we will redouble our efforts in 2000.

Unfortunately, we also experienced two significant derailments and resulting fuel spills in the last quarter of the year. Although we cleaned up more than 95 percent of the fuel spilled in the first incident, we are still cleaning up at the second site and success there will come more slowly.

Regardless of the effectiveness of the cleanups and our ability to mitigate environmental harm, the incidents caused disruptions in service and pulled many employees and managers off other projects. The ongoing costs of the response effort will have a significant impact on our net earnings in 1999 and 2000. We are looking closely at every aspect of our operating safety and have instituted both short- and long-term measures, including initiating a comprehensive risk assessment that will guide investment in prevention measures and procedures.

Although the last three months of the year were very difficult, the Alaska Railroad remains a strong engine of economic growth for our state. With the help of the Alaska Congressional delegation, we are continuing to invest \$10 million in repair and maintenance over and above our usual corporate allocation for track and roadbed. We received the delivery of the first four of our 16 new SD70MAC locomotives, state-of-the-art alternating current locomotives that will improve service and profitability.

We also laid much of the roadbed for track realignments that will improve safety and efficiency and implemented the first phase of a computer-based dispatch and train control system. We completed or are well ahead of schedule on initial permitting and environmental work on key new facilities – the Seward Dock, infrastructure at Whittier, the new Denali Depot and the rail station at the Anchorage International Airport terminal. We selected an innovative barge service that will bring cost savings and new efficiencies to an already successful part of our business. In addition, our passenger service is growing and 2000 will bring 12 new passenger coaches and diners to accommodate more passengers.

This is how the big picture comes together for the Alaska Railroad over the next five to 10 years: The combination of track realignments, upgraded equipment, new facilities at key locations and new systems allow us to run a safer railroad, reduce running times and costs, improve service to the customer and increase the value of this publicly owned asset. We are able to attract new business to both the Railroad and the state. And we are lucky to have the quality of employees and long-time railroad managers to steer the Alaska Railroad into the future.

YEAR IN REVIEW

The year 1999 proved just how successful the Railroad has become and how large a role it plays in the day-to-day lives all Alaskans. The year culminated a 15-year process in which the Railroad has quadrupled its value since its ownership was transferred to the State of Alaska in 1985. That year, the Railroad was valued at \$22.3 million. Now, its equity position is \$90.5 million. Trains carried more than 2.5 times the passengers they carried in 1985 and almost four times the amount of petroleum.

In 1999, the Railroad posted record revenues in its three main sectors: freight, real estate and passenger services. Revenues totaled more than \$90 million, the highest in 15 years under state ownership. More than seven million tons of freight were hauled, an increase of more than 12 percent from 1998. Passenger ridership totaled more than 670,000 passengers, an increase of 9 percent.

The year also saw progress with many of the Railroad's capital improvement projects moving into the design and

construction stages. The Railroad also began receiving its fleet of 16 new SD70MACS locomotives in January of 2000.



Cleanup from two derailments will cost the Railroad more than \$12 million.

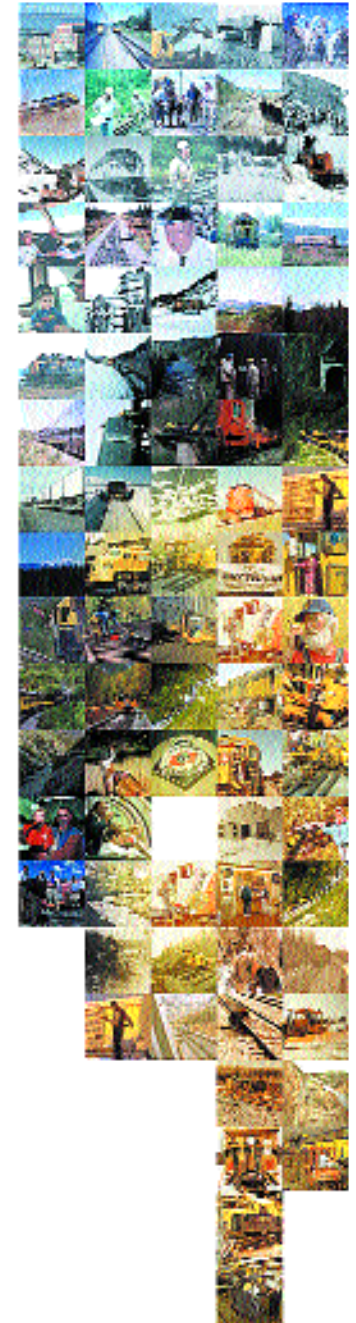
Tarnishing the year's success were two derailments north of Talkeetna. The response efforts to the resulting fuel spills will cost the Railroad more than \$12 million over five years. It reversed a near-record profit into a \$3.8 million loss. Although the cleanup continues, all costs must be accrued in 1999, the year in which the spill occurred.

Among the results of the derailments was the institution of several

operational procedures to prevent such incidents from occurring while also increasing response capability. Those changes vary from giving loaded fuel trains top priority on the main line to adding a more aggressive snow removal and inspection policy. The Railroad has re-committed itself to becoming the safest and most environmentally secure form of transportation in Alaska.

The Railroad continues to be an important provider of jobs for Alaskans. It paid more than \$36.2 million in wages and benefits in 1999, providing a payroll of \$1.5 million every two weeks to its more than 600 employees.

In 1999, the Railroad also welcomed a new member to its Board of Directors. Jacob Adams, President and CEO of Arctic Slope Regional Corporation, took the seat previously held by former Alaska Governor Bill Sheffield, the President and Chief Executive Officer of the Alaska Railroad.





COMMODITIES



Revenue from export coal increased in 1999.

RAIL FREIGHT

The Alaska Railroad's freight division continued a five-year increase in revenue in 1999, completing a record year of \$65.7 million – nearly \$700,000 more than in 1998. The Railroad has been increasing its freight revenue since it first began the current upward swing in 1995, when it recorded \$49 million in freight revenue. The success of the freight operations can also be measured in sheer tonnage as the Railroad hauled 7.3 million tons in 1999, an increase of 12.7 percent from 1998.

This year's increase can be directly attributed to its petroleum-hauling efforts, especially in shipments for Williams Energy. Since Williams completed its refinery expansion at the end of 1998, the Railroad started carrying more petroleum than ever – finishing the year with revenues of \$29.6 million in petroleum alone. That accounted for nearly a third of the Railroad's total revenue.

Freight was up in other areas as well. Export coal revenue was up by nearly \$900,000, while revenue for local coal increased 3 percent as military installations around the state rebuilt their stockpiles. Gravel had another record year with

revenue increasing more than 27 percent. But totals were down in interline, local railcar and container/trailer revenues.

The bottom line for freight would have been even better if not for the two derailments at the end of the year. Because of them, the Railroad lost business of roughly \$360,000 due to delays. The Railroad was also affected by the delay in



Revenue from freight increased for the fifth straight year.

finalizing the proposed merger between BP Amoco and ARCO. Oilfield construction slowed considerably, leaving the Railroad with no pipe to haul in 1999.

The Railroad should see an improvement in hauling pipe in 2000 – and it has a new system for unloading it more safely and efficiently. The Railroad invested more than \$500,000 in a specialized forklift and magnet arrangement for unloading pipe. The new system features a bar magnet attached to the frame of a forklift. The

magnet simply sticks to a layer of pipe and lifts it off, ensuring a safer routine while also reducing cost and time.

In addition, the Railroad signed a 10-year contract with Lynden Transport that will result in an upgraded freight hauling system intended to make the sea-to-land transportation route safer and more efficient. The contract calls for the Railroad to connect its freight operations to Lynden's Alaska Railbelt Marine Service, a freight-hauling

operation to begin in March 2001 with more dependability, greater safety and less environmental impact than what currently travels on the route.

Chief among the service's upgrades will be the addition of three new barges. Tugs will need less horsepower and fuel to pull the barges, thus producing lower emissions. The current barges, many of them more than 30 years old, are less efficient moving through water because of their design. Improving rail barge operations is crucial to the Railroad, which depends on barges to haul railcars, ties, rail, heavy equipment and bulk freight in and out of Alaska for several customers.

PASSENGER SERVICES

The Alaska Railroad's passenger services once again outpaced the Alaska tourism industry in growth, showing a 9 percent increase in passenger ridership compared to the 3 percent increase in tourists coming to Alaska. The Anchorage to Denali segment grew the most among all of the Railroad's passenger services routes, confirming Denali National Park as Alaska's

premier visitor destination. The Whittier run also experienced some growth, while the Seward run was flat. In total, 671,967 passengers rode the Railroad in 1999.



Arriving SD70MAC locomotives are each named for a community served by the Railroad.

In response to customer surveys and requests, the Railroad doubled its passenger fleet. Debuting in the 2000 passenger season will be three "Vista Dome" cars, three dining cars, four single-level dome cars, one conference car and a lounge car. During peak passenger season, passengers often waited for seats in the diner car and many trips were sold out. The dome cars continue to be a major attraction

and, with the addition of three new dome cars, more passengers will enjoy riding on top of the world and seeing Alaska's most stunning scenery. The dome cars will go into service on the Seward and Denali runs.

Continuing growth has reduced several Railroad depots to standing room-only areas. Plans for new, larger depots in Denali National Park and Fairbanks are on the drafting table. Construction at Denali is scheduled for fall 2001 and completion in spring 2002. Fairbanks construction will begin in 2002. The new Fairbanks depot location will eliminate considerable switching time, expense, and vehicle traffic delays and act as an intermodal center bringing direct access between autos, buses and rail.

The Railroad opened a full-service passenger depot in Seward, the Railroad's southernmost stop. The service has helped in the development of the Railroad's overall plan to partner with the cruise ship industry, which docked more than 100 ships in 1999. Agents are in Seward to sell tickets, answer questions and provide customer





service. Remote airline check-in at the Seward dock was also tested with great success.

Early in the season, time was spent training reservation agents on aspects of customer service. For the year 2000, passenger services will build on that training. Employees have set their goals on enhancing the visitor experience through timely and thorough customer service.

LAND MANAGEMENT

For the Real Estate Department, 1999 was a year of planning for things to come. Overall revenue was up 7 percent, earning \$8.6 million in 1999 compared to the \$8.0 million earned in 1998. Revenue from leases and permits rose 5 percent. Revenue generated from transportation corridor permits was up by \$500,000.

An early draft of the Ship Creek Master Plan was approved by the Railroad's Board of Directors. Approval of the Ship Creek Multi-Modal Transportation Plan by the Municipality of Anchorage was pending entering 2000. The Railroad expects to have design standards completed and a development package available for developers interested in projects within the Ship Creek development area in 2000.

Plans were initiated for three separate construction projects to take place over the next year, including sidewalk and lighting improvements, public restrooms, stream bank improvements

and fish cleaning tables for the popular salmon fishery along Ship Creek adjacent to the Railroad's headquarters building. Real Estate has also accomplished several housekeeping tasks that involved razing several dilapidated buildings in the area to make way for new development. A number of development opportunities are pending, including possible redevelopment of the Knik Arm Power Plant that was built in the 1950s to provide power and steam to all the Railroad facilities. Federal funding is available for a Fisheries Center to

be located in the Ship Creek area. Interest has slowly increased as a result of the Railroad's master plan.



Preliminary work on the Ship Creek Master Plan began in 1999.

The Railroad is now in direct control of the second and third floors at the Anchorage Depot after terminating the existing master lease agreement. This will net the Railroad additional revenue and projections show that the depot will be 100 percent occupied. The Railroad's passenger services department will continue to use the first floor of the depot as its center for passenger operations.

The department continues its aggressive marketing of the Railroad's real estate properties with emphasis on the Ship Creek development area and the Chena subdivision in Fairbanks. Additional emphasis will be placed on Seward in the upcoming year as activity related to the new dock construction takes place.

RAIL MAINTENANCE

The Alaska Railroad's construction plans and projects plus the addition of new locomotives have overshadowed the day-to-day maintenance and care of the Railroad. But those duties are among the most important. The mechanical and engineering departments continued to provide quality maintenance to keep the Alaska Railroad running.

Progress continued with the aggressive crosstie replacement program that began in 1996. Gangs replaced 98,198 crossties and handled 82,769 feet of rail. To prepare for the new and larger locomotives, 210,000 rail anchors were installed.

Major work was also completed at the railyard in Whittier. New ties were installed at switches and 70-pound rail was replaced by 3,510 feet of 115-pound rail. Ballast was also placed at 12 turnouts.

Bridge crews worked on 45 bridges, tunnels and culverts. At eight locations work progressed on replacing aging timber trestles with modern structures, primarily in areas of faster track.

The mechanical department performed an additional 1,000 repairs to equipment over 1999. They included repairs in train yards in outlying areas as well as at facilities in Anchorage and Fairbanks. The department maintained an average of 95 percent locomotive availability throughout the year.

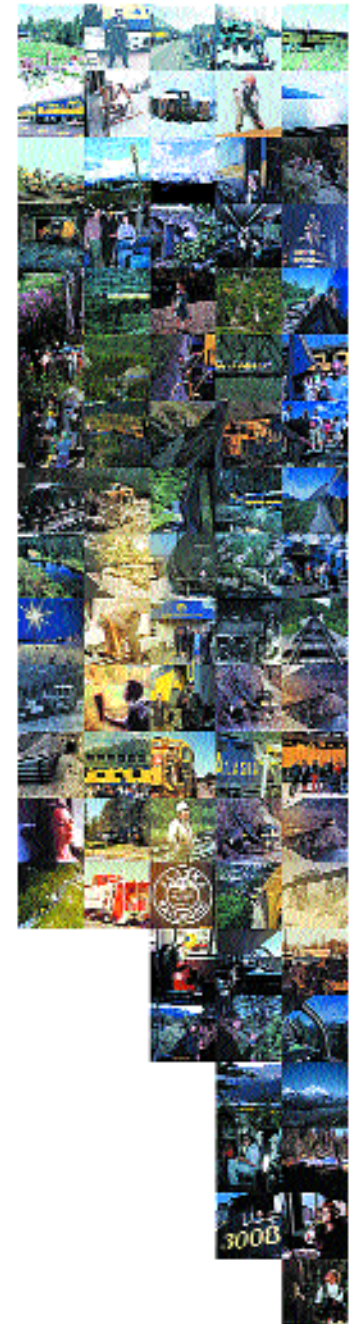


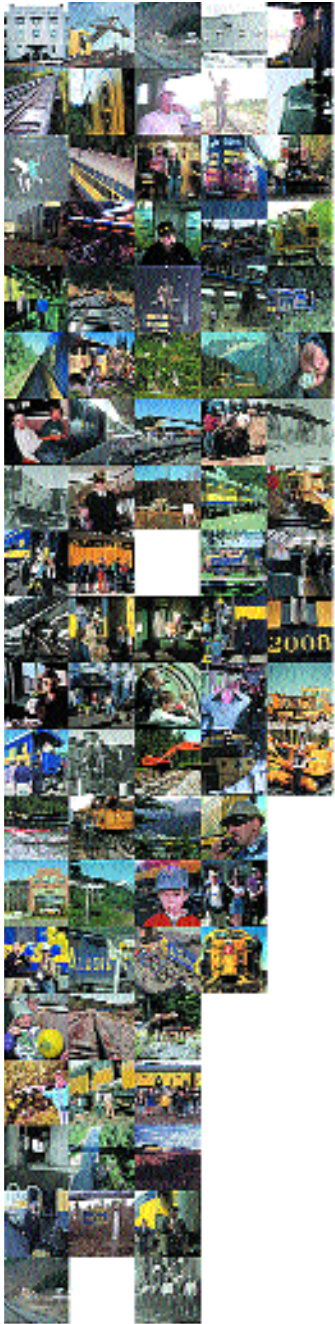
Quality maintenance and improved safety were continuing goals of 1999 operations.

Crews completed reconditioning of the fleet of ARR 19100 series articulated flat cars. A repair program was instituted after yard inspections revealed a wear pattern on leased tank cars. By the end of the year, repairs had been completed on 22 tank cars within the fleet of 127. The worst cases were addressed immediately.

The Railroad's mechanical shops converted the bearings of the passenger fleet. This fix will standardize wheel sets for DHI and Union Pacific built cars. Installation of plastic pedestal liners has been instrumental to the long-range goal of reducing labor-intensive aspects of passenger car maintenance. A new wheel roller bearing press was purchased and installed. The press eliminates the need to hand lift the bearings to the axle for mounting.

Safety continues to be the first concern of the engineering and mechanical departments. Both departments will continue to participate in the safety audit system and involve as many employees as possible.





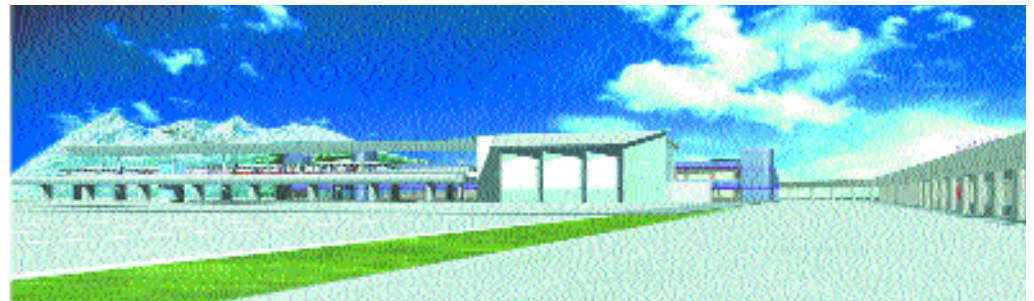
PROJECT REVIEW

The Alaska Railroad made significant progress on several of its construction projects in 1999. These projects will make the Railroad a safer, more dependable form of transportation for Alaska. They are components of a comprehensive, multi-year plan that will place the Alaska Railroad on the forefront of state-of-the-art rail transportation.

At the end of the year, construction began on the Anchorage International Airport rail station with the digging of the new pedestrian access tunnel under the automobile access lanes. The tunnel will provide safe access from the long-term parking and rental car lots through the rail station into the main airport entryway. The tunnel shell was completed in March 2000. Design of the new rail station and elevated platform proceeded on schedule. Close coordination with the Airport Redevelopment Project team continues to ensure a smooth schedule between the two projects.

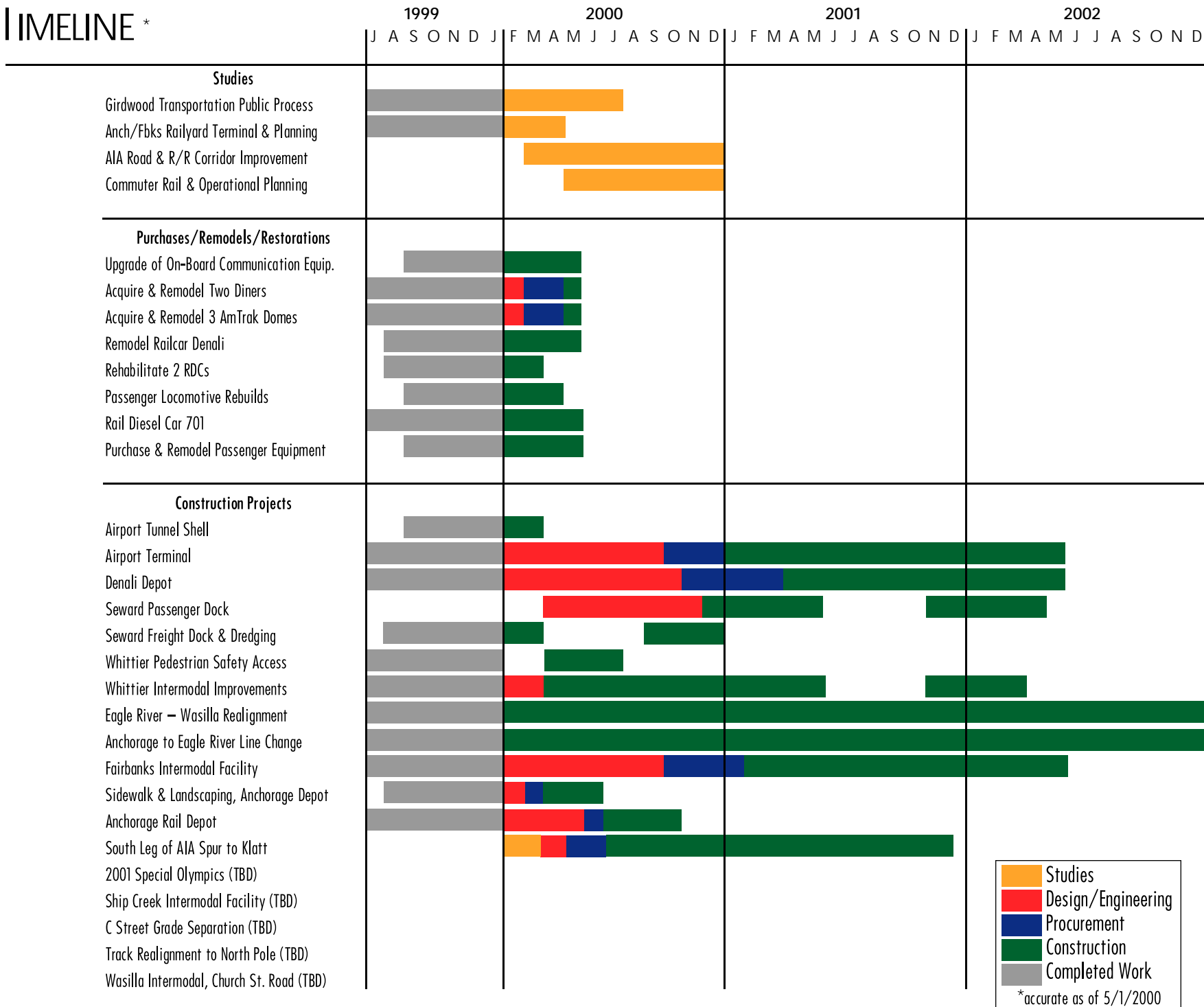
Major track upgrades between Anchorage and Wasilla continued with a number of curves being straightened. A total of 70 curves will be affected by this project. The Railroad is working closely with the military on Elmendorf Air Force Base and Ft. Richardson Army Post to make a number of improvements, including installation of double tracks through the two bases and realigning several curves. The Railroad is also working with several Alaska Native organizations to complete needed land swaps. These land swaps will result in improvements to infrastructure and solve land access problems the Native companies face. The Alaska State Legislature must approve the land swaps.

Several other projects are also in the planning stages: Seward Freight/Passenger dock construction and rehabilitation; Whittier Pedestrian Safety improvements, upgrade and rehabilitation to our Whittier dock. Preliminary planning began on the new Fairbanks Intermodal Facility with an initial environmental review completed in November 1999.



Conceptual design of Airport Rail Terminal

TIMELINE *



- Studies
- Design/Engineering
- Procurement
- Construction
- Completed Work

*accurate as of 5/1/2000



RAIL LINE

Alaska Railroad facts:

Construction of the Alaska Railroad began in 1915

The first train pulled out of Anchorage on November 1, 1916

U.S. President Warren G. Harding officially completed construction of the Alaska Railroad by driving in the Golden Spike on July 15, 1923, at Nenana

The U.S. military helped build the spur from Portage to Whittier during World War II to accommodate the transportation of supplies and soldiers

The Alaska Railroad's main track stretches 525 miles

Each mile of track contains 3,250 ties and 19,000 spikes

The last steam engine retired from the Alaska Railroad in 1962

Transfer of ownership from the federal government to the State of Alaska took place on January 5, 1985



EMPLOYEES OF THE ALASKA RAILROAD CORPORATION

MICHAEL ACHESON • PAUL ACHESON • JAMES ADAMS • THOMAS ADAMS • JAMES AHIERS • TROY ALBIN • KEVIN ALESHIRE • EDWARD ALFORD • JAMES ALLEN • JEROME ANDERSON • CHRISTINE ANDERSON • ANTHONY ARAGON • W. F. ARMSTRONG • ANTONELLI ARON • TROY ARQUETTE • TED ASHBRIDGE • MICHAEL AULT • BILL BAILEY • WARRON BAINBRIDGE • JOSEPH BAKER • CHARLES BALDWIN • DAVID BANG • SCOTT BANKS • JOHN BARBER • DONALD BARKER • JESSICA BARKER • KENNETH BARTLETT • NICHOLAS BATCHELDER • DIANA BAUMAN • JERRY BEA • MARK BEAR • THOMAS BEER • GARY BETTINGER • JAMES BELL • DAVID BERG • KEVIN BERGRUD • ADAM BETTIS • DONALD BICKERS • DIANE BICKERS • GLEN BIEGEL • WILLIAM BIVINS • JULIE BLACK • LOUISE BLACKMUR • JIM BLAKLEY • JAMES BLASINGAME • KAYLE BOND • MICHAEL BOODRY • JIM BOSCH • DENNIS BOUWENS • BRYANT BOWLES SR. • TOMMY BOYCE • MATTHEW BRADY • W. J. BRADY • RAYMOND BRADY • DIANA BRAKE • SETH BRANSON • DONALD BRINKMAN • JOHN BRITT JR. • **KERRY BROOKMAN** • THOMAS BROOKS • CHRISTOPHER BROOKS • WILLIAM BROWN • SCOTT BROWN • ROGER BROWN • JOHN BROWN • BRETT BROWN • ORLANDO BROWN • BART BROWNING • JAMES BRYAN • JEFFREY BUBNA • DOROTEJO BUMANGLAG • RICHARD BURGNER • HEIDI BURGER • ANDREW BURGESS • JAMES BURKE • THOMAS BURKWIIST • STEPHANIE BURNHAM • FRED BURRELL • LARRY BURTON • JACK BURTON • JOE BURTON • GORDON BURTON • KEITH BURTON • RICHARD BUSH • BENJAMIN BUTLER • LEON BUTLER III • RUSSELL BYBEE • DENISE BYRNE • MICHELLE CAIN • STEVEN CAIN • BRAD CAMPBELL • WESLEY CANFIELD • LARRY CARBAUGH • ARCHIE L. CARD • ARCHIE W. CARD • LOURDES CAREY • ROBERT CARLSON • BRUCE CARR • RICHARD CARTER • JEFFREY CASEY • ROBBIE CASEY • JAMES CATO • CHRISTIAN CEDERBERG • WAYNE CHALKER • LORRAINE CHAMBERS • STEVEN CHAPMAN • RONALD CHEEK • RALPH CHIPERNO • STEPHEN CHIPERNO • GERALD CHRISTENSEN • DAVID CHURCH • ALTHEA CLAPP • MANUEL CLARK • RICK CLARK • JUDITH CLAUGUS • MARTHA CLAUGUS • AYANNA CLIFTON • ROBERT CLODFELTER • DAVID COATNEY • DONALD COCHRAN • GREGORY COLOMBIE • RICHARD COLOSSO • STEPHAN CONLAN • TIMOTHY CONLEY • THOMAS CONNELLY • SCOTT COOK • DELGRACO COPELAND • JOSHUA CORAN • DAVID CORBIN • BRAULIO CORIANO • STEPHEN CORVEN • DUANE COUCH • ANN COURTNEY • NATHAN COUSINEAU • JANICE COX • PAMELA COX • JIMMY COX JR. • CHRISTOPHER CRAMER • WILLIAM CRAWFORD • MICHAEL CROWLEY • KRISTIAN CROZIER • JAMES CUFF • STEVE CULVER • THOMAS CURRY • JUSTIN DAHL • MISTY DAHLSTROM • JASON DAILY • JOHN DARNELLE • JEFFREY DAVIES • JEFFERSON DAVIS • ANDREW DAVIS • ERNEST DAVIS • TIMOTHY DAVIS • MICHAEL DAVIS • GERALD DAVIS • DAVID DAVIS • TIMOTHY DAY • JEFFREY DEBROECK • LISA DELONEY • SHARON DEMIERO • DONALD DEMUTH • JASON DENNIS • ELI DESARMO • SHAWNNESSY DESLAURIERS • FRANKLIN DEWEY • DAVID DIANOSKI • JOANNE DIBERNARDO • ALLEN DICKMAN • CHARLES DILLARD • MATT DITTBRENDER • SHAMERON DOAK • ELAINE DOTOMAIN • ERLINE DOTOMAIN • MARCELLA DOUGHTY • KAMERON DRAPER • MORGAN DUFSETH • RAYMOND DUNCAN • MARK DUSTIN • RICHARD DYSON • CHELCIE EAGER • JOHN ELSON • ROBERT EMERSON • DOUGLAS ENGBRETSON • ROBERT ENGLISH • GEORGE ERICKSON • HUGH EVANS • JACLYN EVANS • JOHN FAEO • TOMMY FARROW • JEFFERY FELTON • WAYLAND FERREIRA • RANDY FERRIS • JOHN FLEMING • ZACHARY FLEMING • JEREMY FLENTGE • JESSE FLORES • JEAN PIERRE FLOURNOY • ROBERT FOGLIA • JOHN FORD • ERIK FORLAND • CAROL FORTIER • JEFF FOWLER • MARY FOX • DUANE FRANK • RODNEY FRANK • JOHN FRANKLIN • MICHAEL FRAZER • IAN FRAZIER • HOWARD FREESE • DAVID FREESE • DONALD FREESTONE • DANIEL FRERICH • MICHAEL FRETWELL • ALBERT FYE JR. • RASCHAD GALIMBA • JERRY GAMBLE • CLIFFORD GAMBLE • ERIC GAMBLE • PAUL GANGSTAD • DAVID GARCIA • KENTON GASS • JOHN GAULE • MARY GEL • JOSEPH GELINAS • ROYAN GEORGE • GRANT GERHART • CLIFFORD GILES • LISA GILLESPIE • VERN GILLIS • JEFFREY GINALIAS • VERNON GLEICH • STEVEN GLESSING • JUSTEN GOBBI • TIMOTHY GOBBI • IONE GOBBI • JOHN GODBEY • DANA GODFREY • LARRY GOLDING • ROBERT GONZALEZ • BRUCE GOUGH • REBECCA GRADY • BRYAN GRAHAM • DAVID GRAHAM • CLINTON GRAY • BRIAN GREEN • PAUL GREEN • KENNETH GREENE • DAVID GREENHALGH • DALE GRETH • KENNETH GRIFFIN • JOHNNY GRIFFIN • WILLIAM GRIFFITH • GUNNAR GUNDERSON • DAVID HAAG • PETER HACKENBERGER • JASON HACKER • KATHLEEN HAGAN • STEPHEN HAGEDORN • WILLIAM HAGGART • JOSEPH HALL • AARON HALL • ROBERT HALPIN • DAVID HAMRE • HOWARD HANSEN • DONALD HARPOLE • LINDA HARRINGTON • MICHAEL HARRIS • THOMAS HARRIS • DWIGHT HARRIS • JOHN HARSTAD • SHARON HART • RODNEY HARVEY • DAVID HASTINGS • STEVEN HAYES • LAMBERT HAZELAAR • CAROLINE HEATER • JOHN HEATER • JOANNE HECKEY • WILLIAM HEDGE • CHRIS HELKENN • MARTIN HELLER • OWEN HELLMAN • CHAD HELTON • LAURIE HERMAN • GREG HERNANDEZ • PAULA HERZNER • LEE HIGBIE • WILLIAM HIGHTOWER • KENNETH HIGHTOWER • DONALD HILL • DARRELL HILL • MICHAEL HILL • AUSTIN HILL • EDWARD HILLS • ROBIN HINDMARCH • ELENA HINDS • TERRY HINMAN • ROBERT HINTERLEITNER • EVERETT HINTON • DENNIS HOADLEY • NATHANIEL HOCKER • FRED HOLDERBY • JAY HOLE • JOHN HOLLAND • RICHARD HOLZAPFEL • WAYNE HORINE • WILLIAM HORSTMANN • ROBERT HOUSTON • CLIFFORD HOWARD • JOHN HOWE • KRAIG HUGHES • MICHAEL HULS • R. T. HUNT • WILLIAM HUPPRICH • KENT IHDE • RANDY ISAACSON • GLENN JACKSON II • SEAN JAMES • PHYLLIS JOHNSON • DOUGLAS E. JOHNSON • SAMUEL JOHNSON • GRANT JOHNSON • DOUGLAS L. JOHNSON • VIRGINIA JOHNSON • JEFF JOHNSON • TROY JOHNSON • MICHAEL JOHNSTON • PHILIP JOHNSTON • PORREST JOHNSTON • CHARLES JONES • CLINT JONES • KEITH JONES • DONALD JUBB • VINCENT JUDY • DAVID KAMPSEN • DUANE KAUKA • HERFF KEITH • SAMUEL KELLEY • TIMOTHY KELLY • DAVID KELLY • THOMAS KENDALL • WILLIAM KENNEDY • DIANE KENNEDY • CONNOR KEOGH • CHRISTOPHER KERR • STEPHAN KESTER • JOSEPH KETZLER • SUSAN KIGER • MELVIN KILGORE • ROBERT KILLOUGH • JOHN KINCAID • BENJAMIN KING • KRIS KINNEY • SHAWN KIRKPATRICK • BYRON KLOCKNER • HEATHER KNEIFEL • PEGGY KNOLL • CHRISTOPHER KNOX • DENNIS KNUTH • GERALD KNUTSON • DAVID KOCHER • DARYL KOLLANDER • ROBERT KOOREN • PATRICIA KOSLOVICH • ROBERT KOSUSNIK • DAVID KROMPACKY • JAMES KUBITZ • DAWN LAAKSO • BRIAN LAForge • ROBERT LALONDE • SAMUEL LANE • THAD LANGFORD • GORDON LARSON • CHARLES LAVALLEE • SHELY LEGGETT • RICKY LEGGETT • AARON LEGGETT • JIMMY LEMKE • STEVEN LERWICK • MURIEL LEWIS • GENE LEWIS • JOHN LEWIS • KATHLEEN LEWIS • PAUL LDREN • MICHAEL LINDBERG • DAVID LINDQUIST • WENDY LINDSKOOG • PETER LINN • ROBERT LOCKE • THEODORE LOMBARD • CHARLES LORITZ • STEVEN LOVE • MICHAEL LOVE • PATRICK LOWE • JOSHUA LUCCA • GARY LUND • THOMAS LUZACK • JOHN MACDONALD • MICHELLE MADDOX • LYLE MADSEN • WALTER MAILLELLE • MICHAEL MAILLET • DANIEL MALONEY • DOUGLAS MARKS • RUSSELL MARTIN • KATRINA MARTOLANO • WAYNE MARTSOLF • TINA MARTY • TRAVIS MATLOCK • ALBERT MAURO • KEVIN MAYO • BRADLEY MCALPINE • FOREST MCAHON • SABRINA MCCANN • JOHN MCDONALD • JOHN MCDOWELL • ROY MCKEE • CLYDE MCAHON • PAMELA MEANS • KEVIN MEIER • NACOLE MERRELL • LONDON MESSELHEISER • KERI MESZAROS • PAUL MILLER • SUE MILLER • RONALD MILLER • CHRISTOPHER MOORE • BRANDON MOORE • OUIDA MORRISON • KAREN MORRISSEY • RICK MOSHER • ELDRIDGE MOSS III • JOHN MUDICK • JAMES MURPHY • CLAY MURPHY • ROCKY MURRILL • ROBERT MURTON • TIMOTHY NAGY • GEORGE NASER • CARL NEELY • JEFFREY NELSON • GORDON NELSON • ROBERT NIESSINK • GEORGE NOLAN • CHARLES NORRIS • ANTHONY NORTON • JULIAN NORVILLE • STEVEN O'CONNOR • GARY ODENS • MICHAEL OLSON • FRANKLIN O'MEARA • MICHAEL O'NEIL • ROBERT O'NEILL • CARRY ORRISON • LOUIS OWENS • EUGENE OWENS • JAMES PAGE • REGINA PALMER • MARK PARKER • JERRY PARKS • SIDNEY PARRIS • AARON PASCAR • THOMAS PAYNE • DAMON PELHAM • JESS PELZEL • STEVE PERKINS • MICHAEL PERYAM • SCOTT PETERSEN • SHELDON PETERSON • WILLOW PEYTON • WILLIAM PHELPS • GARY PHILLIPS • PAUL PIERCE • JUSTIN PIERCE • ERNEST PIPER • GEORGE PITNER • THOMAS PLATTENBERGER • KEITH PLEASURE • MEILI POLEO • RONALD POLK • MARIANNE POLLAK • JAMES PRAIRIE • FRANKLIN PRICKER • WADE PROCTOR • CLIFFORD PROEY • ED PRUSAK • PAULA PSIK • JOHN PUCKETT • CAROL PULIS • JAMES PYPE • LUCAS PYRAH • DON RABIDEAU • FRANCIS RABIDEAU • RICK RAPUZZI • JAMES REDA • DOUGLAS REED • NICOLE REESE • DAVY REGISTE • GEORGE REIF • EILEEN REILLY • LYNN REITZ • WENDY RICHESON • LORRAINE RISCH • LISA RIVERA • EDWARD RIVERA • JONATHAN ROBERTS • DAVID ROBERTS • WANDA ROBINSON • MARY ROCK • BARBARA ROGERS • WESLEY ROGERS • JEFF ROGUES • BRITT ROGUES • ANTHONY ROSARIO • MARK ROSEVEAR • HARRY ROSS • MICHAEL ROSSO • KIRBY ROUNTREE • JAY RUCKMAN • CURT RUDD • DARREN RUPE • GARY RUSSELL • CHRISTIAN RYLL • RAY SANDERFORD • EARL SANDMAN • JOANNE SANDMAN • WILLIAM SANDMEYER • RICHARD SANFORD • ANTONIO SANSONE • CHERYL SAUTEL • JEFFREY SAUTTER • DANIEL SAVAGE • PETER SCHAEFER • JAMES SCHEU • DOUGLAS SCHILLING • BENJAMIN SCHMIDT • CHARLES SCHMIDT • STEVE SCHOONMAKER • SUSAN SCHRADER • LAUREL SCHULENBERG • MICHAEL SCHULTZE • RODNEY SCHUMACHER • KATHLEEN SCHWALBE • BRIAN SCHWULST • RAYMOND SECHSER • JAMES SEEBERGER • TROY SESSIONS • ADRIE SETTEN • GARY SETTEN • DAVID SHAFER • PATRICK SHAKE • WILLIAM SHEFFIELD • MICHAEL SHEPLER • FRANK SHEPPARD • GEORGE SHERMAN • JONATHAN SHERWOOD • PHILIP SHIBE • GREGORY SHOEMAKER • DAVID SHOEMAKER • CYNTHIA SHOLLY • BARON SHOUCK • ANDY SIEBERT • SCOTT SIEGMANN • TERRY SIEVERS • STEVEN SILVERSTEIN • RICHARD SIMMONS • DOUGLAS SIMONDS • RONALD SIMS • RICHARD SINGSAAS • LEON SMITH • ROBERT SMITH • JOHN SMITH • KENNETH SMITH, JR. • ROBERT SMITH III • TIMOTHY SNAPP • JEFFREY SNYDER • ROBERT SOCHA • STEVEN SOMMER • RANDY SPRINGSTEED • STEWART STACKHOUSE • SEAN STAELHI • BRIAN STAFFORD • LOREN STATZ • JEFFREY STERBENZ • WARNER STEWART • CRAIG STOSKOPF • ROBERT STOUT • JOHN STOVER • TROY STRASS • JOHN STREET • GLENN SULLIVAN • LAWRENCE SULLIVAN • DONALD SUMMERS • TERRY SURLS • GARY SUTCH • TIMOTHY SUTHERLAND • JOHN SWANSON • ERIK SWANSON • TINA SWARNER • HEATHER SWARTZ • BRIAN SWEATT • RICHARD TEEPLES • CHARLES TENNEY • RICHARD TESCHER • PATRICIA THIBODEAUX • ROY THOMAS • DAVID THOMPSEN • LANCE THOMPSON • EDWARD THOMPSON • RONALD THOMPSON • LLOYD THOMPSON • MARK TIMBLIN • NANCY TIADEN • ERIC TOMSHA • ALLAN TOWNSEND • BRENT TRAUT • MICHAEL TRITZ • CHERYL TROJOVSKY • GLEN TROMBLEY • JAMES TRUEBLOOD • CHRISTINE TURNER • PAUL TURNER • GERALD VALINSKE • SALLY VAN DER STARRE • LAWRENCE VAN KLEECK • JENNIFER VERLEY • JON VERLEY • EUGENE VICERE • TONY VIRNIG • PATRICK VOGEL • DUANE VOSSEN • DAVID WADE • TIMOTHY WALLER • SANDRA WANNER • ROLANDA WARD • JAMAR WASHINGTON • SCOTT WATKINS • LEE WATNE • MICHAEL WEATHERELL • MARTIN WEATHERELL • KEITH WEBSTER • ADAM WEGNER • STEVE WELSH • JASON WERNER • DWIGHT WEST • KEITH WHITE • JASON WHITE • ROBERT WHITEHEAD • MICHAEL WIESKAMP • MARY WILLIAMS • JASON WILSON • TIFFANY WILSON • CRYSTAL WILSON • GARY WING • CHARLES WINGFIELD • HERDER WINKELMAN • FRANK WITHEY • KEVIN WOOD • DONALD WORTHLEY • DONALD WRIGHT • SEAN WRIGHT • CHARLES WULF • GREGORY WYATT • JEFFREY WYATT • ROBERT YOST • DARRELL ZABLE • HENRY ZAWADZKI • TIMOTHY ZIMBRICH



Kerry Brookman

It is with deep sadness that the Alaska Railroad mourns the passing of Kerry Brookman. Kerry was not only a valuable employee, but also a friend. To the men and women of the Railroad who worked with him over the last 21 years, Kerry was well liked and respected. He was a tremendous asset to our company – one of our best heavy equipment operators. Kerry put his life into working for the Alaska Railroad. The Railroad will never be able to fully thank him for that. It is, therefore, the honor of the Alaska Railroad to name the Bird Point siding after Kerry for his commitment and many years of service. We have lost a great friend and a great railroad.



MANAGEMENT STATEMENT

The management of the Alaska Railroad Corporation is responsible for the fair statement of the accompanying financial statements and all other information contained in the annual report. The financial statements were prepared in conformity with generally accepted accounting principles and prevailing railroad industry practices and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained elsewhere in the annual report is consistent with that in financial statements.

The Alaska Railroad Corporation maintains accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. Management believes the company's system provides this appropriate balance in all material respects.

The financial statements have been audited by KPMG Peat Marwick LLP, 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 an objective, outside review of operating results, financial condition, and the Corporation's system of internal controls. The opinion of the independent auditors is contained in this annual report.

The audit committee of the board of directors, composed solely of outside directors, meets with independent auditors and management periodically to discuss audit findings and other accounting and financial matters. The committee reviews the scope and results of the audit effort with the independent auditors as well as the annual financial statements and recommends their approval by the board of directors.

Vice President, Finance and Administration

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Alaska Railroad Corporation:

We have audited the accompanying balance sheets of the Alaska Railroad Corporation as of December 31, 1999 and 1998, and the related statements of operations, equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

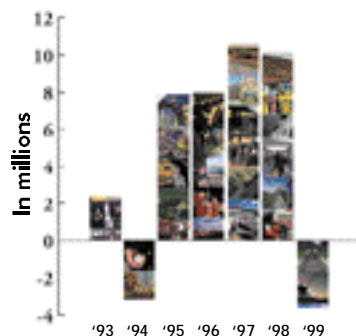
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

February 18, 2000

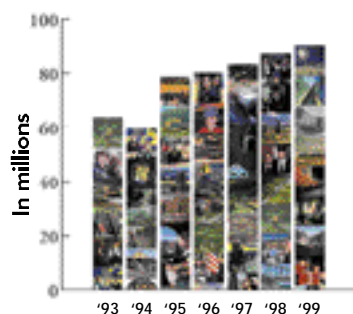
KPMG LLP



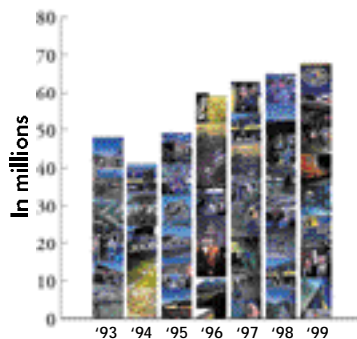
Net Income



Operating Revenue



Freight Revenue



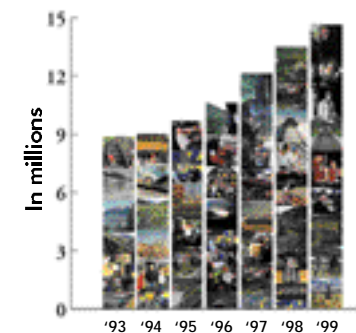
BALANCE SHEETS

ALASKA RAILROAD CORPORATION
December 31, 1999 and 1998
(In Thousands)

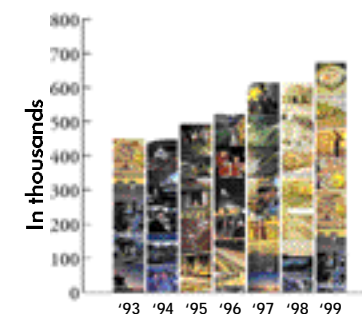
Assets	1999	1998
Current assets:		
Cash and cash equivalents	\$ 4,846	5,209
Accounts receivable, net of allowance for doubtful accounts of \$508 in 1999 and \$638 in 1998	8,464	10,992
Materials and supplies	4,593	3,839
Board designated assets	13,215	—
Prepaid expenses and other current assets	427	353
Total current assets	<u>31,545</u>	<u>20,393</u>
Operating property and equipment		
Road and roadway structures	114,519	99,226
Equipment	51,938	47,475
Road materials and supplies	3,171	2,216
Construction in progress	20,237	8,502
Accumulated depreciation and amortization	(66,888)	(59,544)
Total operating property and equipment, net	<u>122,977</u>	<u>97,875</u>
Land and improvements (note 10)	15,879	13,850
Board designated assets (note 3)	1,038	9,166
Restricted assets (note 4)	51,452	26,750
Other assets (note 5)	777	474
	<u>\$ 223,668</u>	<u>168,508</u>

Liabilities and Equity	1999	1998
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 2,018	1,096
Accounts payable and accrued liabilities (note 13)	12,529	4,765
Payroll liabilities	6,579	5,321
Unearned revenues	1,683	1,678
Total current liabilities	22,809	12,860
Long-term debt, less current portion (note 6)	22,051	4,069
Accrued postretirement and pension benefits (note 7)	9,018	8,037
Environmental remediation reserve (note 13)	3,150	—
Deferred grant revenue (note 8)	60,577	34,741
Deferred revenue (note 4)	15,514	14,673
Total liabilities	133,119	74,380
Equity:		
Investment by the State of Alaska	34,174	34,174
Retained earnings	56,043	59,802
Accumulated other comprehensive income - net unrealized gain on securities available for sale	332	152
Total equity	90,549	94,128
Commitments and contingencies (notes 6, 7, 9, 11, 12 and 13)	\$ 223,668	168,508

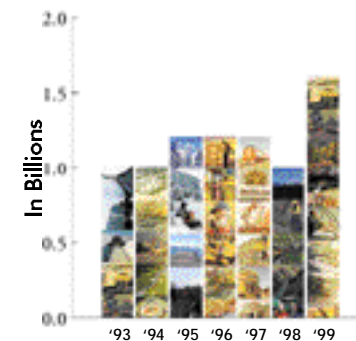
Passenger Revenue



Passenger Ridership



Revenue Ton Miles



See accompanying notes to financial statements.



STATEMENTS OF OPERATIONS

ALASKA RAILROAD CORPORATION
 Years ended December 31, 1999 and 1998
 (In Thousands)

	1999	1998
Operating revenue:		
Freight (note 9)	\$ 65,677	64,987
Passenger	14,571	13,491
Other	304	296
	<hr/> 80,552	<hr/> 78,774
Grant revenue (note 8)	1,648	1,607
	<hr/> 82,200	<hr/> 80,381
Operating expense:		
Transportation	40,078	37,376
Engineering (note 8)	21,165	20,118
Mechanical	10,763	9,918
General and administrative	20,078	7,947
	<hr/> 92,084	<hr/> 75,359
Income (loss) from operations	<hr/> (9,884)	<hr/> 5,022
Other income (expense):		
Real estate income, less direct expenses of \$3,121 in 1999 and \$3,560 in 1998 (note 10)	5,505	4,402
Interest income	1,161	602
Interest expense	(541)	(90)
	<hr/> 6,125	<hr/> 4,914
Net income (loss)	<hr/> <hr/> \$ (3,759)	<hr/> <hr/> 9,936

STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME

ALASKA RAILROAD CORPORATION
 Years ended December 31, 1999 and 1998
 (In Thousands)

	Investment by the State of Alaska	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at December 31, 1997	\$ 34,174	49,866	—	84,040
Comprehensive income:				
Net income	—	9,936	—	9,936
Change in unrealized holding gain on securities available for sale	—	—	152	152
Total comprehensive income				10,088
Balance at December 31, 1998	34,174	59,802	152	94,128
Comprehensive income:				
Net loss	—	(3,759)	—	(3,759)
Change in unrealized holding gain on securities available for sale	—	—	180	180
Total comprehensive income				(3,579)
Balance at December 31, 1999	\$ 34,174	56,043	332	90,549



See accompanying notes to financial statements.

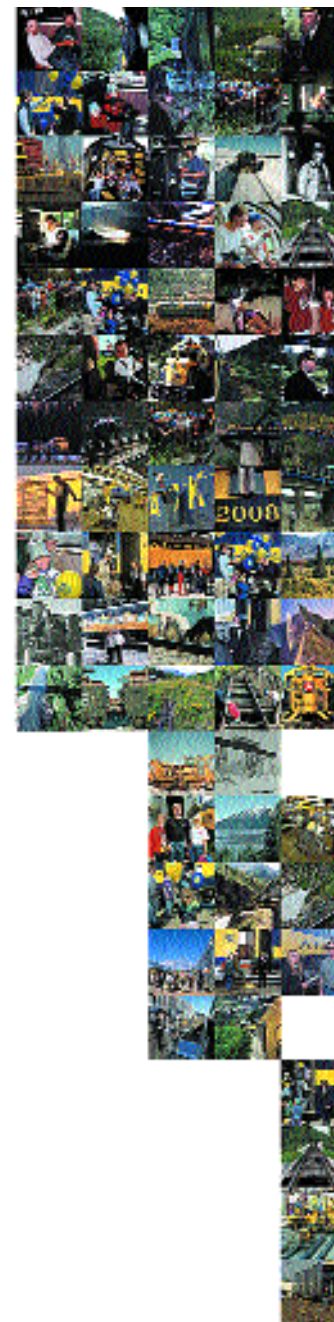


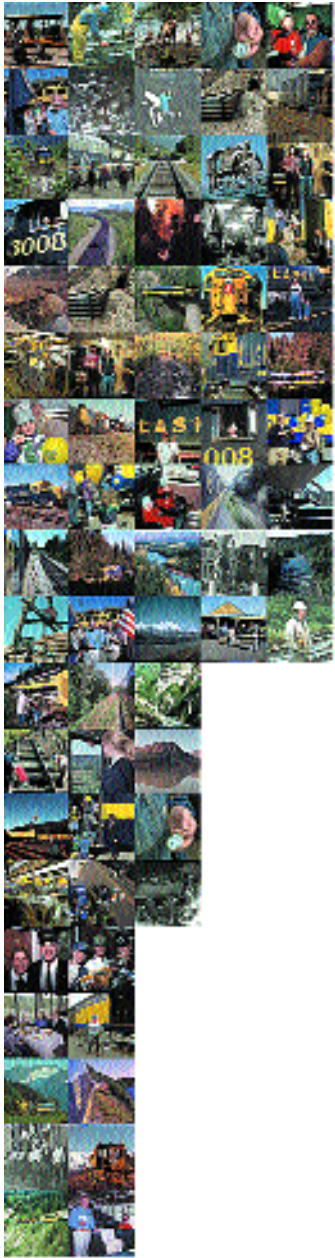
STATEMENTS OF CASH FLOWS

ALASKA RAILROAD CORPORATION
 Years ended December 31, 1999 and 1998
 (In Thousands)

	1999	1998
Operating activities:		
Net income (loss)	\$ (3,759)	9,936
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,076	7,567
(Gain) loss on disposal of assets	273	(150)
Gain on sale of investment	(223)	—
Changes in assets and liabilities:		
Decrease in accounts receivable, net of allowance for doubtful accounts	2,528	544
Increase in materials and supplies	(754)	(659)
(Increase) decrease in prepaid expenses and other assets	(254)	507
Increase in accounts payable and accrued liabilities	7,764	692
Increase (decrease) in payroll liabilities	1,258	(1,438)
Increase (decrease) in unearned revenues	5	(572)
Increase in environmental reserve	3,150	—
Increase in accrued postretirement and pension benefits	981	1,156
Increase in deferred revenue	841	816
	<hr/>	<hr/>
Net cash provided by operating activities	19,886	18,399
	<hr/>	<hr/>

	1999	1998
Investing activities:		
Purchases of operating property and equipment	(33,541)	(23,772)
Purchases of land improvements	(2,029)	—
Proceeds from sales of operating property and equipment	90	150
Proceeds from sale of investment	100	—
Increase in board designated assets, net of unrealized gain on available-for-sale securities	(4,907)	(5,804)
Increase in restricted assets	(24,702)	(12,893)
Increase in deferred grant revenue	25,836	20,037
	<hr/>	<hr/>
Net cash used in investing activities	(39,153)	(22,282)
	<hr/>	<hr/>
Financing activities:		
Payments on long-term debt	(1,096)	(2,186)
Proceeds from long-term debt	20,000	5,360
	<hr/>	<hr/>
Net cash provided by financing activities	18,904	3,174
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(363)	(709)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of year	5,209	5,918
	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 4,846	5,209
	<hr/>	<hr/>
Supplemental disclosure of cash activity:		
Interest paid	\$ 455	92
	<hr/>	<hr/>





NOTES TO FINANCIAL STATEMENTS

ALASKA RAILROAD CORPORATION

December 31, 1999 and 1998

(1) Organization and Operations

The United States Congress authorized construction of the Alaska Railroad (ARR) 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 ARR to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982, which was signed into law on January 14, 1983. The Alaska Railroad Corporation (the ARRC) is a 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.

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

(2) Summary of Significant Accounting Policies

In preparing the financial statements in accordance with generally accepted accounting principles management is required to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses for the reporting period. Actual results could differ from these estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

(a) Basis of Accounting

The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB). Accordingly, the ARRC has prepared the accompanying financial statements in accordance with the STB rules and regulations (US CFR Title 49), which are generally consistent with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include time deposits, money market accounts and repurchase agreements with original maturities of three months or less.

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of average cost or market. Road materials and supplies include rail, ties, ballast, and other track materials. These items will generally be capitalized when placed into service, and accordingly are included in operating property and equipment.

(d) Operating Property and Equipment

Operating property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the related assets, ranging from 5 to 32 years.

(e) Board Designated Assets

Board designated assets represent investment securities held by the ARRC in anticipation of funding future postretirement benefits and locomotive and equipment purchases. Management has both the ability and intent to hold the investment securities designated for locomotive and equipment purchases to maturity, and accordingly, has elected to account for them at amortized cost under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investment securities designated for postretirement benefits are invested in equity mutual funds and are accounted for as available for sale securities under SFAS No. 115. Available for sale securities are stated at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of other comprehensive income.

(f) Restricted Assets

Restricted assets represent investment securities held by the ARRC in anticipation of the approval of future capital projects. Management has both the ability and intent to hold the investment securities to maturity, and accordingly has elected to account for them at amortized cost under SFAS No. 115. Funds received but not yet expended are recorded as deferred revenue.

(g) Grants

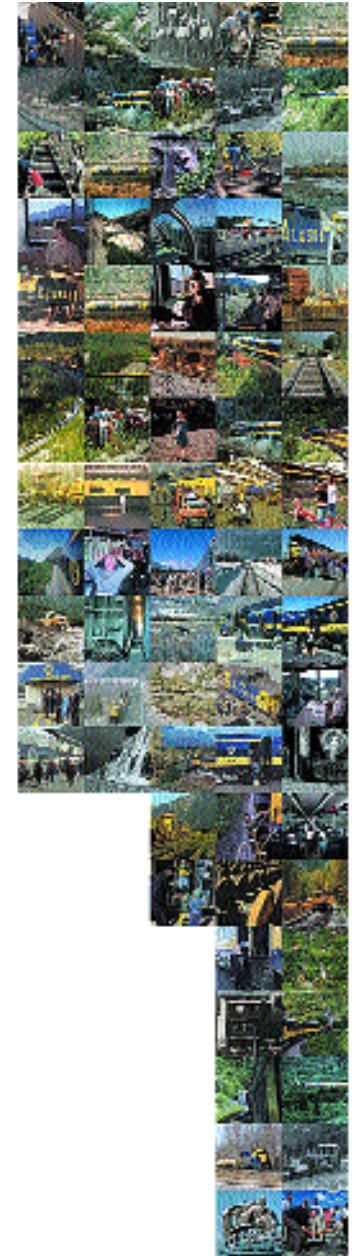
Grant revenue is recorded in the same period as expenses related to the grant. Grant funds received but not yet expensed are recorded as deferred grant revenue.

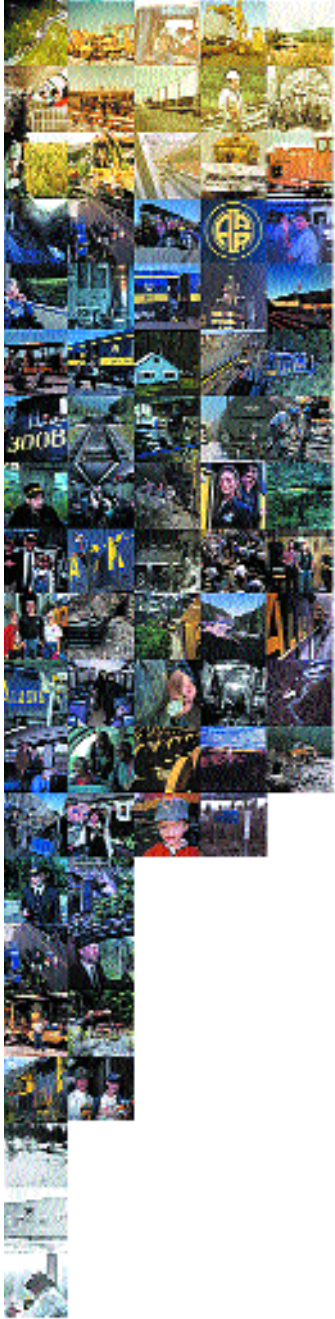
(h) Income Taxes

As a corporation owned by the State of Alaska, the ARRC is exempt from Federal and State income taxes.

(i) Environmental Remediation Costs

The Corporation accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Costs of future expenditures for environmental remediation liabilities are not discounted to their present value.





(j) **Fair Value of Financial Instruments**

Fair values of financial instruments, as defined under SFAS No. 107, Disclosures About Fair Value of Financial Instruments, are estimated by the ARRC's management. Fair values of restricted assets and related deferred revenue are based on quoted market prices, when available, and quoted market prices of comparable instruments, when not available. Fair values for accounts receivable are estimated using cash flows in comparison to assets with similar estimated average lives but bearing current market interest rates. Fair values of long-term debt are based on the discounted value of contractual cash flows and interest rates being offered for similar debt. ARRC has determined the fair values of financial instruments do not differ significantly from their carrying amounts with the exception of investments which are discussed in notes 3 and 4.

(k) **Comprehensive Income**

Comprehensive income consists of net income and net unrealized gains and losses on securities and is presented in the statement of equity and comprehensive income.

(3) Board Designated Assets

Through December 31, 1999, the ARRC Board of Directors has designated investments for the purchase of locomotives (note 13), for vehicles and equipment, and for postretirement benefits (note 7) as follows (in thousands):

Description of Security	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
1999:				
Available for sale				
Equity mutual fund	\$ 706	332	—	1,038
Held to maturity				
Money market accounts	4,538	—	—	4,538
U.S. Agency notes (maturing within one year)	6,456	—	(151)	6,305
Corporate notes (maturing within one year)	2,221	—	—	2,221
	\$ 13,215	—	(151)	13,064
1998:				
Available for sale				
Equity mutual fund	\$ 706	152	—	858
Held to maturity				
Money market accounts	5,755	—	—	5,755
U.S. Agency notes (maturing within one year)	2,553	1	—	2,554
	\$ 8,308	1	—	8,309

(4) Restricted Assets

The ARRC received \$9,000,000 from the State of Alaska in 1990 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 of Alaska is accounted for as deferred revenue, which will be amortized over the life of the project. According to the agreement, the ARRC is to refund the \$9,000,000 plus interest earned less administrative fees during the holding period if the Wishbone Hill Coal Project is canceled. At December 31, 1999, these restricted assets totaled \$15,263,000.

Also included in restricted assets is \$251,000 received in 1990 from the Department of Natural Resources. These funds are being managed by the ARRC in anticipation of future capital projects. If no capital projects are undertaken, the funds, including accrued interest, would be returned to the Department of Natural Resources.

As part of the 1997 Taxpayer Relief Act passed by the U.S. Congress, states without Amtrak service are due a benefit to be spent on passenger service improvements in lieu of the tax benefits received through Amtrak subsidies over the years. Alaska's share of this benefit is \$23,230,000, \$11,615,000 of which was received by ARRC in 1998, with the remaining \$11,615,000 received in 1999. The unspent portion of the amount received, along with investment income thereon, is reported as deferred grant revenue (note 8). At December 31, 1999, these restricted assets totaled \$15,579,000.

To finance the purchase of sixteen new locomotives, the ARRC incurred debt in the amount of \$20 million during 1999 (note 6). The locomotives will be delivered and paid for in early 2000. As of the balance sheet date, these restricted loan proceeds and accrued interest total \$20,359,000.

Restricted assets are considered held to maturity at December 31, 1999 and 1998 consisted of the following (in thousands):

Description of Security	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
1999:				
Money market accounts	\$ 9,353	—	—	9,353
U.S. Agency notes (maturing within one year)	3,990	—	(56)	3,934
U.S. Agency notes (maturing in 1-5 years)	21,046	13	(203)	20,856
Corporate notes (maturing within one year)	14,246	—	(214)	14,032
Corporate notes (maturing in 1-5 years)	2,817	16	(9)	2,824
Total	\$ 51,452	29	(482)	50,999
1998:				
Money market accounts	\$ 1,605	—	—	1,605
U.S. Agency notes (maturing within one year)	2,022	3	—	2,025
U.S. Agency notes (maturing in 1-5 years)	18,234	22	(35)	18,221
Corporate notes (maturing in 1-5 years)	4,889	33	(4)	4,918
Total	\$ 26,750	58	(39)	26,769





(5) Investment in Partnership

During 1992, the ARRC entered into a general partnership agreement to develop and operate a hotel complex in the Ship Creek area. The ARRC sold its interest in the partnership on November 12, 1999 to the existing partners for \$600,000, of which \$500,000 will be received over 10 years. The sale resulted in a gain of \$223,000.

(6) Long-Term Debt and Notes Payable

Long-term debt at December 31, 1999 and 1998 consists of the following (in thousands):

	<u>1999</u>	<u>1998</u>
Note payable, secured by equipment, due in monthly payments of \$165,936, including interest at 5.38%, matures September 2014.	\$ 20,000	—
Note payable, secured by equipment, due in monthly payments of \$74,173 including interest at 4.28%, matures September 2003.	3,078	3,819
Note payable, secured by equipment, due in monthly payments of \$30,603, including interest at 4.28%, matures October 2003.	991	1,309
Note payable, secured by equipment, due in monthly payments of \$18,616 including interest at 4.44%, matures February 1999.	—	37
	<u>24,069</u>	<u>5,165</u>
Less current portion	<u>2,018</u>	<u>1,096</u>
	<u>\$ 22,051</u>	<u>4,069</u>

ARRC has met all debt covenants at December 31, 1999.

Long-term debt maturities are as follows at December 31, 1999 (in thousands):

<u>Year ending December 31</u>	<u>Amount</u>
2000	\$ 2,018
2001	2,088
2002	2,043
2003	1,888
2004	1,132
2005 and beyond	<u>14,900</u>
	<u>\$ 24,069</u>

The ARRC borrowed \$20 million in 1999 from GE Capital to finance a portion of the purchase of sixteen new SD70MAC locomotives. The note bears 5.38% interest maturing in 2014. At year-end the full balance was outstanding and ARRC was in compliance with all debt covenants.

The ARRC has arrangements for short-term unsecured lines of credit of up to \$10,000,000 each with two banks. The general purpose line of credit allows borrowing up to \$10,000,000 at a rate of 56% of the prime rate of a major bank. The self-insurance line of credit allows borrowing up to \$10,000,000 at a rate of 65% of the prime rate of a major bank. Neither line of credit had an outstanding balance as of December 31, 1999.

(7) Employee Benefits

(a) Defined Benefit Plan

The ARRC has a defined benefit pension plan (Plan) covering all regular represented and nonrepresented employees who are not covered by the Civil Service Retirement System. Benefits under this Plan are based upon the employee's years of service and final average compensation. The ARRC's funding policy is to contribute each year an amount equal to the net periodic pension cost. In 1999 and 1998, the ARRC contributed an amount for the periodic pension cost which was net of a prepaid pension amount. Employees contribute an amount equal to 9% of compensation. Contributions are made continuously throughout the year. Plan assets are comprised of fixed income securities and common stocks.

The following table sets forth the Plan's funded status at December 31, 1999 and 1998 (in thousands):

	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 24,223	20,349
Service cost	858	865
Interest cost	1,677	1,516
Participant contributions	1,649	1,453
Actuarial (gain) loss	(3,760)	512
Benefits paid	(575)	(472)
Benefit obligation at end of year	<u>24,072</u>	<u>24,223</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	27,026	22,332
Actual return on plan assets	3,874	3,713
Participant contributions	1,649	1,453
Benefits paid	(575)	(472)
Fair value of plan assets at end of year	<u>31,974</u>	<u>27,026</u>
Funded status	7,902	2,803
Unrecognized net actuarial gain	(10,442)	(5,088)
Unrecognized prior service cost	954	1,027
Unrecognized transition asset	<u>122</u>	<u>182</u>
Accrued benefit cost	\$ (1,464)	(1,076)





The following table sets forth the Plan's weighted average assumptions used in determining the actuarial present value of the projected benefit obligation at December 31, 1999 and 1998:

	1999	1998
Discount rate	8.00 %	6.75 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase	4.25 %	4.00 %

Components of 1999 and 1998 net pension costs are as follows (in thousands):

	1999	1998
Service cost	\$ 858	865
Interest cost	1,677	1,516
Expected return on plan assets	(2,197)	(1,814)
Amortization of prior service costs	73	73
Amortization of unrecognized transition obligation	61	61
Recognized net actuarial gain	(83)	—
Net periodic benefit cost	\$ 389	701

(b) Defined Contribution Plan

Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS). ARRC is required to contribute 8.5% of the transferred employees' base pay. Pension expense related to CSRS was \$779,000 and \$687,000 for the years ended December 31, 1999 and 1998, respectively.

(c) Postretirement Benefits Other Than Pension

The ARRC sponsors a defined benefit health care plan (Plan) that provides postretirement medical benefits to employees receiving retirement under the corporate retirement plan and retired CSRS employees who do not qualify for the federal medical insurance. The Plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The accounting for the Plan anticipates future cost-sharing changes to the written plan that are consistent with ARRC's expressed intent to increase the retiree contribution rate by the amount of that year's premium increase. ARRC's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. At December 31, 1999 and 1998, the ARRC has designated assets with a market value of \$1,038,000 and \$858,000 respectively for the funding of these benefits (note 3).

The ARRC accounts for postretirement health care by accruing these benefits over the period in which active employees become eligible for such postretirement benefits. The following table sets forth the Plan's funded status, at December 31, 1999 and 1998 (in thousands):

	<u>1999</u>	<u>1998</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,807	5,271
Service cost	528	432
Interest cost	344	314
Actuarial gain	(1,884)	(10)
Benefits paid	(200)	(200)
	<hr/>	<hr/>
Benefit obligation at end of year	4,595	5,807
	<hr/>	<hr/>
Funded status	(4,595)	(5,807)
Unamortized prior service costs	(271)	(298)
Unrecognized net actuarial gain	(2,688)	(856)
	<hr/>	<hr/>
Accrued benefit cost	\$ (7,554)	(6,961)

The components of 1999 and 1998 net periodic cost for these postretirement benefits are as follows (in thousands):

	<u>1999</u>	<u>1998</u>
Service costs	\$ 528	432
Interests costs	345	314
Recognized prior service costs	(27)	(27)
Recognized net actuarial gains	(53)	(64)
	<hr/>	<hr/>
Net periodic cost	\$ 793	655

For measuring the 1999 expected postretirement benefit obligation, a 9.25% annual rate of increase in the per capita claims cost was utilized for all participants. This rate was assumed to decrease over a three-year period to an ultimate rate of 5.25% in 2002.

For measuring the 1998 expected postretirement benefit obligation, a 9% annual rate of increase in the per capita claims cost was utilized. This rate was assumed to decrease over a four-year period to an ultimate rate of 5.25% in 2002.





Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	1999		1998	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on total service and interest cost components	\$ 243	182	239	(178)
Effect on postretirement benefit obligation	\$ 1,459	(1,113)	1,479	(1,124)

(8) Federal Grants

The ARRC has spent grant funding on a variety of operating property and equipment. Grant revenue will be recognized equal to depreciation on these assets each year. The cost of assets constructed with grant funding as of December 31, 1999 consists of the following (in thousands):

Road and roadway structures	15 – 25 year life	\$ 30,521
Construction in process		18,347
		<u>\$ 48,868</u>

Deferred grant revenue as of December 31 consists of the following (in thousands):

	1999	1998
Federal Railway Administration -		
Net book value of assets constructed	\$ 27,904	23,494
Construction in process	8,886	—
Amount receivable from grantor	(1,087)	(830)
Taxpayer Relief Act -		
Construction in process	6,638	—
Grant funding received in advance	16,591	11,590
Investment earnings on funding	1,407	487
Federal Transit Administration -		
Construction in process	2,823	—
Amount receivable from grantor	(2,823)	—
Federal Emergency Management Agency -		
Net book value of assets constructed	238	—
	<u>\$ 60,577</u>	<u>34,741</u>

The ARRC recognized the following grant revenue during the years ended December 31:

	<u>1999</u>	<u>1998</u>
Federal Railway Administration –		
Depreciation on assets constructed	\$ 1,043	725
Grant funded engineering expense	597	857
Taxpayer Relief Act –		
Grant funded project planning expense	—	25
Federal Emergency Management Agency –		
Depreciation on assets constructed	8	—
	<u>\$ 1,648</u>	<u>1,607</u>

(9) Major Customer

One ARRC customer accounted for 45% and 34% of freight revenue in 1999 and 1998 respectively.

(10) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in Real Estate income, was \$6,872,000 and \$6,385,000 in 1999 and 1998, respectively.

The following table summarizes future minimum lease payments receivable as of December 31, 1999 (in thousands):

<u>Year ending December 31</u>	<u>Amount</u>
2000	\$ 6,927
2001	6,873
2002	6,621
2003	6,377
2004	6,134
Thereafter	<u>121,272</u>
	<u>\$ 154,204</u>

The ARRC has \$1,049,000 in rent credits outstanding on these leases at December 31, 1999.





(11) Operating Leases and Agreements

The ARRC leases its headquarters, certain operating equipment, and barge services under operating leases and agreements. Payments under the leases and agreements totaled \$15,730,000 and \$15,707,000 in 1999 and 1998, respectively. Future minimum lease payments as of December 31, 1999 are summarized as follows (in thousands):

Year ending December 31	Amount
2000	\$ 14,501
2001	10,890
2002	9,877
2003	9,770
2004	9,770
Thereafter	<u>61,049</u>
	115,857
Amounts to be received under non-cancellable sub-leases	<u>(8,845)</u>
	<u>\$ 107,012</u>

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims and establishes reserves for the estimated losses of such claims. The ARRC is also self-insured against workers' compensation claims. The ARRC carries commercial insurance policies limiting their exposure for health benefits to \$2.5 million, for casualty/liability to \$5 million and for property to \$10 million at December 31, 1999.

(13) Commitments and Contingencies

During 1997, and as amended in 1998, the ARRC entered into an agreement to purchase 16 locomotives for approximately \$32,347,000. The locomotives are scheduled for delivery in the first half of 2000. The Board of Directors has designated assets and restricted assets with carrying values of \$12,107,000 and \$20,359,000 respectively toward the purchase of these locomotives (note 4).

During 1992, the EPA filed a complaint seeking to fine the ARRC for alleged violations of the Resource Conservation and Recovery Act in relation to storing hazardous wastes at the Anchorage rail yard. A consent agreement was executed during 1994 settling the alleged violations. The accrual included in the financial statements does not reflect any costs to clean up any contamination in the area covered by the settlement. No contamination has been discovered, but the ARRC believes most, if not all, contamination in this area would have occurred prior to the transfer of the ARRC from the federal government to the State of Alaska. That liability for contamination will be ultimately imposed on the federal government under the transfer act and a 1990 agreement between the federal government and the ARRC.

During 1999, two derailments resulted in fuel spills along the ARRC tracks at Canyon and at Gold Creek. The ARRC is responsible for the remediation, restoration and monitoring of environmental contamination at these sites. The ARRC has accrued its best estimate of its obligation with respect to the sites at December 31, 1999, which is \$11,376,000. Of this amount, \$8,226,000 is expected to be paid during 2000 and is included in accounts payable and accrued liabilities. The remaining \$3,150,000 is expected to be incurred through 2004 and is reported as environmental remediation reserve. The total expense relating to these derailments and reflected in the statement of operations was \$12,853,000 during 1999. The aggregate undiscounted amount has been recorded since it represents management's best estimate of the cost, but the payments are not considered to be fixed and reliably determinable. The estimate of costs and their timing of payment could change as a result of changes to the remediation plan, changes in technology available to treat the site and unforeseen circumstances existing at the site. It is not possible to estimate the amount losses may exceed amounts accrued at this time as a result of these factors.

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





BOARD OF DIRECTORS AND CEO



(L to R back row)

Ed Bauer
Professional Railway Consultant

Jacob Adams
President & CEO Arctic Slope Regional Corporation

Deborah Sedwick
Commissioner of Community and Economic Development

Jack Burton
Track Inspector, Alaska Railroad Corporation

Joe Perkins
Commissioner of Transportation and Public Facilities

(L to R front row)

Dale R. Lindsey, Vice Chairman
President & CEO Harbor Enterprises, Inc.

Johne Binkley, Chairman
Chairman & CEO Alaska Riverways, Inc.

Bill Sheffield
President & CEO Alaska Railroad Corporation

OFFICERS

Jerry Anderson, Vice President, Finance & Administration
James B. Blasingame, Vice President, Corporate Affairs
Thomas E. Brooks, Chief Engineer
George L. Erickson, Vice President, Transportation Services
Laurie Herman, Director, Passenger Services
Phyllis C. Johnson, Vice President, General Counsel
John E. Kincaid, Chief Mechanical Officer

James M. Kubitz, Vice President, Real Estate,
Facilities and Project Planning
Ernie Piper, Assistant Vice President, Safety and
Environmental Services
Eileen Reilly, Chief Information Officer
Patrick C. Shake, Superintendent, Transportation
Robert Stout, Vice President, Mechanical and Engineering



CONTACT NUMBERS

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Anchorage, Alaska

Offices	Physical Address	Telephone	Fax
Headquarters Offices	327 W Ship Creek Avenue	(907) 265-2300	(907) 265-2312
Ticket Office	411 W 1st Avenue	(907) 265-2494	(907) 265-2509
Yard Office	1221 Whitney Road	(907) 265-2434	(907) 265-2698

Fairbanks, Alaska

Offices	Physical Address	Telephone	Fax
Passenger Depot	280 North Cushman	(907) 458-6025	(907) 452-5582
Yard Office	1888 Fox Avenue	(907) 458-6022	(907) 458-6052
Freight House	1888 Fox Avenue	(907) 458-6048	(907) 458-6061

Seward, Alaska

P.O. Box 95, Seward, Alaska 99664

Telephone: (907) 224-5552 or 265-2696

Fax: (907) 265-2660

Seattle, Washington

5615 W. Marginal Way S.W., Seattle, WA 98106

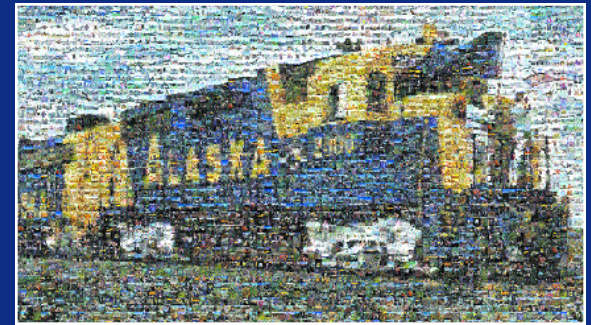
Telephone: (206) 767-1100

Fax: (206) 767-1112

800 Numbers

	Within Alaska (Outside Anchorage)	From Lower 48
Freight Customer Service	1-800-478-2442	1-800-247-3153
Freight Marketing	1-800-321-6518	1-800-321-6518
Passenger Service	1-800-544-0552	1-800-544-0552
Seattle Office	1-800-843-2772	1-800-843-2772

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 1999, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260



ABOUT THE COVER

The cover of the 1999 Alaska Railroad Annual Report features the Railroad's 2000 poster, a photomosaic created by nationally renowned artist Robert Silvers.

The photomosaic is made up of more than 1,000 images submitted by Alaskans, visitors and railroad fans.

The limited-edition prints and the posters are available for purchase at the Anchorage and Fairbanks depots.

Design and production: Northwest Strategies

Mosaic panel photography contributed by fans of the Alaska Railroad throughout the world.

Cover image by Robert Silvers, Runaway Technology,
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Randy Brandon, Danny Daniels,
Calvin Hall and Clark Mishler

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