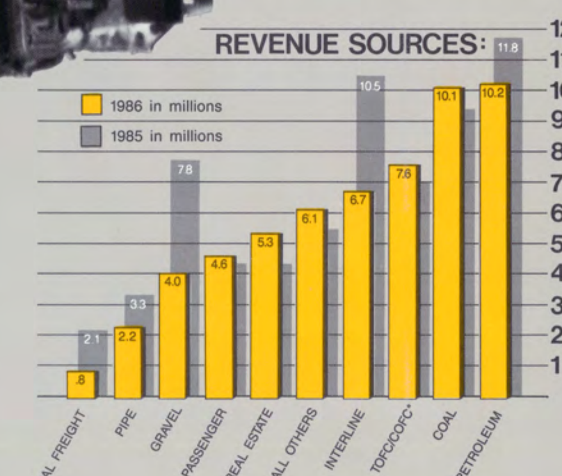
1986 ALASKA RAILROAD CORPORATION ANNUAL REPORT

The Alaska Railroad Corporation is a public corporation owned by the state of Alaska. Established in 1923, it was purchased by the state from the federal government in 1985. A seven-member board of directors is appointed by the governor to oversee the corporation.

Passenger service is available year round between Anchorage and Fairbanks, and Anchorage and Whittier. Summer service is offered between Anchorage and Seward.

Freight service provides more than 70 percent of the corporation's revenues. Goods can be shipped anywhere in Alaska or to the rest of the world via the Alaska Railroad and its connections with trucking lines and with water carriers that arrive at Alaska's major ports.



*Trailer On Flatcar / Container On Flatcar

The Alaska Railroad Corporation in 1986 successfully weathered the last half of its two-year transition from federal to state ownership, despite adversities and the state's faltering economy.

Management quickly acted to curb expenses, including laying off employees, to match a nearly 20 percent drop in revenue. Despite cost cutting, each corporate division posted significant achievements:

• Operations continued to modernize machinery and facilities, buying new maintenance equipment and eight locomotives.

• Marketing renegotiated the export coal contract and stressed customer service to retain a healthy share of the dwindling freight market.

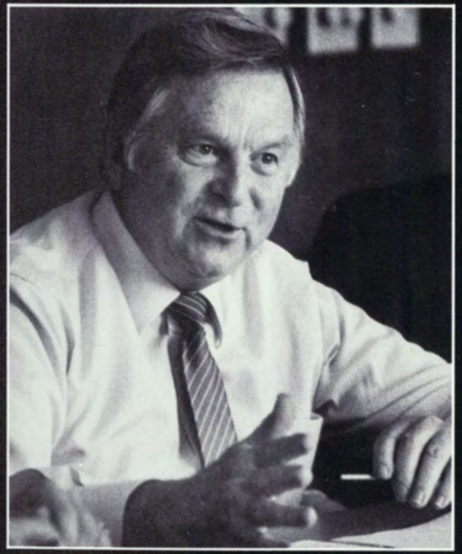
• Finance installed a more powerful mainframe computer and upgraded administrative functions through increased automation, including computerization of all real estate leases and enhancing other systems.

At the same time misfortune seemed to strike at every turn:

• A leaking chemical tank car in Crown Point caused evacuation of local residents and cost the railroad about $650,000 to clean affected homes and reimburse expenses of those displaced by the incident.

• A coal train derailment near Curry closed the line for three days and cost the corporation about $350,000 for repairs and lost revenue.

• One of the worst floods in Alaska's history forced a 13-day shutdown when several bridges were washed out and much of the track was damaged or covered by mudslides. There were more than $3 million in repairs, of which $2.2 million was reimbursed by federal and state agencies. Total cost to the railroad was about $800,000 in lost revenue and capital reconstruction costs.



Throughout the uncertainty caused by the railroad's adversities and the state's poor economy, the employees of the corporation made the difference. For example, following the flood, workers volunteered to be assigned to tasks other than their regular jobs to assist in the repair effort.

The lessons of 1986 have been hard; but the Alaska Railroad Corporation has come out of this period of economic doldrums as a much better corporation. In the coming years we will be stronger for having endured this year well.

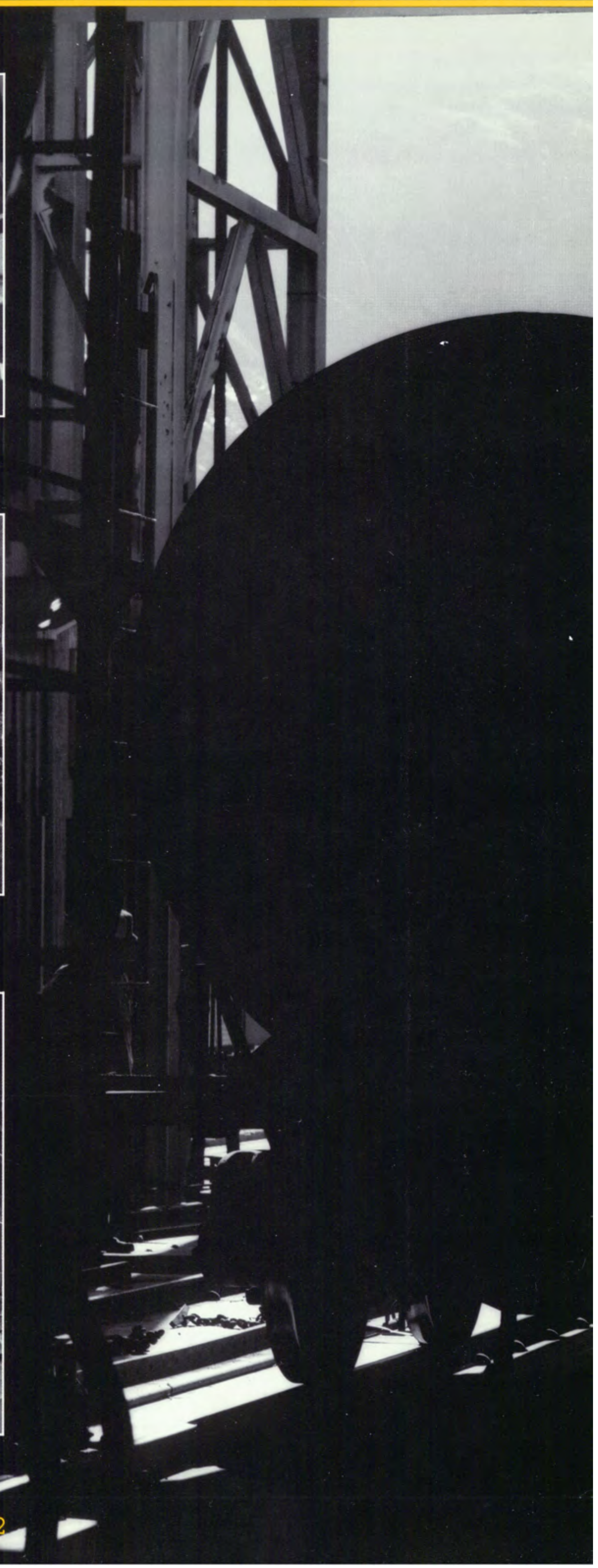
F.G. Turpin

Frank G. Turpin
President and CEO

The Alaska Railroad continued to provide the same level of services in 1986, but reduced costs by consolidating several freight services.

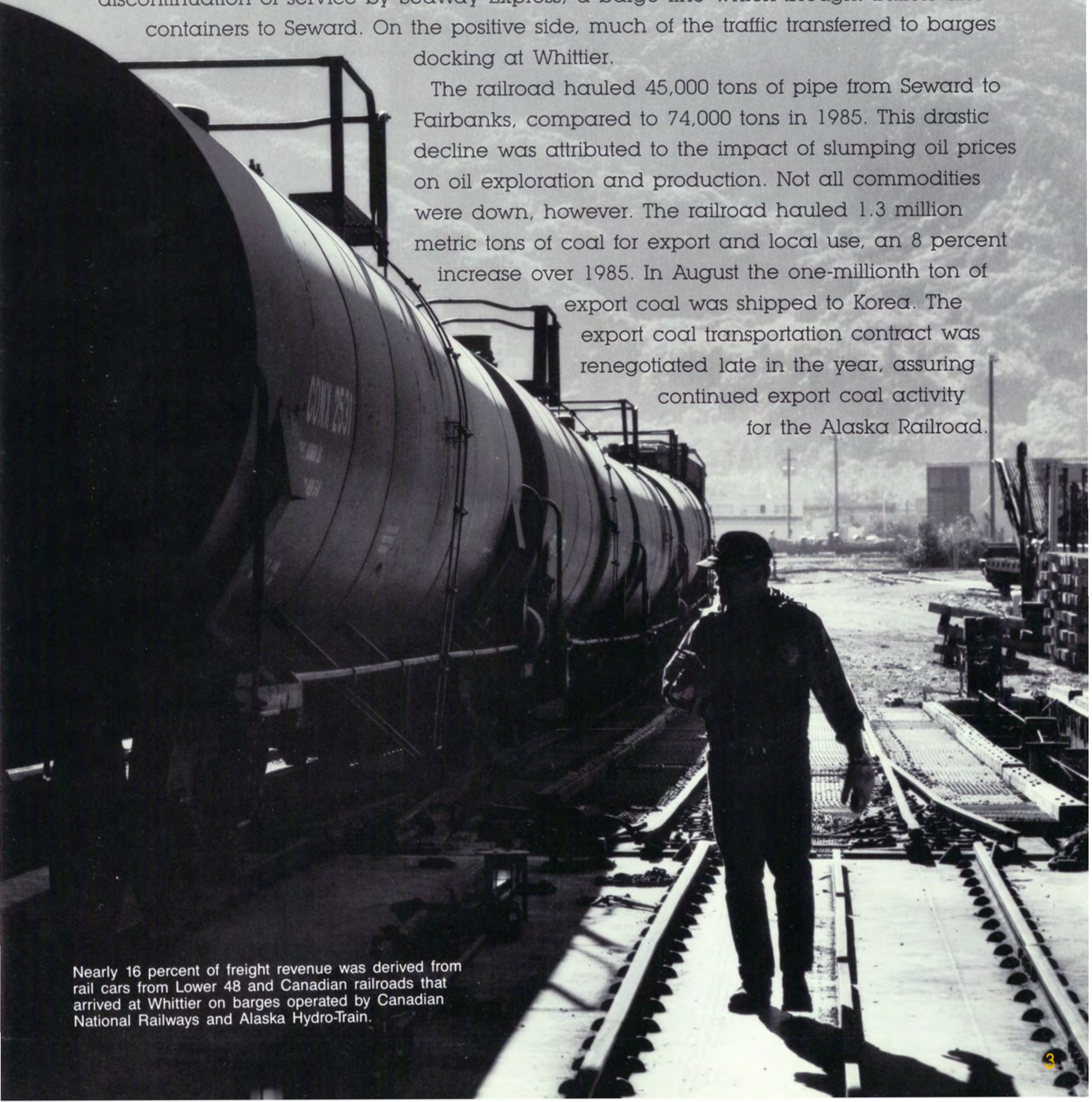
The railroad values its connections with outside railroads, truck lines and water carriers such as the regular barge service that arrives at Whittier from Seattle and Prince Rupert, B.C.

No. 2001 was the first of eight remanufactured 2,000 horsepower locomotives purchased in 1986. The GP38-2s are used in both freight and yard service.



When the oil market collapsed in 1986, Alaska's economy suffered because many local businesses are tied to oil—whether directly or indirectly. The Alaska Railroad Corporation also felt the economic bite. However, good management and concern for our customers kept operations as close to 1985 levels as possible. There were no reductions in service levels, only a decline in traffic that forced the railroad to compete aggressively for a share of the shrinking market. One change linked to the downturn was the bankruptcy and eventual discontinuation of service by SeaWay Express, a barge line which brought trailers and containers to Seward. On the positive side, much of the traffic transferred to barges docking at Whittier.

The railroad hauled 45,000 tons of pipe from Seward to Fairbanks, compared to 74,000 tons in 1985. This drastic decline was attributed to the impact of slumping oil prices on oil exploration and production. Not all commodities were down, however. The railroad hauled 1.3 million metric tons of coal for export and local use, an 8 percent increase over 1985. In August the one-millionth ton of export coal was shipped to Korea. The export coal transportation contract was renegotiated late in the year, assuring continued export coal activity for the Alaska Railroad.



Nearly 16 percent of freight revenue was derived from rail cars from Lower 48 and Canadian railroads that arrived at Whittier on barges operated by Canadian National Railways and Alaska Hydro-Train.

In providing a variety of freight services, the Alaska Railroad Corporation strives to make its services convenient for customers as well as cost effective for the corporation.

For example, in 1986 two priority freight services were consolidated, providing customers the same six-days-a-week schedule while reducing the railroad's operating costs. The FOX, an overnight trailer/container train between Anchorage and Fairbanks, was combined with the OWL, a unit train hauling petroleum products between the two cities. Petroleum products accounted for about 25 percent of 1986 freight revenues

The Alaska Railroad provides a unique service to Whittier by transporting not only foot passengers but riders in automobiles and buses.

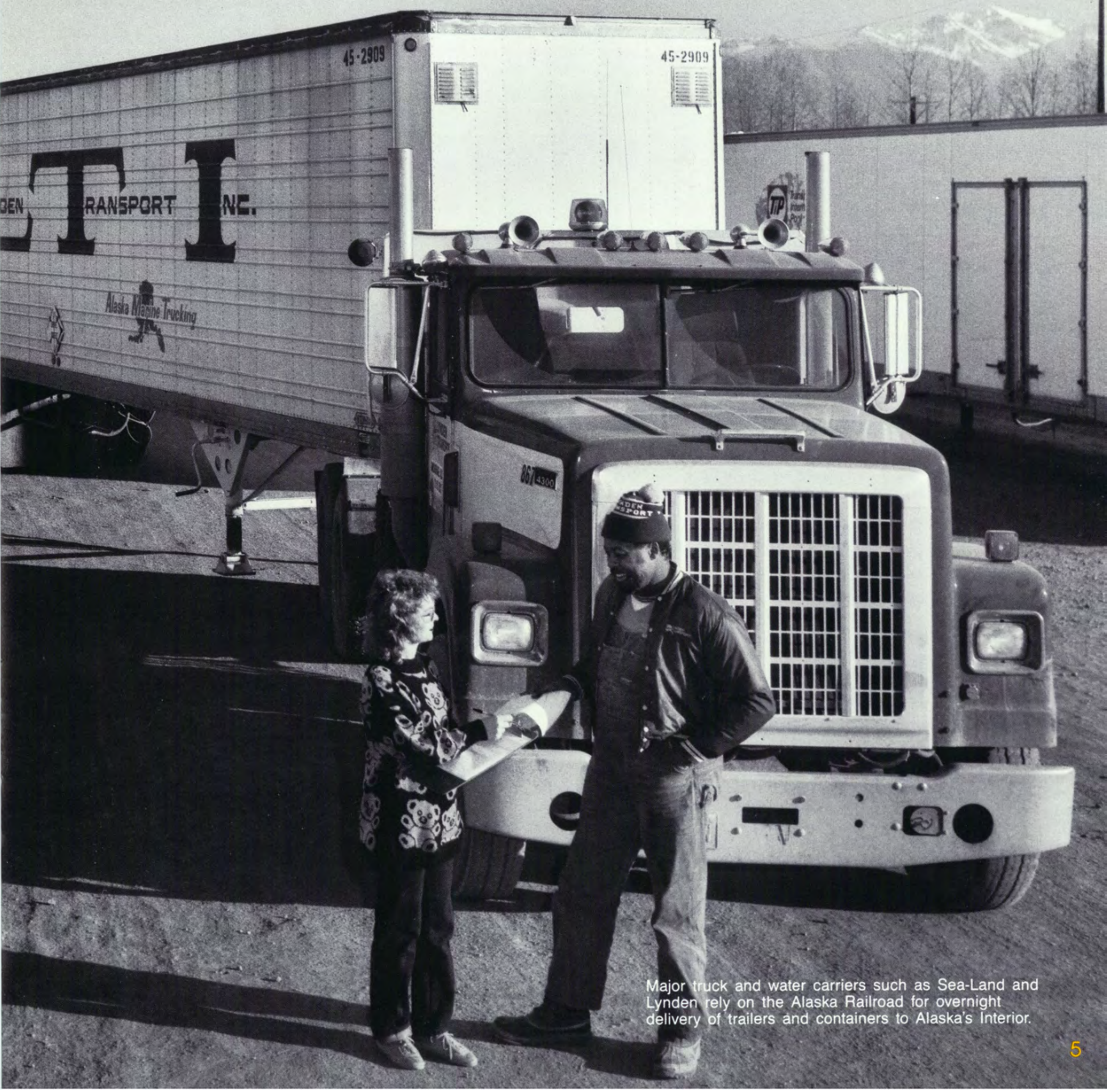
A record 280,251 passengers traveled aboard the railroad, most during the summer on visits to Denali National Park or connecting with cruise ships in Whittier.

Sand and gravel shipments from Alaska's Matanuska Valley are used by the local construction industry and total nearly 10 percent of railroad freight revenue.

Typical of the special services the Alaska Railroad provides is this load of 12 concrete beams for a Fairbanks road project. Each 115-foot beam required three flat cars.

and trailer-on-flat-car and container-on-flat-car (TOFC/COFC) business totaled about 18 percent. Over 5,600 trailers and containers were moved between Anchorage and Fairbanks. To assist customers who rely on this service, the Mechanical Department produced a loading rule manual as a guide for shippers and traffic representatives.

Passenger service was subject to several changes in 1986. Two self-propelled, 48-passenger rail diesel cars (RDCs) were put into service, helping to reduce the cost of operating passenger service by about 30 percent. Ridership on the Alaska Railroad rose 9 percent over 1985 with 280,251 passengers.



Major truck and water carriers such as Sea-Land and Lynden rely on the Alaska Railroad for overnight delivery of trailers and containers to Alaska's Interior.

A major maintenance program in 1986 was completion of the nearly $4 million tunnel rehabilitation project begun in 1985. Work performed on the five tunnels between Seward and Portage consisted of pouring concrete tunnel portals, rock bolting for support, increasing clearance, installing insulated shields, and improving drainage.

Despite financial concessions for the economic downturn in Alaska, the Engineering and Mechanical departments accomplished much in 1986, including about $17 million in track and roadbed improvements and about $3 million in equipment purchases to enhance maintenance capabilities and accident response time.

Ongoing track and roadbed maintenance included replacement of 23,000 crossties, relaying 53,000 linear feet of mainline rail, and repair and upgrade of seven bridges. At-grade crossings near Seward, in Anchorage, Willow and Talkeetna were improved; and a two-year rail replacement program was completed along the Eielson Branch.

A 6,201-foot siding was constructed at Eagle River. A major operational improvement, the siding provides an intermediate meeting point for opposing train traffic between Anchorage and Birchwood, the highest traffic density area along the railbelt.

New Mechanical Department equipment included a rerailing truck and a 130-ton rerailing crane. Both are equipped for on-track as well as highway operation and expedite derailment response and rerailing time.

Jim Hubbs, extra gang foreman, oversees an electromatic tamper, a special maintenance device that packs the ballast between rail ties and balances and levels the track.

Construction of a 6,201-foot siding at Eagle River provides an intermediate meeting point for opposing train traffic in the railroad's highest traffic density area.

Montana Creek Bridge was damaged in October when severe flooding washed out bridges and portions of track, halting most services for two weeks.

New equipment purchases help maintain track and facilities, including a ballast regulator, two Caterpillar loaders, a speed swing, and six gas-fueled motor cars.

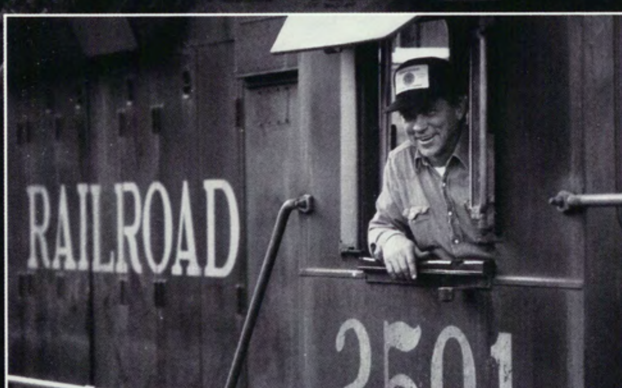
Train dispatchers such as Jan Mumford are the lifeline to all trains and to personnel in the field. In 1986 a track warrant control system was implemented to improve and expedite train movements with the use of track warrants issued by the dispatcher.

The primary task of the Human Resources Department during 1986 was negotiating a master contract for all six railroad unions. By year end the negotiations, although successful in many areas, were not completed. Management and labor representatives agreed to continue negotiations and extended existing contracts until May 1987.

Indicative of the cooperation between management and labor during 1986 was adoption of Operation Red Block, a voluntary program to control alcohol and drug abuse in the railroad industry. The Alaska Railroad became the first in the nation to gain support for the program from all its unions.

Perhaps the single largest issue employees of the Alaska Railroad faced in 1986 was a reduction in the work force in response to less-than-projected revenues. There were 92 fewer employees at the close of 1986 compared to 1985.

Other developments included implementation of a Safety Incentive Awards program that reduced injuries by 25 percent over the previous year. Safety classes were conducted to educate employees in safe work habits and methods, including right to know classes on hazardous materials.



Management and the six railroad unions continued to negotiate a master contract for employees such as Jim Bosch who works in engine service.

Training classes were conducted throughout the year including this management seminar lead by Darwin Silver (foreground) of the Human Resources Department.

BENEFIT PROGRAMS (As of Dec. 31, 1986)

FEDERAL CIVIL SERVICE RETIREMENT SYSTEM*	
Employee Contributions	$1,279,112.49
Employer Contributions	$1,279,112.49
Total Payments	$2,558,224.98

*Employees who participated prior to state ownership remain in this program.

ALASKA RAILROAD CORPORATION PENSION PLAN	
Employee Contributions Plus Earnings	$265,872.66
Employer Contributions Plus Earnings	$232,830.98
Total Fund Balance 9/1/85 to 12/31/86	$498,703.64

ALASKA RAILROAD CORPORATION TAX DEFERRED SAVINGS PLAN (employee contributions plus earnings)	
Total Fund Balance 9/1/85 to 12/31/86	$685,202.98

RAILROAD EMPLOYEE DISTRIBUTION
(As of Dec. 31, 1986)

	Number Employees	Number in 1985
American Federation of Government Employees (includes blue and white collar units)	252	288
American Train Dispatchers Association (includes agents/operators)	11	18
Brotherhood of Railway Carmen	28	40
International Association of Machinists and Aerospace Workers	51	69
United Transportation Union	113	128
Non-represented	112	116
TOTAL	**567**	**659**


From left: Frank Turpin, Marvin Yetter and Loren H. Lounsbury, Alaska Commissioner of Commerce and Economic Development


Richard J. Knapp, Commissioner of the Alaska Department of Transportation and Public Facilities

In its first two years, the Board of Directors was devoted to establishing the corporation's future direction and policies. During 1986 these efforts included creation of a long-term real estate leasing policy to accommodate commercial lessees who envision substantial improvements to railroad property and ultimately will enhance the public's investment in the corporation. The policy was developed with the assistance of a citizens' advisory group and through public input.

Despite Alaska's declining economy, the board took a strong position that Alaska's renewable resources, such as tourism, will continue to grow and approved purchase of new passenger equipment to replace much of the railroad's aging passenger fleet and further reduce the passenger service deficit.

All of these decisions have enhanced the state's investment in the Alaska Railroad and will assure the corporation's continued self-sustainability.

James O. Campbell
Chairman
Board of Directors

Frank X. Chapados

Gerald D. Valinske

Lewis E. Dickinson

Myron M. Christy

FINANCIAL REVIEW

Management is responsible for the preparation, integrity and objectivity of the corporation's financial statements. Financial statements are prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgment.

Throughout 1986 the corporation maintained a system of internal accounting controls and procedures which will be continually reviewed and supported by written policies and guidelines and supplemented by audit review. The system provides reasonable assurance that assets are safeguarded against loss from unauthorized use and that the books and records reflect the transactions of the corporation and are reliable for the preparation of financial statements. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

The corporation's financial statements are examined by Ernst and Whinney, independent certified public accountants. Their examination is conducted in accordance with generally accepted auditing standards which includes a study and evaluation of the corporation's system of internal accounting controls. The Auditors' Report appears on the following pages.

The Board of Directors pursues its oversight responsibilities for the financial statements and corporate conduct through its Audit Committee. The Audit Committee is composed of directors who are not officers or employees of the Alaska Railroad Corporation. It meets regularly with members of management and the independent accountants to discuss the adequacy of the Alaska Railroad's internal controls and financial statements.

During 1986 there was continued refinement of accounting systems, controls and procedures. Additionally, the Real Estate Division was computerized with regard to railroad land leases, permits and billing processes. All major financial systems are now in place and operating on a new IBM 4381 mainframe computer which provides sufficient expansion for future growth.

Marvin J. Yetter

Marvin J. Yetter
Vice President, Finance

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Alaska Railroad Corporation
Anchorage, Alaska

We have examined the balance sheets of Alaska Railroad Corporation as of December 31, 1986 and 1985, and the related statements of operations, equity, and changes in financial position for the year ended December 31, 1986 and the period from January 6, 1985 to December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Alaska Railroad Corporation at December 31, 1986 and 1985, and the results of its operations and the changes in its financial position for the year ended December 31, 1986 and the period from January 6, 1985 to December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Anchorage, Alaska
February 27, 1987

BALANCE SHEETS

	December 31, 1986	1985
	(In Thousands)	
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ 3,133	$ 1,911
Accounts receivable, less allowance for bad debts of $1,241,000 in 1986 and $912,000 in 1985	10,529	11,275
Operating materials and supplies	1,785	2,174
Other current assets — Note K	1,212	662
TOTAL CURRENT ASSETS	16,659	16,022
PROPERTY AND EQUIPMENT		
Transportation — Note E:		
Road	19,613	10,623
Equipment	21,429	12,765
Road materials and supplies	2,385	3,444
Construction in progress	1,345	3,133
	44,772	29,965
Less accumulated depreciation	(3,785)	(1,455)
	40,987	28,510
Nontransportation — Note D:		
Land	13,850	13,850
	54,837	42,360
OTHER ASSETS		
Restricted funds — Note G	924	600
Restricted lease proceeds — Note E	220	220
	$72,640	$59,202

LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,467	$ 2,551
Accrued wages and vacation	4,706	4,343
Notes payable	6,426	1,000
Current portion of long-term debt — Note F	183	
Current portion of capital lease obligations — Note E	1,775	1,978
Other accrued liabilities	2,529	230
Deferred revenues	529	1,126
TOTAL CURRENT LIABILITIES	18,615	11,228
LONG-TERM DEBT, less current portion — Note F	648	
CAPITAL LEASE OBLIGATIONS, less current portions — Note E	13,055	6,992
EQUITY		
Contributed capital — Note G	34,174	33,849
Retained earnings	6,148	7,133
	40,322	40,982
	$72,640	$59,202

See notes to financial statements.

STATEMENTS OF OPERATIONS

	Year Ended December 31, 1986	Period from January 6, 1985 to December 31, 1985
	(In Thousands)	
Operating revenue:		
Freight — Note I	$41,676	$51,978
Passenger	4,574	4,344
Other — Note C	6,123	5,589
	52,373	61,911
Operating expenses:		
Salaries and fringe benefits	35,071	35,219
Fuel	3,911	5,047
Depreciation	2,437	1,455
Bad debt expense	1,129	912
Other — Note C	15,617	16,680
	58,165	59,313
INCOME (LOSS) FROM OPERATIONS	(5,792)	2,598
Other income (expense):		
Real estate, less direct expenses of $340,000 in 1986 and $227,000 in 1985	4,934	4,095
Temporary investments	214	653
Gain on sale of assets	272	348
Interest expense	(613)	(561)
	4,807	4,535
NET INCOME (LOSS)	$ (985)	$ 7,133

See notes to financial statements.

STATEMENTS OF EQUITY

	Contributed Capital	Retained Earnings
	(In Thousands)	
Balance at January 6, 1985	$33,249	
Additional contributed capital	600	
Net income for the period from January 6, 1985 to December 31, 1985		$7,133
Balance at December 31, 1985	33,849	7,133
Additional contributed capital	325	
Net Loss for the year ended December 31, 1986		(985)
Balance at December 31, 1986	$34,174	$6,148

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1986	Period from January 6, 1985 to December 31, 1985
	(In Thousands)	
NET CASH FLOW FROM OPERATING ACTIVITIES	$ 3,422	$ 2,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,428)	(12,197)
(Increase) decrease in road materials and supplies	1,059	(1,125)
(Increase) decrease in construction in progress	1,788	(3,133)
Proceeds from disposals of property and equipment	560	4,606
NET CASH USED BY INVESTING ACTIVITIES	(7,021)	(11,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	7,000	1,000
Payments on short-term debt	(1,574)	
Proceeds from long-term debt	1,000	
Payments on long-term debt	(169)	
Payments on capital lease obligations	(1,761)	(858)
Proceeds from State of Alaska capital contribution	325	600
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,821	742
NET INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	$ 1,222	$ (9,067)
SCHEDULE RECONCILING EARNINGS TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ (985)	$ 7,133
Noncash expenses, revenues, losses, and gains included in income:		
Depreciation	2,437	1,455
Net (increase) decrease in accounts receivable	(172)	(9,123)
Net (increase) decrease in operating inventory and supplies	389	(427)
Net (increase) decrease in other assets	44	(1,482)
Net increase (decrease) in accounts payable	(84)	2,551
Net increase (decrease) in accrued wages and vacation	363	3,077
Net increase (decrease) in other accrued liabilities	2,299	230
Net increase (decrease) in deferred revenue	(597)	(1,026)
Gain on sale of assets	(272)	(348)
NET CASH FLOW FROM OPERATING ACTIVITIES	$ 3,422	$ 2,040
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital lease obligations incurred for use of equipment	$ 7,621	$ 9,321

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

NOTE A — ORGANIZATION AND OPERATIONS

Congress authorized construction of the Alaska Railroad (Railroad) in 1914 and operations began in 1923. The federal government operated the Railroad until its sale to the State of Alaska in January 1985. The sale of the Railroad to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA), which was signed into law on January 14, 1983. ARTA requires that the Corporation operate the Railroad for a period of 10 years from the acquisition date, and if this requirement is not met, title to all of the Railroad's assets reverts to the federal government. The purchase price, established under the terms of ARTA, was $22,271,000. The Alaska Railroad Corporation (ARRC) is a public corporation created by the state of Alaska legislature to own and operate the Railroad and manage the Railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985, and adopted the accounting policies of a commercial enterprise.

The acquisition was accounted for as a purchase and accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair market value as determined by independent appraisal. As required by the purchase method of accounting, the excess of estimated fair market value of net assets acquired over the purchase price was applied as a reduction of the amount assigned to noncurrent assets.

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

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

Cash and Temporary Investments: Cash includes $750,000 of restricted funds related to settlement of certain union negotiations. Temporary investments are carried at cost which approximates market value.

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

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

Capitalized Interest: The ARRC capitalizes interest costs as part of the cost of constructing major facilities and equipment. Interest costs of $624,000 were capitalized in 1986.

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

Intragovernmental Funds: In 1985, approximately $280,000 was received from the State of Alaska General Fund for transfer related activities. These funds are shown in 1985 revenues. Funds received that are restricted to the construction or acquisition of fixed assets or other capital projects are recorded as contributed capital.

Reclassification and Changes in Estimates: Amounts included in the 1985 balance sheet and statement of changes in financial position have been reclassified to conform with the 1986 presentation. The 1986 statement of operations includes certain changes in estimates and other adjustments relating to 1985 operations. These changes in estimates and adjustments had the effect of reducing the 1986 loss by approximately $900,000.

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

NOTE C — OTHER REVENUES AND EXPENSES

The significan components of other revenue for 1986 are as follows:

Switching and docking	$ 989,000
Car repair	1,091,000
Engineering reimbursable projects	2,810,000
Surplus inventory sales	819,000
Other	414,000
	$ 6,123,000

The significant components of other expense for 1986 are as follows:

Communications, advertising, and promotions	$ 922,000
Materials and supplies	4,309,000
Space and utility expense	3,316,000
Equipment repair, maintenance, and related expenses	2,503,000
Professional services	2,316,000
Other	2,251,000
	$15,617,000

NOTE D — NONTRANSPORTATION PROPERTIES

Nontransportation properties consist of land not used in railroad operations. Certain parcels of the land are leased under agreements which are cancelable upon 90 days notice by the lessee. The lease terms vary from two to fifty-five years. Annual rentals on the leases were approximately $5,274,000 in 1986 and $4,322,000 in 1985.

NOTE E — LEASES

The ARRC leases certain locomotives, freight cars, data processing equipment and other property under capital leases. Future minimum lease payments for capital leases as of December 31, 1986, are summarized as follows:

Year Ending December 31,	1987	$ 3,037,000
	1988	3,102,000
	1989	2,928,000
	1990	2,919,000
	1991	2,748,000
	Thereafter	5,035,000
Total mimimum lease payments		19,769,000
Less interest		4,939,000
Present value of net minimum lease payments (including $1,775,000 classified as current)		$ 14,830,000

Capitalized leased assets aggregated $16,995,920 and $9,396,085 at December 31, 1986 and 1985, respectively. The related accumulated amortization was $1,239,312 and $344,873 at December 31, 1986 and 1985, respectively. Amortization expense is included in depreciation expense in the statements of operations.

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

NOTE F — LONG TERM DEBT

Long-term debt at December 31, 1986 consists of the following:

Note payable, unsecured, due in monthly installments of $20,349 including interest at 8.15 percent as follows:

Year ending December 31,	1987	$ 183,000
	1988	198,600
	1989	215,500
	1990	233,900
		831,000
Less current portion		183,000
		$ 648,000

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

NOTE G — CONTRIBUTED CAPITAL

The ARRC received $324,420 in 1986 and $600,000 in 1985 from the State of Alaska General Fund. These funds are restricted to the purchase of certain passenger equipment for the Whittier Shuttle. The funds, which had not been spent as of December 31, 1986, are classified as restricted funds in the accompanying balance sheets.

NOTE H — PENSION PLAN

On September 1, 1985, the ARRC adopted a defined benefit pension plan covering permanent non-union employees hired since January 6, 1985. Union members hired since January 6, 1985, are eligible for participation in the Plan upon the completion of contract negotiations. Pension expense is actuarially determined using the projected unit credit method. Pension expense for the year ended December 31, 1986 and the period from September 1, 1985 to December 31, 1985, is $190,290 and $45,320, respectively. The ARRC's policy is to fund pension costs as accrued. The market value of plan assets at Dec. 31, 1986, is $498,000. There are no vested benefits at Dec. 31, 1986. Actuarial studies regarding accumulated plan benefits and plan net assets have not been completed for the plan year ending Dec. 31, 1986. Accordingly, the required disclosures are not presented.

Federal employees who transferred to the ARRC will continue participation in the Civil Service Retirement System. The contribution required of the ARRC is 7 percent of the transferred employees' base pay.

NOTE I — MAJOR CUSTOMERS

Three ARRC customers accounted for 15 percent, 14 percent, and 11 percent of freight revenue for the year ended December 31, 1986. In 1985, two customers accounted for 11 percent and 10 percent of freight revenue.

NOTE J — CONTINGENCIES

The ARRC is a defendant in a lawsuit filed by certain residents of Crown Point, Alaska, against the ARRC and certain other defendants. This lawsuit arose from an incident on March 2, 1986, when a tank car containing a urea formaldehyde mixture leaked vapors after it was moved to a Railroad siding in Crown Point, Alaska. The litigation is still in its early stages.

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

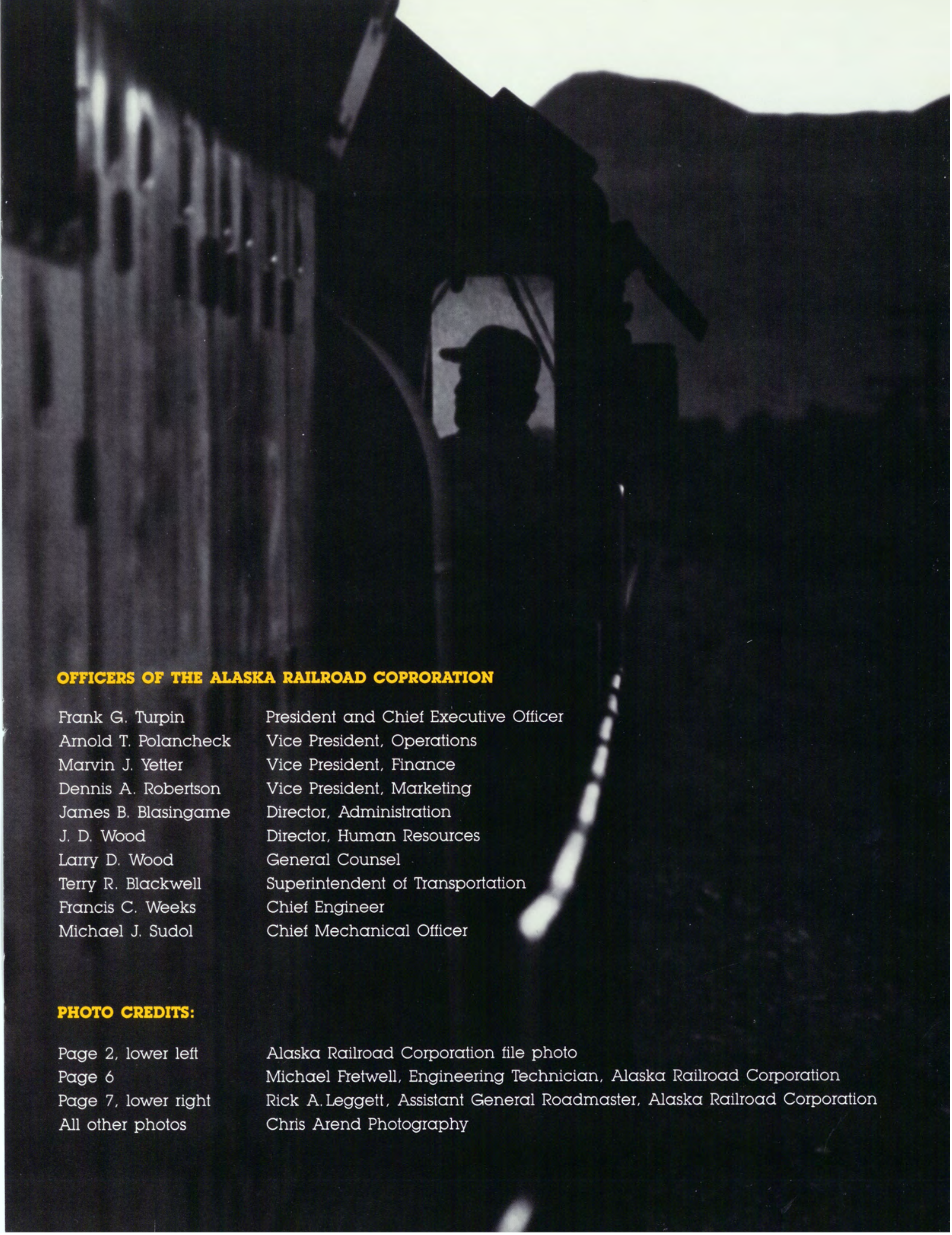
NOTE K — FLOOD

A major flood affecting southcentral Alaska in October 1986 caused substantial damage to the Railroad roadway resulting in reduced rail operations for two weeks.

Total flood damage loss is estimated at $2.2 million. The ARRC has received $1.3 million in reimbursement of these damages from the Federal Emergency Management Agency and the Alaska Division of Emergency Services. The balance of the reimbursement ($918,000) has been recorded as a receivable at Dec. 31, 1986, and is included in other curent assets. The $2.2 million in flood damage expenses and reimbursement in the same amount have been netted in the statement of operations. In addition, bridge damage has not been fully evaluated but full reimbursement is expected. ARRC will not be compensated for the loss of revenue during the period the mainline was closed.

NOTE L — INSURANCE

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

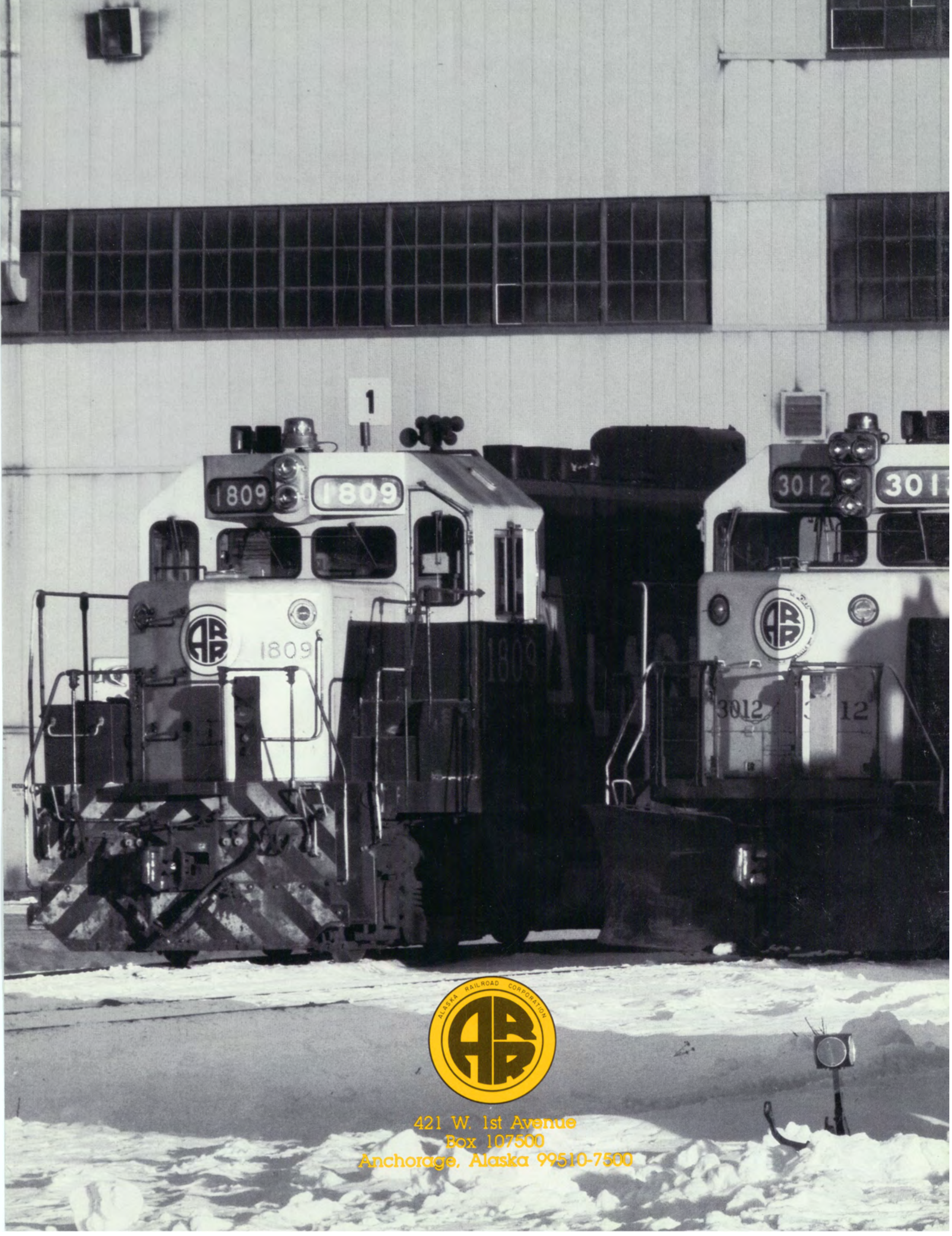


OFFICERS OF THE ALASKA RAILROAD COPRORATION

Frank G. Turpin	President and Chief Executive Officer
Arnold T. Polancheck	Vice President, Operations
Marvin J. Yetter	Vice President, Finance
Dennis A. Robertson	Vice President, Marketing
James B. Blasingame	Director, Administration
J. D. Wood	Director, Human Resources
Larry D. Wood	General Counsel
Terry R. Blackwell	Superintendent of Transportation
Francis C. Weeks	Chief Engineer
Michael J. Sudol	Chief Mechanical Officer

PHOTO CREDITS:

Page 2, lower left	Alaska Railroad Corporation file photo
Page 6	Michael Fretwell, Engineering Technician, Alaska Railroad Corporation
Page 7, lower right	Rick A. Leggett, Assistant General Roadmaster, Alaska Railroad Corporation
All other photos	Chris Arend Photography



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