

# ALASKA

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THE ALASKA RAILROAD CORPORATION ANNUAL REPORT

2005 captured the essence of the Alaska Railroad's mission to increase safety, provide exceptional service and continue to operate profitably.

## A MESSAGE FROM JOHN E. BINKLEY, CHAIRMAN OF THE BOARD

To truly understand the Alaska Railroad's growing success, it is important to take a glance back. Eleven years ago marked my first year on the Alaska Railroad Board of Directors. Back then our assets totaled \$113 million. Today our assets are approaching \$600 million. In 1995 revenues totaled \$66 million. In 2005 we recorded \$144 million in revenue from all sources. Back then our capital budget was under \$8 million, barely meeting basic maintenance levels. In 2005 we employed more than 750 employees year-round and support a broad base of Alaskan contractors to turn an \$88 million capital investment into safer and faster track, new facilities, more efficient equipment, and the latest technology.

Accomplishments in 2005 tell a bold story. We completed the new Anchorage Operations Center – the nerve center for the Railroad bringing our operating employees together in a state-of-the-art workplace and command center. The introduction of two new double-decker dome cars and the Fairbanks Intermodal Depot brought first class service to our passengers that contributed to a 15% passenger revenue growth in 2005.



| 2005 |

The underpinning of our financial health continues to be our freight operations, with our gravel business turning in the second highest year in Railroad history. Our safety record again improved with our lowest yet worker injury and derailment rate, and our environmental performance received high marks from regulating agencies that oversaw the Railroad's oil spill response exercises.

All this leads to a healthy bottom line with net revenue at a solid \$12.7 million. With this base we look forward to implementing projects currently being planned by the Railroad, including the new Ship Creek Intermodal Facility and the possible rail extension to Delta Junction. We also look forward to continued investment in Alaska's communities through economic development partnerships and our charitable giving programs.

While the Railroad's day-to-day success is achieved through first-rate management and dedicated employees led by our President and CEO Pat Gamble, we realize our ability to think BIG has come from our elected leaders including the Congressional Delegation and Governor Frank Murkowski. They all have vision and are not afraid to invest today for generations of Alaskans to come. We thank our state legislators for trusting the Railroad's leadership and giving it the space to truly perform as a business.

Bridging the gap between our government leaders and the state-owned Railroad is our Board of Directors. I want to thank our Board members for their commitment to the Alaska Railroad and for their efforts to set the course that will support the state's economic development initiatives into the future.

2005 saw several changes to our Board. Commissioner Edgar Blatchford of the Department of Commerce, Community and Economic Development resigned and was replaced by Commissioner Bill Noll. General Joe Ralston, Vice Chairman of the Cohen Group, and Orié Williams, President and CEO of Doyon, were both named to seats previously filled by Jacob Adams, President and CEO of Arctic Slope Regional Corporation, and Carl Marrs. These gentlemen bring extensive business and strategic experience to the team.

After serving nine years as the Alaska Railroad's Chairman, it is with a sense of great accomplishment that I step aside to pursue another endeavor of public service. The Railroad is a model state enterprise. It is well managed and has an exciting future as the state continues to expand its reaches. It is on that note that I am pleased to present the 2005 Alaska Railroad Annual Report.

# BLUE & GOLD

## A MESSAGE FROM PATRICK K. GAMBLE, PRESIDENT & CEO

### *Our Vision:*

*Building a great railroad across a great land.*

### *Our Mission:*

*To be profitable by focusing on safe, high-quality service to our freight, passenger and real estate customers. To foster the development of Alaska's economy by integrating railroad and railbelt community development plans.*

In January 1985 the Alaska Railroad was purchased from the Federal Government for \$22.271 million. I am sure at the time there were many out and out skeptics, as well as even some luke warm supporters, who were figuratively holding their breath to see if this bold step would ever pay off. Today, twenty years later, we are approaching an asset value of \$600 million and up to almost \$90 million in capital on infrastructure, land and equipment investments. We are moving a half million customers between cities and businesses along the railbelt ... customers who stop, shop, and then often return again to repeat the positive experience they enjoyed, seeing Alaska by rail. We proudly serve the military in Alaska from all points between Eielson A.F.B. and the Port of Anchorage.



We move nearly 800 million gallons of refined petroleum from North Pole to Anchorage. We put valuable railroad land into the hands of leaseholders all throughout the railbelt, not only affording private business the opportunity to flourish but simultaneously

increasing land value of the railroad as well. In other words, not only did the Alaska Railroad "make a go of it" after 1985, but it is quite unlikely anyone, for or against the transfer, ever really imagined what economic success the purchase decision would trigger. Today, Alaska's railroad is still hard at work to create more economic success each and every year ... 2005 was no exception as we added to a growing string of overall net earnings well above the historical average. Perhaps the operational highlight during the last year was posting our best ever safety performance ... topping several previous "bests" earned during the past 4 years.

Regrettably, the man who has chaired our Board and provided the key leadership we enjoyed for 11 years has resigned to take on a larger challenge. John Binkley will be long remembered for his contribution to our Railroad and to his State. In his place, the Board elected Governor Bill Sheffield as Chairman. A seasoned railroader, Governor Sheffield will be a most welcome addition to the top job on the Board.

Changes are happening. Changes are a challenge. The changes we see ahead will continue to be good for the Railroad.

*After all .... we are Alaska's railroad:*

*We are building a Great Railroad*

*We are building a Great Land.*

*We are growing Alaska.*



*Whenever you look  
at one of our trains,*

*you see Alaska.*

## FINANCIAL HIGHLIGHTS

Earnings (in thousands):	2005	2004
Operating Revenue:		
Freight	\$ 94,485	\$ 86,516
Passenger	19,472	16,923
Other	573	116
Grant	15,115	12,488
Total Operating Revenue	<u>129,645</u>	<u>116,043</u>
Operating Expenses	122,841	105,934
Operating Income	<u>6,804</u>	<u>10,109</u>
Non-operating Revenue (Expenses):		
Net Real Estate Income	6,506	5,980
Investment Income	430	371
Interest Expense	(1,085)	(1,083)
Net Income	<u>12,655</u>	<u>15,377</u>

## Balance Sheet (in thousands):

Assets:		
Current Assets	\$ 48,005	\$ 55,243
Non-current Assets	525,954	460,333
Total Assets	<u>573,959</u>	<u>515,576</u>
Liabilities:		
Current Liabilities	27,449	24,566
Non-current Liabilities	375,331	340,760
Total Liabilities	<u>402,780</u>	<u>365,326</u>
Fund Equity	171,179	150,250
Total Liabilities & Fund Equity	<u>573,959</u>	<u>515,576</u>

Operating Ratio	0.95	0.91
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# BUILDING A GREAT RAILROAD

When President Ronald Reagan laid pen to page and authorized the transfer of the Alaska Railroad from the federal government to the State of Alaska in 1983, he chronicled the end of an era in Alaska's evolution as a state. By the time oil began to flow through the pipeline, this rich, remote Greatland had proven to be much more capable of supporting normal residency than many believed possible.

Once an isolated colony of the federal government – where only the dedicated, hardy, hopeful and pioneering few came to seek their fortunes – the 49th State had become a place for a new breed of resident, who proudly called themselves “Alaskans.” The opportunity and challenge that the independent, hardscrabble northern life offered once again fit the ideal of freedom that prevailed in the consciousness of many restless Americans seeking a fresh start to their lives after World War II. It became more and more apparent that those who had come to make a buck were increasingly staying to make a life.

Enterprising, hardworking families sought railroad jobs here in the 50's, 60's and 70's...jobs rebuilding war weary rail across what was to be the state owned Alaska Railroad. Railroad families populated the cities of Anchorage, Fairbanks, Healy and Seward, adding their labor to what would become the legacy of Alaska's post-war and pipeline development phase. The railroad was rebuilt to open up the economy...and it did. Business grew out of oil, gas, coal, gravel, jet fuel, passengers and container goods.

With the mandate of the Transfer Act firmly fixed in mind, the Alaska Railroad continues today on a journey of increased mission excellence on behalf



*Safety is fundamental to everything we do. It inspires confidence among our employees, our customers and the general public. (Happily, it also reinforces the corporate bottom line.)*

*In 2005, we had the safest year overall on record for the Alaska Railroad...the third time in the past four years.*

Reportable Injury Frequency				
2001	2002	2003	2004	2005
7.15	4.17	3.66	3.74	3.54





*Today's Alaska Railroad is working hard at fulfilling the Transfer Act legacy, continuing to develop Alaska's infrastructure and economy.*

of the State of Alaska. It is the Corporation's vision to continue building a great railroad. We clearly accelerated down that path in 2005.

Not only does the railroad operate and maintain a spectacular geographic corridor, it is also a thriving business and it sports an excellent safety record. Our solid profitability allowed us to grow again this year, which included creating more jobs for Alaskans. Perhaps even more notable is the fact that this year, unlike so many other companies throughout the nation, we maintained a fully-funded pension for eligible railroaders and took important financial steps to secure the same for our retiree medical trust fund. Rewarding the long term work commitment that our employees make to Alaska is essential to the way we recruit and retain the finest people.

Other mileposts in 2005 included opening the Anchorage Operations Center, the Fairbanks Intermodal Facility and Depot, and Phase I of seven proposed Section Maintenance Facility refurbishments. This particular refurbishment program will house our remotely located track maintenance personnel and their equipment up and down the line in comfortable heated work facilities, some with rail access within the building. Mostly, these section facilities today consist of post-war and 1950's wooden, prefabricated buildings with little or no heated equipment storage.

Derailments were down again with only 20 incidents in 2005, reduced from 39 in 2002. This significant decrease is directly attributable to our main line end-to-end track rehabilitation program, now in its tenth year. Other notable feats this year include the employee-led rewrite of our cumbersome, non-user friendly, safety rulebook. This positive change will ensure that only clearly defined rules are listed and

that they are consistent and relevant to our modern rail operations.

Security for our customers and employees has become even more paramount at the Alaska Railroad. In August of 2005, the Track Watch program put us in partnership with the Transportation Security Administration to protect passengers, employees and the public by providing a mechanism for reporting suspicious or dangerous activity on or about Alaska Railroad tracks. As part of the program we opened up a dialogue with railbelt residents who received information in the mail on how to observe and report questionable behavior. In addition, sophisticated surveillance technology along the railbelt and at our port facilities is being installed to help us stay vigilant in a variety of ways.



*ARRC Buildings and Bridges crewman Robert Vickers works over open water on the new pylon supports for the Knik River Bridge*

# BUILDING A GREAT LAND

When it comes to supporting Alaska resource development we've got a lot of history on our side. Since our earliest days we've been making Alaska's largest projects possible by moving bulk materials to and from tidewater as well as serving as an important intermodal logistical resource. We were integral to construction of the Trans-Alaska Pipeline in the 1970's, and we plan to make ourselves equally useful again when it is time to move Alaska's abundant natural gas to market. We'll be there to move the building materials, pipe, heavy equipment and other supplies necessary to get this huge construction project off the ground, beginning with the many ships that will off-load materials at our docks in Seward and Whittier.

In the meantime, we continue our support of the many businesses that encompass the vitality of Alaska's economy. In 2005, we moved bridging and pipe for the oil companies to support expanded exploration and development. Some of those materials originate in the Port of Seattle and ship to Whittier via the Alaska Rail Marine barges, then continue by rail to Fairbanks. Materials are off-loaded in our rail yard, and then are trucked north to Prudhoe Bay. This effort is expected to continue through 2006. The oil sector overall looks strong through 2006 and we expect our pipe-handling facilities to stay busy.

Now that our track runs right into the heart of the Port of Anchorage, we intend to be more efficient as we transfer containers and trailers from ship to train.



*Photo courtesy of Art Chase*

*We also continue to play an essential role in supporting the construction industry, helping to build Alaska's infrastructure, especially highway infrastructure. In 2005 we moved over four million tons of gravel, racking up the second largest gravel year in history.*





*The Alaska Railroad takes its mission seriously...fostering the development of Alaska's economy. Integral to that task is supporting resource development.*

Our biggest revenue partner, Flint Hills, settled into ownership of the North Pole refinery and continued to make direct fuel shipments by rail to the Port of Anchorage. One of our most established business partners, Usibelli Coal Mine, continued rail coal shipments to Seward for delivery overseas in 2005. Additionally, our ocean rail-marine barge partner, Lynden Inc., was busy growing business in 2005, and is working closely with the Railroad on future joint opportunities particularly in Whittier.

Our service to Interior Alaska substantially improved with completion of the \$23.7 million Fairbanks Intermodal Facility and Depot. The depot provides a far superior travel experience for our summer and winter passengers. The associated loop track configuration is a benefit to more efficient rail yard operations, eliminating the need to break apart passenger trains that often block road traffic in the process. Covering 32 acres, the new Fairbanks terminal and loop track were designed to accommodate projected passenger growth over the next 30 years.

Once trains leave Fairbanks, they now have a shorter trip to Anchorage thanks to major efforts at track-straightening. In 2005 we laid nearly 45 miles of improved, continuous-welded rail track and raised

the track speed in some areas from 49 miles-per-hour up to a first ever 60 miles-per-hour limit. Track straightening on Fort Richardson and curve realignments between Eagle River and Wasilla reduced transit time impressively. A trip that recently took 14 hours between Anchorage and Fairbanks, can now be made in as little as 10.5 hours depending on conditions.

Freight Services Revenues (In thousands of dollars)

2001	2002	2003	2004	2005
79,868	76,021	85,228	86,516	94,485

Grant Revenues (In thousands of dollars)

2001	2002	2003	2004	2005
2,687	3,906	17,810	15,097	17,953

Note: includes real estate grant revenues



# WE'RE BULLISH ON ALASKA

Let's face it. We are wedded to the Alaska economy. We are a key associate for a number of Alaska's most important business sectors. In addition to servicing our busy clients in mining, oil/gas and construction, we continue to be a pivotal enabler to one of Alaska's largest businesses...the visitor industry.

When Princess Cruises and Tours rolled out its "Direct to the Wilderness" program, hinging on Princess' advertised ability to move guests quickly by rail from its ships docking in Whittier to Talkeetna, Denali and beyond, we stepped up to the plate. We added more trains to our summer traffic, fine tuned the schedule and made sure that Princess' promises were kept.

*We are profitable when Alaska is profitable.*

One of our proudest accomplishments in the travel sector came about from within our own operations. For the first time ever our 2005 passengers could choose to upgrade to first class service between Anchorage and Fairbanks on our new custom-designed, two-story GoldStar rail coaches. Bookings immediately reflected the popularity of seeing Alaska, first class. By the time the initial startup season was over, 14,500 of our summer passengers opted for the upgrade. This contributed to a 15 percent increase in passenger revenue over 2004. In fact, GoldStar service was so popular that we ordered two more of the bi-level dome cars which we expect to be in service for the 2007 passenger season.

Our real estate division has always been an important development indicator and once again continued to see steady growth. During the summer of 2005, The Bridge Restaurant (pictured at right) opened in Anchorage's Ship Creek development area thanks to the engineering, leasing and infrastructure support of the Alaska Railroad. The Bridge is the latest addition in our commitment to revitalize Ship Creek by encouraging more commercial, retail and pedestrian traffic to the basin. Next door to The Bridge we completed Phase II of our Ship Creek parking plan and added 120 more paved, lighted and landscaped spaces to the immediate area.

We're laying the groundwork for construction of a \$60 million Ship Creek Intermodal Transportation Center, which should begin in 2006. The plan is to construct three additional tracks, a service building, renovate the historic depot building and create walking access via a pedestrian sky-bridge between Ship Creek and Anchorage's E-Street development project. Our holdings in other parts of the state are just as active. In Seward, we began work on an improved staging area for freight companies and the U.S. Coast Guard. In addition, the Board of Directors dedicated the newly refurbished Seward Intermodal facility to Dale R. Lindsey, former Alaska Railroad Director and resident of Seward. In Fairbanks, our business leases remain quite popular as the city grows. For example, Fairbanks downtown development is exploring opportunities for business enhancement along scenic riverfront property, which is owned by the Railroad.







*Our passenger service has been coming on strong for a number of years now. In 2005, the passenger rail season was the railroad's best in terms of revenue. Ridership on Alaska Railroad's daily trains increased, as did passenger revenue.*

*With the advent of our new first class GoldStar service, more than 14,500 passengers upgraded to ride aboard new double-decker rail cars, designed exclusively for the Alaska Railroad. Gold-Star service is clearly a success in the terms of bookings and the new level of service provided to travelers riding on the Alaska Railroad.*

We're working closely with the military to support troop deployment and training needs. We are studying the feasibility of extending the main line track south from Eielson Air Force Base 80 miles to Fort Greely, near Delta Junction. This project could also greatly enhance access to agricultural and mining sectors in the vicinity. Working closely with the strategic Port of Anchorage we are designing an efficient rail support concept for Department of Defense units that have to mobilize and deploy out of Anchorage by ship.

Passenger Services Revenues (In thousands of dollars)				
2001	2002	2003	2004	2005
13,389	13,980	14,174	16,923	19,472

Real Estate Revenues (In thousands of dollars)				
2001	2002	2003	2004	2005
10,571	11,307	10,865	10,438	11,071
Note: Does not include grant revenues				

## SUPPORTING OUR NEIGHBORS

Imbedded in the Mission is a sense of responsibility toward railbelt communities.

An important consideration for us as we conduct Alaska Railroad operations is to continue being a good partner to Alaskan communities, including the Native villages and corporations along the railbelt. Generations of railroad employees have grown up in towns all across the railbelt and throughout Alaska. Our imprint on communities is indelible. Our corporate history is integral to that of the railbelt communities and so our future depends on a continued ability to serve all Alaskans effectively while respecting the environment surrounding them.

From our school business partnerships to a robust charitable giving program, we are deeply invested in the welfare of Alaskans who live along the nearly 500 miles of main track.



*In 2005, the first Sea Train charter carried over 600 Anchorage School District fifth graders on an incredible field trip – south along the beautiful mountainous Coastal Classic route to Seward – for a day of learning and exploration at the Alaska SeaLife Center. The initiative proved so successful that in 2006 it will be privately underwritten and expanded to include all 6,000 Anchorage fifth graders, enough to fill 10 charter trains.*





*Sense of place and responsibility to our fellow Alaskans is our mandate.*

*2005 Citizen's Advisory Board*

We contribute in-kind travel and services as part of our extensive corporate charitable giving program, which totals nearly \$1 million annually. Our Citizens Advisory Board, made up of six prominent Alaskans from across the State, determines a portion of our donations that go to railbelt communities, non-profits and cultural programs throughout the State. These donations are in addition to a noteworthy United Way Corporate campaign that matches employee contributions dollar-for-dollar. In 2005, highlighted by an employee-run United Way campaign train between Anchorage and Fairbanks, our 750 employees surpassed their generous United Way corporate goal by over \$20,000, for a combined employee/Corporation contribution of more than \$195,000, an 18 percent increase over 2004.

Alaska residential neighborhoods have flourished along the railbelt and we have invested time and a great deal of effort to reduce any negative environmental impact on them. In 2005, the Alaska Railroad obtained one-time federal funds to create and test Quiet Zones. One Quiet Zone tactic includes directional whistles at road crossings that focus the sound directly at traffic on the approaching roads – as opposed to a 360-degree blast from every passing locomotive that can penetrate nearby living areas. Some intersections will use median barriers and improved crossing signals to block driver attempts to beat the train, thereby eliminating the need to sound the train whistle. With the outcome of a successful test in Anchorage it is our hope that other communities will secure grants to help us bring these same improvements to their crossings.



*Ms. Carol Comeau  
Superintendent  
Anchorage School District  
Anchorage*



*Ms. Jewel Jones  
Owner  
Jewel Jones & Associates  
Anchorage*



*Ms. Diane Kaplan  
President  
Rasmuson Foundation  
Anchorage*



*Ms. Elizabeth Ripley  
Director of Marketing and  
Public Relations  
Mat-Su Regional Medical Center  
Mat-Su Valley*



*Ms. Coleen Turner  
Executive Director  
Resource Center for  
Parents & Children  
Fairbanks*



*Ms. Dorothy Urbach  
Owner  
Urbach's Clothier  
Seward*





## 2005 BOARD OF DIRECTORS

(L to R )

John E. Binkley, Chairman  
President and CEO, Alaska Riverways, Inc.

Governor Bill Sheffield, Vice-Chairman  
Port Director, Municipality of Anchorage & Former Governor of Alaska

General (USAF, Retired) Joe Ralston  
Vice-Chairman, The Cohen Group

Bill Noll  
Commissioner, Department of Commerce, Community and Economic Development, State of Alaska

Orie Williams  
President and CEO, Doyon, Limited

Mike Barton  
Commissioner, Department of Transportation  
and Public Facilities, State of Alaska

Jack Burton  
Track Inspector,  
Alaska Railroad Corporation



*For complete Financial Statements  
insert this disc in your  
cd-rom drive or log on to  
[www.AlaskaRailroad.com](http://www.AlaskaRailroad.com)  
for an online version  
of the 2005 annual report.*



## ALASKA RAILROAD CORPORATION OFFICES

P.O. Box 107500, Anchorage, Alaska 99510-7500 • [www.AlaskaRailroad.com](http://www.AlaskaRailroad.com)

### Anchorage, Alaska

Offices	Physical Address	Telephone	Fax
Headquarters Offices	327 W. Ship Creek Avenue	(907) 265-2300	(907) 265-2312
Reservations and Information	411 W. 1st Avenue	(907) 265-2494	(907) 265-2509
Anchorage Operations Center	825 Whitney Road	(907) 265-2434	(907) 265-2643

### Fairbanks, Alaska

Offices	Physical Address	Telephone	Fax
Passenger Depot	1745 Johansen Expressway	(907) 458-6025	(907) 458-6068
Freight Customer Service	1888 Fox Avenue	(907) 458-6022	(907) 458-6034
Freight House	230 Jack Lindsey Lane	(907) 458-6048	(907) 458-6061

### Seward, Alaska

913 Port Avenue, P.O. Box 95, Seward, Alaska 99664 • Telephone: (907) 224-5550 • Fax: (907) 265-2660

### Seattle, Washington

5615 W. Marginal Way S.W., Seattle, Washington 98106 • Telephone: (206) 767-1100 • Fax: (206) 767-1112

### Toll-free Numbers

Corporate Information	1-800-321-6518
Freight Marketing/Customer Service	1-800-321-6518
Passenger Service	1-800-544-0552
Seattle Office	1-800-843-2772

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 2005, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260.



## GROWING ALASKA

*The Alaska Railroad is all about  
the future and Growing Alaska.*

*We are the Alaska Railroad,  
and ever since we took  
the name "Alaska," the Great Land  
and its people have always come first.*

