1995 ANNUAL REPORT

Building On Our Successes

10th

ALASKA RAILROAD CORPORATION

Contents

To Install the Alaska Railroad Diskette

WINDOWS COMPATIBLE

Mission Statement

The mission of the Alaska Railroad Corporation and its employees is to provide high quality, safe, cost-effective freight, passenger and real estate services for our customers.

Values

Service to our customers is our ultimate goal. Safety is the essence of all we do. Pride and integrity must be visible. Quality is the measure of our work. Teamwork is essential.

Vision

We are to be considered among the best transportation companies in North America. We will be number one in Safety and Service for railroads our size.

Year in Review

After two years of following the script for rebuilding the financial strength of the corporation, the railroad recorded a record financial year. The process was long, results were not instantaneous, and the journey was occasionally painful. The railroad made $7.9 million on revenue of $65.7 million. Improved asset utilization and a better mix of freight contributed to the success. Freight revenue exceeded 1994 numbers in almost every category. Petroleum shipments from the MAPCO refinery exceeded 1994 numbers by 9 percent. MAPCO was successful in marketing its naphtha to foreign markets which resulted in additional carloads between North Pole and Seward.

Export coal tonnage topped 1994 by 21 percent in 1995. The local coal market to the interior of Alaska is extremely competitive and ARRC continued to be responsive to customer needs. Gravel trains ran well into October due to mild weather. Shipments were more than anticipated due to a stronger construction season.

The influx of independent travelers helped propel passenger ridership into the record books with 492,528 passengers in 1995. That's a 10 percent increase over 1994 and 19,000 passengers more than the previous high set in 1992.

Real estate continued its contribution to the bottom line at the railroad. One high-visibility project is the completion of the Comfort Inn Hotel built on railroad lease property on the Chena River in Fairbanks. It will open in April 1996.

A reorganization of the marketing department led to the creation of Transportation Services. Anything related to customers was combined with marketing, transportation and some accounting functions. The result is more responsive service because of improved communication between the departments and with customers. The Alaska Rail Marine Services went through changes in 1995. In November the railroad began to lease barge space to Alaska Cargo Transport. It reduced the number of slots for railcars, but increased the amount of cargo on the barge. The new service made five voyages in 1995. Early indicators suggest the service is going to be a success. Plans to increase sailings from once every 10 days to once every seven days was accelerated because of the increased freight traffic.

The weather played for and against the railroad in 1995. A March snowstorm staggered the south end for several days.

Southbound passenger train crossing Riley Creek near Denali Park Depot. Photo by Clark Mishler

In September, rain of biblical proportions hammered the south end as far as Peters Creek north of Anchorage. Culverts, bridges and track washed out during the storm, causing minimal delays but necessitating some outlay for repairs.

Warm weather in the latter part of the year extended the gravel season since the cars were not needed for the north end power plants. Cost savings were also realized due to the scant snowfall, although lack of snow increased instances of glaciation on the property.

As a cost-saving measure, the capital program was kept to a minimum in 1995. The capital program totaled $1.9 million during 1995. That was $4.3 million less than last year.

- 5,662 ties replaced
- 10,560 feet of new rail installed
- 9,516 feet of rail turned/transposed
- 107.62 miles of surfacing completed (raised, aligned and tamped)
- 18,380 cubic yards of ballast dumped

A $10 million grant from the Department of Transportation will fund extensive track work in 1996 concentrated in the Healy Canyon near Denali Park. The grant is to be used for capital rehabilitation related to passenger operations.

President's Message

1995 is the sort of year a company can have when its dedication to safety, service, cost control, combined with a solid business plan, all pay off in the same year. ■ The headline for 1995 is our achievement of a record net income of $7.9 million. That doesn't tell the whole story. We also had fewer lost days due to personal injury than ever before, and the lowest derailment expense in the company's history. The plans we set in motion three years ago are starting to have their effect. ■ When we created our business plan we knew that the next few years were going to be tough. The plan called for us to invest in our core transportation business by making significant improvements in safety and customer service and improving the quality of our rolling stock, locomotives and track. ■ Our new organization exemplifies the difference. The Transportation Services Division now has responsibility for everything that touches the customer. Our train, yard and marine operation; the people who budget it, sell it, price it and invoice it, comprise one department; the sole mission of which is to meet the needs of our customer. ■ I am optimistic about our future. The major commodities that we ship, petroleum, gravel and coal, look strong in 1996. International coal prices are on the rise and that bodes well for export coal from the Usibelli Coal Mine. ■ We re-negotiated several aspects of our rail-barge service and began leasing deck space to Alaska Cargo Transport at the end of the year. The first five sailings were highly successful and the outlook shows promise in the years to come. ■ Passenger ridership increased to an all-time high as we became the travel mode of choice for independent adventure travelers. ■ I can't overlook the importance of real estate and its importance to our bottom line. Real estate revenue contributed $5.3 million in 1995. That money will go back into our capital budget. ■ Innovation has its place in making a business more efficient, however, old-fashioned cost-cutting and expense reduction contributed to this year's success. ■ Most importantly, it took dedication to turn the tide. The dedication — to safety, efficiency, communication and quality — of the people who make this corporation a railroad.

Robert S. Hatfield

Robert S. Hatfield, Jr.
President and
Chief Executive Officer

Community Service

The Alaska Railroad has been part of the fabric of Alaskan life since 1915. We're proud to continue sharing our talents and services with communities in the state.

The railroad's flagship community project is its continued school business partnership with Government Hill Elementary School in Anchorage.

The railroad returned to sponsor the back-to-school barbecue where we provided the food and staffed the event. Kids and parents consumed every soda, hot dog, and bag of chips we brought—all in a torrential downpour.

In December, students, staff and parents received one of the biggest holiday gifts of the year–a train ride for the entire school. Four hundred seventy-five children, teachers and parents boarded the train for a two-hour ride north of Anchorage.

To support the Make-A-Wish Foundation, we helped fulfill the dream of a 12-year-old terminally ill girl who wanted to take a train trip with her family. In all, the railroad donated 2,485 train trips valued at $314,449 to organizations across the state.

The Anchorage Library Summer Reading Program asked the railroad to help them encourage kids to read. The railroad came through with paper engineer hats for every participant and round trip tickets to Seward for six families. More than 6,000 kids participated in the program.

Twice a year the Citizens Advisory Board meets to determine distribution of funds to health and social service agencies, the arts and other community programs. In 1995, the committee distributed funds to such diverse agencies as Big Brothers/Big Sisters of Anchorage and of Fairbanks, Alaska Family Child Care Association, Seward Community Library and the Fairbanks Concert Association.

The railroad entered its second year of association with the Alaska Public Radio Network. Our support of public radio helps guarantee that communities continue receiving quality broadcasting and news, statewide.

Our community involvement adds up to big dividends for the corporation as well as the communities we serve. It's a source of pride and part of our effort to make Alaska a better place to live.

A Government Hill Elementary student enjoying a holiday train ride. Photo by Al Grillo.

Chairman's Message

It is good to see that the Alaska Railroad enjoyed such a profitable year during 1995. It is a fitting achievement to celebrate 10 years of operation under state ownership. I feel a kinship with the railroad because it came under state ownership while I served as Alaska's governor. ■ What many had envisioned the railroad would bring to our great state has come true—a corporation that provides healthy competition to the transportation industry as well as being a star player in the tourism industry. What I hadn't anticipated, but am pleased to see, is the railroad's use of its real estate to bolster its strength in the marketplace. ■ What I have learned in my yearlong tenure is that the corporation has a cadre of dedicated employees who truly love the railroad. They put their heart and soul into it to ensure its success. ■ Several years ago, the leadership of this railroad spotted a stormy business climate on the horizon. They laid the groundwork to survive. Throughout it all the board was kept informed, and approved the direction the railroad took. The foresight was born out when the company recorded record profits for 1995. ■ The railroad's success has been a function of listening to its customers and finding ways to satisfy their needs. A strong example is the reorganization of the marketing and transportation departments to include all aspects of the business that affects its customers. This visionary innovation puts the railroad at the cutting edge of railroad industry thinking on how to overcome traditional obstacles between the responsibility for selling the transportation product and the responsibility for the costs and services associated with delivering the product. ■ We plan an aggressive capital program during 1996 and into the future. We will continue to maintain equipment and 525 miles of track above regulated standards, therefore reducing expenses, increasing profits and bringing the railroad's costs more in line with Lower-48 railroads. ■ The railroad is staying on the course of its success. The board of directors will work with railroad employees, using our combined experience, to ensure the Alaska Railroad's viability as Alaska's freight, passenger and real estate service company.

Bill Sheffield

Gov. Bill Sheffield
Chairman,
Board of Directors

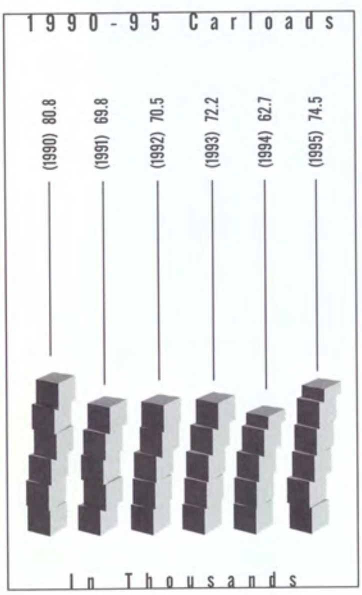
Board of Directors

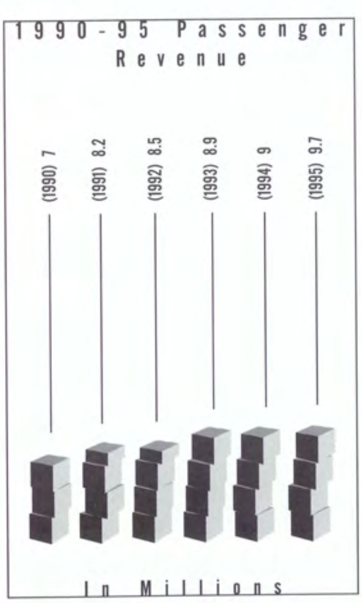
(starting back row, left to right) **Dale R. Lindsey**, *President, Harbor Enterprises, Inc.* **Robert S. Hatfield, Jr.**, *President & Chief Executive Officer, Alaska Railroad Corporation.* **Joe Perkins**, *Commissioner of Transportation and Public Facilities.* **Willie Hensley**, *Commissioner of Commerce and Economic Development.* **Jack Burton**, *Track Inspector, Alaska Railroad Corporation.* **Governor Bill Sheffield**, *former governor, state of Alaska.* **Johne Binkley**, *Chairman & CEO, Alaska Riverways, Inc.*

Officers

Robert S. Hatfield, Jr., *President & Chief Executive Officer.* **George E. Erickson**, *Vice President, Transportation Services.* **Patricia E. Dunn**, *Vice President, Finance & Administration.* **Phyllis C. Johnson**, *Vice President & General Counsel.* **James B. Blasingame**, *Vice President, Corporate Affairs.* **John G. Burns**, *Vice President, Real Estate & Facilities.* **Patrick C. Shake**, *Superintendent, Transportation.* **John E. Kincaid**, *Chief Mechanical Officer.* **Thomas E. Brooks**, *Chief Engineer.*

Commodities





The Alaska Railroad began leasing barge space for bulk cargo in November 1995. Photo courtesy of Alaska Cargo Transport.

Petroleum

Petroleum is a major player in the freight business at the railroad. In 1995 it made up 43 percent of freight revenue. Increased foreign demand for naphtha helped push revenue up 11 percent over last year. In addition to naphtha, petroleum products include heating oil, aviation fuel, diesel, and gasoline. The railroad also shipped jet fuel for the military. Most petroleum shipments originate at the MAPCO Refinery in North Pole, Alaska, near Fairbanks, and are shipped 370 miles south to Anchorage.

Coal

Rising prices in the international coal market translated to increased transportation prices. The local coal market to the interior of Alaska remained competitive which meant a lower rate per-ton. Export coal is shipped to Seward and sent to Korea where it is used to generate power at Korea Electric Power Company. Increased power demand boosted shipment of Alaska coal. In-state coal is burned for power at several military bases and the city of Fairbanks.

Gravel

Unseasonably mild weather and sparse snowfall extended the gravel season well into October of 1995. The railroad moved 2.7 million tons of gravel, a 37 percent increase over 1994.

Major construction bolstered gravel shipments for projects such as the Anchorage International Airport runway expansion, state highway improvements and private companies replenishing inventory at the end of the year.

Pipe

Pipe shipments were down significantly due to the Japanese anti-dumping tax imposed by the U.S. Congress. Domestic shipments through Whittier on the Alaska Rail Marine Services barge increased as North Slope oil producers moved to domestic suppliers.

Interline

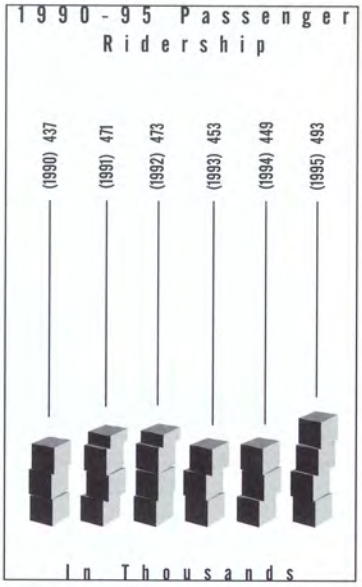
A change in the mix of freight raised interline revenues 85 percent over 1994. Alaska Rail Marine Services helped raise revenues by better use of the barge space. All 36 voyages contracted for in 1995 were completed, contributing to improved revenues.

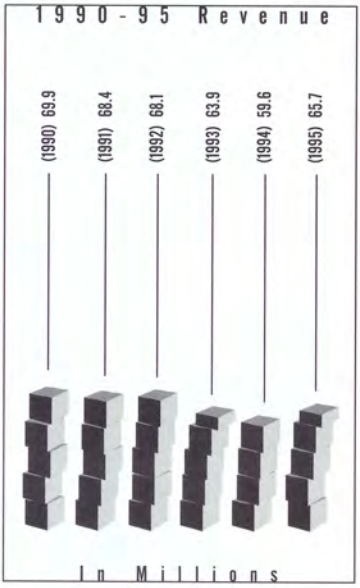
An arrangement between Alaska Rail Marine and Alaska Cargo Transport began in November with five successful sailings in 1995. The railroad leases space on the barge for break bulk cargo. The barge was full on each sailing and revenue was significantly better than during the same period in 1994. Weekly sailings began in January 1996.

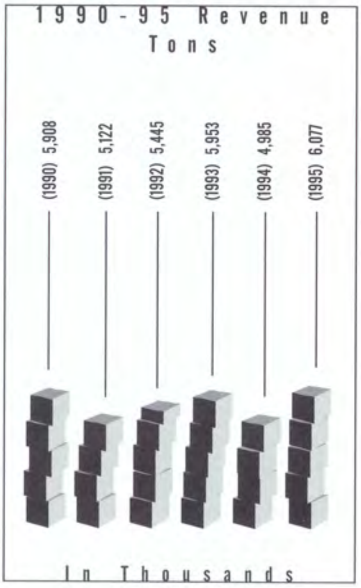
Intermodal

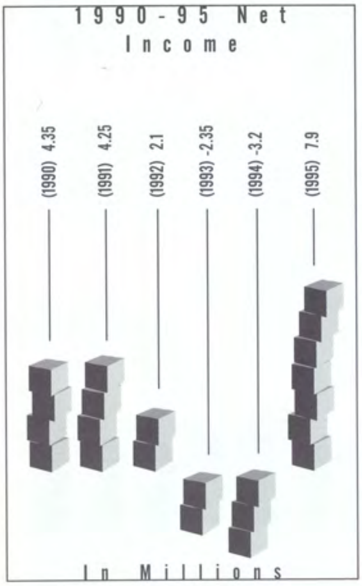
Trailers on flat cars (TOFC) and containers on flat cars (COFC) were down this year compared to 1994. Spring breakup brought loadings up somewhat, but not enough to improve over last year.

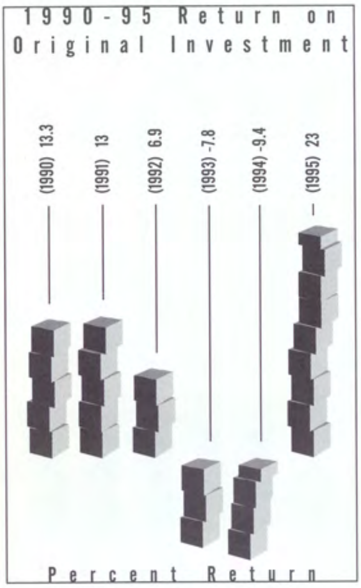
1995 was the first full year of the railroad wholesaling TOFC service by contracting the intermodal freight to three trucking companies.

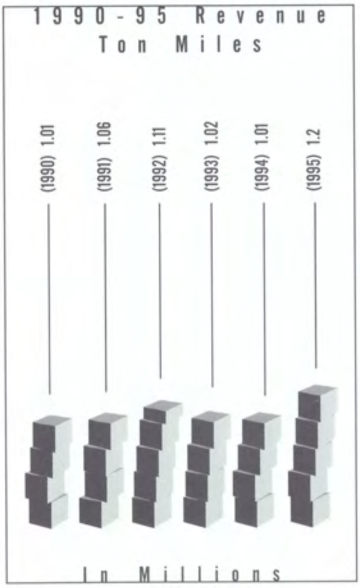












One of Alaska Railroad's most popular stops, Denali National Park.
Photo by Clark Mishler

All Other Freight

All other freight is a smaller segment of business that carries miscellaneous freight such as machinery, building materials and logs. Business was up slightly in 1995. Tonnage was 44,081, a decrease from 56,956 in 1994. Revenue increased 5 percent.

Passenger Services

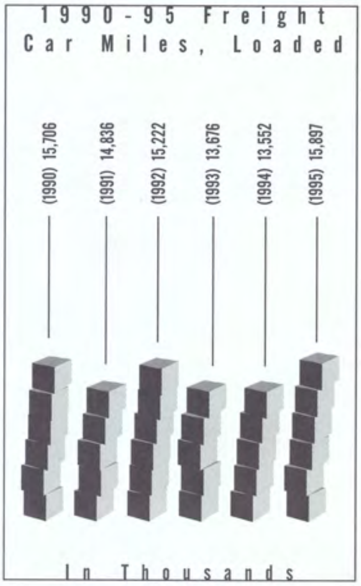
The most visible part of the railroad's operation hit its highest level ever in 1995 with 492,528 passengers, a 10 percent increase. Focusing on market niche opportunities including independent/adventure travelers paid off for the railroad in 1995. The Fairbanks to Denali National Park route showed the largest increase, up 34 percent over 1994. The Anchorage to Denali trip marked a 17 percent increase. The Seward train continues to be a favorite with local residents and visiting friends and relatives. Ridership grew to almost 22,000 passengers in 1995. People responded to aggressive marketing efforts and enhanced service values, including partnerships and joint tourist operations with local tour boat operators.

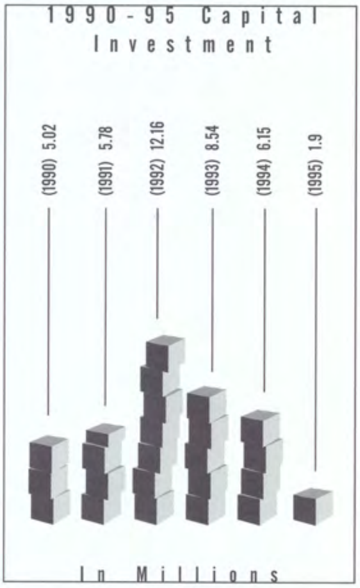
Real Estate

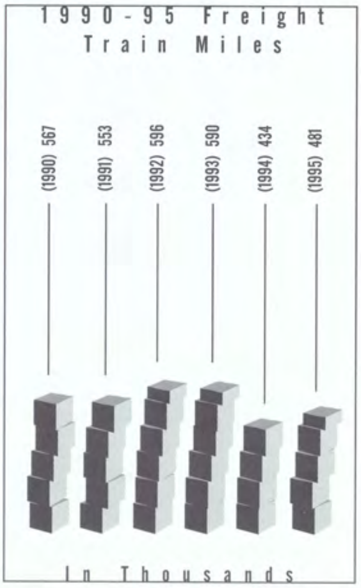
Real estate recorded another solid year with $4.6 million profit on revenues of $5.2 million. The construction of the Fairbanks Comfort Inn Hotel was nearly complete at the end of 1995. The hotel, due to open in April 1996, was built on railroad lease property on the Chena River and will add much needed lodging to the Fairbanks tourist market. Local improvements, including a pedestrian bridge over the Chena River and bringing city water to the hotel and nearby property, enhanced the value of this project to the local community. Townhouses and a restaurant are slated for construction on this project in 1996.

In Anchorage, the Ship Creek Development being planned by LoPatin and Company, completed an updated feasibility study which concluded that the project is a viable enterprise. LoPatin negotiated a partnership with IMAX to lease and operate a large screen theater at the proposed visitors center. At the end of 1995, architectural and engineering team documents were begun for construction beginning in August 1996. The first phase of the development will house the IMAX theater and visitors center. A hotel, shops and a business plaza are planned for later phases.

Renovation of the top two floors of the Anchorage Depot was completed and the space is 100 percent leased.







Management Statement

The accompanying financial statements of the Alaska Railroad Corporation and all other information contained in the annual report are the responsibility of management. The financial statements were prepared in conformity with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the corporation's financial position and the results of operations. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

The Alaska Railroad Corporation maintains a system of internal accounting controls which is designed to provide reasonable assurance as to the reliability of its financial records and the protection of its assets. 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 a study and evaluation of 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 of directors, the majority of whom are not officers of the company, meets with the independent auditors and management periodically to discuss internal accounting controls, auditing and financial reporting 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.

Patricia E. Dunn

Patricia E. Dunn
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, 1995 and 1994, and the related statements of income (loss), equity 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

March 1, 1996
Anchorage, Alaska

Alaska Railroad Corporation
Balance Sheets

	1995	1994
	December 31, (In Thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 3,896	$ 1,569
Accounts Receivable, Net of Allowance for Doubtful Accounts of $706,000 in 1995 and $576,000 in 1994	12,080	13,617
Materials and Supplies	3,271	3,038
Other Current Assets	441	297
Total Current Assets	19,688	18,521
Operating Property and Equipment		
Road and Roadway Structures	64,623	63,887
Equipment	41,486	41,258
Road Materials and Supplies	1,040	1,536
Construction in Progress	839	-
Accumulated Depreciation and Amortization	(44,331)	(38,201)
Total Operating Property and Equipment, net	63,657	68,480
Land (Note 4)	13,850	13,850
Restricted Assets (Note 7)	15,862	11,993
Other Assets	304	285
TOTAL ASSETS	$ 113,361	$ 113,129
LIABILITIES AND EQUITY		
Current Liabilities		
Notes Payable (Note 5)	$ -	$ 2,000
Current Portion of Long-term Debt and Capital Lease Obligations (Note 5)	4,953	5,207
Accounts Payable and Accrued Liabilities	5,889	11,834
Payroll Liabilities	4,480	4,194
Unearned Real Estate Revenues	1,220	1,208
Total Current Liabilities	16,542	24,443
Long-term Debt, Less Current Portion (Note 5)	14,115	15,571
Accrued Postretirement Benefits (Note 6)	4,907	3,552
Deferred Revenue (Note 7)	12,356	11,993
Total Liabilities	47,920	55,559
Equity		
Investment by the State of Alaska	34,174	34,174
Retained Earnings	31,267	23,396
Total Equity	65,441	57,570
TOTAL LIABILITIES AND EQUITY	$ 113,361	$ 113,129

See Accompanying Notes to Financial Statements

Alaska Railroad Corporation
Statements of Income (Loss)

	Years Ended December 31, 1995 (In Thousands)	1994
Operating Revenue		
Freight (Note 9)	$ 48,807	$ 41,658
Passenger	9,749	9,012
Other	1,716	1,210
	60,272	51,880
Operating Expense		
Transportation	16,845	17,925
Engineering	13,031	13,011
Equipment	9,061	7,944
General and Administrative	11,082	12,736
Depreciation and Amortization	6,133	6,204
	56,152	57,820
INCOME (LOSS) FROM OPERATIONS	4,120	(5,940)
Other Income (Expense)		
Real Estate Income, Less Direct Expenses of $687,000 in 1995 and $813,000 in 1994	4,568	3,941
Interest Income	191	45
Interest Expense	(1,008)	(1,256)
	3,751	2,730
NET INCOME (LOSS)	$ 7,871	$ (3,210)

Statements of Equity

	Investment by the State of Alaska	Retained Earnings (In Thousands)	Total Equity
Balance at December 31, 1993	$ 34,174	$ 26,606	$ 60,780
Net Loss for the Year Ended December 31, 1994		(3,210)	(3,210)
Balance at December 31, 1994	34,174	23,396	57,570
Net Income for the Year Ended December 31, 1995		7,871	7,871
BALANCE AT DECEMBER 31, 1995	$ 34,174	$ 31,267	$ 65,441

See Accompanying Notes to Financial Statements

Alaska Railroad Corporation
Statements of Cash Flows

	Years Ended December 31, 1995 (In Thousands)	1994
OPERATING ACTIVITIES		
Net Income (Loss)	$ 7,871	$ (3,210)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,133	6,204
Loss on Disposal of Assets	-	360
(Increase) Decrease in Accounts Receivable, Net of Allowance for Doubtful Accounts	1,537	(1,791)
(Increase) Decrease in Materials and Supplies	(233)	465
Increase in Other Assets	(163)	(25)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(5,945)	2,633
Increase (Decrease) in Payroll Liabilities	286	(1,902)
Increase in Unearned Real Estate Revenues	12	879
Increase in Accrued Postretirement Benefits	1,355	1,468
Net Cash Provided by Operating Activities	10,853	5,081
INVESTING ACTIVITIES		
Purchases, Net of Disposal, of Road and Roadway Structures and Equipment	(973)	(6,589)
Decrease in Road Materials and Supplies	496	1,536
(Increase) Decrease in Construction in Progress	(839)	532
Net Cash Used in Investing Activities	(1,316)	(4,521)
FINANCING ACTIVITIES		
Proceeds From Notes Payable	1,000	3,675
Payments On Notes Payable	(3,000)	(4,575)
Proceeds From Long-Term Debt	-	5,749
Payments on Long-Term Debt and Capital Lease Obligations	(5,210)	(5,061)
Net Cash Used in Financing Activities	(7,210)	(212)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,327	348
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,569	1,221
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,896	$ 1,569
INTEREST PAID	$ 1,028	$ 1,194

See Accompanying Notes to Financial Statements

December 31, 1995

NOTE 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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
In preparing the financial statements management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the 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.

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

Road Materials and Supplies: Road 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. These items will generally be capitalized when placed into service, and accordingly are included in operating property and equipment.

Operating Property and Equipment: Operating property and equipment are stated at cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets.

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

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.

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 Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities.

Fair Value of Financial Instruments: Fair values of financial instruments, as defined under Statement of Financial Accounting Standards 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.

Reclassifications: Certain reclassifications have been made to the prior year balances in order to conform to the current year presentation.

NOTE 3—OPERATING LEASES

The ARRC leases its headquarters and certain operating equipment under operating leases. Operating lease payments totaled $1,389,000 and $1,027,000 in 1995 and 1994, respectively. Future minimum lease payments as of December 31, 1995 are summarized as follows (in thousands):

Year Ending December 31,	1996	$ 1,475
	1997	1,432
	1998	1,345
	1999	956
	2000	841
	Thereafter	9,026
Total minimum lease payments		$15,075

The ARRC had no capital leases outstanding at December 31, 1995.

NOTE 4—LAND

The ARRC leases a significant portion of its land to various parties under long-term agreements. The income related to these leases is included in other revenue at December 31, 1995 and 1994. Annual rental income on these leases was approximately $5,255,000 and $4,754,000 in 1995 and 1994, respectively. The following table summarizes future minimum lease payments receivable as of December 31, 1995 (in thousands):

Year Ending December 31,	1996	$ 4,919
	1997	4,490
	1998	4,371
	1999	4,262
	2000	4,169
	Thereafter	80,332
Total future minimum lease payments receivable		$ 102,543

NOTE 5—LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt at December 31, 1995 and 1994 consists of the following:

	1995	1994
	(in thousands)	
Note payable, secured by equipment, due in monthly payments of $132,699 including interest at 4.6%, matures August 1998. ARRC has met all debt covenants at December 31, 1995.	$ 3,989	$ 5,363
Note payable, secured by equipment, due in semi-annual payments of $203,397 plus interest at the two-year Treasury Note rate of 5.79%, matures April 2004. ARRC has met all debt covenants at December 31, 1995.	3,458	3,865
Note payable, secured by various assets, due in monthly payments of $118,882, including interest at 7.947%, which matured July 1995.	-	668

Note payable, secured by equipment, due in monthly payments of $82,066 including interest at 4.50%, matures October 1998. ARRC has met all debt covenants at December 31, 1995.	2,615	3,461
Note payable, secured by equipment, due in quarterly payments of $115,500 plus interest at 68% of the prime rate, matures December 1996. ARRC has met all debt covenants at December 31, 1995.	463	925
Note payable, secured by equipment, due in monthly payments of $33,008, including interest at 6.22%, matures May 1997, debt agreement has no debt covenants.	511	864
Note payable, secured by equipment, due in monthly payments of $4,073, including interest at 5.85%, matures January 1998, debt agreement has no debt covenants.	96	138
Note payable, secured by equipment, due in monthly payments of $88,066 including interest at 5.8125%, matures November 1999. ARRC has met all debt covenants at December 31, 1995.	3,693	4,510
Note payable, secured by equipment, due in monthly payments of $18,616 including interest at 4.44%, matures February 1999. ARRC has met all debt covenants at December 31, 1995.	659	848
Other note payable, secured by equipment, due in annual payments of $20,965 matures August 1997. The agreement has no debt covenants.	84	105
Note payable, secured by equipment, due in monthly payments of $38,975, including interest at 6.0%, matures January 2006. ARRC has met all debt covenants at December 31, 1995 (Note 7).	3,500	-
	19,068	20,747
Less Current Portion	(4,953)	(5,179)
	$14,115	$15,568

Long-term debt maturities are as follows at December 31, 1995 (in thousands):

Year Ending December 31,	1996	$ 4,953
	1997	4,467
	1998	3,743
	1999	1,700
	2000	74
	Thereafter	3,464
		$ 19,068

The ARRC has arrangements for short-term unsecured lines of credit of up to $20,000,000 with one bank. The lines of credit at December 31, 1995 and 1994, are summarized below:

	Line 1	Line 2
Description of Line of Credit	For General Purposes	For Self-Insurance Purposes (Note 11)
Amount Available	$10,000,000	$10,000,000
Outstanding at December 31, 1995	-	-
Outstanding at December 31, 1994	$2,000,000	-
Interest Rate	73% of prime rate of a major bank	76% of prime rate of lending bank
Covenants	ARRC has met all debt covenants.	ARRC has met all debt covenants.
Due Date	July 15, 1996	July 15, 1996

The ARRC believes that these lines will be renewed when they mature or that additional commitments will be obtained on similar terms.

NOTE 6—EMPLOYEE BENEFITS

The ARRC has a defined benefit pension plan (Plan) that covers 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 1995, the ARRC contributed an amount for the periodic pension cost which was net of a prepaid pension amount. Contributions are made continuously throughout the year.

The following table sets forth the Plan's status at December 31, 1995 and 1994 (in thousands):

	1995	1994
Actuarial present value of benefit obligations:		
Accumulated benefit obligation-vested	$ (7,928)	$ (8,976)
Accumulated benefit obligation-nonvested	(492)	(557)
	$ (8,420)	$ (9,533)
Projected benefit obligation for service rendered to date	$ (11,082)	$ (11,712)
Plan assets at fair value	17,024	13,755
Projected benefit obligation less than Plan assets	5,942	2,043
Unrecognized prior service cost	242	261
Unrecognized net transition obligation	365	426
Unrecognized net gain	(6,437)	(2,569)
Pension prepayment	$ 112	$ 161

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.25% and 4.75%, at December 31, 1995 and 8.25% and 5.75%, at December 31, 1994.

The components of 1995 and 1994 net pension costs are as follows (in thousands):

	1995	1994
Service cost-benefits earned during the period	$ 577	$ 378
Interest cost on projected benefit obligation	731	846
Return on Plan assets	(2,668)	336
Net amortization and deferral	1,468	(1,483)
Net periodic pension costs	$ 108	$ 77

The weighted average discount rate and rate of increase in future compensation levels used in determining the net pension cost were 7.25% and 4.75%, in 1995 and 1994. The expected long-term rate of return on assets was 8.0% in 1995 and 1994. Plan assets are comprised of fixed income securities and common stocks.

Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS). ARRC is required to contribute 7% of the transferred employees' base pay. Pension expense related to CSRS was $676,000 and $732,000 for the years ended December 31, 1995 and 1994, respectively.

In addition to the defined benefit pension plan, 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, 1995, the ARRC has not designated any assets for the funding of these benefit costs.

The following table presents the plan's funded status, at December 31, 1995 and 1994 (in thousands):

	1995	1994
Accumulated postretirement benefit obligation:		
Retirees	$ 1,814	$ 1,829
Fully eligible active plan participants	331	562
Other active employees	5,756	4,349
Total accumulated postretirement benefit obligation	7,901	6,740
Unrecognized transition obligation	(3,095)	(3,288)
Unrecognized net gain	101	100
Accrued postretirement benefit cost	$ 4,907	$ 3,552

Net periodic postretirement benefit cost includes the following components:

Service cost	$ 827	$ 765
Interest cost	483	482
Amortization of transition obligation over 20 years	193	193
Net periodic postretirement benefit cost	$ 1,503	$ 1,440

For measuring the 1995 expected postretirement benefit obligation, a 12% annual rate of increase in the per capita claims cost was utilized for participants under age sixty-five. This rate was assumed to decrease over a seven-year period to an ultimate rate of 5.25%. A 10% annual rate of increase in the per capita claims cost was utilized for participants age sixty-five and over. This rate was assumed to remain constant through 1999 and then decrease 1% per year for three years to an ultimate rate of 5.25%. The effect of a 1% increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by $1,200,000 and increase the aggregated service and interest cost components by $300,000.

For measuring the 1994 expected postretirement benefit obligation, a 13% annual rate of increase in the per capita claims cost was utilized for participants under age sixty-five. This rate was assumed to decrease over a seven-year period to an ultimate rate of 5.25%. A 10% annual rate of increase in the per capita claims cost was utilized for participants age sixty-five and over. This rate was assumed to remain constant through 1997 and then decrease 1% per year to 6% in 2001, and 5.25% thereafter. The effect of a 1% increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by $1,200,000 and increase the aggregate service and interest cost components by $290,000.

NOTE 7—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. Since 1991, the funds have been invested in U.S. Government securities, corporate notes and money market accounts. At December 31, 1995 and 1994, these investments had a carrying value, including accrued interest, of $12,125,000 and $11,603,000, respectively, at amortized cost and a market value of $12,132,000 and $11,301,000, respectively. According to the current agreement, the ARRC is to refund the $9,000,000 plus interest earned during the holding period if the Wishbone Hill Coal Project is canceled.

Also included in restricted assets is $231,000 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. At December 31, 1995 and 1994, these investments had a carrying value, including accrued interest, of $231,000 and $372,000, respectively, at amortized cost and a market value of $231,000 and $386,000, respectively.

In 1995 the ARRC entered into an agreement to purchase 53 new hopper cars. The funding for this purchase was provided through a note payable of $3,500,000 (Note 5). The ARRC will not pay for these cars until they are delivered, until that time the proceeds from the note and the related accrued interest are included in restricted assets. At December 31, 1995 the carrying value, including accrued interest at amortized cost, and market value of the underlying investment was $3,506,000.

Securities at December 31, 1995 consisted of the following (in thousands):

Description of Security	Estimated Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Corporate Notes	$ 5,125	7	3	$ 5,121
US Agency Notes	5,393	8	10	5,395
US Treasury Strips	1,597	5	-	1,592
Money Market Accounts	3,754	-	-	3,754
Total	$ 15,869	20	13	$ 15,862

Securities at December 31, 1994 consisted of the following (in thousands):

Description of Security	Estimated Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Corporate Notes	$ 2,880	-	12	$ 2,892
US Gov't Agency Strips	92	-	1	93
US Agency Notes	6,748	-	177	6,925
US Treasury Strips	1,392	-	111	1,503
Money Market Accounts	18	-	-	18
US Treasury Notes	371	-	5	376
US Treasury Bills	186	-	-	186
Total	$ 11,687	-	306	$ 11,993

During 1995, the ARRC sold one investment with a carrying value of $5,289,000 for $5,307,000 due to a deterioration in the credit worthiness of the investment's custodian. No investments were sold during 1994.

NOTE 8—FINANCIAL INSTRUMENTS
The ARRC has estimated the fair values of financial instruments which, at December 31, 1995 include accounts receivable, restricted assets, long-term debt and deferred revenue and determined that those estimated values do not differ significantly from the related carrying amounts.

NOTE 9—MAJOR CUSTOMERS

In 1995, two ARRC customers accounted for 33% and 12% of freight revenue. In 1994, the same two customers accounted for 34% and 11% of freight revenue.

NOTE 10—COMMITMENTS AND CONTINGENCIES

During 1993, the ARRC entered into a five year agreement with another entity for rail barge services between Washington and Alaska and related administrative responsibilities. The agreement was amended during 1995. The rail barge operation, which is a significant portion of the ARRC's interline traffic, provides a substantial minimum annual level of utilization before it becomes profitable for the ARRC. Payments under the agreement are accounted for as a reduction of freight revenue in 1994 and 1995.

During 1991, the ARRC was named as a potentially responsible party in a lawsuit brought by the U.S. Environmental Protection Agency (EPA) to recover money spent to date and to be spent in the future cleaning up a superfund site at the Anchorage Terminal Reserve. The ARRC believes the contamination occurred prior to the transfer of the Railroad from the federal government to the State of Alaska and 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.

On February 6, 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 on April 14, 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 that most, if not all, contamination in this area would have occurred prior to the transfer of the ARRC from the federal government and therefore be covered by the agreement referred to in the preceding paragraph.

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.

NOTE 11—INSURANCE

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims which are funded by a line of credit (Note 5). The ARRC is also self-insured against workers' compensation claims.

NOTE 12—INVESTMENT IN PARTNERSHIP

Effective August 22, 1992, the ARRC entered into a general partnership agreement to develop and operate a hotel complex in the Ship Creek area. The ARRC entered into a 35 year lease with the partnership for the land on which the hotel is located for $1 per year. In return for this, the ARRC received a 40% interest in the partnership. The ARRC has no cash investment in the partnership and the investment in and the ARRC's share of the earnings of the partnership are not material. The ARRC is jointly and severally liable on a $500,000 line of credit, which is renewable annually. The amount outstanding under this line of credit at December 31, 1995 was $185,000.

Employees

LYNN ABBOTT • JAMES ADAMS • D. KATHERINE ADAMS • THOMAS ADAMS • ALDEN AKERS • LEILANI ALAELUA • TROY ALBIN • KEVIN ALESHIRE • EDWARD ALFORD • JAMES ALLEN • ANTHONY ARAGON • W. ARMSTRONG • TED ASHBRIDGE • MICHAEL AULT • BILL BAILEY • SCOTT BANKS • JOHN BARBER • RAYMOND BARBIERI • DONALD BARKER • SAM BARNES • KENNETH BARTLETT • NATALIE BASHELIER-WEATHERE • DIANA BAUMAN • JERRY BEA • MARK BEAR • J. GARY BEITINGER • CRAIG BEITINGER • JAMES BELL • STUART BELLANT • JOHN BERG • SANDRA BERGMAN • KEVIN BERGSRUD • KENNETH BICKEL • DONALD BICKERS • DIANE BICKERS • KIMBERLY BINGHAM • CATHLEEN BISHOP • WILLIAM BIVINS • ROBERT BJOR • JULIE BLACK • LOUISE BLACKMUR • JAMES BLASINGAME • DONALD BLOMMER • MICHAEL BOODRY • ROBERT BORIL • JIM BOSCH • DENNIS BOUWENS • TOMMY BOYCE • W. BRADY • RAYMOND BRADY • BRANDI BRANDON • SETH BRANSON • WENDELL BRIDGE • JOHN BRITT JR. • REGINA BROEKE • KERRY BROOKMAN • THOMAS BROOKS • JOANNE BROOKS • CHRISTOPHER BROOKS • ROBERT BROUSSARD • SCOTT BROWN • JOHN BROWN • KATHLEEN BROWN • JAMES BRYAN • DOROTEO BUMANGLAG • JOHN BURCHAM • THOMAS BURKWIST • STEPHANIE BURNHAM • GWENDOLYN BURNO • JOHN BURNS • FRED BURRELL • LARRY BURTON • JACK BURTON • JOE BURTON • GORDON BURTON • KEITH BURTON • RICHARD BUSH • BENJAMIN BUTLER • LEON BUTLER III • ROBERT CACY • MICHELLE CAIN • STEVEN CAIN • TODD CALDWELL • LARRY CARBAUGH • ARCHIE CARD • BRUCE CARR • RICHARD CARTER • SALLY CARTER • JEFFREY CASEY • ROBBIE CASEY • CHRISTIAN CEDERBERG • WAYNE CHALKER • STEVEN CHAPMAN • RONALD CHEEK • WILLIAM CHESLEY • RALPH CHIPERNO • STEPHEN CHIPERNO • CHARLES CHMIELOWIEC • GERALD CHRISTENSEN • DAVID CHURCH • ALTHEA CLAPP • STEVEN CLAPP • MANUEL CLARK • DONALD CLAUSSEN • DAVID COATNEY • DONALD COCHRAN • FRANK COLETTA JR. • LESLIE COLLINS • BILL COLLINS • RICHARD COLOSSO • STEPHAN CONLAN • TIMOTHY CONLEY • THOMAS CONNELLY • MICHAEL CONTI • SCOTT COOK • JOSHUA CORAN • JAMES CORNING • STEPHEN CORVEN • PETER COSGRIFF • C. ANN COURTNEY • WILLIAM CRAWFORD • MICHAEL CREEDEN • STEVE CULVER • THOMAS CURRY • JASON DAILY • JOHN DARNEILLE • LYLE DAVENPORT • JEFFERSON DAVIS • ANDREW DAVIS • ERNEST DAVIS • KATRINA DAVIS • MICHAEL DAVIS • GERALD DAVIS • TIMOTHY DAY • SHARON DEMIERO • DONALD DEMUTH • SHAWNESSY DESLAURIERS • ROBERT DEVASSIE • FRANKLIN DEWEY • DAVID DIANOSKI • CHARLES DILLARD • MICHAEL DIXON • MARCELLA DOUGHTY • K. SUE DRANCHAK • RAYMOND DUNCAN • PATRICIA DUNN • PERCY DUYCK JR. • RICHARD DYSON • CHELCIE EAGER • THOMAS EASTHAM • LEON EIDE • ROBERT EMERSON • ROBERT ENEIX • DOUGLAS ENGEBRETSON • ROBERT ENGLISH • GEORGE ERICKSON • HUGH EVANS • GARY EVANS • JACLYN EVANS • JOHN FAEO • TERESA FARRIS • WAYLAND FERREIRA • RANDY FERRIS • DEBRA FISCHER • GREG FISCHER • ARTHUR FISHER • JOHN FLEMING • ROBERT FOGLIA • FRANCIS FORD • ERIK FORLAND • DANIEL FORSMAN • CAROL FORTIER • MARVIN FOUNTAIN • W. 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Alaska Railroad Corporation Offices

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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

Passenger Depot
280 North Cushman
Fairbanks, AK 99701-2899
Telephone: (907) 456-4155 Fax: (907) 452-5582

Operations Center
1888 Fox Avenue
Fairbanks, AK 99701-2739
Telephone: Yard (907) 456-7736, Sales Office (907) 456-1277
Faxes: Yard (907) 452-3613, Freight House (907) 456-8304

Seward, Alaska

P.O. Box 95
Seward, AK 99664
Telephone: (907) 224-5550/5552
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Suite 215
2203 Airport Way S
Seattle, WA 98134
Telephone: (206) 624-4234
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800 Numbers

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