



COMMUNITY

**Alaska Railroad Corporation
4th Quarter, 2008**



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2008 IN REVIEW: MANAGING CHANGE

Railroad responds to evolving environment with internal adjustment

The year 2008 was about managing and embracing change. Forces outside the Alaska Railroad Corporation (ARRC) presented changing economic conditions that demanded equivalent change from within. Impacts from the year's unstable environment was perhaps most evident in our financial results, which changed quarterly, given dramatic and unexpected expense shifts in the markets. A budgeted \$16 million net income dwindled to nearly half in the wake of market nosedives and skyrocketing fuel costs. We ended the year with a respectable \$137.3

million in total revenues, \$128.2 million in total expense and an estimated \$9.0 million net income. The ARRC Board of Directors offered considerable forethought and guidance early on, leading to effective and measured

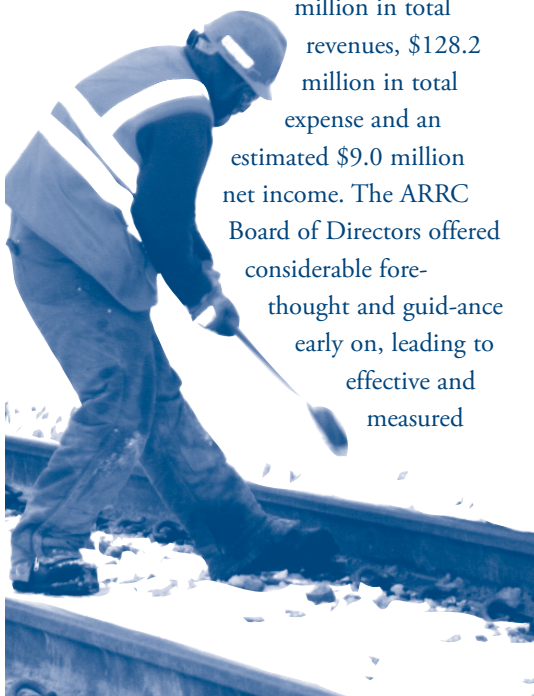
mitigation. ARRC recognized the approaching external change and responded with appropriate internal offsetting adjustments. Here are highlights of railroad actions that directed, affected and reacted to change during 2008.

ORGANIZATIONAL CHANGE

- ARRC responded to flat freight revenues and rising fuel expenses by lowering supply and travel costs, conserving energy and eliminating about four dozen positions through attrition and unfilled vacancies. These year-long efforts limited a final year-end layoff to about a dozen additional positions.

FREIGHT / TRANSPORTATION

- ARRC transported more than 5.825 million tons of freight in 2008 reflecting a decrease for some commodities. Petroleum hauled from the Flint Hills Refinery in North Pole dropped about 14% from 2007. Shipment of trailers and containers dipped 12% and associated barge-rail business declined 16% from 2007.
- 2008 gravel activity rebounded somewhat with 28,309 car loads carrying 2.83 million tons for a 19% increase over 2007.
- On the up side, with more than 550,000 metric tons hauled, 2008 was one of the best years for coal. The export market was buoyed by a rise in Asia coal use and global coal prices. In addition, more available cargo ships lowered ocean freight costs,



Work on capital projects doesn't stop in the winter.

(See "2008 In Review" on page 2)



**Alaska Railroad
Ongoing Projects:**

**Northern Rail Extension
and Tanana River Crossing**

**Fairbanks Area
Rail Line Relocation**

Nenana Rail Relocation

Collision Avoidance System

Port MacKenzie Rail Extension

**Healy Canyon Safety and
Reliability Improvements**

Ship Creek Intermodal Center

Chugach Forest Whistle Stop

South Wasilla Rail Relocation

**Anchorage Capacity
Yard to Airport Spur**

**Track Program:
Rail, Ties and Surfacing**

**For updates or comments on
these projects, visit the Alaska
Railroad web site at
www.AlaskaRailroad.com**

2008 YEAR IN REVIEW...

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dramatically improving the margin of profitability for Alaska coal. While Chile was the largest export customer in 2008, test shipments went to Japan, China and South Korea, raising the possibility of future sales. Domestic coal demand remained similar to 2007.

- In late spring 2008, the railroad conducted one of its largest military mobilization moves to date. About 300 railcars moved nearly 1,000 military vehicles from Fort Wainwright to the Port of Anchorage in support of the 1-25th Stryker Brigade Combat Team's eventual deployment to Iraq.
- ARRC welcomed new customer Eni Petroleum, a global oil company that became a player on the North Slope in 2008. As the start to a hopefully long-term business relationship, ARRC transported 97 railcars of pipe and other materials to support drilling and production activity.

PASSENGER SERVICE

- The railroad carried more than 541,000 passengers in 2008. Total 2008 passengers increased 6% over 2007 and record-breaking summer ticket sales generated \$1.37 million more than 2007. GoldStar first-class service alone grew 36%.

Train Operations

- Trailer On Flat Car (TOFC) operations improved by building a new track and ramp used to load heavy equipment onto flatcars. Relocation next to the Anchorage

Operations Center on Whitney Road is part of a phased effort to move all TOFC activities into the main yard operating area.

- The multi-phase Collision Avoidance System (CAS) was tested and monitored in 2008. The CAS integrates computer-aided dispatch (CAD), on-board locomotive equipment, trackside devices and a dedicated communication network to prevent accidents typically caused by human error. Completion is due in 2010.

RAILCAR EQUIPMENT

- Colorado Railcar Manufacturing (CRM) built and delivered two bi-level dome railcars equipped with full kitchens and dining areas on the lower level, and large window seating on the upper level. They will help satisfy a growing demand for *GoldStar* first-class service in 2009.
- CRM also built the Alaska Railroad's first self-propelled double-deck commuter-style railcar. Sporting ARRC's colors and scheme, the diesel multiple unit (DMU) will be delivered in 2009 and will support the Chugach Forest Whistle Stop Service in the summer and local service in the winter.

TRACK INFRASTRUCTURE

- Maintenance-of-Way (MOW) crews installed more than 417,000 feet of 115-pound welded rail, 60,000 feet of new 141-pound welded rail, 42,000 wood ties, 17,000 concrete ties, and 100,000 tons of track resurfacing ballast.

(See "2008 Year in Review" on page 3)

ARRC SCHEDULES PROJECT OPEN HOUSES IN JANUARY '09

The Alaska Railroad invites the public to three open house events in January to showcase plans for capital improvements during 2009, and to provide an opportunity for public comment on the proposed Program of Projects. Events include continuing and proposed projects in various stages — from conceptual planning to construction. Project managers will be on-hand to answer questions.

- **Anchorage** – 4:00-7:00 p.m., Wednesday, January 21. Historic Ship Creek Depot at 411 West First Avenue.
- **Wasilla** – 4:00-7:00 p.m., Thursday, January 22. Evangelo's Restaurant at 2530 E. Parks Highway.
- **Fairbanks** – 4:00-7:00 p.m., Tuesday, January 27. ARRC Depot at 1745 Johansen Expressway.

People unable to attend the open house events may visit www.AlaskaRailroad.com for project information. Written comments may be e-mailed to public_comment@akrr.com or mailed to Alaska Railroad Capital Projects, P.O. Box 107500, Anchorage, AK 99510-7500.



For more information, call Public Involvement Officer Stephanie Wheeler at 265-2671 or External Affairs Director Tim Thompson, 265-2695. ●

2008 YEAR IN REVIEW...

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- The top of the 265-foot Moody Tunnel in Healy Canyon was removed. “Daylighting” eliminated train height limitations and serious structural concerns, and left room to shift the track 30 feet to more stable ground in 2009.
- As part of the railroad’s extensive bridge program, the timber trestle bridge at Billion Slough near Talkeetna was replaced with a new steel through-plate girder bridge.
- The railroad’s own Curry Quarry process area was completed and quarry operations began in 2008, producing 200,000 tons of ballast rock and 60,000 tons of rip rap rock material.
- The Colorado Siding about 25 miles south of Cantwell was extended from 4,109 feet to just over 10,000 feet. The siding can now accommodate our longest freight trains.
- ARRC helped the Municipality of Anchorage to restore fish passage to a historic in-town salmon stream. ARRC installed a 12-by-12-foot box culvert under the mainline track about two miles south of the Anchorage Yard.

OTHER CAPITAL PROJECTS

- The Surface Transportation Board (STB) released the Northern Rail Extension (NRE) Draft Environmental Impact Statement (EIS) for public review in mid-December. As the project sponsor, the Alaska Railroad has supported the EIS effort with grant funding, information and research.
- Sponsored by the Matanuska-Susitna Borough, the Port MacKenzie Rail Extension project moved into the EIS phase in January 2008, when the railroad submitted an application to the STB. During 2008, the STB’s contractor completed field work in support of the EIS.
- Near Curry Station, the railroad improved visibility along interpretive trails and placed historic rail equipment as static displays. Equipment includes a Rotary 3 track snow blower, an inspector “speeder” car, a 10,000-gallon tank car, an engineering caboose and a domed caboose.
- Some work continued in support of the Chugach Forest Whistle Stop program. A water pump was purchased and a well site prepared to provide potable water at the Spencer Whistle Stop. The Forest Service is seeking funds to complete design and construct the Grandview Whistle Stop site.
- Crews demolished the 67,000 square-foot Whittier Marginal Wharf and installed a new barge winch dolphin. Built in 1958, the wharf had been declared structurally unsafe. Long-term (unfunded) plans call for a new dock operation with a possible rail passenger facility.

POLICE AND SECURITY

- The ARRC Police and Security Department (APSD) assessed and improved physical security of all ARRC facilities, and installed additional video surveillance cameras along the mainline. Both are effective efforts to deter crime, catch criminals and improve overall security.
- In August APSD joined with the Transportation Security Administration (TSA) to assess rail passenger operations at facilities in Seward, Anchorage, Denali and Fairbanks. The joint team-based operation promoted TSA visibility in the rail and cruise environment as a means to actively deter terrorism. It was the first exercise of its type in Alaska.

SAFETY & ENVIRONMENT

- In response to requests from the public and agencies, the railroad commissioned the University of Fairbanks (UAF) to begin a multi-year herbicide research project. Administered by UAF scientists, studies are gathering science and data on the migration and retention of specific herbicide products in the Alaskan soil. In coordination with the Alaska Department of Environmental Conservation, research took place on less than 14 acres of railroad land in South-Central Alaska.
- ARRC and the state Division of Forestry approved an agreement to provide reciprocal assistance for fire-fighting along the rail line. In support, ARRC converted nine old fuel tank railcars to hold water and deployed the cars to along the mainline to help fight wildfires.

REAL ESTATE & FACILITIES

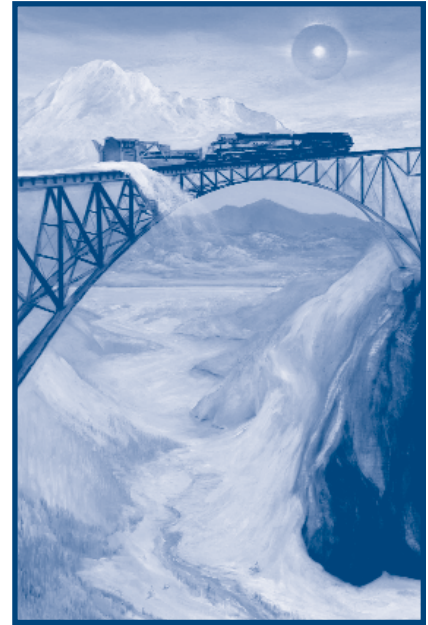
- ARRC began renovating its Historic Freight Shed on First Avenue as a Leadership in Energy and Environmental Design (LEED)-certified building. The 36,000-square-foot facility will be Alaska’s first historic LEED building. Due for completion by late 2009, the Freight Shed will house a coffee shop, café and office spaces. The renovation provides a cornerstone for future commitments in support of the Ship Creek Development Plan.
- Marking its first full year as a separate operating shop, ARRC’s new Facilities Department focused on energy efficiency. Dozens of infrared thermal building scans identified heat loss areas for repair. Other initiatives: Upgraded thermostats to lower nighttime temperatures, light switch motion detectors to keep lights off, inefficient fluorescent lamps and garage doors replaced. ●

2009 COMMEMORATIVE POSTER/PRINT AVAILABLE

Wasilla artist portrays frigid Alaska environment and iconic Hurricane Gulch bridge

The 2009 Alaska Railroad commemorative poster and print are now available at the Historic Ship Creek Depot in Anchorage and the Fairbanks Depot. The poster or print can also be ordered through the Alaska Railroad online Gifts Shop at www.alaskarailroadgiftshop.com.

The 2009 print is entitled *Clearing the Way* by Wasilla artist Taffina Katkus. The print artwork depicts a Jordan spreader crossing the Hurricane Gulch Bridge on a cold Alaskan afternoon. The sundog and frozen Mount McKinley in the background illustrate harsh frigid conditions.



“I wanted to capture the enormous expanse of the gulch and the bridge,” said Katkus. “I imagined the huge challenges that the engineers in that era would have faced to erect this remarkable bridge.”

Born in Colorado, Katkus moved to Alaska 38 years ago. Katkus and her husband own Pioneer Signs, a commercial sign company in Wasilla. For the past 25 years, Katkus has supported the company as a commercial graphic artist. Recently, she began devoting more time to fine art through painting in her home studio ●

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