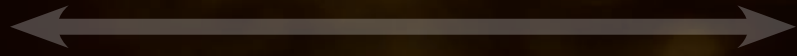




THE GOLDEN RUN



I am pleased to share the many notable successes of the Alaska Railroad in 2007. I believe it is also important for me to share that the Alaska Railroad focused much of its energy in 2007 on preparing our business to perform with excellence in the unpredictable times that lie ahead.

Looking back, 2007 was a solid financial year with total revenues at \$169.3 million, total expense at \$153 million and net income at \$16.3 million. Our assets grew another \$120 million and now total \$835 million. Our passenger services transported 564,800 travelers. Ridership marked a new all time record with three of our summer service trains growing over 8%. And for the third consecutive year, our Real Estate Department broke its revenue record.

But amidst this growth, and worthy of note, was the troubling reduction in our overall freight business. For the first time in many years, our freight tonnage was down from the previous year. That may not be a source of worry, depending on how you measure it. However, it could also be a harbinger of leaner times to come.

The Board of Directors considered this and other general economic indicators and charged management to use 2007 as a year to plan to do some belt tightening. While we are optimistic about Alaska's future, we believe it is important to temper that optimism with realism. Our management has begun taking that direction to

heart, conducting three audits and numerous assessments to help build the next five year plan. That plan, now in development, will help the railroad weather an uncertain future....perhaps more economic downturn on the one extreme, or perhaps fielding new business growth, including a natural gas pipeline.

Accommodating either economic scenario will require the railroad to improve our fundamental corporate position, focus more on the core business, and streamline the organization where possible. Do that right, and the Alaska Railroad will be positioned for success no matter which way the economic winds blow.

Leading our successful team of dedicated employees in this mission is Pat Gamble, Alaska Railroad President and CEO. Also critical to our success has been the support of our Congressional Delegation, Governor Sarah Palin, and our state Legislature whose leadership paves the way for building a great railroad. I also want to recognize our Board of Directors, their many contributions and the time they dedicate to the Alaska Railroad's progress.

With appreciation to our neighbors, the communities we serve and our customers, the Alaska Railroad Board of Directors is pleased to present this 2007 annual report.



THE GOLDEN RUN

A MESSAGE FROM PATRICK K. GAMBLE, PRESIDENT & CEO

At this time last year we wrapped up our five-year plan and designated 2007 to be a year of re-baselining...a year to engineer the next five-year plan. I'm pleased to say we've done that, and the best way to characterize our vision for the future is to use an old railroading metaphor.

As we move into the next five years, we find ourselves in search of "The Golden Run." The Golden Run is a term used to define the most efficient possible train run between two points. To achieve it, everything has to be near perfect, which means the train crew and the whole railroad support team has to perform with excellence. The metaphor applies equally well to the entire corporation. Our next five-year plan is seeking a corporate Golden Run into the economic future of Alaska.

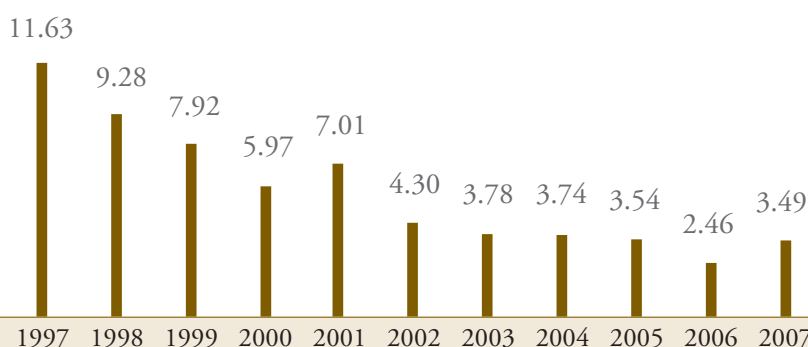
During 2007, while we were busy taking stock of the company and assessing the economic future, we were equally busy running a bustling railroad. Total assets increased by 17 percent, and we set new revenue records in real estate and passenger movements, while nearly matching our best ever overall corporate business performance.

We couldn't claim a successful year unless it was also marked by a solid safety record, and once again, it was. In 2007 we met or exceeded most of the tough annual goals we set for ourselves. We had only one reportable train "accident" (anything over \$8,700 damage) all year. This ties our record, is

well ahead of the national average, and reflects clear evidence of the return we are gaining from priority investment in the rail line reconstruction effort. It also speaks to outstanding rail line maintenance, train handling, locomotive/car maintenance and heavy equipment performance. ARRC recorded 14 minor train derailments for the year, none occurring on the mainline. This marks the second lowest occurrence on record and a 64 percent reduction over six years. In the personnel safety categories, employees reduced lifting injuries by 18 percent and slip/trip/fall injuries by 53 percent over last year alone. Both of these achievements mark the lowest such incident rates on record. Our employees also exceeded the 2007 goal of reducing vehicle incidents by setting the second lowest accident rate on record, while achieving a 52 percent reduction over the last six years.

Surveying other accomplishments, we are pleased to note that three important labor contracts were successfully ratified, benefiting nearly half of our represented employees. We concluded our second trip to the debt markets in 2007 by issuing another \$88 million in tax-exempt bonds, thus funding our very aggressive Anchorage to Fairbanks track rehabilitation program through 2012. Our mainline track projects met or exceeded the annual work plan, coming in \$1 million under budget thanks to good leadership and great teamwork from our highly experienced track/tie/welding gangs, heavy equipment operators and maintenance crews.

INJURY FREQUENCY RATE (REPORTABLE INJURIES PER 200,000 MANHOURS)



Maintenance of Way (MOW) laid over half-million feet of rail, over 61,000 wood ties and over 22,000 concrete ties between Anchorage and Fairbanks. Tie, rail and welding crews worked safely at a record pace and still exceeded their production goals weekly. Track work will continue unabated through 2008.

Crews began the process of “daylighting” or removing the tons of earth and rock from the top of Moody Tunnel in Healy Canyon. Moody Tunnel is an old and unstable structure that has reached the end of its service life. It is the last remaining tunnel between Anchorage and Fairbanks. Initial blasting commenced in late 2007 and kept our local maintenance crews working late into the cold Interior Alaska winter. We expect completion in early 2008.

MOW completely refurbished four, one-mile long rail sidings for half the budgeted amount. The work year saw us rebuild 11 road crossings, put a new major rock quarry into service, continue with numerous technology upgrades and showcase our excellent real estate development potential to a growing number of interested developers.

We proudly supported the United States Army heavy equipment deployments to and from the Middle East through the Port of Anchorage.

Looking back on it all, one could rightly say the railroad's year was characterized by a robust operational tempo. For the record, however, the planning challenge...taking stock, assessing an uncertain economic landscape and trying to set conditions for future success, proved equally formidable.



Tim Thompson photo



Phillip Wormald photo

The Alaska Railroad continues to be optimistic about the future of Alaska and realistic about our place within it. Relying on the foundation of our core values...integrity, service and excellence, we will confidently confront the future as it comes.

We are Alaska's railroad.



Chris Starnes photo

Jeff Nelson photo

We agreed that our new five-year plan had to keep us lean, responsive and viable. Taking heed from our Board of Directors, we began an introspective wall-to-wall examination of our internal work style and how effectively (or not) it complements our business style.

Leading off, we conducted three very substantial audits, including a “blinders off” look at our core business: train operations and direct train support. The results were sobering. We saw an immediate need to true up our operations and create more efficiency now, or risk playing catch-up when confronted by the potential demands of Alaska’s future business challenges, whatever they may turn out to be. That truing process has already begun to give us payback.

Results of our effort will be integrated into our new five-year plan and in updates to our strategic plan, and will be transformed into short and long-term performance goals. Increased operation flexibility, precise performance tracking, a better expense-to-revenue ratio as reflected in the net operating income, continued improvements in safety...ultimately, these are the performance attributes that we will derive from the combined energy of every employee.

At the end of the day, to be really world class in this business, we will rely even more on old fashioned leadership and teamwork to make it all work. Fortunately, we are blessed with many of Alaska’s finest in those departments!

We will strive to execute a corporate Golden Run through the next five years, and serve our state with pride in the process.

FINANCIAL HIGHLIGHTS

Earnings (in thousands):	2007	2006
Operating Revenue:		
Freight	\$ 91,783	\$ 89,623
Passenger	23,304	21,292
Other	526	456
Grant	32,949	21,299
Total Operating Revenue	148,562	132,670
Operating Expenses	138,878	128,420
Operating Income	9,684	4,250
Non-operating Revenue (Expenses):		
Net Real Estate Income	6,670	6,510
Gain on Sale of Capital Assets	478	616
Investment Income	945	572
Interest Expense	(1,527)	(1,504)
Net Income	16,250	10,444
Balance Sheet (in thousands):		
Assets:		
Current Assets	\$ 59,702	\$ 53,896
Non-current Assets	664,608	599,708
Restricted Assets	108,863	60,395
Regulatory Assets	1,324	147
Other Assets	17	100
Total Assets	834,514	714,246
Liabilities:		
Current Liabilities	38,108	34,322
Non-current Liabilities	598,263	496,356
Total Liabilities	636,371	530,678
Fund Equity	198,143	183,568
Total Liabilities & Fund Equity	834,514	714,246
Operating Ratio	0.93	0.97

The Alaska Railroad Corporation has not received any bona-fide offers of a sale arrangement within the calendar year of 2007, nor is the Corporation aware of any potential sales that require analysis under AS 42.40.260.

The 2008 Alaska Railroad commemorative print, "Dawn Departure," depicts the new Fairbanks Depot. The Denali Star train with a new GoldStar coach prepares to depart the depot headed south to Denali, Talkeetna and then Anchorage. This is the second time Anchorage artist Kurt Jacobson has been selected as a featured artist.





BOARD OF DIRECTORS (L to R)

John Binkley (Chairman)

Governor Bill Sheffield (Vice-Chairman), Port Director, Municipality of Anchorage

Curt Menard, Mayor, Matanuska Susitna Borough

Orie Williams, President and CEO, Doyon, Limited

Jack Burton, Track Inspector, Alaska Railroad Corporation

Leo von Scheben, Jr., Commissioner, Department of Transportation and Public Facilities

Emil Notti, Commissioner, Department of Commerce, Community and Economic Development

THE GOLDEN RUN



The Alaska Railroad Corporation
2007 Annual Report Financial Section



*For complete Financial
Statements insert this disc
in your cd-rom drive or log
on to AlaskaRailroad.com
for an online version of the 2007
Alaska Railroad annual report.*



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