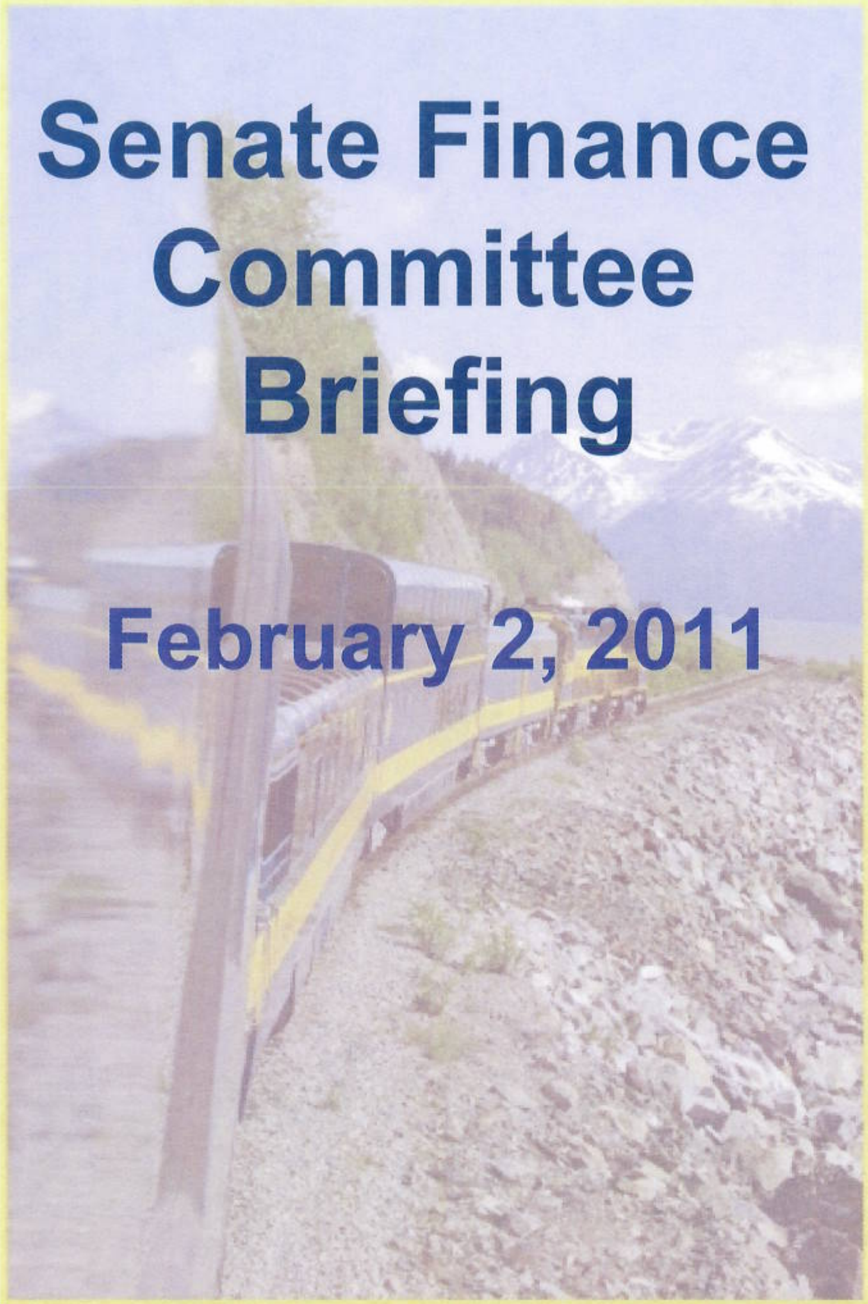


Senate Finance Committee Briefing

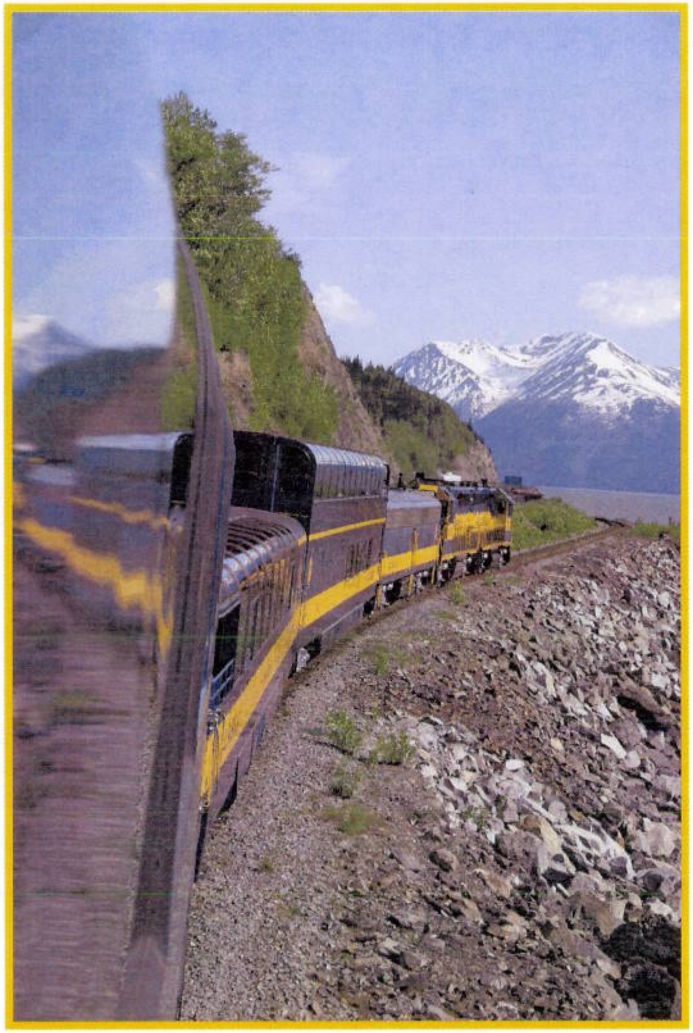
February 2, 2011

Briefing Contents

- Corporate Overview
- Financial Position
- Earnings/Operating Budget Outlook

Handout

- December 2010 State Report

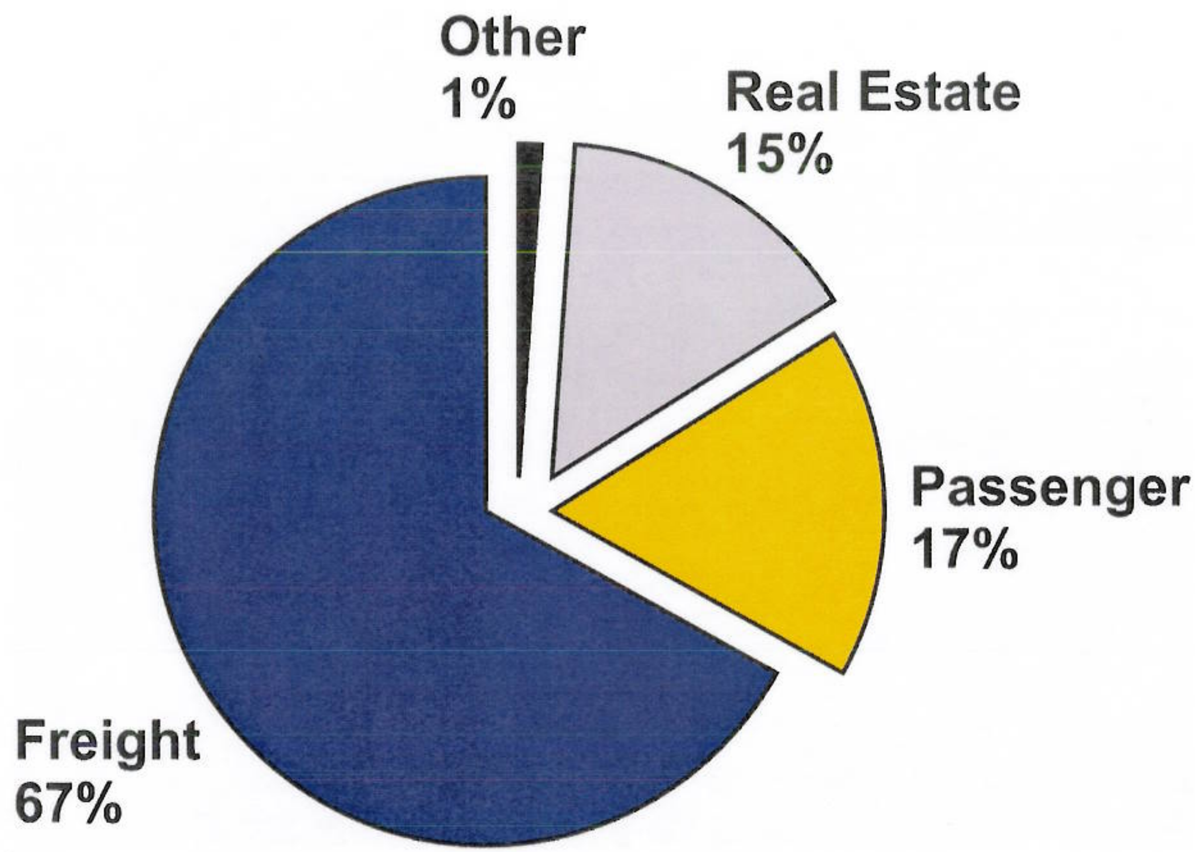


ARRC Corporate Overview

Alaska Railroad Corporation

- Railroad built by the federal government (1914 – 1923)
- Purchased by the State of Alaska for $22 million in January 1985
- Self-supporting, State-owned corporation
- Full-service railroad serving ports and communities from the Gulf of Alaska to Interior Alaska
- 469 miles of mainline track
- Full-service passenger and freight railroad serving communities from the Gulf of Alaska to Fairbanks.

2010 Sources of Customer Revenue*

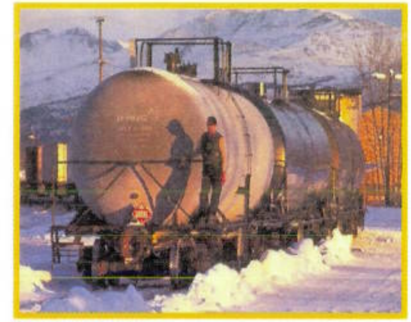


*Preliminary/unaudited

Freight Business

- Moved 6.3 million tons of freight overall in 2010, compared to 6.2 million tons in 2009 (2% increase)
- 2011: Anticipate 3.5% overall freight growth over 2010
- Heavily reliant on three primary commodities

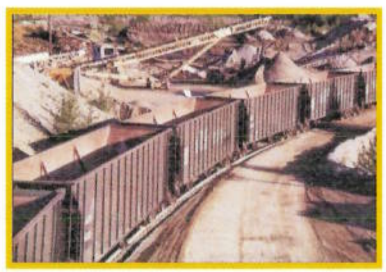

Oilfield pipe


Petroleum


Military


Coal


Logs


Gravel


Interstate Barge

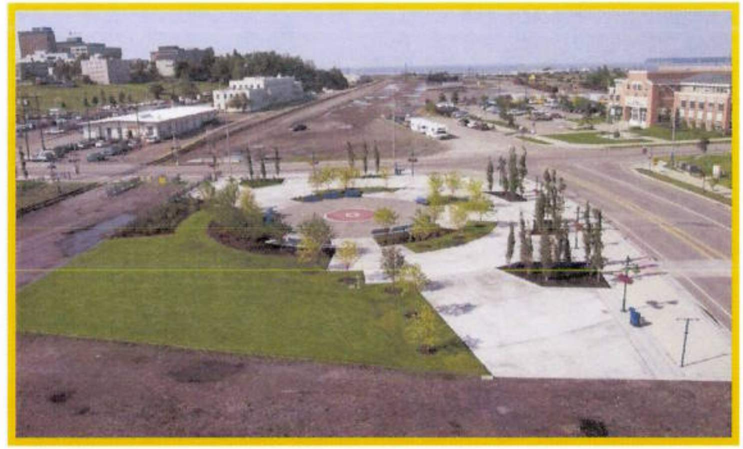
Trailers

Passenger Business

- Includes both ARRC trains and cruise partner movements
- Moved 405,000 passengers in 2010, compared to 471,000 in 2009 (14% decrease)
- 2011: anticipate 3.2% passenger growth over 2010
- Makes ARRC eligible for Federal Transit Administration formula funds

Real Estate

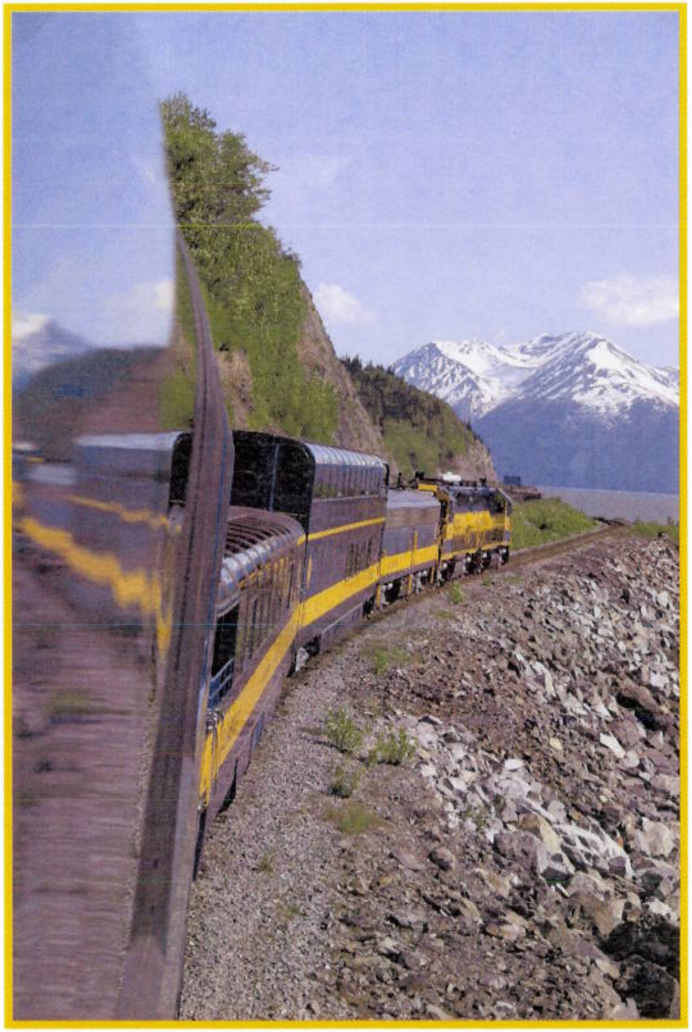
- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Revenue from Real Estate activities are key component to ARRC being self-sustaining
  - 2010: 69% of corporate net income derived from real estate



Top: Ship Creek basin includes highly valuable leasable land. Bottom: upland from the Seward freight dock is being developed

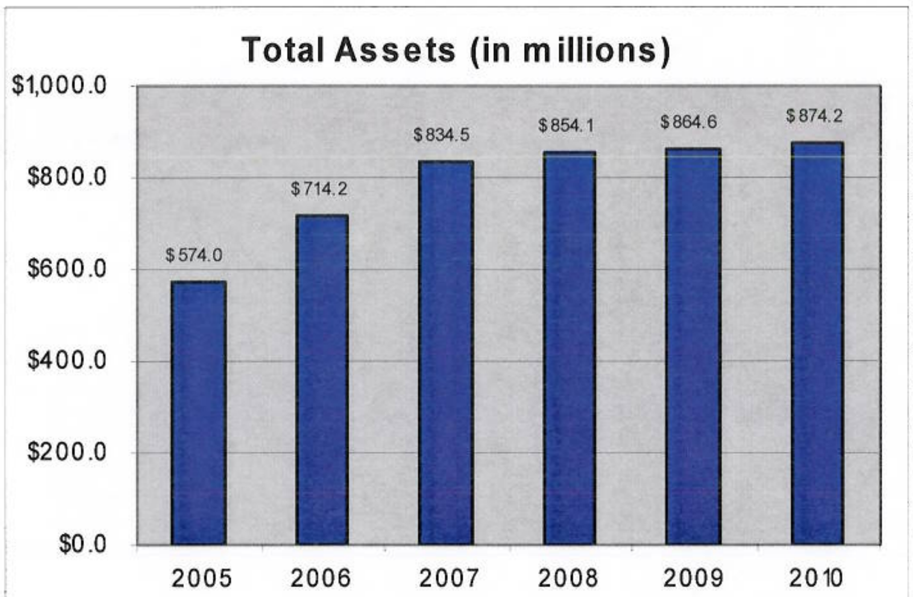
Capital Funding Sources

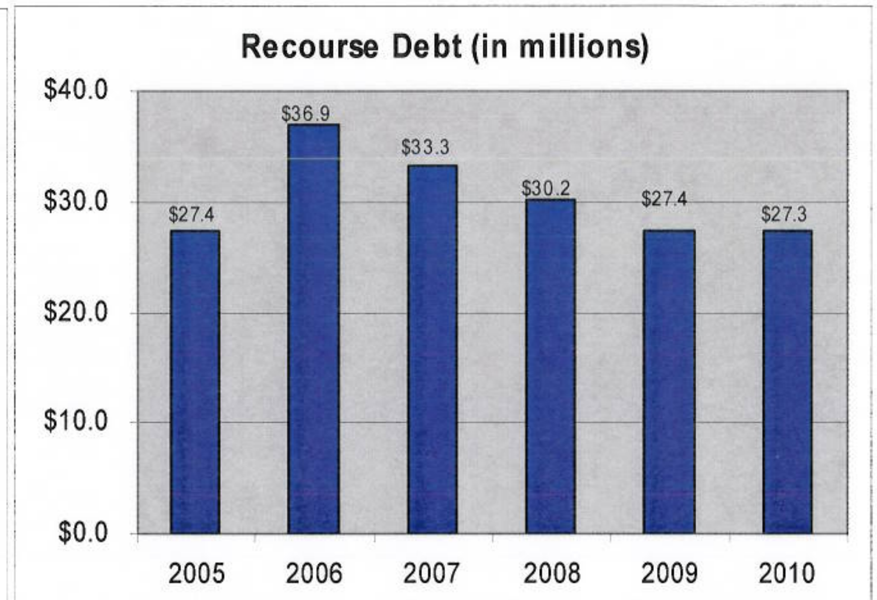
- ARRC Earnings
  - Provides required match for federal funds
  - Essential for freight-related improvements
- USDOT/Federal Transit Administration
  - Formula Funds, Grants, Repayment Source for Bonds
  - 9-20% ARRC Match Required
- Other Federal Agencies – (Dept of Defense, FEMA, FHWA, FRA, Homeland Security, etc)
- Federal funds allocated to ARRC do not affect federal funding for other state transportation projects
- ARRC federal match is *not* from State of Alaska general fund or gas tax...match is solely from ARRC earnings.



ARRC Financial Position

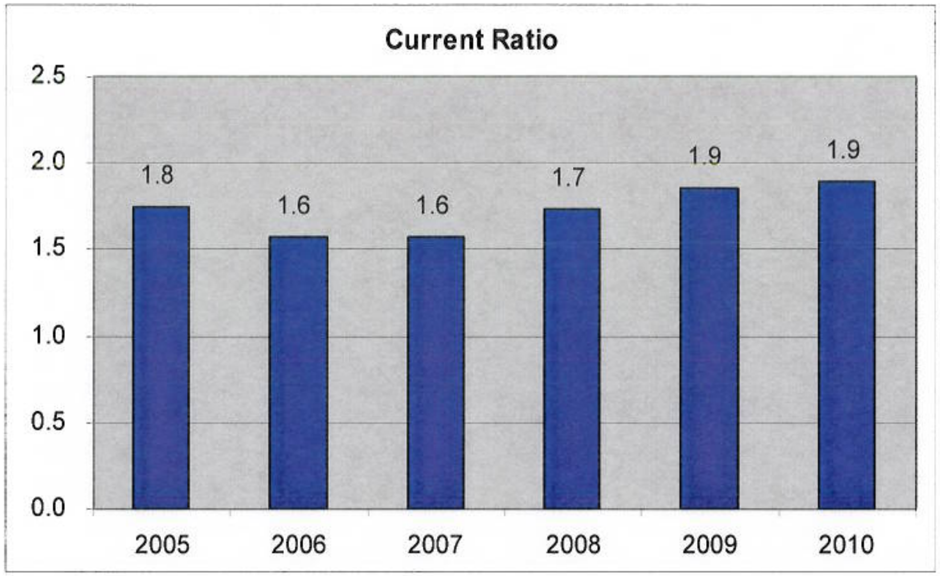
Balance Sheet Highlights
Assets/Debt

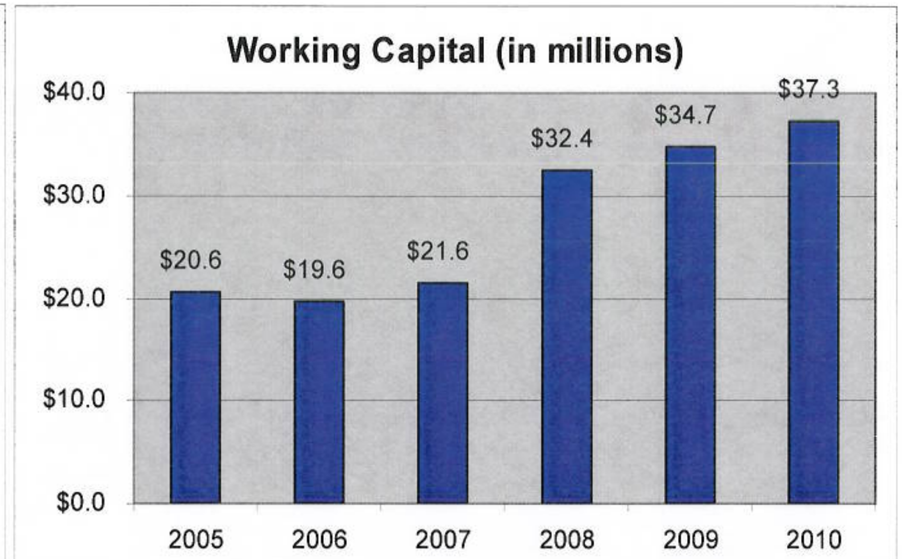




Conservative capital structure: At year-end 2010, ARRC's recourse debt is $27.3 million, with a debt to capital ratio of 21%, reflecting relatively modest use of debt instruments.

Balance Sheet Highlights
Liquidity





Current ratio is calculated by dividing current assets by current liabilities. The ratio is a measurement of an entity's liquidity and ability to meet current obligations.

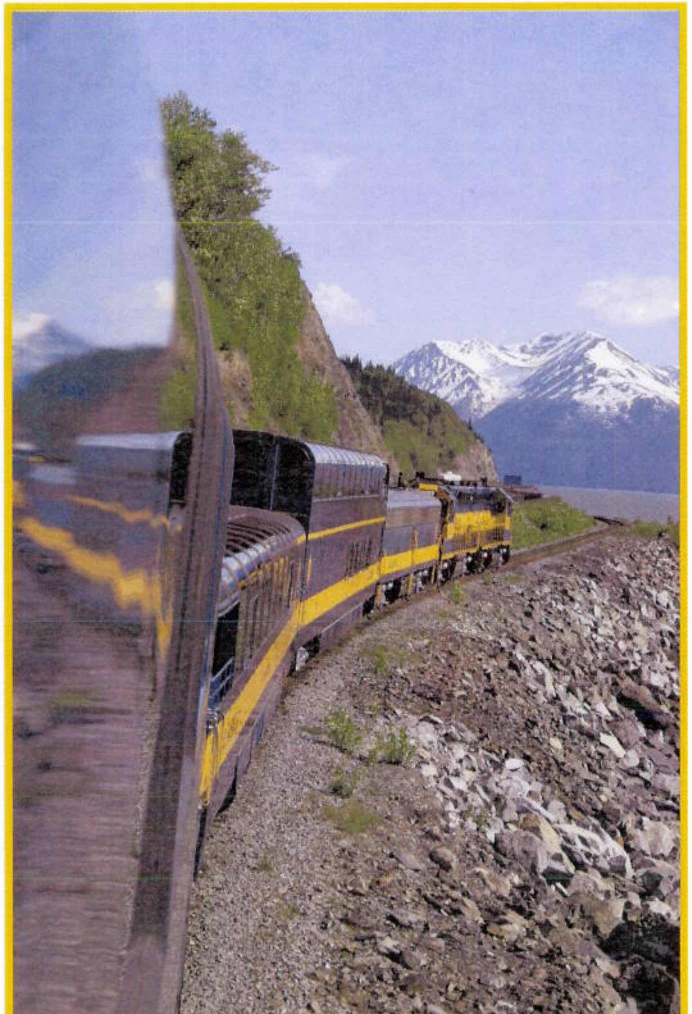
Working capital is calculated by subtracting current liabilities from current assets and is a complementary measurement of an entity's liquidity.

ARRC liquidity continues to improve, despite difficult earnings environment.

Benefit Trust Funds

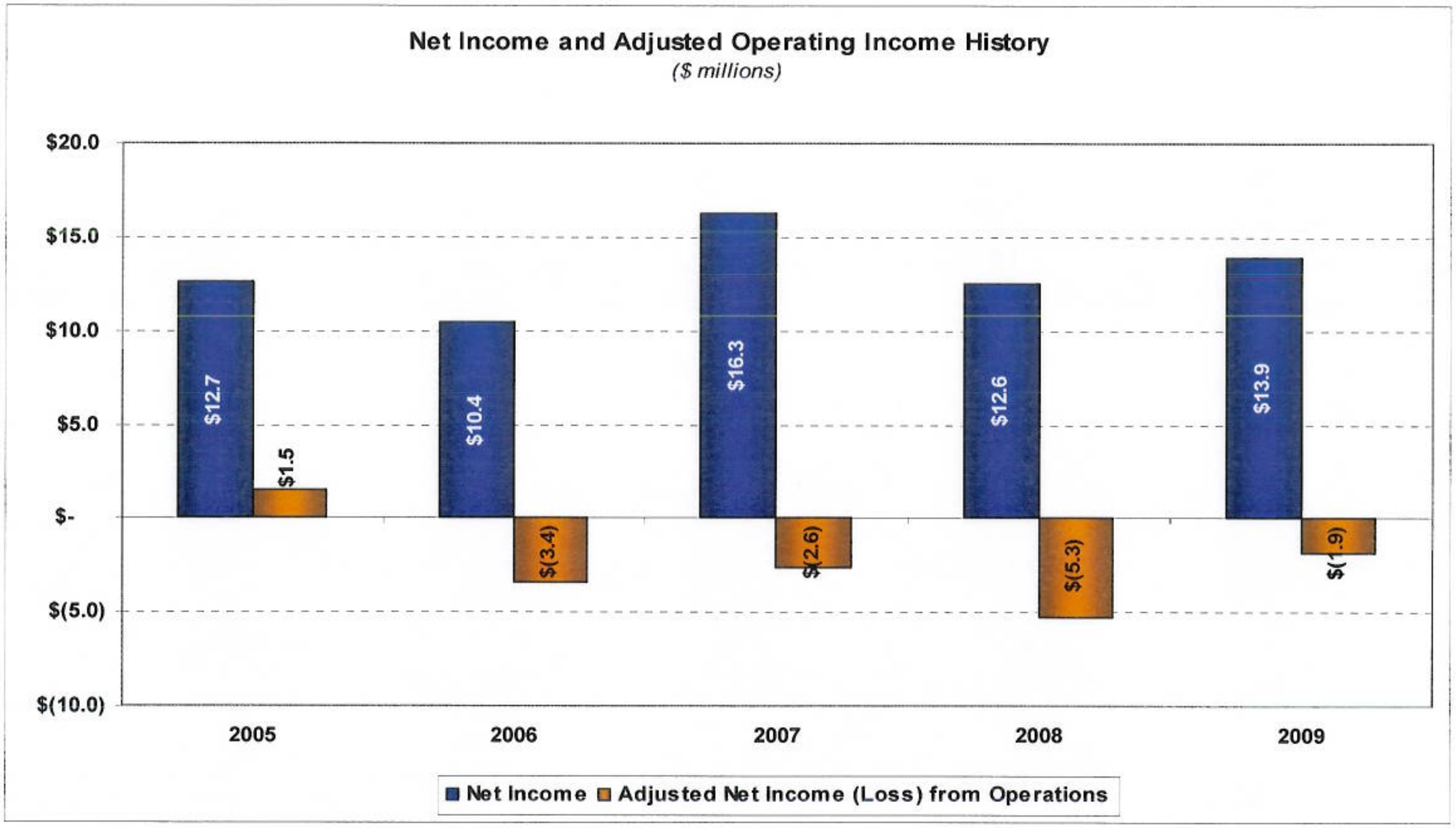
- ARRC is plan sponsor of two benefit trust funds
  - Defined Benefit (DB) pension fund
  - Retiree medical fund

- Both plans financially sound
  - DB pension: 99% funded as of 1/1/10
  - Retiree medical: 118% funded as of 1/1/10



ARRC Earnings/ Operating Budget Outlook

Recent History



- Solid corporate earnings; core train operations run at loss
  - Real estate earnings key to stability and sustainability
  - Non-traditional fund sources important
    - Federal grant reimbursement of operating expenses
    - Section 45G tax credit
- 2009 – Position eliminations/layoffs, significant cost structure reduction

2010 Financial Snapshot

- 2010 Plan – prepare for uncertain future
  - Petroleum haul anticipated to be half that of 2003
  - Passenger: cruise ship redeployments
  - Impact of significant 2009 ARRC personnel downsizing
- Budgeted net earnings: $8.4 million
  - $4.3 million loss from train operations budgeted

2010 Financial Snapshot

- Preliminary 2010 numbers exceed expectations
  - Petroleum performed worse than expected, offset somewhat by Trailer on Flat Car (TOFC) and Gravel hauls
  - Passenger revenue did not fall as far as anticipated
  - Solid expense control offset rising fuel costs
  - Year-end boost from tax credit legislation approved by Congress
- Preliminary, unaudited net earnings: $13.7 million
  - $700,000 loss from train operations
  - Audit to be completed March 2011

Freight & Passenger Revenues
2009 – 2011 (Budget)

	2009 Actuals	2010 Actuals*	2011 Budget
Freight Revenue	$ 84,938,713	$ 84,329,466	$101,311,645
Passenger Revenue	$ 21,455,262	$ 20,782,532	$ 21,464,033
Total	$106,393,975	$105,111,998	$122,775,678

*Preliminary/unaudited

2011 Freight Revenue Budget – Local Coal

Local Coal: Coal moved north from Healy to Clear Air Site, UAF, Aurora Energy, Ft. Wainwright and Eielson AFB

Local Coal	**2009**	**2010**	**2011 Budget**
Short Tons	762,547	791,286	762,954

2011 Freight Revenue Budget – Export Coal

Export coal: Coal moved south from Healy to Seward for export to Chile, Japan and South Korea

Export Coal	**2009**	**2010**	**2011 Budget**
Metric Tonne	801,254	953,329	1,068,670

- *Strong global market – coal prices have increased for 2011*

2011 Freight Revenue Budget – TOFC/COFC

TOFC (trailer on flat car) and COFC (container on flat car): Trailers and containers moved between Seward, Anchorage and Fairbanks; also includes southbound movements between Fairbanks and Whittier.

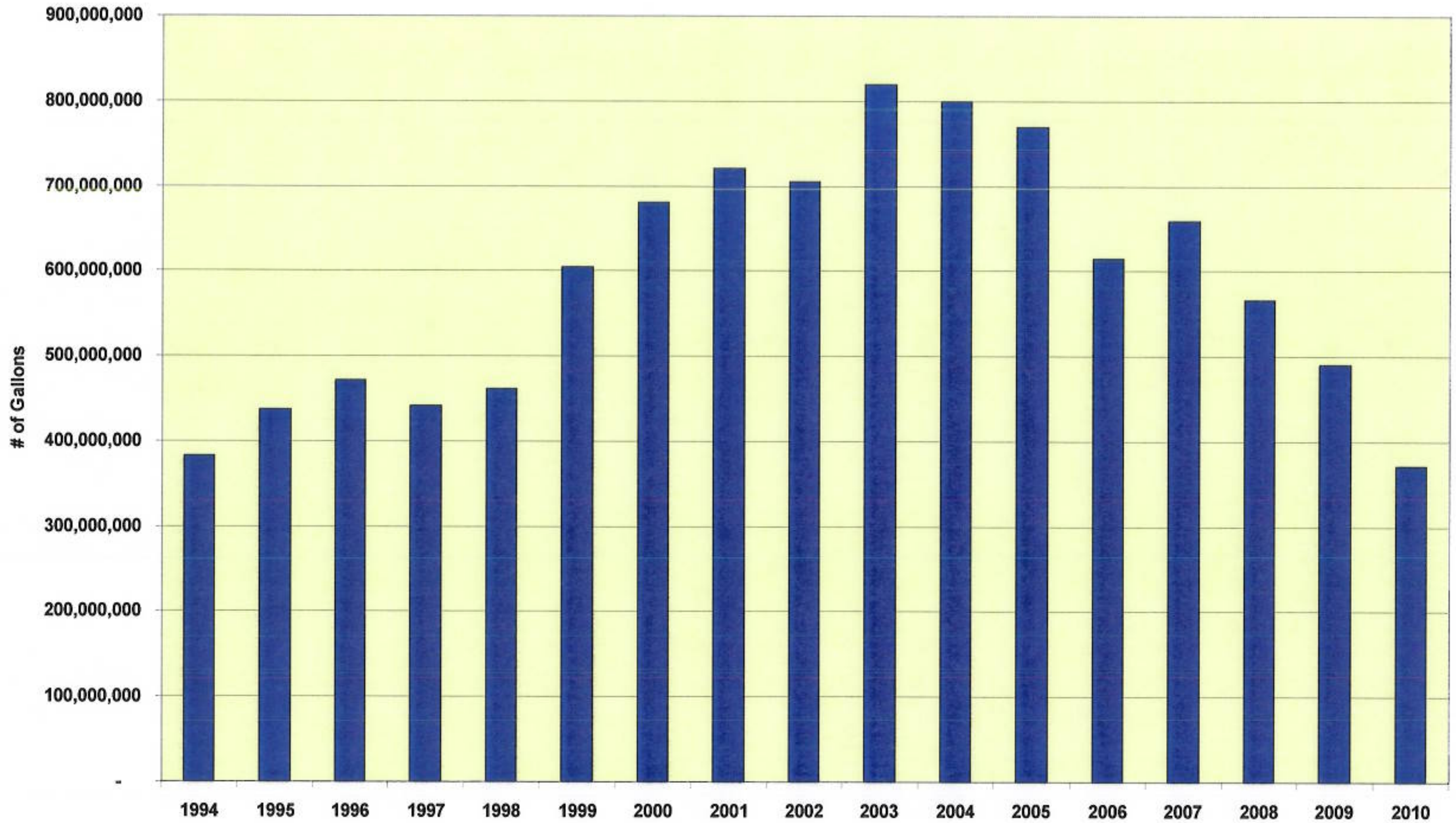
TOFC	**2009**	**2010**	**2011 Budget**
Trailers / Containers	11,690	13,917	13,458

2011 Freight Revenue Budget – Petroleum

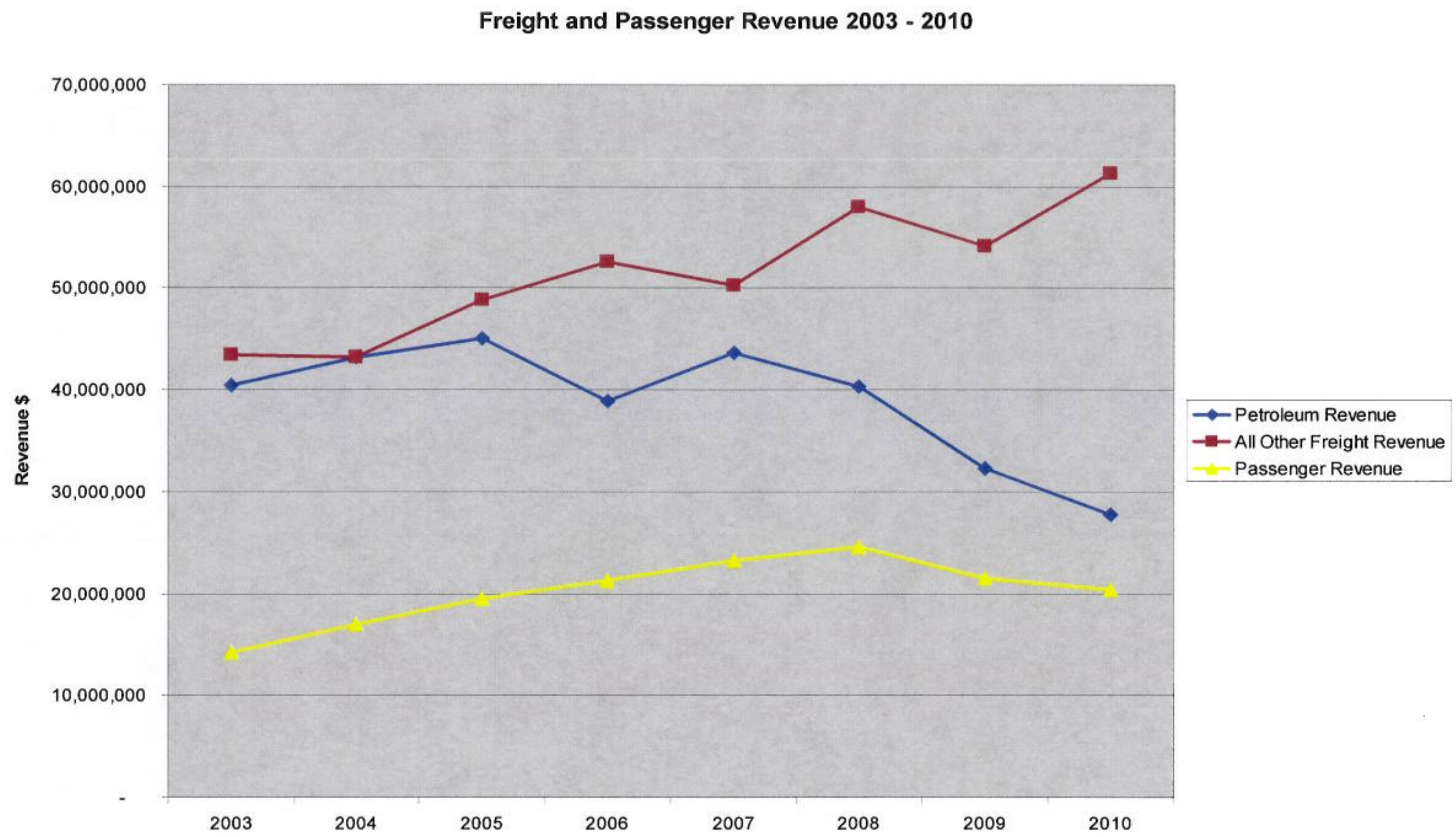
Petroleum: Flint Hills Resources petroleum products moved to and from the North Pole Refinery

Petroleum	2009	2010	2011 Budget
Gallons (millions)	488.7	374.2	521.3
Railcars	21,549	16,473	22,901

Petroleum Gallons Shipped 1994 - 2010



Petroleum Revenue vs. Other Freight & Passenger Revenue



2011 Freight Revenue Budget – Gravel

Gravel: Aggregate products moved from Mat-Su Valley to Anchorage by Anchorage Sand & Gravel, Granite Construction, and Quality Asphalt Paving

Gravel	2009	2010	2011 Budget
Short Tons	2,306,075	2,613,900	2,500,000

2011 Freight Revenue Budget – ARMS Barge

ARMS Barge: Railcar shipments to and from Alaska via the Seattle Gateway

ARMS Barge	2009	2010	2011Budget
Railcars	2,090	1,952	1,974
Voyages	53	52	52
Avg Railcars / Voyage	39.4	37.5	38.0

- *Revenue depends heavily on oil and gas activity on the North Slope*

2011 Freight Revenue Budget – CN Barge

CN Barge: Railcar shipments to and from Alaska via CN's Prince Rupert Gateway

CNR Barge	2009	2010	2011 Budget
Railcars	1,138	982	931
Voyages	30	31	30
Avg Railcars / Voyage	37.9	31.7	31.0

2011 Freight Revenue Budget – ICOFC

Interline COFC (container on flat car): Container shipments on ARMS Barge from Whittier to Anchorage and Fairbanks by Alaska Marine Lines

ICOFC	2009	2010	2011 Budget
Trailers / Containers	9,056	6,618	6,953

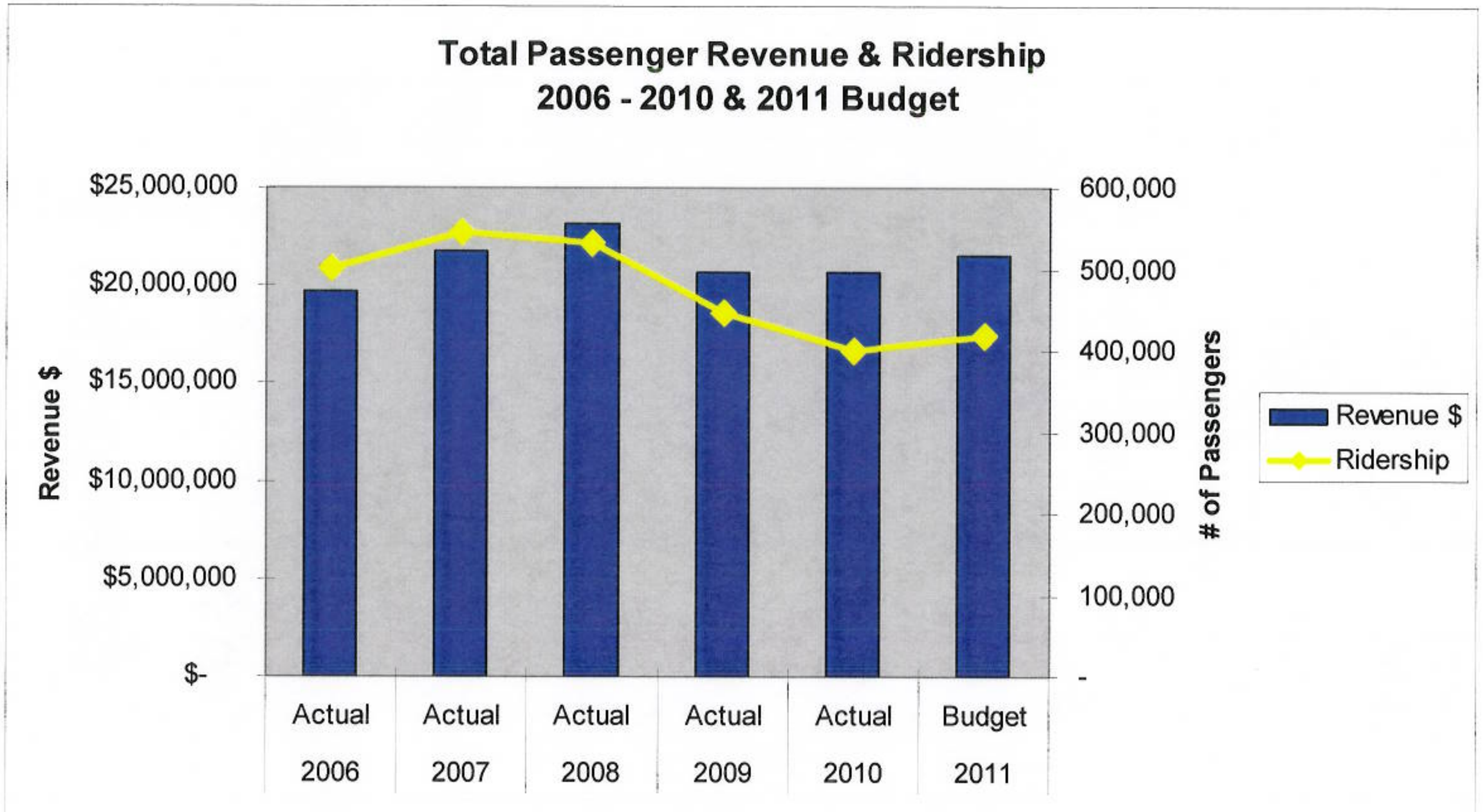
2011 Freight Revenue Budget – Misc Local

Misc Local: Generally railcar revenue and limited miscellaneous revenue that does not fit into other revenue lines

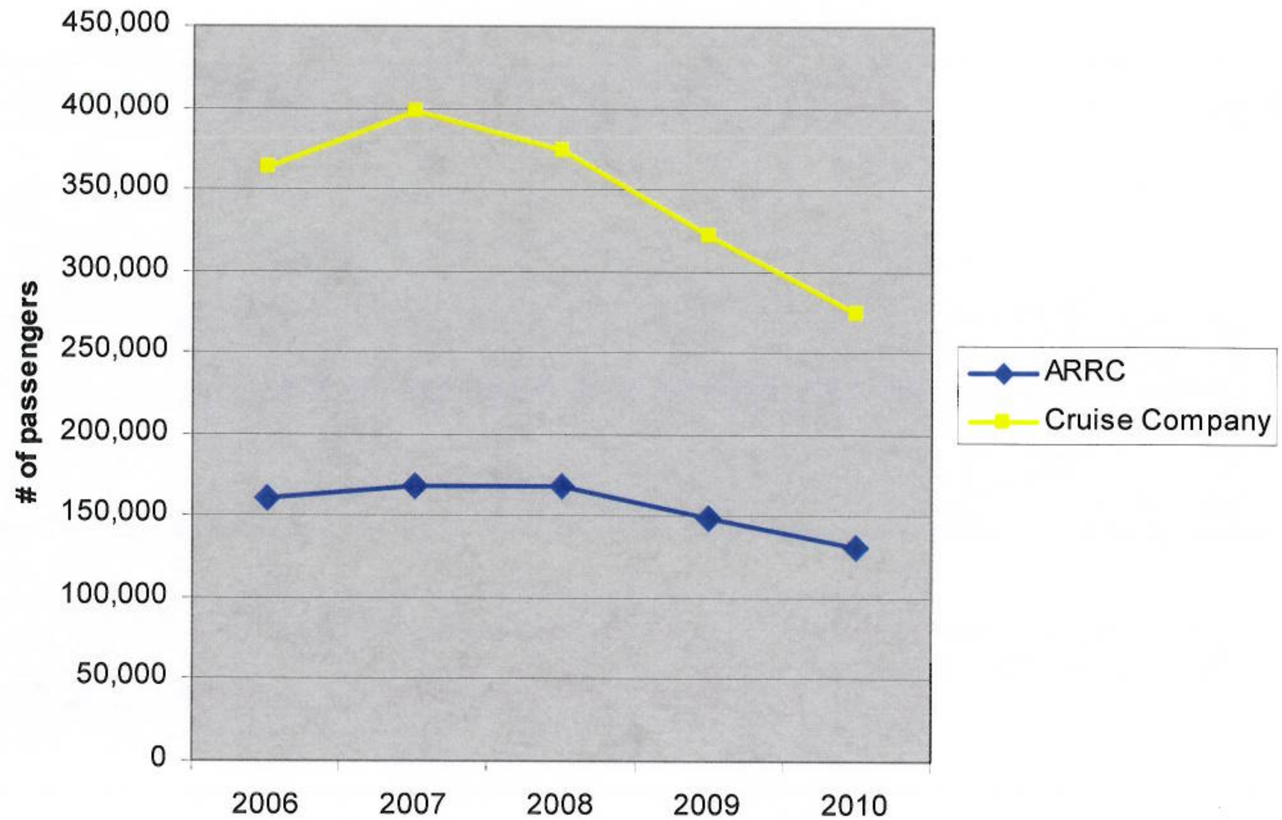
Misc Local	2009	2010	2011 Budget
Revenue including fuel surcharge	$ 1,643,268	$ 2,159,436	$ 2,036,681

- *Base industries included in this revenue line are:*
  - *Cement between Anchorage and Fairbanks*
  - *Scrap between Fairbanks and Anchorage*
  - *Conoco Phillips chemicals between Anchorage and Fairbanks*
  - *TOTE miscellaneous equipment moves, including military shipments not on TOFC*

Passenger Revenue History and 2011 Budget



Passenger Count
2006 - 2010



2011 Outlook – Operating Budget

- ARRC financial situation still fragile
- Revenue growth planned, but market uncertainty/expense pressures persist
  - Flint Hills projecting growth, but off to rough start
  - Export Coal – strong global demand, tempered by environmental issues
  - Moderate passenger growth seen, more improvement coming in 2012
  - Fuel, benefit cost increases dragging on bottom line
- ARRC Board approved earnings budget of $18.2 million
  - $8.7 million net income from core train operations planned
  - Contingency plans in place if revenue does not materialize