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Prepared for employees by the
Milwaukee Road's Corporate Relations Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

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To All Milwaukee Road Employees:

Given the positive statements Trustee Ogilvie has recently made about the progress of "Milwaukee II," it's not surprising that the feasibility report filed in Reorganization Court last week said that the railroad can be successfully reorganized.

I'd like to share the highlights of the feasibility report with you.

The Trustee said it's his judgment that the Milwaukee Road can be successfully reorganized. Although the ultimate structure of "Milwaukee II" has not been determined, it is expected to approximate the system diagram map presently on file with the Interstate Commerce Commission, with one possible major modification. The feasibility of the Miles City main line is still under consideration. Trustee Ogilvie believes that the operation of the Miles City main line, if rehabilitation funds are made available and projected traffic volumes are obtained, is in the public interest. A decision will be made with respect to continuation of the Miles City main line by February 17, 1981.

Financial projections for 1982, 1983 and 1984 will be revised on the basis of actual 1980 results. These revisions have not yet been completed, but the Trustee believes that the projections for these years as set forth in his report of May 15, 1980, to the Court remain essentially accurate. If anything, it is expected that the net income from railroad operations for those periods will be greater than that projected last May. The experience for 1980 has been better than projected. Net loss from railroad operations in the last eight months of 1980 was approximately \$15 million less than anticipated, or a 23% improvement.

On the basis of the income projected to be available for 1984 and typical years thereafter, it is the Trustee's judgment that "Milwaukee II" will constitute a viable regional carrier.

While making this judgment, the Trustee advised the Court that he is willing to consider any transaction for disposition of "Milwaukee II" as a carrier should the circumstances be sufficiently favorable to the estate.

The feasibility report called attention to data that have previously been submitted to the Court showing the experience of "Milwaukee II" during 1980 and its financial condition. It points out that December is the fifth consecutive month in which "Milwaukee II" finished with an improvement in net income from railroad operations over the May 15 projections. It was also the third consecutive month that total operating revenues exceeded forecast. Further, \$5 million of priority ERSA working capital loans which had been projected were not required because of the cash flow. In three of the last four months of 1980, no working capital funds were needed from outside sources. The preliminary marketing data for December show that the gross freight revenue projections contained in the Report were exceeded. Revenue dollars were 106.3% and revenue units were 96.5% of those forecast. Freight revenues per unit were 110.2% of the forecast, an indication of a good quality yield in the management of the traffic mix. These results were achieved despite the fact that lumber and forest products, and steel and metal products, remain seriously affected by the recession.

The Trustee expects to file shortly with the Reorganization Court and with the ICC applications or petitions for authority to proceed with tender offers to holders of certain secured debt. These proposed tender offers seek to retire obligations of approximately \$122.2 million. If successful the tenders will substantially benefit the estate and enhance the prospect for reorganizability. The Trustee expects to file his amended reorganization plan later this year.

Taking note of an ICC staff study on the prospect for reorganizing the Milwaukee as a viable carrier, the feasibility report took issue with the financial criteria applied by the staff to demonstrate what might be required for a successful reorganization. While this study is only a staff document and does not necessarily reflect the views of the ICC as a whole or any individual Commissioner, the report has been read and studied with great interest and attention. Its findings with respect to opportunities for savings of labor and equipment expenses will be considered in the reorganization process.

Certain of the equipment savings will be calculated into the Trustee's amended reorganization plan, while others are under study and may be incorporated. Labor savings has been an area of intense concern. The unprecedented activity of the Labor Management Action Group shows the concern and cooperation manifested by labor and management. While recognizing that greater labor savings are needed, Trustee Ogilvie said that they should primarily come from negotiations.

An extremely significant part of the effort to reorganize the Milwaukee Road has been the abandonment of approximately 6,200 line miles of track. Of this, approximately 4,400 track miles have already been shed. Additionally, substantial amounts of other non-core assets, including materials, rolling stock and locomotives,

have been sold. Over 1,700 miles of rail have been recovered, 73 miles of which is available for reuse; over 350,000 ties are being recovered, all of which are available for reuse. The speed and success of the non-core property program is unprecedented in railroad reorganizations. For the period of May through November 1980, cash receipts from all sales amounted to approximately \$29 million, or almost \$9 million more than projected in the May 15 report. It is now estimated that during 1980 and 1981, gross proceeds from non-core sales will amount to about \$182 million. The proceeds from the non-core sales by 1984 are expected to substantially exceed the total projection of about \$190 million given in the May 15 report. As of January 13, 1981, there was cash in the various property sale escrow accounts of about \$45 million. The continued success of this program will facilitate reorganization of "Milwaukee II" by providing a solid cash base for the plan and by affording a source of salvaged rail and ties for continuing rehabilitation work.

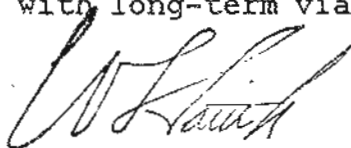
The Reorganization Court has approved almost \$180 million of Milwaukee Land Company timberland sales. These funds will make the tender offers possible, and also provide greater flexibility to Trustee Ogilvie in devising an amended reorganization plan.

The feasibility report concluded with the following statement:

"On May 15, 1980, the Trustee reported to the Court that continued efforts to reorganize the Milwaukee Road were justifiable and provided a detailed plan to follow. Today the Trustee reaffirms his belief in that plan and strongly urges that the reorganization efforts continue. The experience since May 15, 1980 shows not only that the projections have been met, but the projections can be and are being exceeded.

"Much remains to be accomplished. The continued cooperation of labor in achieving even greater productivity gains is essential. The continued improvement of management is essential.

"Given these elements, it is the Trustee's judgment that the Milwaukee Road will be reorganized by 1984 into a regional carrier with long-term viability."



W. L. Smith
President