

1st MONDAY 3rd MONDAY

Prepared for employees by the
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May 2, 1983

To All Milwaukee Road Employees:

For the first time since 1974, the restructured Milwaukee Road this year had a first quarter operating profit.

In a status report last week to the Reorganization Court, Trustee Ogilvie said the core operating railroad posted pretax income of \$3.4 million on operating revenues of \$87 million during the first three months of 1983. The total railroad company results for the first quarter, including reorganization transactions, resulted in a net income of \$3.2 million.

For the same period last year, the core operating railroad reported a loss of \$8.3 million on revenues of \$97.6 million. The total railroad company results for the first quarter last year, including reorganization transactions, resulted in a net loss of \$11.3 million. These financial results are based upon Interstate Commerce Commission accounting requirements.

A smaller, improved physical plant, aggressive marketing strategies and stringent cost control measures contributed to the dramatic improvement, Trustee Ogilvie said.

The railroad pared 700 route miles from its system, primarily from the sale last April of the line segment west of Ortonville, Minnesota. While this 16% reduction in the size of the plant altered our revenue base, we have been among industry leaders in responding to opportunities afforded by deregulation and have negotiated transportation contracts which account for 28% of our revenue.

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Moving ahead on Trustee Ogilvie's announced plan to satisfy certain outstanding state and local tax claims, last week we mailed the first batch of checks to taxing authorities which had furnished written acceptance of his offer to settle deferred taxes at 90% of principal amount.

Local taxing authorities in Illinois, Iowa, Wisconsin, Minnesota, Missouri, North Dakota, Idaho and Washington were among the first to receive payment.

The deferred tax settlement program, authorized earlier by the Reorganization Court, allows Trustee Ogilvie to use funds from the Milwaukee Land Company, the carrier's subsidiary, to pay 90% of undisputed past due state and local taxes.

Participants in the program must indicate acceptance by June 30, 1983. Trustee Ogilvie estimates that payments of about \$22 million may be made.

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Employees in the Milwaukee, Wisconsin, area have been advised of the decision to effectively wind down operations at the dieselhouse this summer. This will result in a reduction of approximately 55 positions in Milwaukee. However, a number of positions will be added at Bensenville and St. Paul to service and fuel engines previously maintained at Milwaukee.

Transferring this work to those terminals will, in addition to providing cost benefits, allow us to more efficiently fill the needs demanded by changes in traffic flows.

While we will continue to service a certain amount of locomotives in Milwaukee, the bulk of the work will be done at the other points.

Our Labor Relations people are meeting with the General Chairmen of the organizations involved to effect as smooth a transition as possible. The closing of the dieselhouse is a restructuring transaction and employees adversely affected will be eligible for benefits provided by the Employee Protection Agreement.

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Trustee Ogilvie announced April 13 that he completed the \$9.5 million sale of the 15.4-acre Milwaukee Road depot site in downtown Minneapolis to Waterfront Companies, Inc.

The sale had been approved by the Reorganization Court in November, 1981, but closing was delayed pending the buyer's efforts to obtain financing.

Under terms of the contract, we will vacate the depot in 270 days. The purchase price includes \$500,000 held in escrow until a court decision is reached on use of a portion of the property for railroad interchange operations.

Proceeds of the sale will be held in a special account and, except under order of the Reorganization Court, are not available for railroad operations.

Employees in the Marketing and Regional Data departments will be moved shortly to the Flour Exchange building in Minneapolis. Arrangements are being made to transfer other employees from the Minneapolis depot to a location in downtown St. Paul.

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Attendance at the Employee Open House meetings has been gratifying. With three meetings to go, about 1,250 people have attended the sessions held so far at various locations on the system.

A topic that has been covered consistently at the meetings concerns the New Preferred Stock which will be issued to employees who participated in the Wage Deferral Program in a face amount equal to 1.3 times the amount of wages deferred. The Trustee's Amended Plan of Reorganization filed March 31, 1983 treats the subject in the same manner as outlined in the September 15, 1981 Plan.

As mentioned in FM/TM dated October 4, 1982, Final Statements of Deferred Wages have been mailed to all participants in the Wage Deferral Program with the exception of the UTU and BLE labor organizations. Now that back pay has been settled, employees in train and engine service may expect to receive a Final Statement of Deferred Wages within the next few weeks.

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To all employees:

A major change in the interest paid on the Series EE Bonds many of you buy through our payroll savings plan has recently been announced by the Treasury Department.

The interest on Bonds held five years or more will now be 85 percent of the average market rate on five-year Treasury security during the same period.

The rate is adjusted every six months to reflect changes in the market. The rate for the six-month period, November 1, 1982, to April 30, 1983, was 11.09%. If market rates rise, Savings Bonds interest will keep pace. If market rates go very low, Savings Bonds held five years are guaranteed to earn at least 7.5 percent even if that is above market rates.

The EE or E Bonds you already own will, if held and earning interest for five more years, receive the same market-based interest rate if it is higher than their present guaranteed rate.

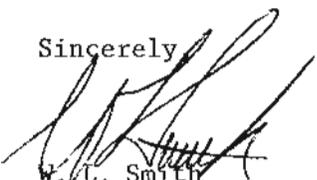
All the other familiar reasons for buying Savings Bonds - convenient payroll savings, exemption from state and local income tax, Federal tax deferral, easy redemption - continued unchanged.

Our 1983 Savings Bond Drive is being conducted during the period May 2 through May 6. All you need to do is sign the attached enrollment form and send it directly to Payroll Accounting, Room 206, Union Station, Chicago, Illinois 60606. From then on, your saving is done for you, automatically, payday after payday.

Please note that there are two different forms: (1) for new Bond deductions and (2) to increase or decrease your present Bond deductions. Make sure you fill out the correct form completely, using full names. Deductions will start with the June earnings, and Bonds will be issued once a month each time the required amount has accumulated to your credit to purchase a U.S. Savings Bond in the amount stipulated. Your deductions continue year after year unless you request a change. So if you are presently receiving a Savings Bond through the payroll savings plan and want it to remain unchanged, you need not submit a new form.

The change to a market-based rate makes Savings Bonds a better way to save than ever before.

Sincerely



W.L. Smith

President