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Prepared for employees by the
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January 3, 1984

To All Milwaukee Road Employees:

Happy New Year!

1984 is getting off to a good start with word that the Interstate Commerce Commission has decided to move ahead on the Trustee's Amended Plan of Reorganization, which includes Grand Trunk acquisition of the operating assets of the railroad.

You may recall that the ICC stayed all proceedings pending resolution of conflict of interest charges against a Washington, D.C., law firm representing the Chicago and North Western Transportation Company.

The decision provides that the filing of reply briefs addressing two of the plans - Milwaukee's Amended Plan and Chicago Milwaukee Corporation's alternate plan - originally due to be filed November 14, 1983, shall be filed by January 9, 1984. It provides for a submission of briefs prior to consolidated oral argument comparing the three pending reorganization proposals, which includes CNW's application.

Although final scheduling remains uncertain, this indicates the Commission intends to hear all plans before deciding on any plan.

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On the subject of reorganization, in a recent letter to Governor Ogilvie, Judge McMillen said in part, "Now that we are entering into what will surely be the crucial year of the Milwaukee Road reorganization, I would like to commend you and your competent staff for their conscientious work and noteworthy accomplishments over the recent few years. I confidently expect this record to continue and that a satisfactory plan of reorganization will eventually emerge from the ICC. An improving financial record during the period of the ICC hearings should be most helpful in accomplishing this, in my opinion, whereas failure to meet the near-term projections could be disastrous."

Although the severe weather conditions we've had to face so far this winter have had a physical and financial impact upon our system, we're confident that, as forecast, we will show a modest year-end profit from railroad operations when all the figures have been tabulated. But now is not the time to rest on our laurels. Much work remains to be done if we're to see that the Milwaukee is successfully reorganized. The continued dedication and effort on the part of every employee is vital to achieving that goal.

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The markets in which we compete are constantly changing, so we must adapt to remain competitive. Over the past year, we have seen substantial changes in the transportation

environment which have resulted in increased levels of competition. The future appears to offer even further change.

In order to continue our aggressive position in the markets in which we compete, it is desirable to alter our present marketing structure. Toward that end, effective today our Marketing department is being restructured to address the needs of a less regulated environment. While no new positions are being added, we feel the organizational changes are market oriented and will further enhance our ability to compete and serve our customers more effectively.

As Marketing Vice President, Pete White told his people in explaining the realignment of responsibilities, "Everyone has done an excellent job which is responsible for our successes to date. I am sure that the organizational changes, along with everyone's continued personal efforts, will result in an even more successful future."

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Traffic congestion in downtown Minneapolis is going to be reduced considerably as a result of a recent Reorganization Court decision. Authorization to abandon trackage in the Upper Yard Interchange means that demolition of the Washington Avenue viaduct, long a bottleneck in the heart of the city, will start this week.

Here's the background on this lengthy exercise: In April, 1981, the Trustee filed an application with the ICC to abandon approximately 0.37 miles of trackage, known as the Upper Yard Interchange, which begins as two tracks starting near the northwest corner of Washington Avenue and Ninth Avenue South. They merge on a viaduct over Washington Avenue and end with a connection with trackage of the CNW in Second Street South.

The trackage to be abandoned is located immediately behind the recently-sold Minneapolis depot. It was used almost exclusively as an interchange track with CNW and the Soo Line, but has not been used since July, 1983, when a portion of the track buckled.

Following an ICC report on the abandonment, issued June 11, 1981, hearings were held before a Special Master, who, on January 26, 1982, recommended that the Court grant authority to abandon.

In nearly two years since the Special Master's report was issued, complex negotiations took place involving the city, five railroads, several shippers and several prospective purchasers of the former depot properties. On December 14, 1983, Trustee Ogilvie told the Court that he was pleased to report that negotiations succeeded to the extent that the interchange activities were relocated and all opposition to the abandonment had been withdrawn. Specifically, he stated that Soo, the only remaining protestant, had withdrawn its opposition to the proposal.

The benefits of abandonment to the estate and the public were fully discussed by the Special Master. Disposition of the trackage is closely related to redevelopment programs for properties in the depot vicinity. Abandonment permits removal of the viaduct which the Special Master said "is a substantial impediment to the redevelopment plans. Its removal would constitute a significant step toward the achievement of benefits which will contribute to the quality of life of hundreds of thousands of people."

In addition, removal of the viaduct will benefit the estate by avoiding the need to repair the structure; by triggering release of \$500,000 held in escrow related to the

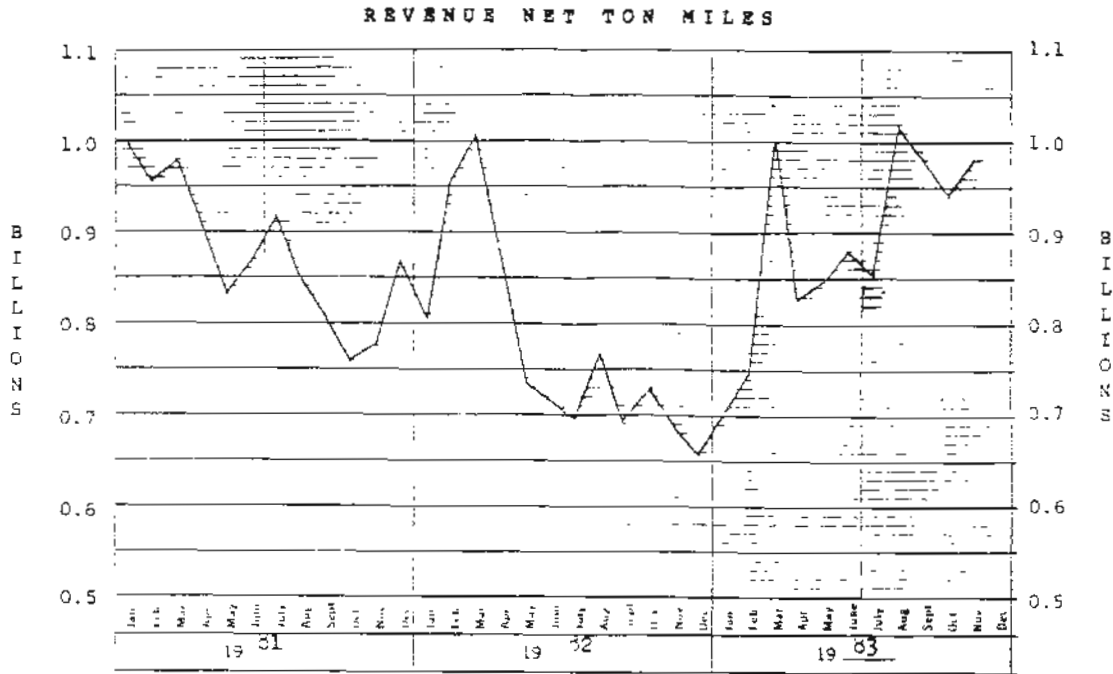
depot properties sale; and by triggering release of \$50,000 held in escrow related to the sale of properties to Hennepin County.

The Milwaukee Road will participate in a city-sponsored celebration marking the end of this structure scheduled for January 9.

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The graph below indicates that for seven consecutive months, beginning with May, 1983, we've had increases in Revenue Net Ton Miles over a comparable month a year earlier.

This is significant because this measurement is considered the most accurate method to determine freight transportation performance since "ton-mile" (one ton moved one mile) reflects both tonnage and distance.



W. L. Smith
President