

1st MONDAY 3rd MONDAY

Prepared for employees by the
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May 21, 1984

To All Milwaukee Road Employees:

A financial report filed last week indicates that Milwaukee Road and its subsidiaries had consolidated net income of \$519,000 on operating revenues of \$106.3 million for the first quarter of 1984.

For the year 1983, the total railroad company reported consolidated net income of \$18.4 million, including \$5.3 million attributable to an accounting change, on operating revenue of \$381.1 million.

The core operating rail system had net income of \$915,000 on operating revenues of \$104.7 million for the first quarter of 1984 and \$17.4 million net income on operating revenues of \$369.3 million for 1983.

The difference in accounting procedures which resulted in an improvement of \$5.3 million for the total company in 1983 involves a change in ICC reporting requirements.

Prior to 1983 the Commission required track structure to be accounted for on what is known as the retirement - replacement - betterment accounting method.

Under the new accounting methodology - called ratable depreciation - most expenditures for track structure renewals are capitalized instead of being charged to operating expense. Changes in accounting procedures aside, this was the first time in more than a decade that the Milwaukee Road reported a profit for an entire year.

Trustee Ogilvie said an improved economy, stringent cost controls, an effective marketing program - coupled with customer acceptance of our voluntary coordination agreement with the Grand Trunk - and continuing employee wage concessions, were contributing factors in the financial turnaround.

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The first phase in the construction of an underground communications cable along our right-of-way between Chicago and Milwaukee is underway.

The reorganization court has approved a license agreement with MCI Telecommunications Corporation for the installation, operation and maintenance of a single fiber optic cable telecommunications transmission system over a corridor of approximately 78 miles of our right-of-way and trackage rights between Pacific Junction, Chicago and the Kinnickinnic River at Milwaukee. Such a system allows for transmission of voice, data and other telecommunications by fiber optic cable and attendant equipment.

Fiber optics is a technology by which phone calls, television signals and computer data are transmitted via pulses of light, generated by tiny lasers, through ultra-pure strands of glass.

When the link along our line is completed, it will become part of what is expected to be a nationwide fiber optic transmission system. The first segment began operations last week along Amtrak's right-of-way between New York City and Washington, D.C.

Our agreement with MCI contemplates that the cable will be laid and buried below grade except where physical characteristics of the right-of-way require installation above grade. The telecommunications system cannot interfere with the Milwaukee Road's, or its successor's, rail operations over the corridor.

One of the benefits of the agreement, in addition to monetary considerations, provides the trustee exclusive use of a pair of fibers with a communication capacity of over 1,000 telephone voice channels. This is considered to be more than adequate to the signal, communication and data transmission needs of the core railroad, its subsidiaries and affiliated companies.

This will provide improved communications for the operating railroad with considerable savings due to the elimination of leased telephone lines and portions of the present signal and communications system.

* * *

The \$6 million track improvement project to rehabilitate our main line between Minneapolis and Ortonville, Minnesota, is scheduled to begin early in June.

In a ceremony in Montevideo, Minnesota, last week, we signed a borrowing agreement with Federal Railroad Administrator John Riley which will provide financing for the up-grading of 155.5 miles of trackage. The funds will be provided under Section 505 of the Railroad Revitalization and Regulatory Reform Act of 1976.

The work includes the installation of 103,664 cross ties, 2,306 switch ties, 96,630 yards of granite ballast and the rehabilitation of 1,292 feet of existing highway crossings.

The project will assure essential services to local grain elevators and improve efficiency in the movement of unit trains of coal from origins in Montana and Wyoming to Wisconsin destinations. Other commodities, principally food products, also move over this route.

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The last issue of FM/TM contained information about this year's Savings Bond drive and spelled out benefits of a payroll deduction plan. Here's a further inducement to participate in such a program. The market-based interest rate for Series EE Bonds issued between May 1 and October 31, 1984, is 9.95 percent for their first semiannual interest period. Older Series EE and E Bonds and U.S. Savings Notes will also receive this market-based rate for six-month interest periods which start between May 1 and October 31, 1984.

Average yields for Bonds are shown below. Average yields change every six months with each new market-based rate.

U.S. SAVINGS BONDS SEMIANNUAL MARKET-BASED RATES

Bonds Purchased	Annual Percentage Rates for Semiannual Periods				Average Rate
	1st	2nd	3rd	4th	
Through April 30, 1983	11.09%	8.64%	9.38%	9.95%	9.77%
May 1, 1983-Oct. 31, 1983	8.64%	9.38%	9.95%		9.32%
Nov. 1, 1983-Apr. 30, 1984	9.38%	9.95%			9.67%
May 1, 1984-Oct. 31, 1984	9.95%				

These rates apply only to Bonds held five years or longer and to Bonds purchased before November 1, 1982, when they are held to their first interest-accrual date beginning on or after November 1, 1987.



W. G. Smith
President