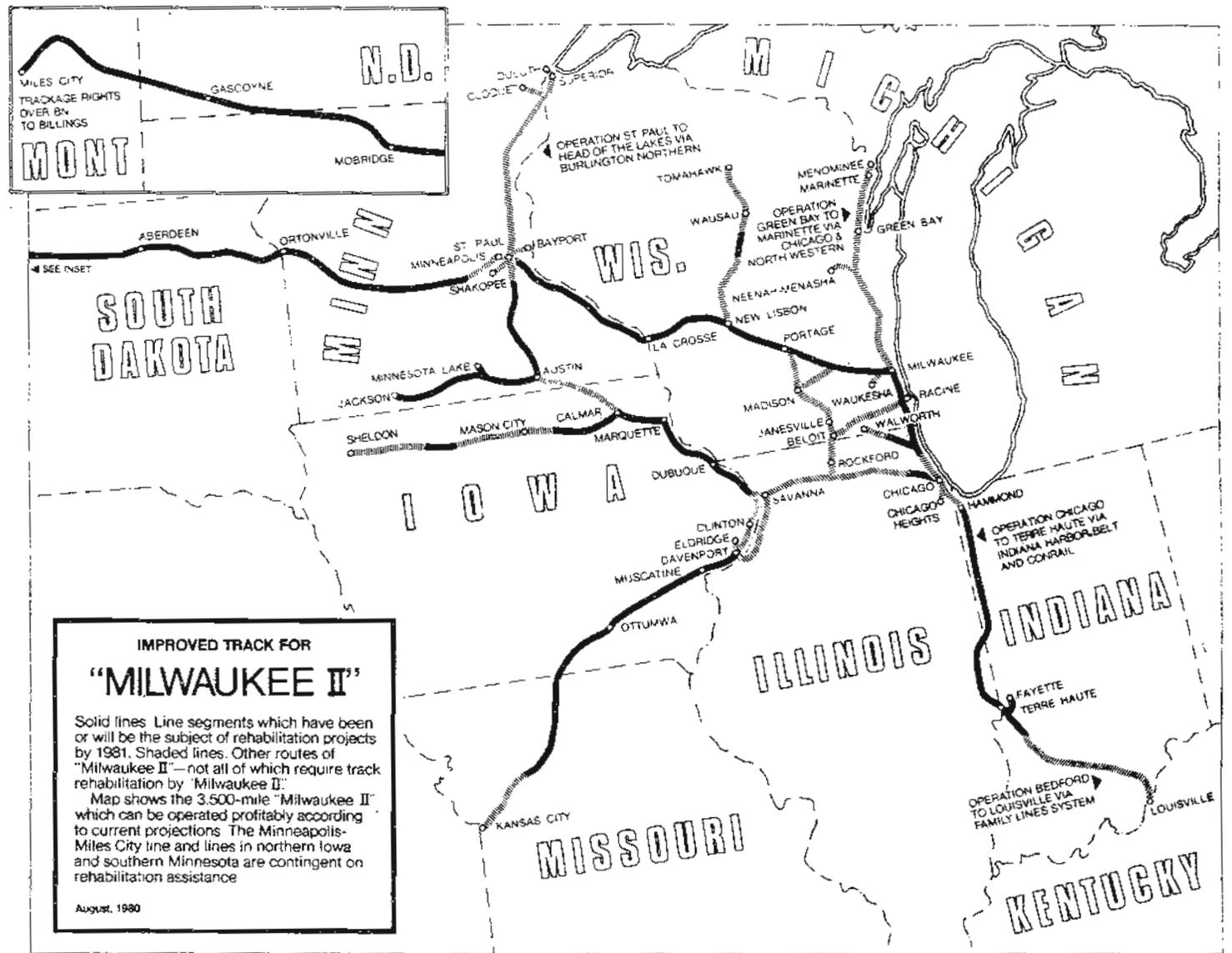


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Prepared for employees by the
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To all Milwaukee Road employees:

One thing about the bankruptcy reorganization of the Milwaukee Road: The railroad which emerges will have far better track than did the railroad which, financially speaking, went to the wall.

By present estimates, at least \$95 million will have been spent to rehabilitate the track of "Milwaukee II," the slimmed-down, potentially profitable 3,500-mile "core" of the 9,500-mile Milwaukee Road, from 1977 through 1981, over and above the funds which have been and will be spent to maintain the condition of the track in the normal course of business. If the Milwaukee's Reorganization Court approves, the railroad's Trustee, Richard B. Ogilvie, expects to seek further funds for major track work for 1981 and years beyond.

The \$95 million figure doesn't include sizable sums which have been spent by Conrail to upgrade its line between Gibson and Terre Haute, Indiana, which the Milwaukee has been using as part of its Chicago-Louisville route for almost a year. Nor does it include the

price of new signaling systems at several locations on the routes "Milwaukee II" uses -- some of the Conrail mileage and some of the Milwaukee's as well.

The track-rehabilitation work has upgraded most of "Milwaukee II"'s Chicago-Milwaukee-Twin Cities main line. It soon will eliminate all 10-mile-an-hour "slow orders" for trains moving across southeastern Iowa and northern Missouri to and from Kansas City. It has trimmed hours off the schedules of trains moving to and from Louisville; begun the upgrading of what by next year will be a vital coal-train route to Wausau in Wisconsin; improved the ride for Chicago commuters; helped assure that coal trains will move between Miles City, Montana, and the Twin Cities until funds can be found for a long-range upgrading of that line; and helped Iowa and Minnesota grain shippers utilize high-capacity, but heavy, covered hopper cars to move their products to market.

Depending on the location, the traffic volume and the condition of the track to begin with, rehabilitation can amount to the relatively simple task of installing a few crossties and smoothing out the bumps in the track -- or it can be the railroad equivalent of what on a highway would be removing the entire pavement and subsurface and starting over new. The projects which have been completed on "Milwaukee II," which are under way this work season and are planned for next year cover the full range. Many have been and will be made possible because the federal government, state governments and even some of "Milwaukee II"'s customers have been willing to lend or give "Milwaukee II" rehabilitation funds in return for better service and a greater assurance that "Milwaukee II" will survive as an operating railroad.

Of the total of approximately \$95 million, some \$52.3 million will have come from the federal government in the form of low-interest, long-term loans made possible by the Railroad Revitalization and Regulatory Reform Act of 1976. Some \$21.9 million arises out of cooperative arrangements between the states of Iowa and Minnesota, certain grain shippers, and "Milwaukee II" through which funds are granted or loaned to the railroad to upgrade grain-transportation routes, after which the railroad repays the loans on a basis related to shippers' use of the upgraded track. Another \$4.3 million will have come from other outright state grants. Chicago's Regional Transportation Authority has put \$3.5 million into track rehabilitation in Chicago commuter territory. A power utility in Indiana loaned "Milwaukee II" \$2 million to upgrade a segment of line over which the utility receives coal. Nearly \$11 million in out-of-the-ordinary rehabilitation funds have come from the Milwaukee itself. That figure doesn't include the railroad's participation in the state-shipper-railroad programs.

By major line segment, here is how the rehabilitation of "Milwaukee II" has been progressing since the summer of 1977:

Chicago-Twin Cities main line: Work began on the rail, crossties and ballast of this line, the backbone of "Milwaukee II"'s system, in 1977 even before the Milwaukee filed its bankruptcy reorganization petition. The railroad spent \$9.1 million between Milwaukee and St. Paul in 1977, \$8.4 million on this segment in 1978, \$18.4 million in 1979, and will spend \$12.1 million between Milwaukee and Chicago in 1980. Of the total amount, all but \$2.6 million was or will be covered by funds made available under the 4R Act. Ultimately, these funds will be repaid to the federal government with interest. The Milwaukee itself paid the \$2.6 million balance. In 1977, the Milwaukee also spent about \$460,000 of its internally generated funds for new crossties between Milwaukee and St. Paul.

Wisconsin Valley line: This year, approximately \$6 million in 4R Act funds will go to improve the condition of the rail, ballast and ties between Junction City and Weston, Wisconsin, and to replace a bridge at Knowlton. Further projects designed to upgrade this line for future coal trains, involving the rehabilitation of the track from Junction City to the Chicago-Twin Cities main line at New Lisbon, are on file with the Federal Railroad Administration.

Kansas City line: This year, using internally generated funds, "Milwaukee II" will install 110,000 crossties and surface the line between Muscatine, Iowa, and Chillicothe,

Missouri, at a total cost of about \$3.5 million. "Milwaukee II" also will, at its own expense, install 15,000 crossties on the Rock Island's line between Muscatine and Davenport, Iowa, which "Milwaukee II" is using. This project will cost about \$490,000. Traffic volume on the Kansas City line has approximately doubled since last spring.

Louisville line: In addition to the extensive Conrail rehabilitation, "Milwaukee II" has provided Conrail with about \$700,000 in new crossties which are being installed by Conrail between Danville and Paris, Illinois, in connection with the use of this line by "Milwaukee II." The cost of the crossties will be deducted from the rental charges "Milwaukee II" pays to Conrail. Near Terre Haute, Indiana, in 1978 and 1979, a coal-burning power utility loaned approximately \$2 million to the Milwaukee for new rail, ballast and crossties.

Miles City line: Essential to the present and future transportation of coal to a South Dakota power utility and for other coal and grain movements, this line has been the recipient of \$4.3 million in grants during 1979 and 1980. In addition, "Milwaukee II" is applying \$1.8 million from the proceeds of a rate of increase on the South Dakota coal movement. Funds from both sources are being used to improve tie and ballast conditions in an interim rehabilitation project. The external assistance has been arranged by South Dakota. It consists of funds provided by that state, North Dakota, Minnesota and certain shippers.

Iowa grain lines: Portions of the "Milwaukee II" grain-collecting route between the Mississippi River and Sheldon, Iowa, are involved in a continuing rehabilitation project which began in 1977 and currently is scheduled to continue through 1981. By 1981, the cost of the work will total \$8.8 million, all of which "Milwaukee II" ultimately will repay. Additionally, "Milwaukee II" will use \$1.3 million of its own funds this year to install crossties and do bridge work between Sabula and Marquette.

Minnesota grain lines: Between 1978 and 1981, cooperative state-shipper-railroad programs will have put \$13.1 million into lines which connect Jackson, Minnesota, with the Twin Cities. About \$8 million of the total will be a grant from the state. The balance will be repaid to the state and to participating shippers on a basis related to shipper use.

Chicago commuter lines: In 1978, the Regional Transportation Authority provided \$2.9 million for the complete rehabilitation of ballast and ties on the North Line between Rondout and Fox Lake. In 1979, the RTA provided \$600,000 for new welded rail on 3 miles of the West Line.

Rehabilitation of remaining portions of "Milwaukee II" is anticipated for future years. In some instances, potential coordinations with other railroads may eliminate the need to rehabilitate "Milwaukee II" trackage.

Certain of the programs scheduled for 1981 are subject to the approval of the Federal Railroad Administration, overseer of the federal government's rail assistance programs, and of the Reorganization Court.

The Milwaukee Road has been in bankruptcy reorganization since December 19, 1977. Trustee Ogilvie told the Reorganization Court last May that he believes the 3,500-mile "Milwaukee II" segment of what in 1977 was a 10,000-mile railroad can be profitable by 1983. He intends to submit his determinations to the Interstate Commerce Commission in the form of a plan of reorganization early next year.

W. L. Smith
President

