1st MONDAY 3rd MONDAY

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

April 5, 1982

To All Milwaukee Road Employees:

As part of our continuing program to provide the most cost effective and efficient service possible, we are undertaking a study which should produce significant savings in fuel costs.

We are testing a new on-board computer from Uptime Data Technology, Inc. on Engine 184. This unit, when fully functional, will provide a vast amount of information on the engine's performance, while monitoring the actual amount of fuel consumed by the locomotive. In addition, an electronic display in the cab of the locomotive will provide the engineer with a constant readout of fuel consumption and indicate other performance measurements as well. You may see Engine 184 as it travels across the system under field test situations.

Fuel conservation is an important ingredient in developing the formula for the operation of a profitable system. Considering the fact that the current 1982 fuel budget stands at approximately $40 million, this represents a significant portion of our total corporate budget.

This expense is sensitive not only to changing business conditions but to the fluctuations in price we pay for each gallon of fuel oil. At present, we are paying in excess of $1 per gallon when the cost of handling, transporting and storing fuel is added to the base price.

In looking for ways to reduce locomotive fuel consumption, we are experimenting with operating freight trains at lower speeds without diminishing the quality of service. Reducing freight train speeds from 50 to 40 mph, as well as limiting empty unit coal trains to 35 mph, can be expected to save approximately $3 million over the balance of the year. Early indications show that the slightly higher car hire costs are more than offset by the reduction in fuel expense.

New policies concerning locomotives deadheading in consist with working locomotives, as well as shutting down locomotives at roundhouses and other points - when they are between assignments - will also produce significant fuel economies this year.

Several other technological acquisitions, which have shown to be highly cost effective, are also under active consideration. In the very near future we will be acquiring four Power Sentry

Dispatch System units. These are on-board mini-computers that automatically reduce, or add, locomotive power as the train travels up and down grades, around curves, and so on. Fuel economy is accomplished by causing the locomotive units that remain on line to operate in the highest possible throttle settings.

We're also considering the Halliburton Train Dynamics Simulator which will be used to upgrade the skills of our locomotive engineers.

Our efforts to conserve fuel, and to find new ways to conserve fuel, will continue. Your cooperation and suggestions are encouraged.

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Underscoring the idea that the best way to ship piggyback between Chicago and the Twin Cities is to take the Road, our intermodal section is offering "Spring Sale" rates to customers who use our Sprint Trains from now until June 6, 1982.

With 34 Sprint Trains operating weekly in the Chicago - St. Paul corridor, we provide fast, cost-saving, fuel-efficient, reliable and convenient service. The spring sale offers shippers the following:

$470 per car - Shipper Owned Equipment
$520 per car - Railroad Furnished Equipment
$495 per car - Combination

Applicable on both 40 - 45 foot van equipment.

Shippers should be advised to compare costs. They may be paying a premium for highway service that is available in our dependable Sprint service.

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On another note, but still in the intermodal field, the March 1982 issue of Progressive Railroading features a biographical sketch of P. L. Cowling, president - Milwaukee Motor Transportation Company and vice president of our restructured intermodal operation.

The piece traces Laurin's career with the Milwaukee Road and the motor carrier. Citing some of his accomplishments, the magazine calls him an "Intermodal Practitioner" and says while others were wondering what impact deregulation would have, Cowling observes, "The ICC's steps to deregulate truck/rail intermodal traffic have provided the carriers with the necessary freedom and flexibility to compete more effectively for merchandise traffic. We fully intend to take every advantage of this major opportunity."

As you probably know, the Interstate Commerce Commission has approved acquisition of control by the Norfolk Southern Corporation of Norfolk & Western Railway Company and Southern Railway Company. The decision came less than 16 months after filing of the application. The statutory deadline is 31 months.

The Commission also approved our May, 1981 agreement with the Southern that if either Southern or Milwaukee agrees on rates with another carrier on interchange traffic moving between points on Southern and points on the Milwaukee and interchanged at either Louisville or Cincinnati, then the initiating carrier will participate in the same rates with the other carrier at the latter's request. For two years following consummation of the consolidation, the agreement also affects traffic moving to or from western Canada. Other provisions not requiring Commission approval concerned reciprocal switching at Louisville and Chicago and our interchange with N&W in Chicago.

The Commission's Office of Special Counsel opposed the agreement, arguing that the linking of Louisville and Cincinnati constitutes "price fixing." The Commission took a different view:

> We do not believe this linkage will have a detrimental impact on the public interest since both Milwaukee and Southern are free to establish any level of rates that they choose over either gateway and over any other gateway. The less efficient service must continually struggle to improve and keep up with the more efficient service. Thus lower rates will prevail under the agreement for each service or the carrier privileged under the agreement will choose not to utilize the agreement.

While finding the linking not an "ideal situation," the Commission felt the agreement was appropriate in light of the "geography" of the three railroads. "The agreement preserves a competitive alternative and is consistent with the public interest."

This was the first merger decision since the Commission's recent abolishing of the "DT&I" traffic protective conditions.

W. L. Smith
President

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Because so many questions have been asked about the back pay issue for contract employees, this will attempt to shed some light on the situation by explaining Trustee Ogilvie's position and by making all employees aware of his efforts to resolve the matter.

On March 15, 1982, attorneys for the Trustee filed an application with the Reorganization Court requesting authority to make back pay payments to employees and former employees for work performed in the years 1978, 1979, 1981 and 1982, and to allow the Milwaukee Land Company to declare a dividend to fund such payments made during 1982.

The five-page application detailed the cooperation the Trustee had received from employees with respect to various labor agreements and the wage reduction program. It pointed out that the revised plan of reorganization dated September 15, 1981 recognized that employee assistance would be required in the reorganization proceeding. Since all of the labor organizations, for their current employees, have agreed to the wage reduction program effective January 1, 1982, the Trustee followed through on his promise to use his best efforts to obtain Reorganization Court approval to pay, as soon as possible, back pay for the years involved.

That was the basis for the March 15 application.

However, Trustee Ogilvie's plan to settle the back pay issue faces stiff opposition in Court.

Certain creditors argue that the Milwaukee Road operating deficits are continuing into 1982 and now exceed $500 million, and that the existence of "Milwaukee II" depends on the continuing use of borrowed funds. They argue that the financial results for the operations of the smaller rail system during the past year have been extremely disappointing and that economic forecasts indicate a continuation of the current recession until at least the third quarter of this year. They argue that the Milwaukee's financial condition is as bad as it was in 1979 and that its prospects are worse. According to these creditors there has been no improvement in spite of the efforts of the Trustee and his officers to cut expenses and rationalize the system. They contend there is no financial or economic basis to justify the Trustee's application.

Contrary to the Trustee's belief that employee sacrifices with respect to the wage reduction agreement support the early payment of back pay, the creditors hold that it has been the employees who

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have benefited over the last four years in payment of $866 million in wages and fringe benefits while $381 million was lost by the company, and it is the employees who will benefit if the revised plan is successful. They maintain that labor interests have been fairly treated already.

Cash flow has been a critical problem through this reorganization. Creditors state the railroad has been kept in existence by special federal legislation, by substantial federal loans, by creditor loans, by assistance from states and the shipping public, by deferrals in paying taxes and other claims, and not by financial sacrifices of labor interests.

Creditors argue that the proposed advance payment gives no economic benefit to the estate as a whole, and there is no reason to depart from the schedule for the payment of all Class A claims.

In summary, the creditors ask that immediate payment of back pay be denied because early payment would be imprudent under the economic and financial condtions facing the Milwaukee.

It is expected this subject will be considered by Judge McMillen within the next few weeks. It is obvious that Trustee Ogilvie and his attorneys face a tough battle in their efforts to gain court approval for his back pay proposal. Developments will be reported as they occur.

W. R. Bickley
Director - Corporate Relations