

1st MONDAY 3rd MONDAY SPECIAL

Prepared for employees by the
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Managers and Supervisors:

With continuing help from government, customers and employees -- much of which is already committed -- a 3,500 mile "Milwaukee II" can produce income from operations in 1982 and a profit beginning in 1983. The profits of the slimmed-down version of the Milwaukee Road will increase to levels which meet the criteria for return on investment set by the Interstate Commerce Commission. Ultimately, "Milwaukee II" will be able to support itself without outside help. It won't even need the earnings of its Milwaukee Land Company subsidiary.

These are some of the indications of new forecasts in a comprehensive report which Trustee Richard B. Ogilvie filed today with Judge Thomas R. McMillen of the U. S. District Court in Chicago, who is overseeing the railroad's bankruptcy reorganization. Judge McMillen is expected to hold hearings on the Trustee's report in early June.

"This new analysis prompts us to reaffirm our conclusion that the effort to reorganize 'Milwaukee II' should continue," Ogilvie said as he filed the report. "Liquidation is not in the best interest of either the creditors of the Milwaukee's estate or of the public generally. Sale of 'Milwaukee II' as a whole to another railroad may ultimately prove to be a good move, but right now that's an issue for the future."

Prompted by the ICC's denial last March 19 of the Trustee's original reorganization plan, the report contains an evaluation of events which have occurred since the original plan was filed in August, 1979; updated market analyses, new revenue and cost data and forecasts; and an outline of the actions which Ogilvie recommends for the future. The report represents a new edition of many of the elements of the original reorganization plan.

Ogilvie indicated last month that before May 15 he would file with the Court an analysis of three possible future courses of action: proceeding with the reorganization on the basis of "Milwaukee II;" attempting to sell "Milwaukee II" as a package to another railroad; or liquidating the estate's rail properties. Today's report to the Court isn't a new plan of reorganization for the Milwaukee, although it contains much of what will be the basis for a new plan. Early next year, according to the report, Ogilvie will file with the ICC and the Court a new reorganization plan which will meet the objections the Commission had to the first one.

Here are some of the highlights of Ogilvie's report, which runs to about 100 pages of text, 50 pages of exhibits, and a confidential appendix consisting of letters of commitment from 90 shippers and other documents which are being circulated to the persons most closely involved in the reorganization proceeding under the terms of protective agreements:

-- The restructuring of the Milwaukee's physical operations has materially reduced cash outflow and has already begun to make the Milwaukee an

effective competitor. Cash forecasts currently indicate that the Milwaukee can be operated for the remainder of 1980 without borrowing funds for working capital beyond those already authorized. Still to come from the Federal Railroad Administration to help support working capital is a \$30 million loan.

-- "Milwaukee II" will lose only about \$39 million from operations between May 1 and December 31, 1980, plus another \$31.5 million which really represents expenses associated with the rehabilitation of track, locomotives and freight cars. "Milwaukee II" will produce a deficit in net income of \$72.3 million in 1981, which again reflects substantial rehabilitation; will produce a net income deficit of \$17.5 million in 1982; but will produce positive net income of \$24.3 million in 1983 and \$40.9 million in 1984. In 1978 and 1979 combined, the Milwaukee Road lost more than \$200 million.

-- "Milwaukee II" will produce a return on net operating investment of 12.8% based on its book value of \$431 million and its projected net railway operating income in 1984 of \$54.6 million. The ICC rejected the Trustee's original reorganization plan in part because it didn't show that "Milwaukee II" could reach an 11% rate of return.

-- Only minor modifications should be made to the route structure of "Milwaukee II" heretofore planned, assuming that government and shipper financial assistance will be available to rehabilitate certain lines and to reduce the Trustee's cost of providing equipment. The Miles City line is marginal but should be maintained in the public interest. Alternatives to continuing the New England and Sisseton branches of the Miles City line are being explored. Grain lines in northern Iowa and southern Minnesota are positive cash contributors and are likely to be profitable. They will remain part of "Milwaukee II" if necessary state and shipper rehabilitation assistance continues. To eliminate "Milwaukee II's" lines to Kansas City or Louisville, as has been discussed by the FRA, would be to harm "Milwaukee II" both financially and strategically. The State of Wisconsin intends to add the line from Madison to Richland Center to the network of branch lines it will acquire. A study is under way to determine whether some of "Milwaukee II's" secondary lines in southern Wisconsin may be eliminated. The report contemplates a "Milwaukee II" of some 3,500 miles of line and operating rights.

-- If a contemplated sale-and-leaseback program can be implemented to finance the rehabilitation of locomotives and cars, the only federal rehabilitation assistance needed in the future may be to complete projects on "Milwaukee II's" Chicago-Twin Cities main line and to rehabilitate its coal and grain line from the Twin Cities to Miles City, and to upgrade its line from Milwaukee to Green Bay. Applications are pending with the FRA for equipment rehabilitation and for funds to upgrade portions of "Milwaukee II's" Chicago-Twin Cities and New Lisbon-Wausau lines.

-- The suggestion that a \$72 million tender offer be made for the Milwaukee's mortgage bonds will remain part of the plan of reorganization but is contingent on interim federal financing which isn't assured. The cash forecasts in the report assume that the tender offer would be financed in 1981 from the sale of property from the estate which isn't part of "Milwaukee II."

-- Under the auspices of the FRA, management and labor representatives have formed a task force which is identifying and planning to implement a wide

range of improvements in productivity. Already, some changes are being made on an experimental basis.

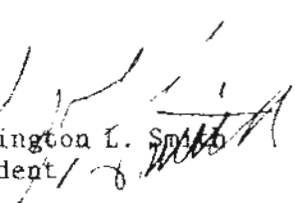
-- "Milwaukee II" is providing service for 74% of the shipments which the entire Milwaukee Road carried in 1979. About 90% of former Milwaukee Road shipments have service either through "Milwaukee II," through operations performed by other railroads under ICC or Court orders, or because other railroads have bought former Milwaukee Road lines. Future sale agreements which are expected to take place will bring the total coverage to 97%. Nearly all sales which have been negotiated to date will be consummated around the end of 1980.

-- Sale of the Milwaukee's profitable Milwaukee Land Company subsidiary may be desirable and is being investigated by the Trustee. None of the proceeds of such a sale have been included in the report's financial projections.

-- Because the sale of "Milwaukee II" as a going concern might benefit employees, shippers and the Milwaukee's estate itself, the Trustee has begun talks with several railroads.

Ogilvie indicates in his report that the future of "Milwaukee II" must depend on its performance during the remainder of 1980, and on other events including adequate support from shippers and labor during this period. The remaining eight months of 1980 will produce actual operating experience to confirm or contradict the Trustee's revenue and income analyses; allow the federal government to provide funding, shippers to provide new business, and labor to assure higher productivity; allow the Trustee the opportunity to pursue the prospect of sale or merger of "Milwaukee II" with another railroad or other entity; and allow the continued orderly sale of properties and materials which "Milwaukee II" won't need without glutting markets.

The Milwaukee Road filed its petition for reorganization under the Federal Bankruptcy Act in December, 1977. Since then, the railroad has weathered two severe winters and an almost continuous cash crunch. Since the reorganization began, the Trustee has received the authority of the ICC or the Reorganization Court to abandon nearly 4,400 miles of uneconomical line and has on file applications to abandon about 2,000 miles more. Since April 1, the Trustee has been operating only what approximates the reorganizable "Milwaukee II" segment of the railroad under the terms of a court order which enabled him to embargo commercial service over the rest. Concentrating the locomotives and freight cars of the entire railroad on this segment and the upgrading of much track and equipment with borrowed and internally generated funds have enabled "Milwaukee II" to make a stronger showing than was contemplated in the original reorganization plan of last August.


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