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

July 6, 1981

To all Milwaukee Road Employees:

As the reorganization planning process continues, we are faced with difficult decisions on the ultimate structure of "Milwaukee II." In making an economic assessment of each line segment, we are mindful that the Interstate Commerce Commission rejected our original reorganization plan on the basis of an inadquate return on capital.

Last December, the ICC Office of Policy expressed an opinion that the Milwaukee Road, "in order to become financially self-sustaining within the private sector of the economy, must offer a reasonable prospect of earning a rate of return equal to the current cost of capital on an investment base equal to its net liquidation value." In response to that statement, Trustee Ogilvie said "there is no question that the Milwaukee Road must demonstrate that it can be financially self-sustaining in the market if it is to survive reorganization as an operating railroad."

Utilizing the services of what we consider to be among the top transportation consultants in the country, we have undertaken extensive studies of the potential for improving rail earnings to a level commensurate with adequate returns on the capital represented by the assets retained in rail service, new capital required to rehabilitate and modernize those assets and any interim operating losses.

The map in this issue indicates the network we are working toward. It does not include certain line segments that have appeared in earlier maps. Also, other lines presently being operated are identified on the map by a series of x's. Reference notes explain their status. This does not necessarily mean those lines will not be part of the final system.

An explanation of the notes follows:

Note A - Covers the Watertown, Madison, Portage, Wisconsin triangle. Economic viability in the long term will dictate retention of these lines in a reorganized Milwaukee Railroad.

Note B - Concerns a portion of the so-called Rock Island "spine line" in southern Minnesota and northern Iowa. The Chicago & North Western expects to acquire the segment from Comus, Minnesota, to Northwood, Iowa, from the Rock Island Trustee. Assuming their acquisition, we and the C&NW have reached an agreement in principal for our use of the line from Comus to Manly, Iowa. To complete the link, we are negotiating the purchase of trackage from Manly to Plymouth Jct., Iowa, with the Rock Island Trustee. From Plymouth Jct. we will use our own line to Mason City. While we are optimistic that the C&NW will successfully conclude its negotiations for the property, we are prepared to operate over our own line in the event the C&NW does not acquire this segment or we are unable to develop a joint use agreement.

Note C - West Davenport, Iowa-Iowa City, Iowa. We have negotiated a rental agreement with the Rock Island Trustee and are presently providing service on the line. We have discussed the purchase of this trackage with the Rock Island Trustee and will continue our efforts toward final acquisition of the property.

The Miles City, Montana, extension from Ortonville, Minnesota, is not shown because we have filed an application to abandon that segment and to discontinue trackage rights over the Burlington Northern between Miles City and Billings, Montana. The reasons for that decision have been dealt with in previous editions of FM/TM. It is understood, of course, that we will continue to provide service on the Miles City line pending ICC and court consideration of the above application.

o o o

Final payment of $6,477,000 was received last week from South Dakota to complete the sale of approximately 764 miles of our former line in that state. Total price of the sale - which was approved in Reorganization Court last October - was $18,750,000.

o o o

Milwaukee Road First Mortgage bondholders, last week, received an invitation to tender those bonds for a net tender price of $777 per $1,000 principal amount. Unless extended, the tender offer ends at 5:00 p.m., Chicago Time, August 10, 1981. Lehman Brothers Kuhn Loeb Inc. is the Dealer Manager for the offer and Georgeson & Company, Inc., is the Information Agent. A tendered bond must be delivered, with the proper forms, to the Continental Illinois National Bank and Trust Company of Chicago.

o o o

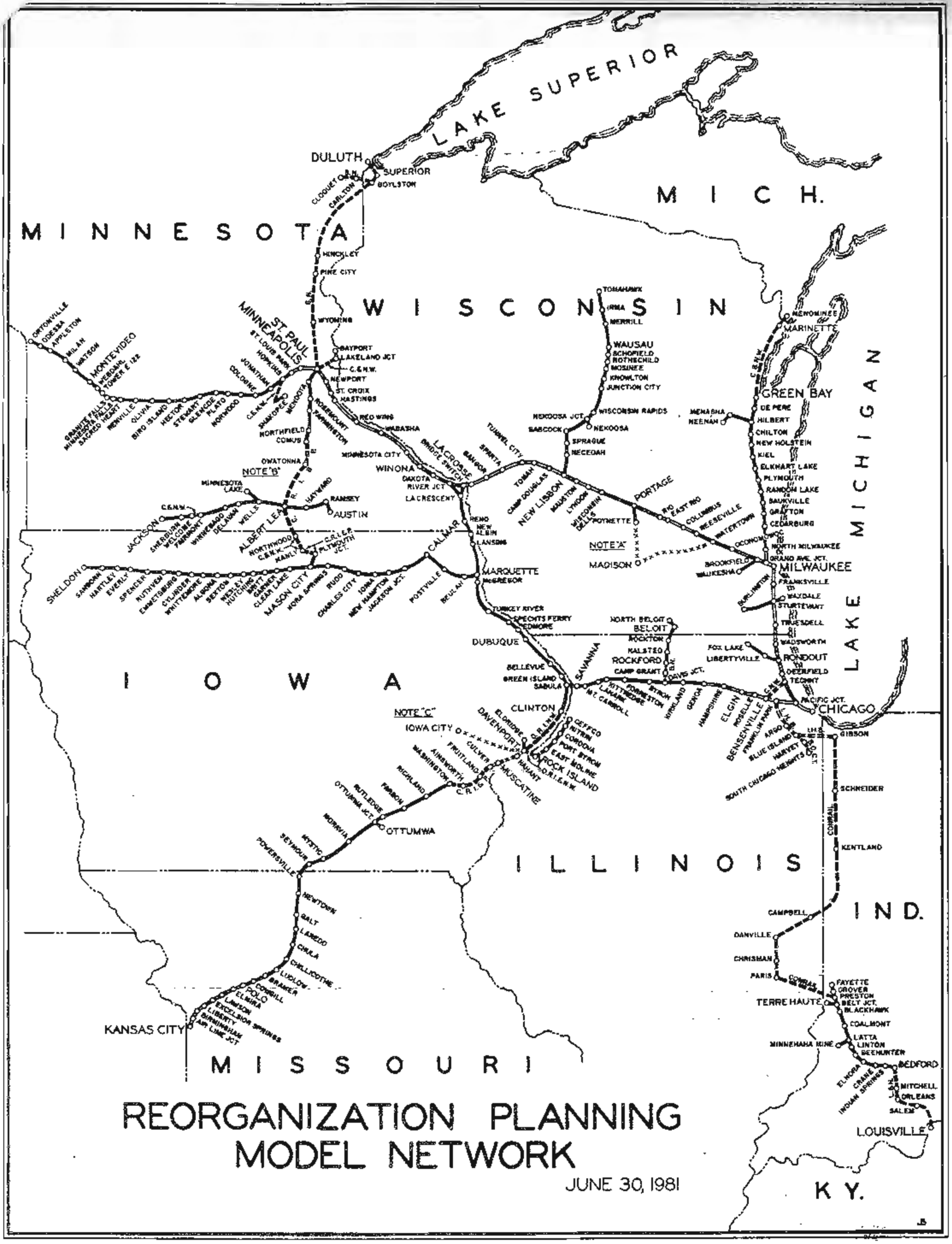
Aided by consultants, Reebie Associates, our Marketing Department has developed a new customer-oriented intermodal program to maximize opportunities offered by deregulation and has prepared an easy-to-read and understand looseleaf intermodal guide.

Using as its theme "Looking to the future . . . . today," the guide spells out every detail involved in our rail/highway intermodal service.

The new program is designed to offer the maximum in flexibility and value to our customers. In selected markets we offer Milwaukee full intermodal service to those customers who want to leave all the details in our hands - including equipment, pickup, terminal services, line haul and destination delivery. Or, in all of our intermodal markets we offer Milwaukee segmented intermodal service, which allows our customers to specify just those services they require - ramp-to-ramp line haul, use of intermodal trailer, truck drayage to and from their docks or any number of additional services - ~~each clearly~~ defined and individually priced. And for shippers seeking a long-term commitment for volume-based rates, Milwaukee contract intermodal service can be arranged with mutual advantages.

We believe this is an industry first and you can be proud to tell your friends and acquaintances about it. We need to secure every pound of freight available for our intermodal program.

W. L. Smith
President



REORGANIZATION PLANNING MODEL NETWORK

JUNE 30, 1981