Johns-Manville

Internal Correspondence

To: J. A. McKinney
M. Harris

Date: January 4, 1979

From: H. B. Moreno

Copies: F. L. Pundsack

Subject: ASBESTOS DE MEXICO

Since you will be visiting Asbestos de Mexico next week, I would like to provide a little supplementary information, as it will become apparent to you that there are still some severe environmental problems at Barrientos.

As you both know, J-M is a minority shareholder (40%) and, under Mexican law, cannot have direct management control of this company. In spite of the fact that the company has been highly profitable until just before the devaluation, we now know that it was not managed properly and some major mistakes were made.

For many years, J-M had pleaded with the Asbestos de Mexico board of directors to invoke the U.S. environmental standards and, in addition, Bill Vanderbeek (when he was Senior Vice President for International) recommended against the installation of a five-meter, large diameter pipe machine. The Asbestos de Mexico board chose not to listen to J-M and not only installed the five-meter Mazza machine but purchased plants in Guadalajara and Villahermosa. While the plant purchases had some strategic advantage in that they reduced the company's dependence upon Barrientos which had severe labor problems, and had theoretical freight savings and customer service improvements, they, in fact, decapitalized Asbestos de Mexico by draining off all of its surplus cash. Therefore, when the devaluation took place the the new presidential term started, it was necessary for J-M and Banco Nacional to make a substantial amount of money (90 million Pesos) available to the company to keep it afloat.

Finally, on April 18, 1977, the senior officer of Banco Nacional, Claudio Terrein; Lopez Negrete, Chairman of the Board of Asbestos de Mexico; Tony Cini, Gordon Read, Marshall Benson and I had a meeting here in Denver wherein it was agreed that insofar as was legally possible J-M would assume the responsibility of "managing" the company. Actually, we cannot manage it but we now have an atmosphe[illegible]r recommendations and advice are not only welc[illegible] respected and acted upon.

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The first step was to get approval of the Asbestos de Mexico board and the Mexican Government on a new license agreement under which J-M would be compensated for technical service provided. This has been accomplished.

The second step was to recruit and train an entirely new management team. On the higher echelons, this has been accomplished and Ricardo Cabrera, for the past six months, has been managing the company. Jorge Murguia is no longer in any way associated with Asbestos de Mexico. As Ricardo will tell you, we are implementing the next stages of management upgrading.

The third step was to make a detailed market study and to thoroughly revamp our marketing approach and selling methods. Although not complete, this is coming along very well.

The fourth step was to conduct a detailed industrial hygiene survey. This was accomplished last fall (approximately three weeks after the license agreement was approved).

The fifth step was to design and implement a corrective program to correct all environmental problems. The design of the program is nearly complete and, as Ricardo will tell you, substantial progress is being made. He has a personal commitment to me to complete a major portion of this program by April 1st, and I have scheduled a trip to Mexico on April 5th and 6th to review his progress.

The sixth step was to make every effort to resolve our employee relations and labor relations problems, in order to get the full support of the union and the government in implementing our business strategies and environmental control programs. Based on the results of our December labor negotiations, the relations with our hourly employees have been improved to a level far in excess to what I could have imagined a year or two ago.

Having accomplished most of the above, our next goal is to develop a revised business strategy that will allow us to begin to achieve North American productivity standards under safe working conditions and position the company for long-term growth. This will take the balance of 1979 to develop. In the meantime, our involvement and the outstanding job Ricardo has done has helped us accomplish a dramatic turn-around in the company's earnings as you can see from the attached November 1978 statement.

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Although there is still much work to be done, indications are that Asbestos de Mexico has a good future, will continue to be a major fiber customer and, at the same time, can develop new businesses (such as PVC pipe) which will give it a strong economic and profit base.

H. B. Moreno

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