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August 26, 1948

Confidential

Donald Duncan, Esquire
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50 Broadway
New York 4, N. Y.

Dear Donald:

I received your undated letter, with which you send me the memorandum of August 16, during the last weekend and just as I was about to leave Mexico City for a short trip. I sent you a telegram on August 25, expressing appreciation of your memorandum and saying that I would be writing you. I have not replied earlier as we are under very great pressure here.

I wish to say at the outset that I appreciate your letter and your memorandum, which I have given careful thought. It seems rather regrettable that a question like this, with respect to Lazard, should arise at this time and make it necessary for us to give it so much thought when, as a matter of fact, we have so many problems to consider here, not only in connection with the credit which we are seeking, but with respect to the many problems which the company has to face here, financial and administrative, and these having to do with our meeting our obligations in Mexico. I have told you before at various times, when we had the opportunity to talk over Mexlight matters, that it is really an extraordinary situation which we have to face in the company. I think it is altogether a matter of coincidence that at the time that I joined the company all sorts of problems came up which in some respects represent the accumulation of years. There was not only this question of the necessity of seeking credits, both in dollars and pesos, to enable the company to go ahead with a construction program which the developing needs of the Mexican economy made necessary, if the company was to live, but in general the business of the company had increased in recent years and a lot of things required attention. The number of our customers had increased rapidly from several hundred thousand to over four hundred thousand. We are overcrowded in the building which we occupy. In many ways we are not adequate to take care of the public, and on the whole the public relations of the company which, as you know in a company like this are so important, and especially in a foreign company in a country like Mexico, have been anything but what they should be. In view of situations which have developed in Mexico and with which all companies have to deal here, labor has become a very real concern to us. The technical end of the company has been well conducted and our plants have been kept in good shape. Our higher administrative staff has been kept small

but it is effective and comparison will show that we are operating a good sized company with what is a relatively small staff. I cannot think of any problem which any company such as this would have to deal with that we have not had to struggle with.

On top of this, we have had all sorts of unexpected complications arise in connection with our credit in dollars that we are seeking. Just as the Export-Import Bank was about to grant us the credit, this situation arose between the Export-Import Bank and the World Bank with respect to short and long term credits, and we had to go to the World Bank. That Bank is just learning to do its business, but it started out with a definite complex against any lending to Latin America. We have had about every obstacle to overcome that we could possibly meet, and whenever we had the situation pretty well cleared at the Washington end, we had complications here. My associates here and myself have not been distressed or upset about this because we realize that it is all a part of the times in which we live, and after all, the policy of the World Bank with respect to loans towards Latin America has been crystallizing, and in many ways we have been the guinea pig. Just as the World Bank was ready to grant us this loan, first the interim credit and then the full term credit, there comes along this additional complication of the devaluation of the peso, which I can assure you has created all sorts of complications for the Mexican Government and for the Bank and for the company, and to enter into these and the preoccupations we have had in the last weeks alone would fill a book.

I have told you about this because Mexlight is a company worth saving and with the measures which we are planning and have under way, it can be made, and I am sure will be made, one of the strongest of the public utilities south of the Rio Grande. All this work and trouble that we are going through is well worth-while, and we here in the company are not discouraged and I am sure that the members of the Board who appreciate these problems are not discouraged. I have always kept my associates on the Board fully informed of all the developments in the company since I joined it, in the fullest possible way.

I have from the outset been entirely willing to assume all the responsibilities that go with the post which I have accepted and I have been putting myself into the work of the company as fully as I have ever put myself in my work during the last 48 years, and that, for those who know me, is saying a good deal. You all in the Board have collaborated with me in the task of putting the company on its feet, and I appreciate the time and attention which the members of the Board have been willing to give to the company matters.

You will appreciate, therefore, why I am a good deal disturbed that at this particular time Mr. Mayer and Mr. Murmane

should raise what I believe are entirely unnecessary questions and to make what I believe are entirely unnecessary complications for us in carrying through one of the most difficult tasks which we have had. I sometimes wonder whether, if they fully understand the situation, whether they would wish to raise such complications, and in spite of all that appears in your memorandum, I must say that they are complications. With the experience that they have in matters of this kind, they must appreciate what the problems are which a company like Mexlight must face in these times. I think that Mr. Mayer, who has been so long associated with the Sofina group, will appreciate what some of these problems are and would not wish to complicate them.

You know the reasons which led the Board to choose the First Boston to study the plan of reorganization of the company and to aid us in carrying it through. You will recall the discussions we had in Toronto at the end of June when you were good enough to go there for the meeting. You will recall that at that time I said to the Board that there were a number of firms which we could consider and among these I mentioned Lazard. After a very full discussion, we were all agreed that, taking into account all the factors which we had to consider, it was preferable to ask the First Boston to do this job and that we felt that it was better not to have any other firm associated in the task. There was, as I recall, rather full discussion of this point. In view of the fore-going, I did not consider that we had to discuss the matter with any firm other than the First Boston, as this was certainly a mandate of the Board.

I am somewhat new in some of the work involved in the reorganization of a company such as this and I certainly do not know all the details of what you refer to as the "Code of the Street", but certainly it did not at any time occur to me that because Mexlight decided to ask one firm to do a certain piece of work for it, that we would have to approach a number of other firms and explain to them why we were not asking them and why we were asking the First Boston. So far as I personally am concerned, if I had felt that this were necessary I would certainly have felt that there are three or four other firms in New York and at least one in Philadelphia to whom we should have said something concerning our plans. I am sure that you and I and Mr. Heineman and other members of the Board have friendly associations with quite a number of individuals in some of the leading investment houses and banks in the United States, but I must confess that I cannot understand a "Code of the Street" which would involve one going to everyone in the business to explain what one was doing and why one was doing it.

I do not know of any other investment house which has raised any question concerning our decision or which has shown any feeling about it, and in view of the fact that Mr. Mayer has, to my knowledge, not shown any interest heretofore in Mexlight matters, and so far as I know little interest in the problems of other Sofina subsidiaries, I really cannot understand why, just because he is on the Board of Sofina, that he or any associate of his in Lazard, should feel that their prestige is injured,

personally or that of the firm, because they are not consulted on a Mexlight matter. I wonder if anyone on the Street has thought of this or would have thought of it unless Mr. Mayer had not himself raised this question. I am not going to enter into a full discussion of the memorandum, which again I wish to say I appreciate very much. So far as the First Boston is concerned, when Mr. Ehrlich and Mr. Loris accompanied me together on our first visit, I said at the end of our conversation that we had considered various firms who would be able to aid us in this work, but that after careful consideration the Board had instructed me to ask them, and that we had the feeling that it would be better in this particular instance, as it did not involve the usual financing and banking operations and did not involve the placing of securities, to ask other firms to be associated with them. When I made that observation, neither Mr. Addinsell nor Mr. Woods nor Mr. Townsend, who were present, made any comment.

I do not know what should have prompted the conversation which you cover in the memorandum and which Mr. Love had with you. Nor am I aware of how the First Boston should have raised the specific question of Lazard. It is, of course, quite obvious, and in this respect I understand the Code of the Street, that if one firm raises a question of this kind that the First Boston should naturally say the things which you have indicated in your memorandum they have said. By the same token, I can understand why, when a member of Lazard mentioned this to Mr. McCloy under the circumstances which you describe in your memorandum, that Mr. McCloy should have said "Fine". I cannot really see what, under the circumstances described in your memorandum, the First Boston or Mr. McCloy or Mr. Love could have said other than what you say in your memorandum.

I do not wish to unduly prolong this letter, but I think you will be interested to know that Mr. Hopkinson, of Drexel and Company, took what I consider is a very proper attitude. You know that Hickey, the President of the United Corporation, is employed by the World Bank as its consultant on electric utilities and has been giving a great deal of time to the study of our credit and our company, and has been doing a constructive job, and the report which he has made and the further report which he is going to make are of great importance to our company. He has had close relations with Drexel and Company, and I am sure mentioned to Mr. Hopkinson that we might be doing some reorganization, and I feel sure too that Mr. Hickey was hoping that we would use Drexel and Company. You will recall that I mentioned this at the Board meeting in Toronto, but that I expressed the certainty that Mr. Hickey and Drexel and Company would understand the situation and that our not using them would not influence Mr. Hickey's attitude towards our credit. As a matter of fact, when I was in Washington this last time dining at the Shoreham, Mr. Hopkinson happened to be there and came up to our table and said that he had learned that we were going to use the First Boston and that he wanted me to know that we could not have done better in making this choice. He expressed regret

that we were not going to use his firm, but reiterated that "we could not have done better", and said that if at any time Drexel and Company could be of use to Mexlight without in any way being associated with the operation, they would be very happy to be of any service possible.

I have given this matter a lot of thought, and naturally I have taken into account your letter and all the situations which you raise in the memorandum. Naturally, in a matter of this kind such as putting Mexlight on its feet, and that involves more than the dollar credit and the reorganization, someone has to bear the principal burden. That is true in any enterprise. I am not going to proceed arbitrarily in any matter which affects the company. It has not been my practice in the past in other matters, and I would not do so now. I have been acting, so far as all major questions are concerned, after keeping my colleagues in the Board informed, and will continue to do so. I am convinced, because of the intensive work which I have done on this matter, that it would be disadvantageous for us and for the near and long range interests of the company, to do anything at this time which changes the situation, so far as the First Boston is concerned. We asked them to carry through this task for us. There was no question of anyone in the United States being associated with them in this task. We have informed the World Bank that we have asked the First Boston to do this job and that it is working on it. I feel that we would be committing a grave error to ask the First Boston to agree to have Lazard or any other firm associated with them in the work which we have asked them to do. For this reason, I do not feel that we can ask the First Boston to associate Lazard or any other firm with them at this time. If we did this, we would have equally, and I believe more cogent reason, for asking several other firms and this would unnecessarily complicate the task and certainly lessen the interest of the First Boston, which from all I can learn, is really giving our problem first-class attention.

During the first conversation which we had with the First Boston, the point was raised by me that it would probably be necessary for us to make some very direct approaches to some of our security and equity holders in England, and perhaps in Europe, and in this connection I asked whether the First Boston had a branch in London. They said that they had had a branch but no longer had it, but that they had close connections with certain firms in London and on the Continent through whom they could work. The way the matter was left, as I recall it, was that that point would come up later, and if it was found desirable to use a London or continental firm, the First Boston and Mexlight would talk this over. I still consider it very important that we make these direct approaches to some of our security and equity holders in England and perhaps on the continent so as to assure ourselves of an adequate majority in the various meetings, and on this we cannot take any chance. I must say that I had in the back of my mind, when I was talking with the First Boston, that Lazard in London might be a firm which we could propose to the First Boston to help in making these approaches. On the other hand, there are firms in London

like Baring Brothers, Schroeder and several others with whom Sofina has had close contact and perhaps closer than with Lazard and who might, because of considerations of major interest to the company, be able to be more helpful than Lazard.

As a matter of fact, Donald, I think in this matter we have to be entirely impersonal, and so far as I am concerned, I have been keeping and can keep in mind only what I believe is the best way to do the job which Mexlight has to have done. I don't see how we can complicate it by any personal considerations or even by the interests of other subsidiaries of Sofina. Sofina has an interest in Mexlight and wants to see Mexlight prosper, and it cannot be made to prosper by getting Mexlight matter complicated by all sorts of other considerations which have nothing to do directly with Mexlight. I repeat that I think we have to be as impersonal in this matter, when the interest of Mexlight is involved, as I am sure that Lazard would be if the interest of Lazard were involved.

This is getting to be a terribly long and rambling letter, but there is one other point which I wish to cover and on which there is apparently some misunderstanding. It was my definite impression from what Mr. Ehrlich said to me and from what you said to me over the telephone in Washington, that Lazard was offering its services to Mexlight. There may have been, as you say in your memorandum, some misunderstanding, but unless Lazard had offered its services and was interested in participating in this matter, I really don't see what all this is about. If it is a question of prestige, I repeat that I do not think this would have occurred to anyone and will occur to anyone, unless Lazard themselves should raise the question. I wonder how many people on the Street know who is on the Board of Sofina, and I don't think that too many of them know anything about Sofina, other than its name. The more I think of this, the more I am confused as to what is giving the concern to Mr. Mayer and Mr. Murmane. I know Mr. Mayer slightly and I do not believe I know Mr. Murmane, but it is really difficult for me to understand why such an issue should be made of this matter, even to the point of Mr. Mayer saying that he would resign from the Board of Sofina. What contribution he has made to Sofina in the past by this membership on the Board I do not know, but I do know that he is not adding anything to Sofina or adding Mr. Heineman in any way by even thinking of raising a question of resignation from the Sofina Board because of this Mexlight matter. I cannot help but feel that if Mr. Mayer and Mr. Murmane know all the facts, they would appreciate the position of the company and the procedure which it has been following and realize that we have in mind only the interests of Mexlight, and of course of Sofina, and would therefore not raise any questions which can complicate the problems of Mexlight and Sofina, rather than add to their solution. It would seem to me that if, with your knowledge of the problems which face Mexlight, if you will even partially make clear to Mr. Mayer what these problems are with respect to the credits and the political, labor, and other problems that we have in Mexico, that Mr. Mayer would feel that as

a member of the Board of Sofina, he would certainly not wish to resign at this time. As I have said before, I do not know Mr. Mayer well, but I cannot conceive of him wishing to do anything but what may be constructive and helpful.

I have dictated this letter at the end of a long day as I have wished to get this letter to you as soon as possible. I am not going to try to give you an idea of all the problems that we have to deal with here. Completely aside from the credits which are of course essential, and the reorganization is an integral part of getting the credits, we have problems here with respect to rates and programs which are as complicated as any that the company has had to deal with in its already rather long history. There is not any one aspect of the work of the company that we are not willing to give proper attention, but I do feel, in conclusion, that this is not the time to raise either with the World Bank or with the First Boston, the question of Lazard being associated with the reorganization plan in the United States on which the First Boston is working. Sofina can, as you suggest in the last paragraph of your memorandum, ask entirely on its own that Lazard give it their opinion on the reorganization plan, but I believe that this would be unwise. I do not see that any purpose would be gained by Sofina so doing, for I think we can all depend upon the First Boston doing its job, keeping in mind the interests of all concerned and the way that they have been approaching the problem shows that they are keeping in mind the interests of all concerned, including Sofina. If Sofina asks Lazard to advise it on the reorganization plan, it will mean a certain connection with First Boston, even if indirectly, and no one could make me believe that First Boston will be very happy about it. They might accept the situation and might even do it gracefully, but they would not like it. But the most important point is that neither Mexlight nor Sofina could gain anything by such a procedure. If Sofina wishes to ask Lazard to advise it on the plan on its own account, it is entirely within the province of Sofina to do this, but it is my considered judgment that it would not be helpful to Sofina or to Mexlight, and I therefore hope that it will not be done.

I wish to close by saying that there is nothing personal in anything that I have said as affects Lazard, Mr. Mayer or Mr. Murmane. If they had approached me about this matter while I was in New York, I would have been very glad to see them and explain to them why we had selected the First Boston. I would have been very glad to give them any further information to supplement what you and Ehrlich told them, to give them an understanding of the reasons for the company's decisions. When I am in New York again and they wish to see me, I will be very happy to explain to them the position of the company and its problems, if they have this interest in knowing them. I hope that Mr. Mayer will not consider it necessary to send in his resignation as a member of the Board of Sofina, for as a member of the Board, I think he would wish to be helpful at this time rather than otherwise, and sending in his resignation at this time would not be helpful.

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I feel, therefore, that we must leave this matter as it stands. If later there is any question of a possible use of Lazard or Baring or Schroeder or someone else in London, it is something which I think we must discuss first with the First Boston and when that time arrives.

Do forgive me for having imposed so long a letter on you, but I know your interest in the company's problems and appreciate it.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith
Chairman of the Board

GSM/cbc