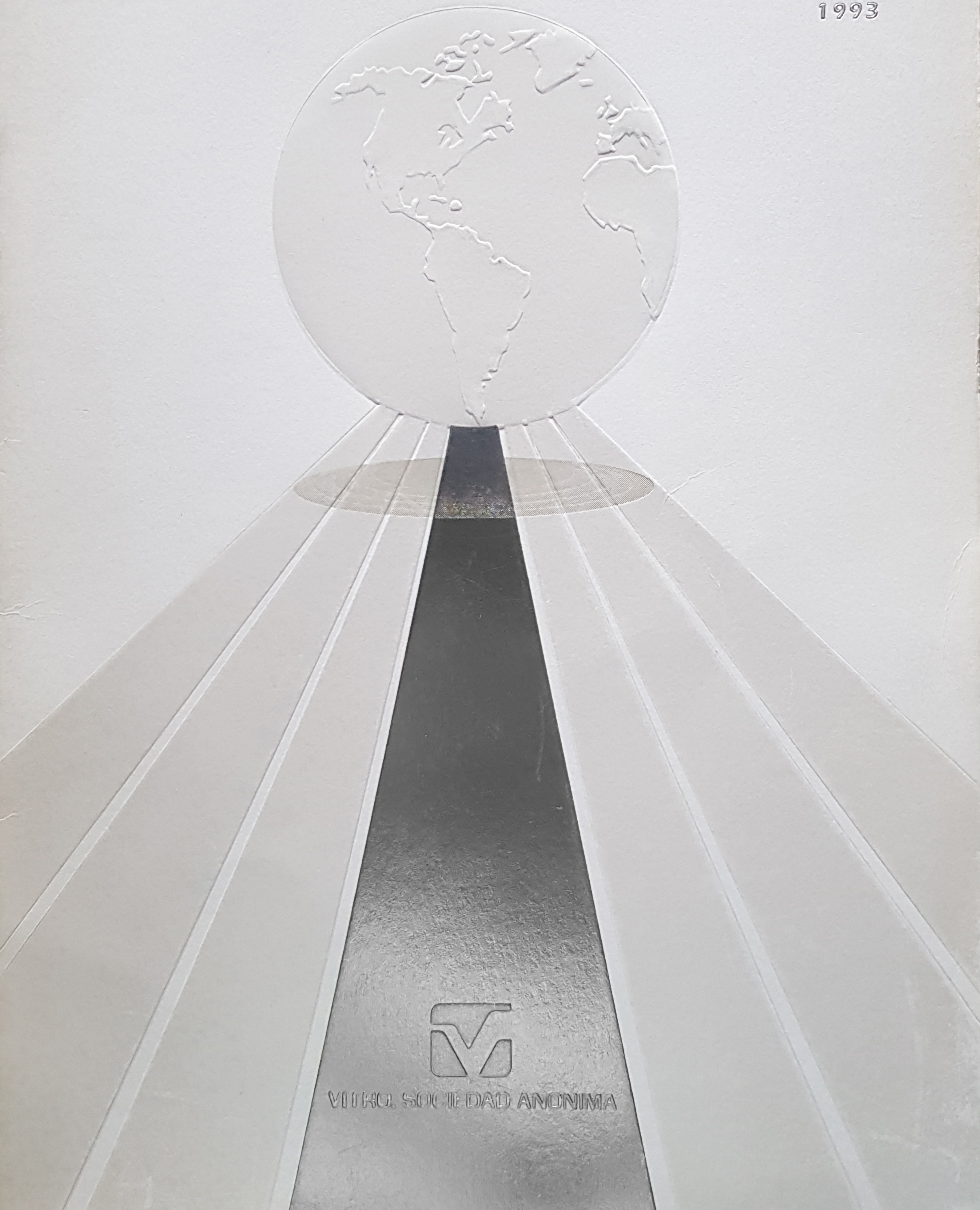
# ANNUAL REPORT 1993



VITRO, SOCIEDAD ANONIMA

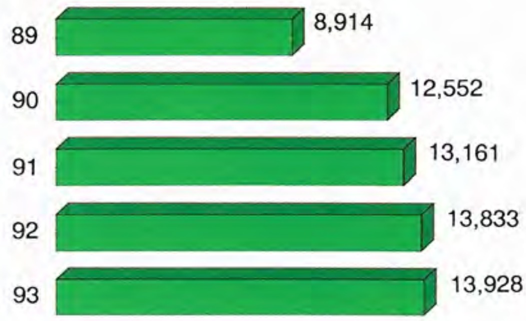
*FINANCIAL HIGHLIGHTS*
*(millions of constant new pesos of December 1993)*

| | **1993** | 1992 | % Var. |
|---|---|---|---|
| Total sales | **13,928** | 13,833 | 0.7 |
| Consolidated sales | **10,927** | 10,881 | 0.4 |
| Integral cost of financing | **666** | 477 | 39.6 |
| Income before extraordinary items | **698** | 705 | ( 1.0) |
| Net income | **698** | 705 | ( 1.0) |
| Net income of majority interest | **585** | 645 | ( 9.4) |
| Capital expenditures | **908** | 1,106 | (18.0) |

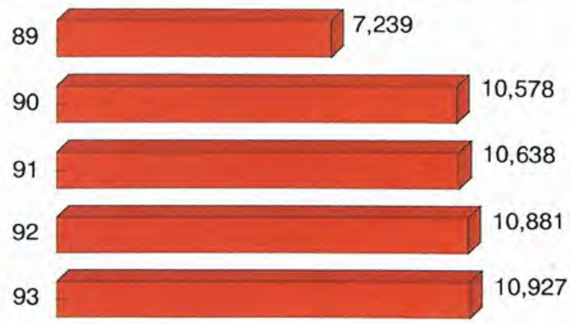
| | | |
|---|---|---|
| Return on equity * | **8.92 %** | 8.75 % |
| Current ratio | **1.48** | 1.68 * |
| Liabilities / stockholders' equity | **1.30** | 1.20 * |
| EBIT / assets * | **8.34 %** | 8.59 % |
| EBIT / sales * | **10.83 %** | 10.60 % |
| Operating cash flow / sales * | **18.62 %** | 18.37 % |

* These ratios are calculated using nominal new pesos of the period.

## TOTAL SALES

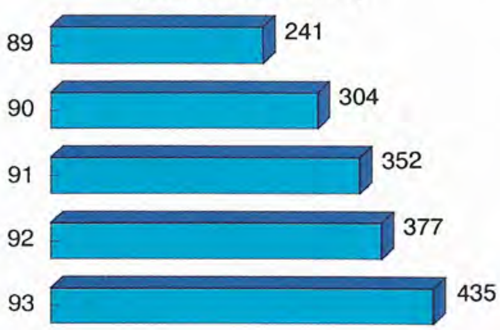



## CONSOLIDATED SALES

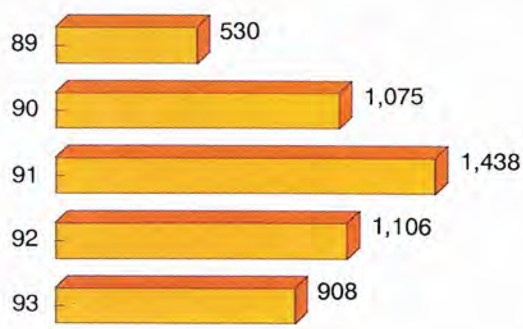



## EXPORT SALES

(millions of dollars)




## CAPITAL EXPENDITURES



## *Message from the Chairman*

To our stockholders:

*Scope of business*

DURING 1993, Mexico continued its efforts to transform its economy to meet the challenges of the new international environment. At the same time, our country has been careful not to overlook national economic realities. Even though growth in the production of goods and services was the slowest in recent years, major short-term objectives were reached.

The inflation rate sank to single digits — levels which had never been experienced by more than half of the Mexican population. This favored the start of a trend towards lower interest rates, an essential element for successful worldwide competitiveness. The past years' growth of the trade deficit was reversed. At the same time, the flow of foreign capital into Mexico continued to increase.

The ratification of the North American Free Trade Agreement (NAFTA) gave support to the firm and consistent steps taken by our country to become a free-market economy, oriented to the trade relationships among nations.

These achievements resulted from the efforts of every segment of the economy. Now these gains must be consolidated in order to create a foundation for sustained growth that may allow a more fair distribution of wealth among the entire Mexican population.

An important part of GRUPO VITRO's operations are conducted in the United States, where the economy, though affected by global deceleration, showed the best results among industrialized nations.

The United States is in a position to continue its leadership role in the recovery of the international economy, now that the General Agreement on Trade and Tariffs (GATT) has finally been approved by the participating countries.

*Finance*

Despite the sluggish economic environment of 1993 and the internal business restructuring process, GRUPO VITRO continued its healthy cash generation. This was due in large part to increased productivity in most of the Divisions, as well as greater efficiency in the management of working capital.

Financial leverage increased last year, in spite of efforts to decrease liability levels following the period of strong expansion between 1989 and 1992. The main reasons for this growth were specific changes in accounting principles in Mexico, the termination of the ownership agreement with Corning Incorporated, and the revaluation of the peso against the dollar, which affected assets appraised at international prices. Interest-bearing liabilities did not grow during 1993.

As it has in the past, our financing policy continues to rest on three basic principles: a high level of long-term debt; currency selection, terms, and conditions tailored to the characteristics of the operation to be financed; and the establishment of long-term relationships with credit agents.

The volume and scope of its international business marks GRUPO VITRO as a global corporation. The international appeal of our securities is also growing, as GRUPO VITRO gains recognition daily in the world's financial markets. At year-end, 27 percent of the shares of GRUPO VITRO were held by investors abroad — an increase of 38 percent over 1992.

*Strategies*

Two activities highlighted GRUPO VITRO's strategy for 1993: the consolidation of production operations and the rationalization of business organization. Both undertakings are designed to improve our ability to respond in a timely manner to the constant changes that mark the business environment today.

GRUPO VITRO's planned four-year stage of rapid growth was concluded in 1992. The task for 1993-1994 has been to consolidate these achievements. As a result, GRUPO VITRO now has an important installed production capacity focused on traditional markets as well as on new, high-growth industries. In 1993, new technologies were developed and assimilated, and a greater number of new products were introduced to the market than ever before.

Every production and administrative process in the corporation was analyzed and adjusted, as necessary, to improve the quality and speed of our response. Organizational structures were adapted to achieve greater customer orientation and to make more efficient use of resources. This redirection has required great effort by everyone throughout GRUPO VITRO. But significant improvements were made in 1993, and the pressure of worldwide competition demands that these efforts continue in 1994.

The resolutions reached in the North American Free Trade Agreement may be considered to be positive for all three participating countries. The exchange of goods and services among these nations will increase in the coming years, bringing to our country the benefits of greater investment and job creation.

NAFTA does not, however, favor Mexican manufacturers of glassware products for the kitchen and table. For this reason, and because of the response time that the market now demands, the ownership agreement between GRUPO VITRO and Corning Incorporated was terminated by mutual consent. But the trade agreements between the two companies — the fundamental basis of the association — have been maintained. We recognize that Corning Incorporated is a vanguard organization. To be associated with worldwide industry leaders will continue to be the principle that guides our involvement in all joint ventures.

GRUPO VITRO's minority investment in Grupo Financiero Serfin, S. A. de C. V. performed well in 1993. Results for this financial group were far superior to those of the prior year, despite the creation of major reserves that significantly increased the quality of the group's loan portfolio. Based on this performance, a successful stock offering was completed in this country and abroad. In fact, Grupo Financiero Serfin, S. A. de C. V. is the first Mexican financial institution to be registered on the New York Stock Exchange.

Each and every part of GRUPO VITRO is striving to improve its ability to compete around the world. This is a permanent goal for all of us who work in this organization. In order to communicate our progress in the constant pursuit of perfection, this 1993 Annual Report has as its theme: The changes and improvements undertaken to reach the competitive level of the year 2000. In this Report, each Division of GRUPO VITRO describes its strategies and achievements and demonstrates how these efforts contribute to growth in the value of our shareholders' investment.

At GRUPO VITRO we are dedicated to being a world-class organization. At every level, our people share an understanding of this goal and a commitment to its pursuit. Our vision is clear, and our conviction to remain competitive is firm. Supported by our business philosophy, we will be able to meet the global challenges that the 21st century will present.

Adrián Sada G.
Chairman of the Board

# Board of Directors

*Standing:* *Abelardo Morales (Examiner), Julio Escámez, Tomás González Sada, Andrés Yarte Cantú,*

*Sitting:* *Alejandro Garza Lagüera, Ernesto Martens R., Adrián Sada G. (Chairman),*

*Federico Sada G., Pablo González Sada (Secretary), John Hennessy, Mario Garza G.*

*Adrián Sada T., Eduardo G. Brittingham, Juan F. Muñoz. Salvador González G. Jr. (Alternate Examiner).*

## *Annual Report Submitted by the Board of Directors of Vitro, Sociedad Anónima*

### *Macroeconomic environment*

*THE MEXICAN* economy in 1993 was affected by policies established to lower inflation rates and to reduce the external deficit. These policies had the following results:

- A strong deceleration of economic activity. The Gross Domestic Product (GDP) grew only 0.4 percent, the smallest increase since the current Stabilization Program began in 1987.
- A noticeable decrease in inflation. Consumer prices grew only 8 percent during 1993, the lowest rate in 21 years.
- High real interest rates caused by a tighter credit supply and by the need to attract capital from abroad.
- A lower trade deficit due to slow economic activity. The deficit was 18.9 billion dollars, down 8.4 percent from 1992. As it has been for the past five years, currency exchange policy continued to revaluate the peso.
- A capital account surplus of 29.4 billion dollars, assigned mainly for investment in the financial sector. As of December 31, 1993 the level of reserves of the Central Bank stood at 24.5 billion dollars.

Major institutional changes were carried out in order to produce greater economic stability and efficiency. Among the most important developments were the granting of greater autonomy to the Central Bank; the passage of the Federal Economic Competition Law; the start of the Program for Agricultural Support; and new legislation regarding ports, mining, electric power generation, and foreign investments.

Economic efficiency was also aided by the authorization of new financial intermediaries, raising the level of competition in this sector.

In the international arena, the signal event was the ratification of the North American Free Trade Agreement, which took effect on January 1, 1994. Negotiations for similar accords with Colombia, Venezuela, and Central America were also begun last year.

The GDP of the United States grew by 3 percent, while the U.S. rate of inflation was only 2.7 percent. Both long-term and short-term interest rates were maintained at low levels in the United States, providing a stimulus to the economy.

In this economic environment, the markets in which GRUPO VITRO participates exhibited the following behavior in 1993:

| | Mexico % | USA % |
|---|---|---|
| Pharmaceuticals | 8.1 | 2.8 |
| Beer | 3.9 | (0.5) |
| Construction | 3.2 | 5.9 |
| Soft drinks | 1.9 | 2.7 |
| Household appliances | ( 1.3) | 6.0 |
| Automotive | ( 1.8) | 8.0 |
| Processed foods | ( 2.3) | 2.1 |
| Capital goods | ( 2.3) | 2.3 |
| Soaps and detergents | ( 5.1) | (0.7) |
| Wines and liquors | (10.0) | (0.5) |

## *GRUPO VITRO in 1993*

The values in domestic currency are expressed in new pesos pursuant to the monetary reform in force since January 1, 1993. These figures are represented in prices as of December 1993, except where otherwise indicated. The growth rates are expressed in real terms, eliminating the effect of inflation, referring to the percentage change during 1993 with respect to 1992. The values in foreign currency are presented in U.S. dollars.

## *Sales*

GRUPO VITRO is truly an international presence. Fully 52 percent of its sales were made outside of Mexico, and 35 percent of its assets are located abroad.

In 1993, GRUPO VITRO recorded total sales of 13,928 million new pesos, an increase of 0.7 percent over 1992. Consolidated sales reached 10,927 million new pesos, rising 0.4 percent from 1992 levels.

An analysis of sales by division is presented in the following table:

SALES BY DIVISION
(millions of new pesos)

| | 1993 | % Var. *vs* 1992 |
|---|---|---|
| *Containers USA* | **3,538** | ( 5.8) |
| *Containers Mexico* | **2,752** | ( 2.8) |
| Vitro North America Containers | **6,290** | ( 4.6) |
| Vitro Flat Glass* | **2,050** | 20.5 |
| Vitro Household Products | **1,345** | 5.7 |
| Vitro Glassware | **818** | ( 5.7) |
| Vitro Chemical, Fibers and Mining | **611** | ( 7.3) |
| Vitro Capital Goods | **194** | (28.9) |

* Includes V V P America Inc.

The following table show divisional sales as percentages of consolidated sales:

SALES BY DIVISION
(percentage of consolidated sales)

| | **1993** | 1992 |
|---|---|---|
| *Containers USA* | **32** | 34 |
| *Containers Mexico* | **24** | 25 |
| Vitro North America Containers | **56** | 59 |
| Vitro Flat Glass* | **18** | 15 |
| Vitro Household Products | **12** | 11 |
| Vitro Glassware | **7** | 7 |
| Vitro Chemical, Fibers and Mining | **5** | 6 |
| Vitro Capital Goods | **2** | 2 |
| TOTAL | **100** | 100 |

* Includes V V P America Inc.

## *Strategies*

The greater competitive pressure that resulted from the opening of the Mexican economy has demanded a more rigorous examination of every aspect of our businesses. Among the more significant changes made by GRUPO VITRO in 1993 were the following:

We modified our association with Corning Incorporated. Since operating synergies were not realized, we repurchased 49 percent of Vitrocrisa and resold to Corning Incorporated 49 percent of their Consumer Goods division. GRUPO VITRO realized 131 million dollars from this transaction when it was completed in February 1994. An association between the two companies remains, however. GRUPO VITRO continues to market Corning Incorporated's consumer products in Mexico and to distribute Vitrocrisa's products through Corning Incorporated's sales network.

Peerless Tisa, S. A. was shut down. This action was taken because of the lack of integration into GRUPO VITRO's portfolio of businesses.

An association with Owens-Illinois, Inc. was formed. This U.S. company acquired 50 percent of Regioplast, S. A. de C. V., which produces plastic containers and closures in the Vitro North America Containers division.

We increased our presence in South America. We signed a letter of intent with the Peruvian group Backus & Johnston, S. A. to acquire 30 percent of Compañía Manufacturera de Vidrio del Perú, Ltda., S. A., a leader in the production of glass containers. We have also agreed to provide the company with technical assistance.

1993 also saw increased emphasis placed on several new and continuing internal initiatives:

Customer orientation: We continued to emphasize greater familiarity with our customers in order to consistently outperform their expectations for service, quality, and price.

Process redesign: All of our manufacturing and processes were analyzed and compared with those of other world-class companies, implementing any improvements necessary to keep pace with international practices.

Organization: The review and redesign of processes extended to administrative operations, resulting in more efficient business structures.

Training and development: Recognizing that we must be as well or better trained than the best in the world, we continued to provide instruction to raise the quality and productivity of people at all levels of the company.

Leading-edge technology: We have determined that, in order to be competitive, we must be able to identify and to meet our own needs for technological innovation.

Environmental awareness: As one of our highest priorities, we have determined that our plants must operate in compliance with the most strict international norms.

## *Summary of operations in the Divisions in 1993*

### *Vitro North America Containers*

#### *Containers Mexico*

The sales volume of lime-glass containers decreased 0.8 percent, primarily due to the contraction of the domestic market.

Productivity continued to improve throughout 1993. The ratio of pack tonnage to melt increased by 6 percent, and today the number of people per production line is comparable with that of the most efficient factories in the world.

Vidriera Toluca, S. A. de C. V. won the *Ing. Adrián Sada Treviño* quality award. This company was also a finalist in the *Premio Nacional de Calidad* (National Quality Award).

In order to comply with the most stringent regulations of $NO_X$ emissions, an additional furnace that operates with oxygen was constructed at Vidriera México, S. A. de C. V. in Mexico City.

Sales of borosilicate glass products grew 6 percent over 1992, while exports increased more than 33 percent.

Significant innovation took place at Plásticos Bosco, S. A. de C. V. and Altro, S. A. Among the highlights was the market introduction of 141 Samsonite products — a record number for Altro, S. A.

*Anchor Glass Container Corporation*

The 1993 sales volume of Anchor Glass Container Corporation was essentially unchanged from 1992, but the dollar value of sales was down 3.1 percent because of downward pressure on prices resulting from more intense competition.

Last year's results were below expectations. Consequently the organization at Anchor Glass Container Corporation was restructured to make operations more efficient.

Still, Anchor Glass Container Corporation won awards in six of the ten categories of the prestigious *Clear Choice Awards*, given by the United States Glass Packaging Institute.

Anchor Excellence, a program of commitment to total quality and continuous improvement, was continued to help optimize both administrative and production processes.

In 1993, an investment of 117 million dollars was made in order to increase productivity.

Anchor Glass Container Corporation's financial structure was also strengthened. Working capital was reduced by 28 million dollars, and 200 million dollars of debt was renegotiated for more favorable terms and interest rates.

*Vitro Flat Glass*

1993 sales grew 20 percent over 1992 figures. This increase reflects the inclusion of V V P America Inc. for all of 1993 and for the period from June to December 1992, following acquisition of the company by GRUPO VITRO.

Customer service continues to improve, taking advantage of the synergies created with V V P America Inc. Among last year's accomplishments were the delivery of heat-strengthened glass for the largest facade in Mexico — the World Trade Center — and the installation, by V V P America Inc., of a laminated glass dome measuring more than 28 thousand square meters, for the amusement park at Circus-Circus Casino in Las Vegas.

Our customer service initiatives will allow us to supply product within 24 hours of acceptance of an order.

In the production area, several important developments occurred. Production capacity was increased in patterned glass, windshields, and tempered-glass products. A center for automotive glass design was established, and production of solar-control glass for automobiles came on line. In addition, the project for wastewater treatment was begun at our industrial complex located in García, in the state of Nuevo León.

As in prior years, our efforts in quality were acknowledged by the receipt of multiple awards. Highlights include the *Total Quality Excellence Award* from Ford Motor Company, the *Quality Excellence Award* from Chrysler Corporation, and the *Supplier of the Year Award* from Donnelly Corporation.

## *Vitro Household Products*

Low levels of economic activity and credit availability in 1993 depressed demand for household appliances in Mexico by 1.3 percent for the year. Still, domestic sales of the Vitro Household Products division grew 1.7 percent, and exports increased by 77 percent.

Our program, Quest for Excellence through Customer Satisfaction, also paid handsome dividends. Together with our partner Whirlpool Corporation, we established the Consumer to Consumer System to facilitate the design of new products.

New models of refrigerators, ranges, and washing machines were introduced to the Mexican market. The design of refrigerators and freezers was improved to reduce the use of energy. The defect index in shipments was reduced. The delivery time for import products was shortened. Research conducted in concert with other leaders in the appliance industry led to significant savings in production costs.

## *Vitro Glassware*

In 1993, this Division continued to be affected by imports, due to revaluation of the peso and the difference in duties between the United States and Mexico. Total sales fell 6 percent from 1992 levels, but exports grew 10 percent for the year.

A detailed analysis of the Division's operations led to some important initiatives to improve profitability. The manufacture of opaline crystal products was eliminated, and lead crystal product lines were selectively trimmed. Steps were also taken to rationalize installed capacity, to reduce the cost of raw materials, to raise manufacturing productivity, to decrease the number of organizational levels, and to enhance training of personnel.

At Vitrocrisa Cubiertos, S. A. de C. V. business operations were significantly restructured. Acero Porcelanizado, S. A. de C. V. achieved substantial cost reductions, while enhancing both its customer service and the quality of its products.

## *Vitro Chemical, Fibers and Mining*

The fiber glass market in Mexico underwent significant contraction in 1993. As a result, domestic sales of this Division dropped 16 percent. Sales abroad, however, showed an increase of 25 percent over 1992.

In response to the marketplace, we discontinued fiber glass molding, and stopped production of calcium silicate. On the other hand, we increased production of fiber glass pipe insulation.

To improve our ability to meet customer needs, we complemented our own product lines with items produced by our partners.

The sales volume of Vitro PQ, S. A. increased 14 percent from the year before, and costs were reduced by using alternative raw materials in the production of aluminum sulfate.

The Division made important investments in reducing contaminant emissions: oxygen-burning equipment was installed in Vitro Fibras, S. A., and Industria del Alcali, S. A. de C. V. brought on line both a water-recovery plant and dust-collection equipment.

Sales of raw materials grew 8 percent over the previous year. We developed new products for the ceramics market and installed a warehouse in Mexico City. We have also continued to restructure our processes for greater productivity.

Industria del Alcali, S. A. de C. V. saw sales fall 1 percent in 1993. This company entered into a technical-assistance agreement with AKZO Engineering b.v. of Holland in a measure to improve production processes.

## *Vitro Capital Goods*

Domestic sales for the Vitro Capital Goods division fell 39.7 percent compared with 1992. Export sales, however, grew by 12.9 percent, largely due to sales to Anchor Glass Container Corporation. In 1993, exports represented 40 percent of total sales for this Division.

Restructuring of the organization was accelerated last year, and the Division's export markets were diversified.

## *Foreign Trade*

### *Exports*

In 1993, GRUPO VITRO's exports grew 15 percent, reaching 435 million dollars; this represented 21 percent of our consolidated sales, without including those of Anchor Glass Container Corporation and VVP America Inc.

## *Balance of Payments*

A surplus in the trade balance for 1993 amounted to 81.1 million dollars. However, the balance of payments registered a deficit of 33.2 million dollars, primarily due to imports of machinery and equipment.

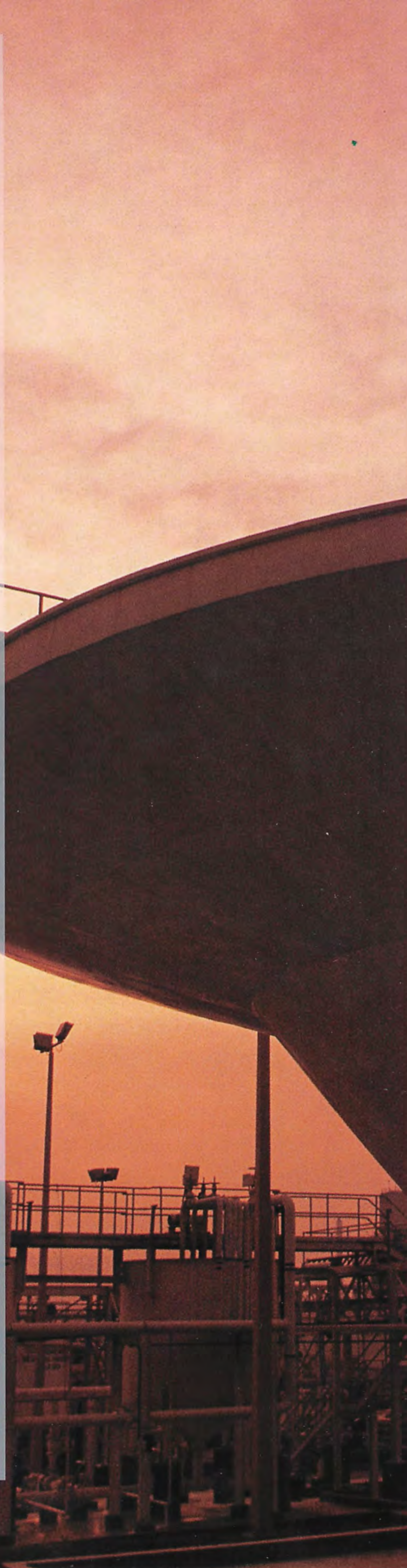
## *Assocciated Companies*

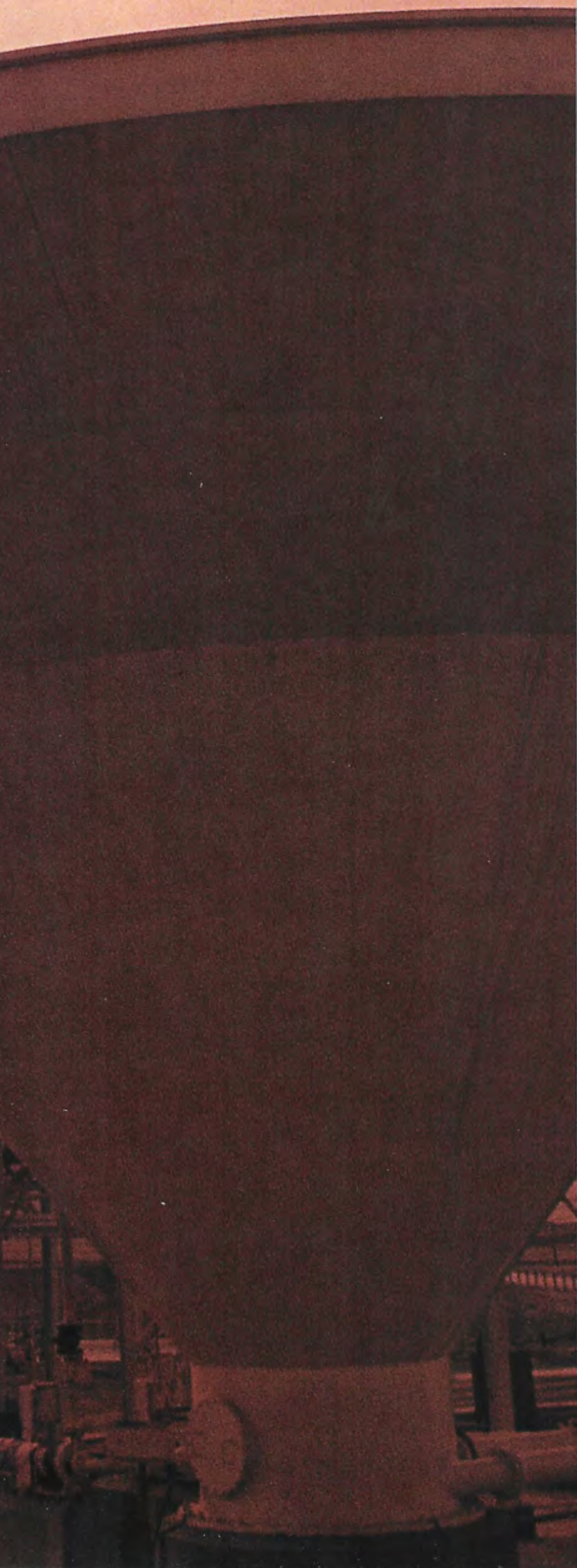
### *Brazil*

Nadir Figueiredo Industria e Comercio, S. A. posted acceptable results for 1993. GRUPO VITRO is a minority partner in this company.

### *Central America*

Empresas Comegua, S. A. presented favorable results in 1993. Its sales increased 16 percent over 1992. GRUPO VITRO has a 49-percent stake in





these operations. By updating their technology and improving their facilities, these companies are continuing to adapt their structures to the model presented by Vitro North America Containers.

*World Tableware International Inc.*

1993 sales of this company were similar to 1992 levels. GRUPO VITRO owns 49 percent of its capital stock.

*Cydsa, S. A.*

Sales in 1993 fell 3 percent to 2,682 million new pesos. Exports, however, rose 3 percent from 1992 levels, reaching 188.6 million dollars. GRUPO VITRO owns 49.9 percent of the shares of this company.

*Grupo Financiero Serfin, S. A. de C. V.*

1993 was an excellent year for this financial group. New savings and credit products were developed, and its stock was successfully offered abroad.

## *Investments in fixed assets*

In 1991 and 1992, GRUPO VITRO made important investments to increase its installed capacity. As a consequence during 1993, investments were more moderate; they amounted to 908 million new pesos, 18 percent less than those of 1992. These were oriented to elevate operation efficiency and to preserve the environment.

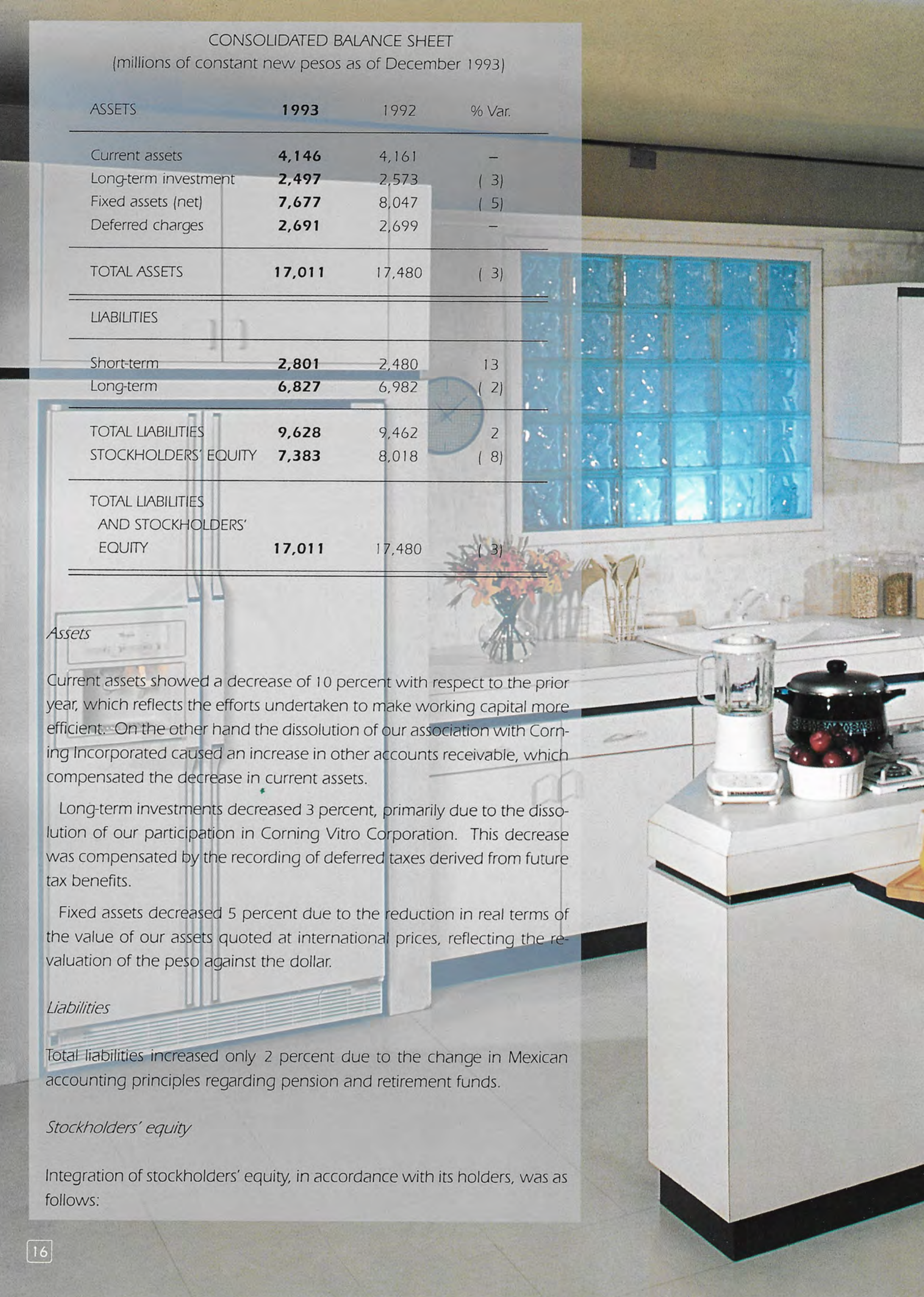
## *Human relations*

In order to increase productivity, we restructured our operations, reducing the number of organizational levels and raising the efficiency of our labor force. At the end of 1993, GRUPO VITRO employed 38,538 people, a reduction of 6,272 from 1992.

Throughout this difficult process, the attitude of our people and of the labor unions has been excellent. Their cooperation and goodwill have been fundamental to increases we have achieved in productivity and to the year of stability and labor peace that we have enjoyed.

## *Consolidated information*

The accounting principles issued by the Mexican Institute of Certified Public Accountants were accurately and scrupulously applied. In accordance with these principles, the financial information presented is based on *Bulletin B-10*, regarding the "Recognition of the Effects of Inflation," and on adjustments published in subsequent bulletins.



CONSOLIDATED BALANCE SHEET
(millions of constant new pesos as of December 1993)

| ASSETS | **1993** | 1992 | % Var. |
|---|---|---|---|
| Current assets | **4,146** | 4,161 | – |
| Long-term investment | **2,497** | 2,573 | ( 3) |
| Fixed assets (net) | **7,677** | 8,047 | ( 5) |
| Deferred charges | **2,691** | 2,699 | – |
| TOTAL ASSETS | **17,011** | 17,480 | ( 3) |
| LIABILITIES | | | |
| Short-term | **2,801** | 2,480 | 13 |
| Long-term | **6,827** | 6,982 | ( 2) |
| TOTAL LIABILITIES | **9,628** | 9,462 | 2 |
| STOCKHOLDERS' EQUITY | **7,383** | 8,018 | ( 8) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | **17,011** | 17,480 | ( 3) |

*Assets*

Current assets showed a decrease of 10 percent with respect to the prior year, which reflects the efforts undertaken to make working capital more efficient. On the other hand the dissolution of our association with Corning Incorporated caused an increase in other accounts receivable, which compensated the decrease in current assets.

Long-term investments decreased 3 percent, primarily due to the dissolution of our participation in Corning Vitro Corporation. This decrease was compensated by the recording of deferred taxes derived from future tax benefits.

Fixed assets decreased 5 percent due to the reduction in real terms of the value of our assets quoted at international prices, reflecting the revaluation of the peso against the dollar.

*Liabilities*

Total liabilities increased only 2 percent due to the change in Mexican accounting principles regarding pension and retirement funds.

*Stockholders' equity*

Integration of stockholders' equity, in accordance with its holders, was as follows:

STOCKHOLDERS' EQUITY
(millions of constant new pesos as of December 1993)

| | **1993** | 1992 | % Var. |
|---|---|---|---|
| GRUPO VITRO stockholders | **6,510** | 6,838 | ( 5) |
| Minority stockholders | **873** | 1,180 | (26) |
| Consolidated stockholders' equity | **7,383** | 8,018 | ( 8) |

The following is an analysis of stockholders' equity by account:

(millions of constant new pesos as of December 1993)

| | **1993** | 1992 |
|---|---|---|
| GRUPO VITRO stockholders: | | |
| Capital stock | **1,744** | 1,744 |
| Paid-in capital | **363** | 363 |
| Shortfall in restatement of capital | **(2,925)** | (2,417) |
| Appropriated retained earnings for reacquisition of company's own shares | **1,200** | 1,000 |
| Minimum pension liability adjustment | **( 92)** | – |
| Retained earnings | **5,635** | 5,503 |
| Net income for the year | **585** | 645 |
| TOTAL | **6,510** | 6,838 |
| Minority stockholders | **873** | 1,180 |
| Stockholders' equity | **7,383** | 8,018 |

Stockholders' equity decreased by 8 percent due primarily to the acquisition of 49 percent of Vitro Corning, S. A. de C. V.; to the revaluation of the peso, which negatively affects the value of our assets quoted at international prices; and to the recognition of the effect of pension liabilities resulting from a change in accounting principles.

*Income statement*

We continued our efforts to optimize operations and to make the administrative structure more efficient. We are convinced that this is the best strategy to adopt in an environment of slow growth and constantly increasing international competition. Our progress in these directions has allowed us to minimize the impact of the current economic slowdown.

CONSOLIDATED INCOME STATEMENT
(millions of constant new pesos as of December 1993)

| | **1993** | 1992 | % Var. |
|---|---|---|---|
| Consolidated sales | **10,927** | 10,881 | – |
| Cost of sales | **7,789** | 7,815 | – |
| Operating expenses | **1,946** | 1,890 | 3 |
| Operating income | **1,192** | 1,176 | 1 |
| Integral cost of financing | **666** | 477 | 40 |
| Income after financing | **526** | 699 | (25) |
| Other income | **77** | 93 | (17) |
| Shares in net income of unconsolidated associated companies | **143** | 159 | (10) |
| Income before taxes and profit sharing | **746** | 951 | (22) |
| Income tax and profit sharing | **48** | 246 | (80) |
| Net income for the year | **698** | 705 | ( 1) |
| Net income of majority interest | **585** | 645 | ( 9) |
| Net income of minority interest | **113** | 60 | 88 |

Operating income for 1993 totaled 1,192 million new pesos, an increase of 1 percent over 1992, despite the low performance shown by Anchor Glass Container Corporation during the year and expenses incurred in changing organizational structures and operating processes — particularly in the Vitro Glassware division — totaling 124 million new pesos.

The integral cost of financing increased by 40 percent, as a result of high real interest rates that were in effect for practically the whole year.

The contribution of our unconsolidated associated companies showed a decrease of 10 percent, due mainly to losses registered in Cydsa, S. A. Those losses were balanced in part by the excellent results posted by Grupo Financiero Serfin, S. A. de C. V.

Income taxes and workers' profit sharing decreased by 80 percent, with the recognition of a non-recurring benefit during the year pursuant to legal provisions in force.

In all, consolidated net income for the year decreased 1 percent to 698 million new pesos. Net income of majority interest totaled 585 million new pesos, down 9 percent from the previous year.

## Conclusion

GRUPO VITRO's policies, goals, and initiatives in 1993 continued to lead every area of the corporation to a position among the world's leaders. We made a great effort to better understand our customers, so we could exceed their expectations for quality products and services at competitive prices.

In a year of depressed economic activity and slow growth among the industrialized economies, we still managed to make important progress. We succeeded in making our processes more efficient. Our technological resources grew. We streamlined the organization, eliminating unprofitable businesses and those that did not fit into our portfolio.

We anticipate that 1994 will be a year of moderate economic growth for our country. The economy of the United States, on the other hand, presents solid growth potential, which may stimulate economic recovery among other industrialized nations. While we can expect a small increase in demand for our products in Mexico, the opportunity exists for us to increase our sales participation in the U.S. market.

To maintain our domestic position and to increase exports, we must know our customers better, and we must respond quickly and effectively to their needs. At the same time we must quicken the pace of technology, production, and management in the direction of greater efficiency and productivity.

GRUPO VITRO's accomplishments in 1993 were made possible by the determination of its employees, clients, suppliers, bankers, and shareholders, and by the encouragement of the community in general. We gratefully acknowledge the continuing support rendered to us by all.

BOARD OF DIRECTORS
Vitro, Sociedad Anónima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L'OREAL
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PEPSI


# *Vitro North America Containers*

DURING 1993, Vitro North America Containers laid the foundations on which it will build a successful future. All of our actions were carried out with the understanding that competition in the packaging industry is constantly being redefined. It is imperative, therefore, to anticipate the needs of the customer.

The vision, mission, and values of this Division were sharpened to give greater emphasis to our essential talents and capabilities. Everyone who works in the Division shares the view of who we are and what we can become.

After relocating our production capacity for glass containers in Mexico to better serve the domestic market, we continued to redefine the Division by closing Vidriera Oriental, S. A. de C. V. This important move, which makes us more cost-competitive, was possible because of productivity gains in our remaining seven plants, assuring adequate service to the market.

Anchor Glass Container Corporation restructured its debt and continued to develop new products with high added value. A change in management kept pace with the Division's changing philosophy. The short-term results have been very encouraging.

GRUPO VITRO and Owens-Illinois, Inc. formed an association to manufacture plastic containers and closures at Regioplast, S. A. de C. V. The result is a company with technical and production capacity unmatched in the Mexican market. Its new-product capability and customer-centered organization give Regioplast, S. A. de C. V. a clear view of success.

The Division continued to look beyond Mexico's borders in 1993. We signed a letter of intent with the Peruvian group Backus & Johnston, S. A. to purchase a 30-percent equity share in its business enterprise Compañía Manufacturera de Vidrio del Perú Ltda., S. A. and an agreement to provide technical assistance to the venture. Working with this Peruvian leader gives us access to one of South America's most promising markets and also allows us to commercialize our technology.

The borosilicate operation continues to penetrate international markets because of its competitiveness and the support it receives from our partner Kimble Glass Inc. The operating discipline and strong market orientation of our joint venture with Samsonite Corp. makes us a leader in the luggage business.

In every one of the Division's businesses and in each of the diverse markets in which we participate, the aggressive implementation of our Total Quality program is the common denominator that puts us in a position of leadership.

The measures we have taken to become competitive have been varied, but they have all been guided by a fundamental principle: exceed the customer's expectations. We are determined on listening to our customers and understanding their needs. This enables us to convert what we hear and what we know into the products and services the market demands.

## Vitro Flat Glass

VITRO FLAT GLASS has established a set of strategies that will enable it to meet two related objectives: to enhance its leadership in its current markets and to prepare to meet the coming challenge of free competition and market globalization.

The Division has made significant capital expenditures in order to develop the best technologies for producing the latest types of automotive glass: complex curvatures, solar-control glass, and encapsulated glass.

We also updated production capacity for traditional products to meet the strict quality requirements of the international automobile industry. In order to provide more and better service to our customers, we opened six regional distribution centers for automotive replacement glass in this country.

The supply of glass products for the domestic construction industry was also increased. The operation of a third float glass furnace, installed at the end of 1991, was consolidated this past year. The opening of five distribution centers will allow us to deliver flexible freight volumes to our customers within 24 hours of receiving an order.

With these and other strategies, Vitro Flat Glass is facing up to the challenges of competing in the 21st century.

# *Vitro Glassware*

THE PAST YEAR was one of profound changes in the operating structure of Vitro Glassware. New directions were defined and implemented to make our Division equal to the challenges of the current Mexican market.

We analyzed our complete product line, identifying those products that give us an advantage over the international suppliers that compete in our domestic market. By discontinuing our opal borosilicate *Termocrisa* tableware and replacing it with anneal soda lime glass, we can produce a wider range of more attractive products at a lower cost. By stepping up the marketing effort for *Fortecrisa*, our tempered soda lime glass tableware, we can improve our presence in this market.

For lead crystal products, we decided to retain our trademarks and product lines while outsourcing production, assuring the quality the domestic market expects as well as the price it now demands. Renovating products and processes in the trophy lines and the collection workshop improved both customer acceptance and profitability.

Our lime glass, enamelware, and flatware portfolios were reviewed to eliminate products with limited acceptance and profitability. A new line of tumblers and stemware was introduced to the institutional hotel and restaurant market to complement the tableware, flatware, and other lines we offer to this segment.

Finally, our promotional tumbler production was upgraded to meet our customers' needs for more varied shapes and decorative patterns.

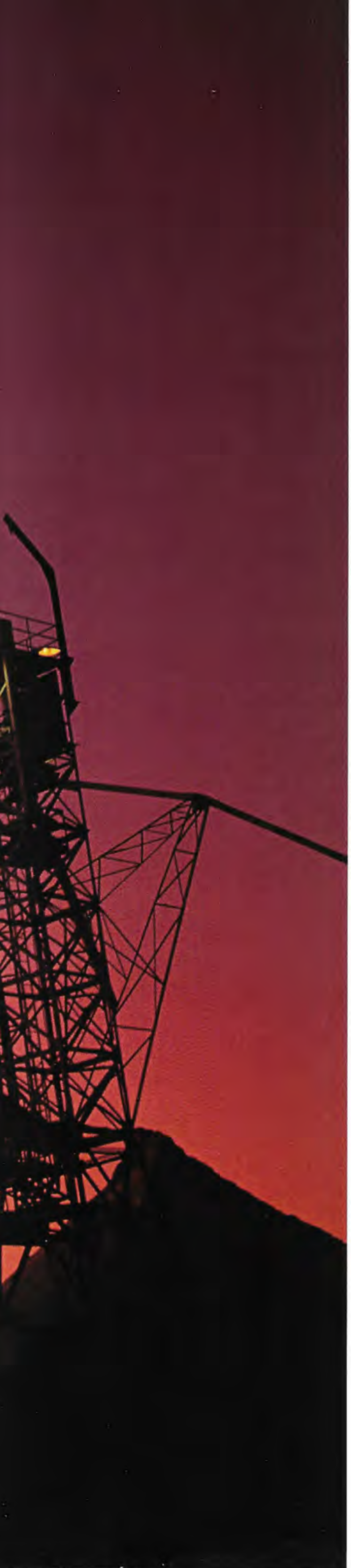
We now find ourselves with a richer variety of products and production techniques, giving us a more competitive cost structure and allowing us quicker market response. As a result, we can operate at traditional sales volumes with fewer furnaces and fewer production lines.

We also restructured to optimize our working capital. We redesigned our systems, controls, and warehouse management to significantly reduce costs, renewing, at the same time, our commitment to customer service.

We divided our business into four major marketing segments: kitchen and ovenware, consumer tableware, institutional tableware, and industrial products and original equipment (OEM's). This new structure drastically reduces the launch time for new products and permits us to concentrate on specific strategies for success in the individual segments.

The support areas of the Division were also restructured and refocused to contribute more effectively to our operations.

We redefined our joint venture partnership in consumer products with Corning Incorporated to support the area of greatest synergy between GRUPO VITRO and Corning Incorporated — marketing. We will continue to represent each other's product lines in our respective countries. Our complementary portfolios represent the most complete line of glass products offered by any international manufacturer.



# *Vitro Chemical, Fibers and Mining*

AT *VITRO CHEMICAL, FIBERS AND MINING* we are conscious that the changes of recent years are not temporary trends, but permanent forces that we cannot elude. The globalization of marketing, the demands on quality, the proliferation of information technology, and the dismantling of hierarchic structures are not phenomena unrelated to our business. Each has a direct impact on us.

These new realities demand that we take specific actions if we want to maintain our competitive position. During 1993, we implemented in each of the companies of our Division a series of measures designed to preserve strategic conditions that work to our advantage.

Industria del Alcali, S. A. de C. V. entered into an agreement for technology cooperation with AKZO Engineering b.v. of Holland. This will make us more competitive through the modification of some of our production processes and through greater integration of energy sources in our plant.

The Raw Materials sector, attuned to the needs of its customers, continued to develop specialized new products, such as the sand used in cement production and in foundry processes. The chemical characteristics of the sands used by Vidrio Plano de México, S. A. de C. V. were completely redefined. Steps such as these allowed us to deliver customary product quality at a lower cost.

Substantial improvements in production technology were made at Vitro Fibras, S. A. with the installation of an oxy-firing system in the insulation furnace, increasing its productivity while reducing emissions.

With an eye to optimizing operations a program of process engineering was initiated at Vitro PQ, S. A.

The steps taken in 1993, and those we will take in the near future, will position us as the best quality, service, and price option in the world for our customers. We know this is an ambitious goal. But the current revolution in the business environment convinces us there is no alternative. We are confident that these first firm steps will bring us ever closer to our competitive goals.

# *Vitro Household Products*

*B*ETWEEN 1987 and 1991, Vitro Household Products focused its investment program on the integration of its operating structure. With the opening of the Acros-Whirlpool Industrial Center in December 1991, our Division acquired the capability to manufacture basic major appliances: compact and full-size refrigerators, floor and built-in ranges, gas grills, manual and automatic washers.

The supporting infrastructure is also in place. We have the facilities to build components for electrical household appliances as well as a distribution system for imported products. We acquired the Center for Advanced Technology in 1991 to manage qualitative and technological change in our products and our manufacturing processes. Such change is essential if we are to become competitive at the international level.

A commitment to quality is also necessary. Our first Total Quality program, designed specifically for household products, was called Quest for Excellence through Customer Satisfaction. With techniques developed by our partner, Whirlpool Corporation, we implemented the Consumer to Consumer System to gain a better understanding of our customer. With this knowledge we can design and improve products and services with the assurance of exceeding the expectations of even the most demanding users.

We are systematically applying benchmarking techniques to our operations in order to optimize our business practices. As a result, we are already implementing a Logistics System that will both assure product availability for our customers and, at the same time, allow us to reduce our inventories.

Aware that those organizations that do not improve costs will not exist in the year 2000, we have formally instituted a Cost Reduction System that will make us as cost-competitive as the best companies in the world. The system addresses every area from supplier development, to product design, to manufacturing. At the same time, we are directing our capital investments towards the flexible-manufacturing areas to guarantee the customer better quality and service.

Our people are focusing on quality as well. Our System of Responsibilities and Commitments assures that the management of the Vitro Household Products division — as individuals and as members of a business team — is working to optimize the entire Division.

We know that without this significant qualitative change, we will not be able to compete successfully in the next century. We understand that for change to happen, we need to invest in the development of human resources, for, in the end, that is the source of any advantage we may have. The contributions of our people will add the greatest value to our products, and being able to deliver this value to our customers is the way to maximize shareholder value.


FAMA


# *Vitro Capital Goods*

*THE UNIVERSAL* availability of basic technology and the opening of the main international markets have created aggressive competition, especially in the capital goods sector.

Guided by an understanding of our customers and an appreciation of our competitive position in our various markets, we have redirected our business strategy. We have put into place programs to assure that we will be competitive today and in the future.

We have instituted systematic and open exchanges of information with our customers. We have revised and updated internal operations so we can provide more agile and flexible service. These improvements in our structure will facilitate internal and external communication and control, leading to Total Quality.

Upgrading our information system has permitted greater employee participation in our internal operations. To sharpen that input, we have also established a development program for our personnel and for our suppliers.

Our redesigned operations are built on teamwork, emphasizing the elimination of unproductive effort. With the willing support of everyone in the Division, our improved service will allow us to tap the full potential of each of our markets.

# *Corporate Officers*

*Ernesto Martens R.*
*President and Chief Executive Officer*

## *Divisional Presidents*

*Federico Sada G.*
*Vitro North America Containers*

*Marcelino Villarreal*
*Vitro Flat Glass*

*Juan Manuel Holguín*
*Vitro Glassware*

*Tomás González Sada*
*Vitro Household Products*

*Pablo González Sada*
*Vitro Chemical, Fibers and Mining*

*Carlos Segovia G.*
*Vitro Capital Goods*

*Mario Garza G.*
*Vitro Human Relations and Planning*

*Roberto César Treviño*
*Vitro Finance*

*José Antonio López*
*Vitro Legal, Public and Banking Relations*

VITRO, SOCIEDAD ANÓNIMA is a holding company, the Subsidiaries of which manufacture and market glass and plastic containers, thermoformed articles, luggage, flat glass for architectural and automotive uses, glassware and enamelware for table and kitchen use, fiberglass insulation and reinforcements, chemical products, mineral resources, household appliances, capital goods, and research and development of technology.

Apartado Postal 184, 66250 San Pedro Garza García, N. L., México.

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*Vitro Jurídica, Relaciones Públicas y Bancarias* *Design and production: Comunicación Financiera*

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# FINANCIAL STATEMENTS

VITRO, SOCIEDAD ANONIMA

**Galaz, Gómez Morfín, Chavero, Yamazaki**

Board of Directors and Stockholders of
Vitro, Sociedad Anónima.
San Pedro, Garza García, N. L.

We have examined the balance sheets of Vitro, Sociedad Anónima, as of December 31, 1992 and 1993, and the related statements of income, variations in stockholders' equity and changes in the financial position for the years ended at December 31, 1991, 1992 and 1993. Such financial statements are responsibility of the Company's management. Our examinations were made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the subsidiaries and associated companies mentioned in the note 3-a) were examined by other auditors and our opinion, regarding the amounts reported by these companies, is based only on the auditors' report issued by such other auditors. The total assets of the companies above mentioned represent 19% of the consolidated total assets in 1992 and 1993, whereas their net income represents 13%, 25% and 35% of the consolidated net income in 1991, 1992 and 1993 respectively.

In order to disclose in an adequate form the financial information of the economic entity integrated by Vitro, Sociedad Anónima and Subsidiaries, consolidated financial statements are required, which were prepared by separate and they were audited by certified public accountant (note 3-a).

In our opinion, the accompanying financial statements referred to in the first paragraph, in conjunction with the consolidated financial statements mentioned in the former paragraph, present fairly the financial position of the legal entity, Vitro, Sociedad Anónima as of December 31, 1992 and 1993, and the results of its operations, variations in its stockholders' equity and changes in its financial position for the years ended at December 31, 1991, 1992 and 1993, in conformity with generally accepted accounting principles.

Treviño E.

Celso Javier Treviño E.
Public Accountant

Monterrey, N. L., México, February 28, 1994.

**Deloitte Touche Tohmatsu International**

VITRO, SOCIEDAD ANÓNIMA

BALANCE SHEETS

(millions of constant Mexican new pesos as of December 31, 1993)

| ASSETS | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Cash and cash equivalents | NPs. 29 | NPs. 13 |
| Receivables from services to subsidiaries | 28 | 20 |
| Accounts receivable from subsidiaries | | 56 |
| Account receivable from sale of associated companies | | 407 |
| Other receivables | 23 | 18 |
| Current assets | 80 | 514 |
| Investment in subsidiaries and associated companies (note 5) | 5,574 | 5,168 |
| Land and buildings (note 6) | 14 | 13 |
| Furniture and equipment (note 6) | 8 | 7 |
| Excess of cost over fair value of net assets acquired | 2,371 | 2,095 |
| Total assets | NPs. 8,047 | NPs. 7,797 |

| LIABILITIES | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Commercial paper | NPs. 270 | NPs. |
| Short-term borrowings | | 438 |
| Current portion of long-term debt | | 148 |
| Accounts payable to subsidiaries | 9 | 11 |
| Income tax and value added tax payable | 217 | 168 |
| Other current liabilities | 25 | 4 |
| Current liabilities | 521 | 769 |
| Medium-term notes (note 7) | 535 | 376 |
| Accounts payable to subsidiaries | 153 | 142 |
| Total liabilities | 1,209 | 1,287 |
| Contingent liabilities (note 8) | | |
| STOCKHOLDERS' EQUITY | | |
| Capital stock: no par value shares issued and outstanding, 300 000 000 | 300 | 300 |
| Restatement of capital stock | 1,444 | 1,444 |
| Capital stock restated | 1,744 | 1,744 |
| Paid-in capital | 363 | 363 |
| Excess (shortfall) in restatement of capital | (2,417) | (2,925) |
| Appropriated retained earnings for reacquisition of company's own shares (note 4) | 1,000 | 1,200 |
| Minimum pension liability adjustment | | ( 92) |
| Retained earnings | 5,503 | 5,635 |
| Net income for the year | 645 | 585 |
| Total stockholders' equity (note 10) | 6,838 | 6,510 |
| Total liabilities and stockholders' equity | NPs. 8,047 | NPs. 7,797 |

Roberto César Treviño
Chief Financial Officer

Ernesto Martens R.
President and Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA

INCOME STATEMENTS

(millions of constant Mexican new pesos as of December 31, 1993)

| | Year ended December 31, | | |
|---|---|---|---|
| | 1991 | 1992 | 1993 |
| Share in net income of subsidiaries and associated companies | NPs. 620 | NPs. 727 | NPs. 589 |
| Other operating revenues | 9 | | |
| Revenues from operations | 629 | 727 | 589 |
| Administrative expenses | 10 | 10 | 8 |
| Operating income | 619 | 717 | 581 |
| Total financing cost: | | | |
| Interest expense | 98 | 140 | 159 |
| Interest income | 27 | 27 | 7 |
| Gain from monetary position | 94 | 31 | 83 |
| | ( 23) | 82 | 69 |
| Income after financing | 642 | 635 | 512 |
| Other income | 109 | 26 | 30 |
| Income before income tax and tax on assets | 751 | 661 | 542 |
| Income tax and tax on assets | 68 | 16 | ( 43) |
| Net income for the year | NPs. 683 | NPs. 645 | NPs. 585 |

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA
STATEMENTS OF STOCKHOLDERS' EQUITY
(millions of constant Mexican new pesos as of December 31, 1993)

| | Capital Stock | Paid-in Capital | Excess (Shortfall) in Restatement of Capital | Minimum pension liability adjustment | Retained Earnings | Net Income for the year | Stock-holders' Equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 1990** | NPs. 1,497 | NPs. | NPs.( 917) | NPs. | NPs. 5,064 | NPs. 835 | NPs.6,479 |
| Appropriation of net income from prior year | | | | | 835 | ( 835) | |
| Paid-in capital | | 363 | | | | | 363 |
| Stock dividend (14.3%) | 17 | | | | ( 17) | | |
| Dividends (NPs. 3.36 new pesos per share) | | | | | ( 265) | | ( 265) |
| Company's own shares sold | | | | | 715 | | 715 |
| Loss due to holding non-monetary assets | | | ( 898) | | | | ( 898) |
| Excess of book value over cost of shares in subsidiaries and associated companies | | | | | 11 | | 11 |
| Net income for the year | | | | | | 683 | 683 |
| **Balance at December 31, 1991** | NPs. 1,514 | NPs. 363 | NPs.(1,815) | NPs. | NPs. 6,343 | NPs. 683 | NPs.7,088 |
| Appropriation of net income from prior year | | | | | 683 | ( 683) | |
| Stock dividend (200 %) | 230 | | | | ( 230) | | |
| Dividends (NPs. 2.99 new pesos per share) | | | | | ( 293) | | ( 293) |
| Loss due to holding non-monetary assets | | | ( 602) | | | | ( 602) |
| Net income for the year | | | | | | 645 | 645 |
| **Balance at December 31, 1992** | NPs. 1,744 | NPs. 363 | NPs.(2,417) | NPs. | NPs. 6,503 | NPs. 645 | NPs.6,838 |
| Appropriation of net income from prior year | | | | | 645 | ( 645) | |
| Dividends (NPs. 1.04 new pesos per share) | | | | | ( 313) | | ( 313) |
| Loss due to holding non-monetary assets | | | ( 508) | | | | ( 508) |
| Minimum pension liability adjustment | | | | ( 92) | | | ( 92) |
| Net income for the year | | | | | | 585 | 585 |
| **Balance at December 31, 1993** | NPs. 1,744 | NPs. 363 | NPs.(2,925) | NPs.( 92) | NPs. 6,835 | NPs. 585 | NPs.6,510 |

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(millions of constant Mexican new pesos as of December 31, 1993)

| | Year ended December 31, | | |
|---|---|---|---|
| | 1991 | 1992 | 1993 |
| OPERATING ACTIVITIES: | | | |
| Net income | NPs. 683 | NPs. 645 | NPs. 585 |
| Add (deduct) non-cash items: | | | |
| Depreciation and amortization | 1 | 1 | 1 |
| Share in net income of subsidiaries and associated companies | ( 118) | 192 | ( 144) |
| Net gain on sale of company's own shares | | ( 21) | |
| Income on sale of subsidiaries and associated companies | | | ( 30) |
| | 566 | 817 | 412 |
| Change in other current assets and liabilities, net | ( 134) | 414 | ( 518) |
| Resources generated (used) from operations | 432 | 1,231 | ( 106) |
| FINANCING ACTIVITIES: | | | |
| Short-term bank loans | 1,305 | 1,021 | 1,761 |
| Medium-term bank loans | | 552 | 33 |
| Monetary effect on liabilities with financing cost | ( 97) | ( 41) | ( 71) |
| Payment of short-term loans | (1,473) | (1,008) | (1,577) |
| Sale of Company's own shares | 952 | 119 | |
| Dividends paid | ( 265) | ( 294) | ( 313) |
| Resources generated (used) in financing activities | 422 | 349 | ( 167) |
| INVESTMENT ACTIVITIES: | | | |
| Sale of fixed assets | | 3 | |
| Investment in fixed assets | ( 2) | ( 2) | ( 2) |
| Investment in shares | ( 351) | (2,067) | ( 171) |
| Sale of subsidiaries and associated companies | | | 430 |
| Resources (used) generated in investment activities | ( 353) | (2,066) | 257 |
| Net increase (decrease) in cash and cash equivalents | 501 | ( 486) | ( 16) |
| Balance at beginning of year | 14 | 515 | 29 |
| Balance at end of year | NPs. 515 | NPs. 29 | NPs. 13 |

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA
NOTES TO FINANCIAL STATEMENTS
(millions of constant Mexican new pesos as of December 31, 1993)

1. Activities of the Company

Vitro, Sociedad Anónima is a holding company, the subsidiaries of which manufacture and market glass containers, flat glass for architectural and automotive uses, glassware and enamelware for table and kitchen use, major household appliances, chemical and fiberglass products and other related products, mineral resources and capital goods.

2. Basis of presentation

The financial statements of Vitro, Sociedad Anónima (the Company) are prepared in accordance with accounting principles generally accepted in Mexico (Mexican GAAP) as further described in note 3.

3. Principal accounting policies

a) *Investment in subsidiaries and associated companies:*

This investment is valued by the equity method, taking into account the proportional part of the net income and stockholders' equity of the subsidiaries and associates that corresponds to the Company, based on the financial statements of the issuers at December 31, 1992 and 1993.

The companies Vitro O.C.F., S. A. de C. V. and subsidiary, Vitromátic, S. A. de C. V. and subsidiaries, Vitro P.Q., S. A. and subsidiaries, Vitro Flex, S. A. de C. V. and Vitro Do Brasil Industria e Comercio, Ltda., and the associated companies, Empresas Comegua, S. A. and subsidiaries, Regioplast, S. A. de C. V. and Grupo Financiero Serfin, S. A. de C. V. and subsidiaries are audited by firms of public accountants other than the Company's principal auditor.

The financial statements represent the equity of Vitro, Sociedad Anónima in the stockholders' equity and in the net income of its subsidiaries and associates, which are prepared for legal purposes; however, the consolidated financial statements are required in order to reflect adequately the financial information of the economic entity, which were prepared separately and audited by public accountant.

The following is a summary of the financial statements cited in the preceding paragraph:

| | December 31, | |
|---|---|---|
| | 1992 | 1993 |
| Total assets | NPs. 17,480 | NPs. 17,011 |
| Total liabilities | 9,462 | 9,628 |
| Net income for the year | 705 | 698 |

*b) Accounting method for the treatment of the effects of inflation*

The financial statements of the Company have been prepared in accordance with Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information", as amended, issued by the Mexican Institute of Public Accountants (IMCP), which recognizes the effects of inflation. The Third Amendment to Bulletin B-10 (the Third Amendment), has been adopted in such financial statements. The Third Amendment requires the restatement of all comparative financial statements to constant pesos as of the date of the most recent balance sheet presented.

The following is a description of the items that have been restated and of the methods used:

- *Inventories and cost of sales* - Subsidiaries' inventories are valued at the price of the last purchase made during the year, or at the latest production cost or, in some cases, at standard cost, without exceeding the net realizable value. Cost of sales is determined by using the price of the last purchase prior to the date of consumption, the latest production cost at the time of sale or the standard cost. The inventories of the subsidiary Anchor Glass Containers Corporation (Anchor) are valued by the "last in, first out" method. The value of the inventory at the date of the balance sheet approximates its replacement value.

- *Land, buildings, furniture and equipment* - Expenditures for land, buildings, furniture and equipment, including renewals and betterments which extend useful lives, are capitalized. These investments are expressed at their net replacement value, determined from appraisals performed annually by independent appraisers registered with Comisión Nacional de Valores (CNV), Mexico's Securities and Exchange Commission.

  Depreciation is calculated using the straight-line method, taking into consideration the useful life of the asset, in order to depreciate the original cost and the revaluation. The depreciation begins in the month in which the asset comes into service. The useful life of assets is :

| | Years |
|---|---|
| Buildings | 20 to 50 |
| Furniture and equipment | 5 to 15 |

- *Excess of cost over fair value of net assets* - The excess of cost over fair value of net assets acquired of Mexican subsidiaries is restated using the Indice Nacional de Precios al Consumidor (INPC). The excess of cost over fair value of net assets acquired of Anchor is restated applying the Consumer Price Index - All Urban Consumers- All Items, Unadjusted (CPI), published by the U.S. Department of Labor, and such excess is translated to Mexican pesos at the exchange rate at the date of the most recent balance sheet presented.

- *Excess (shortfall) in restatement of capital* - This item, which is an element of stockholders' equity, reflects the accumulated effect of holding non-monetary assets and the effect of the initial monetary position, gain or loss. The accumulated effect of holding non-monetary assets represents the increase in the specific values of non-monetary assets in excess of or below the increase attributable to general inflation as measured by the INPC.

- *Restatement of capital stock and retained earnings* - Capital stock and retained earnings, for Mexican companies, are restated as of the date of the most recent balance sheet presented using the INPC from the respective dates such capital was contributed or income generated. Retained earnings for U.S. companies are restated using the CPI index.

- *Exchange fluctuations* - Exchange gains or losses included in the cost of financing are calculated by translating monetary assets and liabilities denominated in foreign currencies at the exchange rate in effect at the end of each month.

- *Gain (loss) from monetary position*- The gain (loss) from monetary position reflects the result of holding monetary assets and liabilities during periods of inflation. Values stated in current monetary units represent a decreasing purchasing power as time goes by. This means that losses are incurred by holding monetary assets over time, whereas gains are realized by maintaining monetary liabilities. The net effect is presented in the income statement for the year as part of the total financing cost. For companies located in the United States of America, the result due to monetary position is calculated using the CPI.

c) *Maintenance expenses*

Maintenance and repair expenses are recorded as costs and expenses in the period when they are incurred.

d) *Seniority premiums, retirement plans and severance payments*

In Mexican companies, statutory seniority premiums and pensions for all personnel are considered as costs in the periods in which services are rendered. Periodic costs are calculated in accordance with the new accounting pronouncement Bulletin D-3 issued by the IMCP and the actuarial computations were made by independent actuary, on the basis of actuarial computations, using estimates of the salaries that will be in effect at the time of payment. Personnel not yet eligible for seniority premiums are also taken into account, with any necessary adjustments made in accordance with the probability of their acquiring the required seniority. The cost of past service is amortized over the average period required for workers to reach their retirement age. Actuarial computations are updated if events requiring this take place.

Severance payments are charged to expense in the year in which such payments are made.

Anchor's retirement plans are principally non-contributory, covering almost all employees. The funding policy of Anchor is to pay at least the minimum amount required by the Employee Retirement Income Security Act of 1974. For financial statement purposes, the projected unit credit method is used, and the cost of past service is amortized over a 15 year period.

e) *Income tax*

For the Company's Mexican companies, income tax expense is computed in accordance with the partial liability method, as required by Mexican Accounting Bulletin D-4 issued by the IMCP, under which deferred income taxes are provided for identifiable, nonrecurring timing differences (i.e. those that are expected to reverse over a definite period of time) at rates in effect at the time such differences arise and reversed at those same rates at the time such differences reverse.

*f) Excess of cost over fair value of net assets acquired*

The excess of cost over fair value of net assets acquired before December 31, 1991 is being amortized on a straight line basis over a 40 year period. The excess of cost over fair value of net assets acquired after December 31, 1991 is being amortized on a straight line basis over a 20 year period. Amortization expense for the years ended December 31, 1991, 1992 and 1993 were NPs. 50, NPs. 65 and NPs. 67 respectively.

*g) Excess of book value over cost of net assets acquired*

Based on an accounting pronouncement issued by the IMCP effective January 1, 1992, the Company accounts the excess of book value over cost of net assets acquired, in the results of the year on which they are generated; previous accounting standards required to account them directly in the stockholders' equity. All these excesses the Company accounted for directly in the stockholders' equity, on and before December 31, 1991, were reclassified to retained earnings. For the year ended 1992 there are NPs. 24, included in the results, related to this concept.

*h) Other income*

Net income for the year ended December 31, 1991 includes nonrecurring income of NPs. 102 relating to a receivable in such amount based on an adjustment in the pricing of certain purchases from Mexican government sector enterprises. Such amount is included in other income for the period. During the year of 1992 this receivable was collected. Net income for the year ended December 31, 1992 includes NPs. 21, related to the net gain on the sale of Company's own shares previously reacquired, in order to comply with the Securities Market Law (Ley del mercado de Valores) prevailing at that time.

4. Retained earnings' appropriation for the reacquisition of Company's own shares

The Company's Stockholders' meeting authorized the appropriation of retained earnings for the reacquisition of the Company's own shares in the amount of NPs. 500 in 1991, NPs. 500 in 1992 and NPs. 200 in 1993.

5. Investment in subsidiaries and associated companies

*a) The analysis of this investment follows:*

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Investment in subsidiaries and other | NPs. 3,108 | NPs. 3,000 |
| Investment in associated companies | 2,466 | 2,168 |
| | NPs. 5,574 | NPs. 5,168 |

b) Associated companies are considered to be those in which Vitro, Sociedad Anónima holds, as a permanent investment, less than 50% of its capital stock.

6. Land, buildings, furniture and equipment

Land, buildings, furniture and equipment are summarized as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 1992 | | 1993 | |
| Land | NPs. | 4 | NPs. | 4 |
| Buildings | | 11 | | 11 |
| Accumulated depreciation | | ( 1) | | ( 2) |
| | NPs. | 14 | NPs. | 13 |
| Furniture and equipment | NPs. | 10 | NPs. | 10 |
| Accumulated depreciation | | ( 2) | | ( 3) |
| | NPs. | 8 | NPs. | 7 |

7. Medium-term notes

This balance is constituted by unsecured notes, offered to the public with leader interest rate plus 5.25 points and principal payable in October 1995.

8. Contingencies

Anchor is a defendant in various environmental related cases. In addition, Anchor is one of many defendants in numerous cases alleging exposure by former employees of the closed Palestine, Texas plant, to asbestos or silica. The defendants are primarily the suppliers of the products in question, but include Anchor as a former employer of the plaintiffs. The cases are in discovery. The Company believes that the ultimate outcome of this litigation will not materially affect its financial position or future operations.

The Company is not otherwise a party, and none of its assets are subject to any other pending legal proceedings, other than ordinary routine litigation incidental to its business and against which the Company is adequately insured or indemnified or which the Company believes is not material.

9. Foreign currency operations

At December 31, 1993 the assets and liabilities denominated in foreign currency (other than Mexican pesos) of the Company's Mexican subsidiaries consist of the following:

| | Millions of U.S. dollars | Millions of Mexican new pesos |
|---|---|---|
| Monetary assets | $ 132 | NPs. 411 |
| Investment in shares | 435 | 1,352 |
| Monetary liabilities | 1 | 3 |

10. Stockholders' equity

*a)* Capital stock of the Company consisted of 300 000 000 ordinary, nominative, paid-up shares, without par value, as of December 31, 1992 and 1993.

*b)* Stockholders' equity includes accrued profits and results from the restating of assets which, in case of distribution, will be subject, under certain circumstances, to payment of income tax by the Company.

*c)* Stockholders' equity breakdown consists of the following:

| | December 31, 1993 | | |
|---|---|---|---|
| | Current value | Restatement | Restated value |
| Capital stock | NPs. 300 | NPs 1,444 | NPs. 1,744 |
| Paid-in capital | 291 | 72 | 363 |
| Minimum pension liability | ( 92) | | ( 92) |
| Retained earnings | 1,666 | 5,169 | 6,835 |
| Net income for the period | 564 | 21 | 585 |

11. Amortizable tax losses

At December 31, 1993, Anchor had net operating losses and investment tax credit carryforwards of approximately NPs. 466 and NPs. 19 respectively, expiring at various dates through 2007. The utilization of the restricted carryforwards will be limited due to changes in the tax law made by the U.S. Tax Reform Act of 1986 offsetting it with future taxable income.

12. Income tax

*a)* At December 31, 1993, there were NPs. 950 of subsidiaries' inventories that had already been deducted for tax purposes, and NPs. 117 as a provision for seniority premium payments that had not been deducted. No deferred taxes have been provided with respect to these items in accordance with Mexican GAAP.

b) As a result of changes in income tax regulations made during the year of 1993 Mexican companies can deduct, for income tax purposes through the next 30 years, beginning December 31, 1992, the inventories held on December 31, 1986 or 1988 which ever are lower. This deduction will be made actualized using the INPC of June of each year on which the deduction is made.

The ending balance as of December 31, 1993, of these inventories represents NPs. 502 and is considered as a deductible temporary difference. A deferred tax asset for the amount of NPs. 195 was recorded during the year of 1993 and is presented as Share in net income of subsidiaries and associated companies in the income statement.

13. Business acquisitions

On January 24, 1992, the Company participated as part of an investors' group to acquire an interest in Grupo Financiero OBSA (OBSA). The investors' group includes, among others, the Chairman of the Board of the Company. On January 27, 1992, 51 % of the outstanding shares of Banca Serfin S. A. were acquired by OBSA. Few months later, in March, a holding company was formed (Grupo Financiero Serfin, S. A. de C. V.) the subsidiaries of which, among others are: Banca Serfin, S. A. and Operadora de Bolsa Serfin, S. A. de C. V. (previously OBSA). The Company owns a 10 % interest, of the issued shares, in Grupo Financiero Serfin, S. A. de C. V. and accounts its investment by the equity method because it is considered to have the ability to exercise significant influence.

On May, 1992 VVP Holdings Corporation, a Delaware company, a wholly-owned subsidiary of Vitro Plan, S. A. de C. V., a Mexican corporation, of which the Company owns 65 % and Pilkington PLC owns 35 %, purchased 100 % of the outstanding shares of ACI America, for a cash payment of NPs. 213 and a NPs. 51 non-interest bearing note due May 29, 1994, from ACI America Holdings, Inc., a Delaware Corporation, which in turn is a wholly-owned indirect subsidiary of BTR Nylex Limited, an Australian corporation. Immediately after the acquisition was consummated, ACI America was merged with and into VVP America, a wholly-owned subsidiary of VVP Holdings Corp. The acquisition has been accounted for using the purchase method of accounting.

In August 1992 the Company acquired 100 % of the outstanding shares of Vidriera Oriental, S. A. de C. V. (VOSA), a small group of companies which manufactures and sells glass containers. The net investment of the Company was NPs. 397.

Galaz, Gómez Morfín,
Chavero, Yamazaki

Board of Directors and Stockholders of
Vitro, Sociedad Anónima
San Pedro, Garza García, N. L.

We have examined the balance sheets of Vitro, Sociedad Anónima and Subsidiaries, as of December 31, 1992 and 1993, and the related consolidated statements of income, variations in stockholders' equity and changes in the financial position for the years ended at December 31, 1991, 1992 and 1993. Such financial statements are responsibility of the Company's management. Our examinations were made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the subsidiaries and associated companies mentioned in the note 2-b) were examined by other auditors and our opinion, regarding the amounts reported by these companies, is based only on the auditors' report issued by such other auditors. The total assets of the companies above mentioned represent 19% of the consolidated total assets in 1992 and 1993, whereas their net income represents 13%, 25% and 35% of the consolidated net income in 1991, 1992 and 1993 respectively.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the consolidated financial position of Vitro, Sociedad Anónima and Subsidiaries as of December 31, 1992 and 1993, and the consolidated results of its operations, variations in its stockholders' equity and changes in its financial position for the years ended at December 31, 1991, 1992 and 1993, in conformity with generally accepted accounting principles.

Celso Javier Treviño E.
Public Accountant

Monterrey, N. L. Mexico, February 28, 1994.

Deloitte Touche
Tohmatsu
International

VITRO, SOCIEDAD ANÓNIMA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Millions of constant Mexican new pesos as of December 31, 1993)

| | December 31, 1992 | December 31, 1993 | Millions of U.S. dollars (Convenience Translation) December 31, 1993 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | NPs. 718 | NPs. 645 | $ 208 |
| Trade receivables, net of allowance for doubtful accounts of NPs. 27 and NPs. 29 | 1,109 | 1,084 | 349 |
| Other receivables (note 2-c) | 257 | 644 | 207 |
| Inventories (note 5) | 2,077 | 1,773 | 571 |
| Current assets | 4,161 | 4,146 | 1,335 |
| Investment in associated companies | 2,466 | 2,168 | 698 |
| Land and buildings (note 6) | 2,411 | 2,711 | 872 |
| Machinery and equipment (note 6) | 5,272 | 4,685 | 1,508 |
| Construction in progress | 364 | 281 | 90 |
| Excess of cost over fair value of net assets acquired, net of accumulated amortization of NPs. 168 and NPs. 235 | 2,389 | 2,113 | 680 |
| Intangible pension asset | | 187 | 60 |
| Other assets | 417 | 720 | 232 |
| | 13,319 | 12,865 | 4,140 |
| Total assets | NPs.17,480 | NPs.17,011 | $ 5,475 |

| | December 31, 1992 | December 31, 1993 | Millions of U.S. dollars (Convenience Translation) December 31, 1993 |
|---|---|---|---|
| LIABILITIES | | | |
| Short-term borrowings (note 7) | NPs. 1,016 | NPs. 1,101 | $ 354 |
| Current portion of long-term debt | 138 | 453 | 146 |
| Trade payables | 612 | 599 | 193 |
| Accrued expenses payables | 186 | 136 | 44 |
| Other current liabilities | 346 | 335 | 108 |
| Accrued compensation and employees benefits | 182 | 177 | 57 |
| Current liabilities | 2,480 | 2,801 | 902 |
| Long-term debt (note 8) | 6,233 | 5,942 | 1,912 |
| Seniority premiums, pensions and other long-term liabilities (note 10) | 749 | 885 | 285 |
| Long-term liabilities | 6,982 | 6,827 | 2,197 |
| Total liabilities | 9,462 | 9,628 | 3,099 |
| STOCKHOLDERS' EQUITY | | | |
| Majority interest: | | | |
| Capital stock: no par value shares issued and outstanding, 300 000 000 | 300 | 300 | 97 |
| Restatement of capital stock | 1,444 | 1,444 | 465 |
| Capital stock restated | 1,744 | 1,744 | 562 |
| Paid-in capital | 363 | 363 | 117 |
| Excess (shortfall) in restatement of capital | ( 2,417) | ( 2,925) | ( 942) |
| Appropriated retained earnings for reacquisition of Company's own shares (note 4) | 1,000 | 1,200 | 386 |
| Minimum pension liability adjustment | | ( 92) | ( 30) |
| Retained earnings | 5,503 | 5,635 | 1,814 |
| Net income for the year | 645 | 585 | 188 |
| Total majority interest | 6,838 | 6,510 | 2,095 |
| Minority interest in consolidated subsidiaries | 1,180 | 873 | 281 |
| Total stockholders' equity (note 14) | 8,018 | 7,383 | 2,376 |
| Total liabilities and stockholders' equity | NPs.17,480 | NPs.17,011 | $ 5,475 |

Ernesto Martens R.
President and Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(Millions of constant Mexican new pesos as of December 31, 1993, except for per share amounts)

| | Year ended December 31, 1991 | Year ended December 31, 1992 | Year ended December 31, 1993 | Millions of U.S. dollars (Convenience Translation) December 31, 1993 |
|---|---|---|---|---|
| Net sales | NPs. 10,638 | NPs. 10,881 | NPs. 10,927 | $ 3,517 |
| Cost of sales | 7,483 | 7,815 | 7,789 | 2,507 |
| Gross profit | 3,155 | 3,066 | 3,138 | 1,010 |
| General, administrative and selling expenses | 1,638 | 1,890 | 1,946 | 626 |
| Operating income | 1,517 | 1,176 | 1,192 | 384 |
| Total financing cost: | | | | |
| Interest expense | 1,092 | 1,207 | 1,223 | 394 |
| Interest income | 155 | 254 | 141 | 45 |
| Gain from monetary position | 448 | 476 | 416 | 134 |
| | 489 | 477 | 666 | 215 |
| Income after financing | 1,028 | 699 | 526 | 169 |
| Other income (expense), net (note 3-f, g) | 130 | 93 | 77 | 25 |
| Share in net income of unconsolidated associated companies | 85 | 159 | 143 | 46 |
| Income before income tax, workers' profit sharing and extraordinary items | 1,243 | 951 | 746 | 240 |
| Income tax (note 16) | 316 | 185 | 20 | 6 |
| Profit sharing to workers | 85 | 61 | 28 | 9 |
| Income before extraordinary items | 842 | 705 | 698 | 225 |
| Extraordinary items, net (note 17) | ( 49) | | | |
| Net income for the year | NPs. 793 | NPs. 705 | NPs. 698 | $ 225 |
| Net income of minority interest | NPs. 110 | NPs. 60 | NPs. 113 | $ 37 |
| Net income of majority interest | 683 | 645 | 585 | 188 |
| | NPs. 793 | NPs. 705 | NPs. 698 | $ 225 |
| Earnings per common share (based on 300 000 000 outstanding shares for all periods): | | | | |
| Income before extraordinary items | NPs. 2.807 | NPs. 2.350 | NPs. 2.327 | $ 0.749 |
| Extraordinary items | (0.163) | | | |
| Minority interest | (0.367) | (0.200) | (0.377) | (0.121) |
| Net earnings per common share | NPs. 2.277 | NPs. 2.150 | NPs. 1.950 | $ 0.628 |

The accompanying notes are an integral part of these financial statements.

## VITRO, SOCIEDAD ANÓNIMA AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Millions of constant Mexican new pesos as of December 31, 1993)

| | Capital stock | Paid-in capital | Excess (Shortfall) in restatement of capital | Minimum pension liability adjustment | Retained earnings | Net income for the year | Minority interest | Stock-holders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 1990** | NPs. 1,497 | NPs. | NPs. ( 917) | NPs. | NPs. 5,064 | NPs. 835 | NPs. 1,172 | NPs. 7,651 |
| Appropriation of net income from prior year | | | | | 835 | ( 835) | | |
| Paid-in capital | | 363 | | | | | | 363 |
| Stock dividend (14.3%) | 17 | | | | ( 17) | | | |
| Dividends (NPs. 3.36 new pesos per share) | | | | | ( 265) | | | ( 265) |
| Company's own shares sold | | | | | 715 | | | 715 |
| Loss due to holding non-monetary assets | | | ( 898) | | | | | ( 898) |
| Excess of book value over cost of shares in subsidiaries and associated companies | | | | | 11 | | | 11 |
| Decrease in minority interest | | | | | | | ( 113) | ( 113) |
| Net income for the year | | | | | | 683 | | 683 |
| **Balance at December 31, 1991** | NPs. 1,514 | NPs. 363 | NPs. (1,815) | NPs. | NPs. 6,343 | NPs. 683 | NPs. 1,059 | NPs. 8,147 |
| Appropriation of net income from prior year | | | | | 683 | ( 683) | | |
| Stock dividend (200 %) | 230 | | | | ( 230) | | | |
| Dividends (NPs. 2.99 new pesos per share) | | | | | ( 293) | | | ( 293) |
| Loss due to holding non-monetary assets | | | ( 602) | | | | | ( 602) |
| Increase in minority interest | | | | | | | 121 | 121 |
| Net income for the year | | | | | | 645 | | 645 |
| **Balance at December 31, 1992** | NPs. 1,744 | NPs. 363 | NPs. (2,417) | NPs. | NPs. 6,503 | NPs. 645 | NPs. 1,180 | NPs. 8,018 |
| Appropriation of net income from prior year | | | | | 645 | ( 645) | | |
| Dividends (NPs. 1.04 new pesos per share) | | | | | ( 313) | | | ( 313) |
| Loss due to holding non-monetary assets | | | ( 508) | | | | | ( 508) |
| Decrease in minority interest | | | | | | | ( 307) | ( 307) |
| Minimum pension liability adjustment | | | | ( 92) | | | | ( 92) |
| Net income for the year | | | | | | 585 | | 585 |
| **Balance at December 31, 1993** | NPs. 1,744 | NPs. 363 | NPs. (2,925) | NPs. ( 92) | NPs. 6,835 | NPs. 585 | NPs. 873 | NPs. 7,383 |

The accompanying notes are an integral part of these financial statements.

VITRO, SOCIEDAD ANÓNIMA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Millions of constant Mexican new pesos as of December 31, 1993)

| | Year ended December 31, 1991 | Year ended December 31, 1992 | Year ended December 31, 1993 | Millions of U.S. dollars (Convenience Translation) 1993 |
|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | |
| Net income | NPs. 793 | NPs. 705 | NPs. 698 | $ 225 |
| Add (deduct) non cash items: | | | | |
| Depreciation and amortization | 827 | 836 | 819 | 264 |
| Provision for seniority premiums, pensions and other | ( 12) | ( 13) | 23 | 7 |
| Share in net income of unconsolidated associated companies | ( 84) | ( 159) | ( 143) | ( 46) |
| Negative goodwill | | ( 24) | | |
| Net gain on sale of company's own shares | | ( 21) | | |
| Income on sale of subsidiaries and associated companies | | | ( 30) | ( 10) |
| Deferred income tax and workers' profit sharing | ( 7) | 5 | ( 250) | ( 80) |
| | 1,517 | 1,329 | 1,117 | 360 |
| (Decrease) in trade payables | ( 12) | ( 78) | ( 8) | ( 3) |
| (Increase) decrease in trade receivables | ( 48) | 58 | 14 | 5 |
| (Increase) decrease in inventories | ( 224) | ( 197) | 191 | 61 |
| Change in other current assets and liabilities, net | ( 104) | 15 | ( 434) | ( 140) |
| Resources generated from operations | 1,129 | 1,127 | 880 | 283 |
| FINANCING ACTIVITIES: | | | | |
| Short-term bank loans | 5,363 | 5,481 | 2,014 | 648 |
| Long-term bank loans | 3,121 | 3,403 | 1,845 | 594 |
| Capital stock contributed by minority interest | 22 | 259 | | |
| Monetary effect on liabilities with financing cost | ( 768) | ( 563) | ( 451) | ( 145) |
| Payment of short-term loans | (5,626) | (5,353) | (1,785) | ( 573) |
| Payment of long-term loans | (1,794) | (1,135) | (1,644) | ( 529) |
| Sale of Company's own shares | 952 | 119 | | |
| Dividends paid to stockholders of Vitro, Sociedad Anónima | ( 265) | ( 294) | ( 313) | ( 101) |
| Dividends paid to minority interest | ( 126) | ( 112) | ( 93) | ( 30) |
| Resources generated (used) in financing activities | 879 | 1,805 | ( 427) | ( 136) |
| INVESTMENT ACTIVITIES: | | | | |
| Sale of fixed assets | 104 | 85 | 68 | 22 |
| Investment in property and buildings and machinery and equipment | (1,438) | (1,106) | ( 908) | ( 292) |
| Investment in subsidiaries and associated companies | ( 40) | (2,452) | ( 36) | ( 12) |
| Sale of subsidiaries and associated companies | | | 430 | 138 |
| Other | ( 78) | ( 114) | ( 80) | ( 26) |
| Resources used in investment activities | (1,452) | (3,587) | ( 526) | ( 170) |
| Net increase (decrease) in cash and cash equivalents | 556 | ( 655) | ( 73) | ( 23) |
| Balance at beginning of year | 817 | 1,373 | 718 | 231 |
| Balance at end of year | NPs. 1,373 | NPs. 718 | NPs. 645 | $ 208 |

The accompanying notes are an integral part of these financial statements.

1. Activities of the company

Vitro, Sociedad Anónima is a holding company, the subsidiaries of which manufacture and market glass containers, flat glass for architectural and automotive uses, glassware and enamelware for table and kitchen use, major household appliances, chemical and fiberglass products and other related products, mineral resources and capital goods.

2. Basis of presentation and principles of consolidation

*a) Basis of presentation*

The consolidated financial statements of Vitro, Sociedad Anónima and subsidiaries (the Company) are prepared in accordance with accounting principles generally accepted in Mexico (Mexican GAAP) as further described in note 3.

The consolidated financial statements presented herein are expressed in millions of constant Mexican new pesos as of December 31, 1993. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended December 31, 1993 have been translated into United States dollars at the rate of 3.1071 new pesos per one dollar, the rate of exchange set by the Banco de México on December 31, 1993. The translation should not be construed as a representation that the amounts shown could be so converted into U.S. dollars at such rate.

*b) Consolidated subsidiaries*

Those companies in which Vitro, Sociedad Anónima holds more than 50% of the capital stock are included in the consolidated financial statements.

The companies Vitro O.C.F., S. A. de C. V. and subsidiary, Vitromátic, S. A. de C. V. and subsidiaries, Vitro P.Q., S. A. and subsidiaries, Vitro Flex, S. A. de C. V. and Vitro Do Brasil Industria e Comercio, Ltda., and the associated companies, Grupo Financiero Serfin, S. A. de C. V. and subsidiaries, Empresas Comegua, S. A. and subsidiaries, and Regioplast, S. A. de C. V. are audited by firms of public accountants other than the Company's principal auditor.

In order to consolidate financial statements of the companies located in the United States of America, the effect of inflation was taken into consideration in accordance with Bulletin B-10, as amended. Such companies' financial statements are initially prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The assets, liabilities, stockholders' equity (except capital stock) and the income statement accounts were translated using the exchange rate as of the date of the most recently presented balance sheet (see note 3).

All significant intercompany balances and transactions have been eliminated in consolidation.

c) *Investment in associated companies*

Associated companies are those companies in which Vitro, Sociedad Anónima holds, as a permanent investment, less than 50 % of the capital stock. Such investments are accounted for by the equity method.

An analysis of the investment in associated companies follows:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Cydsa, S. A. | NPs. 1,143 | NPs. 1,076 |
| Corning Vitro Corp. | 373 | |
| Grupo Financiero Serfin, S. A. de C. V. | 779 | 900 |
| Empresas Comegua, S. A. | 138 | 131 |
| World Tableware International, Inc. | 33 | 29 |
| Regioplast, S. A. de C. V. | | 32 |
| | NPs. 2,466 | NPs. 2,168 |

Cydsa, S. A., a Mexican company, primarily manufactures and distributes petrochemical products in Mexico. The joint venture made with Corning Incorporated in January 1992 through the newly formed company Corning Vitro Corp., was ended by mutual agreement, however a close commercial relationship will be continued. An account receivable for NPs. 407 from this operation is presented on the balance sheet as of December 31, 1993, in other receivables. Grupo Financiero Serfin, S. A. de C. V. (GFS) a Mexican firm is a financial conglomerate, see note 18.

Summary information of Cydsa, S. A. for all years presented and for Corning Vitro Corporation and Cydsa, S. A. combined (as of and for the year ended December 31, 1992) follows:

Balance sheet data:

| | December 31, 1992 | December 31, 1993 | Millions of U.S. dollars (Convenience Translation) December 31, 1993 |
|---|---|---|---|
| Current assets | NPs. 2,464 | NPs. 1,420 | $ 457 |
| Non-current assets | 4,239 | 3,493 | 1,124 |
| Current liabilities | 1,768 | 829 | 267 |
| Long-term debt | 1,695 | 1,879 | 605 |
| Minority interest | 285 | 69 | 22 |
| Stockholders' equity | 2,955 | 2,136 | 687 |

Income statement data:

| | For the year ended December 31, | | | Millions of U.S. dollars (Convenience Translation) December 31, |
|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1993 |
| Revenues | NPs. 2,907 | NPs. 5,077 | NPs. 2,682 | $ 863 |
| Gross profit | 831 | 1,454 | 644 | 207 |
| Majority net income (loss) | 130 | 126 | ( 42) | ( 14) |
| Dividends paid to Vitro, Sociedad Anónima | 40 | 40 | 36 | 12 |

Summary information of Grupo Financiero Serfin, S. A. de C. V. follows:

| | December 31, | | Millions of U.S. dollars (Convenience Translation) December 31, |
|---|---|---|---|
| | 1992 | 1993 | 1993 |
| Current assets | NPs. 321 | NPs. 313 | $ 101 |
| Investment in subsidiaries | 5,806 | 5,040 | 1,622 |
| Total assets | 6,127 | 5,353 | 1,723 |
| Total liabilities | 514 | 13 | 4 |
| Stockholders' equity | 5,613 | 5,340 | 1,719 |
| Net income | 505 | 1,153 | 371 |

Empresas Comegua, S. A. manufactures and markets glass containers and is located in the Republic of Panama and has subsidiaries in Costa Rica and Guatemala. World Tableware International, Inc. is a U.S. company that manufactures and markets tableware products. Regioplast, S. A. de C. V. was a subsidiary of the Company, it is now an associated company after the sale made to Owens-Illinois, Inc. of a 50% interest. Summary information of Empresas Comegua, S. A., World Tableware International, Inc. and Regioplast, S. A. de C. V. is not provided as it is not material.

## 3. Principal accounting policies

### a) *Accounting method for the treatment of the effects of inflation*

The consolidated financial statements of the Company have been prepared in accordance with Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information", as amended, issued by the Mexican Institute of Public Accountants (IMCP), which recognizes the effects of inflation. The Third Amendment to Bulletin B-10 (the Third Amendment), has been adopted in such consolidated financial statements. The Third Amendment requires the restatement of all comparative financial statements to constant pesos as of the date of the most recent balance sheet presented.

The following is a description of the items that have been restated and of the methods used:

- *Inventories and cost of sales* - Inventories are valued at the price of the last purchase made during the year, or at the latest production cost or, in some cases, at standard cost, without exceeding the net realizable value. Cost of sales is determined by using the price of the last purchase prior to the date of consumption, the latest production cost at the time of sale or the standard cost. The inventories of the subsidiary Anchor Glass Containers Corporation (Anchor) are valued by the "last in, first out" method. The value of the inventory at the date of the balance sheet approximates its replacement value.

- *Land, buildings, machinery and equipment* - Expenditures for land, buildings, machinery and equipment, including renewals and betterments which extend useful lives, are capitalized. These investments are expressed at their net replacement value, determined from appraisals performed annually by independent appraisers registered with Comisión Nacional de Valores, Mexico's Securities Commission (CNV).

  Depreciation is calculated using the straight line method, taking into consideration the useful life of the asset, in order to depreciate the original cost and the revaluation. The depreciation begins in the month in which the asset comes into service. The useful lives of the assets are as follows:

| | Years |
|---|---|
| Buildings | 20 to 50 |
| Machinery and equipment | 5 to 20 |

- *Excess of cost over fair value of net assets* - The excess of cost over fair value of net assets acquired of Mexican subsidiaries is restated using the Indice Nacional de Precios al Consumidor (INPC). The excess of cost over fair value of net assets acquired of Anchor is restated applying the Consumer Price Index - All Urban Consumers - All Items, Unadjusted (CPI), and such excess is translated to Mexican pesos at the exchange rate at the date of the most recent balance sheet presented.

- *Excess (shortfall) in restatement of capital* - This item, which is an element of stockholders' equity, reflects the accumulated effect of holding non-monetary assets and the effect of the initial monetary position gain or loss. The accumulated effect of holding non-monetary assets represents the increase in the specific values of non-monetary assets in excess of or below the increase attributable to general inflation as measured by the INPC.

- *Restatement of capital stock and retained earnings* - Capital stock and retained earnings, for Mexican companies, are restated using the INPC from the respective dates such capital was contributed or income generated to the date of the most recent balance sheet presented. Retained earnings for U.S. companies are restated using the CPI index.

- *Exchange fluctuations* - Exchange gains or losses included in the cost of financing are calculated by translating monetary assets and liabilities denominated in foreign currencies at the exchange rate in effect at the end of each month.

- *Gain (loss) from monetary position* - The gain (loss) from monetary position reflects the result of holding monetary assets and liabilities during periods of inflation. Values stated in current monetary units represent a decreasing purchasing power as time goes by. This means that losses are incurred by holding monetary assets over time, whereas gains are realized by maintaining monetary liabilities. The net effect is presented in the income statement for the year as part of the total financing cost. For companies located in the United States of America, the result due to monetary position is calculated using the CPI.

b) *Maintenance expenses*

Maintenance and repair expenses are recorded as costs and expenses in the period when they are incurred.

c) *Seniority premiums, retirement plans and severance payments*

In Mexican companies, statutory seniority premiums and pensions plans for all personnel are considered as costs in the periods in which services are rendered. Periodic costs are calculated in accordance with the new accounting pronouncement Bulletin D-3 issued by the IMCP and the actuarial computations were made by independent actuary, using estimates of the salaries that will be in effect at the time of payment. Personnel not yet eligible for seniority premiums are also taken into account, with any necessary adjustments made in accordance with the probability of their acquiring the required seniority. The cost of past service is amortized over the average period required for workers to reach their retirement age. Actuarial computations are updated if events requiring this take place.

Severance payments are charged to expense in the year in which such payments are made.

Anchor's retirement plans are principally non-contributory, covering almost all employees. The funding policy of Anchor is to pay at least the minimum amount required by the Employee Retirement Income Security Act of 1974. For financial statement purposes, the projected unit credit method is used, and the cost of past service is amortized over a 15 year period.

d) *Income tax*

For the Company's Mexican companies, income tax expense is computed in accordance with the partial liability method, as required by Bulletin D-4 issued by the IMCP, under which deferred income taxes are provided for identifiable, nonrecurring timing differences (i.e. those that are expected to reverse over a definite period of time) at rates in effect at the time such differences arise and reversed at those same rates at the time such differences reverse.

e) *Excess of cost over fair value of net assets acquired*

The excess of cost over fair value of net assets acquired before December 31,1991 is being amortized on a straight-line basis over a period of 40 years. The excess of cost over fair value of net assets acquired after December 31,1991 is being amortized on a straight-line basis over a period of 20 years. Amortization expense for the years ended December 31, 1991, 1992 and 1993 were NPs. 50, NPs. 65 and NPs. 67 respectively.

*f) Excess of book value over cost of net assets acquired*

Based on an accounting pronouncement issued by the IMCP effective January 1, 1992, the Company accounts the excess of book value over cost of net assets acquired, in the results of the year on which they are generated; previous accounting standards required to account them directly in the stockholders' equity. All these excesses the Company accounted for directly in the stockholders' equity, on and before December 31, 1991, were reclassified to retained earnings. For the year ended 1992 there are NPs. 24, included in the results, related to this concept.

*g) Other income*

Net income for the year ended December 31, 1991 includes nonrecurring income of NPs. 102 relating to a receivable in such amount based on an adjustment in the pricing of certain purchases from Mexican government sector enterprises. Such amount is included in other income for the period. During the year of 1992 this receivable was collected. Net income for the year ended December 31, 1992 includes NPs. 21, related to the net gain on the sale of Company's own shares previously reacquired, in order to comply with the Securities' Market Law (Ley del Mercado de Valores) prevailing at that time.

4. Retained earning's appropriation for the reacquisition of Company's own shares

The Company's stockholders' meeting authorized the appropriation of retained earnings for the reacquisition of the Company's own shares, in the amount of NPs. 500 in 1991, NPs. 500 in 1992 and NPs. 200 in 1993.

5. Inventories

Inventories are summarized as follows:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Semi-finished and finished products | NPs. 1,329 | NPs. 1,181 |
| Raw materials | 340 | 261 |
| Packaging materials | 52 | 36 |
| | 1,721 | 1,478 |
| Spare parts | 211 | 184 |
| Refractories | 39 | 37 |
| Merchandise in transit | 75 | 54 |
| Other | 31 | 20 |
| | NPs. 2,077 | NPs. 1,773 |

6. Land, buildings, machinery and equipment

Land, buildings, machinery and equipment are summarized as follows:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Land | NPs. 586 | NPs. 616 |
| Buildings | 2,410 | 2,750 |
| Accumulated depreciation | ( 585) | ( 655) |
| | NPs. 2,411 | NPs. 2,711 |
| Machinery and equipment | NPs. 8,700 | NPs. 8,244 |
| Equipment under capital leases | 301 | 21 |
| Accumulated depreciation | (3,729) | (3,580) |
| | NPs. 5,272 | NPs. 4,685 |

7. Short-term borrowings

Short-term borrowings consist of the following:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Bank borrowings | NPs. 742 | NPs. 992 |
| Commercial paper | 271 | |
| Other | 3 | 109 |
| | NPs. 1,016 | NPs. 1,101 |

At December 31, 1992 and 1993 short-term borrowings denominated in Mexican new pesos totalled NPs. 515 and NPs. 527, respectively, and short-term borrowings denominated in foreign currency (all of which are denominated in U.S. dollars) totalled NPs. 501 and NPs. 574, respectively.

8. Long-term debt

Long-term debt consists of the following:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| U.S. Companies (Payable in U.S. dollars): | | |
| Floating rate series A and C senior secured notes, variable interest rate, payable quarterly, principal payable from 1996 through 1999. | NPs. 153 | NPs. 149 |

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Series B senior secured notes interest at 9.91%, payable quarterly, principal payable from 1996 through 1999. | NPs. 645 | NPs. 628 |
| Senior secured notes, interest at 11.28%, payable quarterly, principal payable in 1995. | 482 | 469 |
| Senior notes, series A, interest at 10.25%, payable semiannually, principal payable in 2002. | 319 | 311 |
| Guaranteed unsecured notes, interest at 9%, payable semiannually, less unamortized discount of NPs. 3, principal payable in October 1997. | 223 | 217 |
| Senior subordinated debentures, interest at 13.375%, payable semi-annually, redemption at the option of the Company, with mandatory annual redemption of NPs. 117 in 1998 and 1999 and the balance of NPs. 234 in 2000; less unamortized discount of and NPs. 33 in 1992, based on an imputed interest rate of 15.00%. | 446 | |
| Senior subordinated debentures, interest at 9.875%, payable semiannually, principle payable in 2008. | | 621 |
| Other | 21 | 17 |
| Mexican Companies (Payable in U.S. dollars): | | |
| Secured term notes, interest payable semiannually with a LIBOR based rate plus 1.75%, principal payable semiannually through October 2001. | 499 | 426 |

| | December 31, | | | |
|---|---|---|---|---|
| | 1992 | | 1993 | |
| Secured term loan, interest based on LIBOR plus 2.25% and 0.4 points, principal payable in July 1995 and June 1999. | NPs. | 177 | NPs. | 181 |
| Unsecured term loans, with variable interest rates, based on U.S. Treasury Bills plus 2.5% and LIBOR plus 4 points, payable semi-annually, principal payable in several installments from November 1994 until March 1996. | | 250 | | 169 |
| Secured term notes, market interest rate, payable monthly, principal payable partially through August 1997. | | | | 369 |
| Unsecured term loans, market interest rate, payable monthly, principal payable in 1995. | | | | 204 |
| Other | | 23 | | 4 |
| Mexican Companies (Payable in Mexican pesos): | | | | |
| Unsecured term loan, interest based on market conditions plus 5.25 points, payable monthly, principal payable in October 1995. | | 535 | | 525 |
| Secured term notes, variable interest rates based on market conditions, payable monthly, quarterly, and semiannually, principal payable in several installments from 1995 until 2001. | | 837 | | 538 |
| Unsecured term loans, variable interest rates based on market conditions payable monthly, quarterly and semiannually, principal payable in several installments from 1995 until 1999. | | 1,758 | | 1,564 |

| | December 31, | |
|---|---|---|
| | 1992 | 1993 |
| Other | NPs. 3 | NPs. 3 |
| | 6,371 | 6,395 |
| Less current maturities | 138 | 453 |
| | NPs. 6,233 | NPs. 5,942 |

The schedule of principal payments of long-term debt as of December 31, 1992 is as follows:

| Year ended December 31, | |
|---|---|
| 1995 | NPs. 1,730 |
| 1996 | 710 |
| 1997 | 1,072 |
| 1998 | 1,074 |
| 1999 and after | 1,356 |
| | NPs. 5,942 |

In some of Anchor's and Mexican companies' long term debt the covenants set forth certain restrictions and require to meet various financial ratios.

Anchor's debt for a total of NPs. 777 is secured with inventories for NPs. 539, trade receivables for NPs. 164 and fixed assets for NPs. 1,482. Mexican companies' debt for a total of NPs. 485 is secured with fixed assets and inventories with a value of NPs. 967 as of December 31, 1993.

9. Capital lease transactions and notes receivable, net

Anchor leases certain operating facilities from Anchor Glass Container Associates Limited Partnership (AGCA), formerly Wesray Container Associates. The leases between Anchor and AGCA provided for a purchase option to acquire all of the leased facilities from AGCA for a cash payment and forgiveness of the remaining balance of AGCA indebtedness to Anchor.

On December 22, 1993 Anchor irrevocably deposited with a trustee, funds equal to the purchase price necessary to acquire all of the leased facilities in 1994. Placement of the funds in trust effectively terminated Anchor's net obligations under the capital leases.

10. Pensions plans and seniority premiums

As mentioned on note 3 c), beginning January 1, 1993, a new accounting pronouncement, Bulletin D-3 was issued by the IMCP, which establishes financial accounting and reporting standards for pensions and seniority premiums. Disclosures required by this Bulletin and a summary of data based on actuarial computations is given below as of December 31, 1993.

| | December 31, 1993 |
|---|---|
| Accumulated benefit obligation | NPs. 1,332 |
| Projected benefit obligation | 1,516 |
| Plan assets at fair value | 807 |
| Unrecognized prior service cost and plan changes | 103 |
| Unrecognized net (gain) or loss | 132 |
| Unrecognized transition obligation | 186 |
| Projected net liability | 289 |
| Additional minimum liability | 278 |
| Net periodic cost | 109 |

Assumptions:

| | Mexican Companies | USA Companies |
|---|---|---|
| Discount rate | 13 % | 7.5 % |
| Expected rate of return on plan assets | 14 % | 9.0 % |
| Compensation increase | 10 % | 5.0 % |

The net periodic cost for the years 1991 and 1992 was NPs. 89 and NPs. 84 respectively.

11. Leases

In addition to the capital lease transactions of Anchor discussed in note 9, the Company also leases distribution and office facilities, machinery, transportation, data processing and office equipment under non-cancellable leases which expire at various dates through 2003. These leases generally provide for fixed rental payments and include renewal and purchase options at amounts which are generally based on fair market value at expiration of the lease. Total rental payments by the time they expire will be approximately NPs. 203.

Annual rental expense for all operating leases for the years ended December 31, 1991, 1992 and 1993 were NPs. 50, NPs. 58 and NPs. 70, respectively.

## 12. Contingencies

Anchor is a defendant in various environmental related cases. In addition, Anchor is one of many defendants in numerous cases alleging exposure by former employees of the closed Palestine, Texas plant, to asbestos or silica. The defendants are primarily the suppliers of the products in question, but include Anchor as a former employer of the plaintiffs. The cases are in discovery. The Company believes that the ultimate outcome of this litigation will not materially affect its financial position or future operations.

The Company is not otherwise a party, and none of its assets are subject to any other pending legal proceedings, other than ordinary routine litigation incidental to its business and against which the Company is adequately insured or indemnified or which the Company believes is not material.

## 13. Foreign currency operations

*a)* At December 31, 1993 the assets and liabilities denominated in foreign currency (other than Mexican pesos) of the Company's Mexican subsidiaries consist of the following:

| | Millions of U.S. dollars | Millions of Mexican new pesos |
|---|---|---|
| Monetary assets | $ 45 | NPs. 139 |
| Inventories | 26 | 82 |
| Fixed assets | 495 | 1,539 |
| Monetary liabilities | 633 | 1,968 |

*b)* Foreign operations of the Company's Mexican subsidiaries during the year of 1993:

| | Millions of U.S. dollars | Millions of Mexican new pesos |
|---|---|---|
| Exports | $ 450 | NPs. 1,399 |
| Imports | 263 | 817 |
| Interest expense, net | ( 12) | ( 36) |

*c)* Anchor is the most important subsidiary located outside Mexico; relevant information about this company is shown in note 19.

14. Stockholders' equity

*a)* Capital stock of the Company consisted of 300 000 000 ordinary, nominative, paid-up shares, without par value, as of December 31, 1992 and 1993.

*b)* Stockholders' equity includes accrued profits and results from the restating of assets which, in case of distribution, will be subject, under certain circumstances, to payment of income tax by the Company.

*c)* Minority interest in consolidated subsidiaries consist of the following:

| | December 31, 1992 | December 31, 1993 |
|---|---|---|
| Capital stock | NPs. 1,320 | NPs. 1,030 |
| Paid-in capital | 29 | 29 |
| Shortfall in restatement of capital | ( 676) | ( 741) |
| Retained earnings | 447 | 431 |
| Net income for the period | 60 | 124 |
| | NPs. 1,180 | NPs. 873 |

*d)* Majority interest stockholders' equity consists of the following:

| | December 31, 1993 | | |
|---|---|---|---|
| | Nominal value | Restatement | Restated value |
| Capital stock | NPs. 300 | NPs. 1,444 | NPs. 1,744 |
| Paid-in capital | 291 | 72 | 363 |
| Minimum pension liability | ( 92) | | ( 92) |
| Retained earnings | 1,666 | 5,169 | 6,835 |
| Net income for the period | 564 | 21 | 585 |

15. Amortizable tax losses

At December 31, 1993, the minority interest in equity of subsidiaries had tax losses pending amortization in the amount of NPs. 238 and tax on the companies' assets to be credited amounting to NPs. 23.

At December 31, 1993, Anchor had net operating losses and investment tax credit carry forwards of approximately NPs. 466 and NPs. 19 respectively, expiring at various dates through 2007. The utilization of the restricted carry forwards will be limited due to changes in the tax law made by the U.S. Tax Reform Act of 1986.

## 16. Income tax

*a)* At December 31, 1993, there were NPs. 950 of inventories that had already been deducted for tax purposes, and NPs. 117 as a provision for seniority premium payments that had not been deducted. No deferred taxes have been provided with respect to these items in accordance with Mexican GAAP.

*b)* The reconciliation between the Company's effective income tax rate and the statutory income tax rate is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 1991 | 1992 | 1993 |
| Effective income tax rate | 25.4 % | 19.4 % | 2.68 % |
| Purchase deductions | 7.2 | 6.3 | (4.09) |
| Difference between tax and financial accounting for monetary gain | 3.2 | 8.5 | 4.12 |
| Share in net income of associated companies | 2.4 | 5.9 | 6.63 |
| Reserves | (0.6) | (0.7) | (1.22) |
| Loss in foreign companies and minority interest | (3.4) | 0.2 | (13.47) |
| Difference between tax and financial accounting for depreciation | 0.3 | 1.9 | 11.07 |
| Effect of change in tax law | (4.3) | | |
| 1986 Inventories deduction | | | 24.21 |
| Other | 4.8 | (6.5) | 4.82 |
| Statutory income tax rate | 35.0 % | 35.0 % | 34.75 % |

*c)* As a result of changes in income tax regulations made during the year of 1993 Mexican companies can deduct, for income tax purposes through the next 30 years, beginning December 31, 1992, the inventories held on December 31, 1986 or 1988 which ever are lower. This deduction will be made actualized using the INPC of June of each year on which the deduction is made.

The ending balance as of December 31, 1993, of these inventories represents NPs. 502 and is considered as a deductible temporary difference. A deferred tax asset for the amount of NPs. 225 was recorded during the year of 1993.

17. Extraordinary items

Net income for the year ended December 31, 1991, includes an extraordinary item of NPs. 49 net of tax benefit of NPs. 1 from early extinguishment of debt.

18. Business acquisitions

On January 24, 1992, the Company participated as part of an investors' group to acquire an interest in Grupo Financiero OBSA (OBSA). The investors' group includes, among others, the Chairman of the Board of the Company. On January 27, 1992, 51% of the outstanding shares of Banca Serfin S. A. were acquired by OBSA. Few months later, in March, a holding company was formed (Grupo Financiero Serfin, S. A. de C. V.) the subsidiaries of which, among others are: Banca Serfin, S. A. and Operadora de Bolsa Ser-fin, S. A. de C. V. (previouslyOBSA). The Company owns a10% interest, of the issued shares, in Gru-po Financiero Serfin, S. A. de C. V. and accounts its investment by the equity method because it is considered to have the ability to exercise significant influence.

On May, 1992 VVP Holdings Corporation, a Delaware company, wholly-owned subsidiary of Vitro Plan, S. A. de C. V., a Mexican corporation, of which the Company owns 65% and Pilkington PLC owns 35%, purchased 100% of the outstanding shares of ACI America, for a cash payment of NPs. 213 and a NPs. 51 non-interest bearing note due May 29, 1994, from ACI America Holdings, Inc., a Delaware Corporation, which in turn is a wholly-owned indirect subsidiary of BTR Nylex Limited, an Australian corporation. Immediately after the acquisition was consummated, ACI America was merged with and into VVP America, a wholly-owned subsidiary of VVP Holdings Corp. The acquisition has been accounted for using the purchase method of accounting.

In August 1992 the Company acquired 100% of the outstanding shares of Vidriera Oriental, S. A. de C. V. (VOSA), a small group of companies which manufactures and sells glass containers. The net investment of the Company was NPs. 397.

19. Business segment data

Export sales, substantially all of which are transacted in U.S. dollars and which account for a significant portion of the Company's revenues, are principally to the United States and Canada and were as follows:

| Year ended December 31, | | |
|---|---|---|
| 1991 | 1992 | 1993 |
| NPs. 1,279 | NPs. 1,275 | NPs. 1,399 |

The Company is engaged principally in seven industry lines which are Containers, Anchor, Flat Glass, Glassware, Household Products, Chemical, Fibers and Mining, and Capital Goods. The principal products of each of the industry segments are summarized below:

| Segment | Principal products |
|---|---|
| Containers | Glass and plastic containers |
| Anchor | Glass containers |
| Flat Glass | Flat glass for construction and automotive industries |
| Glassware | Glassware for table and kitchen use |
| Household Products | Home appliances and enamelware |
| Chemical, Fibers and Mining | Silica sand, soda ash and fiberglass |
| Capital Goods | Glass forming machines and molds |

Anchor is treated as a separate segment because it is a U.S. subsidiary that produces and sells containers for that market.

A summary of certain segment information follows:

| | Containers | Anchor | Flat Glass | Household Products | Glassware | Chemical, Fibers and Mining | Capital Goods | Corporate and Others | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 1991** | | | | | | | | | |
| Net sales | NPs. 2,849 | NPs.3,889 | NPs.1,240 | NPs.1,209 | NPs. 905 | NPs. 759 | NPs. 336 | NPs. 15 | NPs. 11,202 |
| Interdivisional sales and other | 38 | 0 | 13 | 20 | 10 | 264 | 215 | 4 | 564 |
| Consolidated net sales | 2,811 | 3,889 | 1,227 | 1,189 | 895 | 495 | 121 | 11 | 10,638 |
| Operating income | 553 | 335 | 320 | 110 | 43 | 98 | 10 | 48 | 1,517 |
| Assets | 3,062 | 4,583 | 2,053 | 1,420 | 1,232 | 973 | 346 | 2,128 | 15,797 |
| Capital expenditures | 349 | 295 | 457 | 118 | 153 | 49 | 12 | 5 | 1,438 |
| Depreciation | 168 | 278 | 95 | 40 | 62 | 42 | 20 | 9 | 714 |
| Amortization | 0 | 79 | 19 | 4 | 1 | 3 | 0 | 7 | 113 |
| **December 31, 1992** | | | | | | | | | |
| Net sales | NPs. 2,834 | NPs.3,759 | NPs.1,700 | NPs.1,273 | NPs. 868 | NPs. 659 | NPs. 273 | NPs. 9 | NPs. 11,375 |
| Interdivisional sales and other | 40 | 21 | 12 | 23 | 7 | 201 | 190 | 0 | 494 |
| Consolidated net sales | 2,794 | 3,738 | 1,688 | 1,250 | 861 | 458 | 83 | 9 | 10,881 |
| Operating income | 490 | 255 | 306 | 70 | ( 22) | 94 | 9 | (26) | 1,176 |
| Assets | 3,715 | 4,442 | 2,389 | 1,352 | 1,262 | 985 | 298 | 3,037 | 17,480 |
| Capital expenditures | 375 | 255 | 176 | 95 | 96 | 53 | 5 | 51 | 1,106 |
| Depreciation | 173 | 275 | 109 | 40 | 66 | 45 | 19 | 9 | 736 |
| Amortization | 2 | 69 | 10 | 5 | 2 | 3 | 0 | 9 | 100 |
| **December 31, 1993** | | | | | | | | | |
| Net sales | NPs. 2,752 | NPs.3,538 | NPs.2,050 | NPs.1,345 | NPs. 818 | NPs. 611 | NPs. 194 | NPs. 30 | NPs. 11,338 |
| Interdivisional sales and other | 19 | 24 | 7 | 26 | 6 | 180 | 148 | 1 | 411 |
| Consolidated net sales | 2,733 | 3,514 | 2,043 | 1,319 | 812 | 431 | 46 | 29 | 10,927 |
| Operating income | 558 | 146 | 409 | 106 | ( 72) | 70 | ( 19) | ( 6) | 1,192 |
| Assets | 3,360 | 4,485 | 2,477 | 1,302 | 1,095 | 960 | 290 | 3,042 | 17,011 |
| Capital expenditures | 181 | 365 | 109 | 70 | 57 | 41 | 2 | 83 | 908 |
| Depreciation | 201 | 265 | 73 | 38 | 51 | 46 | 17 | 8 | 699 |
| Amortization | 5 | 77 | 18 | 7 | 6 | 2 | 0 | 5 | 120 |

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