

# Annual Report '86



VITRO, SOCIEDAD ANONIMA

Vitro, Sociedad Anónima, is a mexican company, manufacturer of glass and plastic containers; thermoformed articles, luggage; flat glass for architectural and automotive use; crystal products; fiberglass insulations and reinforcements, related industrial chemical products; enamelware articles, major appliances; mineral resources, capital goods and research and development of technology, related with the items mentioned above.

Apdo. Postal 497, Monterrey, N.L. 64000, México

# Financial Highlights

(Millions of Pesos)

	1986	1985	CHANGE
1. TOTAL SALES	650,398	312,957	108 <sup>o</sup> / <sub>o</sub>
2. CONSOLIDATED SALES	528,655	267,800	97 <sup>o</sup> / <sub>o</sub>
3. INTEGRAL FINANCING COST	80,635	32,395	149 <sup>o</sup> / <sub>o</sub>
4. NET INCOME	80,526	44,818	80 <sup>o</sup> / <sub>o</sub>
5. CAPITAL EXPENDITURES	46,112	14,850	211 <sup>o</sup> / <sub>o</sub>
6. EXCESS CASH	130,717	69,353	88 <sup>o</sup> / <sub>o</sub>
7. RETURN ON EQUITY	19.3 <sup>o</sup> / <sub>o</sub>	22.2 <sup>o</sup> / <sub>o</sub>	
8. CURRENT RATIO	2.62	2.80	
9. LIABILITIES / STOCKHOLDERS' EQUITY	0.62	0.77	
10. DEBT COVERAGE	2.96	2.87	
11. SUPPORTABLE BANK DEBT	2.3	3.4	

# Letter from the Chairman

*To our shareholders:*

*The activities of our companies during 1986 continued to take place within a depressed Mexican economy. Although, during the first half of the year, domestic markets moved ahead briskly, during the second half they fell back to such an extent that the net final result in real terms was an insignificant increase in sales.*

*On the other hand, the continuation of a foreign exchange policy that stimulated exports, together with our redoubled efforts to compete aggressively in foreign markets through quality, keen pricing and the diversity of our product lines, rewarded us with a level of export sales that is without precedent in GRUPO VITRO's history.*

*The results of the year were satisfactory. By defending our operating margins and by our success in exports we managed to reach our objectives. Also the excellent results achieved by the CYDSA Group, in which we have a substantial stockholding, were an important factor in our success.*


*During 1986 the companies of the Prodosomex Group were acquired and thus rounded out our domestic appliance business. This was an important step in integrating and consolidating our new Household Products Division which began in 1985 when we acquired Troqueles y Esmaltes, S. A.*

*For a number of years now, one of our objectives has been to reduce our indebtedness to a level that would allow us to make our financial structure even more solid than it has been. We are pleased to inform you that, during the year under review, we succeeded in reducing our liabilities without detriment to our cash reserves nor to the capital spending that was necessary to keep our installed capacity running in top condition and with the latest technology.*

*There was a decline in the level of employment in our traditional businesses. The increase shown in the numbers employed is due to the companies we acquired during the year.*

*Our view of 1987 gives no great grounds for optimism. Inflation will continue at a high level and, though we foresee a slight recovery in domestic markets, the efforts of other countries to thwart the entry of Mexican goods into their markets is a menace that may hinder us in raising exports to any great extent. During the coming year our efforts will be directed toward strengthening the financial position of GRUPO VITRO's companies, increasing productivity and reducing costs, so as to cushion the harsh effects of the environment and the recent changes made to the Mexican tax code.*

*We are sure that, with the loyalty of our customers, the support of our bankers and the sustained effort of our people, we shall continue to lead GRUPO VITRO along a path that will keep it healthy and worthy of the trust that you, our shareholders, have placed in us.*

A handwritten signature in black ink, appearing to read 'Adrian Sada T.', with a long horizontal flourish extending to the right.

ADRIAN SADA T.

Chairman of the Board.



*ADRIAN SADA G.  
Vice-Chairman*

*ADRIAN SADA T.  
Chairman of the Board*

*ERNESTO MARTENS R.  
President and Chief Executive Officer*

Annual Report  
submitted by the Board of Directors  
of Vitro, Sociedad Anónima  
for the year 1986

Board of Directors



## BOARD OF DIRECTORS

1. ADRIAN SADA T. (*Chairman*)
2. ADRIAN SADA G. (*Vice-Chairman*)
3. EDUARDO G. BRITTINGHAM
4. JULIO ESCAMEZ F.
5. ALEJANDRO GARZA LAGUERA
6. DIONISIO GARZA SADA
7. MARIO GARZA G.
8. PABLO GONZALEZ SADA
9. TOMAS GONZALEZ SADA
10. ADOLFO LARRALDE R. (*Secretary*)
11. ERNESTO MARTENS R.
12. JUAN F. MUÑOZ
13. FEDERICO SADA G.

## ALTERNATE BOARD MEMBERS

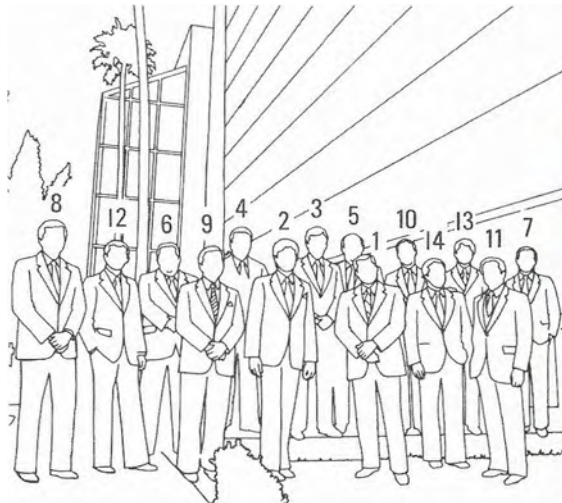
VIRGILIO GARZA JR.  
ALFONSO F. RODRIGUEZ

## EXAMINER

14. JAVIER IRIONDO V.

## ALTERNATE EXAMINER

SALVADOR GONZALEZ G. JR.





Last year, at the end of our Report, we spoke these words:

“The undeniable need to reorder the economy of our country leads us to forecast a severe slowing down of demand in our markets during this year of 1986, which is bound to have an impact on the companies of GRUPO VITRO”.

The economy of Mexico did indeed suffer a grave deterioration during the year. A brief analysis of the most important economic variables will bring out the magnitude of the setback. Gross Domestic Product (GDP) came down by 3.1%. Inflation reached 105.7%, one of the highest rates in our country's recent history. The public sector deficit was swollen to 16.8% of GDP, almost touching the level it had reached in 1982.

The Mexican peso finished the year undervalued by 31.9%. Gross international reserves stood at 6,300 million dollars at year end, as against 5,800 million the previous year. This was due to growth in exports of manufactures, a drop in domestic demand that caused imports to shrink and some repatriation of capital.

Industrial production declined by 5.7% and manufactures by 5.8%.

#### MARKETS

GRUPO VITRO's markets behaved in similar fashion to the economy as a whole. Thus there were decreases in activity of 33% in automotive, 11% in construction, 13% in wines and spirits, 7% in pharmaceuticals, 6% in soft drinks and 5% in “white” domestic appliances.

Economic conditions were favorable to exports of manufactures and these rose by 30.7%. Thus GRUPO VITRO reaffirmed in 1986 what was already visible in 1985: exports are our main market.

<u>MARKET</u>	<u>% OF TOTAL SALES</u>
Exports	19.4
Soft drinks	13.6
Table and kitchen wares	9.9
Construction	9.1
Food	8.5
Automotive	7.1
Beer	6.6
Wines and spirits	5.2
Domestic appliances	5.0
Pharmaceutical and laboratory	4.3
Others	11.3
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Total	100.0
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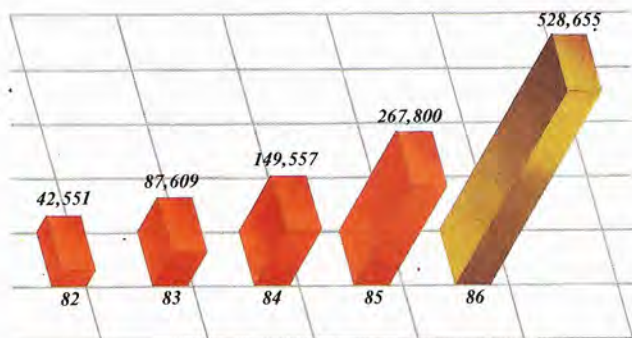
#### SALES

Total sales reached 650 billion pesos, an increase of 108% for the year. It is worth stressing that the companies of the Prodosomex Group and Altro, S. A. contributed to this result. Sales of the existing GRUPO VITRO companies rose by 100%.



Consolidated sales were 528,655 million pesos, 97% above those of the previous year in current pesos and 6% more in constant pesos. If the newly acquired companies are excluded, sales rose by 2% in real terms.

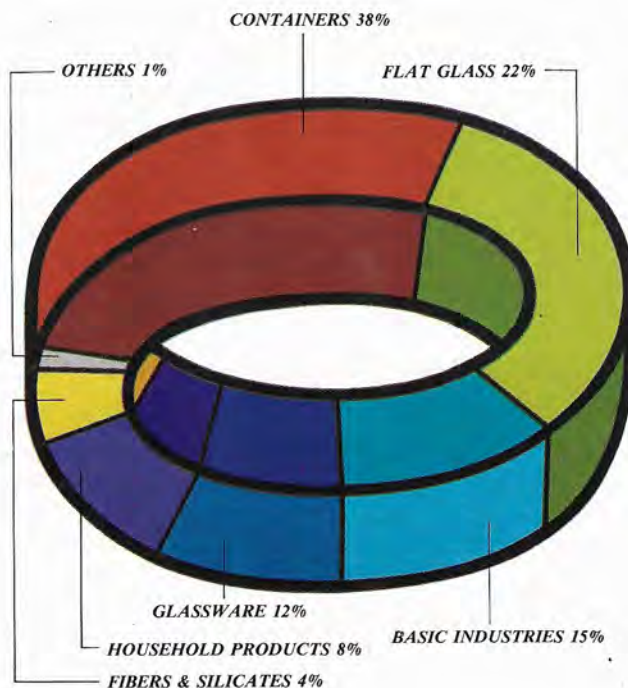
**CONSOLIDATED SALES**  
(Millions of Pesos)



The percentage increases in current-peso sales of the Divisions were as follows:

	<u>1986 %</u>	<u>1985 %</u>
HOUSEHOLD PRODUCTS	156	93
FLAT GLASS	116	56
BASIC INDUSTRIES	102	60
CONTAINERS	88	75
GLASSWARE	84	81
FIBERS, SILICATES AND	59	76
OTHERS	37	94

The percentage breakdown of sales by Division is as follows:



There follows an account of market trends and the most important events that took place during the year.

#### CONTAINERS

The Mexican market for glass containers declined by 8% in real terms. Traditional markets fell back even more dramatically but this was offset to some extent by the growth of 23% in sales of single-service glass containers and the buoyancy of indirect exports, that is glass containers used for exported products. The latter accounted for 12% of total sales-50% more than the previous year.

Capacity utilization was 65% overall, but the last six months were at a very low level.

Demand for borosilicate glass and plastic containers suffered similar declines.

*In spite of the economic situation, sales of Plásticos Bosco's products showed real growth of 2.6<sup>o</sup>/o.*

*Exports continued to respond favorably and we made dollar sales 21<sup>o</sup>/o above those of the previous year, representing 8.7<sup>o</sup>/o of the Division's sales.*

#### FLAT GLASS

*The slump in the domestic markets for construction and vehicles affected the sales of this Division which went down by 3<sup>o</sup>/o in volume.*

*However, exports, aided by high quality, productivity and service, rose substantially by 22<sup>o</sup>/o over the 1985 level and made up 38.3<sup>o</sup>/o of the Division's consolidated sales.*

*Capacity utilization was 76<sup>o</sup>/o.*

#### BASIC INDUSTRIES

*Sales of Capital Goods in Mexico decreased by 18<sup>o</sup>/o in real terms on account of contraction in the markets served.*

*In Basic Materials Sector, the Raw Materials companies sold 5<sup>o</sup>/o fewer tons and Industria del Alkali's tonnage went down by 1<sup>o</sup>/o. The latter was hurt by dumping of substitute products, but this problem was overcome in the last quarter of the year.*

*The strengthening of foreign markets for both Capital Goods and Basic Materials showed up in a 43.8<sup>o</sup>/o rise in export sales in dollars, a position from which we can go on to greater strengths in the future.*

*The borate project in Sonora progressed to the stage of a pilot plant construction, as a result of which we shall be able to determine the best way to beneficiate the mineral before proceeding to the installation of an industrial-size plant.*

#### GLASSWARE

*The falling off in domestic demand for the products of this Division resulted in a sales volume 12<sup>o</sup>/o lower than that of the previous year. Export efforts were continued in the U.S.A., and also in Europe where the dollar's fall allowed important distribution channels to be opened up. As a result our foreign sales increased by 80<sup>o</sup>/o in dollars and exports made up 31.5<sup>o</sup>/o of the Division's consolidated sales.*

*In order to make the best use of available capacity in Glassware Division and have on hand additional soda-lime glass container capacity for use in a strategic area in the near future, the Toluca plant, which used to produce tumblers, was converted to soda-lime glass container production. This plant is now called Vidriera Toluca. During the year Industrias Cornejo was merged with Vitrocrisa Crimesa.*

*Utilization of installed capacity was 55<sup>o</sup>/o as compared with 49<sup>o</sup>/o the previous year.*

*The marketing arm of this Division was transferred to the wholesale distribution organization of Household Products Division*

#### HOUSEHOLD PRODUCTS

*In spite of the drop in domestic demand for homewares, Household Products, in its first year of operations, was able to report very substantial growth of 35<sup>o</sup>/o in real terms.*

*With the acquisition of the Prodosomex "white line" companies, the market position of the Division was strengthened.*

*Exports of enamelware were very satisfactory, with growth of 100<sup>o</sup>/o in dollars, making up 18.9<sup>o</sup>/o of total sales of this line of products.*

*The Mexican market for enamelware shrank by 11<sup>o</sup>/o in real terms.*

Plant capacity utilization improved considerably as we rationalized the logistics of the several manufacturing facilities that we now have.

#### FIBERS, SILICATES AND TREATED CLAYS

Shrinking demand had a serious effect on sales of fiberglass which went down by 27% in real terms. In Silicates the falling off in demand was softened somewhat by opening up new markets such as paper. In Treated Clays, by diversifying domestic markets and opening new markets overseas, the reduction in sales was kept to a bare 1% in real terms.

It should be emphasized that in the future this Division's exports will improve quite considerably as a result of negotiations that were concluded during the year.

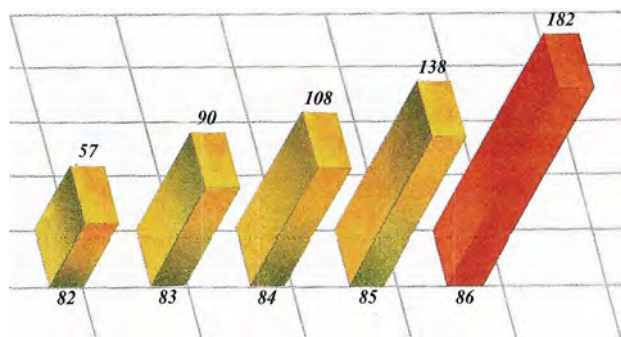
Installed capacity utilization was 53% in Vitro Fibras, 64% in Silicatos y Derivados and 95% in Arcillas Tratadas.

#### INTERNATIONAL TRADING

##### Exports

Total export sales reached the figure of 182 million dollars, which was 32% more than the previous year and represented 21.5% of consolidated sales

**TOTAL EXPORT SALES**  
(Millions of Dollars)



GRUPO VITRO's Divisions continued to promote and diversify sales to foreign markets, taking advantage of favorable domestic and international conditions. GRUPO VITRO now has the following firms in the U.S.A.:

Vitro Packaging Inc.  
for Vitro Containers

Crisa Corporation  
for Vitro Glassware

Industrias Básicas International Inc.  
for Vitro Basic Industries

Intermex Trading Company  
for Vitro Household Products

At the end of the year 192 people were employed in these companies which now have 4 showrooms and 21 distribution warehouses located all over the American Union.

##### Balance of Payments

Once more the trade balance was in surplus by 60 million dollars, a 37% increase. The balance of payments was in surplus by 55 million dollars, which was 221% above the figure for the previous year.

#### INTERNATIONAL OPERATIONS

##### Brazil

The medium and long-term economic prospects of this country are so important that the holding of Vitro, S. A. in Brasividro, S. A. was converted into a holding in Nadir Figueiredo Industria e Comercio, S. A., a company that has a strong franchise in the table glassware, kitchenware and container markets and was our majority partner in Brasividro, S. A.

## Central America

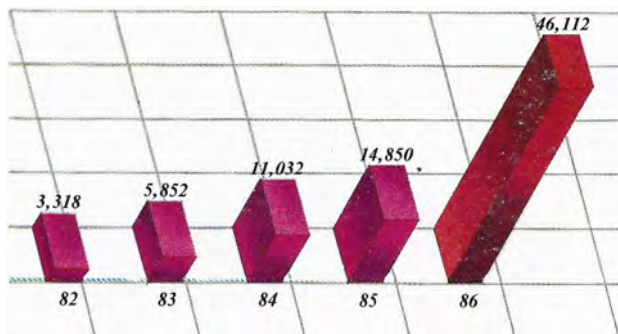
In spite of the extremely difficult economic situation prevailing in these countries, there was a real increase in sales of 10<sup>o</sup>%, based largely on exports to the Caribbean and the U.S.A. Even though our plants operated at only 41<sup>o</sup>% of their capacity, results were satisfactory thanks to strict programs of cost reduction and capital expenditure control.

In order to retain our market share in borosilicate glass ampoules and medicine bottles, which until now have been supplied from Mexico, our company Industria Centroamericana de Vidrio, S. A. in Guatemala began to install a converting plant that will allow it to meet the demand of Central American countries starting this year.

### ADDITIONS TO FIXED ASSETS

Production facilities must be kept on a par technologically with international competitors now that exports are so important and the Mexican domestic market is being opened to foreign competition. GRUPO VITRO therefore invested 46,112 million pesos during the year to enhance its productive capability, this being a 67<sup>o</sup>% increase in real terms over capital spending of the previous year.

**CAPITAL EXPENDITURES**  
(Millions of Pesos)



The most important investments were as follows:

Updating the technology of glass container forming machines.

Conversion of the Vitrocrista Toluca, S. A. plant from glassware to glass container production.

Updating the technology of Vitrocrista Crimosa, S. A. so that it could absorb the output previously supplied from Toluca.

Installation in all plants that so required, of an alternate fuel system so that, whatever happens to the supply of natural gas, these plants can go on operating.

Modification of the calcium chloride process in Industria del Alkali, S. A. to the solid based system.

### STRATEGIC INVESTMENTS

In order to strengthen the share of Vitro, S. A. in its various markets and improve the competitive position of its Divisions, the following strategic investments were made during the year.

The purchase of 100<sup>o</sup>% of the group of companies known as Productos Domésticos Somex (PRODOSOMEX) which now forms part of Household Products Division.

PRODOSOMEX holds a substantial market share in refrigerators and cookers under its Acros brand and is made up of the following companies.

Estufas y Refrigeradores Nacionales, S.A. de C. V.

Aceros Esmaltados, S. A. de C. V.

Manufacturera Corpomex, S. A. de C. V.

Inmuebles y Equipos Industriales, S. A. de C. V.

Acrotec, S. A. de C. V.

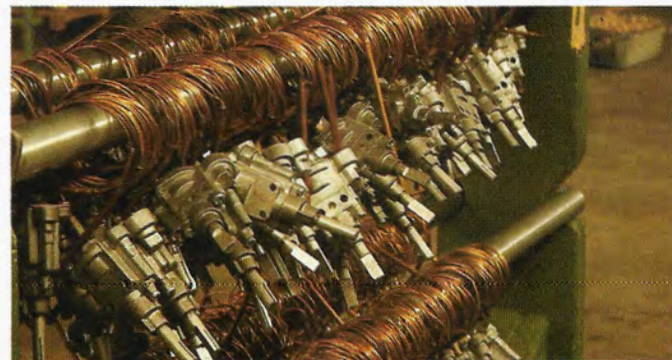
Formados APB, S. A.

# Containers (Altro, S.A.)





# Household Products (Prodosomex)



Acros, S. A. de C. V.

Corporación Nacional Industrial, S. A.

Grupo Industrial Comasa, S. A. (18.92%  
was acquired, thus raising our holding to  
48.47%).

Thus our Household Products Division is today  
an important factor in the "white line" market  
of Mexico.

The purchase of 51% of Altro, S. A. which  
now forms part of Containers Division.

Altro, S. A. rounds out the plastic container  
line of containers Division and opens one more  
window for GRUPO VITRO in its already wide  
spectrum of service to the final consumer, in the  
shape of the other part of the company which  
makes luggage. The partner in this joint venture  
is Samsonite Corporation, a world leader in the  
luggage market. Altro, S. A. was made up of  
the following companies:

Altro, S. A.

Envases Cuautitlán, S. A.

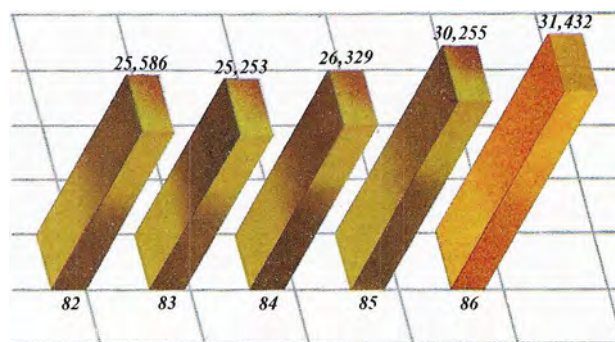
Peraltro, S. A.

These two groups of companies employ a total  
of 3,484 people, have fixed assets worth 67  
billion pesos and their 1986 sales were 45 billion  
pesos.

#### HUMAN RELATIONS

At the close of the year 31,432 people worked  
in our subsidiary companies, an increase of  
3.9% over the previous year. If the employees  
of the newly acquired companies are not counted,  
there was a decrease in employment of 7.8%.

#### PERSONNEL



The quest for integral development and achieve-  
ment for every person forming part of the or-  
ganization continued to be GRUPO VITRO's  
guiding principle and goal. The programs of  
education, culture, medical services, dining  
rooms and home-delivered groceries were further  
strengthened and Vitro Club continued to  
provide even better facilities for sports and  
recreation. Thus we bring the new generations  
closer together with those who now perform  
their daily tasks in GRUPO VITRO.

#### FINANCE AND ADMINISTRATIVE SERVICES AND LEGAL, PUBLIC AND BANKING RE- LATIONS DIVISIONS.

The support services of these two Divisions were  
vital in enabling Vitro, S. A. to fulfill its obliga-  
tions to the State, banks and Mexican and  
international organizations.

#### CONSOLIDATED INFORMATION

The accounting standards issued by the Mexican  
Institute of Public Accountants were scrupulously  
adhered to. The financial information which  
is presented in the following paragraphs is pre-  
pared on the basis of the Institute's Bulletin  
B-1 on "Disclosure of the Effects of Inflation".  
The effects of the changes in the tax code are  
also taken into account.

CONSOLIDATED BALANCE SHEET

The abridged Consolidated Balance Sheet (in millions of pesos) is as follows:

ASSETS	1986	1985	Change o/o	LIABILITIES	1986	1985	Change o/o
Current assets	451,706	200,203	126	Short-term	169,644	71,259	138
Long-term invest- ments	135,580	85,123	59	Long-term	395,473	236,260	67
Fixed assets, net	881,004	406,813	117	Total liabilities	565,117	307,519	84
Deferred charges	59,513	32,671	82	Stockholders' equity	962,686	417,291	131
TOTAL ASSETS	1,527,803	724,810	111	TOTAL LIABILITIES AND EQUITY	1,527,803	724,810	111

REMARKS

Assets

An increase of 126% was recorded in current assets. If, however, the increase in excess cash and the current assets of acquired companies are excluded, the increase is 90%, less than the increase in sales which was 97%.

The increase recorded in long-term investments is due mainly to our interests in CYDSA and Grupo Industrial Comasa, valued by the equity method, and deferred taxes.

The increase in fixed assets is the result of capital spending during the year and the 1986 revaluation of assets.

The increase in deferred charges is mainly due to the mandatory revaluation in accordance with Bulletin B-10 issued by the Mexican Institute of Public Accountants.

Liabilities

Liabilities were reduced in real terms by 11%. It should be observed that this figure includes liabilities of companies that were acquired during 1986, making up 4% of the total.

Stockholders' Equity

The division of stockholders' equity according to its holders is as follows:

(Millions of Pesos)

	1986	1985	Change o/o
STOCKHOLDERS' EQUITY:			
VITR stockholders	828,752	365,457	127
Other stockholders	133,934	51,834	158
Consolidated stockholders' equity	962,686	417,291	131

The breakdown by account is as follows:

	(Millions of Pesos)	
	1986	1985
<b>VITRO STOCKHOLDERS</b>		
Capital stock	6,000	4,200
Restatement of capital stock and retained earnings	417,803	171,646
Excess in restatement of equity	264,213	117,235
Shares held in trust	—	(3,077)
Retained earnings	77,695	36,908
Net income	63,041	38,545
<b>Total</b>	<b>828,752</b>	<b>365,457</b>
Other stockholders	133,934	51,834
<b>Total Stockholders' Equity</b>	<b>962,686</b>	<b>417,291</b>

The growth in the equity of Vitro, S. A. stockholders was 127<sup>o</sup>%, representing a real increase of 10<sup>o</sup>%.

On November 28 of last year an Extraordinary General Meeting of Shareholders was held at which it was resolved to reduce the number of shares in circulation by 13.90<sup>o</sup>%, from 60'000,000 to 51'655,000. This benefited GRUPO VITRO shareholders by giving them greater participation and earnings per share.

#### INCOME STATEMENT

The behavior of the Mexican economy, which affected demand for GRUPO VITRO's products, and favorable internal and external conditions for exporting, were the main factors in bringing about the results shown below in the Consolidated Income Statement.

#### CONSOLIDATED INCOME STATEMENT

(Millions of Pesos)

	1986	1985	Change •/o
	Consolidated sales	528,655	267,800
Cost of sales	289,325	141,695	104
Operating expenses	91,882	39,644	132
Income before financing	147,448	86,461	71
Total cost of financing: Financial expenses and revenue (net)	203,829	81,736	149
Loss (gain) from monetary position	(123,194)	(49,341)	150
<b>Total</b>	<b>80,635 (-)</b>	<b>32,395 (-)</b>	<b>149</b>
Participation in net income of unconsolidated associated companies	12,016(+)	6,181(+)	94
Income before tax and workers' profit sharing	78,829	60,247	31
Income tax and workers' profit sharing	(1,697)	15,429	—
<b>Net income</b>	<b>80,526</b>	<b>44,818</b>	<b>80</b>
Net income, Vitro interest	63,041	38,545	64
Net income, other interests	17,485	6,273	179

#### REMARKS

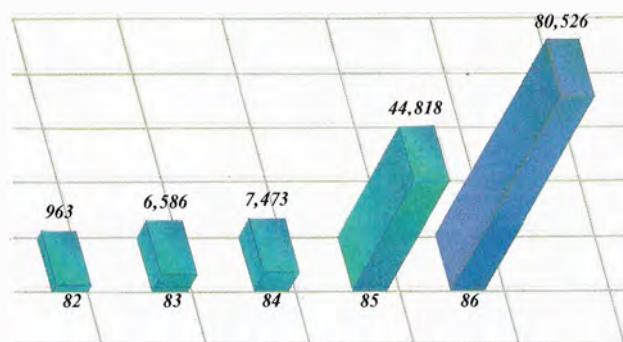
Consolidated sales went up by 97<sup>o</sup>% and by 6<sup>o</sup>% in real terms.

The cost of sales increased by 104<sup>o</sup>%, which is more than the increase in sales, on account of increases in the prices of our inputs that were higher than the rate of inflation, especially in the latter part of the year.

Operating expenses increased by 132<sup>o</sup>%, reflecting the cost of operating international companies which were consolidated for the first time on GRUPO VITRO's acquiring ownership of them.

Consolidated net income for 1986 amounted to 80,526 million pesos, an 80% gain over the previous year's figure. The main factors bearing on this result were the slowing down in the domestic economy which adversely affected the sales of GRUPO VITRO's Divisions, and increases in the prices of inputs that were greater than the rate of inflation.

**CONSOLIDATED NET INCOME**  
(Millions of Pesos)



Our interest in Cydsa, S. A., now 40%, made a favorable contribution to earnings.

Earnings for GRUPO VITRO shareholders in 1986 were 63,041 million pesos, an increase of 64% over those of the previous year. Earnings per share were 1,220 pesos, against 746 pesos in 1985.

The outstanding data that confirm the satisfactory profits earned and the sound financial structure of Vitro, S. A. are shown below.

(Millions of Pesos)	1986
Consolidated sales	528,655
Net income	80,526
Net income, GRUPO VITRO interest	63,041
Earnings per share	\$ 1,220
Yield on opening stockholders' equity	19.3%

FINANCIAL RATIOS	1986	Covenanted Limit
Current ratio	2.62	1.25 minimum
Total liabilities/ stockholders' equity	.62	1.40 maximum
Debt coverage ratio	2.96	1.50 minimum
Supportable debt ratio	2.3	6.0 maximum

Vitro, S. A. and Subsidiaries amply fulfilled their covenants with creditor banks.

## CONCLUSIONS

To sum up, the financial results of Vitro, S. A. and its subsidiary and associated companies reflected the impact of a greatly depressed domestic economy, rises in the prices of inputs in excess of the rate of inflation, conditions favorable to exports, both inside Mexico and abroad and, above all, the unflagging, unbounded support of GRUPO VITRO's most important asset: its people.

GRUPO VITRO expresses its grateful thanks for the support, generously given as always, of customers, suppliers and bankers.

It is especially difficult to forecast events during the current year 1987 because of the narrow margin for error in the variables that determine how the economy will behave. Nevertheless, GRUPO VITRO must stride forward, on the firm foundation of its traditionally conservative management, to serve its shareholders and Mexico with the devotion and commitment that have always distinguished it.

BOARD OF DIRECTORS  
VITRO, SOCIEDAD ANONIMA

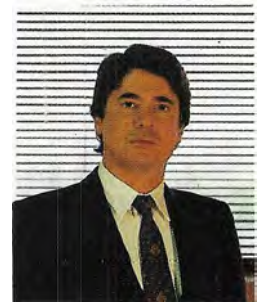


# Divisional Information



*It is now 77 years since GRUPO VITRO first made its presence felt in Mexican homes in the shape of soda-lime glass bottles. Today, Vitro Containers takes part in a wide range of activities affecting our daily life. With our meals we take soft drinks supplied either in the traditionally designed or in the new generic bottles. We relax with a cold beer poured from glass. Formal occasions and business entertainment are accompanied with cocktails or table wine. Vitro Containers is also present every time glass-contained lotions, perfumes, creams and other personal care products are used.*

# Vitro Containers.



FEDERICO SADA G.  
President





A wide range of medicines is packed in glass and most of the ampoules commonly used in the home, in clinics and in specialized medical centers are made by Vitro Containers. We also supply borosilicate glass tube that is used in the manufacture of ampoules, small bottles, vials and other neutral glass containers, including laboratory ware used in schools as well as in the most advanced research centers. Vitro Containers' products range from the glass tube through the special-purpose laboratory flask to the precision test-tube.

Besides glass products, for the last 8 years we have also been making and marketing plastic containers and stoppers, such as baby bottles, containers for juices, soft drinks, soup and consommé concentrates and other food products, and caps for soluble coffee, shampoos, rinses and lotions, many of which are supplied in our plastic containers.

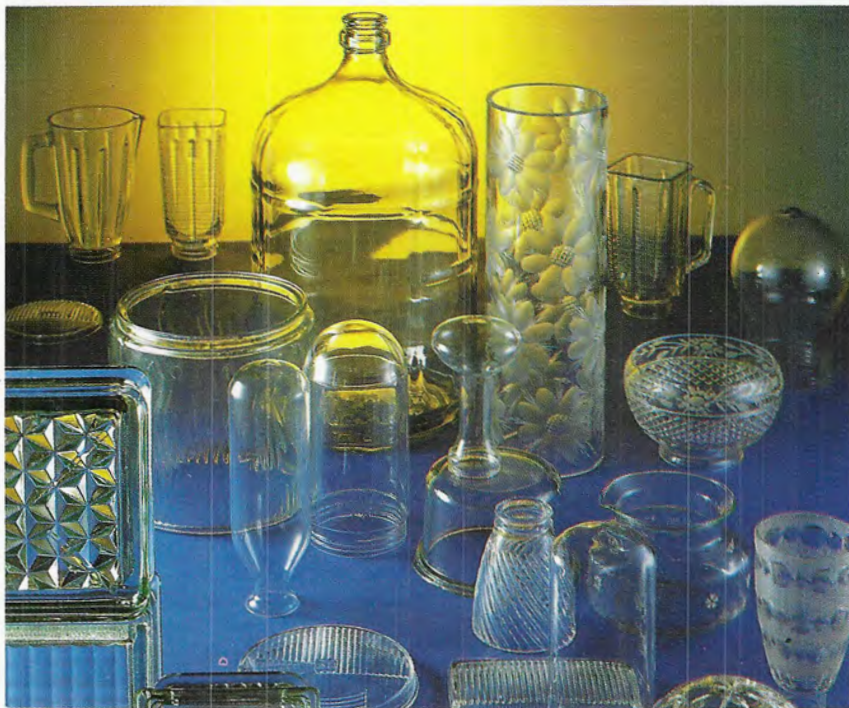
On launching in Mexico its PET bottle, used for soft drinks, wines and spirits as well as jellies, mustards and honey, Vitro Containers offers the very latest development

in plastics.

In 1986 we diversified by purchasing Altro, S. A. and Envases Cuautitlán, S. A. The Samsonite brand, acquired with Altro, is a world leader in luggage and adds backpacks, school bags, briefcases and suitcases, as well as garden tables and chairs, to Vitro Containers' product lines.

The products made by Envases Cuautitlán round out the wide range of thermoformed plastic articles produced by Plásticos Bosco, S. A. These products range from jelly jars to multiple-use disposable jars, including those used to pack ice cream, creams, yogurts and other dairy products.

As the market has developed we have adapted to it as well as growing in volume and variety. As suppliers of containers to industry for packing consumer goods, we have provided keen prices, the highest quality, full service and a very wide range of products. In the future we shall be bringing the latest technological developments to meet market needs and offering the most advanced products for consumers' requirements, without forsaking the traditional excellence that is the hallmark of Vitro Containers.



*Since the foundation, 50 years ago, of the first Vitro Glassware company, Cristalería, S. A., our products have been on the market, providing comfort in the home, convenience at the table and in the kitchen, and accessories for decoration, lighting and embellishment.*

*Through these five decades, Vitro Glassware has kept the leadership in a very wide range of crystalware and in numerous utensils from heat-resistant table and oven ware to stainless steel table services.*

## Vitro Glassware



*JULIO ESCAMEZ F.  
President*



*In the daily round of life, almost every person comes into contact with some product made by Vitro Glassware: from the time when he or she prepares and consumes food, appreciating convenience in the kitchen and at the table, until the hour when the senses are attuned to the artistic finish of a fine lead crystal figure. As time has passed, technology and organization have enriched and dignified the craftsmanship*

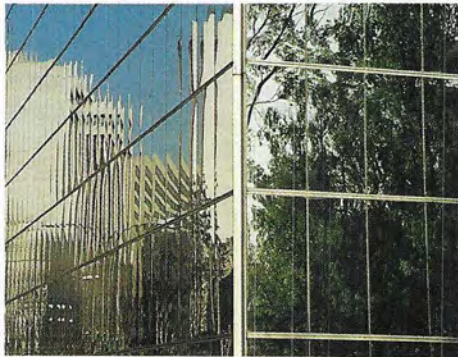
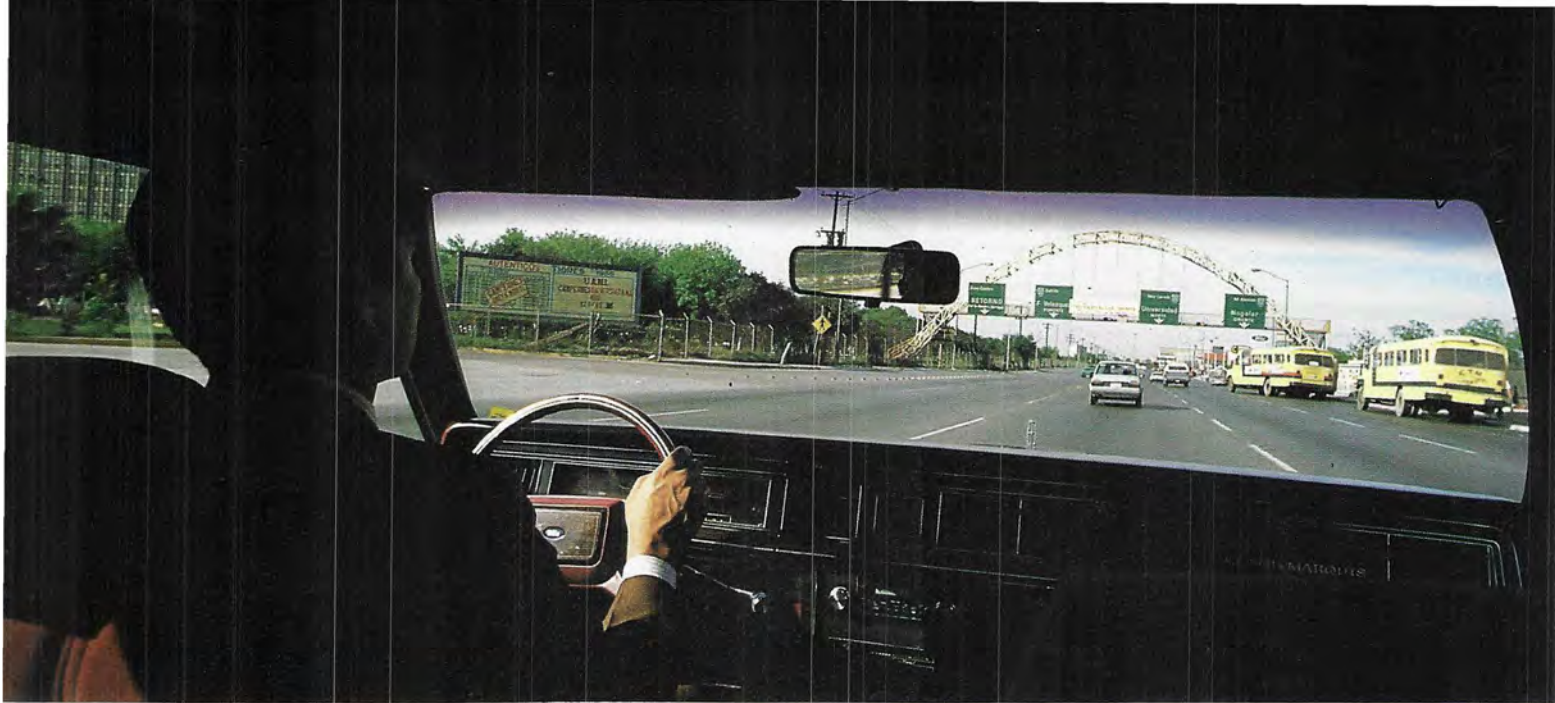
*and sensitive design of our crystal makers. The perseverance and commitment of our people have enabled us to satisfy the domestic market and to compete in export markets. All our lines, from traditional hand-made crystalware to industrial products, have been successful in the markets of North America, Europe and the Middle East. Our CRISA, TERMOCRISA, PYRO-O-REY, FORTECRISA, PYRO-*

*WARE, KRISTALUXUS and CUFIN trade names are well known as symbols of quality and technical excellence.*

*Vitro Glassware produces and markets a wide variety of products in different finishes and patterns.*

*Export markets were more active and were helped by the policy of realistic adjustments to the peso-dollar exchange rate. This and the consolidation of Crisa Corporation's operations, enabled us to reach a satisfactory level of exports.*

*The expected opening up of industry to international competition represents both a challenge and an opportunity for Vitro Glassware. We shall continue to reinforce our business in international markets, based on our traditional export capacity, and we shall redouble our efforts to develop new markets that we have sought out for industrial heat-resistant glass products.*



*For centuries glass has been an irreplaceable aid to man in his daily activities, providing him with comfort in its many uses.*

*From the beginning, flat glass windows have been used to enhance the quality of man's dwellings, allowing him to be in contact with the outside world, while protecting him from the inclemencies of the weather.*

## Vitro Flat Glass



*GERARDO SADA Z.  
President*



Over the years, flat glass has become an indispensable element in architectural design of houses, public buildings, shopping centers, offices and hospitals. The wide variety of thicknesses, shapes and colors in which such glass is now manufactured, provides ample scope for the architect's imagination. Moreover, new manufacturing technologies have enabled flat glass

to be made in highly efficient heat-insulating types that repel most of the solar energy impinging on their surface without any loss of esthetic appeal, thus making possible considerable savings in energy for air conditioning.

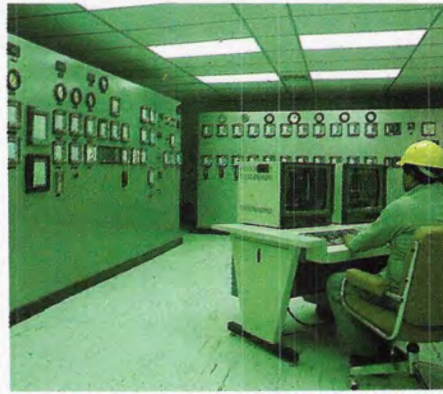
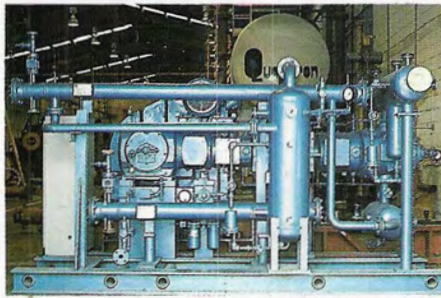
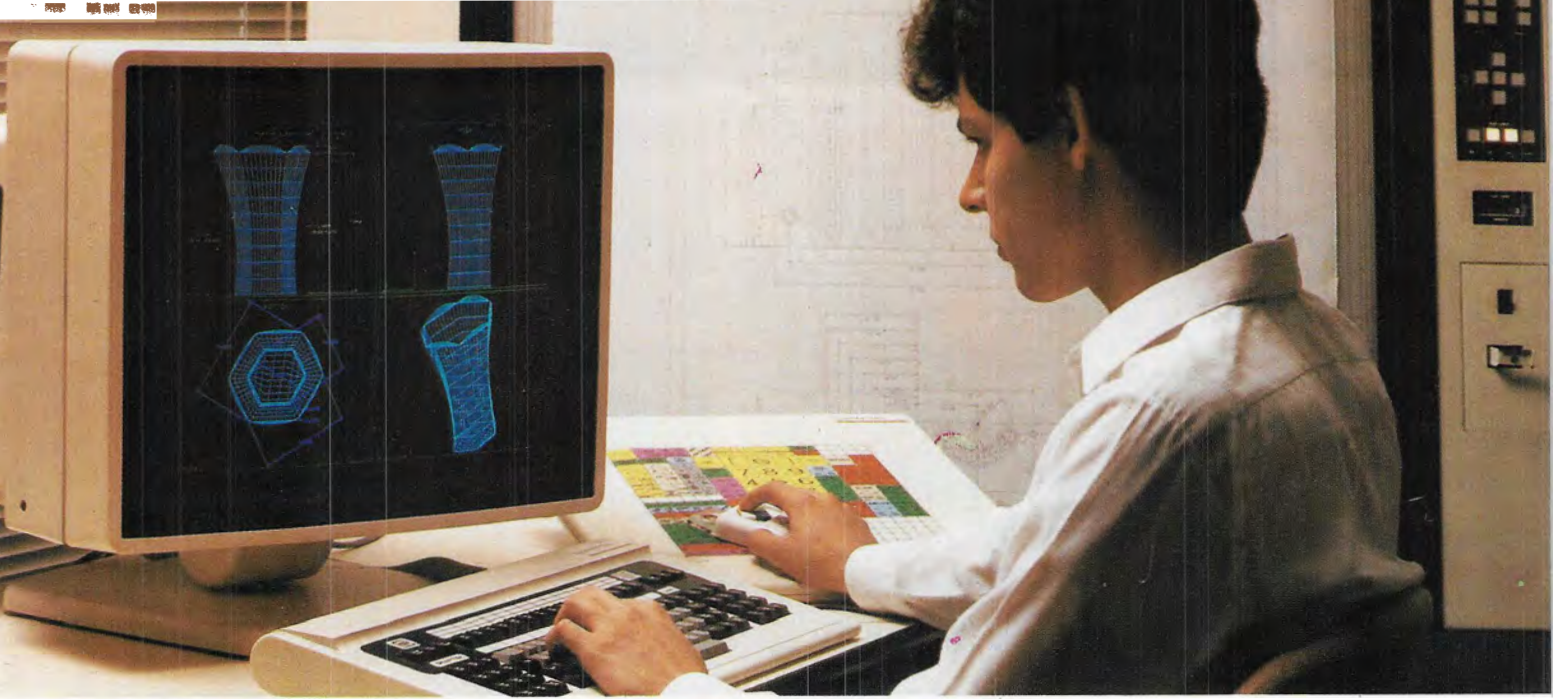
Laminated and tempered automotive safety glass ensures the physical integrity of passengers in

motor vehicles.

The development of these products has kept abreast of modern technology right up to the present day when we have light, aerodynamic designs that reduce wind friction and the total weight of the vehicle, thus increasing efficiency in fuel consumption and enhancing appearance. On the other hand, safety glass for buildings is used in such applications as access doors, skylights, integral glass walls, shower booths, table bases and tops and decorative glass. Its possibilities in the future are limitless.

The availability of high quality flat glass has extended the use of the mirror as a decorative element, providing wider design options and adding spaciousness to interiors.

Vitro Flat Glass, aware of man's needs to improve the quality of his life, is constantly seeking for ways to increase his comfort.



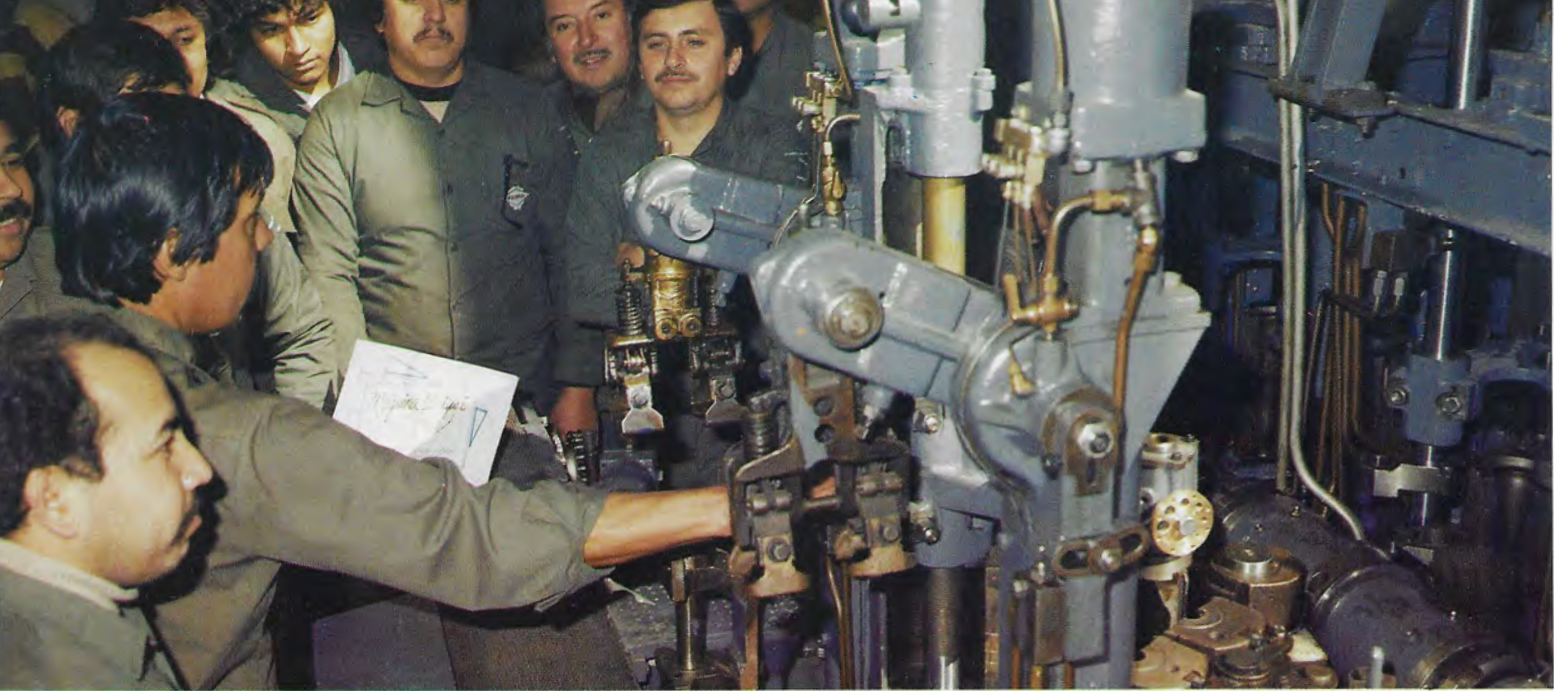
*In view of the precarious state of the Mexican domestic market and the pressing need to sell abroad, during 1986 Vitro Basic Industries redirected its efforts toward offering its Mexican and overseas customers greater added value in its products and services, based mainly on technology.*

*This new orientation, together with the program to develop human resources initiated the previous year, was a vital factor in enabling Vitro Basic Industries to maintain its level of sales and achieve acceptable profits in spite of the crisis that so severely affected*

# Vitro Basic Industries



**FRANCISCO J. GARZA**  
President



public and private investment in Mexico - directly related to our Capital Goods Sector - and industry as a whole.

Capital Goods Sector structured itself so as to add value to its products and services, on the basis mainly of electronic engineering and design. In some cases it packaged its machinery and equipment so as to offer complete one-stop service; in other cases engineering was applied on the shop floor so as to offer complete sets of parts (mechanisms) or more timely delivery. In yet other instances engineering was applied to design products so as to increase productivity in the customer's factory. And there were cases where value

was added by electronic communication with the customer to solve his specific problems.

The Chemical Sector added value to sodium carbonate by electronically controlling the uniformity of its quality; and to calcium chloride by offering it now in a 94% dry form for the convenience of Mexican and foreign customers. The Raw Materials companies offered export-quality ground and packed feldspar for use by the world ceramic industry; and by redirecting their engineering capability to the exploitation of the mineral deposit itself, added reliability and quality to their products.

Vitro Tec implemented its Vitro-wide energy saving program. Mining Sector built a pilot plant in Hermosillo, Sonora in order to improve the design of the processes for beneficiating colemanite (calcium borate).

With the steps that have been taken to focus human talent on adding technological value to products and services, Vitro Basic Industries stands ready to face its future in the international marketplace and will seek an outlet there for the intelligence, creativity and diligence of its people.



*Vitro Fibras, S. A., manufactures and markets fiberglass for use as thermoacoustic insulation and as reinforcement for plastic resins. Its installation department installs its own insulation and other competing materials in industrial and commercial buildings.*

*Thermoacoustic insulation is present in very many energy-saving applications that conserve the temperature of moving and still fluids. Just a few examples are insulation of piping, steam turbines, storage tanks, air conditioning ducts and furnaces.*

## Vitro Fibers and Silicates



*JUAN MANUEL HOLGUIN  
President*





*In buildings and dwelling houses these products are used in roofing, walls, ceilings, water pipes and for insulating cookers, refrigerators and space heaters.*

*Our fiberglass is used to reinforce plastic resins (polyesters, epoxies, phenolics and acrylics) that are made into parts by the automotive, marine, construction and electro-electronic industries among others. Typical examples are: bus and truck front guards, parabolic antennas, cooling towers, fans, boats, water cisterns, translucent sheets, safety helmets and many others.*

*Silicatos y Derivados, S. A., makes and markets sodium and potassium silicates, sodium meta-silicates and industrial detergents.*

*The main uses of sodium silicate are as vigorizers and agglutinants in household and industrial detergents. In the paper and paper board industry, mixed with hydrogen peroxide which bleaches and removes color from paper, silicate is used as an adhesive and reinforcer.*

*Silicate is used as a clarifier in the treatment of industrial and municipal sewage water.*

*Other applications are as an agglutinant in sands for foundry processes and, mixed with construction cement, as a setting accelerator and to prevent seepage of water through walls, roofs and floors.*

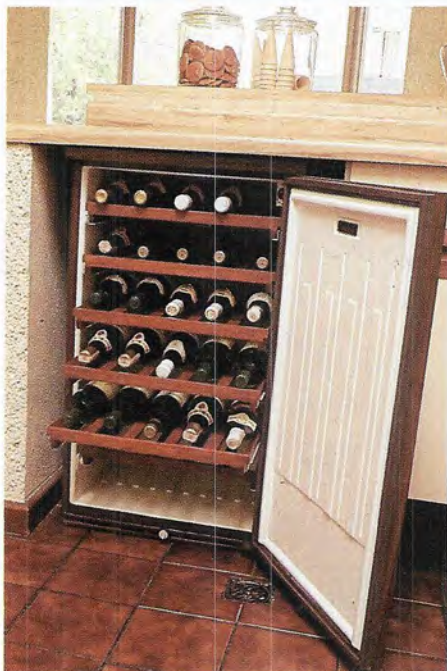
*Potassium silicate is used as a flux agglutinant in electric welding rods.*

*Arcillas Tratadas, S. A. de C.V., produces and markets precipitated silica, sodium silicoaluminates and calcium and magnesium silicates.*

*The main use of precipitated silica is in the rubber industry, as reinforcing body for automobile tires and shoe soles and heels.*

*Magnesium silicate is used mainly in the production of polyoils and in the petroleum industry.*

*Our businesses in Central America are in glass containers, tumblers for household use, injected plastic resin stoppers, silica and feldspar sand and distribution and marketing through our distributors. Besides representing us, they also deal with many other products, both locally made and imported.*



*The changing world in which we live presents a singular challenge to Vitro Household Products: how to identify and respond to the present and future needs of the housewife.*

*The main mission of Industrial Sector, with its highly respected 'Tres,' 'Acros' and 'Supermatic' brands, is to manufacture and market goods and services that satisfy the needs of households for the following:*

# Vitro Household Products



*TOMAS GONZALEZ SADA  
President*



- o Food preparation: kitchen ranges and a wide variety of enameled steel (enamelware) utensils.
- o Food preservation: freezers and refrigerators with one and two doors.
- o Table service: attractive enamelware dishes.
- o Home temperature control: window air conditioning units.

The fact that our products are in daily use in the home means that we have to innovate constantly in their design in order to make them attractive and useful to the final consumer in the various market

segments. A satisfied housewife is our best investment.

Our awareness of the need for safety in the home makes us demand from our organization special attention to design, selection of materials and functional testing of our products, to avoid the risk of accidents in their use.

Our responsibility does not end when we sell something. The company has conscientiously set about ensuring the reliability of its products. We have service departments in the main cities and a network of authorized repair shops in the rest of Mexico.

By looking after our customers' service needs we guarantee the proper functioning of the products they use.

Our eagerness to compete in international markets has made a name for our table and kitchen enamelware products well beyond the frontiers of our country.

We are making great efforts to adapt our refrigerators and cookers to the standards required in the United States market. These efforts are aimed at improving our already highly favorable foreign currency balance and strengthening our competitive position in preparation for the liberalizing of Mexico's foreign trade.

The Trading Sector of Vitro Household Products has a distribution network of 24 trading centers that market Vitro-made products and also products made by other suppliers. Its zone of influence is very wide and it fulfills an important social function by serving many regions of Mexico.



Work continued on the program of updating the Data Processing Center. A new CYBER 830 main-frame was installed which will enable the increase in the demand for services – 21% this year to be met. The number of terminals grew by 24% and is now 360. Real savings in unit costs of 31% were achieved. Audit services were started in data processing.

Coordination with outside auditing and with the internal audit service was continued, and a plan was started to train auditors in the use of data processing to verify computerized systems. All this will be reflected in greater

auditing efficiency.

The scheme of continuous training in the Finance and Controller's areas was strengthened with the object of making them more effective through better prepared people.

In Corporate Procurement further progress was made in adding new repeat-purchase items to the system, so achieving scale economies which were made even more significant by the entry of new companies into GRUPO VITRO.

## Vitro Finance and Administrative Services



OSCAR SAMANIEGO R.  
President



*The dynamic growth of GRUPO VITRO has demanded the application of far-reaching strategies to bring about, in the recently acquired enterprises, a new labor relations climate in keeping with the traditional harmony that has characterized human relations in GRUPO VITRO.*



*Preventive medical services were extended. The Healthy Child Clinic was set up and campaigns to prevent the most common diseases were undertaken.*

*There was also substantial development in sports, culture and recreation, centered mainly on Vitro Club, A. C., which gathers together our employees of all*

*levels. The Vitro Club idea has been extended to the new units in Toluca and Queretaro and quite large amounts have been invested there, as well as in Monterrey to strengthen and develop leisure activities.*

*Housing programs for workers of GRUPO VITRO were continued. In Monterrey, Querétaro and Toluca houses were handed over to workers and the construction of more was started.*

*We went on improving strategic and personnel planning activities, with the aid, in both cases, of powerful computerized systems.*

## Vitro Human Relations and Planning



MARIO GARZA G.  
President



*The frame of reference for legal activities was a difficult year for the Mexican economy which suffered a new and deeper crisis with even more pervasive effects.*

*This made it necessary to strengthen relations with all levels of government authorities, institutions and public and private associations in order to make known our points of view and obtain decisions favorable to our interests.*

*On many occasions, as well as presenting and discussing our viewpoints, recourse was had to other professional expertise in this Division and a great many suits were brought before judicial and administrative tribunals for the purpose of establishing the legal basis for GRUPO VITRO's businesses. Counsel was given both on specific matters and on the in-*

*terpretation and application of laws.*

*The decision of the Mexican government to open markets to international competition and to enter GATT, and GRUPO VITRO's longstanding policy of keeping its production facilities, technology and trading activities constantly up to date, called for intense negotiating and legal assistance.*

*Briefing was also provided on the observance of foreign laws and GRUPO VITRO companies were kept underpinned with the legal structure they needed to carry out correctly their international activities.*

*This Division was also responsible for maintaining high level relations with foreign partners. Support was provided for widening the scope of these contacts, with the result that profitable new business opportunities were opened up.*

*The Banking Relations Department continued in 1986 with all its usual activities aimed at maintaining the good name of Vitro, Sociedad Anónima and its subsidiaries in the Mexican and international banking community.*

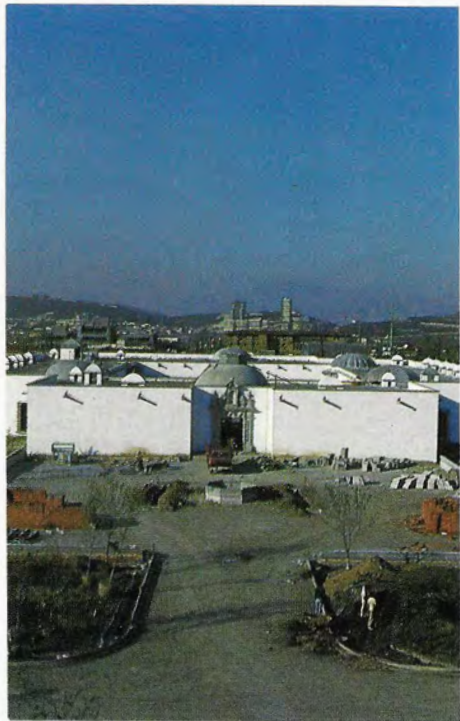
*The department made its annual visit to banks and helped to plan and execute the steps necessary to bring about the desired reduction in peso and foreign currency liabilities.*

*Finally, the Financial Communication Department did the staffwork for the GRUPO VITRO Shareholders' Meetings, started the production of a new audiovisual presentation, modernized its sound and projection equipment and advised the operating Divisions on matters within its field of expertise.*

## Vitro Legal, Public and Banking Relations



ADOLFO LARRALDE R.  
President



*Vitro, Sociedad Anónima continued to carry out its fundamental mission, which is to integrate and diversify its operations by creating, developing, transforming and acquiring enterprises; and to act as an economic stabilizer by providing its subsidiary companies with the financial and administrative resources necessary for their sustained growth.*

*During the year under review, 28 billion pesos were allocated to strengthening the finances of certain subsidiaries and to the acquisition of the Prodosomex and Altro groups of companies. All this was done without recourse to outside financing.*

*In order to maintain the financial soundness of our Group, ensure the stability of its subsidiaries and sustain constant growth, we plan to continue our traditional policy of plowing back a high proportion of profits.*

*At the beginning of the year work was started on the building of our corporate offices in Garza García, N. L. These offices will provide us with modern, functional facilities for our staff and we expect to occupy them during 1987.*

# Vitro, Sociedad Anónima



ROBERTO CESAR TREVIÑO  
President





**Despacho Gómez Morfín**  
Contadores Públicos y Consultores

Representantes de  
Grant Thornton International

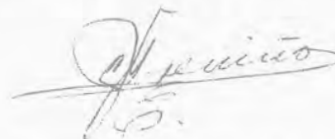
To: The Board of Directors and Stockholders of  
Vitro, Sociedad Anónima  
Monterrey, N. L.

In our opinion, except for what is mentioned in paragraphs a) and b), on the basis of the audit we have carried out, the accompanying financial statements prepared by the management of the company, present fairly the financial situation of Vitro, Sociedad Anónima as of December 31, 1986 and 1985 and the results of its operations for the years ended on those dates. Accounting principles have been consistently applied after the restatement of the 1985 statement of cash flow figures recognizing the modifications established in 1986 by the (Instituto Mexicano de Contadores Públicos) Mexican Institute of Public Accountants, (note 10) and in the figures of the 1985 statement of income for what is mentioned in note 11, changes with which we concur.

- a). The financial statements show the participation of Vitro, Sociedad Anónima in the stockholders' equity and income of its subsidiaries and associates; however, in order to show fully the financial information of the economic entity, consolidated financial statements are required and such statements, have been separately prepared and audited by public accountant.
- b). In the 1984 business year the subsidiaries, in accordance with accounting principles, chose not to restate their deferred charges and consequently, reported a loss on holding of non-monetary assets of \$4,089 million. This loss was applied against income for the period instead of being taken directly to stockholders' equity. For this reason, retained earnings shown in the attached balance sheets appear reduced by this amount.

The financial statements of the associated and subsidiary companies referred to in note 1, section a) have been audited by other firms of public accountants. The total assets of these companies amount to \$230,483 million in 1986 and \$79,554 million in 1985, representing 15<sup>0</sup>/<sub>0</sub> and 11<sup>0</sup>/<sub>0</sub> of the total respectively; net income of such companies for 1986 is \$14,736 million and for 1985 \$5,562 million, representing 18<sup>0</sup>/<sub>0</sub> and 12<sup>0</sup>/<sub>0</sub> of the total respectively.

**DESPACHO GOMEZ MORFIN**  
Contadores Públicos y Consultores



**CELSO JAVIER TREVIÑO E.**  
Contador Público

Monterrey, N. L., México, February 27, 1987.

VITRO, SOCIEDAD ANONIMA

BALANCE SHEET  
AS OF DECEMBER 31, 1986 AND 1985  
(Millions of Pesos)

A S S E T S	1986	1985	L I A B I L I T I E S	1986	1985
Cash	\$ 19,287	\$ 11,162	Accounts payable to subsidiaries	\$ 40,450	\$ 14,096
Receivables for services to subsidiaries	9,968	1,531	Income tax and value added tax payable	2,156	128
Receivables from subsidiaries	16,968	9,573	Other payables	776	34
Recoverable taxes	49,614	4,883			
Other receivables	2,425	196	Short-term liabilities	\$ 43,382	\$ 14,258
Current assets	\$ 98,262	\$ 27,345	FICORCA liabilities (note 5)	23,106	16,921
			Accounts payable to subsidiaries	85,933	15,474
Receivables from subsidiaries (note 2)	34,501	11,103			
Investment in shares (note 3)	846,190	373,299	Total liabilities	\$ 152,421	\$ 46,653
Land and buildings, net (including revaluation, note 4)	622	230			
			CONTINGENT LIABILITIES (note 6)		
Furniture and equipment, net	41	9	STOCKHOLDERS' EQUITY (note 7)		
Investments in process	1,427		Capital stock	\$ 6,000	\$ 4,200
Deferred charges	10	16	Restatement of capital stock and retained earnings	417,803	171,646
Excess of cost over book value of shares in subsidiaries	120	108	Excess in restatement of capital	264,213	117,235
			Shares held in trust (note 8)		(3,077)
			Excess of book value over cost of shares in subsidiaries and associates	43,460	24,756
			Retained earnings	34,235	12,152
			Net income for the year	63,041	38,545
				\$ 828,752	\$ 365,457
	\$ 981,173	\$ 412,110		\$ 981,173	\$ 412,110

The accompanying notes are an integral part of this financial statement.

  
ROBERTO CESAR TREVIÑO G.  
President

  
ERNESTO MARTENS R.  
President and Chief Executive Officer

**VITRO, SOCIEDAD ANONIMA**  
**STATEMENT OF INCOME**  
**FOR THE BUSINESS YEARS ENDED DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

	1986	1985
Participation in earnings of subsidiaries	\$ 59,450	\$ 38,728
Other revenues	5,907	3,307
Revenues from Operations	\$ 65,357	\$ 42,035
Administrative expenses	287	69
Operating income	\$ 65,070	\$ 41,966
Total financing cost:		
Financial expenses (note 11)	\$ 2,149	\$ 963
Financial revenues	(5,115)	(2,273)
	\$ (2,966)	\$ (1,310)
Income before taxes	\$ 68,036	\$ 43,276
Income tax	4,995	4,731
Net income for the year	\$ 63,041	\$ 38,545

The accompanying notes are an integral part of this financial statement.

**VITRO, SOCIEDAD ANONIMA**  
**STATEMENT OF VARIATIONS IN STOCKHOLDERS' EQUITY**  
**FOR THE BUSINESS YEARS ENDED DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

	1986	1985
<b>INCREASES:</b>		
Capital stock:		
Capitalization of retained earnings	\$ 1,800	\$ 1,300
Restatement of capital stock and retained earnings	246,157	78,651
Excess in restatement of capital	146,978	58,219
Shares in trust:		
For liquidation of outstanding shares	6,480	
Excess of book value over cost of shares in subsidiaries and associates	18,704	14,364
Retained earnings:		
Application of earnings	38,545	7,107
Adjustment to retained earnings		1,257
Net income for the year	63,041	38,545
Total increases for the year	\$ 521,705	\$ 199,443
<b>DECREASES:</b>		
Shares held in trust	\$ 3,403	\$ 3,077
Retained earnings:		
Payment to trust for liquidation of outstanding shares	6,480	
Capitalization of earnings	1,800	1,300
Dividends paid	6,300	1,218
Adjustment of retained earnings	1,882	
Net income for the year:		
Transferred to retained earnings	38,545	7,107
Total decreases for the year	\$ 58,410	\$ 12,702
Net increase for the year	\$ 463,295	\$ 186,741
Balance at opening of business year	365,457	178,716
	\$ 828,752	\$ 365,457

The accompanying notes are an integral part of this financial statement.

**VITRO, SOCIEDAD ANONIMA**  
**STATEMENT OF CASH FLOW**  
**FOR THE BUSINESS YEARS ENDED DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

	<u>1986</u>	<u>1985</u>
<b>OPERATING CASH FLOW:</b>		
Net income for the year	\$ 63,041	\$ 38,545
Add (Deduct): Items not requiring cash:		
Depreciation and amortization	16	13
Deferred income tax	(7,476)	683
Participation in income of subsidiaries	(32,850)	(29,676)
Gains from monetary position	(12,729)	(3,348)
	<u>          </u>	<u>          </u>
Resources provided by operations	\$ 10,002	\$ 6,217
Net operating financing or investment:		
Increase or decrease in receivables and payables for services rendered to or by subsidiaries	10,522	3,993
Increase or decrease in other receivables and payables	(410)	20
Increase in accrued taxes and other payables	5,341	(1,584)
	<u>          </u>	<u>          </u>
Cash generated from operations	\$ 25,455	\$ 8,646
<b>SOURCES OF FINANCING:</b>		
Monetary effect on temporary investments	\$ 13,289	\$ 3,927
Long-term bank loans	6,185	3,133
Sale of shares and fixed assets		4
Other long-term accounts payable	28,814	5,230
Recovery of long-term accounts receivables due from subsidiaries	1,600	5,906
	<u>          </u>	<u>          </u>
Total of financing sources	\$ 49,888	\$ 18,200
Total sources of cash	<u>          </u>	<u>          </u>
<b>APPLICATION OF CASH:</b>		
Monetary effect on liabilities with financing	\$ 1,681	\$ 873
Long-term accounts receivable	24,998	5,813
Investment in shares	32,750	10,360
Dividends	6,300	1,218
Purchase of fixed assets	1,489	242
	<u>          </u>	<u>          </u>
Total application of cash	\$ 67,218	\$ 18,506
Increase in cash	\$ 8,125	\$ 8,340
Balance at opening of business year	11,162	2,822
	<u>          </u>	<u>          </u>
Balance at December 31, 1986 and 1985	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of this financial statement.

**VITRO, SOCIEDAD ANONIMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

1.- SIGNIFICANT ACCOUNTING POLICIES:

- a) Investment in shares. Investment in shares is valued by the equity method; the portion of earnings and net worth of subsidiaries corresponding to Vitro, Sociedad Anónima is computed on the basis of the issuing companies' financial statements as of December 31, 1986 and 1985, which are audited by Despacho Gómez Morfín except for Vitro Fibras, S. A., Vitro P. Q., S. A. and Subsidiaries, Vitro Flex, S. A., Crisa, Corporation, Vitro Sam, S. A. and Subsidiaries, Industrias Básicas International, Inc., Vitro Packaging, Inc., Vitro Do Brasil Industria e Comercio, Ltda. and the associated companies Industria Centroamericana de Vidrio, S. A. and Nadir Figueiredo Ind. e Com., S. A., which are audited by other public accountants.

Excesses on acquiring stock in subsidiaries are computed on the basis of book value on the acquisition dates. It is policy not to amortize such excesses.

- b) Accounting treatment of the effects of inflation

- As from the 1984 business year, the financial statements that form the basis for the application of the equity valuation method disclose the effects of inflation of those items where such effects are greatest, in accordance with the rules set forth in Statement B-10, issued by the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A. C.).

Following is a description of the items that have been restated and of the methods used to do so.

- Inventories and cost of sales - Inventories of subsidiaries are valued at the latest purchase price during the business year or at latest production cost or, in some cases, at standard replacement cost, without exceeding net realization value. Cost of sales is also determined using the latest purchase price at the date of consumption, the latest cost of production at the time of sale or at standard cost, except for some companies that used the "last in, first out" method.
- Property, plant and equipment and depreciation thereof - For a number of years, the Group has been recognizing the effects of inflation by revaluing fixed assets. In general, assets are valued at historic cost plus a valuation surplus based on assessments carried out by independent institutions registered with the National Securities Commission (Comisión Nacional de Valores).

Depreciation is computed by the straight line method, taking into account the useful life of the assets to depreciate the original cost and the revaluation, with effect from the month in which the asset comes into service.

- Amortizable expenses - The Group has restated balances of amortizable expenses, accumulated amortization and period amortization, using for this purpose factors derived from the National Consumer Price Index (Indice Nacional de Precios al Consumidor).

- Restatement of capital stock and retained earnings - The purpose of this restatement is to show shareholders' investment at the close of the business year in terms of the purchasing power of money equivalent to that on the dates when the capital was paid in and the earnings retained.
- Exchange fluctuations - Exchange fluctuations are considered as part of the total cost of financing and are applied directly to the income of subsidiaries.
- Result from monetary position - The monetary position result arises from carrying on the book assets and liabilities during periods of inflation, expressed in monetary units the nominal value of which has steadily decreasing purchasing power. In the case of monetary assets this results in a loss, whereas in the case of monetary liabilities a gain is realized. The net effect is shown in the period results of subsidiaries as part of the total cost of financing.
- Excess or shortfall in restatement of capital - This item is computed by taking the algebraic sum of the restated balances, whether debtor or creditor, of patrimonial result from monetary position and result from holding of non-monetary assets, including the initial gain obtained in the first restatement.

The result from holding of non-monetary assets is invariably shown directly under stockholders' equity.

- c) Land, buildings, furniture and equipment - These are carried at cost less accumulated depreciation. Because book value is significantly different from real values, a revaluation is recognized on the basis of an assessment carried out by a duly registered institution. This revaluation affects the appropriate items of non-current assets and also the item of revaluation surplus.

Cost and revaluation are depreciated over the remaining useful life of the assets with effect starting the month they are put in operation.

Maintenance and repair expenses are recorded as expenses of the business year in which they are incurred.

- d) Transactions in foreign currencies - The policy is to record transactions in foreign currency at a fixed exchange rate close to that ruling on the transaction date, and to make monthly adjustments for material variances between the two rates.
- e) Deferred income tax - It is policy to recognize in the financial statements the effect on the computation of income tax of timing differences, on some items, between posting to the books and recognition for tax purposes. That portion which is estimated to fall due in the short-term is shown under working capital. Debit and credit balances, both short-term and long-term, are set off against each other.

## 2.- LONG-TERM BALANCE DUE FROM SUBSIDIARIES:

This corresponds to interest-bearing loans with maturities similar to those of the FICORCA liability mentioned in note 5.

### 3.- INVESTMENT IN SHARES:

a) The analysis of the investment is as follows:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Shares of industrial and commercial companies	\$ 716,601	\$ 324,496
Shares of associated companies	<u>129,589</u>	<u>48,803</u>
	<u>\$ 846,190</u>	<u>\$ 373,299</u>

b) Associated companies are deemed to be those companies in which the company holds between 25<sup>0</sup>/<sub>o</sub> and 50<sup>0</sup>/<sub>o</sub> of capital stock as a permanent investment.

One of the associated companies, Industria Centroamericana de Vidrio, S. A., is incorporated in Guatemala and its balances are recorded at a rate of exchange of 353.17 pesos per quetzal in 1986 and of 125.32 pesos in 1985. Capital contributions are taken into account at the rates of exchange ruling on the dates when they were made.

Another associated company is located in Brazil. In 1986 the investment in Brasividro, S. A. was changed for an investment in Nadir Figueiredo Ind. e. Com., S. A. through the subsidiary Vitro Do Brasil Industria e Comercio, Ltda. Original contributions to Brasividro, S. A. are included at different exchange rates in force on the date on which they were made and the figures relative to the participation in the retained earnings and in the results of the business period, at the exchange rate which at the close of the 1986 period was closed was 63.81 pesos per cruzado and .035 pesos per cruzeiro in 1985. For the purpose to value the investment, the adjustment determined by the Brazilian Government is considered as surplus; for this concept, the amount of \$2,548 in 1986 and \$1,247 in 1985 correspond to Vitro, Sociedad Anónima's participation.

c) In accordance with accounting principles, in order to reflect properly the financial information of the economic entity, consolidated financial statements are required. These are separately audited.

### 4.- PROPERTY, FURNITURE AND EQUIPMENT:

a) The detail of such fixed assets is as follows:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Building, at cost	\$ 34	\$ 33
Accumulated depreciation, at cost	(3)	(1)
Revaluation	<u>83</u>	
	\$ 114	\$ 32
Land, at cost	219	198
Revaluation	<u>289</u>	
	<u>\$ 622</u>	<u>\$ 230</u>
Furniture and equipment, at cost	\$ 56	\$ 15
Accumulated depreciation, at cost	(15)	(6)
	<u>\$ 41</u>	<u>\$ 9</u>

5.- LIABILITIES:

- a) In July 1981, notes were issued in Europe for 75 million U. S. dollars. They mature in 1988 and may be extended for a further three years. As from 1984, half-yearly prepayments may be made up to 1988 with no additional cost for the issuer. The annual interest rate is 5/8 above the London interbank offering rate for 6-month eurodollar deposits with a guarantee that such interest rate will not be less than 8<sup>0</sup>/<sub>100</sub> a year. Interest is payable every six months.
- b) In view that the credit already had an amortization term acceptable for FICORCA, it was entered in it without the need to restructure the debt.

6.- CONTINGENT LIABILITIES:

Credit instruments drawn against several subsidiary companies have been guaranteed. The amounts are 524,225 pesos payable in U. S. dollars and \$19,906 payable in Mexican pesos. Of these amounts, \$520,471 and \$2,362 respectively have maturities greater than one year.

7.- STOCKHOLDERS' EQUITY:

- a) Capital stock is represented by 51'655,000 common paid-up shares without nominal face value. It includes \$589 for revaluation of subsidiary companies' fixed assets.
- b) At December 31 1986, stockholders' equity includes \$102,281 of accumulated and/or capitalized earnings and \$682,544 of revaluation surplus, both of which, if distributed to stockholders, are liable to income tax withholding mainly at a rate of 55<sup>0</sup>/<sub>100</sub>. Dividends paid are deductible for purposes of the company's income tax, in terms established by the corresponding legal regulations.
- c) There follows an analysis of the restatement of capital stock and retained earnings:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Restatement of capital stock and other contributions	\$ 144,402	\$ 77,738
Restatement of retained earnings	<u>273,401</u>	<u>93,908</u>
	<u>\$ 417,803</u>	<u>\$ 171,646</u>

- d) The loss for holding non-monetary assets of the 1986 business period rose to \$15,031 and \$1,108 in 1985.

8.- SHARES HELD IN TRUST:

During the 1985 business year a trust was set up with Banca Serfin, S.N.C. as trustee which had the patrimony consisting of 8'345,000 shares issued by Vitro, Sociedad Anónima at a cost of \$6,480.

At the Extraordinary Meeting held on November 28, 1986, it was agreed to extinguish the 8'345,000 shares in trust and pay them against accrued profits at cost of acquisition of the shares.



## 9.- EFFECTS OF INFLATION IN THE COMPARISON OF THE FINANCIAL STATEMENTS:

General balance sheets as of December 31, 1986 and 1985 are expressed in currency of purchasing power as of such dates and the statements of income related to them are presented in currency of purchasing power of dates in which the company made such operations; consequently, are not comparable.

For the purpose of improving the comparability of the financial statements, there follows certain financial information adjusted based on factors derived from the National Price Index.

	<u>Updated Figures</u>		<u>Figures in financial statements</u>
	<u>1 9 8 6</u>	<u>1 9 8 5</u>	<u>1 9 8 5</u>
Operating revenues (1)	65,357	78,269	42,035
Operating income (1)	65,070	78,141	41,966
Net income (1)	63,041	71,771	38,545
Total Assets (2)	981,173	847,710	412,110
Stockholders' Equity (2)	828,752	751,745	365,457

(1) The average factor used is 86.2.

(2) The factor used is 105.7

## 10.- STATEMENT OF CASH FLOW:

During 1986 the Accounting Principles Commission of the Mexican Institute of Public Accountants, issued its bulletin 27 giving their recommendations regarding the presentation of the statement of cash flow.

Such recommendations were applied, the fundamental change being that accrued interests have two components: A real interest rate corresponding to a movement of operating nature and the inflationary effect, which in real terms correspond to the payment or collection of the principal.

Real interest is presented included in the cash generated from operations and the inflationary in sources and applications of cash. For information purposes, the figures for 1985 were reclassified.

## 11.- RECLASSIFICATION OF FIGURES IN THE STATEMENT OF INCOME:

Until the 1985 business period the total interest accrued to FICORCA for the credit of 75 million dollars of Floating Rate Notes was considered as a financial expense of Vitro, Sociedad Anónima. Starting the 1986 fiscal period only the proportional part of the interest from such credit for the portion the company absorbed from same is considered as a financial expense of Vitro, Sociedad Anónima. Figures for the 1985 business year were reclassified for comparison purposes only.



**Despacho Gómez Morfín  
Contadores Públicos y Consultores**

**Representantes de  
Grant Thornton International**

**To: Board of Directors and Stockholders of  
Vitro, Sociedad Anónima  
Monterrey, N. L.**

In our opinion, except for what is mentioned in the next paragraph, on the basis of the audit we have carried out, the accompanying consolidated financial statements prepared by the management of the company, present fairly the consolidated financial situation of Vitro, Sociedad Anónima and Subsidiaries as of December 31, 1986 and 1985 and the consolidated results of their operations for the years ended on those dates. Accounting principles have been consistently applied after the restatement of the 1985 statement of cash flow figures recognizing the modifications established in 1986 by the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos) (note 14), change with which we concur.

In the 1984 business year, the company, in accordance with the accounting principles, chose not to restate their deferred assets and consequently, reported a loss on holding of non-monetary assets of \$4,902 million. This loss was applied against income for the period instead of being taken directly to stockholders' equity. For this reason, retained earnings shown in the attached balance sheets appear reduced by this same amount.

The financial statements of the associated and subsidiary companies referred to in note 1, sections a) and b), have been audited by other firms of public accountants. The total assets of these companies amount to \$230,483 million in 1986 and \$79,554 million in 1985, representing 15<sup>0</sup>/<sub>o</sub> and 11<sup>0</sup>/<sub>o</sub> of the total, respectively. Likewise, net income of such companies in 1986 is \$14,736 millions and \$5,362 million for 1985 representing 18<sup>0</sup>/<sub>o</sub> and 12<sup>0</sup>/<sub>o</sub> of the total respectively.

**DESPACHO GOMEZ MORFIN  
Contadores Públicos y Consultores**



**CELSO JAVIER TREVIÑO E.  
Contador Público**

Monterrey, N. L., México, February 27, 1987.

**VITRO, SOCIEDAD ANONIMA**  
**CONSOLIDATED**  
**AS OF DECEMBER 31,**  
**(Millions)**

<b>ASSETS</b>	<b>1 9 8 6</b>	<b>1 9 8 5</b>
Cash	\$ 5,158	\$ 5,007
Marketable securities (note 3)	130,717	69,353
Trade receivables, net	99,033	43,982
Other receivables	84,336	20,260
Inventories (note 4)	132,462	61,601
Current assets	\$ 451,706	\$ 200,203
Long-term investments (note 5)	5,991	36,320
Investment in associated companies (note 1-b)	129,589	48,803
Land and buildings, (including revaluation), (note 6)	193,425	94,554
Machinery and equipment, (including revaluation) , (note 6)	673,461	306,524
Investments in process	14,118	5,735
Amortizable expenses, net (note 7)	59,391	32,549
Excess of cost over book value of shares in subsidiaries	122	122
Total assets	\$ 1'527,803	\$ 724,810

The accompanying notes are an integral part of this financial statement.

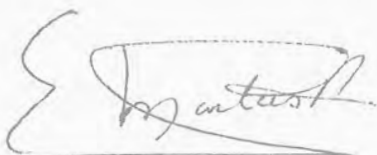
**AND SUBSIDIARIES**  
**BALANCE SHEET**  
**1986 AND 1985**  
of Pesos)

**LIABILITIES**

	<u>1986</u>	<u>1985</u>
Bank loans	\$ 72,736	\$ 24,147
Current portion of long-term debt	6,625	3,080
Trade payables	33,108	16,755
Other payables	57,175	27,277
	<u>\$ 169,644</u>	<u>\$ 71,259</u>
FICORCA liabilities	\$ 369,641	\$ 216,776
Bank debt	16,899	6,401
Unsecured and mortgage bonds	1,500	1,500
Other liabilities	7,433	11,583
	<u>\$ 395,473</u>	<u>\$ 236,260</u>
Total liabilities (notes 8 and 9)	<u>\$ 565,117</u>	<u>\$ 307,519</u>

**STOCKHOLDERS' EQUITY**

Minority interest in consolidated subsidiaries (note 10-c)	\$ 133,934	\$ 51,834
Majority interest: (note 10)		
Capital stock	\$ 6,000	\$ 4,200
Restatement of capital stock and retained earnings	417,803	171,646
Excess in restatement of capital	264,213	117,235
Shares held in trust (note 12)		(3,077)
Excess of book value over cost of shares of subsidiaries and associates	43,460	24,756
Retained earnings	34,235	12,152
Net income for the year	63,041	38,545
	<u>\$ 828,752</u>	<u>\$ 365,457</u>
Stockholders' equity	<u>\$ 962,686</u>	<u>\$ 417,291</u>
Total liabilities and stockholders' equity	<u><u>\$ 1,527,803</u></u>	<u><u>\$ 724,810</u></u>



**ERNESTO MARTENS R.**  
President and Chief Executive Officer

**VITRO, SOCIEDAD ANONIMA AND SUBSIDIARES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Net sales	\$ 525,521	\$ 260,881
Other operating revenues	3,134	6,919
	<u>\$ 528,655</u>	<u>\$ 267,800</u>
Cost of sales	289,325	141,695
Operating expenses	93,989	42,997
	<u>\$ 145,341</u>	<u>\$ 83,108</u>
Total financing cost:		
Financial expenses and income	\$ 203,829	\$ 81,736
Gain from monetary position	(123,194)	(49,341)
	<u>\$ 80,635</u>	<u>\$ 32,395</u>
Income after financing	\$ 64,706	\$ 50,713
Other income, net of other expenses	2,107	3,353
Share in net income of associated companies	12,016	6,181
	<u>\$ 78,829</u>	<u>\$ 60,247</u>
Income before income tax and workers' profit sharing	\$ 78,829	\$ 60,247
Income tax (note 11)	(11,205)	11,416
Profit sharing to workers (note 11)	9,508	4,013
	<u>\$ 80,526</u>	<u>\$ 44,818</u>
Net income for the year	\$ 80,526	\$ 44,818
Net income of minority interest	17,485	6,273
	<u>\$ 63,041</u>	<u>\$ 38,545</u>

The accompanying notes are an integral part of this financial statement.

**VITRO, SOCIEDAD ANONIMA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 1986 AND 1985**  
(Millions of Pesos)

	1986	1985
<b>OPERATING CASH FLOW:</b>		
Net income for the year	\$ 80,526	\$ 44,818
Add (deduct) non-cash items:		
Depreciation and amortization	9,783	11,405
Depreciation on revaluation	41,285	16,798
Loss from monetary position	46,345	18,108
Restatement of cost of sales	13,247	6,429
Provision for seniority premium	421	548
Share in net income of unconsolidated associates	(12,016)	(6,181)
Deferred income tax and workers' profit sharing	(38,525)	(1,568)
Exchange (income) loss	(423)	1,591
Resources provided by operations	<u>\$ 140,643</u>	<u>\$ 91,948</u>
Investment and financing:		
Increase (decrease) in payables	14,281	5,792
Increase (decrease) in receivables	(43,184)	(14,169)
Increase (decrease) in inventories	(41,902)	(24,946)
Other current assets and liabilities, net	41,502	(368)
Cash generated from operations	<u>\$ 111,340</u>	<u>\$ 58,257</u>
<b>SOURCES OF FINANCING:</b>		
Monetary effect on temporary investments	\$ 64,373	\$ 27,899
Short-term bank loans	119,363	37,677
Long-term loans	188,203	67,699
Increase in minority interest	742	252
Sale of fixed assets	886	982
Recovery of other investments	3,958	6,484
Total sources of financing	<u>\$ 377,525</u>	<u>\$ 140,993</u>
Total sources of cash	<u>\$ 488,865</u>	<u>\$ 199,250</u>
<b>APPLICATION OF CASH:</b>		
Monetary effect on liabilities with financing	\$ 233,912	\$ 95,348
Investment in property, plant and equipment	46,112	14,850
Increase in amortizable expenses	3,195	1,780
Long-term receivables	129	3,095
Liquidation of short-term credits	98,114	24,065
Payment of long-term loans	22,359	13,065
Dividends paid to GRUPO VITRO stockholders	6,300	1,218
Dividends paid to minority interest	3,022	1,175
Investment in subsidiary and associated companies	10,804	8,768
Investment in shares held in trust	3,403	3,077
Total applications of cash	<u>\$ 427,350</u>	<u>\$ 166,441</u>
Increase in cash and marketable securities	\$ 61,515	\$ 32,809
Opening balance	74,360	41,551
Balance at December 31, 1986 and 1985	<u>\$ 135,875</u>	<u>\$ 74,360</u>

The accompanying notes are an integral part of this financial statement.

**VITRO, SOCIEDAD ANONIMA AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF**  
**DECEMBER 31, 1986 AND 1985**  
**(Millions of Pesos)**

1.- PRINCIPLES OF CONSOLIDATION:

- a) Consolidated subsidiaries - Those companies in which the Group holds more than 50% of the capital stock are consolidated. The following are the principal consolidated companies:

Vidriera Monterrey, S. A.	Vitrocristal, S. A.
Vidriera México, S. A.	Cristal, Corporation
Vidriera Los Reyes, S. A.	*Vitro Do Brasil Industria e Comercio, Ltda.
Vidriera Guadalajara, S. A.	Vitro Fibras, S. A.
Vidriera Querétaro, S. A.	*Vitro P. Q., S. A.
Vidriera Toluca, S. A.	Silicatos y Derivados, S. A.
Envases de Borosilicato, S. A.	Arcillas Tratadas, S. A. de C. V.
Vidrio Neutro, S. A.	Fabricación de Máquinas, S. A.
Ampolletas, S. A.	Peerless Tisa, S. A.
Productos Kimax de México, S. A.	Quantron, S. A.
Regioplast, S. A.	Neumatron, S. A.
Regioplast Guadalajara, S. A.	Industria del Alkali, S. A.
Regiomold, S. A.	Materias Primas Monterrey, S. A.
Vitroplast Monterrey, S. A.	Materias Primas Minerales de San José, S. A.
Cía. General de Plásticos, S. A.	Materias Primas Minerales de Lampazos, S. A.
Plásticos y Representaciones, S. A.	Materias Primas Minerales de Ahuazotepec, S. A.
Tuboplast, S. A.	Materias Primas Magdalena, S. A. de C. V.
Plásticos Bosco, S. A.	Minerales para la Industria, S. A.
*Vitro Sam, S. A.	Valuateg, S. A.
*Altro, S. A.	*Industrias Básicas Internacional, Inc.
*Envases Cuautitlán, S. A.	Troqueles y Esmaltes, S. A.
Vitro Packaging, Inc.	Supermátic, S. A.
Vitro Plan, S. A.	*Estufas y Refrigeradores Nacionales, S. A. de C. V.
Vidrio Plano de México, S. A.	*Acrotec, S. A. de C. V.
Vidrio Plano, S. A.	*Acros, S. A. de C. V.
Vitro Flotado, S. A.	Proveedora del Hogar, S. A.
Cristales Inastillables de México, S. A.	Vitro Corporativo, S. A.
Vitro Flex, S. A.	Fomento Inmobiliario y de la Construcción, S.A.
Shatterproof de México, S. A.	Acción Social Regiomontana, A. C.
Química "M", S. A.	Clínica Vidriera, A. C.
Vitrocristal Crimesa, S. A.	Cooperación Social, A. C.
Vitrocristal Cristalería, S. A.	

\*These companies were formed or acquired during the 1986 business year.



The consolidated companies are audited by Despacho Gómez Morfín y Cía., with the exception of:

- Vitro Fibras, S. A., Vitro P. Q., S. A. and Subsidiaries, Vitro Flex, S. A., Vitro Sam, S. A. and Subsidiaries, Crisa Corporation, Industrias Básicas International, Inc., Vitro Packaging, Inc. and Vitro Do Brasil Industria e Com., Ltda., which are audited by other firms of public accountants.

The subsidiary Fabricación de Máquinas, S. A. sells equipment to some companies of the Group. Net income from this business is not eliminated in order to avoid the need to adjust depreciation charges in each period.

Excesses on acquisition of stock in subsidiaries are determined on the basis of the book value at acquisition date. It is a policy not to amortize such excesses.

- b) Unconsolidated associated companies - Associated companies are deemed to be those in which less than 50% of its capital stock is held and is a permanent investment. Such investments are valued according to the equity method.

Detail of investment in unconsolidated associated companies:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Cydsa, S. A.	\$ 95,273	\$ 35,647
Grupo Industrial Comasa, S. A.	7,297	2,349
Industria Centroamericana de Vidrio, S. A.	24,645	9,112
Brasividro, S. A.		1,695
Nadir Figueiredo Ind. e Com., S. A.	<u>2,374</u>	
	<u>\$ 129,589</u>	<u>\$ 48,803</u>

Associates Nadir Figueiredo Ind. e Com., S. A. and Industria Centroamericana de Vidrio, S. A. are audited by other public accountants.

The business year of Industria Centroamericana de Vidrio, S. A. ends on June 30. However it prepared consolidated financial statements as of December 31 and these were taken for the purpose of valuing the investment in this company in the GRUPO VITRO consolidated financial statements as of December 31, 1986 and 1985.

Industria Centroamericana de Vidrio, S. A. is incorporated in Guatemala and its balances are taken at the exchange rate of 353.17 pesos per quetzal in 1986 and \$125.32 in 1985. Contributions to capital are presented at the exchange rate on the dates of the transactions and include the indirect participation of the Group in retained earnings and in net income of the following companies which are controlled by Industria Centroamericana de Vidrio, S. A. : Sílice de Centroamérica, S. A., Sílice de Costa Rica, S. A., Vidriera Centroamericana, S. A., Distribuidora Industrial y Comercial Nicaragua, S. A., Distribuidora Industrial y Comercial de Costa Rica, S. A., Centroamericana de Tapas, S. A., Fomento Industrial Centroamericano, S. A., and Distribuidora Industrial y Comercial Guatemala, S. A.

Another associated company is located in Brazil. During 1986 the investment in Brasividro, S. A. was changed for an investment in Nadir Figueiredo Ind. e Com., S. A. through the subsidiary Vitro Do Brasil Industria e Com., Ltda. Original contributions to Brasividro are included at different rates of exchange ruling on the dates of the transactions and the figures relating to participation in stockholders' equity at the rate of exchange ruling at the close of the business years, which were 63.81 pesos per cruzado in 1986 and 0.035 pesos per cruzeiro in 1985. For the purpose of valuing the investment, the adjustment determined by the government of Brazil is recognized as a surplus; for this item the Group's share was \$2,548 in 1986 and \$1,247 in 1985.

## 2.- SIGNIFICANT ACCOUNTING POLICIES:

### a) Accounting treatment of the effects of inflation

As from the 1984 business year, disclosure is made in the basic financial statements of the effects of inflation on those items on which it has the greatest impact, in accordance with the rules laid down in Statement B-10 issued by the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A. C.).

There follows a description of the items that have been restated and of the methods used to do so.

#### — 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 a standard replacement cost, in no case exceeding the net realization value. The cost of sales was determined also by using the price of the latest purchase at the date of consumption, the latest production cost at the time of sale or at standard cost, except for some companies that used the "last in, first out" method.

#### — Property, plant and equipment and depreciation thereof

For several years, The Group's policy has been to recognize the effects of inflation on these items through the revaluation of fixed assets. In general, assets are valued at historic cost to which is added an amount of revaluation which is assessed by independent firms registered with the National Securities Commission (Comisión Nacional de Valores).

Depreciation is computed by the straight-line method, taking into consideration the useful life of the assets to depreciate the original cost and the revaluation, with effect from the month in which the asset comes into service.

#### — Amortizable expenses

The balances of amortizable expenses, accumulated amortization and period amortization are restated using factors derived from the National Consumer Price Index (Indice Nacional de Precios al Consumidor).

#### — Restatement of capital stock and retained earnings

The purpose is to present the stockholders' investment at the close of the year in terms of the purchasing power of money on the dates when capital was paid in or when earnings were retained.

– Exchange fluctuations

Exchange gains and losses are considered as part of the total cost of financing and directly affect the earnings of the period.

– Result from monetary position

The monetary position reflects the result of having monetary assets and liabilities during periods of inflation.

Their values in current monetary units represent decreasing purchasing power as time goes by. This means that losses are made on holding monetary assets over time whereas gains are realized on holding monetary liabilities. The net effect is presented in the income statement for the year as part of the total cost of financing.

– Excess or shortfall in restatement of capital

This item is computed by taking the algebraic sum, whether debtor or creditor, of the restated balances of patrimonial result from monetary position and result from holding of non-monetary assets, including the initial gain obtained in the first restatement. The result from holding of non-monetary assets is shown directly under stockholders' equity.

b) Maintenance expenses

Expenses of maintenance and repair are recorded directly as costs and expenses of the fiscal year when they are carried out.

c) Amortization of deferred charges

Amortization is computed by the straight line method at the rates indicated in note 7 which vary according to the type of amortizable expense.

d) Severance payments

Payments on account of indemnity and retirement are charged to the revenue of the year in which such payments are made.

The seniority premiums for all personnel are considered as costs of the years in which their services are rendered. These are recorded on the basis of actuarial computations considering the salaries that will be in effect at the time payment is made; personnel not yet eligible for seniority premium are also taken into account, the necessary adjustments being made in accordance with the probability of their acquiring the needed seniority. Cost of past services, after deducting the reserve already created, will be amortized in the average period required for workers to reach their retirement age. Actuarial computations are updated as the events that justify them take place.

e) Acknowledgement of income

Income from Cedis (tax rebates on exports) is recognized immediately after the requirements set up by (Secretaría de Hacienda y Crédito Público) Ministry of Finance and Public Credit as condition to grant such rebates have been complied with regardless of whether the document evidencing the same has been received or not. Income from Ceprofis (tax incentive certificates) is acknowledged at the time such certificates are requested from the Ministry of Finance.

f) Deferred income tax and profit sharing to workers

It is policy to show in the financial statements the effects which certain items have on the computation of income tax and profit sharing to workers, since, when charged against profits, their acknowledgement for fiscal purposes is deferred temporarily. The estimated portion to fall due in the short-term is shown as working capital. Debit and credit balances are set off against each other for both short and long-term items.

3.- MARKETABLE SECURITIES:

The marketable securities are made up chiefly of Treasury Certificates issued by the Mexican Federal Government and bank time deposits.

4.- INVENTORIES:

a) The breakdown is as follows:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Finished products	\$ 53,788	\$ 27,886
Raw materials	19,275	9,978
Packing materials	<u>3,749</u>	<u>1,607</u>
	\$ 76,812	\$ 39,471
Spare parts	14,469	7,529
Refractories	2,979	1,843
Merchandise in transit	4,193	1,977
Others	<u>4,824</u>	<u>1,904</u>
	\$ 103,277	\$ 52,724
Revaluation	<u>29,185</u>	<u>8,877</u>
	<u>\$ 132,462</u>	<u>\$ 61,601</u>

b) It is estimated that the value of obsolete and slow-moving items was \$1,013 in 1986 and \$1,244 in 1985.

5.- LONG-TERM INVESTMENTS:

The balance is made up as follows:

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
Constructions for services to workers (a)	\$ 845	\$ 309
Deferred income tax and workers' profit sharing and receivables	4,878	35,734
Land held in trust (b)	188	248
Shares and securities, at cost	<u>80</u>	<u>29</u>
	\$ 5,991	\$ 36,320

(a) Land, buildings and equipment used to provide medical services, schools and playgrounds for workers.

- (b) Disbursements made on this type of contracts. There are no restrictions on the use of such property; it is intended for buildings to be used by the consolidated companies.

#### 6.- FIXED ASSETS:

- a) During 1986 the values of fixed assets were again reassessed. The valuation was carried out by independent valuers recognized by the Mexican National Securities Commission (Comisión Nacional de Valores) and represents the estimated replacement value of the fixed assets as part of the industrial unit, less depreciation thereon.

- b) There follow the details of the property, plant and equipment:

	1986			1985		
	Cost	Revaluation	Total	Cost	Revaluation	Total
Buildings	\$ 11,184	\$ 199,412	\$ 210,596	\$ 7,681	\$ 75,882	\$ 83,563
Accumulated depreciation	1,560	49,285	50,845	1,123	6,446	7,569
	\$ 9,624	\$ 150,127	\$ 159,751	\$ 6,558	\$ 69,436	\$ 75,994
Land	1,254	32,420	33,674	1,022	17,538	18,560
	\$ 10,878	\$ 182,547	\$ 193,425	\$ 7,580	\$ 86,974	\$ 94,554
Machinery and equipment	\$ 75,525	\$ 903,567	\$ 979,092	\$ 44,305	\$ 326,190	\$ 370,495
Accumulated depreciation	15,265	290,366	305,631	10,355	53,616	63,971
	\$ 60,260	\$ 613,201	\$ 673,461	\$ 33,950	\$ 272,574	\$ 306,524

#### 7.- AMORTIZABLE EXPENSES:

Details of the most important items making up this balance follow:

	1986	1985	Amortization rate
Preoperating expenses	\$ 3,190	\$ 2,496	10 <sup>0</sup> / <sub>o</sub>
Installation and organization expenses	468	682	5 <sup>0</sup> / <sub>o</sub> and 10 <sup>0</sup> / <sub>o</sub>
FICORCA premium spread	4,325	4,581	
Other minor items	2,393	1,193	According to item
Up-dated	49,015	23,597	According to item
	\$ 59,391	\$ 32,549	

## 8.- LIABILITIES

### a) Maturities of long-term debt:

	Payable in:		Total
	Mexican currency	United States currency	
1988	\$ 6,288	\$ 1,540	\$ 7,828
1989	2,920	1,610	4,530
1990	1,843	7	1,850
1991	6,105		6,105
1992 and following	379		379
FICORCA	369,641		369,641
Deferred taxes	3,685		3,685
Seniority premium	1,455		1,455
	<u>\$ 392,316</u>	<u>\$ 3,157</u>	<u>\$ 395,473</u>

In addition, under short-term debt there are balances payable in U.S. dollars totaling \$17,307 in 1986, likewise, balances of collectibles in the same currency amounting to \$111,873. Currency conversion was made at \$925.30 per U. S. dollar.

### b) The situation of our foreign currency-denominated debt is as follows:

- Loans renegotiated to comply with FICORCA conditions: 507'771,505 U. S. dollars of which 424'451,000 dollars have been redocumented under a floating rate note contract.
- Loans that did not need restructuring since they already fulfill the FICORCA conditions: 134'204,000 U. S. dollars.
- Loans not covered by FICORCA: 3'355,871 U. S. dollars. Although the repayment of these loans is subject to exchange risk, there will be no restrictions on obtaining the foreign currency necessary to cover them since this debt was contracted with credit institutions of foreign governments that have reciprocity agreements with México guaranteeing the availability of currency.
- Debt amounting to 16'200,000 U. S. dollars held by several foreign banks under arrangements made by the International Finance Corporation. To cover this debt a deposit has been made with Banco de Comercio Exterior whereby, on each amortization date, Banco de Comercio Exterior will provide sufficient pesos to buy from Banco de México the U. S. dollars necessary to pay to International Finance Corporation, considering that Banco de México provides the U. S. dollars at the controlled rate of exchange ruling on the date of each amortization.

Experience to date is that Banco de México has indeed provided the U.S. dollars necessary to meet this kind of commitment.

In view of the fact that in each of the early years of indebtedness with FICORCA, payments will be lower than interest accrued, the current balance in favor of FICORCA is considered as a liability with long-term maturity.

- c) Seniority premium.- In accordance with the policy mentioned in note 2-d, the amount corresponding to past services rendered pending amortization is \$1,099 in 1986 and \$1,108 in 1985. The charge to revenue of the period amounted to \$1,139 in 1986 and \$580 in 1985, including the amortization of seniority premium arising from past services.
- d) Guarantees.- Liabilities totaling \$17,269 which amounted to \$21,479 when contracted, are guaranteed by fixed assets with a restated value of \$84,938 as of December 31, 1986.

9.- CONTINGENT LIABILITIES:

Liabilities for indemnities and retirement payments have not been quantified as of December 31, 1986 and 1985.

10.- STOCKHOLDERS' EQUITY:

- a) Capital stock is represented by 51'655,000 common paid-up shares without nominal face value. It includes \$589 for capitalization of revaluation of consolidated companies' fixed assets, which amount has already been charged to profits of the subsidiaries via depreciation.
- b) The majority stockholders' equity as of December 31, 1986 includes \$102,281 of accumulated and/or capitalized profits as well as \$682,545 of revaluation surplus. The equity of the minority interest includes \$20,942 of third party participation in accumulated and/or capitalized profits and \$109,463 of the minority interest share in revaluation surplus, both of which, if distributed to stockholders, will be subject to income tax withholding, mainly at a rate of 55<sup>0</sup>/<sub>o</sub>. Dividends paid are deductible for purposes of computing company income tax liability, in terms established by the corresponding legal regulations.
- c) An analysis of minority stockholders' equity in consolidated subsidiaries follows:

	<u>1986</u>	<u>1985</u>
Capital stock*	\$ 4,204	\$ 3,401
Restatement of capital stock and retained earnings	77,269	24,058
Premium on shares sold	682	682
Excess in restatement of capital	31,624	17,364
Excess of book value over cost	33	33
Retained earnings	2,637	23
Net income for the year	17,485	6,273
	<u>\$ 133,934</u>	<u>\$ 51,834</u>

\* Includes capitalized revaluation surplus of \$570 in 1986 and 1985.

d) The restatement of capital stock and retained earnings is made up as follows:

	<u>1986</u>	<u>1985</u>
Restatement of capital stock and other contributions	\$ 144,402	\$ 77,738
Restatement of retained earnings	273,401	93,908
	<u>\$ 417,803</u>	<u>\$ 171,646</u>

e) The loss for holding non-monetary assets in the business year 1986 amounted to \$15,947 and \$161 in 1985.

#### 11.- INCOME TAX AND PROFIT SHARING TO WORKERS:

The effect that the application of policy 2-f has on these items follows:

	<u>Income Tax</u>		<u>Profit sharing to workers</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
Payable according to applicable legislation	\$ 31,651	\$ 13,619	\$ 5,177	\$ 3,378
Increases (decreases) due to timing differences:				
Upon deducting according to tax law:				
Exchange variation applied to income in previous periods, and seniority premium	23,748	7,177	4,829	967
Difference between fiscal and book depreciation	2,377	2,004	432	383
Sub-total	\$ 57,776	\$ 22,800	\$ 10,438	\$ 4,728
Effect of charging to income:				
Exchange variation, provision for seniority premium and preoperating expenses	(4,800)	(4,283)	(930)	(715)
Tax loss	(60,212)	(7,101)		
Due to amendments to the income tax law, net	(3,969)			
Shown in income statement	<u>\$ (11,205)</u>	<u>\$ 11,416</u>	<u>\$ 9,508</u>	<u>\$ 4,013</u>



## 12.- SHARES HELD IN TRUST:

During the 1985 business year a trust was set up with Banca Serfin, S.N.C. as trustee, which had the patrimony consisting of 8'345,000 shares issued by Vitro, Sociedad Anónima at a cost of \$6,480.

At the extraordinary meeting held on November 28, 1986, it was agreed to extinguish the 8'345,000 shares in trust and pay them off against accrued income at cost of acquisition of the shares.

## 13.- EFFECTS OF INFLATION IN THE COMPARISON OF THE FINANCIAL STATEMENTS:

General balance sheets as of December 31, 1986 and 1985 are expressed in currency of purchasing power of such dates and the statements of income related to them are presented in currency of purchasing power of dates on which the company carried out its operations; consequently they are not comparable.

For the purpose of improving the comparison of the financial statements, there follows certain financial information adjusted on the basis of factors derived from the National Consumer Price Index.

	Updated figures		Figures in financial statements
	1986	1985	1985
Net sales (1)	\$ 525,521	\$ 485,965	\$ 260,881
Operating income (1)	145,341	154,812	83,108
Net income (1)	80,526	83,451	44,818
Total assets (2)	1'527,803	1'490,934	724,810
Stockholders' equity (2)	962,686	858,368	417,291

(1) The average factor used is 86.2.

(2) The factor used is 105.7.

## 14.- CASH FLOW STATEMENT:

During 1986 the Accounting Principles Commission of the Mexican Institute of Public Accountants, issued its bulletin 27 giving their recommendations regarding the presentation of the cash flow statements.

Such recommendations were applied, the fundamental change being that accrued interests have two components: A real interest rate which corresponds to a move of operating nature and an inflationary effect, which in real terms corresponds to the payment or collection of principal.

Real interest is presented included in the cash generated from operations and the inflationary rate in the cash sources and cash applications. For comparison purposes, the 1985 figures were reclassified.



