



## ANNUAL REPORT 1981

VITRO, Sociedad Anonima,  
renowned glass manufacturers in Mexico since 1909

## FINANCIAL HIGHLIGHTS

( MILLIONS OF PESOS )

	1980	1981	VARIATION
1. TOTAL SALES	23,470	<b>30,720</b>	31%
2. CONSOLIDATED NET SALES	18,743	<b>25,391</b>	35%
3. NET INCOME	1,719	<b>1,921</b>	12%
4. CAPITAL EXPENDITURES	6,596	<b>6,830</b>	4%
5. GROSS GENERATION OF FUNDS	3,244	<b>3,975</b>	23%
6. RETURN ON EQUITY	17.5	<b>11.6</b>	
7. CURRENT RATIO	1.8	<b>2.0</b>	
8. FINANCIAL LEVERAGE (DEBT / TANGIBLE NET WORTH)	1.17	<b>1.24</b>	



BOARD OF DIRECTORS

DIRECTORS

ADRIAN SADA T.	Chairman
EDUARDO G. BRITTINGHAM	
JULIO ESCAMEZ F.	
ALEJANDRO GARZA LAGÜERA	
DIONISIO GARZA SADA	
VIRGILIO GARZA JR.	Deputy
MARIO GARZA G.	Secretary
TOMAS GONZALEZ SADA	
JUAN F. MUÑOZ	
ALFONSO F. RODRIGUEZ	
ANDRES G. SADA	Deputy
ROGELIO SADA	

EXAMINERS

SALVADOR GONZALEZ G. JR.	
VIRGILIO M. GALINDO	Deputy







Apartado Postal 761, Monterrey, N. L., México • Teléfono 72-4779 • Telex 0382871

ING. ADRIAN SADA T.  
Presidente del Consejo

To our stockholders:

In 1981 VITRO operated in an economic environment where adverse factors predominated; the persistent inflation prevailing in our country and high financial costs, here as well as abroad, aggravated by weak markets which reported little or no growth and exchange rate variations that were not sufficiently realistic to actually stimulate exports. The continued increases in demand of the domestic and export markets during the past seven years had made it necessary to expand our manufacturing facilities. However, the unexpected phenomenon of local and foreign markets resulted in a substantial underutilization of our manufacturing facilities. Twenty-five percent remained idle during 1981.

VITRO'S wide experience acquired throughout its many years of operations in this field of endeavor enabled its divisions to respond favorably to the negative effects that prevailed along this business period and with their efforts and enthusiasm succeeded in attenuating such effects.

Hence, our financial structure remained stable; the main indexes, such as liquidity, financial leverage, debt coverage and consolidation of liabilities were kept at levels quite similar to those of 1980. The new variations noted, in no case were greater than 10%.

Consolidated net sales totaled \$25,391 million pesos; in monetary terms, this figure reflects an increment of 35% over the previous year while, in volume, the increase was negligible. Total consolidated net income was \$1,921 million pesos, 12% above that for 1980. On the other hand, income on shareholders majority interest amounted to \$1,503 million, practically the same as that of the previous period. This was partly due to the fact that VITRO's wholly-owned subsidiaries were the ones more seriously affected by the adverse economic conditions.

Towards the end of the business period, BANPAIS acquired UNIBANCO, S. A. This improved its competitive position and expanded its geographic coverage, especially in the Baja California area, where its representation needed strengthening. Such acquisition will also enable BANPAIS to reach reasonable productivity targets in the years to come.

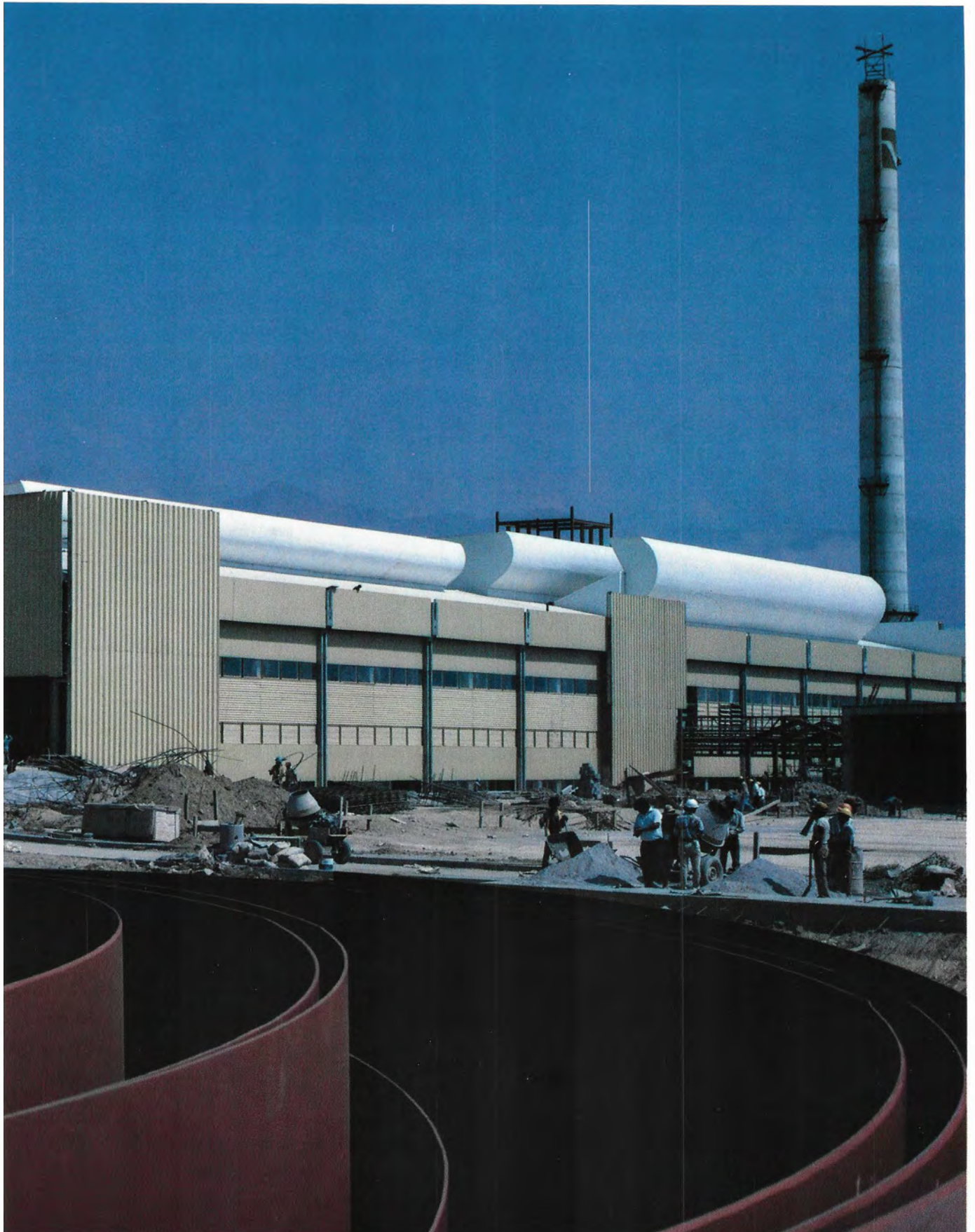
The future is always a challenge that is present in the business world at all times, but in 1982 acquires special significance. For VITRO it will be a year of intensive struggle to resolve the problems that were particularly evident in 1981 and minimize their effects in our operations. In so doing, we are counting on the eagerness and enthusiasm of our personnel who, when the occasion calls for a special effort has always given us its full and decided support. It will not be an easy job, we know that, but we also know that the joint and coordinated efforts directed towards common and precise objectives will provide the foundation for a sounder climate in our operations.







REPORT ON THE ACTIVITIES OF  
VITRO, Sociedad Anonima  
AND SUBSIDIARIES DURING 1981





So much for a brief introduction to the general situation. Let us now consider in detail what happened in each sector.

At the close of the year VITRO consisted of 85 subsidiary and affiliated companies.

#### CONTAINER DIVISION

Vidriera Monterrey, S. A.  
Vidriera México, S. A.  
Vidriera Los Reyes, S. A.  
Vidriera Guadalajara, S. A.  
Vidriera Querétaro, S. A.  
Envases de Borosilicato, S. A.  
Farmo Envases, S. A.  
Borosilicatos, S. A.  
Vidrio Neutro, S. A.  
Ampolletas, S. A.  
Productos Kimax de México, S. A.  
Regioplast, S. A.  
Regioplast Guadalajara, S. A.  
Vitroplast Monterrey, S. A.  
Compañía General de Plásticos, S. A.  
Plásticos y Representaciones, S. A.  
Compañía Mexicana de Tuboplast, S. A.  
Inmobiliaria de la Suerte, S. A.  
Plásticos Bosco, S. A.  
Ampolmex, S. A.  
Cía. Imex, S. A.  
Metromatic de México, S. A.  
Manufacturas y Representaciones Plásticas, S. A.  
Grupo Mexicano de Vidrio Neutro, S. A.

#### FLAT GLASS DIVISION

Vidrio Plano de México, S. A.  
Vidrio Plano, S. A.  
Lunas de México, S. A.  
Cristales Inastillables de México, S. A.  
Inmobiliaria Giroc, S. A.  
Química "M", S. A.  
Shatterproof de México, S. A.  
Vitro Flotado, S. A.  
Vitro Flèx, S. A.  
Vitro Plan, S. A.

#### **REPORT ON THE ACTIVITIES OF VITRO, S. A. AND SUBSIDIARIES DURING 1981**

Another year in the history of VITRO has come to an end — a difficult year, beset by persistent inflation, high interest rates, a world recession and a Mexican peso floating at an unrealistic level. These conditions set the economy on a course that led to some significant reductions in VITRO's domestic markets, high financing costs in relation to sales, a marked drop in exports and thinner profit margins. Moreover, additional capital spending on fixed assets, undertaken on the expectation of expanding markets, unexpectedly encountered shrinking real demand in several sectors.

This combination of adverse factors led to reduced returns on capital employed. Nevertheless, consolidated net income more than 12% greater than that of the previous year was achieved, which may be regarded as satisfactory considering the many obstacles that exporters and manufacturers had to contend with.







## GLASSWARE DIVISION

Vitrocrisa Crimesa, S. A.  
Vitrocrisa Cristalería, S. A.  
Proveedora del Hogar, S. A.  
Vitrocrisa Toluca, S. A.  
Vitrocrisa Cubiertos, S. A.  
Vitrocrisa Parras, S. A.  
Vitrocrisa Kristal, S. A.  
Brasividro, Ltda.  
Industrias Cornejo, S. A.  
Mueveca, S. A.  
Romage, S. A.

## BASIC INDUSTRIES DIVISION

Industria del Alkali, S. A.  
Materias Primas Monterrey, S. A.  
Materias Primas Minerales de Ahuazotepec, S. A.  
Materias Primas Minerales de San José, S. A.  
Materias Primas Minerales de Lampazos, S. A.  
Materias Primas Magdalena, S. A.  
Minerales para la Industria, S. A.  
Fabricación de Máquinas, S. A.  
Peerless Tisa, S. A.  
Vektron, S. A.  
Quantron, S. A.

## FIBERS AND SILICATES DIVISION

Vitro Fibras, S. A.  
Silicatos y Derivados, S. A.  
Arcillas Tratadas, S. A.  
Industria Centroamericana de Vidrio, S. A.  
Sílice de Centroamérica, S. A.  
Vidriera Centroamericana, S. A.  
Sílice de Costa Rica, S. A.  
Distribuidora Industrial y Comercial de Nicaragua, S. A.  
Distribuidora Industrial y Comercial de Guatemala, S. A.  
Distribuidora Industrial y Comercial de Costa Rica, S. A.

Fomento Industrial Centroamericano, S. A.  
Centroamericana de Tapas, S. A.

## FINANCE AND ADMINISTRATIVE SERVICES DIVISION

Vitro, S. A.  
Vitro Corporativo, S. A.  
Fic Internacional, S. A.  
Fomento de Comercio Exterior, S. A.  
Aerovitro, S. A.  
Fomento Inmobiliario y de la Construcción, S. A.  
Vivir, S. A.

## HUMAN RELATIONS AND PLANNING DIVISION

Acción Social Regiomontana, A. C.  
Cooperación Social, A. C.  
Clínica Vidriera, A. C.  
Vitro Club, A. C.

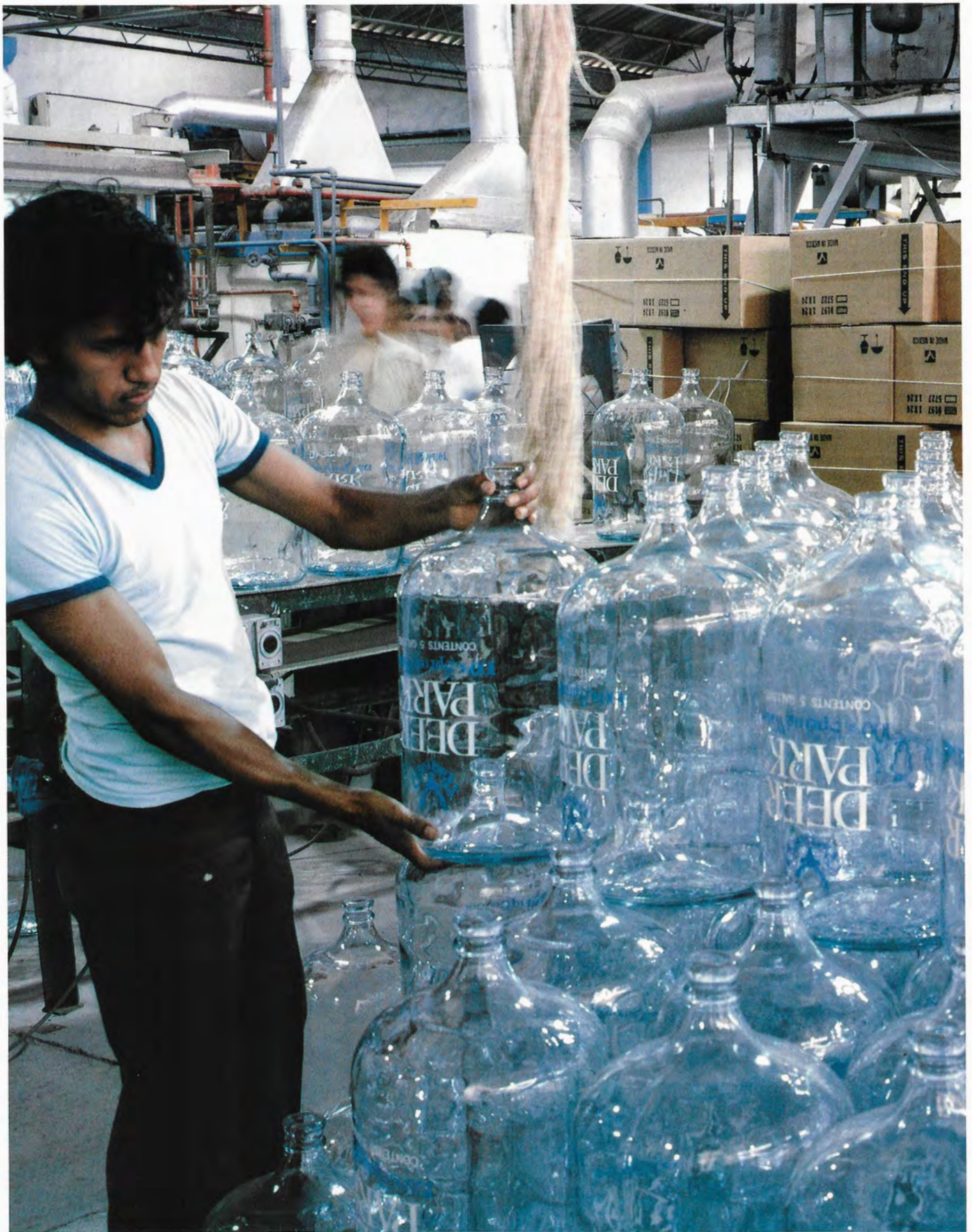
## BANPAIS

Banpais, S. A.  
Almacenadora Banpaís, S. A.  
Aseguradora Banpaís, S. A.  
Arrendadora Banpaís, S. A.  
Casa de Bolsa Banpaís, S. A.  
Inmobiliaria Banpaís del Norte, S. A.  
Inmobiliaria Finosa, S. A.  
Inmobiliaria Banpaís de México, S. A.  
Unibanco, S. A.  
Inmobiliaria Finsa, S. A.  
Inmuebles de Tijuana, S. A.

The outstanding events relating to them are set out below:

1. The following companies were acquired: Plásticos Bosco, S. A., a maker of thermal molded plastics, Industrias Cornejo, S. A., a manufacturer of pressed tumblers and Unibanco, S. A., in addition to the Banpais banking sector.







- The following companies were merged: Ampol-mex, Imex, Metromatic and Manufacturas y Representaciones.
- Vitro Plan was formed as a sub-holding company for the shares of VITRO Vidrio Plano.
- Vektron, S. A. was formed as a joint venture with Westinghouse and Mitsubishi for the purpose of making electric power generators; and Quantron, S. A. was founded as a joint venture with Ingersoll Rand for the purpose of manufacturing turbo-compressors for handling gas.

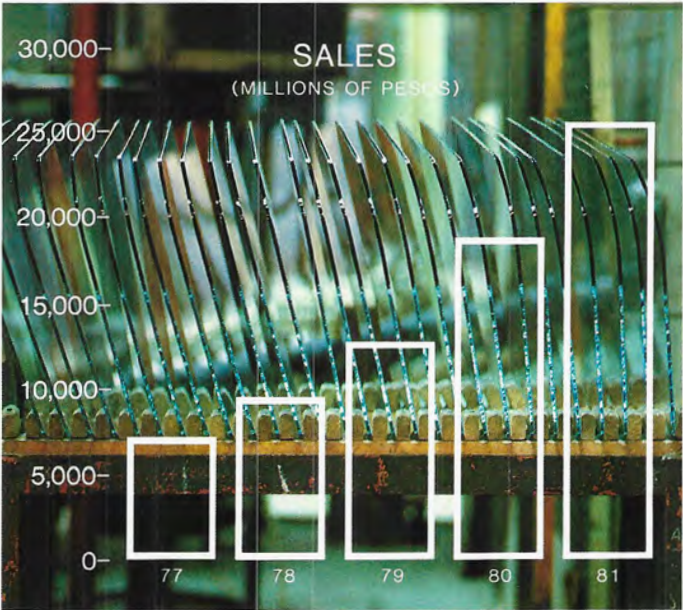
There follows a breakdown by segment.

SEGMENT	1980 %	1981 %
Containers	41	39
Basic Industries	15	16
Flat Glass	14	15
Glassware	14	14
Brazil and Central America	7	6
Fibers and Silicates	4	5
Trade and Services	5	5
<b>TOTAL</b>	<b>100</b>	<b>100</b>

### MARKETS

Let us now look at the various markets that we serve. There was a slowing down in the growth of consolidated sales which amounted to \$ 25,391 million pesos -an increase of 35% in current pesos over the figure for the previous year.

The following table gives the growth rates in terms of current pesos.

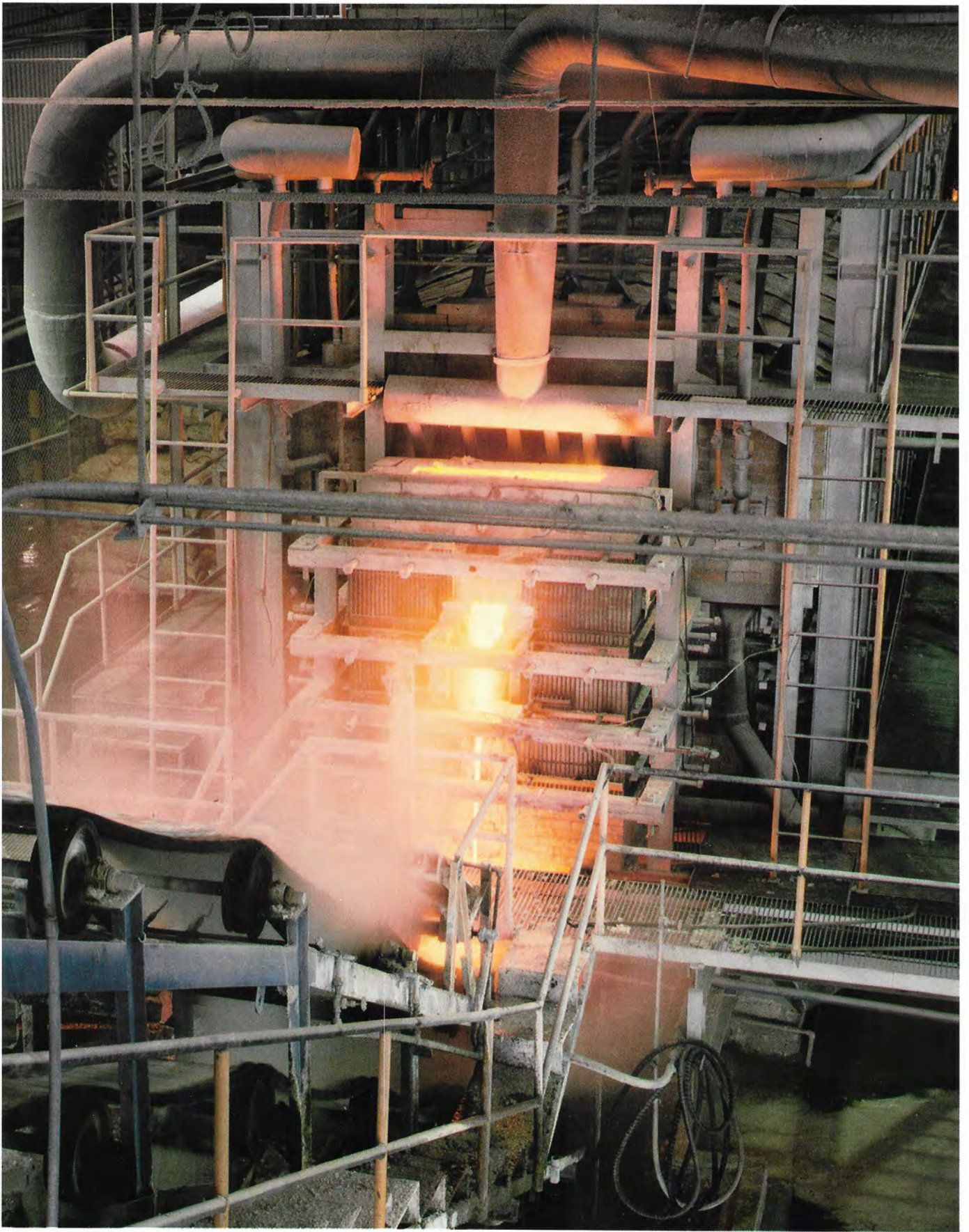


If sales within the group and by our foreign companies are included, total sales amounted to \$ 30,720 million pesos, an increase of 31% over the previous year.

SEGMENT	1980 %	1981 %
Fibers and Silicates	37	51
Flat Glass	47	48
Basic Industries	49	39
Glassware	32	30
Trade and Services	45	26
Containers	49	25
Brazil and Central America	33	15

It can be observed that the segments with vigorous growth were Fibers, Silicates and Flat Glass. The contrary was true of Containers and Glassware as a consequence of sluggish domestic and foreign markets, and of Central America as a result of the political problems that have had such a serious effect on its economy.







On the other hand, it gives us pleasure to record that in November Banpais acquired Unibanco, S. A. with total resources at the close of the year of \$ 14,000 million pesos. The resources of Banpais, including now Unibanco, grew by 91% to a total of \$ 55,800 million pesos.

CAPITAL SPENDING

In CONTAINERS capital spending amounted to \$ 1,650 million pesos, the following being the most important items:

A triple-cavity machine was installed, thereby increasing productivity substantially.

A large number of injection and blowing machines was bought in order to satisfy the growing demand for plastic containers.

Vitroplast Monterrey, S. A. started operations in Ciénega de Flores, Nuevo León.

The firm Plásticos Bosco, S. A. was acquired. Its sales are on the order of \$300 million pesos and it is a leader in the market for tumblers, plates and other disposable containers made of thermal molded plastic.

FLAT GLASS invested \$ 3,153 million pesos, mainly on the following:

In October the construction of Vitro Flex, S. A. — a joint venture with Ford Motor Company — was completed. This company, now in full operation, has assets amounting to \$ 1,673 million pesos.

In December Vitro Flotado, S. A. started operations. Total assets of this firm at the close of the year were \$ 4,882 million pesos. The production capacity of the plant — one of the largest in the world — is 34 million square meters of float crystal.

Both plants were finished ahead of schedule and within budget. They were brought on stream in an extraordinarily smooth and efficient way.

Capital spending of GLASSWARE amounted to \$ 1,070 million pesos, the most important items being:

Industrias Cornejo, S. A. was acquired. This firm, with sales of \$ 260 million pesos, produces pressed tumblers.

After several years of research, a novel and efficient press-blowing system using a double-cavity paste mold, was brought into industrial operation. It is protected by six different patents.

The triple-cavity pressing process was also perfected as a commercial operation. We have the only production line of this type in the world. Unfortunately there is, in general, excess capacity in the majority of our lines, but we expect that this unusual situation will be short-lived.

Additions to assets by BASIC INDUSTRIES amounted to \$ 659 million pesos, most of this amount being devoted to the completion of the expansion to capacity for making glass-molding and plastic-injection equipment.

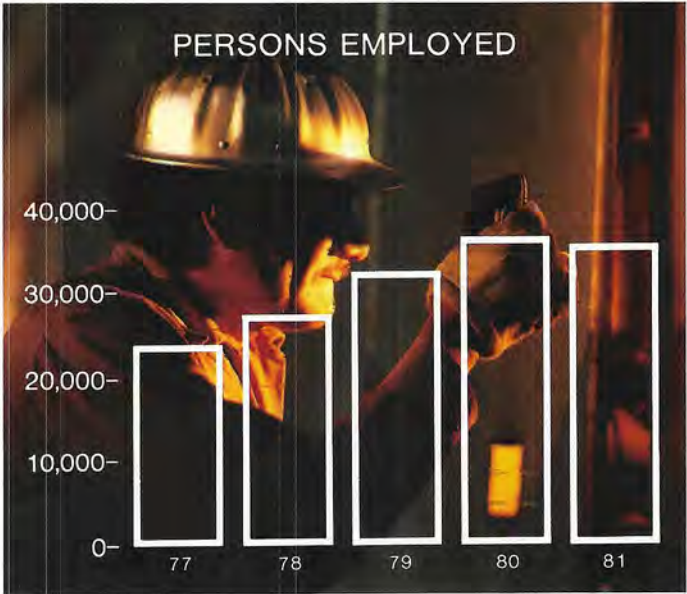
FIBERS AND SILICATES invested \$ 100 million pesos for the purpose of increasing capacity and improving productivity.

To round off this account of capital spending, we have to inform you that in the year under review \$ 37 million pesos were appropriated for the VITRO CLUB project. To date \$ 114 million pesos have been spent on the club's installations which are situated on 36 hectares of land and will provide recreation for more than 50,000 beneficiaries.

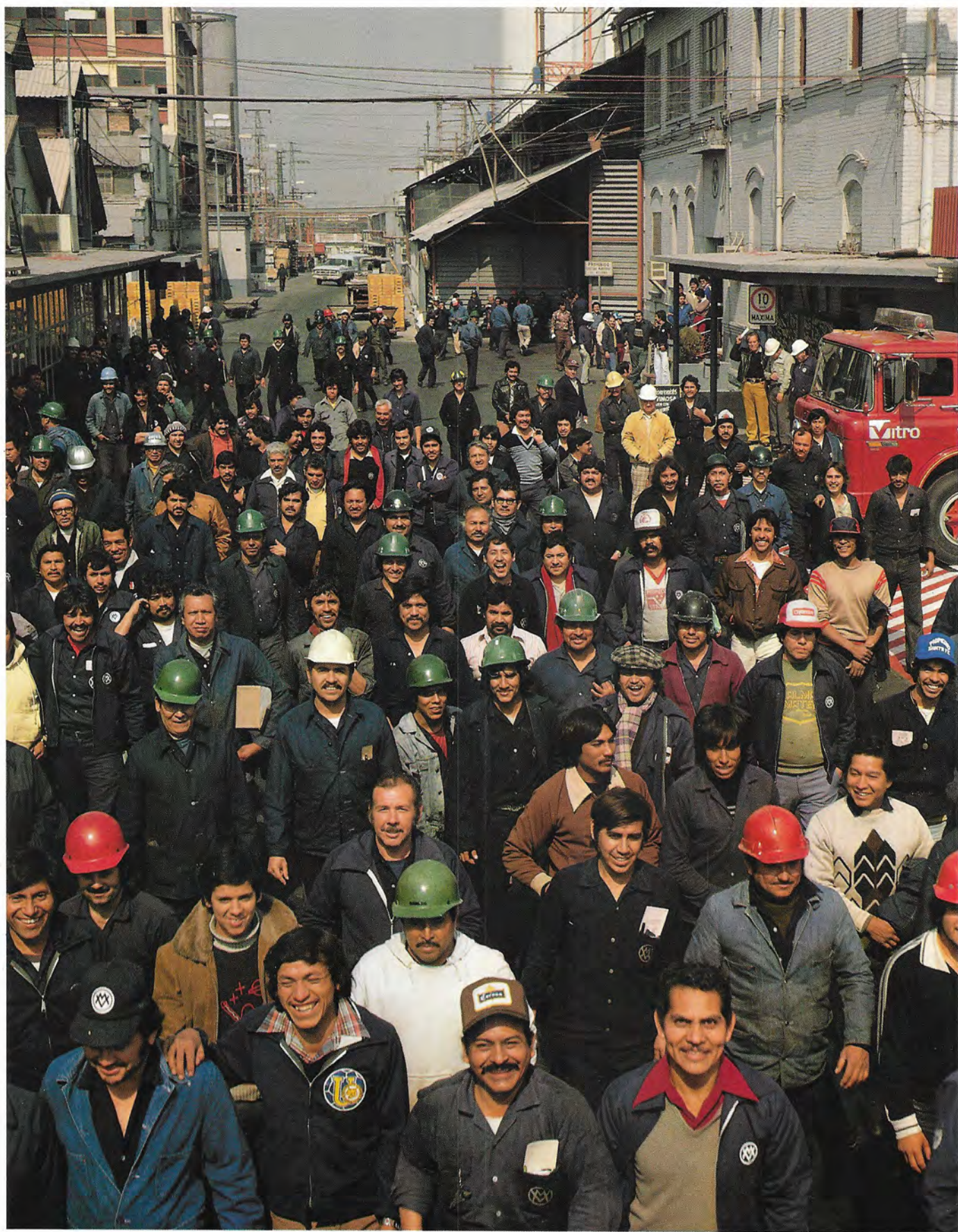
HUMAN RESOURCES:

We will now give a brief account of developments relating to our people.

In view of the contraction of some of our markets we were not able to increase employment. Permanent jobs were provided throughout the year for 35,723 people.









VITRO continued efforts to raise the standard of living of its employees through such programs as: free pre-primary, primary and secondary education; the award of more than 1,000 scholarships for higher education; the distribution of more than 230,000 parcels of family stores; the provision of medical services to more than 25,000 entitled persons; and the construction of 200 more houses for workers (over 5,000 have now been built.)

Finally, we have to report that, for the second consecutive year, labor relations were conducted in an atmosphere of very cordial, constructive participation by both sides.

### CONSOLIDATED EARNINGS

So far we have described the general conditions prevailing in the economy and VITRO's situation, its markets, investments and other relevant matters. We will now proceed to deal in greater detail with the financial data.

As a preliminary, however, it is worth while describing the main favorable and unfavorable factors that, together, brought about the results we are about to describe.

The most important unfavorable factors were these:

1. Slackening in the demand for the products of the CONTAINERS and GLASSWARE segments.
2. The recession in the United States and the unrealistic official exchange parity policy which affected the volume and the profitability of our exports.
3. Political, social and economic conflicts in Central America that affected the markets served by our companies in that area.
4. High bank interest rates, both in Mexico and abroad, that raised our financing costs.
5. Persistent domestic inflation which made it difficult to maintain adequate margins on sales.
6. Over-capacity of fixed assets in preparation for a bigger market.

On the other hand, the following positive effects were observed:

1. Very satisfactory levels of operating efficiency.
2. Tax Incentive Certificates that relieved some of the strains in starting up those of our plants that are located in underdeveloped areas or produce capital goods.

In connection with this analysis, it is important to point out that, as usual, we adhered strictly to the standards laid down by the Mexican Institute of Public Accountants and, indeed, went even further than the standards indicate in applying such conservative principles as:

1. Creating a reserve against future devaluations for foreign currency liabilities not identified with fixed assets.
2. Charging against profits deferred tax liability arising from depreciating fixed assets over remaining useful life instead of on a fixed schedule.
3. Charging the costs of personnel separation payments directly to the periods when such separations occur, instead of creating deferred charges.

The following Consolidated Income Statement should be read in the light of the foregoing observations.

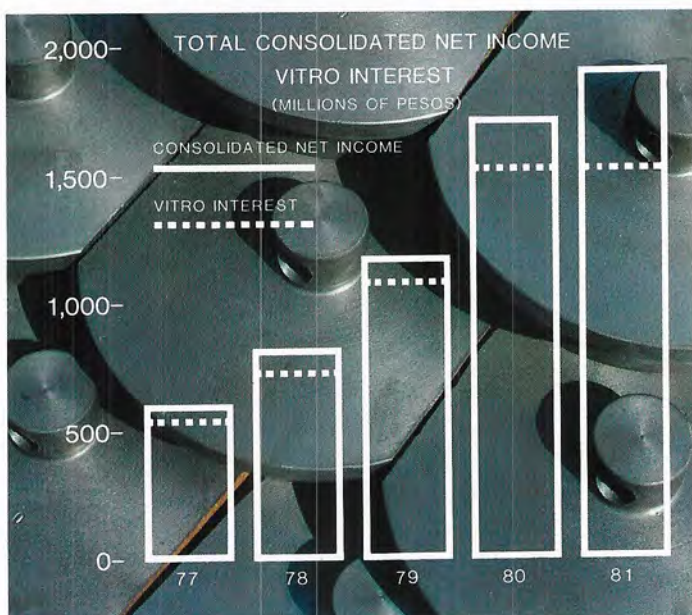
	MILLIONS OF PESOS			VAR.
	1980	1981	%	
Consolidated Sales and Other Revenue	19,066	<b>25,731</b>	35	
Cost of Sales	10,571	<b>13,610</b>	29	
Operating Expense	3,391	<b>4,550</b>	34	
Financing Expense	2,200	<b>4,035</b>	83	
Add: Interest in Non-Consolidated Subsidiary and Associated companies	91	<b>194</b>	113	
Income before Income Taxes and Profit Sharing	2,995	<b>3,730</b>	25	
Income Taxes and Profit Sharing	1,276	<b>1,809</b>	42	
Net Income	1,719	<b>1,921</b>	12	
Net Income, Other Interests	221	<b>418</b>	89	
Net, Income, VITRO Interest	1,498	<b>1,503</b>	-	
<b>TOTAL NET INCOME</b>	<b>1,719</b>	<b>1,921</b>	12	







It will be seen that consolidated net income after taxes and profit sharing was \$ 1,921 million pesos, 12% higher than that of the previous year, while net income corresponding to VITRO stockholders was \$ 1,503 million pesos, practically the same as the previous year . This, however, should be set against a background of a 47% average annual rate of increase over the last five years, which is satisfactory.



The percentage contribution of the different segments to net income was as follows:

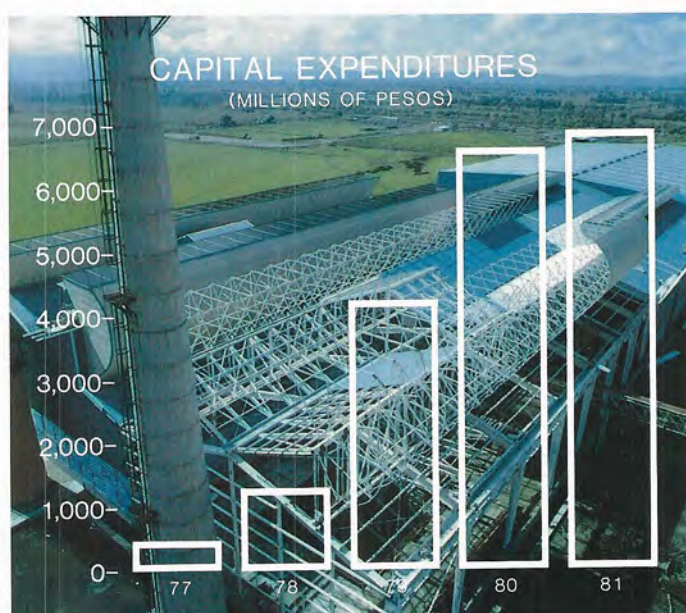
SEGMENT	1980 %	1981 %
Containers	49	44
Flat Glass	22	41
Banpais	4	7
Fibers and Silicates	5	8
Basic Industries	13	7
Brazil and Central America	1	1
Trade and Services	1	—
Glassware	5	8 R
TOTAL	100	100

## CONSOLIDATED BALANCE SHEET

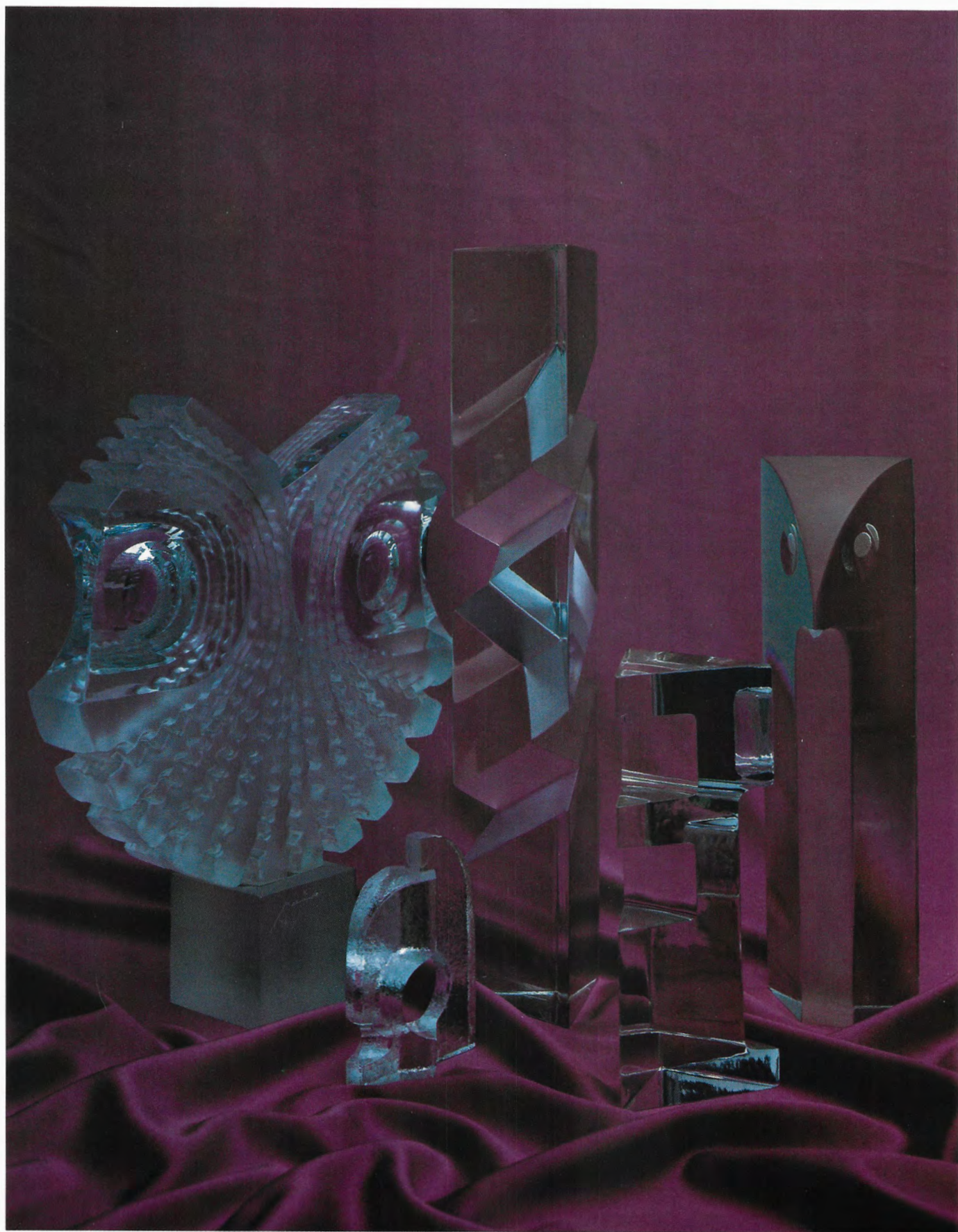
In spite of collection difficulties arising from the tight credit situation and the increase in receivables resulting from the award of new Tax Incentive Certificates, the increase in current assets was kept under control and, indeed, the rate of increase was lower than that of sales. At the close of the year such assets amounted to \$ 13,795 million pesos, 28% higher than the previous year.

Fixed and deferred assets, on the other hand, which include capital spending for completing the new plants and the necessary up-dating of asset values, increased considerably. At \$ 35,913 million pesos they were 56% higher than the previous year and rose faster than sales.

Capital spending, the details of which we have already given, was similar to that of the previous year, amounting to \$ 6,830 million pesos.









Adding together current assets, long-term investments and fixed assets, we arrive at the total of assets which amounted to \$ 52,630 million pesos, 46% higher than the value of assets at the close of 1980.

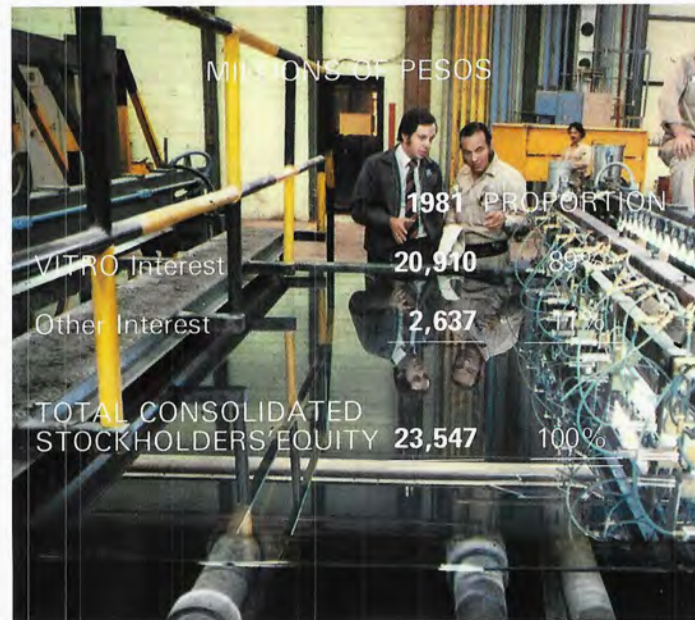
Since the middle of the previous year our strategy has been to slow down the growth in fixed assets by reducing new capital expenditure, in order to keep fixed assets at a level appropriate to our sales.

LIABILITIES AND NET WORTH

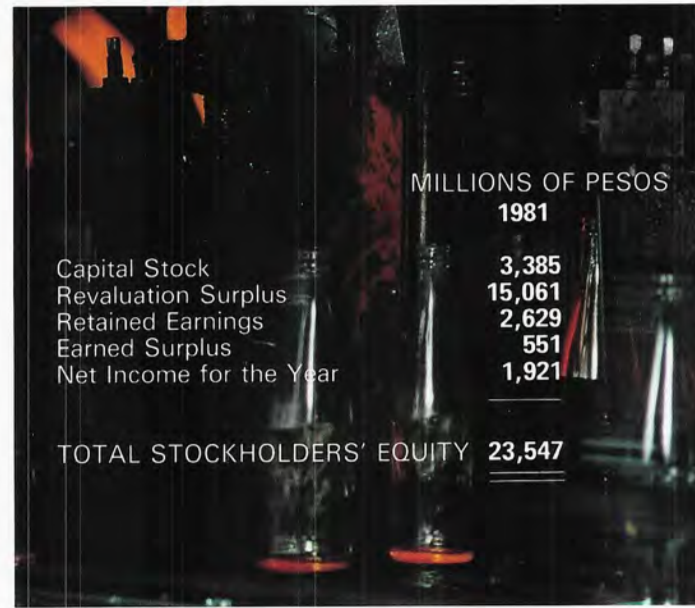
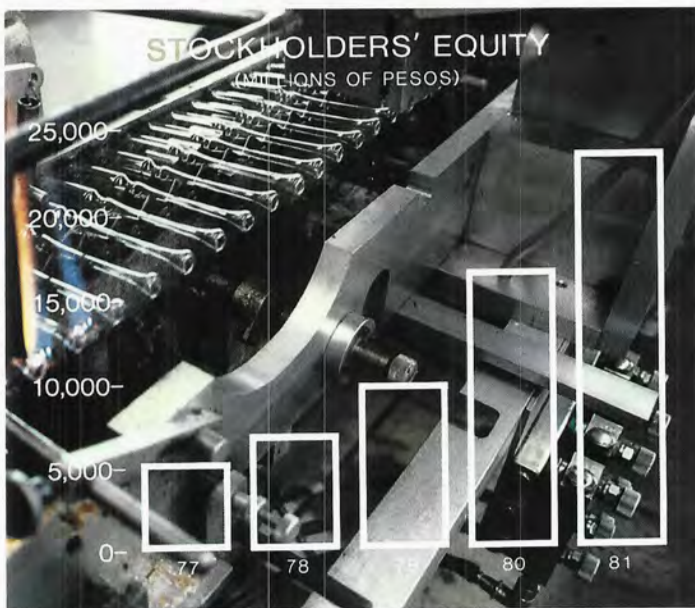
Current liabilities amounted to \$ 7,075 million pesos and long-term liabilities to \$ 22,008 millions, the total being \$29,083 million pesos, 50% higher than the previous year.

Consolidated stockholders' equity, on the other hand, was \$ 23,547 million pesos, 42% higher than the previous year. Over the the last five years, its average annual rate of growth has been a satisfactory 42%.

The interests of stockholders in the consolidated equity were as follows:



The breakdown by accounts is as follows:









The consolidated balance sheet is summarized below:

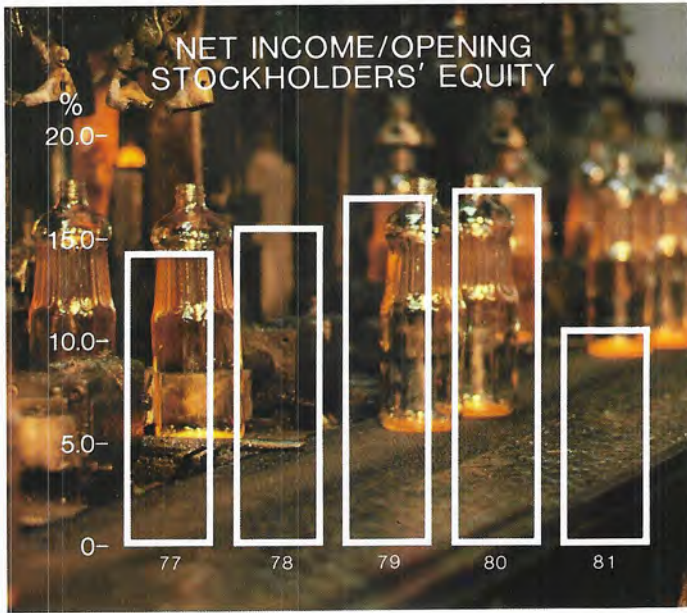
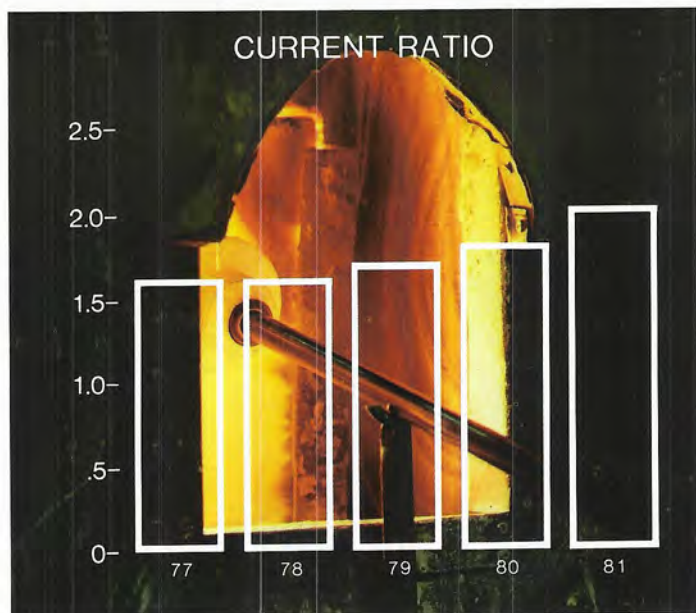
ACCOUNT GROUP	MILLIONS OF PESOS		VAR %	ACCOUNT GROUP	MILLIONS OF PESOS		VAR %
	1980	1981			1980	1981	
Current Assets	10,743	13,795	28	Current Liabilities	5,949	7,075	19
Long-Term Investments	2,185	2,922	34	Long-Term Liabilities	13,450	22,008	64
Fixed Assets	22,100	34,148	55	Total Liabilities	19,399	29,083	50
Deferred Assets	914	1,765	93	Stockholders' Equity	16,543	23,547	42
TOTAL ASSETS	35,942	52,630	46	LIABILITIES & NET WORTH	35,942	52,630	46

FINANCIAL RATIOS

Before concluding, it is worth while examining some financial indicators, all of which were at acceptable levels.

The current ratio, which is the result of dividing current assets by current liabilities, closed at 2.0 — better than ever.

The consolidated annual return on opening stockholders' equity was 11.6%.

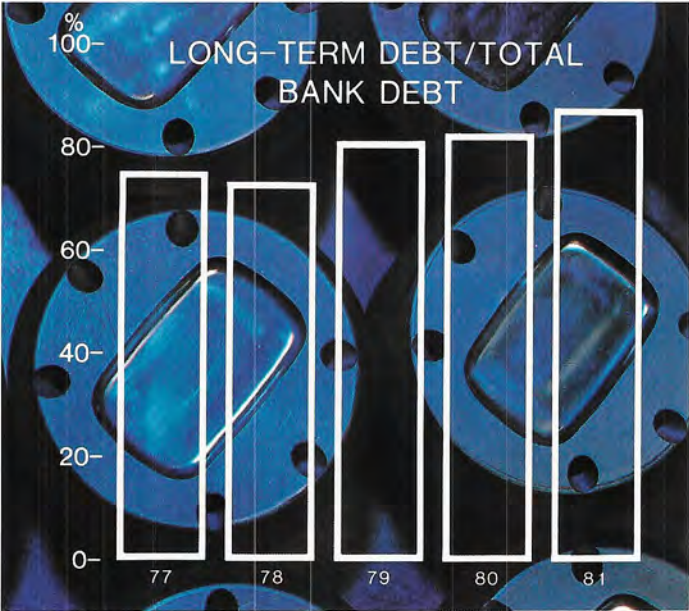




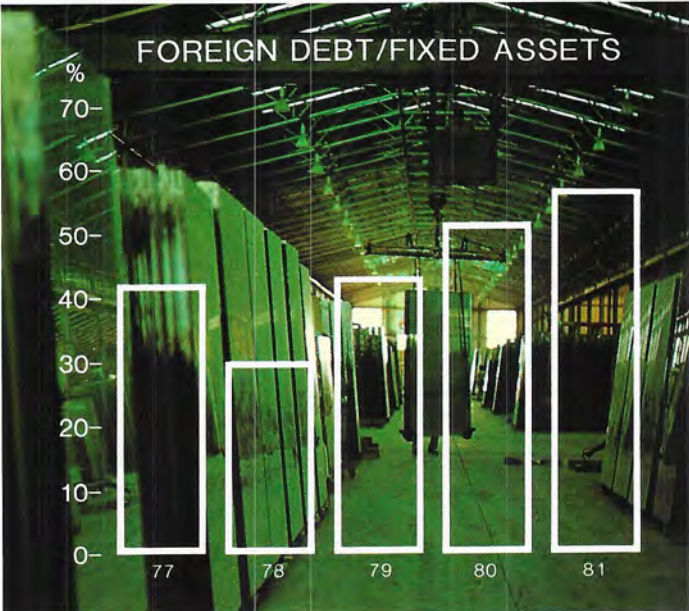




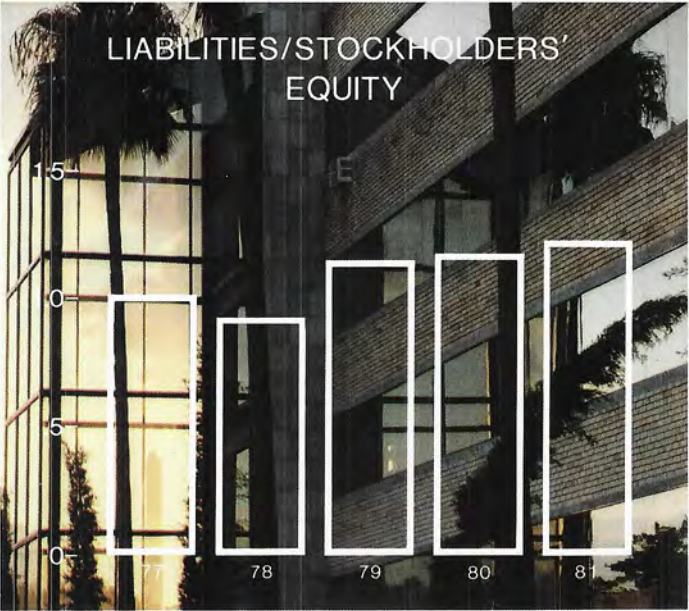
The funded debt ratio, which is obtained by dividing long-term debt by total bank debt, stood at a very satisfactory 88%, higher than at the end of the previous year.



Because the Mexican banking system was unable to provide all the resources needed for our growth, the ratio of foreign currency debt to fixed assets increased to 57% by the end of the year.



Although important capital investments were made in practically all of our divisions, the financial leverage ratio, which is the result of dividing total liabilities by stockholders' equity, went up only slightly and stood at 1.24 at the year's end.



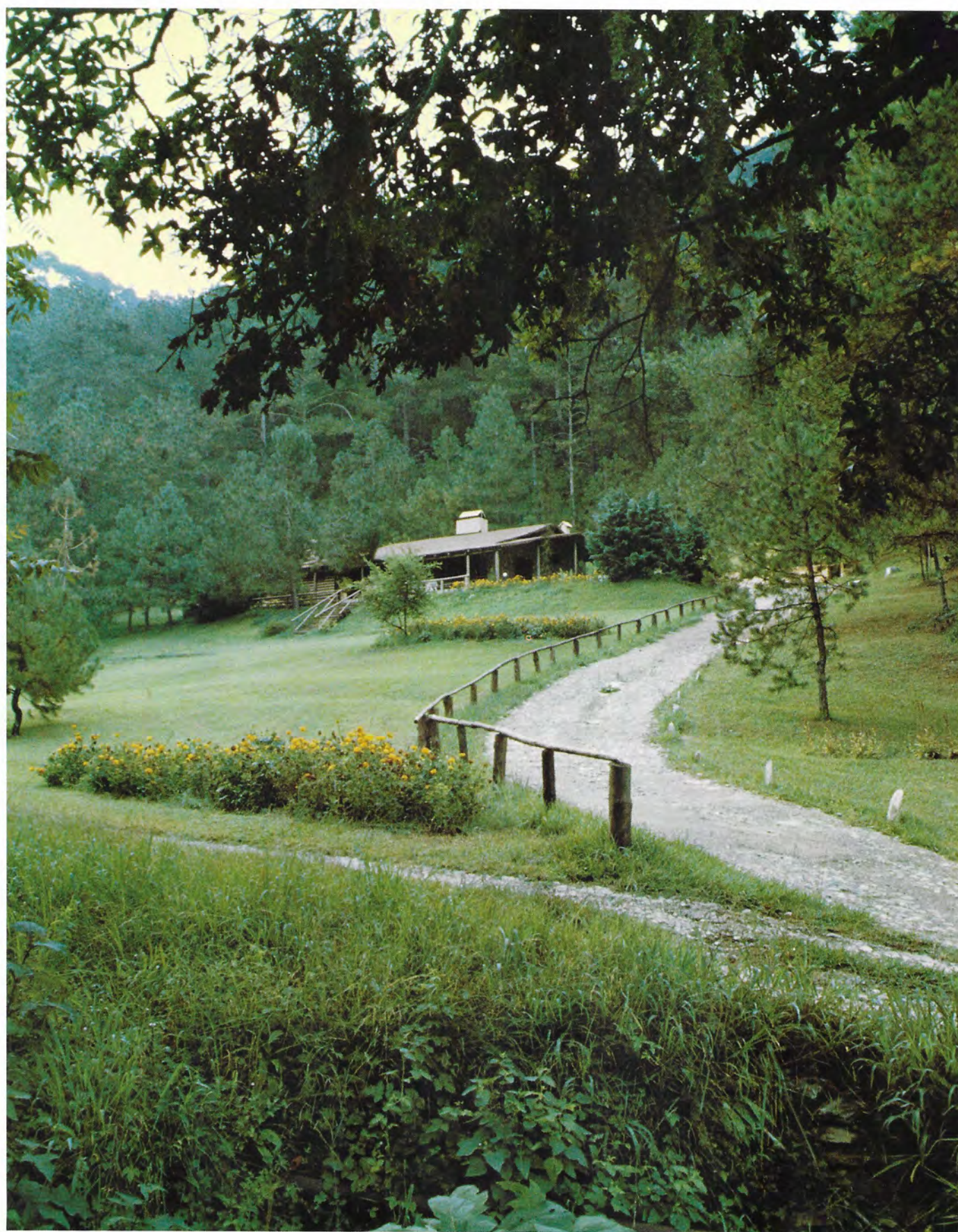
CONCLUDING REMARKS

We have described in full the most significant events of the year.

It was a difficult year and the present one promises to be no less so. However, with our well-structured, productive industrial plant and with all our people pulling together, we are reasonably confident that we shall prosper and build up further our already strong financial position as our sluggish markets begin to show signs of new life.

THE BOARD OF DIRECTORS  
VITRO, S. A.











GOSSLER, NAVARRO, CENICEROS, GOMEZ MORFIN Y CIA, S. C.  
CONTADORES PUBLICOS Y CONSULTORES EN ADMINISTRACION

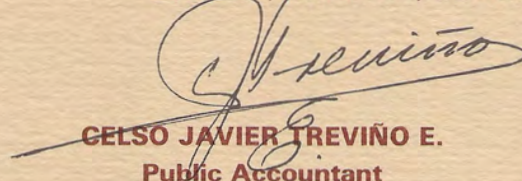
**To the Board of Directors and Stockholders of  
VITRO, S. A.  
Monterrey, N. L.**

In our opinion, and except for what is set forth in the following two paragraphs, the accompanying general balance sheet and the related statements of income, variations in stockholders' equity and changes in the financial position present fairly the financial position of Vitro, S. A. at December 31, 1981 and 1980 and the results of operations for the business periods then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations were made in accordance with generally accepted auditing standards.

The financial statements do not reflect the participation of the company in the earnings and the stockholders' equity of subsidiaries and associates; they only reflect its participation in the revaluation surplus of fixed assets capitalized by said companies (note 3-b). For this reason, note 11 concerning the supplementary information which reveals the effects of inflation, does not fully reflect the surplus from retained non-monetary assets.

These financial statements are prepared to comply with legal requirements; to adequately reflect the financial information of the economic entity, consolidated financial statements are required and these have been prepared separately and certified by public accountants.

GOSSLER, NAVARRO, CENICEROS, GOMEZ MORFIN Y CIA., S. C.



**CELSO JAVIER TREVIÑO E.**  
Public Accountant

Monterrey, N. L., Mexico, February 22, 1982

Corresponsales Internacionales  
**GRANT THORNTON INTERNATIONAL**




**VITRO, S. A.**  
**BALANCE SHEET AS OF DECEMBER 31, 1981 AND 1980**  
**(millions of pesos)**

ASSETS	1981	1980
Cash	\$ 23	\$ 117
Receivables for services to subsidiaries	277	189
Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)		254
Other receivables	9	8
Current Assets	\$ 309	\$ 568
Receivables to subsidiaries (note 2)	1,970	
Investment in shares (note 3)	8,291	6,520
Land and buildings, net (includes revaluation, note 4)	112	114
Furnishings and equipment, net (includes revaluation, note 4)	9	8
Deferred charges	60	
	\$ 10,751	\$ 7,210

<b>LIABILITIES</b>	<b>1 9 8 1</b>	<b>1 9 8 0</b>
Bank Loans	\$ 48	\$
Issue of Commercial Paper	200	
Current portion of long-term debt	82	311
Trade payables, (subsidiaries)	359	78
Accrued expenditures payable	173	17
Other payables	27	10
Short-term Liabilities	\$ 889	\$ 416
Issue of Eurobonds (note 5-a)	1,970	
Bank Loans (note 5-b and 3-f)	194	428
Accounts payable to subsidiaries	372	320
Total Liabilities	\$ 3,425	\$ 1,164
<b>CONTINGENT LIABILITIES (note 6)</b>		
<b>STOCKHOLDERS' EQUITY (note 7)</b>		
Capital stock	\$ 2,900	\$ 2,000
Revaluation surplus of fixed assets	120	118
Surplus due to valuation of shares (3-a)	2,712	2,712
Retained earnings	156	29
Net income for the year (note 8)	1,438	1,187
<b>Stockholders' Equity</b>	\$ 7,326	\$ 6,046
	\$ 10,751	\$ 7,210

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

  
CONTROLLER  
**ROBERTO CESAR TREVIÑO**

  
CHIEF EXECUTIVE OFFICER  
**ROGELIO SADA**



**VITRO, S.A.**  
**INCOME STATEMENT FOR THE BUSINESS PERIODS ENDED**  
**DECEMBER 31, 1981 AND 1980**  
(millions of pesos)

		<u>1 9 8 1</u>	<u>1 9 8 0</u>
REVENUES:			
	Dividends collected from subsidiaries	\$ 1,327	\$ 1,175
	Services	309	240
	Leases	2	3
	Income from guarantees granted and interest	463	161
	Income from sales of fixed assets	62	
	Technical Assistance provided abroad	9	
		<u>\$ 2,172</u>	<u>\$ 1,579</u>
EXPENSES:			
	Administrative	410	202
	Financial	307	196
		<u>\$ 717</u>	<u>\$ 398</u>
	Income before taxes	1,455	1,181
	Income tax (note 9)	17	( 6)
		<u>17</u>	<u>( 6)</u>
	NET INCOME FOR THE PERIOD	<u>\$ 1,438</u>	<u>\$ 1,187</u>

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

**VITRO, S. A.**  
**STATEMENT OF VARIATIONS IN STOCKHOLDERS' EQUITY**  
**FOR THE BUSINESS PERIODS ENDED DECEMBER 31, 1981**  
**AND 1980**  
(millions of pesos)

		<u>1 9 8 1</u>	<u>1 9 8 0</u>
INCREASES:			
	Capital stock:		
	Capitalization of retained earnings	\$ 900	\$ 650
	Surplus from revaluation of fixed assets based on appraisal	2	35
	Surplus from valuation of shares		11
	Retained earnings:		
	Increment in legal reserve	59	39
	Increment in retained earnings	1,128	737
	Net income for the year	1,438	1,187
	Increases during period	<u>\$ 3,527</u>	<u>\$ 2,659</u>
REDUCTIONS:			
	Net income for the year:		
	Applied to legal reserve	\$ 59	\$ 39
	Applied to retained earnings	1,128	737
	Retained earnings:		
	Capitalization of legal reserve		22
	Capitalization of retained earnings	900	627
	Declared dividends	160	108
	Reductions during period	<u>\$ 2,247</u>	<u>\$ 1,533</u>
	NET INCREASE DURING PERIOD	<u>\$ 1,280</u>	<u>\$ 1,126</u>
	Balances at beginning of period	6,046	4,920
	STOCKHOLDERS' EQUITY AT END OF YEAR	<u>\$ 7,326</u>	<u>\$ 6,046</u>

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



**VITRO, S. A.**  
**STATEMENT OF CHANGES IN THE FINANCIAL POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980**  
(millions of pesos)

SOURCE OF FUNDS:	1981	1980
Net income for the period	\$ 1,438	\$ 1,187
Depreciation and amortization	10	2
Funds derived from operations	\$ 1,448	\$ 1,189
Bank loans	1,970	46
Other payables	59	311
Fixed assets sold	2	
Shares sold	38	
	\$ 3,517	\$ 1,546
APPLICATION OF FUNDS:		
Purchase of fixed assets	\$ 3	\$
Expenses incurred in issue of bonds	65	
Payment of long-term credit	151	106
Current portion of long-term debt	82	311
Dividends	160	108
Investment in shares	1,809	676
Receivables from affiliates, long-term	1,970	
Capitalization of unappropriated profits from subsidiaries		125
Other	9	6
	\$ 4,249	\$ 1,332
(DECREASE) INCREASE IN WORKING CAPITAL	\$( 732)	\$ 214
ANALYSIS OF VARIATIONS IN WORKING CAPITAL		
Cash and marketable securities	\$( 94)	\$ 65
Receivables from subsidiaries	88	137
Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)	( 254)	234
Other receivables	1	5
Total current assets	\$( 259)	\$ 441
Current portion of long-term debt	\$ 229	\$( 261)
Short-term bank loans	( 248)	45
Balances in favor of subsidiaries	( 281)	3
Other	( 173)	( 14)
Total short-term liabilities	\$( 473)	\$( 227)
(Decrease) increase in working capital	\$( 732)	\$ 214



**VITRO, S. A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AT DECEMBER 31, 1981 AND 1980**  
**(millions of pesos)**

1. — SIGNIFICANT ACCOUNTING POLICIES:

- a) Investment in shares — These are recorded at cost plus a revaluation of shares due to capitalization of revaluation surplus of the fixed assets of subsidiaries (note 3).
- b) Land, buildings, furnishings and equipment — Capitalized at cost less accrued depreciation. Owing to the fact that the book value differs significantly from reality, a revaluation is recorded based on an appraisal made by experts from a reliable institution, which affects the preceding items derived from non-current assets and the revaluation surplus.

The cost is depreciated by the straightline method starting the period in which acquisition is made. Up to 1980 cost was depreciated at the fiscal rates and revaluation at 3% in the case of buildings and 5% for the rest of the revaluated depreciable fixed assets. Starting 1981, the cost and the revaluation are depreciated based on the remaining useful life of the assets. The difference is negligible.

- c) Operations in foreign currency — The policy in this respect is to record operations in foreign currency at a fixed exchange rate, similar to that prevailing on the date realized and to make monthly adjustments of significant variations between the two rates.

Whenever it is possible to identify liabilities in foreign currency with non-monetary assets, the significant adjustments arising from variations in exchange rates will modify the cost of acquisition of such assets.

2. — BALANCE CARE OF SUBSIDIARIES — long-term:

These balances correspond to loans amounting to 75 million U. S. dollars and interest thereof with maturity in 1988. The contracts provide for the possibility of the affiliates paying these balances by semiannual amortizations starting in 1984.

3. — INVESTMENT IN SHARES:

- a ) This balance represents investments in:

	<u>1 9 8 1</u>	<u>1 9 8 0</u>
Industrial and commercial companies:		
Cost	\$ 4,457	\$ 2,686
Revaluation	<u>3,034 (b)</u>	<u>3,034</u>
	\$ 7,491	\$ 5,720
Credit institutions, at cost	<u>800</u>	<u>800</u>
	<u>\$ 8,291</u>	<u>\$ 6,520</u>



- b ) The amount shown in the above analysis as revaluation represents Vitro, S. A.'s participation in the revaluation surplus of fixed assets capitalized by subsidiary companies.

Of the participation in said capitalization, \$ 590 correspond to that part of the revaluation which the subsidiary companies have considered as expenses, via depreciation.

- c ) According to policy shown in note 1-c, the balance of investment in shares includes a difference in exchange rate of \$ 17 identified in 1977 with the purchase of shares by a subsidiary from a foreign company.
- d ) The cost of shares of subsidiary credit institutions is higher than book value of issuers on the date the shares are acquired. This excess amounts to \$ 185 and is not amortized.
- e ) In conformity with accounting principles, in order to adequately reflect the financial data of the economic entity, it is necessary to have consolidated financial statements which are audited separately. Financial statements of Vitro, S. A. are prepared to comply with legal regulations on the matter.
- f ) There are \$ 311 in shares evaluated at cost, which have been given as collateral on long-term bank loans.

#### 4. — FIXED ASSETS:

- a ) The values of fixed assets were again reappraised in 1981. This valuation was carried out by the Instituto Tecnológico y de Estudios Superiores de Monterrey and represents the replacement value of such fixed assets.
- b ) A detail of the fixed assets follows:

	<b>1 9 8 1</b>	<b>1 9 8 0</b>
Building, cost	\$ <b>10</b>	\$ 10
Accrued depreciation, cost	( <b>8</b> )	( 8)
Revaluation	<b>89</b>	73
Depreciation of revaluation	( <b>5</b> )	( 2)
	<hr/>	<hr/>
	\$ <b>86</b>	\$ 73
Land, cost	<b>1</b>	2
Revaluation	<b>25</b>	39
	<hr/>	<hr/>
	\$ <b>112</b>	\$ 114
	<hr/>	<hr/>
Furnishings and equipment, cost	\$ <b>6</b>	\$ 3
Accrued depreciation, cost	( <b>3</b> )	( 2)
Revaluation	<b>7</b>	7
Depreciation of revaluation	( <b>1</b> )	
	<hr/>	<hr/>
	\$ <b>9</b>	\$ 8
	<hr/>	<hr/>



5.— LIABILITIES:

- a) In July 1981,an.issue of bonds in the amount of 75 million U. S. dollars was placed in Europe. Its maturity is in 1988 and may be extended for a period of three years. Advance payments may be made starting in 1984 every six months through 1988 at no additional cost to issuer. Interest rate per annum is 5/8 over the interbank rate offered in London for six-month Eurodollar deposits and a guarantee that it will not be less than 8% per year; interests are paid every six months.
- b) Maturity of long-term bank loans is \$ 82 in 1983; \$ 72 in 1984 and \$ 40 in 1985, payable in Mexican currency.

6.— CONTINGENT LIABILITIES:

Credit instruments drawn against several of the subsidiary companies have been guaranteed for \$ 11,669 payable in U. S. dollars and \$2,251 in Mexican currency. Of these amounts,maturities beyond one year total \$ 10,235 and \$ 1,909 respectively.

7.— STOCKHOLDERS' EQUITY:

- a) Capital stock is represented by 29'000,000 paid-in common bearer shares with par value of \$ 100 each. It includes capitalization of \$ 590 corresponding to revaluation of fixed assets of subsidiary companies.
- b) At December 31, 1981 the stockholders' equity includes capitalized income amounting to \$ 1,990 and retained earnings in the amount of \$ 1,594, which in the event of a capital stock reduction, distribution of profits or liquidation of the company, are subject to payment of income tax assessed on distributed earnings, except in cases where payment is made to Mexican corporations.

The applicable percentage is 21% unless it refers to Mexican corporations or to individuals who may choose to take advantage of an option established by law in which case the percentage may differ.

8.— NET INCOME FOR THE YEAR:

- a ) Income is not subject to provisions of the Federal Labor Law which provides the right of the workers to participate in the profits of the company.
- b ) Earnings per share, taking into consideration the outstanding shares as of December 1981, rose to forty seven pesos and eleven cents in 1981 and fifty six pesos and seven cents in 1980.

9.— INCOME TAX:

This item is made up as follows:

	1 9 8 1	1 9 8 0
Income tax for the period	\$ 14	\$
Balance in our favor for being a unit of economic stimulus		( 8)
Income tax paid abroad on income from technical assistance	3	2
	<u>\$ 17</u>	<u>\$( 6)</u>



#### 10.— EFFECTS OF INFLATION ON THE FINANCIAL DATA:

According to guidelines established in an announcement on accounting principles relative to disclosure of the effects of inflation, this phenomenon, in summary, affects our financial data for the 1981 fiscal period, as follows:

- a ) Fixed assets and depreciations thereof - These values have been updated in accordance with notes 1-b and 4.
- b ) Stockholders' equity — Based on the consumer price index published by the Bank of Mexico and taking into consideration the increased value of fixed assets, as well as the participation in the revaluation surplus of fixed assets capitalized by subsidiaries, note the necessary amount to maintain the purchasing power of the stockholders' equity was determined with the following results:

	Figures according to basic financial statements	Updated figures
Capital stock	\$ 2,900	\$ 2,900
Reserve for maintenance of capital		4,236 (1)
Surplus from initial updating of assets		199
Profit from initial monetary position		242
Surplus from retained non-monetary assets		( 2,048)
Profit from monetary position		120
Fixed assets revaluation surplus	120	
Surplus from valuation of shares	2,712	
Retained earnings	156	239
Net income for the year	1,438	1,438
	<u>\$ 7,326</u>	<u>\$ 7,326</u>

(1) This amount is diminished by \$ 322, capitalized in previous business periods.

#### 11.— SUBSEQUENT EVENTS:

On February 18, 1982 Banco de México withdrew from the exchange market in order to permit the free convertibility of the Mexican peso. As of this date this situation has made the exchange rate increase to around forty five pesos per U. S. dollar; as of December 31, 1981, the peso was being quoted at the rate of twenty six pesos and twenty six cents per U. S. dollar. It is estimated that the exchange rate will diminish once operations in foreign currency are stabilized.

This circumstance would affect the company in the event its subsidiaries should fail to liquidate their credits in foreign currency guaranteed by Vitro, S. A. The amount guaranteed is shown under note 6.



GOSSLER, NAVARRO, CENICEROS, GOMEZ MORFIN Y CIA, S. C.  
CONTADORES PUBLICOS Y CONSULTORES EN ADMINISTRACION

**To the Board of Directors and Stockholders of  
VITRO, S. A.  
Monterrey, N. L.**

**(millions of pesos)**

In our opinion and based on the examinations made, except for what is set forth in the following two paragraphs which affect the 1980 fiscal period, and save that the financial statements of Banpaís, S. A., an unconsolidated subsidiary, are examined by internal auditors and are not certified by independent public accountants, note 1-b, the accompanying consolidated financial statements, prepared by the management of the company present the financial position of Vitro, S. A. and subsidiary companies at December 31, 1981 and 1980 and the results of operations for the years then ended.

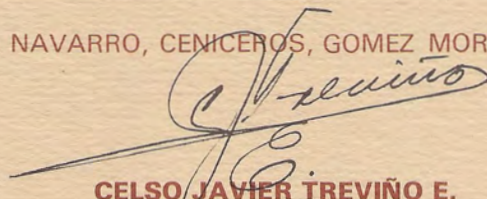
In accordance with note 2-h, income from fiscal tax incentives (Ceprofis) is recorded when requested; in 1980 some of the subsidiaries did not record any fiscal incentives on investments for which an application had already been made and which would have increased profits by \$ 165 note 10-a.

In 1980 depreciation was calculated using rates different from those that would otherwise correspond according to the possible useful life of the assets, note 6-c.

As informed by the management under note 14, since February 18, 1982, exchange rates of foreign currencies in relation to the Mexican peso are determined according to the supply and demand of same. To date, there are not sufficient elements to determine the full effects of this event.

The financial statements of associates and subsidiaries mentioned in note 1-a and e) are audited by other public accountants. Assets include \$ 3,752 in 1981 and \$ 1,915 in 1980 corresponding to these companies which represent 7.1% and 5.3% of the total, respectively; likewise, the net profit includes \$ 186 in 1981 and \$ 122 in 1980 representing 9.6% and 7% of the total.

GOSSLER, NAVARRO, CENICEROS, GOMEZ MORFIN Y CIA., S. C.



**CELSO JAVIER TREVIÑO E.**  
Public Accountant

Monterrey, N. L., Mexico, March 18, 1982.

Corresponsales Internacionales  
**GRANT THORNTON INTERNATIONAL**



## VITRO, S. A. AND SUBSIDIARIES

### ASSETS

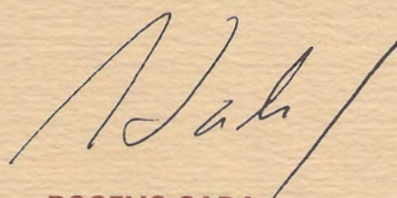
	<u>1 9 8 1</u>	<u>1 9 8 0</u>
Cash	\$ 340	\$ 453
Marketable securities, at cost	182	33
Receivables, net (note 3-a)	6,098	4,414
Other receivables (note 3-b)	2,027	1,937
Inventories (note 4)	<u>5,148</u>	<u>3,906</u>
Current assets	\$ 13,795	\$ 10,743
Long-term investments (note 5)	1,068	488
Investments in unconsolidated subsidiaries and associates (notes 1-b, c, d and e)	1,854	1,697
Land and buildings (including revaluation note 6)	9,913	5,840
Machinery and equipment (including revaluation note 6)	21,689	13,403
Construction in process	2,546	2,857
Amortizable expenses, net (note 7)	1,419	602
Excess of cost over book value of shares of subsidiaries	331	296
Minority interest in excess of book value of subsidiary shares	15	16
	<u>\$ 52,630</u>	<u>\$ 35,942</u>

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



**CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1981 AND 1980**  
**(millions of pesos)**

<b>LIABILITIES</b>	<b>1981</b>	<b>1980</b>
Bank Loans	\$ 1,866	\$ 1,956
Current portion of long-term debt	1,038	738
Trade payables	1,242	1,036
Other payables	<u>2,929</u>	<u>2,219</u>
Short-term liabilities	<u>\$ 7,075</u>	<u>\$ 5,949</u>
Bank loans	\$ 18,454	\$ 12,229
Eurobonds and unsecured debentures and mortgage bonds	2,510	660
Other liabilities	<u>1,044</u>	<u>561</u>
Long-term liabilities (note 8)	<u>\$ 22,008</u>	<u>\$ 13,450</u>
Total Liabilities	<u>\$ 29,083</u>	<u>\$ 19,399</u>
Contingent liabilities (note 9)		
<b>STOCKHOLDERS' EQUITY</b>		
Minority interest in consolidated subsidiaries (note 10-f)	<u>\$ 2,637</u>	<u>\$ 1,770</u>
Majority interest: (note 10)		
Vitro, S. A.'s capital stock	\$ 2,900	\$ 2,000
Premium on sale of shares	61	61
Excess of book value over cost of shares of consolidated subsidiaries	96	53
Revaluation surplus	14,082	9,594
Retained earnings	2,268	1,567
Net income for the year	<u>1,503</u>	<u>1,498</u>
	<u>\$ 20,910</u>	<u>\$ 14,773</u>
Stockholders' equity	<u>\$ 23,547</u>	<u>\$ 16,543</u>
	<u><u>\$ 52,630</u></u>	<u><u>\$ 35,942</u></u>



**ROGELIO SADA**  
Chief Executive Officer



**VITRO, S. A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENT FOR YEARS ENDED**  
**DECEMBER 31, 1981 AND 1980**  
(millions of pesos)

	<u>1 9 8 1</u>	<u>1 9 8 0</u>
Net sales	\$ 25,391	\$ 18,743
Other operating revenues	<u>340</u>	<u>323</u>
	\$ 25,731	\$ 19,066
Cost of sales	13,610	10,571
Operating expenses	<u>5,303</u>	<u>3,964</u>
Operating income	\$ 6,818	\$ 4,531
Interest expenses and income	<u>4,035</u>	<u>2,200</u>
	\$ 2,783	\$ 2,331
Other expenses and income	<u>753</u>	<u>573</u>
	\$ 3,536	\$ 2,904
Equity on income of unconsolidated subsidiaries and associates	<u>194</u>	<u>91</u>
	\$ 3,730	\$ 2,995
Income tax (note 11)	1,435	1,005
Profit sharing to workers (note 11)	<u>374</u>	<u>271</u>
Net income for the year	\$ 1,921	\$ 1,719
Net income minority interest	<u>418</u>	<u>221</u>
Net income majority interest	<u><u>\$ 1,503</u></u>	<u><u>\$ 1,498</u></u>

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



**VITRO, S. A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL**  
**POSITION FOR YEARS ENDED DECEMBER 31,**  
**1981 AND 1980**  
**(millions of pesos)**

	<u>1 9 8 1</u>	<u>1 9 8 0</u>
<b>SOURCE OF FUNDS:</b>		
Net income	\$ 1,921	\$ 1,719
Depreciation and amortization	778	1,002
Depreciation of revaluation	841	303
Provision for seniority premiums	131	99
Reserve for future devaluations	304	121
	<hr/>	<hr/>
Funds derived from operations	\$ 3,975	\$ 3,244
Credits	12,281	10,254
Adjustment for difference in exchange rates	1,508	187
Increase in minority interest	49	124
Premium in sale of shares		111
Recovery of investments	154	169
Net variations on deferred taxes, long-term	189	
Excess in par value over cost of shares		14
Short-term maturities of receivables	13	5
Sale of fixed assets	127	215
Other		1
	<hr/>	<hr/>
	\$ 18,296	\$ 14,324
<b>APPLICATION OF FUNDS:</b>		
Additions to property, plant and equipment	\$ 6,830	\$ 6,596
Identification of exchange loss with fixed assets	1,528	145
Investment in unconsolidated subsidiaries and associates	164	
Long-term investments	427	108
Increment to expenses to be amortized	1,296	463
Dividends paid to Vitro, S.A.'s stockholders	160	108
Dividends paid to minority interest	157	76
Payment of long-term debt	4,640	3,457
Current portion of long-term debt	1,163	1,309
Excess of cost over par value of shares		12
Other	5	
	<hr/>	<hr/>
	\$ 16,370	\$ 12,274
	<hr/>	<hr/>
INCREASE IN WORKING CAPITAL	\$ 1,926	\$ 2,050



## VITRO, S. A. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1981 AND 1980 (millions of pesos)

#### 1.— PRINCIPLES OF CONSOLIDATION:

- a) Consolidated subsidiaries — The following companies where the group holds more than 50% of their capital stock have been included in the consolidation:

Vidriera Monterrey, S. A.	Vitrocrisa Toluca, S. A.
Vidriera México, S. A.	Vitrocrisa Parras, S. A.
Vidriera Los Reyes, S. A.	Vitrocrisa Cubiertos, S. A.
Vidriera Guadalajara, S. A.	* Industrias Cornejo, S. A.
Vidriera Querétaro, S. A.	* Mueveca, S. A.
Envases de Borosilicato, S. A.	* Ramage, S. A.
Grupo Mexicano de Vidrio Neutro, S. A.	Vitro Fibras, S. A.
Vidrio Neutro, S. A.	Silicatos y Derivados, S. A.
Ampolletas, S. A.	Arcillas Tratadas, S. A.
Productos Kimax de México, S. A.	Industria del Alkali, S. A.
Borosilicatos, S. A.	Materias Primas Monterrey, S. A.
Farmo Envases, S. A.	Materias Primas Minerales de San José, S. A.
Regioplast, S. A.	Materias Primas Minerales de Ahuazotepec, S. A.
Regioplast Guadalajara, S. A.	Materias Primas Minerales de Lampazos, S. A.
Cía. General de Plásticos, S. A.	Fabricación de Máquinas, S. A.
Plásticos y Representaciones, S. A.	Peerless Tisa, S. A.
** Cía. Mexicana de Tubo Plast, S. A.	* Materias Primas Magdalena, S. A.
* Plásticos Bosco, S. A.	* Minerales para la Industria, S. A.
* Inmobiliaria de la Suerte, S. A.	* Vektron, S. A.
Vidrio Plano de México, S. A.	* Quantron, S. A.
** Vitroplast Monterrey, S. A.	Proveedora del Hogar, S. A.
* Vitro Plan, S. A.	Vitro Corporativo, S. A.
Vidrio Plano, S. A.	** Aero Vitro, S. A.
Lunas de México, S. A.	Fomento Inmobiliario y de la Construcción, S. A.
Cristales Inastillables de México, S. A.	Vivir, S. A.
Química "M", S. A.	Fic Internacional, S. A.
** Shatterproof de México, S. A.	Fomento de Comercio Exterior, S. A. de C. V.
Vitro Flotado, S. A.	Constructora e Inmobiliaria Giroc, S. A.
Vitro Flex, S. A.	Acción Social Regiomontana, A. C.
Vitrocrisa Crimesa, S. A.	Clínica Vidriera, A. C.
Vitrocrisa Cristalería, S. A.	Cooperación Social, A. C.
** Vitrocrisa Kristal, S. A.	

\* Companies constituted or acquired during 1981

\* \* Companies constituted or acquired during 1980



Consolidated companies are audited by Gossler, Navarro, Ceniceros, Gómez Morfín y Cía., except for:  
 — Vitro Fibras, S. A., Silicatos y Derivados, S. A., Arcillas Tratadas, S. A. and Vitro Flex, S. A., which are audited by other public accountants.

- b ) Unconsolidated subsidiaries — Vitro, S.A. and subsidiaries control 83% of Grupo Financiero Banpaís comprising the following institutions: Banpaís, S. A., Almacенadora Banpaís, S. A., Aseguradora Banpaís, S. A., Arrendadora Banpaís, S. A., Casa de Bolsa Banpaís, S. A., Inmobiliaria Banpaís del Norte, S. A., Inmobiliaria Banpaís de México, S. A., Inmobiliaria Finosa, S. A., Unibanco, S. A., Inmobiliaria Finsa, S. A. and Inmuebles de Tijuana, S. A. The latter three institutions were acquired at the end of 1981.

This investment is not consolidated because the foregoing are credit institutions and their inclusion would tend to impair the significance and interpretation of the financial statements. The investment is appraised by the equity method.

The financial statements of institutions of Grupo Financiero Banpaís are not audited by independent public accountants because the Comisión Nacional Bancaria (National Banking Commission) does not require it; however, they are examined by internal auditors.

- c ) Unconsolidated associates — The companies where VITRO holds 25% to 50% interest are considered associates. These investments are appraised by the equity method.

One of the associates, Industria Centroamericana de Vidrio, S. A. is located in Guatemala and its balances are considered at the exchange rate of \$ 26.26 per Quetzal in 1981 and at \$ 23.37 in 1980. Investments are accounted for at the exchange rate prevailing on date of allocation.

Figures shown under sub-paragraph d) include the indirect participation of Vitro, S. A. and its subsidiaries in the retained earnings and year-end profits of six companies controlled by Industria Centroamericana de Vidrio, S. A.

Another associate is located in Brazil; this investment is accounted for at the different exchange rates in effect on dates of allocation. Figures pertaining to participation in retained earnings and profits for the year are computed at the rate which at the end of 1981 was \$ 0.21 per cruzeiro and at \$ 0.36 in 1980. For investment evaluation purposes, the adjustment determined by the Brazilian authorities is considered as a surplus. In 1981 the portion of this sum corresponding to Vitro, S. A. and subsidiaries is \$ 90 and \$ 13 for 1980.

- d ) An analysis of investment in unconsolidated subsidiaries and associates follows:

	<u>1 9 8 1</u>	<u>1 9 8 0</u>
Banpaís, S. A.	\$ <b>1,263</b>	\$ 1,256
Industria Centroamericana de Vidrio, S. A.	<b>353</b>	279
Brasividro, Ltda.	<b>238</b>	162
	<u><b>\$ 1,854</b></u>	<u>\$ 1,697</u>

- e ) Our associates Brasividro, Ltda. and Industria Centroamericana de Vidrio, S. A. are audited by other public accountants.

Industria Centroamericana de Vidrio, S. A.'s business period ends on June 30; nevertheless, consolidated financial statements were prepared as of December 31 and were taken into consideration to appraise the investment in the consolidated financial reports of Vitro, S. A. as of December 31, 1981 and 1980.



- f ) The subsidiary Fabricación de Máquinas, S. A. sells equipment to some of the companies of the group. Profits arising therefrom are not eliminated in order to avoid the need to adjust the depreciation charge each year.
- g ) The excess in acquisition of shares of subsidiary companies is determined by taking as a basis the book value on date of acquisition. It is an established policy not to amortize such amounts.

## 2. — SIGNIFICANT ACCOUNTING POLICIES:

- a ) Inventories — These are valued at cost or market value whichever is the lower. Most of the companies utilize average costs. Fabricación de Máquinas, S. A., Peerless Tisa, S. A. and Vitro Fibras, S. A. have standard costs which do not differ substantially from real costs. Proveedora del Hogar, S. A., employs the retailers' system in branches where they sell retail.
- b ) Land, buildings, machinery and equipment — These are accounted for at cost when purchased. Inasmuch as in most instances such values differ substantially from real figures they are revalued based on a testimony rendered by an expert on such matters, affecting the proper accounts according to the assets involved as well as the revaluation surplus.  
Starting with the 1981 fiscal period depreciation is computed on the basis of the straightline method, taking into consideration the useful life of the assets to depreciate the original cost, exchange variations assigned to fixed assets and the revaluation starting with the month following that in which they are put in operation. Up to 1980 and also using the straightline method, the original cost was depreciated at fiscal rates and the exchange variations and revaluation at 3% per annum for buildings and 5% per year for the balance of depreciable assets starting with the year in which they were put in operation.
- c ) Maintenance expenditures — Expenses for maintenance and repairs are recorded directly under costs and disbursements of the fiscal period in which they occur.
- d ) Amortization of deferred charges — This is made based on the straightline method at rates indicated in note 7, which vary in accordance with the nature of the amortizable expense.
- e ) Operations in foreign currency — The policy followed is to record transactions in foreign currency at a fixed exchange rate, similar to that prevailing on the date they are realized and to make monthly adjustments of material variations between these two rates.  
When it is possible to identify liabilities in foreign currency with non-monetary assets, the significant adjustments arising from variations in exchange rates will affect the cost of acquisition of such non-monetary assets.
- f ) Reserve for future devaluations — A provision for future devaluations was set up in 1978; this provision is increased annually by the amount resulting from applying the difference in percentage between the interest rates of local banking institutions and those of foreign banks to the monthly balances of bank liabilities in foreign currency not identified with fixed assets.
- g ) Dismissal payments — Indemnities and retirement pensions are charged against year-end profits of the period in which they occur.  
Starting 1978 the seniority premiums for all personnel are considered as a cost of the year in which their services are rendered. These are recorded on the basis of actuarial computations considering the salaries in effect at the time payment is made; personnel not yet eligible for a seniority premium are also taken into account, making the necessary adjustments to the amount in accordance with the probability of their acquiring the needed seniority. Cost of past services through December 1977, after deducting the reserve available as of that date, will be amortized in the average period required for workers to reach their retirement age.



- h ) 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. In the case of Ceprofis these are acknowledged at the time they are requested from the Ministry of Finance.
- i ) Deferred income tax and profit sharing to workers — It is an established policy to show in the financial statements the effects which certain items cause on the computation of income tax and profit sharing to workers, since when recorded against profits their acknowledgement for fiscal purposes is deferred temporarily. That portion estimated to become due within a short period of time is included under working capital. Short-term as well as long-term debit and credit balances are compensated.

### 3.— RECEIVABLES:

- a ) Balance of our trade account is shown diminished by bills discounted totaling \$ 338 in 1981 and \$ 462 in 1980. \$ 91 and \$ 135 of these amounts, respectively, are insured for approximately 85%.
- b ) In 1981 \$ 81 for Cedis (tax rebates on exports) pending ratification from Secretaría de Hacienda y Crédito Público have been included in balance of other receivables. According to past experience, it is expected that practically 100% of these rebates will be granted. It also includes \$ 387 for Ceprofis which have not yet been received.

### 4.— INVENTORIES:

- a ) Distribution follows:

	<u>1 9 8 1</u>	<u>1 9 8 0</u>
Finished products	\$ 2,500	\$ 1,929
Raw materials	804	595
Packaging materials	98	90
	<u>          </u>	<u>          </u>
Sub-total	\$ 3,402	\$ 2,614
Replacement parts	1,111	705
Refractories	220	164
Merchandise in transit	415	423
	<u>          </u>	<u>          </u>
	<u>\$ 5,148</u>	<u>\$ 3,906</u>

- b ) It is estimated that the stock of slow-moving items amounts to \$ 168 in 1981 and \$ 45 in 1980.



5.— LONG-TERM INVESTMENTS:

Made up as follows:	<b>1 9 8 1</b>	<b>1 9 8 0</b>
Constructions for services to workers (1)	<b>\$ 103</b>	<b>\$ 81</b>
Deferred income tax and profit sharing to workers	<b>445</b>	<b>77</b>
Land and receivables from houses built for workers	<b>81</b>	<b>111</b>
Land held in trust (2)	<b>128</b>	<b>80</b>
Securities and shares, at cost	<b>18</b>	<b>13</b>
Receivables	<b>293</b>	<b>126</b>
	<b>\$ 1,068</b>	<b>\$ 488</b>

- (1) Represents land, buildings and equipment used to provide medical services, schools and playgrounds to our workers.
- (2) Disbursements made on this type of contracts. There are no restrictions for the use of such property; it is intended for buildings to be used by the consolidated companies.

6.— FIXED ASSETS:

- a) The values of fixed assets were again reappraised in 1981. The valuation was performed by Instituto Tecnológico y de Estudios Superiores de Monterrey and Proyectos y Avalúos Industriales, S. A. and represents the estimated replacement value of fixed assets as part of the industrial unit, less the corresponding depreciation.

- b) An analysis of fixed assets follows:

	<b>1 9 8 1</b>			<b>1 9 8 0</b>		
	<b>Cost</b>	<b>Revaluation</b>	<b>Total</b>	<b>Cost</b>	<b>Revaluation</b>	<b>Total</b>
<b>Buildings</b>	<b>\$ 4,362</b>	<b>\$ 3,808</b>	<b>\$ 8,170</b>	<b>\$ 2,532</b>	<b>\$ 1,993</b>	<b>\$ 4,525</b>
<b>Accrued depreciation</b>	<b>416</b>	<b>200</b>	<b>616</b>	<b>330</b>	<b>95</b>	<b>425</b>
	<b>\$ 3,946</b>	<b>\$ 3,608</b>	<b>\$ 7,554</b>	<b>\$ 2,202</b>	<b>\$ 1,898</b>	<b>\$ 4,100</b>
<b>Land</b>	<b>551</b>	<b>1,808</b>	<b>2,359</b>	<b>482</b>	<b>1,258</b>	<b>1,740</b>
	<b>\$ 4,497</b>	<b>\$ 5,416</b>	<b>\$ 9,913</b>	<b>\$ 2,684</b>	<b>\$ 3,156</b>	<b>\$ 5,840</b>
<b>Machinery and equipment</b>	<b>\$ 14,666</b>	<b>\$ 12,902</b>	<b>\$ 27,568</b>	<b>\$ 9,802</b>	<b>\$ 8,164</b>	<b>\$ 17,966</b>
<b>Accrued depreciation</b>	<b>4,343</b>	<b>1,536</b>	<b>5,879</b>	<b>3,755</b>	<b>808</b>	<b>4,563</b>
	<b>\$ 10,323</b>	<b>\$ 11,366</b>	<b>\$ 21,689</b>	<b>\$ 6,047</b>	<b>\$ 7,356</b>	<b>\$ 13,403</b>



- c ) Starting 1981 the depreciation of fixed assets was computed on the basis of their remaining useful life determined by expert appraisers (note 2-b). This change resulted in a drop of \$ 391 in the depreciation charged against profits. On the other hand, the effects on deferred taxes were considered and these reflected a reduction of \$ 400 in the profits for the period. The net effect on year-end results represents a reduction of \$ 9. The average rates used in 1981 were 2.6% for buildings and 4.8% for machinery and equipment. The rates indicated in the second paragraph of note 2-b were applied in 1980.

7. — EXPENDITURES TO BE AMORTIZED:

A detail of the most important items making up this balance follows:

	<u>1 9 8 1</u>	<u>1 9 8 0</u>	<u>Amortization rate</u>
Preoperating expenses	\$ 1,039	\$ 463	10%
Installation and organization expenses	85	35	5% and 10%
Experimentation and exploration expenses	69	8	5% and 10%
Issuance of unsecured debentures	73	18	10%
Indemnities	36	46	20%
Prepaid expenses	48	17	
Advertising	5	9	Tax rates
Patents and other minor items	64	6	According to nature of item
	<u>\$ 1,419</u>	<u>\$ 602</u>	

8. — LIABILITIES:

- a ) Maturity of long-term debt:

	<u>Payable in</u>		
	<u>Mexican</u>	<u>U. S.</u>	
	<u>Currency</u>	<u>Currency</u>	<u>Total</u>
1983	\$ 1,309	\$ 5,545	\$ 6,854
1984	754	2,692	3,446
1985	515	1,652	2,167
1986	289	3,013	3,302
1987 and following	264	5,106	5,370
Deferred taxes	371		371
Reserve for future devaluations	120		120
Seniority premium	378		378
	<u>\$ 4,000</u>	<u>\$ 18,008</u>	<u>\$ 22,008</u>

In addition, under short-term debt there are balances payable in U. S. dollars totaling \$ 2,225 in 1981 and \$ 2,041 in 1980, which could possibly be diminished by balances of collectable assets in that same currency. In 1981 these amounted to \$ 583 and to \$ 515 in 1980. Conversion of these items was made at the rate of \$ 26.26 per U. S. dollar in 1981 and \$ 23.37 in 1980.



- b ) Seniority premium — According to policy mentioned in note 2-g, the amount covering past services pending amortization totaled \$ 212 in 1981 and \$ 230 in 1980.

The charge against profits for the period rose to \$ 124 in 1981 and \$ 99 in 1980, including amortization of seniority premium generated from past services.

- c ) Guarantees — As of December 31, 1981 liabilities totaling \$ 2,179 and when contracted amounted to \$ 2,879 are guaranteed by the following assets:

Receivables, trade	\$ 645
Inventories	157
Fixed assets (reappraised value)	9,533
	<hr/>
	\$ 10,335
	<hr/>

In addition, shares from subsidiaries with a cost of \$ 48 which is similar to the par value, have been given as collateral for some of these credits.

#### 9. — CONTINGENT LIABILITIES:

- a ) Bills discounted mentioned in note 3-A.  
b ) Liabilities for indemnities and retirement pensions have not been quantified as of December 1981 and 1980.

#### 10. — STOCKHOLDERS' EQUITY:

- a ) In 1980 some subsidiaries did not record tax incentives on investments for which applications amounting to \$ 165, note 2-h, had already been made and which were recorded in the 1981 business period.
- b ) By not recording in 1980 the deferred taxes corresponding to the difference between fiscal and accounting depreciation as indicated in note 2-i, the profits for that period are increased by \$ 54. In the 1981 financial statements \$ 456 were recorded for the same concept.
- c ) In the profits for the year 1981 \$ 97 and \$ 57 in 1980 were recorded for depreciation of exchange variations charged against fixed assets as a complement of their cost.
- d ) The capital stock is represented by 29'000,000 common paid-in bearer shares with a par value of \$ 100.00 each. It includes \$ 590 corresponding to capitalization of reappraised fixed assets of consolidated companies, which amount has already been applied under profits of the subsidiaries, via depreciation.
- e ) Vitro, S. A.'s net worth at December 31, 1981 includes \$ 5,761 of accumulated and/or capitalized profits, which in the event of a capital stock reduction, distribution of profits or liquidation of the company are subject to tax payments — investment income — except for payments made to Mexican corporations. Percentage of applicable tax is 21% unless it refers to individuals who may choose to take advantage of an option established by law, in which case the percentage may differ.  
Likewise, the stockholders' equity of consolidated subsidiaries includes \$ 586 representing the participation of foreigners in the accumulated and/or capitalized profits, which if paid to them, are subject to income tax at the rate of 21%.



f ) An analysis of minority stockholders' equity in consolidated subsidiaries follows:

	<b>1 9 8 1</b>	<b>1 9 8 0</b>
Capital stock *	<b>\$ 485</b>	\$ 427
Premium on shares sold	<b>50</b>	50
Excess of book value over cost	<b>33</b>	33
Revaluation surplus	<b>1,530</b>	976
Retained earnings	<b>121</b>	63
Net profit for the year	<b>418</b>	221
	<b><u>\$ 2,637</u></b>	<u>\$ 1,770</u>

\* Includes a capitalized revaluation surplus of \$ 83 in 1981 and 1980.

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

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

	Income Tax		Profit Sharing to workers	
	<b>1 9 8 1</b>	<b>1 9 8 0</b>	<b>1 9 8 1</b>	<b>1 9 8 0</b>
Payable according to applicable legislation	<b>\$ 1,692</b>	\$ 1,325	<b>\$ 360</b>	\$ 275
Increases (reductions) due to timing differences:				
Upon deducting according to tax law the exchange variations carried in previous fiscal periods under fixed assets	<b>163</b>	84	<b>27</b>	16
Preoperating expenses	<b>239</b>			
Difference between fiscal and book depreciation	<b>418</b>		<b>38</b>	
Upon charging against profits for the year the exchange variations and depreciation thereon applied to fixed assets and provision for seniority premium which are deductible from taxes when liabilities are paid	<b>( 256)</b>	( 105)	<b>( 51)</b>	( 20)
Tax loss	<b>( 821)</b>	( 299)		
Shown in statement of income	<b><u>\$ 1,435</u></b>	<u>\$ 1,005</u>	<b><u>\$ 374</u></b>	<u>\$ 271</u>



## 12. — INSURANCE:

Insurance is being carried for approximately 48% of total insurable assets. In addition, all vehicles and trucks are duly insured.

## 13. — EFFECTS OF INFLATION ON FINANCIAL INFORMATION:

According to guidelines established in a recent announcement on accounting principles relative to disclosure of the effects of inflation, this phenomenon, in summary, affects our financial information for the 1981 fiscal period, as follows:

- a ) Inventories and cost of sales — It was decided not to include inventories and consumption of raw materials, packaging and finished products because they are considered updated; their rotation is less than 60 days. Other inventories were adjusted on the basis of the latest purchase. In cases where there were no purchases made during the last six months, the National Consumer Price Index published by Banco de México was applied; in this manner the updated inventory represents 18% of total inventory at cost. Cost of sales of these inventories was determined as if the "last-in, first-out" valuation method had been used, in other words, the price of the latest purchase was applied as the consumption cost. In the case where consumption derived from purchases made prior to December 1980, the National Consumer Price Index was also applied.
- b ) Fixed assets and depreciation thereon — These values are updated in the basic financial statements according to notes 2-b and 6.
- c ) Stockholders' equity — Based on the Consumer Price Index published by Banco de México and taking into consideration the increase in the value of fixed assets, the amount necessary to maintain the purchasing power of the majority and minority stockholders' equity was determined.  
The result of updating the above items is as follows:

	Figures according to basic financial statements —	Updated figures —
Inventories	<u>\$ 5,148</u>	<u>\$ 5,443</u>
Capital stock	\$ 3,385	\$ 3,385
Reserve for maintenance of capital		5,823
Surplus from initial updating of assets		2,515
Profit from monetary position		5,346 (2)
Surplus from retained non-monetary assets		( 2,260) (1)
Revaluation surplus of fixed assets	15,612	
Premium on sale of shares	111	158
Excess of book value over cost of shares of consolidated subsidiaries	129	260
Retained earnings	2,389	6,400
Net income for the year	1,921	2,215
Stockholders' equity	<u>\$ 23,547</u>	<u>\$ 23,842</u>



- ( 1 ) Amount generated during the period.
- ( 2 ) This amount is diminished by \$ 1,938 for exchange loss originated during the period and charged to profits and fixed assets in the basic financial statements. Profit from monetary position for the period rose to \$ 4,245.

( d ) The effect in the income statement is as follows:

Net profit according to the basic income statement	\$ 1,921
Less: Increase in cost of sales	( 113)
Plus: Exchange loss and increase of reserve for future devaluations charged to profits, which in the additional information is transferred to accrued earnings due to monetary position	<u>407</u>
Adjusted net income	<u>\$ 2,215</u>

#### 14.— SUBSEQUENT EVENTS:

On February 18, 1982 Banco de México withdrew from the exchange market in order to permit the free convertibility of the Mexican peso. The variation in the exchange rate is important inasmuch as of this date it fluctuates at around \$ 45.00 per U. S. dollar, while as of December 31, 1981 the peso was being quoted at the rate of twenty six pesos and twenty cents per U. S. dollar. It is considered that the exchange rate will diminish once operations in foreign currency are stabilized. As of this date, there are not sufficient elements to know the full effect that this variation will have on non-monetary assets and in the operations of the company.



