

Annual Report '85



VITRO, SOCIEDAD ANÓNIMA

from the bursting of that cosmic crucible there arose
suns, stars and planets; and then. . . man, the quintessence,
the element that was to give meaning to creation. . . thus
was born VITRO, whose transparent destiny is to forge
the will to achieve. . .”

Vitro, Sociedad Anónima, is a Mexican company manufacturer of glass and plastic containers—flat glass—crystal products—related industrial chemical products, mineral resources, capital goods and research and development of technology.

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

Financial Highlights

(Millions of Pesos)

	1985	1984	CHANGE
1. TOTAL SALES	312,957	176,720	+ 77 ^o / _o
2. CONSOLIDATED SALES	267,800	149,557	+ 79 ^o / _o
3. INTEGRAL FINANCING COST	32,395	45,631	- 29 ^o / _o
4. NET INCOME	44,818	7,473	+ 500 ^o / _o
5. CAPITAL EXPENDITURES	14,850	11,032	+ 35 ^o / _o
6. EXCESS CASH	69,353	39,122	+ 77 ^o / _o
7. RETURN ON EQUITY	22.2 ^o / _o	6.6 ^o / _o	
8. CURRENT RATIO	2.80	3.63	
9. LIABILITIES / STOCKHOLDERS' EQUITY	0.77	0.93	
10. DEBT COVERAGE	2.87	2.33	
11. SUPPORTABLE BANK DEBT	3.4	3.6	

Letter from the Chairman

To our shareholders:

It gives me pleasure to inform you that, in spite of the adversities that beset the economy of our country during 1985. Vitro, Sociedad Anónima and Subsidiaries accomplished most of the objectives set at the beginning of the year. On the one hand, it was necessary for us to adapt to a higher-than-forecast inflationary environment. On the other hand, the changes that took place in exchange rate policy helped our exports.

The earthquake of last September caused the irreparable loss of a valued staff member. Nevertheless, our assets suffered no loss and our industrial plant continued to operate normally.

Most of the markets we serve showed favorable upturns, resulting in a substantial increase in sales volumes. Good cost control together with improved productivity led to satisfactory returns.

Cash flow and the financial structure were kept in very healthy condition, and covenants with lenders were scrupulously adhered to. By keeping liabilities under control and strengthening equity, we succeeded in bringing consolidated financial leverage down to the lowest level in decades.

Moderate utilization of installed capacity made it unnecessary to invest in expansions. The only additions to fixed assets were those necessary to continue operating our plants efficiently and with the most advanced technology.

None the less, in order to keep a balanced portfolio and make the best use of cash, some companies were acquired and now form part of our Group. The purchase of 51% of Industrias Ingersoll Rand, S. A. de C. V. is in keeping with our traditional capital goods activities and makes for a fuller relationship with the U. S. company Ingersoll Rand, already our partner in a successful enterprise. All the equity of Grupo Troqueles y Esmaltes was acquired, adding its enamelware, kitchen ranges and refrigerators to our existing kitchen and table ware lines. We expect to report satisfactory results in the future from both of these acquisitions.

In November Mr. Rogelio Sada Zambrano tendered his resignation as Chief Executive Officer of GRUPO VITRO. The Board of Directors appointed Mr. Ernesto Martens Rebolledo as the new Chief Executive Officer. Mr. Martens has successfully managed GRUPO VITRO's Containers Division since 1977 and is an executive with wide experience. Thus, the Group will continue along its chosen path and preserve its policies and management philosophy.

During 1986 no great recovery in the economy of Mexico is expected. The problems associated with continued high inflation and foreign currency shortage will still be with us and will not be very different from those experienced in 1985.

Any new difficulties to be overcome will call for the utmost devotion to duty by our people. We have no doubt that they will be equal to the challenge.

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.
Chief Executive Officer*

Annual Report
submitted by the Board of Directors
of Vitro, Sociedad Anónima
for the year 1985



*ADRIAN SADA T.
(Chairman of the Board)*



*ADRIAN SADA GONZALEZ
(Vice-Chairman)*



ADOLFO LARRALDE R.
(Secretary)

DIONISIO GARZA SADA

TOMAS GONZALEZ SADA

Annual Report
submitted by the Board of Directors
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for the year 1985

BOARD OF DIRECTORS

<i>ADRIAN SADA T.</i>	<i>Chairman</i>
<i>EDUARDO G. BRITTINGHAM</i>	
<i>JULIO ESCAMEZ F.</i>	
<i>ALEJANDRO GARZA LAGÜERA</i>	
<i>DIONISIO GARZA SADA</i>	
<i>VIRGILIO GARZA JR.</i>	<i>Deputy</i>
<i>MARIO GARZA G.</i>	
<i>TOMAS GONZALEZ SADA</i>	
<i>ADOLFO LARRALDE R.</i>	<i>Secretary</i>
<i>JUAN F. MUÑOZ</i>	
<i>ALFONSO F. RODRIGUEZ</i>	<i>Deputy</i>
<i>ANDRES G. SADA</i>	<i>Deputy</i>
<i>ADRIAN SADA G.</i>	<i>Vice Chairman</i>
<i>FEDERICO SADA G.</i>	
<i>ROGELIO SADA</i>	

EXAMINERS

<i>JAVIER IRIONDO V.</i>	
<i>SALVADOR GONZALEZ G. JR.</i>	<i>Deputy</i>



EDUARDO G. BRITINGHAM

JULIO ESCAMEZ F.

MARIO GARZA G.

*JAVIER IRIONDO V.
(Examiner)*



ALEJANDRO GARZA LAGÜERA

JUAN F. MUÑOZ

FEDERICO SADA GONZALEZ

In 1985 two economic periods could be clearly identified. During the first six months there was unwarranted growth, the inevitable and necessary correction occurred in the second half. The increase in gross domestic product during the year was 3.0%.

As a result, economic indicators showed uneven tendencies. Thus, inflation took off during the second half and reached a year-end figure of 63.7%, slightly above that of the previous year. The peso ended the year 18.5% undervalued in relation to the dollar.

There was a very marked deterioration in the public sector deficit which reached 9.6% of gross domestic product.

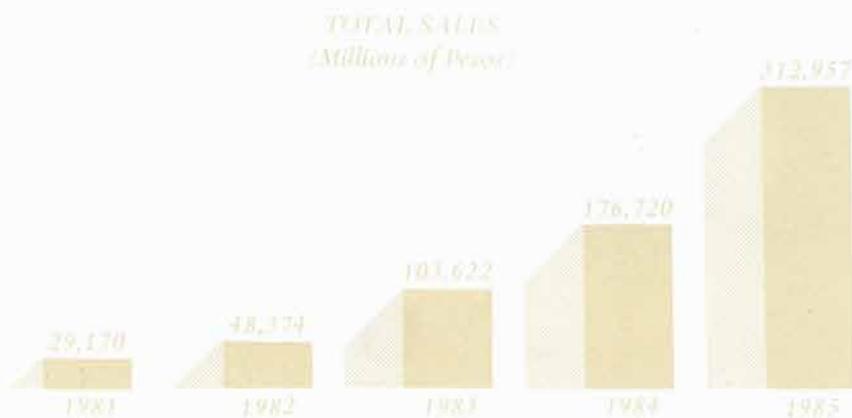
Mexico's gross international reserves were reduced by 2,300 million dollars, bringing them to a level of 5,800 million dollars at the end of 1985.

Industrial and manufacturing production rose by 4.9% and 5.9% respectively; construction by 3.1%, food processing by 3.1% and the automotive industry by 27.7%.

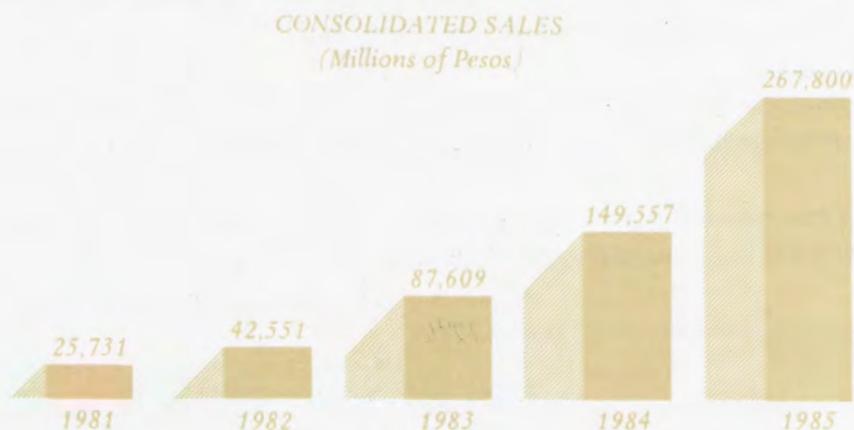
Against this background, we shall now describe the development of GRUPO VITRO'S businesses.

MARKETS

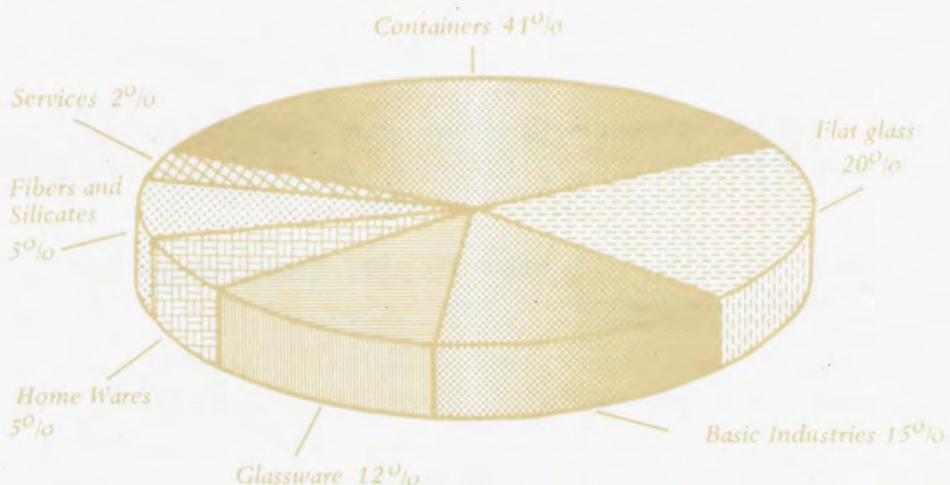
Total sales amounted to 313 billion pesos, an increase of 77%.



Consolidated sales were 268 billion pesos, 79^o/o more than those of the previous year in current pesos and 11^o/o more in constant pesos.



The percentage breakdown by production segment was as follows:



The sales increases in current pesos by production segment were as follows:

SEGMENT	1985 %	1984 %
SERVICES	94	40
HOME WARES	93	51
GLASSWARE	81	60
FIBERS AND SILICATES	76	85
CONTAINERS	75	59
BASIC INDUSTRIES	60	79
FLAT GLASS	56	81

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

CONTAINERS

The domestic market for glass containers showed an adequate real increase of 12^o/o while plastic containers grew strongly by 15^o/o.

Export markets continued their favorable upward trend. In dollar terms they grew by 43^o/o over the previous year and made up 9^o/o of total sales.

Sales of generic non-returnable containers were double those of the previous year and contributed 4^o/o of the total growth in sales.

Capacity utilization during the year was 79^o/o.

In order to consolidate our export operations in the United States and take full advantage of opportunities in this market, the U.S. company that used to distribute our products was acquired.

FLAT GLASS

Growth in construction and automotive markets, on which this Division depends heavily, was satisfactory during 1985. As a result, sales rose by 6^o/o in real terms.

Exports, growing strongly by 33^o/o above the 1984 level, made up one third of consolidated sales of the Division.

Installed capacity utilization was 65^o/o.

GLASSWARE

The domestic market served by this Division behaved in similar fashion to the economy as a whole. Consolidated sales, helped by the firm leadership of Crisa Corp. in the U.S. and Canadian markets, went up by 14^o/o in real terms. Utilization of installed capacity increased by 20^o/o over the previous year and reached 58^o/o by year end.

BASIC INDUSTRIES

In capital goods, business increased by 2^o/o because of deeper penetration, with spares as well as machinery, into the petroleum and turbine industries. The traditional market for glass-making machinery and molds has remained stable.

The acquisition of 51^o/o of the equity of Industrias Ingersoll Rand, S. A. de C.V., now renamed Neumatron, S. A., is a key factor in the development of GRUPO VITRO's, capital goods sector.

In Basic Materials, Industria del Alkali, S. A. registered 1⁰/o growth, the outstanding products being sodium bicarbonate and calcium chloride in which there was capacity enough to export after satisfying the home market. In silica sand and feldspar, tonnage rose by 3⁰/o as the ceramics market was penetrated.

The mining sector continued to make headway in the Sonora borates project; the deposit and the exploration shaft have now been quantified. We expect to consolidate this project by the end of the present year.

FIBERS AND SILICATES

With a real increase of 12⁰/o over the previous year, sales of the Division were satisfactory. This result came about through strong growth of 29⁰/o in Vitro Fibras, S. A., and moderate increases in Silicatos y Derivados, S. A. and Arcillas Tratadas, S. A. de C. V. Market share in this industry was maintained.

Installed capacity utilization, at 80⁰/o, was high in Vitro Fibras, S. A., but in Silicatos y Derivados, S. A. and Arcillas Tratadas, S. A. de C. V. it was only 61⁰/o.

INTERNATIONAL OPERATIONS

BRAZIL

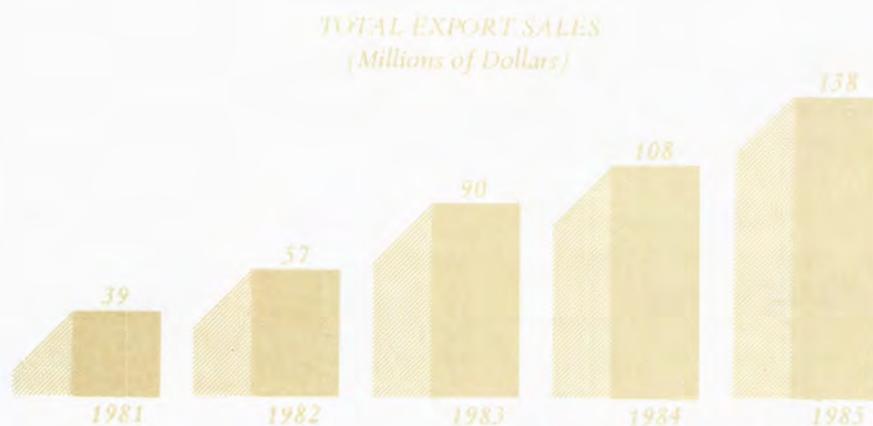
Although inflation at year end was still running at over 200⁰/o, the country kept on its course of undeniable recovery. However, as the market for our products is still very depressed, the plant was run for only five months of the year, making sales of 20 million units, 25⁰/o fewer than the previous year.

CENTRAL AMERICA

Although the economies of the Central American countries were still stagnant, there was a slight increase of 1.8⁰/o in sales. Plant utilization was only 43⁰/o, but results were still satisfactory thanks to the aggressive cost reduction program which had a salutary effect on profits.

EXPORTS

Total export sales amounted to 138 million dollars, a 28% increase over those of the previous year.

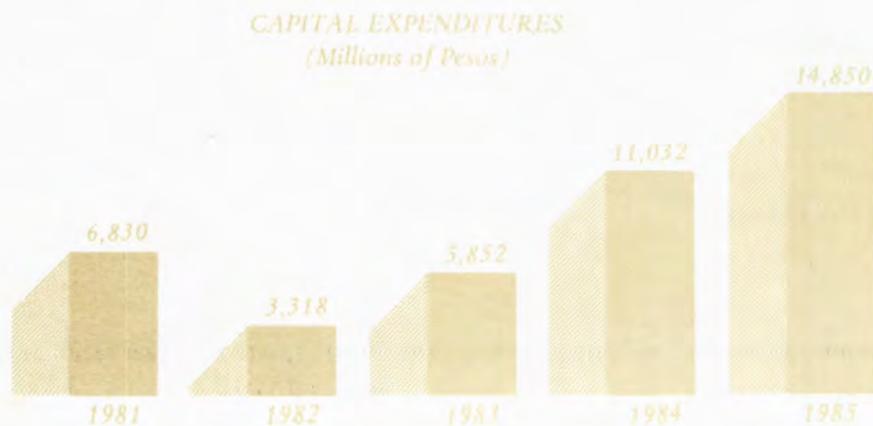


BALANCE OF PAYMENTS

The trade balance, at 35 million dollars, was favorable and showed an increase of 25% over that of the previous year. The total balance of payments of GRUPO VITRO was in surplus by 17 million dollars.

ADDITIONS TO FIXED ASSETS

While maintaining the necessary austerity, 14,850 million pesos were invested during the year, which was a decrease, in real terms, of 18% compared with the previous year. The investment was directed toward the maintenance of installed capacity, keeping abreast of current technology and development of new products and processes.



The most important investments were as follows:

- Updating the technology of glass container forming machines.*
- Molds.*
- New technology in the production of unrefillable caps, equipment for producing PET containers, for new export products and for increasing the capacity of Regiomold, S. A.*
- New technology in the production of ampoules and the modernization of one of the borosilicate tube furnaces.*
- Automating the mold line in Fabricación de Máquinas, S. A.*
- Modernizing the computer system.*
- Acquisition of the assets of Riekes Vitro and transfer of the sales force in order to create Vitro Packaging Company.*

STRATEGIC INVESTMENTS

The following strategic investments were made during the year.

- An increase in our equity holding in CYDSA to reach about 40%.*
- The purchase of 51% of Industrias Ingersoll Rand, S. A. de C. V., now Neumatron, S. A.*

Briefly, Industrias Ingersoll Rand, S. A. de C. V. is the leading firm in Mexico in the compressed air field. Its facilities are located in Apaseo El Alto, Guanajuato, near Querétaro. The minority stockholder is Ingersoll Rand Company, our partner in Quantron, S. A. and world leader in this line of business.

The total assets of Industrias Ingersoll Rand, S. A. de C. V. are 7,000 million pesos and the workforce numbers some 400 persons. Sales in 1985 were 4,576 million pesos.

The company's products may be divided into three families:

- Compressed air*
- Construction and mining equipment*
- Pneumatic tools*

To look after its many markets, Industrias Ingersoll Rand, S. A. de C. V., has a well established network of distributors and more than 30 offices throughout Mexico.

By acquiring this company, GRUPO VITRO not only consolidates its position in the capital goods sector, but also penetrates into surrounding markets and develops new expertise in providing sales and technical service to the process industry in Mexico.

– *The purchase of 100% of Grupo Troqueles y Esmaltes.*

On November 1, control was acquired of Grupo Troqueles y Esmaltes, which is made up of the following companies:

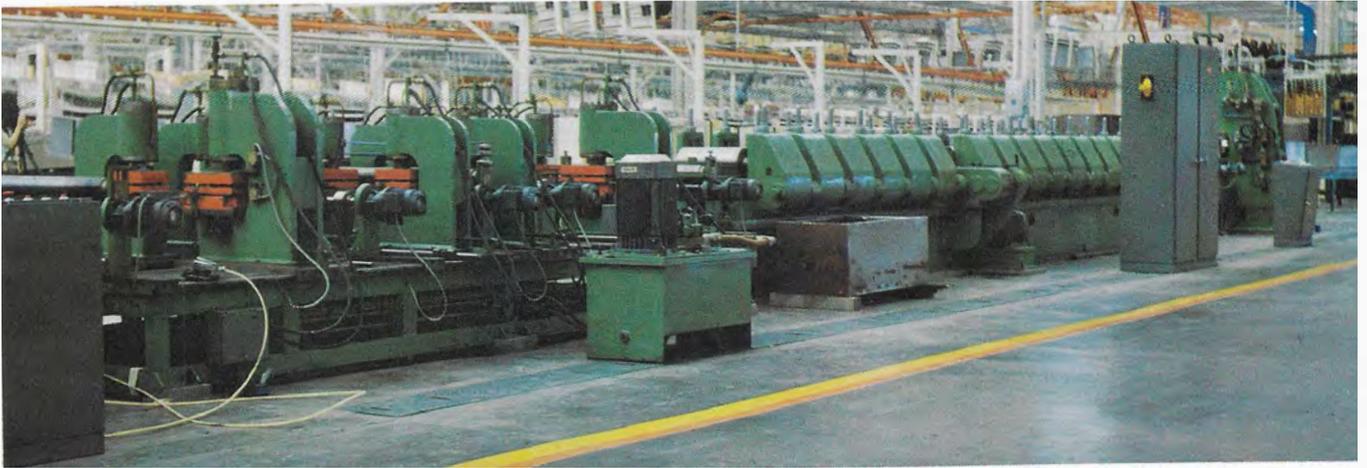
- *Troqueles y Esmaltes, S. A.*
- *Supermatic, S. A.*
- *Grupo Industrial COMASA, S. A. (29.5%)*
- *Distribuidora Monterrey, S. A.*
- *Sonora Distribuidora, S. A.*
- *Distribuidora Lozano, S. A.*
- *Exportaciones Yong, S. A.*
- *Comercial Tuxtla, S. A.*
- *Exclusivas del Norte, S. A.*
- *Comisionistas Monterrey, S. A.*

These companies employ more than 3,000 people and their total assets amount to 36,000 million pesos. In 1985 their sales reached the figure of 16,450 million pesos, an increase of 93% over the previous year.

The main products of the Group are domestic appliances (refrigerators, cooking ranges and window air-conditioners) and enamelware cooking utensils. It has its own chain of stores which distribute not only its own products but a wide range of others.

With this Group of companies we have formed in GRUPO VITRO a new Home Wares Division.

VITRO HOME WARES



NEUMATRON, S. A.



HUMAN RELATIONS

Cordial human relations were maintained during the year and work was provided in our subsidiary and associated companies for 32,095 people, an increase of 14.2% over 1984. Without taking into account personnel working in companies acquired during 1985, the number employed increased by 2.3%.



GRUPO VITRO's philosophy, now as always, is to give every person in the organization opportunities for all-round personal development and achievement. In keeping with this, programs of scholarships, education and culture, medical services, catering grocery supplies to employees, housing, sports and recreation were maintained and expanded. Of special significance for all of us was the celebration of the first GRUPO VITRO Olympiad.

CONSOLIDATED INFORMATION

The accounting standards issued by the Mexican Institute of Public Accountants (IMCP – Instituto Mexicano de Contadores Públicos) were faithfully and scrupulously adhered to. The financial information which is presented in the following paragraphs is prepared on the basis of the Institute's Bulletin B-10 on "Disclosure of the Effects of Inflation". This same basis was used in 1984.

The auditor's report on our financial statements contains a qualification relating to the fact that in 1984 deferred charges were not restated, thus affecting the income of that year by 4,902 million pesos instead of applying this amount directly against stockholders' equity. In 1985 this amount was subtracted from accumulated net income, so that stockholders' equity was not affected. In the present year, deferred charges have already been revalued in accordance with the IMCP Bulletin B-10 referred to above.

INCOME STATEMENT

The Mexican economic environment and the behavior of GRUPO VITRO's markets had considerable influence on the results shown in the consolidated income statement.

INCOME STATEMENT

(MILLIONS OF PESOS)

	1985	1984	Change 0/0
Consolidated sales	267,800	149,557	79
Cost of sales	141,695	73,652	92
Operating expenses	39,644	20,291	95
Income before financing	86,461	55,614	55
Integral financing cost:			
Financial expenses and revenue (net)	81,736	64,085	28
Loss (gain) from monetary position	(49,341)	(36,854)	34
Loss (gain) from holdings of non- monetary assets	—	18,400	—
Total	32,395	45,631	(29)
Participation in unconsolidated subsidiary and associated companies	6,181	927	567
Income before tax and workers' profit sharing	60,247	10,910	452
Income tax and workers' profit sharing	15,429	3,437	349
Net income	44,818	7,473	500
Net income, VITRO interest	38,545	7,107	442
Net income, other interests	6,273	366	—

REMARKS

Consolidated sales went up by 79 0/0 and by 11 0/0 in real terms.

The cost of sales increased by 92 0/0, which is more than the increase in sales, on account of the unfavorable effect of the LIFO system on inventories and the higher than inflationary rises in the costs of electric power, natural gas and materials.

The 95% increase in operating expenses is due mainly to the higher amortization of deferred charges which were revalued in 1985.

Consolidated net income for 1985 amounted to 44,818 million pesos, a very much higher figure – by 500% – than that of the previous year. The devaluation of last July contributed to this result by eliminating the whole of the loss on holdings of non-monetary assets that had accumulated during the year. The IMCP wisely modified Bulletin B-10 so that, as from 1985, this loss is applied directly to stockholders' equity.

CONSOLIDATED BALANCE SHEET

The condensed consolidated balance sheet (in millions of pesos) is as follows:

ASSETS	1985	1984	%	LIABILITIES	1985	1984	%
Current assets	200,203	102,856	95	Short-term liabilities	71,259	28,339	151
Long-term investments	85,123	51,045	67	Long-term liabilities	236,260	166,595	42
Fixed assets, net	406,813	233,129	75	Total liabilities	307,519	194,934	58
Deferred charges	32,671	9,458	245	Stockholders' equity	417,291	201,554	107
TOTAL ASSETS	724,810	396,488	83	TOTAL LIABILITIES AND EQUITY	724,810	396,488	83

ASSETS

An increase of 95% was recorded in current assets. If, however, the increase in excess cash and the current assets of acquired companies are excluded, the increase is 80%, close to the increase in sales.

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

Investment in fixed assets, as already noted, went down in real terms. The increase shown in the balance sheet is due to the revaluation of the items making up fixed assets.

A very large rise can be observed in deferred charges. This is a consequence of the mandatory restatement under Bulletin B-10 issued by the IMCP.

LIABILITIES

Liabilities were reduced in real terms by 4%, and even after taking into account the liabilities of the companies acquired during 1985, total liabilities did not increase but stayed at the same level as at the close of 1984.

STOCKHOLDERS' EQUITY

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

	(MILLIONS OF PESOS)		
	1985	1984	Change %
STOCKHOLDERS' EQUITY:			
VITRO stockholders	365,457	178,716	104
Other stockholders	51,834	22,838	126
Consolidated stockholders' equity	<u>417,291</u>	<u>201,554</u>	<u>107</u>

The growth of Vitro, Sociedad Anónima stockholders' equity was 104%, which translates into a very satisfactory real increase of 25%.

The following is the breakdown by account:

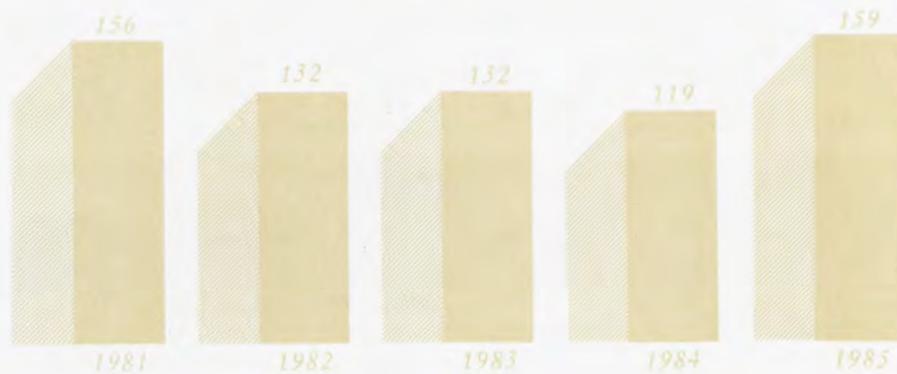
	(MILLIONS OF PESOS)	
	1 9 8 5	1 9 8 4
Capital stock	7,601	5,654
Restatement of Capital Stock and Retained Earnings	195,643	103,032
Excess or Shortfall in Restatement of Capital	134,599	68,955
Shares held in Trust	(3,077)	—
Retained Earnings	37,707	16,440
Net income	44,818	7,473
	417,291	201,554

FINANCIAL INDICATORS

We now proceed to analyze the most important financial indicators.

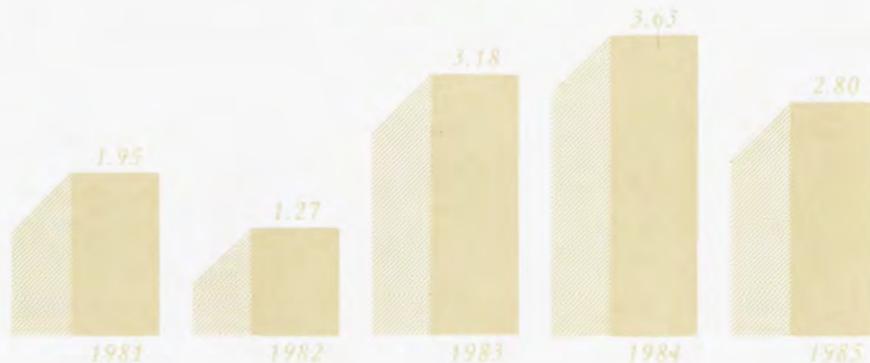
The indicator of Sales Days of Working Capital, at 159 days, was higher than the previous year because of the acquisitions of Grupo Troqueles y Esmaltes and Industrias Ingersoll Rand, S. A. de C. V.

SALES DAYS OF WORKING CAPITAL

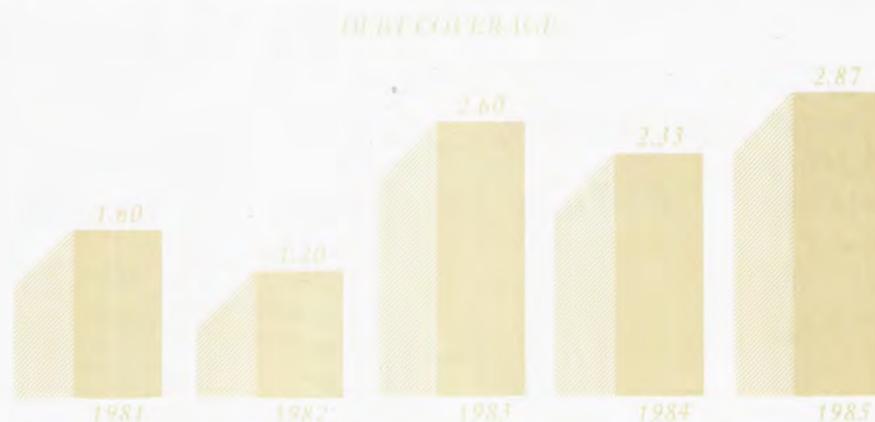


The Current Ratio, which is obtained by dividing Current Assets by Current Liabilities, closed at 2.80, much higher than the 1.25 minimum covenanted with our bankers. This ratio was also affected by the acquisitions.

CURRENT RATIO



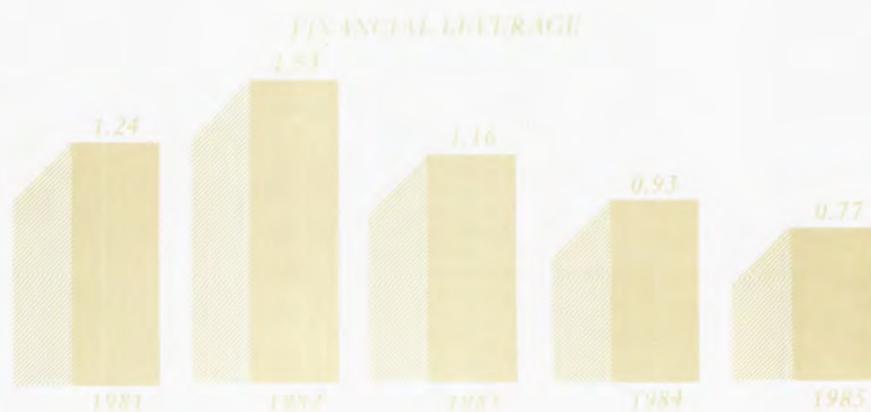
Debt Coverage compares gross funds generated with the future maturities of debt. It closed at 2.87, higher than the 1.50 agreed as the contractual minimum. This ratio confirms our sound financial structure.



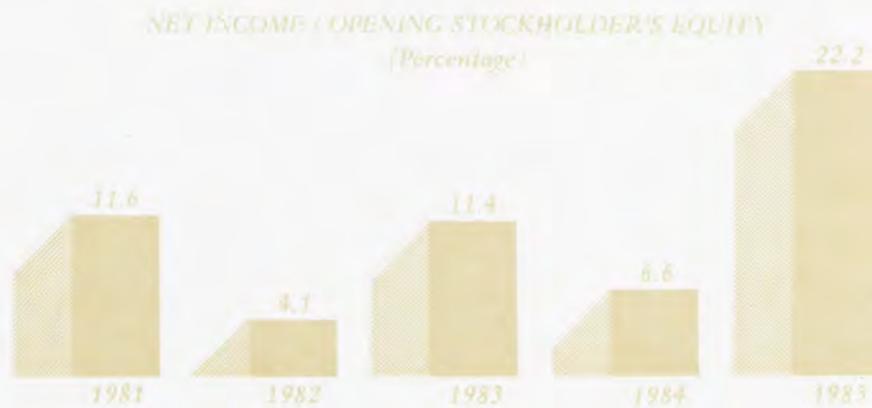
Supportable debt is the ratio of total bank debt to gross funds generated during the year. At a closing figure of 3.4 it was highly satisfactory and much healthier than the ratio of 6 covenanted with banks as the limit above which no fresh money may be borrowed.



Financial Leverage continued on its downward trend and closed at 0.77. If cash had been devoted to paying down liabilities, this ratio would be 0.60.



The Return on Opening Stockholders' Equity was a satisfactory 22.2% in real terms.



CONCLUDING REMARKS

The economic upturn during the early part of the year, particularly in our markets, and the continued rationalization of costs and expenses enabled GRUPO VITRO to achieve highly satisfactory results.

The overriding need to reorder the economy of our country indicates that there will be a considerable slowing down of demand in the markets we serve during the present year, and this will have its effect on GRUPO VITRO's companies. Nevertheless, if we go on keeping a watchful eye on costs, expenses and working capital while being prudent in our investments, GRUPO VITRO should be able to keep on its upward path and serve Mexico with that steadfastness that has always been its hallmark.

BOARD OF DIRECTORS
VITRO, SOCIEDAD ANONIMA

Divisional Information



VITRO CONTAINERS



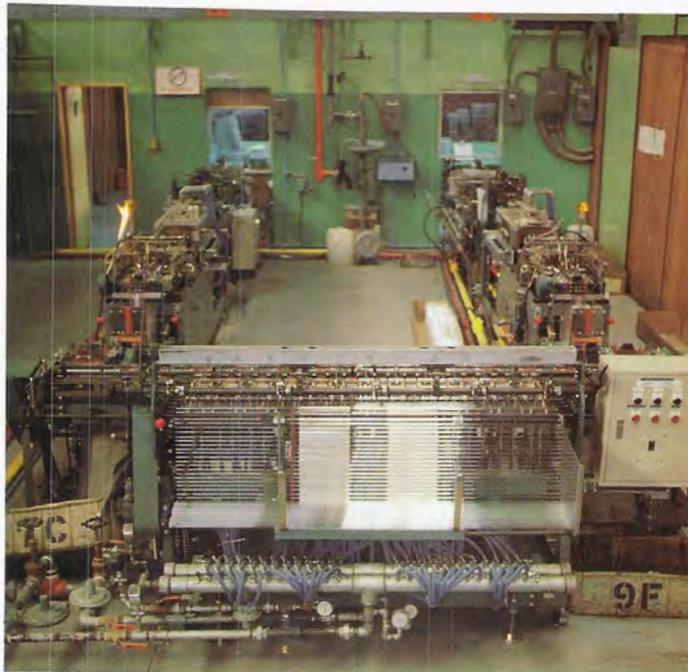
FEDERICO SADA G.
General Director

GRUPO VITRO began by making soda-lime bottles. At present this product line is still the key one for our company. Our five plants in different parts of Mexico are well placed to supply such containers to the entire domestic market.

As economic conditions have changed in our country, we have adapted through diversifying our enterprise. At present, Vitro Containers supplies about half of the plastic containers used in Mexico. And we supply thermoformed plastic articles too, made by our subsidiary Plásticos Bosco, S.A., a leading manufacturer for both industry and the final consumer.

In order to meet the demand from Mexico's public health programs, Vitro Containers manufactures a wide range of specialized soda-lime containers including: glass tube, ampoules, vials, carboys and others. It is also a leading supplier of all kinds of glassware for laboratories.

In our soda-lime products we had a record year, with sales volume reaching 3,300 million pieces, even more than in 1980 when we sold 3,204 million containers. In plastic containers we surpassed the 1984 volume and in ampoules and laboratory products we set new sales records.





The present situation of Mexico requires a quick and active response to opportunities for promoting sales abroad. That is why, from March 1985, GRUPO VITRO has taken direct control of the physical distribution of its products in the United States, through Fomexport U.S.A. (FUSA). Operations were consolidated last November when the assets of Riekes Vitro in the U.S.A. were acquired and its personnel transferred to the new company. From then on, GRUPO VITRO has been directly responsible for the whole process of marketing its products in the United States.

We continued with our program of technological innovation so as to stay in the forefront of modern techniques for making glass containers and be able to compete on price and quality in international markets.

We doubled production of generic soft drink bottles from 1984 to 1985. To accomplish this we installed the first triple-cavity machine in Vidriera Querétaro, S. A. exclusively for this type of container.

The fast-paced market for these products forces us to keep up with it. In 1985 we expanded Regiomold, S. A. the GRUPO VITRO subsidiary that makes injection and blow molds for our internal consumption. We are now completely self-sufficient in these items.

We invested in facilities for making PET containers for the soft drink market and in new automated processes for making closures.

In Plásticos Bosco we expanded our capacity to supply overseas markets, with emphasis on new items and products for industrial use.

In the borosilicate area, 1985 was notable for the modernization of the crystalline tube furnace at Vidrio Neutro, S. A. This enabled us to increase capacity as well as improve quality of the product.

We also acquired a Japanese machine to make ampoules by an advanced technique, which operates at twice the rate of traditional machines.

Our increased market share in laboratory products is also worthy of note

VITRO FLAT GLASS



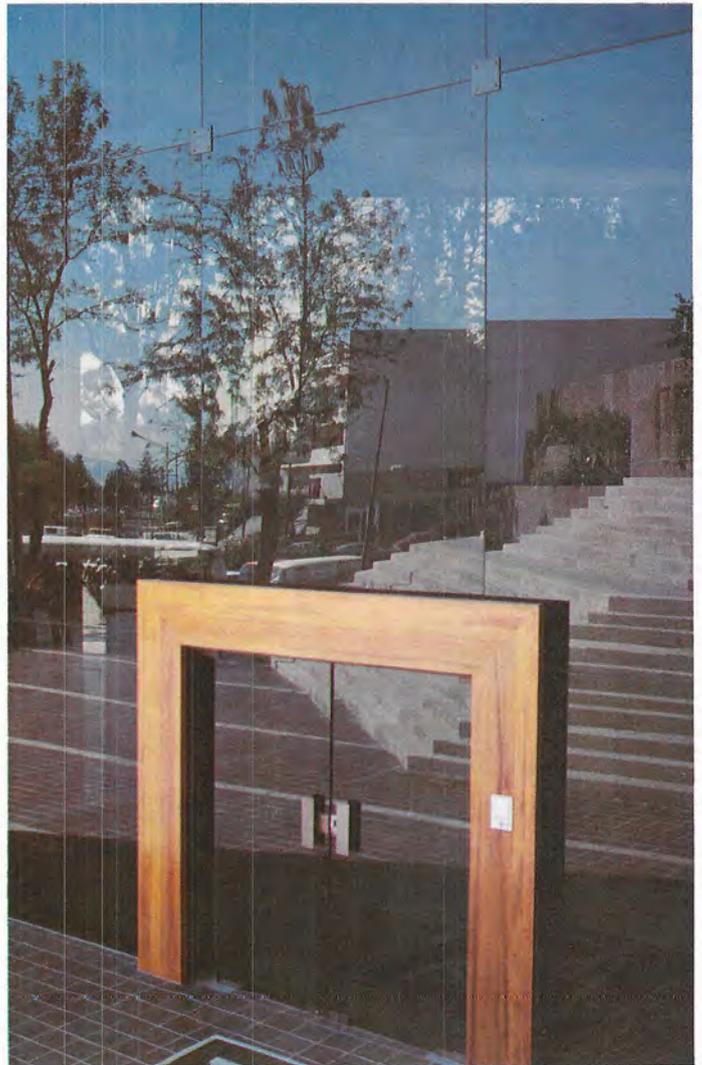
GERARDO SADA Z.
General Director

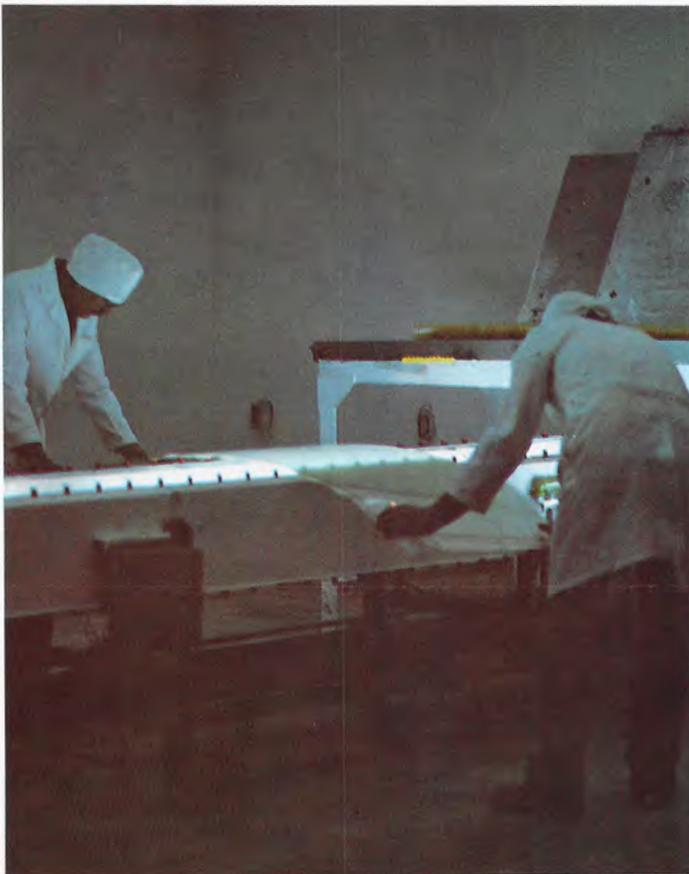
Flat glass is one of the materials traditionally used in the automotive and construction industries because it allows man to be in contact with his natural environment while protecting him from inclemencies and dangers.

These industries have come forward with new requirements for materials that will provide greater efficiency in energy use without sacrificing aesthetic appeal. To meet these needs, Flat Glass Division has developed and placed on the market attractive products of greater thermal efficiency.

During 1985, the Mexican economy performed better than expected and expanded in real terms. The construction and automotive industries, on which this Division depends heavily, also showed satisfactory growth.

The growth in the industries we serve allowed us to achieve sales volumes higher than those of the previous year.





The lack of economic realism in exchange policy and oversupply of foreign markets led us to rationalize our construction crystal export policy. Export volume was reduced but the mix of products and markets was improved as we concentrated on the most profitable segments. In spite of the adverse situation, considerable shipments of safety products were achieved and in these products exports in 1985 were much higher than those of the previous year. Construction crystal and safety products together made up a third of the consolidated sales of the Division. This has been the best year in the short life of Vitro Flex, S. A. Not only did it make a profit but its export sales reached the figure of 58 million dollars, thus contributing to foreign currency earnings sorely needed by the Mexican economy. It is a source of pride that this company has managed to send abroad products of such high quality that more than 3 million vehicles in the world are circulating with Vitro Flex glass. We look forward with optimism to the future of Vitro Flex, S. A.

Flat Glass Division, always alert to the final consumer's requirements, is developing products suitable for new designs in the automotive and construction industry.

VITRO GLASSWARE



JULIO ESCAMEZ F.
General Director



We expected demand to be considerably greater, but sales, after turning upward in the first half of the year, were depressed in the second half.

Exceptions to these general trends were heavy industrial soda-lime and the cristal line. These two lines, paradoxically the lowest and highest priced, sold very briskly throughout the year. Other product lines suffered from the battering that consumers' purchasing power has been taking. We conserved our traditional market share.

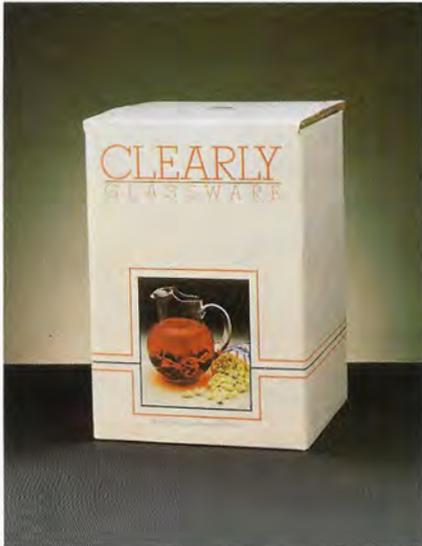
For the second year running, export sales failed to develop as fast as expected, except for our Fortecrisa tempered soda-lime products. Even allowing for the better exchange rates that ruled during the second half-year, operating margins were in general still depressed. If favorable exchange rates continue, we expect to do better in future in foreign markets.

The unfavorable trends in our markets combined to make capacity utilization again much lower than we would have wished.



REFRACTARIOS
PYR-O-REY

Fortecrisa



None the less, by relocating our facilities we have managed to keep Vitrocrisa Toluca, S. A. very busy, with the furnace at full capacity, thus increasing substantially efficiency and productivity and reducing production costs.

Production efficiency in our industrial plants improved over that recorded for the previous year.

In order to improve our structure, we adjusted our organization with a view to greater integration of the administrative, human resources and sales functions.

We maintained a healthy climate of labor relations in all the Division's plants.

Our main outlays were directed toward maintaining and consolidating the infrastructure of our industrial plants.

In order to mitigate the problems caused by high financial expenses and low use of installed capacity, Vitro, Sociedad Anónima increased the capital of Vitrocrisa Cristalería, S. A. and Vitrocrisa Kristal, S. A.

The planned consolidation of the PH wholesale business was continued. PH's distribution network and organization structure were improved.

At the same time, divestment negotiations were conducted with five possible buyers, but no agreement was reached that satisfied the price guidelines previously laid down.



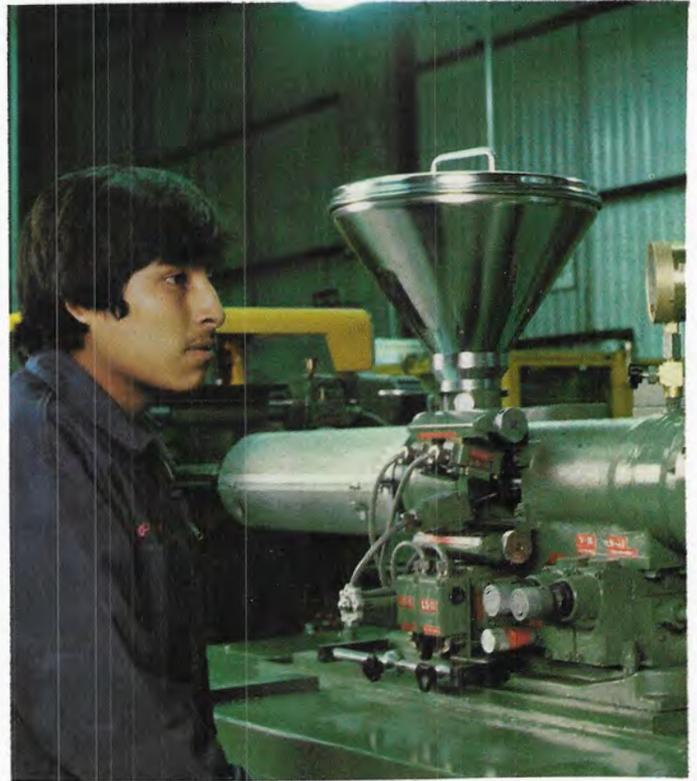
Termocrisa



VITRO BASIC INDUSTRIES



FRANCISCO J. GARZA
General Director



In Vitro Basic Industries we are all aware that human resources are the key to coping with the testing conditions of the environment and markets. Therefore, we have undertaken a series of programs for the purpose of developing and making the most of our people.

People were the factor that enabled Vitro Basic Industries to consolidate and differentiate its markets, thus maintaining the real level of sales and profits despite adverse general economic conditions.

During the year Neumatron, S. A. (formerly Industrias Ingersoll Rand, S. A. de C. V.) was incorporated into the capital goods sector. Its compressed air equipment complements and reinforces the other businesses in the sector.

Materias Primas was strengthened by technical assistance from British Industrial Sands in the development of new products and in process control. Industria del Alkali, S. A. now offers solid state calcium chloride and is in a position to export as well as supply the whole needs of the domestic market.





Vitro Basic Industries continued to invest in technological development by integrating a computer-aided engineering (CAE) system in Vitro Tec with the already existing computer-aided design and manufacturing (CAD/CAM) system in Fabricación de Máquinas, S. A. A new company was formed in the United States to facilitate penetration of international markets.

With the constant aim of achieving and maintaining international competitiveness, Vitro Basic industries will continue with the program, already underway in Fabricación de Máquinas, S. A. of automating plants and integrating processes. This will allow it to work to tighter and better controlled specifications and quality constraints and, at the same time, open the door to a range of developments to meet the specific needs of customers and markets. This is the way ahead along which our human resource development programs will be directed.



VITRO FIBERS AND SILICATES



RAUL GONZALEZ QUIROS
General Director

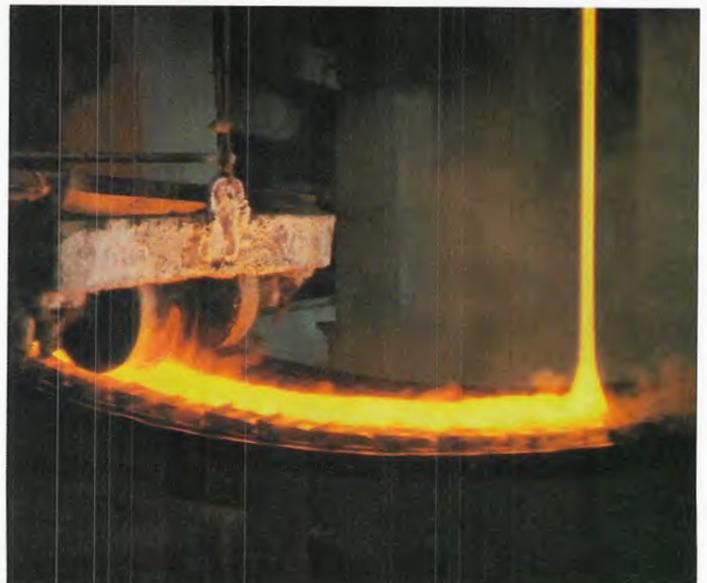
VITRO FIBRAS, S. A.

Vitro Fibras produces glass fibers used in high and low temperature thermal insulation, false ceilings for thermo-acoustic insulation and reinforcing fibers for the manufacture of molded products such as boats, silos, tanks, piping, automotive parts and others. During 1985 there was a real growth in sales of 30% as a result of seeking out new markets by offering new applications and uses for existing products.

Capital spending was directed toward maintenance of capacity and improvements to present facilities.

*SILICATOS Y DERIVADOS, S. A. and
ARCILLAS TRATADAS, S. A. de C. V.*

The Silicates sector produces and markets sodium and potassium silicates and sodium metasilicates. It continues to be the leading supplier of these products for the soap and detergent industry. Demand from this industry contracted because of final consumer's lower purchasing power.





Arcillas Tratadas, S. A. de C. V. makes precipitated silica, sodium silicoaluminate and calcium silicate, which are used as reinforcing charges in a number of industries, particularly footwear. The company achieved a real increase in sales of 5.2%, basically due to implementing new applications for our products.

At the close of the year the Division employed 1,113 people. Our installed capacity utilization was 80% in fibers, 63% in silicates and 90% in treated clays.

Our export sales reached the level of 1.1 million dollars, equivalent to 2% of domestic sales.

CENTRAL AMERICAN COMPANIES

The Central American Group of companies, in which GRUPO VITRO has a 49.5% equity share, is made up of the following manufacturing concerns: Industria Centroamericana de Vidrio, S. A. and Sílice de Centroamérica, S. A. in Guatemala; Vidriera Centroamericana, S. A., Sílice de Costa Rica, S. A. and Centroamericana de Tapas, S. A. in Costa Rica.

It also includes three trading companies which operate under the name of Distribuidora Industrial y Comercial, S. A. in Guatemala, Nicaragua and Costa Rica.

The Central American economy continues to suffer from pronounced recession due to the ills typical of developing countries, to which have been added others arising from the political situation in the area. Our markets have therefore declined, obliging us to work our facilities at very low levels of capacity utilization. We have also contended with serious difficulties in marketing our products in Central American countries, so that we have had to distribute our production runs for different types of container and glass colors among our plants, thus affecting operating efficiency.

Nevertheless, having taken action to control costs and correct operating problems, we have managed to achieve a slight improvement in economic results over the previous year. This we regard as highly satisfactory.

VITRO FINANCE AND ADMINISTRATIVE SERVICES



OSCAR SAMANIEGO R.
General Director

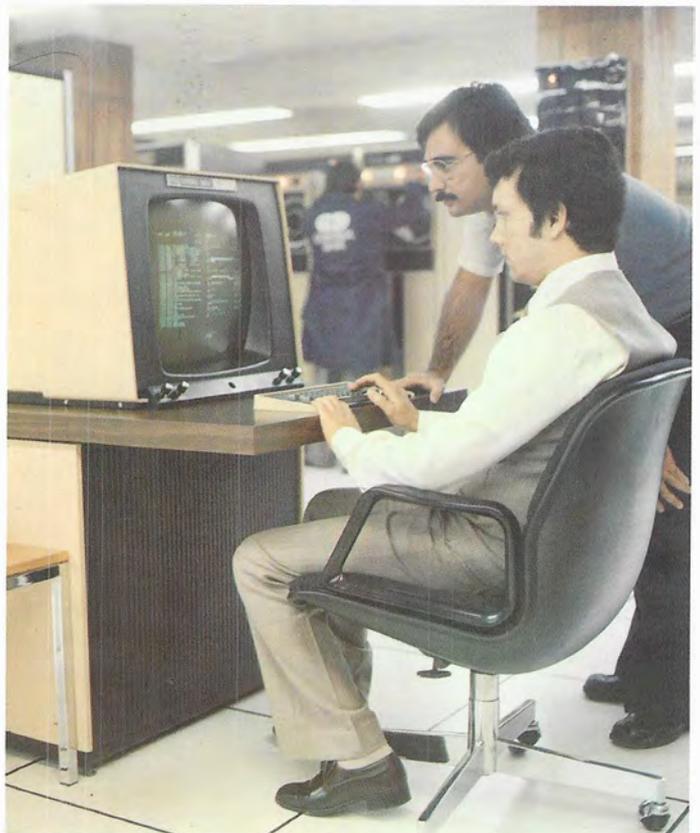
There follows an account of the main activities of this Division during the year under review.

Accounting and control standards and policies were issued. Consolidated financial reports and planning documents were prepared. And support was provided to the Group companies in finance, accounting and taxation.

In order to keep our modern, functional Data Processing Center abreast of current technology, its capacity was expanded by adding a new CYBER 830 computer and the communications network of 257 terminals, micro- and mini-computers was enlarged to 289 nodes in order to give all the companies access to information systems.

Internal auditing was oriented toward management and operations with the aim of improving efficiency; it was coordinated with the external auditing service.

Repeat purchases of raw materials and other inputs from Mexico and abroad, as well as energy and inward/outward rail transportation, were managed at the corporate level.



VITRO LEGAL, PUBLIC AND BANKING RELATIONS



ADOLFO LARRALDE R.
General Director

The Mexican Legal departments in Monterrey and Mexico City continued to give their usual support to Vitro, Sociedad Anónima and its subsidiaries in the areas of commercial, fiscal, administrative and constitutional law. A large amount of legal business presented by the companies was attended to and GRUPO VITRO interests were defended in the appropriate courts.

The Banking Relations function gave guidance to Vitro, Sociedad Anónima and its companies on how to obtain financing and invest excess cash. It also helped with the formalities relating to the foreign debt, the purchase of foreign currency, hedging, the repurchase of securities held outside Mexico and other specialized negotiations with Mexican and foreign banks.

With regard to Financial Communication, the Division continued to provide support for the Vitro Annual General Meeting and successfully produced last year's Annual Report. It also cooperated in the preparation of the Report to Banks and gave help and guidance to GRUPO VITRO Divisions on matters of communications and graphic design. The International Legal department of GRUPO VITRO provided specialized assistance relating to the contracts and joint ventures entered into with foreign investors. It handled the acquisition and

incorporation of GRUPO VITRO companies in the United States. It filed petitions in Washington on tariffs, made administrative and legal claims against countervailing duties levied on imports and conducted litigation in regard to the objective responsibility for merchandise sold in the U.S.A. As in previous years, support was provided for negotiations on technical assistance contracts and these were duly registered with, and approved by, the Mexican authorities. Finally, this department represented Mexico at the Latin American Association of Glass Producers (Asociación Latinoamericana de Productores de Vidrio) and conducted negotiations with this body.



VITRO HUMAN RELATIONS AND PLANNING



MARIO GARZA G.
General Director

education, culture, recreation and sports. Particularly noteworthy in our community was the celebration of the First Vitro Club Olympic Games in which 420 athletes took part before 23,435 spectators from all the states of Mexico where GRUPO VITRO operates. This event was held in the Monterrey installations of Vitro Club. An important capital sum was again allocated to enlarging the Club's facilities.

In regard to housing, 761 units were handed over to workers and construction was started on 169 more houses.

Following the tradition of many years, an excellent labor relations climate continued to prevail in GRUPO VITRO which gave permanent employment to people during last year.

The system of purchase vouchers, with which not only the usual groceries but now also meals in industrial cafeterias can be purchased, was perfected

Work went on under the other programs for raising the quality of work life, including medical services,



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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, 1985 and 1984 and the results of its operations for the years ended on those dates. Accounting principles have been consistently applied except for what is stated in paragraph c) with which we are in agreement.

- a) These 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 was applied against income for the period whereas it should have been taken directly to stockholders' equity. For this reason, retained earnings for business year 1985 is shown reduced by this amount.
- c) In accordance with the amendments to the statement of accounting standards known as Statement B-10, "Disclosure of the Effects of Inflation on Financial Information" (Reconocimiento de los Efectos de la Inflación en la Información Financiera), as from the 1985 business year, balances of amortizable expenses, period amortization and accumulated amortization of subsidiaries are restated and the result from holding of non-monetary assets is shown directly under stockholders' equity. The foregoing changes are reflected in an increase in assets and in stockholders' equity of \$16,576 million. Net income for the year is reduced by \$1,247 million (notes 2a and 2b).

The items of stockholders' equity that disclose the effects of inflation have been presented in 1984 according to the classification used in 1985 (note 2c).

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 \$79,554 million in 1985 and \$35,282 million in 1984, representing 11% and 9% of the total respectively; net income of such companies for 1985 is \$5,362 million and for 1984 \$789 million.

DESPACHO GOMEZ MORFIN
Contadores Públicos y Consultores



CELSO JAVIER TREVIÑO E.
Contador Público

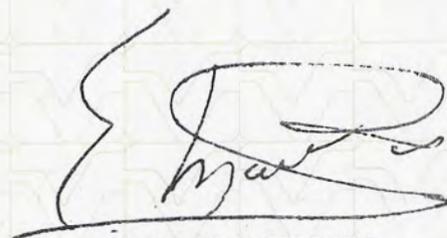
Monterrey, N.L., Mexico, March 3, 1986.

VITRO, SOCIEDAD ANONIMA
BALANCE SHEET
AS OF DECEMBER 31, 1985 AND 1984
(Millions of Pesos)

ASSETS	1985	1984	LIABILITIES	1985	1984
Cash	\$ 8,121	\$ 2,822	Accounts payable to subsidiaries	\$ 14,096	\$ 225
Receivables for services to subsidiaries	1,531	1,226	Accrued interest payable	26	6
Receivables from subsidiaries	9,573		Income tax and value added tax payable	128	1,184
Recoverable taxes	4,883	962	Other payables	8	1
Other receivables	196			<u>8</u>	<u>1</u>
	<u>24,304</u>	<u>5,010</u>	Short-term liabilities	\$ 14,258	\$ 1,416
Current assets	\$ 24,304	\$ 5,010		<u>14,258</u>	<u>1,416</u>
Long-term receivables	3,041	1,675	FICORCA liabilities (note 6-b)	\$ 16,921	\$ 13,788
Receivables from subsidiaries (note 3)	11,103	14,236	Accounts payable to subsidiaries	15,474	7,654
Investment in shares (note 4)	373,299	180,162		<u>15,474</u>	<u>7,654</u>
Land and buildings, net (including revaluation, note 5)	230	307	Total liabilities	\$ 46,653	\$ 22,858
Furniture and equipment, net (includes revaluation, note 5)	9	18	CONTINGENT LIABILITIES (note 7)		
Deferred charges	16	22	STOCKHOLDERS' EQUITY (note 8)		
Excess of cost over book value of shares in subsidiaries	108	144	Capital stock	\$ 4,200	\$ 2,900
	<u>108</u>	<u>144</u>	Restatement of capital stock and retained earnings	171,585	92,934
	<u>412,110</u>	<u>201,574</u>	Excess in restatement of capital	117,235	59,016
			Shares held in trust (note 9)	(3,077)	
			Excess of book value over cost of shares in subsidiaries and associates	24,756	10,392
			Premium on sale of shares	61	61
			Retained earnings	12,152	6,306
			Net income for the year	38,545	7,107
				<u>365,457</u>	<u>178,716</u>
				<u>412,110</u>	<u>201,574</u>

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


ROBERTO CESAR TREVIÑO
Director


ERNESTO MARTENS R.
Chief Executive Officer

VITRO, SOCIEDAD ANONIMA
STATEMENT OF INCOME
FOR THE BUSINESS YEARS ENDED DECEMBER 31, 1985 AND 1984
(Millions of Pesos)

	1985	1984
REVENUES		
Participation in earnings of subsidiaries	\$ 46,179	\$ 11,300
Income from interest	2,273	3,099
Other income	<u>3,307</u>	<u>46</u>
	<u>\$ 51,759</u>	<u>\$ 14,445</u>
EXPENSES		
Administrative	\$ 69	\$ 130
Financial	<u>8,414</u>	<u>5,277</u>
	<u>\$ 8,483</u>	<u>\$ 5,407</u>
Income before taxes	\$ 43,276	\$ 9,038
Income tax	<u>4,731</u>	<u>1,931</u>
Net income for the year	<u>\$ 38,545</u>	<u>\$ 7,107</u>

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, 1985 AND 1984
(Millions of Pesos)

	1985	1984
INCREASES		
Capital stock:		
Capitalization of retained earnings	\$ 1,300	\$
Restatement of capital stock and retained earnings	78,651	58,649
Excess in restatement of capital	58,219	5,942
Excess of book value over cost of shares in subsidiaries and associates	<u>14,364</u>	<u>10,296</u>
Retained earnings:		
Application of earnings	7,107	1,339
Adjustment to retained earnings	1,257	
Net income for the year	<u>38,545</u>	<u>7,107</u>
Total increases for the year	<u>\$ 199,443</u>	<u>\$ 83,333</u>
DECREASES		
Shares held in trust	\$ 3,077	\$
Retained earnings:		
Capitalization of earnings	1,300	
Dividends paid	<u>1,218</u>	406
Net income for the year:		
Transferred to retained earnings	7,107	1,339
Transferred to initial result from holding of non-monetary assets		<u>3,149</u>
Total decreases for the year	<u>\$ 12,702</u>	<u>\$ 4,894</u>
Net increase for the year	<u>\$ 186,741</u>	<u>\$ 78,439</u>
Balance at opening of business year	<u>178,716</u>	<u>100,277</u>
	<u>\$ 365,457</u>	<u>\$ 178,716</u>

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, 1985 AND 1984
(Millions of Pesos)

	1985	1984
OPERATING CASH FLOW		
Net income for the year	\$ 38,545	\$ 7,107
Add: Items not requiring cash:		
Depreciation and amortization	13	33
Deferred income tax	683	(1,215)
Participation in income of subsidiaries	(29,970)	(869)
Resources provided by operations	\$ 9,271	\$ 5,056
Net operating financing or investment:		
Increase or decrease in receivables or payables for services rendered to or by subsidiaries	3,993	(454)
Increase or decrease in interest payable	20	3
Increase in accrued taxes and other payables	(1,584)	(89)
Cash generated from operations	\$ 11,700	\$ 4,516
SOURCES OF FINANCING		
Long-term bank loans	\$ 3,133	\$ 2,713
Sale of shares and fixed assets	4	916
Other long-term accounts payable	5,230	4,194
Recovery of long-term accounts receivable due from subsidiaries	5,906	7,593
Total of financing sources	\$ 14,273	\$ 15,416
Total sources of cash	\$ 25,973	\$ 19,932
APPLICATION OF CASH		
Long-term accounts receivable	\$ 5,813	\$ 10,637
Investment in shares	13,401	6,041
Dividends	1,218	406
Payment of short-term bank loans		102
Purchase of fixed assets	242	7
	\$ 20,674	\$ 17,193
Increase in cash	\$ 5,299	\$ 2,739
Balance at opening of business year	2,822	83
Balance at December 31, 1985 and 1984	\$ 8,121	\$ 2,822

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

VITRO, SOCIEDAD ANONIMA
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1985 AND 1984
(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, 1985 and 1984, which are audited by Despacho Gómez Morfín except for Vitro Fibras, S. A., Silicatos y Derivados, S. A., Arcillas Tratadas, S. A. de C. V., Vitro Flex, S. A., Neumatron, S. A., Crisa Corporation, Fomexport, U.S.A. and the associated companies Industria Centroamericana de Vidrio, S. A. and Brasividro, S. A., which are audited by other public accountants.

Surplus over book value on acquiring stock in subsidiaries is computed on the basis of book value on the acquisition dates. It is policy not to amortize such surpluses.

- b). Accounting treatment of the effects of inflation. In order to conform with the rules on accounting standards that came into force in 1984, the financial statements that form the basis for the application of the equity valuation method disclose the effects of inflation on 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 such assets are placed in service.

- Amortizable expenses. As from 1985, the Group has restated balances of amortizable expenses, accumulated amortization and period amortization, using for this purpose factors derived from the general index of consumer prices (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 books 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. The net result from monetary position of the period was \$43,795. This figure was determined on the basis of the net monthly monetary position, adjusted for changes in the National Consumer Price Index published by Banco de México.
- Excess or shortfall in restatement of capital. As from 1985 this item is computed as 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 surplus obtained in the first restatement.

As from the 1985 business year, 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 from the business year in which they are acquired.

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.

Deferred taxes arising from exchange fluctuations are recognized in the income statement. 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.- CHANGES IN THE B-10 RULES

- a). As explained in note 1-b, as from the 1985 business year, the result from holding of non-monetary assets is carried directly under stockholders' equity. The effect of this is to increase net income for 1985, through participation in the income of subsidiaries, by \$1,108.
- b). In accordance with what is stated in note 1-b, as from 1985 the balances of amortizable expenses, accumulated amortization and period amortization are restated. The result is to increase assets and stockholders' equity by \$16,576. Period income is reduced by \$2,355 through participation in income of subsidiaries.
- c). Again as stated in note 1-b, as from 1985 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 surplus obtained in the first restatement, is shown as excess or shortfall in restatement of capital. On this basis, the 1984 financial statements have been reclassified, thereby producing an increase in excess in restatement of capital and a decrease in restatement of capital stock and retained earnings, of \$89,332.

3.- LONG-TERM BALANCE DUE FROM SUBSIDIARIES

This corresponds to interest-bearing loans with maturities similar to those of the FICORCA liability mentioned in note 6.

4.- INVESTMENT IN SHARES

- a). The detail of the investment is as follows:

	1 9 8 5	1 9 8 4
Shares of industrial and commercial companies	\$ 324,496	\$ 161,737
Shares of associated companies	<u>48,803</u>	<u>18,425</u>
	<u>\$ 373,299</u>	<u>\$ 180,162</u>

- b). Associated companies are deemed to be those companies in which the company holds between 25⁰/_o and 50⁰/_o of capital stock.

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 125.32 pesos per quetzal in 1985 and of 192.66 in 1984. 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. Capital contributions are accounted for at the various rates of exchange ruling on the transaction dates and the figures corresponding to participation in retained earnings and in net income are recorded at the rates of exchange ruling at the close of the years, namely 0.035 pesos per cruzeiro in 1985 and 0.061 in 1984. For purposes of valuing the investment, the adjustment determined by the government of Brazil is recognized as a surplus. The share of Vitro, Sociedad Anónima in this surplus is \$1,247 in 1985 and \$958 in 1984.

Owing to the decline in the demand for borosilicate glass, Brasividro, S. A. suspended operations during the 1985 business year. Studies are at present being made in other markets to determine whether it would pay to continue in business.

The financial statements used for valuing the investment in this company were prepared on the going concern basis. According to accounting principles they ought to be shown on the basis of net realization value.

- 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.

5.- PROPERTY, FURNITURE AND EQUIPMENT

- a). The detail of such fixed assets is as follows.

	1985	1984
Building, at cost	\$	\$ 18
Accumulated depreciation, on cost		(10)
Revaluation		266
Depreciation on revaluation		(43)
	<hr/>	<hr/>
		\$ 231
Land, at cost	32	1
Revaluation	198	75
	<hr/>	<hr/>
	\$ 230	\$ 307
Furniture and equipment, at cost	\$ 17	\$ 7
Accumulated depreciation, on cost	(8)	(5)
Revaluation		34
Depreciation on revaluation		(18)
	<hr/>	<hr/>
	<u>\$ 9</u>	<u>\$ 18</u>

6.- 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 8⁰/₁₀ a year. Interest is payable every six months.
- b). In March 1983, the Official Gazette (Diario Oficial) of México published an agreement whereby the Secretaría de Programación y Presupuesto (Program and Budget Ministry) authorized the creation of the Fideicomiso para la Cobertura de Riesgos Cambiarios (FICORCA) (Trust for the Coverage of Exchange Risks).

Among the purposes of FICORCA are: to obtain long-term refinancing of the public and private debt of Mexico and to provide a mechanism to protect companies against the risks of exchange fluctuations.

Since the aforesaid credit already had a maturity acceptable for FICORCA, it was registered thereunder without the need for restructuring.

The FICORCA scheme to which Vitro, Sociedad Anónima became a party provides that FICORCA makes a loan in Mexican currency to the Company so that it can buy the necessary foreign currency to cover its debt. The Company, in turn, lends the foreign currency to FICORCA which undertakes to use it to pay off the debt. The loan to FICORCA bears interest at the LIBOR annual rate plus 5/8, payable half-yearly. FICORCA will use this interest to pay the corresponding amount to the foreign banks on behalf of the Company. In the event that a spread over LIBOR has been agreed, FICORCA may cover it in return for a premium over the controlled rate of exchange at which the company entered FICORCA. In the case of a 5/8 spread, such premium amounts to 3⁰/_o.

The company's peso-denominated debt to FICORCA will be paid in 60 monthly installments equivalent to present value of said debt. The rate of interest applied is equal to the average rate on 3 to 6 month bank deposits. Payments are increasing, so that in the early years the interest accrued on the outstanding balance is greater than the payments; this difference is considered by FICORCA to be an additional loan. In the case of Vitro, Sociedad Anónima, the amount initially registered with FICORCA is 75 million U.S. dollars.

7.- CONTINGENT LIABILITIES

Credit instruments drawn against several subsidiary companies have been guaranteed. The amounts are \$236,293 payable in U. S. dollars and \$2,384 payable in Mexican pesos. Of these amounts, \$234,037 and \$1,154 respectively have maturities greater than one year.

8.- STOCKHOLDERS' EQUITY

- a). Capital stock is represented by 42'000,000 common paid-up shares without nominal face value. It includes \$589 for revaluation of subsidiary companies' fixed assets.
- b). At December 31 1985, stockholders' equity includes \$53,902 of accumulated and/or capitalized earnings and \$288,830 of revaluation surplus, both of which, if distributed to stockholders, are liable to income tax withholding mainly at a rate of 55⁰/_o. Dividends paid are deductible for purposes of the Company's income tax, except for income arising from revaluation of assets or from other items that reflect the effect of inflation in the financial statements. Withheld tax is deemed to be final payment.
- c). There follows an analysis of the restatement of capital stock and retained earnings.

	1985	1984
Restatement of capital stock and other contributions	\$ 77,677	\$ 46,653
Restatement of retained earnings	<u>93,908</u>	<u>46,281</u>
	<u>\$ 171,585</u>	<u>\$ 92,934</u>

9.- SHARES HELD IN TRUST

During the 1985 business year a trust was set up with Banca Serfin, S.N.C. as trustee, to hold the patrimony consisting of 4'713,359 shares issued by Vitro, Sociedad Anónima at a cost of \$3,077.

This item is shown as a deduction from stockholders' equity in order to comply with accounting principles.

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 paragraph a), 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, 1985 and 1984 and the consolidated results of their operations for the years ended on those dates. Accounting principles have been consistently applied except for what is stated in paragraph b) with which we are in agreement.

- a).- In the 1984 business year the Company, in accordance with accounting principles, chose not to restate its deferred charges and consequently reported a loss on holding of non-monetary assets of \$4,902 million which was applied against income for the period instead of being taken directly to stockholders' equity. For this reason, retained earnings for business year 1985 is shown reduced by this amount.
- b).- In accordance with the amendments to the statement of accounting standards known as Statement B-10 "Disclosure of the Effects of Inflation on Financial Information" (Reconocimiento de los Efectos de la Inflación en la Información Financiera), as from the 1985 business year, balances of amortizable expenses, period amortization and accumulated amortization are restated and the result from holding of non-monetary assets is shown directly under stockholders' equity. The foregoing changes are reflected in an increase in assets and in stockholders' equity of \$20,030 million. Net income for the year is reduced by \$2,647 million (note 3).

The items of stockholders' equity that disclose the effects of inflation and the FICORCA premium spread have been presented in 1984 according to the classification used in 1985 (note 4).

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 \$79,554 million in 1985 and \$35,282 million in 1984, representing 11⁰/₁₀₀ and 9⁰/₁₀₀ of the total respectively; net income of such companies for 1985 is \$5,362 million and for 1984 \$789 million.

DESPACHO GOMEZ MORFIN
Contadores Públicos y Consultores



CELSO JAVIER TREVIÑO E.
Contador Público

Monterrey, N.L., Mexico, March 3, 1986.

VITRO, SOCIEDAD ANONIMA

CONSOLIDATED BALANCE SHEET AS OF
(Millions)

ASSETS	1 9 8 5	1 9 8 4
Cash	\$ 5,007	\$ 2,429
Marketable securities (note 5)	69,353	39,122
Trade receivables, net (note 6)	43,982	23,970
Other receivables (note 6)	20,260	10,996
Inventories (note 7)	61,601	26,339
Current assets	\$ 200,203	\$ 102,856
Long-term investments (note 8)	36,320	32,095
Investment in associated companies (note 1-b)	48,803	18,950
Land and buildings, (including revaluation, note 9)	94,554	57,661
Machinery and equipment, (including revaluation, note 9)	306,524	173,157
Construction in process	5,735	2,311
Amortizable expenses, net (note 10)	32,549	9,300
Excess of cost over book value of shares in subsidiaries	108	144
Minority interest in excess of cost over book value of shares in subsidiaries	14	14
Non-current assets	\$ 524,607	\$ 293,632
 Total assets	 \$ 724,810	 \$ 396,488

The accompanying notes are an integral part of this financial statement

AND SUBSIDIARIES**DECEMBER 31, 1985 AND 1984**

(of Pesos)

LIABILITIES**1985** **1984**

Bank loans	\$ 24,147	\$ 3,928
Current portion of long-term debt	3,080	5,265
Trade payables	16,755	7,810
Other payables	<u>27,277</u>	<u>11,336</u>

Short-term liabilities \$ 71,259 \$ 28,339

FICORCA liabilities	\$ 216,776	\$ 156,105
Bank debt	6,401	4,721
Unsecured and mortgage bonds	1,500	
Other liabilities	<u>11,583</u>	<u>5,769</u>

Long-term liabilities \$ 236,260 \$ 166,595

Total liabilities (notes 11 and 12) \$ 307,519 \$ 194,934

STOCKHOLDERS' EQUITY

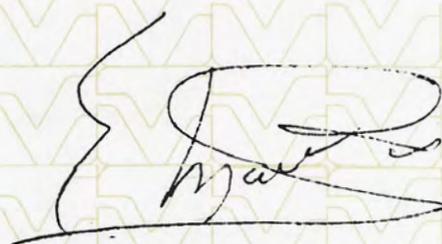
Minority interest in consolidated subsidiaries (note 14-c)	\$ 51,834	\$ 22,838
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Majority interest: (note 14)		
Capital stock	\$ 4,200	\$ 2,900
Restatement of capital stock and retained earnings	171,585	92,934
Excess in restatement of capital	117,235	59,016
Premium on sale of shares	61	61
Shares held in trust (note 16)	(3,077)	
Excess of book value over cost of shares in subsidiary and associated companies	24,756	10,392
Retained earnings	12,152	6,306
Net income for the year	<u>38,545</u>	<u>7,107</u>

\$ 365,457 \$ 178,716

Stockholders' equity \$ 417,291 \$ 201,554

Total liabilities and stockholders' equity \$ 724,810 \$ 396,488



ERNESTO MARTENS R.
Chief Executive Officer

VITRO, SOCIEDAD ANONIMA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1985 AND 1984
(Millions of Pesos)

	1985	1984
Net sales	\$ 260,881	\$ 145,061
Other operating revenues	<u>6,919</u>	<u>4,496</u>
	\$ 267,800	\$ 149,557
Cost of sales	141,695	73,652
Operating expenses	<u>42,997</u>	<u>21,694</u>
Operating income	<u>\$ 83,108</u>	<u>\$ 54,211</u>
Total financing cost:		
Financial expenses and income	\$ 81,736	\$ 64,085
Gain from monetary position	(49,341)	(36,854)
Loss from holding of non-monetary assets		<u>18,400</u>
	<u>\$ 32,395</u>	<u>\$ 45,631</u>
Income after financing	\$ 50,713	\$ 8,580
Other income, net of other expenses	3,353	1,403
Share in net income of associated companies	<u>6,181</u>	<u>927</u>
Income before income tax and workers' profit sharing	\$ 60,247	\$ 10,910
Income tax (note 15)	11,416	1,912
Profit sharing to workers (note 15)	<u>4,013</u>	<u>1,525</u>
Net income for the year	\$ 44,818	\$ 7,473
Net income of minority interest	<u>6,273</u>	<u>366</u>
Net income of majority interest	<u>\$ 38,545</u>	<u>\$ 7,107</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, 1985 AND 1984
(Millions of Pesos)

OPERATING CASH FLOW	1985	1984
Net income for the year	\$ 44,818	\$ 7,473
Add (deduct) non-cash items:		
Depreciation and amortization	7,931	3,542
Depreciation on revaluation	16,798	10,852
Loss from holding of non-monetary assets		18,400
Gain from monetary position	(49,341)	(36,854)
Restatement of cost of sales	6,429	3,565
Provision for seniority premium	548	309
Share in net income of unconsolidated subsidiary and associated companies	(6,181)	(927)
Deferred income tax and workers' profit sharing	(1,568)	(7,319)
Exchange loss	1,591	680
Provision for repair of furnaces	3,474	2,725
Resources provided by operations	<u>\$ 24,499</u>	<u>\$ 2,446</u>
Investment and financing:		
Increase (decrease) in payables	5,792	3,294
Decrease (increase) in receivables	(14,169)	(8,228)
Decrease (increase) in inventories	\$ (24,946)	(8,149)
Other current assets and liabilities, net	(368)	422
Cash generated from operations	<u>\$ (9,192)</u>	<u>\$ (10,215)</u>
SOURCES OF FINANCING		
Short-term bank loans	\$ 37,677	\$ 7,790
Long-term loans	67,699	46,164
Increase in minority interest	252	1,162
Sale of fixed assets	982	526
Recovery of other investments	6,415	4,454
Sale of shares	69	1,658
Total sources of financing	<u>\$ 113,094</u>	<u>\$ 61,754</u>
Total sources of cash	<u>\$ 103,902</u>	<u>\$ 51,539</u>
APPLICATIONS OF CASH		
Investment in property, plant and equipment	\$ 14,850	\$ 11,032
Increase in amortizable expenses	1,780	547
Long-term receivables	3,095	164
Liquidation of short-term credits	24,065	8,652
Payment of long-term loans	13,065	666
Dividends paid to GRUPO VITRO stockholders	1,218	406
Dividends paid to minority interest	1,175	175
Investment in subsidiary and associated companies	11,845	3,828
Total applications of cash	<u>\$ 71,093</u>	<u>\$ 25,470</u>
Increase in cash and marketable securities	\$ 32,809	\$ 26,069
Opening balance	41,551	15,482
Balance at December 31, 1985 and 1984	<u>\$ 74,360</u>	<u>\$ 41,551</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, 1985 AND 1984
(Millions of Pesos)

1.- PRINCIPLES OF CONSOLIDATION

- a) Consolidated subsidiaries. Those companies in which the Group holds more than 50⁰% of the capital stock are consolidated. The following are the principal consolidated companies.

Vidriera Monterrey, S. A.	Industrias Cornejo, S. A.
Vidriera México, S. A.	Vitrocristal, S. A.
Vidriera Los Reyes, S. A.	Provedora del Hogar, S. A.
Vidriera Guadalajara, S. A.	*Crisa Corporation
Vidriera Querétaro, S. A.	Vitro Fibras, S. A.
Envases de Borosilicato, S. A.	Silicatos y Derivados, S. A.
Vidrio Neutro, S. A.	Arcillas Tratadas, S. A. de C. V.
Ampolletas, S. A.	Fabricación de Máquinas, S. A.
Borosilicatos, S. A.	Peerless Tisa, S. A.
Productos Kimax de México, S. A.	Vektron, S. A.
Regioplast, S. A.	Quantron, S. A.
Regioplast Guadalajara, S. A.	*Neumatron, S. A.
Regiomold, S. A.	Industria del Alkali, S. A.
Vitroplast Monterrey, S. A.	Materias Primas Monterrey, S. A.
Cía. General de Plásticos, S. A.	Materias Primas Minerales de San José, S. A.
Plásticos y Representaciones, S. A.	Materias Primas Minerales de Lampazos, S. A.
Tuboplast, S. A.	Materias Primas Minerales de Ahuazotepec, S. A.
Plásticos Bosco, S. A.	Materias Primas Minerales de Magdalena, S. A.
Vitro Plan, S. A.	Minerales para la Industria, S. A.
Vidrio Plano de México, S. A.	Valuatec, S. A.
Vidrio Plano, S. A.	Vitro Corporativo, S. A.
Vitro Flotado, S. A.	Fomento Inmobiliario y de la Construcción, S. A.
Cristales Inastillables de México, S. A.	Vivir, S. A.
Vitro Flex, S. A.	Fomento de Comercio Exterior, S. A. de C. V.
Shatterproof de México, S. A.	Fomexport, U. S. A.
Química "M", S. A.	Acción Social Regiomontana, A. C.
Vitrocristal Crimesa, S. A.	Clínica Vidriera, A. C.
Vitrocristal Cristería, S. A.	Cooperación Social, A. C.
Vitrocristal Toluca, S. A.	*Troqueles y Esmaltes, S. A.
	*Supermatic, S. A.

* These companies were formed or acquired during the 1985 business year.

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

- Vitro Fibras, S. A., Silicatos y Derivados, S. A., Arcillas Tratadas, S. A. de C. V., Vitro Flex, S. A., Neumatron, S. A., Crisa Corporation and Fomexport, U. S. A. 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.

Surpluses 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 surpluses.

- b) Unconsolidated associated companies. Associated companies are deemed to be those in which between 25% and 50% of capital stock is held. Such investments are valued according to the equity method.

Detail of investment in unconsolidated subsidiary and associated companies:

	1985	1984
Cydsa, S. A.	\$ 35,647	\$ 14,523
Grupo Industrial Comasa, S. A.	2,349	
Industria Centroamericana de Vidrio, S. A.	9,112	3,299
Brasividro, S. A.	1,695	1,128
	<u>\$ 48,803</u>	<u>\$ 18,950</u>

Associates Brasividro, 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 investment in this company in the GRUPO VITRO consolidated financial statements as of December 31, 1985 and 1984.

Industria Centroamericana de Vidrio, S. A. is incorporated in Guatemala and its balances are taken at the exchange rate of 125.32 pesos per quetzal in 1985 and 192.66 in 1984. Contributions to capital are presented at the exchange rates 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 de Guatemala, S. A., Distribuidora Industrial y Comercial Nicaragua, S. A., Distribuidora Industrial y Comercial Costa Rica, S. A., Centroamericana de Tapas, S. A. and Fomento Industrial Centroamericano, S. A.

Another associated company is located in Brazil. Contributions to capital are included at the different rates of exchange ruling on the dates of the transactions and the figures relating to participation in retained earnings and in net income at the rates of exchange ruling at the close of the business years, which were 0.035 peso per cruzeiro in 1985 and 0.061 in 1984. 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 \$1,247 in 1985 and \$958 in 1984.

Because of the depression in the borosilicate glass market, the company Brasividro, S. A. suspended operations during 1985. At present studies are being carried out in other markets to determine whether it would pay to keep operating. The financial statements used for valuing the Brasividro investment have been prepared on the going concern basis. According to accounting principles such financial statements ought to be shown on the basis of net realization value.

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

With effect from 1985, the balances of amortizable expenses, accumulated amortization and period amortization are restated using factors derived from the National Consumer Price Index (Índice 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

With effect from 1985 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. As from the 1985 business year, the result from holding of non-monetary assets is shown directly under stockholders' equity.

b) Maintenance expense

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

c) Amortization of deferred charges

Amortization is computed by the straight line method at the rates indicated in note 10 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 years 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.

Deferred taxes arising from exchange fluctuations are recognized in the income statement. The portion estimated 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.- CHANGES IN THE B-10 RULES

As explained in note 2-a, as from the 1985 business year, the result from holding of non-monetary assets is shown directly under stockholders' equity. The effect of this is to increase net income for 1985 by \$161.

In accordance with what is stated in note 2-a, as from 1985 the balances of amortizable expenses, accumulated amortization and period amortization are restated. The effect of this is reflected in an increase in assets and in stockholders' equity of \$20,030. Net income for the year is decreased by \$2,808.

4.- RECLASSIFICATION OF FIGURES IN 1984 FINANCIAL STATEMENTS

Up to December 31, 1984 the premium spread originated by FICORCA and its accumulated amortization was shown as a deduction from the liability that originated it. From 1985 onward this spread, net of amortization and restatement, is shown under amortizable expenses. In order to present comparable figures, the net balance for 1984 is also reclassified as amortizable expense. The foregoing is reflected in an increase in amortizable expenses and in the FICORCA liability, of \$13,540 in 1985 and \$6,570 in 1984.

As stated in note 2-a, as from 1985 the algebraic sum, whether creditor or debtor, 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, is shown as excess or shortfall in restatement of capital. On this basis the 1984 financial statements were reclassified, thereby increasing excess in restatement of capital and decreasing restatement of stockholders' equity by \$19,332 for the majority interest and by \$6,385 for the minority interest.

5.- MARKETABLE SECURITIES

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

6.- TRADE RECEIVABLES

a) The balance of receivables is shown reduced by:

- Discounted notes for \$575 in 1985 and \$787 in 1984. Of these amounts, \$273 and \$484 respectively are approximately 91% insured.
- Uncollectible accounts, estimated at \$1,134 in 1985.

b) In the balance of other receivables for 1985 is included \$354 of receivable Cefrofis (tax incentive certificates).

c) The balances of trade and other receivables in 1985 include \$960 of accounts difficult or impossible to collect.

7.- INVENTORIES

a) The breakdown is as follows:

	1985	1984
Finished products	\$ 27,886	\$ 11,501
Raw materials	9,978	5,319
Packing materials	<u>1,607</u>	<u>701</u>
	\$ 39,471	\$ 17,521
Spare parts	7,529	3,177
Refractories	1,843	555
Goods in transit	1,977	1,074
Others	<u>1,904</u>	<u>516</u>
	\$ 52,724	\$ 22,843
Revaluation	<u>8,877</u>	<u>3,496</u>
	<u>\$ 61,601</u>	<u>\$ 26,339</u>

b) It is estimated that the value of obsolete and slow-moving items was \$1,244 in 1985 and \$375 in 1984.

8.- LONG-TERM INVESTMENTS

The balance is made up as follows:

	1985	1984
Constructions for services to workers (a)	\$ 309	\$ 174
Deferred income tax and workers' profit sharing, and receivables	35,734	31,541
Land held in trust (b)	248	359
Shares and securities, at cost	<u>29</u>	<u>21</u>
	<u>\$ 36,320</u>	<u>\$ 32,095</u>

(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.

9.- FIXED ASSETS

a) During 1985 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.

	1985			1984		
	Cost	Revaluation	Total	Cost	Revaluation	Total
Buildings	\$ 7,681	\$ 75,882	\$ 83,563	\$ 5,579	\$ 44,005	\$ 49,584
Accumulated depreciation	<u>1,123</u>	<u>6,446</u>	<u>7,569</u>	<u>955</u>	<u>4,724</u>	<u>5,679</u>
	\$ 6,558	\$ 69,436	\$ 75,994	\$ 4,624	\$ 39,281	\$ 43,905
Land	<u>1,022</u>	<u>17,538</u>	<u>18,560</u>	<u>932</u>	<u>12,824</u>	<u>13,756</u>
	<u>\$ 7,580</u>	<u>\$ 86,974</u>	<u>\$ 94,554</u>	<u>\$ 5,556</u>	<u>\$ 52,105</u>	<u>\$ 57,661</u>
Machinery and equipment	\$ 44,305	\$ 326,190	\$ 370,495	\$ 31,968	\$ 188,232	\$ 220,200
Accumulated depreciation	<u>10,355</u>	<u>53,616</u>	<u>63,971</u>	<u>8,158</u>	<u>38,885</u>	<u>47,043</u>
	<u>\$ 33,950</u>	<u>\$ 272,574</u>	<u>\$ 306,524</u>	<u>\$ 23,810</u>	<u>\$ 149,347</u>	<u>\$ 173,157</u>

10.- AMORTIZABLE EXPENSES

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

	1985	1984	Amortization rate
Preoperating expenses	\$ 2,496	\$ 709	10 ⁰ / _o
Installation and organization expenses	682	84	5 ⁰ / _o and 10 ⁰ / _o
Experimentation and exploration expenses	31	589	5 ⁰ / _o and 10 ⁰ / _o
Bank commissions	273	295	Duration of contract
FICORCA premium spread	4,581	6,570	
Prepaid expenses	105		According to item
Patents and other minor items	841	351	According to item
Revaluation	<u>23,540</u>	<u>702</u>	According to item
	<u>\$ 32,549</u>	<u>\$ 9,300</u>	

11.- LIABILITIES

a) Maturities of long-term debt:

	Payable in:		
	Mexican currency	United States currency	Total
1987	\$ 2,117	\$ 1,175	\$ 3,292
1988	1,232	628	1,860
1989	943	618	1,561
1990	1,030		1,030
1991 and following	1,350		1,350
FICORCA	216,776		216,776
Deferred taxes	1,720		1,720
Seniority premium	1,032		1,032
Reserve for furnace repair	7,639		7,639
	<u>\$ 233,839</u>	<u>\$ 2,421</u>	<u>\$ 236,260</u>

In addition, under short-term debt there are balances payable in U. S. dollars totaling \$7,282 in 1985 which could possibly be reduced by balances of collectibles in the same currency amounting to \$38,854 in 1985. Currency conversion was made at 372.20 pesos per U. S. dollar in 1985, except for assets of \$20,035 which are valued using a rate of 428 pesos per U. S. dollar.

- b) In March 1983, the Official Gazette published an agreement whereby the Secretaría de Programación y Presupuesto (Program and Budget Ministry) authorized the creation of FICORCA (Fideicomiso para la Cobertura de Riesgos Cambiarios – Trust for the Coverage of Exchange Risks).

Among the purposes of FICORCA are: to arrange long-term refinancing of public and private debts of the country; and to provide a mechanism to protect companies against exchange fluctuation risks.

The plan to which the companies adhered is that whereby FICORCA grants a credit in Mexican currency to companies that have succeeded in renegotiating their debt for a term of 8 years with 4 years of grace so that, with these funds, they may obtain the foreign currency required to cover their liabilities, while leaving such foreign currency with FICORCA as a loan with which the mentioned liabilities will be liquidated. The loan to FICORCA in foreign currency bears interest at the LIBOR rate, payable quarterly, which FICORCA will use to cover such rate to foreign banks on the companies' behalf. In the event a rate higher than LIBOR has been agreed upon, FICORCA will be able to cover it, up to a spread of 2⁰%, on payment by the companies of a premium over the controlled exchange rate at which said companies entered FICORCA. In the case of the 2⁰% spread, this premium amounts to 9.6⁰%.

The Company's debt in Mexican currency with FICORCA shall be paid in 96 monthly installments equal to present value. The rate applied is equal to the average rate for 3 to 6 months deposits. The payments increase over time, hence in the early years the interest accrued on balances is greater than the payments; such difference is considered by FICORCA as an additional credit.

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

- Loans renegotiated to comply with FICORCA conditions: 532'156,526 U. S. dollars of which 462'449,000 dollars have been redocumented under a floating rate note contract.
- Loans that did not need restructuring since they already fulfill the FICORCA conditions: 144'300,000 U. S. dollars.
- Loans not covered by FICORCA: 5'606,543 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 Mexico guaranteeing the availability of currency.
- Debt amounting to 32'400,000 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 International Finance Corporation, provided 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 \$1,108 in 1985 and \$517 in 1984. The charge to revenue of the period amounted to \$580 in 1985 and \$305 in 1984, including the amortization of seniority premium arising from past services.
- d) Guarantees. Liabilities totaling \$10,185, which amounted to \$12,328 when contracted, are guaranteed by fixed assets with a restated value of \$22,943 as of December 31, 1985.

12.- CONTINGENT LIABILITIES

- a) The discounted bills mentioned in note 6-a.
- b) Liabilities for indemnities and retirement payments have not been quantified as of December 31, 1985 and 1984.

13.- INSURANCE

Insurance cover has been purchase for approximately 71⁰/_o of the total restated insurable assets.

14.- STOCKHOLDERS' EQUITY

- a) Capital stock is represented by 42'000,000 common paid-up shares without nominal face value. It includes \$590 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, 1985 includes \$53,902 of accumulated and/or capitalized profits as well as \$288,830 of revaluation surplus. The equity of the minority interest includes \$7,116 of third party participation in accumulated and/or capitalized profits and \$41,992 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 55⁰/_o . Dividends paid are deductible for purposes of computing company income tax liability, except in the case of profits arising from revaluation of assets or other items which reflect the effect of inflation in the financial statements; tax withheld is deemed to be final payment.
- c) An analysis of minority stockholders' equity in consolidated subsidiaries follows:

	1 9 8 5	1 9 8 4
Capital stock*	\$ 3,401	\$ 2,754
Restatement of capital stock and retained earnings	24,058	10,098
Premium on shares sold	682	109
Excess in restatement of capital	17,364	9,939
Excess of book value over cost	33	33
Retained earnings	23	(461)
Net income for the year	6,273	366
	<u>\$ 51,834</u>	<u>\$ 22,838</u>

* Includes capitalized revaluation surplus of \$570 in 1985 and 1984.

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

	1 9 8 5	1 9 8 4
Restatement of capital stock and other contributions	\$ 77,677	\$ 46,653
Restatement of retained earnings	<u>93,908</u>	<u>46,281</u>
	<u>\$ 171,585</u>	<u>\$ 92,934</u>

- e) In the 1984 business year the loss on holding unrestated non-monetary assets, amounting to \$4,902, was applied against income in order to reduce stockholders' equity through the income statement only.

15.- INCOME TAX AND PROFIT SHARING TO WORKERS

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

	Income tax		Profit sharing to workers	
	1985	1984	1985	1984
Payable according to applicable legislation:	\$ 13,619	\$ 9,521	\$ 3,378	\$ 1,242
Increases (decreases) due to timing differences:				
Upon deducting according to tax law:				
Exchange variation applied to income in previous periods, and seniority premium	7,165	2,862	965	361
Preoperating expenses	12	254	2	48
Difference between fiscal and book depreciation	2,004	1,826	383	242
Sub-total	\$ 22,800	\$ 14,463	\$ 4,728	\$ 1,893
Effect of charging to income of exchange variation, provision for seniority premium and preoperating expenses	(4,283)	(3,532)	(715)	(368)
Tax loss	(7,101)	(9,019)		
Shown in income statement	\$ 11,416	\$ 1,912	\$ 4,013	\$ 1,525

16.- SHARES HELD IN TRUST

During the 1985 business year a trust was set up with Banca Serfin, S.N.C. as trustee, to hold the patrimony consisting of 4'713,359 shares issued by Vitro, Sociedad Anónima at a cost of \$3,077.

This item is shown as a deduction from stockholders' equity in order to comply with accounting principles.

