Grupo Vitro 1998 Annual Report

1998 Annual Report

Vitro

Partnering with World's Best

to export our experience to the Americas

Globalization may be destiny for many
companies... and even for Vitro.
For now, Vitro's world is the Americas.
Here we will extend the impact of our
many present and future world-class
Joint Ventures.

GRUPO VITRO

Company Profile

Vitro, S.A. de C.V. (NYSE:VTO and BMV:Vitro), produces glass containers, flat glass, automotive glass, glassware, plastic containers, aluminum cans and household appliances. Vitro supplies numerous industries, including food and beverage, construction and automotive.

Based in Monterrey, México, and founded in 1909, Vitro has strategic alliances with fifteen international corporations around the world. Vitro operates more than 100 facilities in eight countries, including México and the United States, and exports products to more than 70 countries worldwide.

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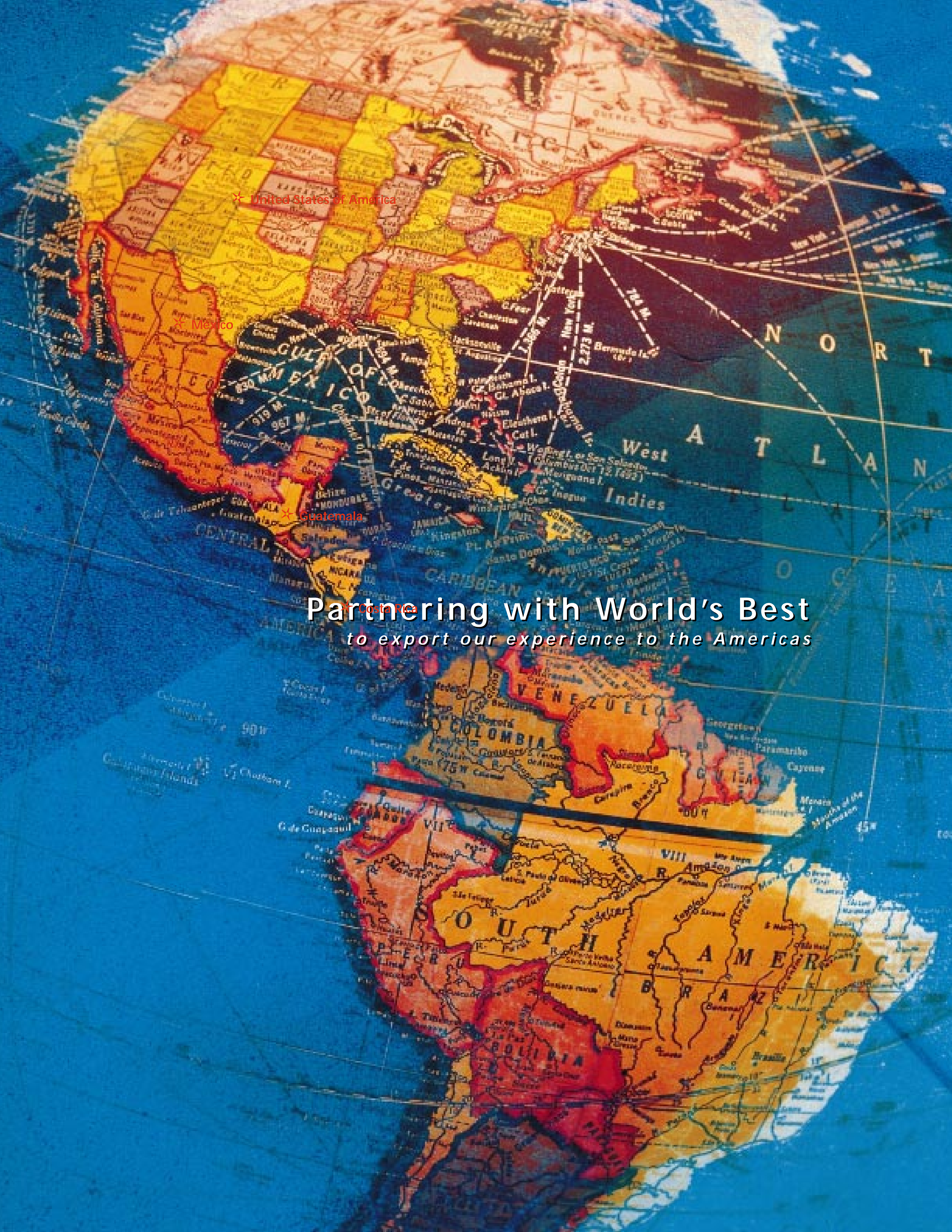


Partnering with World's Best

to export our experience to the Americas

Vitro's Operations in the Americas

Flat Glass

Companies

Vitro Plan + Pilkington, PLC (Great Britain) 1965 - 35%
Auto Templex
Cristales Centroamericanos (Guatemala)
Cristales Inastillables de México
Distribuidora Nacional de Vidrio
Química "M" + Solutia, Inc. (USA) 1995 - 49%
Shatterproof de México
Vidrio Plano
Vidrio Plano de México
Vidrios Templados Colombianos (Colombia)
Vitro Flex + Ford Motor Company (USA) 1979 - 38%
Vitro Flotado
VVP America (USA)
Super Sky (USA)
ACI Distribution (USA)
Binswanger Glass (USA)
Binswanger Mirror (USA)
Glasscraft (USA)

Products

Float, patterned and fabricated architectural glass, solar control glass, automotive glass, glass table tops and polivinyl butyral film.

Containers

Companies

Compañía Manufacturera de Vidrio del Perú (Perú)*
+ Backus and Johnston (Perú) 1993 - 77%
Empresas Comegua and Subsidiaries (Guatemala and Costa Rica) + Cervecería Centroamericana, S.A. (Guatemala)
+ Cervecería de Costa Rica, S.A. (Costa Rica) 1964 - 50.3%
Metalúrgica Oriental
Procesadora de Materias Primas Industrializables
Productos Exportados
Vidriera Guadalajara
Vidriera Los Reyes
Vidriera Mexicali
Vidriera México
Vidriera Monterrey
Vidriera Querétaro
Vidriera Toluca
Vidrio Lux (Bolivia)
Vitro Packaging, Inc. (USA)

Products

Glass containers

**Not a consolidated company*

Household Products

Companies

Vitromátic + Whirlpool Corporation (USA) 1987 - 49%
Sourdillon de México + Sourdillon International (France) 1995 - 66%
Crolls Mexicana
Fabricantes de Aparatos Domésticos
Supermátic
Viplásticos
Vitromátic Comercial

Products

Refrigerators, washers, ranges, electronic components, molds and dies, plastic components. Distributes: clothes dryers, dishwashers, microwave ovens, room air conditioners and mixers.

Diverse Industries

Companies

Ampolletas (ENBOSA) + Kimble, Inc. (USA) 1978 - 49%
Envases de Borosilicato del Sur + M.C. Iturralde (Argentina) 1997 - 20%
Envases Cuautitlán
Fabricación de Máquinas
Industria del Alcali
Manufacturas, Ensamblajes y Fundiciones + General Electric Company (USA) 1997 - 49%
Plásticos Bosco
Regioplast* + Owens Illinois, Inc. (USA) 1993 - 50%
Silicatos y Derivados + The PQ Corporation (USA) 1963 - 45%
Vitro PQ Química
Vitro OCF + Owens Corning (USA) 1957 - 40%
Vitro Fibras
Vitro-American National Can + Pechiney International (France) 1994 - 50%
VCFM, Inc. (USA)

Products

Fiberglass products, sodium carbonate, sodium bicarbonate, sodium chloride, calcium chloride, silicates, metasilicates, aluminum sulfate, ampoules, vials, laboratory glassware, plastic containers, aluminum cans, disposable plasticware, glass-forming machinery, electronic equipment and equipment for the glass and plastic industries.

**Not a consolidated company*

Glassware

Companies

Vitrocrisa Holding + Libbey Inc. (USA) 1997 - 49%
Vitrocrisa
Crisa Corporation (USA)
Crisa Industrial (USA)
Fabricación de Cubiertos

Products

Glassware, ovenware, tableware, kitchenware, stainless-steel and silver plated flatware and decoration glassware.

The reference to the term "Joint Venture" in this Report does not imply or infer the definition of "Joint Venture" set forth in the International Accounting Standards, it refers to those corporations in which Vitro owns at least 50 percent of the shares and one or more third parties (either domestic or foreign) own the remaining shares of the corresponding corporation. We believe our usage of the term "Joint Venture" is consistent with international business and legal practice and standards.

Financial Highlights

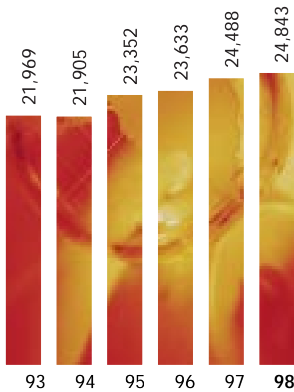
(In millions of constant pesos as of December 31, 1998, except where indicated otherwise; dollar figures are in millions of US dollars.)

	December 31,					
	1998 (Ps.)	1998 (US$)	% change [1]	1997	% change [2]	1996
Income Statement [3]						
Consolidated net sales	**Ps. 24,843**	**$ 2,510**	1.5	Ps. 24,488	3.6	Ps. 23,633
Export sales (millions of US dollars)	**685**		6.4	644	14.8	561
Operating income	**4,262**	**431**	0.8	4,227	7.5	3,932
Total financing cost	**2,733**	**276**	107.2	1,319	(8.1)	1,435
Other income	**(166)**	**(17)**		3	(99.1)	328
Share in net income (loss) of unconsolidated associated companies	**5**		(97.5)	202		(2,001)
Gain (loss) in value of shares in trust	**(953)**	**(96)**		47		
Effect of dilution of investment in associated company						(1,488)
Income (loss) before income tax and PSW	**415**	**42**	(86.9)	3,160		(664)
Income tax and PSW	**1,021**	**103**	(14.3)	1,192	146.8	483
Net income (loss) from continuing operations	**(606)**	**(61)**		1,968		(1,147)
Income (loss) from discontinued operations				47		(658)
Income (loss) on disposal of discontinued operations	**259**	**26**	(72.9)	957		(4,647)
Extraordinary item	**97**	**10**	(65.6)	282	26.5	223
Net income (loss) for the year	**(250)**	**(25)**		3,254		(6,229)
Net income (loss) of the majority interest	**(725)**	**(73)**		2,629		(6,807)
Balance Sheet						
Current assets	**Ps. 7,217**	**$ 729**	0.9	Ps. 7,154	(11.2)	Ps. 8,057
Total assets	**30,845**	**3,117**	(5.3)	32,557	(8.3)	35,498
Current liabilities	**5,995**	**606**	12.2	5,344	(22.7)	6,914
Total liabilities	**20,031**	**2,025**	3.7	19,323	(18.2)	23,622
Stockholders' equity	**10,814**	**1,092**	(18.3)	13,234	11.4	11,876
Stockholders' equity of majority interest	**7,150**	**722**	(23.7)	9,376	17.2	7,997
Capital expenditures	**2,287**	**231**	38.0	1,657	(14.6)	1,940
Personnel	**33,320**		0.6	33,136	0.7	32,914
Financial Indicators						
Operating income/sales (%)	**17.15 %**	**17.15 %**		17.26%		16.63%
Sales/assets (times)	**0.81**	**0.81**		0.74*		0.66**
Current assets/current liabilities (times)	**1.20**	**1.20**		1.33*		1.17**
Total liabilities/stockholders' equity (times)	**1.85**	**1.85**		1.46*		1.98**

**Calculated using constant pesos of December 31, 1997; ** calculated using constant pesos of December 31, 1996.*
(1) Change from 1997 to 1998.
(2) Change from 1996 to 1997.
(3) The amounts of Income Statement have been restated to present Anchor and Mining Operations as a discontinued operation.

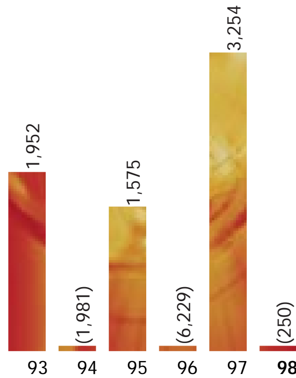
Consolidated Net Sales*

(In millions of constant pesos as of December 31, 1998)



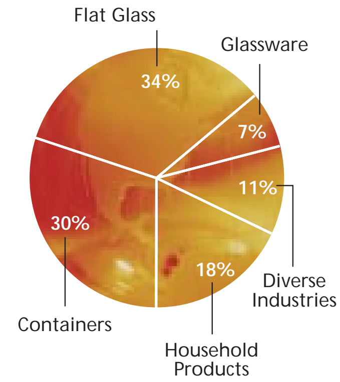
Net Income (loss) for the year

(In millions of constant pesos as of December 31, 1998)



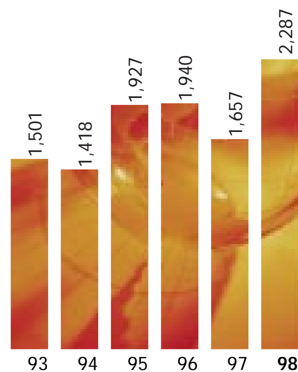
Sales Breakdown

(Percentage of Consolidated Net Sales)



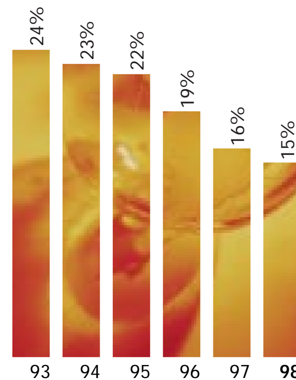
Capital Expenditures*

(In millions of constant pesos as of December 31, 1998)



Working Capital Investments /Sales*

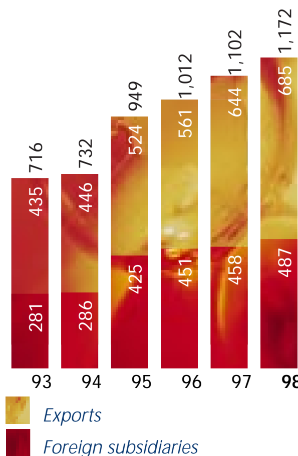
(%)



These financial highlights clearly demonstrate Vitro's strong hard currency growth and financial stability. In 1998, 47 percent of revenues were direct dollar sales and additional 20 percent of domestic sales were dollar linked. The continuing efforts to improve the financial structure in conjunction with stable capital expenditures, decreases in working capital and a favorable trade balance establish Vitro's foundation for sustainable and profitable growth in the years to come.

Revenues denominated in US dollars

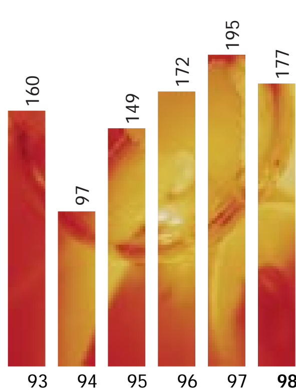
(In millions of dollars)



Trade Balance Surplus[1]

(In millions of dollars)

Exports (-) Imports (-) Interest Payments



93	94	95	96	97	98	
435	446	524	561	644	685	*Exports*
263	337	323	333	348	382	*Imports and other outlays*
12	12	52	56	101	126	*Interest payments*

[1] *Excludes exports and imports destined to investments.*

* *Excluding Anchor and Mining Operations discontinued operations.*

Chairman's Letter

To Our Shareholders:

I need not remind you that 1998 was a year of global economic turmoil which was greater than anticipated. First the Asian economies faltered. Russia followed and then Latin American markets reacted. In August, the Mexican peso devalued, resulting in higher interest rates and financing costs. The rate of inflation also rose. Real growth turned out to be 4.8 percent, slightly slower than expected.

This difficult environment did not help Vitro. In addition, we faced new competition in México in automotive and construction glass. Still, we delivered satisfactory results. With only a slight increase in sales, we managed an increase in EBITDA through productivity improvements. I am proud of Vitro's people for achieving this despite these trying conditions. I salute their hard and intelligent work.

The theme of this report highlights two major reasons for our relatively good showing last year. Successful partnering and increase in exports helped us greatly in 1998. In fact, these hallmarks have been central to Vitro's success for many years.

We take partnering very seriously. We link with world-class companies and maintain long-term relationships. We created our first Joint Venture in 1957, and today have 15. These Joint Ventures are a main asset, indeed a core competency, for Vitro. Successful partnering helped us grow faster and is crucial to our future growth.

Our partners bring more to the table than money. They bring technology, access to world markets and global supply sources. And we bring much more than Mexican citizenship. Our contribution includes technology of our own, top quality manufacturing, labor relations, cultural understanding and expert management. We are known for our professional approach. Because Joint Ventures are essential to our growth, we work exceptionally hard to make them succeed. Our partners will tell you that Vitro always looks out for the best interests of the Joint Venture.

Partnering and exporting go hand in hand at Vitro. Most of our dollar-denominated sales come from exports by our Joint Ventures. But exporting is an even older practice than partnering. We exported our first bottles into nearby Central America in 1927. Today exports from our subsidiaries in México amount to some 34 percent of our total sales. Sales outside México, including export sales, amount to 47 percent of our total sales. Vitro products now find their way to 70 countries around the world. The Americas, however, are our natural playing field. To the north are México's North American Free Trade Agreement (NAFTA) partners, many of Vitro's Joint Venture partners, and our own VVP America and Vitro Packaging Inc. The U.S. and Canada are increasingly important to us. We have more than 2,000 employees in the U.S.

To the south, we have something more than just products to export. We have our know-how in dealing with a similar culture, customer preferences and ways of doing business. This is our edge in serving the huge Latin American market, an edge we offer to our partners. It is the edge that gives us confidence to continue growing our exports and our presence outside México in the years to come.

This brings me to thoughts on the future. Last year, with oil prices dropping, the Mexican government had trouble financing the country's budget gap. A new tax bill was proposed in response. One provision calls for limiting holding companies' consolidation for tax purposes to 60 percent of subsidiaries ownership. Another provision of this reform calls for paying estimated taxes on an individual company basis rather than on a consolidated basis. This has obvious implications for cash flow. Some of the funds which were designated for debt payment will have to be paid in taxes.

We expect 1999 to be challenging. The world's macro-economic problems persist. Conditions in regions such as Asia result in a tougher competitive environment worldwide. Construction in México is slowing. Demand for new homes is great, but funding is scarce.

"Successful partnering and increase in exports helped us greatly in 1998."

"Our goals in 1999 will be to maintain our present market share and further improve profitability."

Our goals in 1999 will be to maintain our present market share and further improve profitability. We are looking at opportunities in related businesses. We will find new ways to leverage our strengths –in partnering and exporting, of course, but also in technology, management, production excellence and marketing expertise.

We are in the process of revising our previously announced five-year plan. The longer-term goals will be adjusted in light of the different environment we face compared with what we expected when the plan originally was developed early in 1998. We will strive to meet our basic goals of Economic Value Added (EVA) improvement and cash flow generation on a timetable that reflects the reality of the new environment. We have confidence that Vitro is well positioned to succeed in the new world we are facing.

We can adapt to difficult environments. We have done it before. We will have to adjust to some scarcity in short-term credit. We will be even more careful when evaluating new project developments. Our analysis of potential investments for growth includes carefully considering cash-flow generating contributions. We do recognize, however, that since valuations are low we may be able to take advantage of certain opportunities with enhanced returns in the short to medium term. I can promise you that all of us at Vitro will exert our best efforts to continue growing and strengthening this enterprise. We appreciate your ongoing support.

Sincerely,

Adrián Sada G.
Chairman of the Board of Directors
Vitro, S.A. de C.V.
February 15, 1999

CEO's Letter

To Our Shareholders:

In 1998 we reaped the benefits of being a leaner, profit-oriented organization. We started the year slimmed down, focused on cash flow generation and more market sensitive. We truly were a "new" Vitro thanks to the restructuring completed in 1997.

A number of major achievements during the year were:

- In México, we maintained market share and margins despite growing competition in our core businesses.

- We selectively increased capacity to serve growing demand for auto glass, polyvinyl butyral (PVB) film and borosilicate products. We were joined by our partners –for example, Solutia Inc. in the PVB capital expansion.

- We invested to grow production and sales outside of México. In Costa Rica we are increasing container capacity. In Argentina, Vitro and Joint Venture partners Kimble Glass Inc. and MC Iturralde created a new subsidiary. Its focus is the Mercosur and Andean Pact nations.

- New products rolled off our production lines. A new line of gas ranges and a new refrigerator size joined our Whirlpool Corporation appliance output. We began shipping Coca-Cola's new commemorative bottles –the outcome of an effective design/production/marketing alliance. We have similar alliances in cosmetic bottles with customers such as Avon, Coty and Estée Lauder.

- We are on our way toward achieving the benefits of our Joint Venture with The General Electric Company, Manufacturas, Ensamblajes y Fundiciones, S. de R.L. de C.V. (MEF). With a new MEF plant now almost complete, we expect an accelerating sales curve.

- Quality –always our focus– continued to receive rigorous attention. We began a supplier program in which the number of vendors was cut from 12,000 to 4,000. Awards were given for meeting quality standards. We are responsible for qualifying micro-suppliers who can access a Nacional Financiera (NAFIN) fund for investments in quality improvement.

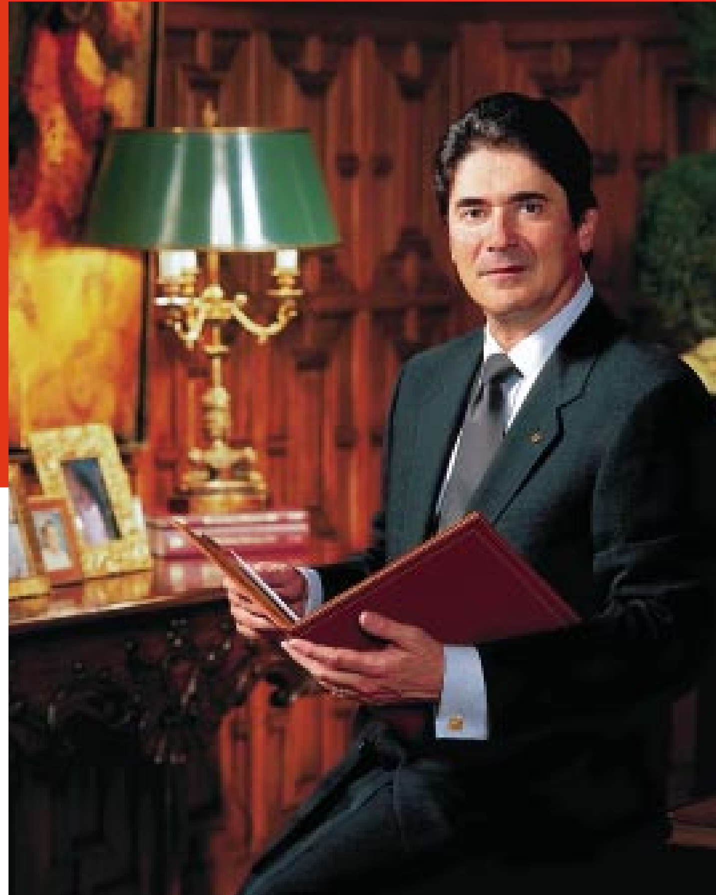
- We received the national quality award from México's President Ernesto Zedillo.

In the end, people are the resource that make the greatest difference for Vitro, our greatest competitive advantage. I cannot review 1998's achievements without commenting on our people-related actions. Last year we made our human resources function more proactive. For example, we initiated Project Tiger to hire more people from the outside. We want to seed our company with people who have different perspectives, who ask new questions. And we restructured our manager training to reflect the roles we expect people to play. Key managers will continue to receive instruction at one of four levels –orientation, setting direction, translating to action or implementing change– depending on the needs of their job. Finally, the training is tied to specific, real-life projects. This program reports directly to me.

Our stock option plan has been implemented and is available as an incentive for employees at the manager level and above. We recognize the merit of an alignment of our employees' interests with our shareholders'

"In 1998 we reaped the benefits of being a leaner, profit-oriented organization."

"We continue to look to the marketplace as our guide."



interests. Over the long run this program is a valuable tool in attracting and keeping the best personnel. Finally, I would like to give you some thoughts on what the future may bring. Certainly it will continue to bring more and tougher competition. We continue to look to the marketplace as our guide. We identify market needs we can serve better than the competition based on our technology, management skills and cultural understanding. We will look to innovate new products which springboard from existing know-how.

Having turned around our operations and improved our financial position in 1997, we outlined a five-year business plan. The plan calls for continued improvement of Economic Value Added (EVA), a better financial structure, cash-flow generation and margin growth. We will extend the 15-year export trend. The efforts to create substantial growth will continue adjusting to the volatility of the economic environment. At the same time our efforts will focus on generating increasing EBITDA.

With the continued superb efforts of all Vitro people and the strong support from you, our shareholders, I am confident we will continue profitable and sustainable growth in the years to come.

Sincerely,

Federico Sada G.
President and Chief Executive Officer
Vitro, S.A. de C.V.
February 15, 1999

Partnering

Strong Partnering Drive Growth

Joint venturing has been an ingredient of Vitro's success for more than 40 years, since launching our first Joint Venture in 1957. Today we have 15 active joint ventures, generating almost 67 percent of total revenue.

Vitro was one of the first Mexican companies to join with a foreign partner. We believe we now have more successful Joint Ventures than any other company in Latin America. For certain, they have contributed significantly to our growth.

Foreign companies first sought Mexican partners because it was virtually the only way to participate in what was then a closed economy. Today that impetus has disappeared. The question arises: Will world-class companies continue to seek ventures when they are free to go at it alone?

The answer for Vitro is yes. Several recent renewals or expansions of our deals prove that foreign companies have compelling reasons to partner beyond market entry. Our 1987 agreement with Whirlpool Corporation was renewed in 1998 for five more years. With Pechiney International, our partner in aluminum cans since 1994, Vitro is evaluating the addition of a line to our Joint Venture plant. After 20 years together in the Mexican market, Vitro and Kimble Glass Inc. decided in 1998 to create a new subsidiary to serve the South American market. Our partnership with Ford Motor Co., now 19 years old, thrived during the opening of México's economy and has grown stronger since. The recent renewal of the supply agreement between Vitro Flex and Ford for a minimum of seven years will continue providing important access to dollar-based revenues.

The strengths we and our partners bring to our ventures show why Vitro's ability to partner is a core competency:

- Pilkington PLC is a major player in its industry, in its home country and globally. So is Libbey Inc. in glass dinnerware; Whirlpool Corp. in appliances; Ford Motor Co. in cars and trucks; Pechiney International in aluminum cans; Owens Corning in fiberglass; Solutia Inc. in chemicals, polymers and resins; General Electric Company in several fields.
- Our partners own the best technology in their fields, and they share it openly with us.
- Most of our Joint Venture companies are able to maximize and benefit from the network of suppliers and distribution channels that our partners bring.
- Since 1988, we have been tapping Whirlpool's extensive product offering to complement our own.
- Vitro, in turn, is a very efficient and savvy competitor in the Mexican market. We offer strong distribution networks that would be costly to build from scratch plus keen knowledge of Mexican markets and consumers.
- We also serve the Central America and the Caribbean market through Empresas Comegua and subsidiaries, our Joint Venture with Cervecería Centroamericana, S.A. and Cervecería de Costa Rica, S.A., and an ever-enlarging territory of South America.
- We provide knowledge of the Latin American culture plus relations with other companies, governments and work forces.
- We bring managerial and technical resources –the needed human capital– to the operation of Joint Venture plants.

Beyond these "hard" benefits, our Joint Ventures work well due to extremely important relationship factors. First we work hard at setting shared goals, at understanding what each party needs from the venture. Second, we commit to open communication, quickly sharing problems and concerns as well as good news. Third, we set a pattern of teamwork early on. An example is Whirlpool's inclusion of Vitro personnel on its interdisciplinary product development teams working in Europe, the Far East and South America.

In short, the opening of México's economy has not eliminated the impetus for our Joint Ventures. If there is any challenge to these ventures, it may be that so many foreign firms have recognized the value of México as a base for exporting to the Americas. Such firms may seek to "buy" cultural and market knowledge from Mexican firms that compete with Vitro and our partners. We will guard against such incursions. Our proven track record for successful Joint Ventures shows that Vitro is the ideal choice for many of these firms.

"We believe we now have more successful Joint Ventures than any other company in Latin America."

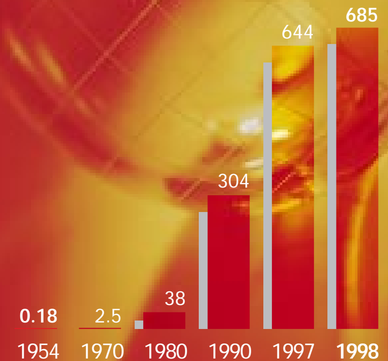
Export

Exports: Key to Vitro's Future

Foreign trade exporting has ancient roots in México. For centuries, first as New Spain and then as independent México, the country has been sending abroad both basic materials –from silver and gold to iron– and manufactured items of all types.

Exports(Millions of dollars)

Vitro has a long tradition of exporting. Its products now reach more than 70 countries around the world.



Vitro, too, has a long tradition of exporting. Within 20 years from the company's founding in 1909, Vitro was selling diverse glass products in Guatemala and El Salvador. This made Vitro one of the first exporters of Mexican manufactured products.

By 1935, Vitro managers were traveling throughout Central America, promoting the sale of containers, glassware and flat glass, and signing on sales representatives. At this time, however, México lacked infrastructure to support significant exports. Communications were inefficient, air transport non-existent, rail traffic slow, and maritime transport to key destinations lacking.

After World War II, conditions for exporting began to improve. Both the Mexican government and business associations took steps to foster foreign sales of national products. Vitro, too, did its part to support the future of exporting from México. For example, in 1948, Vitro acquired a bank, Financiera del Norte, S.A., which created the Fund for Promotion of Export of Manufactured Products. Then, in August 1954, Vitro joined a commission of Monterrey-based marketers to investigate export possibilities. This group's first mission took its participants to Cuba, Haiti, the Dominican Republic and Puerto Rico. In that year, as the graph shows, Vitro's exports stood at only US$180,000.

A second mission in 1955 ranged farther abroad, embracing Jamaica, Curazao, Panamá, Venezuela, Colombia, Ecuador and Perú. This trip planted the seeds not only for Vitro's current success in using México as a base for Latin America, but also for our inroads in creating viable subsidiaries abroad. In that year, our exports grew more than 50 percent.

In the early 1970s, the Mexican government created two important new bodies to promote exports. The first was the Mexican Institute for Foreign Commerce. The second was the National Commission for Coordination of Ports. By that time, Vitro's exports had grown to nearly eight million dollars, an increase of more than fivefold in one decade.

Vitro's exports grew dramatically in the 1970s and 1980s, despite México remaining a closed economy. By 1992, exports reached US$377 million –nearly 150 times what they had been 22 years earlier. Also by 1992, sales of Vitro's foreign subsidiaries were approaching the significant US$137 million level. While these sales are not "exports" in the strict sense of the word, the dollar-based revenues are essential to Vitro's stability and growth.

With the creation of wholly-owned or Joint Venture companies outside of México, Vitro has imitated the world-class companies that earlier came into México. Like them, Vitro is exporting its technology, marketing savvy and managerial skills.

When Vitro goes into Costa Rica or Colombia or Perú or any other place in the Americas, we bring a large measure of shared culture. This goes beyond just language to shared values and attitudes on everything from religion to credit to sports and music. From experience, we know how to overcome deficiencies in infrastructure and volatility in local currencies. We count these things as immensely valuable "exports" –properties which competitors from other parts of the world do not have.

Of course, non-Latin competitors can "buy into" these intangible exportables by linking with our companies in México. As México becomes more and more recognized as an ideal base for exporting to the rest of the Americas, this is happening and it is a challenge we will have to face. Our advantage is that we are far out in front of such competitors in exporting both product and knowledge to our neighbors to the north and south.

This focus on our "natural playing ground" of the Americas by no means implies that we ignore the rest of the world. All told, Vitro products now reach more than 70 countries around the world.

Specific examples of Vitro's export activities will be found in each of the Business Unit sections that follow.

Flat Glass

Overall, Flat Glass did well in 1998. Sales grew 5.4 percent to Ps. 8,341 million, accounting for 34 percent of Vitro's total. EBITDA grew from Ps. 1,985 million to Ps. 2,163 million, an increase of nine percent, accounting for 36 percent of Vitro's total. Despite new and tougher competition, EBITDA margin as a percentage of sales held roughly at the 1997 level, finishing 1998 at 26.0 percent.

Proportionately, sales in México fell slightly, export sales grew 10 percent and sales of U.S. and Colombian subsidiaries rose 12 percent. Dollar-denominated revenues grew from 67 percent of the total to 71 percent.

At our three-year-old Colombian subsidiary, we solved our production problems and exported to other countries of the region.

Building Products, about one-fifth of Flat Glass sales, performed very well, with operating profit up 12 percent for the year and accelerating in the last four months. These results were achieved despite aggressive new competition in México and more imports from the U.S., Venezuela and Brazil.

Auto Glass finished 1998 strongly including a 10 percent capacity increase. Margins rose thanks to efficiency improvements. During the first quarter, we debugged our new tempering facility. Sales to the Original Equipment Manufacturer (OEM) market rose, despite the General Motors strike and new competition.

In the automotive aftermarket, where we export half of our production, we did not do as well. The first quarter saw a slow market and over-capacity in the U.S. In an attempt to preserve working capital, we competed aggressively in the low season to maintain sales; however, in hindsight, we should have built inventory for the high season. Here we learned a valuable lesson.

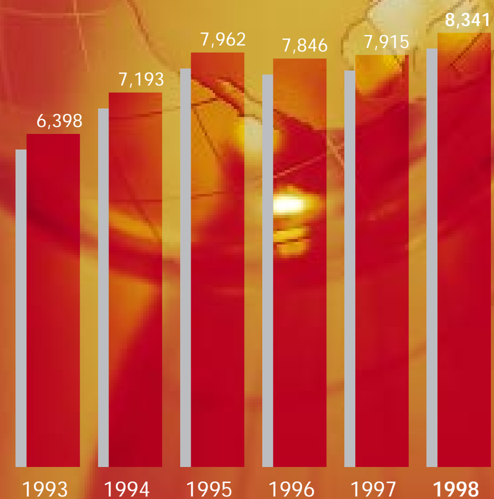
Vitro Flex, S.A. de C.V., our Joint Venture with Ford, had a very good year, with excellent EBITDA. Practically all production was exported in dollar-denominated shipments. With the previous ten-year contract expiring, we concluded a new seven-year supply agreement.

Química "M", S.A. de C.V., our Joint Venture with Solutia to produce PVB film for automotive safety glass, made a line change early in 1998. This heavy investment ultimately produced a 70 percent increase in capacity, but, due to the complexity of the new technology, resulted in a start-up delay. Thanks to our strategy of inventory buildup in late 1997 we were able to meet demand.

VVP America Inc., our U.S. fabrication, distribution and installation subsidiary, serves the wholesale and retail automotive aftermarket and building market. The unit delivered more than two-fifths of Flat Glass sales and performed to budget in 1998. We expanded primarily by purchasing a distribution and fabrication center in Las Vegas, adding US$4.5 million to sales.

Net Sales
(In millions of constant pesos as of December 31, 1998)

In 1998, sales denominated in US dollars represented 71 percent of total sales.



Export

Exports to México's NAFTA partners, Central and South America and the Caribbean are a key to the growth of the Flat Glass unit. In 1998 exports were 45 percent of total sales in México. For example, during 1998, we shipped an average of 250 containers a month to South America.

Exporting will become even more important in the future, especially as we further serve the South American market from México and Colombia and as we expand our coverage of the U.S. In the next year, we see our Colombian operation taking at least a 30 percent share of the OEM auto glass market in the Andean Pact nations and increasing auto-glass-aftermarket shipments to Venezuela, Brazil and Ecuador.

Corporate Activities

The Flat Glass unit derived great benefits during 1998 from the support of the Vitro Corporate office. The most tangible example of these benefits involves the successful centralization of the procurement function for the three glass-related businesses (Flat Glass, Containers and Glassware). Headcount in the procurement departments for these glass business was cut from 103 to 81, slashing administrative costs by 32 percent and over US$30 million in purchasing savings. The time between request and delivery dropped overall by 27 percent. The standardization effort focused on leveraging relationships with vendors and volume pricing. The Flat Glass unit continues to reduce costs and improve profitability by securing the best possible prices for raw materials, parts and supplies.

Partnering

UK-based Pilkington PLC –one of the world's most advanced glassmakers– has been a 35 percent partner in Flat Glass since 1965, continually strengthening our technological excellence. We also now have an agreement to service Pilkington's global auto glass needs in México.

Solutia Inc., our 49 percent partner in Química "M" since 1995, produces PVB film, the safety layer in auto glass. Solutia is a global leader in fibers, chemicals, polymers and resins. The relationship gives Vitro access to the resin needed to make PVB film, the best processing technology, and global export markets.

Ford, the world's second-largest car and truck maker, has been our partner since 1979, owning 38 percent of Vitro Flex. This gives us access to Ford's large markets in the U.S. and Canada; annual sales to Ford average US$100 million. Ford, in return, benefits from our long experience in manufacturing and exporting auto glass. Combining quality, efficient labor and world-class technology, Vitro Flex supplies about 20 percent of Ford's auto glass.

" The product we get from Vitro Flex compares favorably with that produced in the U.S. or anywhere else in the world."

Dennis Wiejaczka, Total Quality Manager, Ford Visteon Glass Systems.

Outlook

We are prepared for the challenges of 1999. Competitors making inroads in South America could put pressure on margins. Nevertheless, the Flat Glass unit is well positioned for growth thanks to several factors:

- We are México's leader in float glass and expect to remain so. Short term, our excess float glass capacity will be used to increase our exports. Longer term, we will keep a close eye on the markets and are prepared to expand capacity accordingly.
- We are México's leading player in automotive glass; our service and technical excellence will protect that lead.
- In the aftermarket, we are very well positioned in México and we are making important inroads in the U.S. and Canada.
- We are aggressively expanding our presence in South America via exports from both México and Colombia.
- We have the edge in technology, given our ongoing investment in R&D plus access to the technology of our Joint Venture partners.
- We are developing more value-added products.
- We already have done much to squeeze out costs, but we still have room to improve –and we will.

Containers

Thanks to conditions favoring heavy beverage consumption, the first nine months of 1998 proved very successful for the Containers business unit. Then we experienced a cooling off in both weather and sales. Overall, sales grew slightly from Ps. 7,312 million to Ps. 7,451 million, an increase of 1.9 percent, accounting for 30 percent of Vitro's total. EBITDA remained roughly at 1997 levels, finishing 1998 at Ps. 1,924 million and accounting for 32 percent of Vitro's total. EBITDA margin as a percentage of sales fell slightly, finishing 1998 at 25.8 percent.

The proportion of sales in México fell from 64 percent to 60 percent, though market share was maintained. Subsidiaries in Central America and Bolivia accounted for a combined 15 percent of sales, up from 13 percent in 1997. Dollar-denominated revenues grew from 36 percent of the total to 40 percent.

Key production expansions and alterations in 1998:

- A beer-and-beverage container furnace in México City was converted to cosmetic bottles, increasing capacity for these containers by 50 percent. An investment of US$35 million versus the US$50 million needed for a new furnace.
- A new furnace was installed in Vidriera Toluca, and a fourth line was added in Vidriera Mexicali.
- Two main machines were replaced at our Bolivian subsidiary, which had double-digit sales growth reaching US$11 million.
- At our San José, Costa Rica plant, we began building a new furnace which will go on line in April 1999.

We continued to improve our turnaround time for product design and development, which is now 4-6 weeks from customer approval of drawings to delivery. In urgent cases we can reduce that to 2-3 weeks. The Containers unit is now on par or ahead of the pack in this capability.

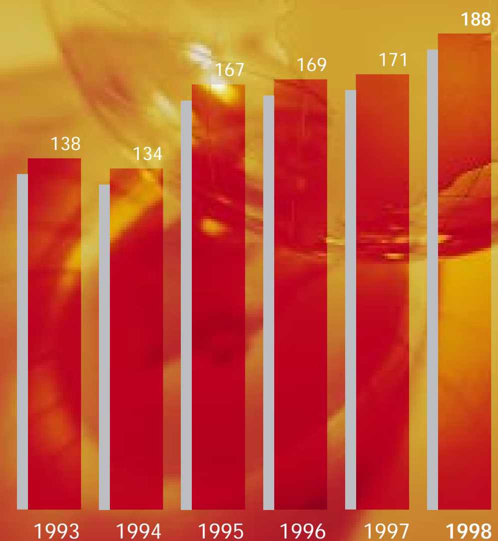
Soft Drink Containers: We recognize the ultimate competitive threat of polyethylene terephthalate plastic (PET) non-returnable bottles in México and around the world. Containers of half-liter and larger have already shifted to PET non-returnables. We expect that trend to continue at the rate of approximately 1 to 1.5 percent market share per annum.

In 1998, however, Mexican sales of soft drinks in non-returnable plastic containers were flat, while sales in glass returnables increased slightly. This demonstrates the Mexican market's strong ties to glass, which will slow the progress of PET. Single serving soft drink, remain highly attractive to Mexican consumers, who therefore prefer returnable glass bottles. The new Contour line, with its high visual appeal, will play a main role in this marketing battle to maintain market share.

We had some outstanding successes in the soft drink market last year, due to our capability in heat transfer labels (HTL). We developed a special machine that embeds the label in a glass surface with label-maker Avery Dennsion UK Ltd. With this technology we won a Coca-Cola contract for U.S. market collectible bottles, commemorating great moments in sports. We also won a long-term contract for SmithKline Beecham México's, high-energy Lucozade.

Export Sales
(Millions of dollars)

Glass Containers is the dominant supplier in México, with significant sales in the Americas.



Export

The Containers unit exports approximately 29.7 percent of its Mexican production, 95 percent of that amount to the U.S. and five percent to the Caribbean, Central America and South America. Our Coca-Cola commemorative bottles sell very well in markets as far away as Singapore.

Corporate Activities

Since early this century, Vitro has been in the forefront of México's recycling effort. The Corporate office has the responsibility for identifying and implementing recycling programs. One of the most important functions is to reinforce community awareness and generate public interest in recycling. When the government moved to sealed landfills the amount of glass recycled dropped dramatically. In 1998 Vitro took a new approach by offering to buy glass futures to provide the government with funds to invest in equipment and personnel to extract glass, aluminum, steel and other materials from the waste stream. The program is being implemented in the state of Nuevo León and will be used as a model for other large population centers throughout México.

Partnering

The Containers unit has been partnering successfully with Cervecería Centroamericana, S.A. and Cervecería de Costa Rica, S.A. local companies in Guatemala and Costa Rica for 35 years. The keys to success have been compatible goals and excellent communication. In the early 1990s, we bought a minority equity share in Perú's largest glass container producer. Last year, this venture grew nicely thanks to growth in the Peruvian economy along with increases in export to the Central American market.

" This Joint Venture has been remarkable because of its good administration and the great compatibility among our partners during the last 35 years."
Edgar Castillo, President, Empresas Comegua.

Beer and Wine Containers: Both in México and abroad, glass remains the preferred bottling medium. In 1998 we launched a new line of colored wine bottles and developed new molds for tequila bottles, helping us land a contract for Jimador, a successful new brand featuring lower alcohol content. In beer, our bottle customers are also our competitors. Last year Modelo, our largest beer-bottle customer expanded its own production of bottles for Corona, produced for export around the world. However, we found some new customers, including microbreweries in Monterrey and Baja California.

Food, Drug and Cosmetic Containers: In the upscale food segment we began making new containers for such items as hot peppers, salsas, mushrooms and artichokes. Demand also grew for new sizes of coffee bottles. Juice bottlers began asking for higher-margin proprietary bottles instead of generics. We rejuvenated our pharmaceutical bottle line, producing a lighter product, which was well received. The market for cosmetic containers remained well-defined and steady, with customers such as Avon, Fuller, Jafra, Coty and Estée Lauder. They prefer glass due to the stability it maintains for products such as fragrances, creams and nail polishes.

Outlook

Glass containers will continue to be a core business for Vitro, but likely will not experience high-growth. As México's leading supplier of glass containers, we expect to continue producing attractive cash flow far into the future. We should hold the line in beer, replacing any business lost to large brewers' in-house bottle production with new microbrewers. We should continue growing our business in wine, tequila and other alcoholic beverages. Finally, we foresee significant growth in the food, drug and cosmetic sectors.

Household Products

In the first five months of the year we forecasted a 12 percent growth while the market actually grew 30 percent. Then growth slowed to 12 percent for June-August. In the final four months, reflecting the global economic turmoil, the industry experienced a two percent decline. Sales and margins suffered because of the peso devaluation in August. That resulted in higher interest rates during the last five months of the year affecting consumer demand for household appliances. Given these conditions we focused on increasing sales in the first half of the year then we strengthened our efforts in cutting costs.

Overall, sales grew from Ps. 4,441 million to Ps. 4,481 million, accounting for 18 percent of Vitro's total. EBITDA finished 1998 at Ps. 641 million, accounting for 11 percent of Vitro's total. EBITDA margin as a percentage of sales stood at 14.3 percent.

We maintained our 38 percent market share despite increased competition in México. Lucky Goldstar and Continental began importing. Daewoo started a new Mexican plant. The General Electric/Mabe Joint Venture remained our strongest competitor, with Koblenz and Hoover also in the game. Additionally Frigidaire began using México as a base for sales to Latin America.

1998 marked important advances in quality. All of our plants achieved ISO 9000 certification. The Mexican State of Guanajuato honored our gas range and compact refrigerator plants with its quality award. In Vitro's quality program, AST, the business unit was awarded the highest quality score.

Market Development: We began shipping 16 cubic-foot refrigerators to the U.S. carrying Whirlpool, Roper and Kenmore brand names; these refrigerators represent a key line expansion. We also expanded output of two-door, frost-free and automatic-icemaker refrigerators. In gas ranges, we moved more towards 30-inch models and in washers towards more nine-kilogram and fewer five-kilogram models. In all cases, these moves look to increase exports and serve the growing Mexican middle class.

Customer Service: Our true competitive edge lies in how well we know our customers. We conducted major surveys of customers in México City, Monterrey and Guadalajara, as well as blind focus groups, to assess customer preferences for features.

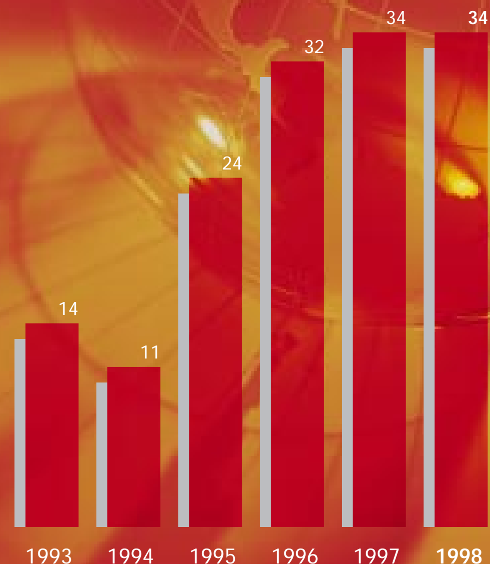
We redoubled our efforts to cut development-cycle time of new or improved products. Where a given project may have taken three years in the past, we cut the time to less than 18 months from the earliest concept to first product out the door.

Outlook

We expect 1999 to be even more challenging than 1998. Industry growth should be moderate. Consequently our focus will be on more cost efficiency and even better customer relationships. Through our Joint Venture with Whirlpool Corporation, we expect to market new product lines. We will be working to get the whole chain together –from suppliers to us and from us to distributors and customers– with the lowest cost and the highest quality all the way.

Export Sales
(% / sales)

Household Products is positioned to benefit from the domestic growth and new export opportunities.



Export

After a huge jump in exports of 47 percent in 1997, exports in 1998 remained 34 percent of total sales. Our ultimate export goal remains 50 percent of sales. Because everyone is looking at México as a base for sales to Latin America, we foresee strong competitive challenges. In 1999, we expect export growth via servicing new markets such as Venezuela and Colombia and an increased share of established markets in Central America and the Caribbean. Specifically, we are looking to boost exports of our new 17- and 18-cubic-foot refrigerators throughout this region.

Corporate Activities

Vitro's Corporate office provides the business units with a professional and sophisticated legal team for negotiations. This year, when time came for renewal of the original agreement with Whirlpool, the Household Products unit could be sure that the best interests of the company would be protected. The agreement was revised to reflect the present state of the marketplace and the potential for expanding the business. In the end, Vitro and Whirlpool signed an agreement extending the original deal for five more years with provisions for updating every five years.

Partnering

With 11 different brands sold in 140 countries, Whirlpool gives Vitro access to a huge marketing base. We also benefit from Whirlpool's world-renowned technological prowess and from access to their raw materials providers. Vitro, in turn, gives Whirlpool a valuable presence in the Mexican, Caribbean, Central and South American markets, bolstered by employees' cultural understanding and our strong relationships with suppliers, labor forces and governments.

We are especially pleased that our personnel actively participates on Whirlpool's product development teams in Europe, Asia and Latin America –with the goal of gearing products towards regional needs and preferences.

Another good partner in Household Products since 1995 is Sourdillon International. We own 34 percent of this Joint Venture, which produces gas system components primarily used in ranges.

" Our Joint Venture with Vitro Household Products has certainly enhanced our presence in Latin American markets. Products manufactured by the Joint Venture have been of excellent quality consistent with our high standards and focus on customer satisfaction."

Mike Thieneman, Executive Vice President, North American Region, Whirlpool Corporation.

Through our Joint Venture with Whirlpool Corporation, we expect to market new product lines –microwave ovens, air conditioners, dishwashers and clothes dryers.

Diverse Industries

Diverse Industries could be perceived as a catch-all for activities that do not fit in a core business. The Diverse Industries unit deserves to be viewed in a different light. We have described the unit as a laboratory for testing new ideas for products and markets and as the breeding ground for new core businesses. While accurate, that description is only part of the unit's role. Most activities actually relate very closely to the company's core operations. They either support core operations or began as by-products of core operations.

- **Related Businesses:** Glass-melt technology, fiberglass, plastic and aluminum containers, borosilicate glass products.
- **Support Operations:** Glass-making ingredients, e.g. soda ash, glass-making molds and machinery.
- **Developmental:** Close-tolerance components (extension of our capital goods manufacturer FAMA).

Diverse Industries accounted for 11 percent of Vitro's sales in 1998, up from 10 percent in 1997. Sales grew from Ps. 2,871 million to Ps. 3,142 million, an increase of 9.4 percent, with growth coming in all areas except plastics. The proportion of sales in México stood at 84 percent. In one of the year's major achievements, EBITDA grew 21 percent, finishing 1998 at Ps. 766 million and accounting for 13 percent of Vitro's total. EBITDA margin as a percentage of sales also grew nicely from 22.1 percent to 24.4 percent.

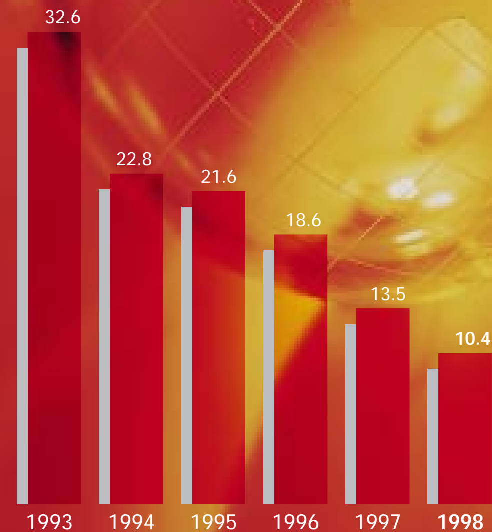
Our intense focus on profitable growth during 1998 did not distract us from producing quality. In Vitro's AST quality program we improved our score by 17 percent, the highest increase in Vitro in 1998. We have our eyes on a similar improvement in 1999.

Outlook

We will continue implementing our growth plans for 1999, even though we do not necessarily see great improvement in either the world economy or the Mexican marketplace. We look for growth in specialty borosilicate glass items such as syringes, pipettes and disposable culture tubes (DCTs), produced by our Joint Venture with Kimble Glass Inc. In 1997, we made none of these items, but we ramped up production in the second quarter of 1998 and expect them to account for 30 percent of the operation's sales in 1999. We also expect growth in aluminum cans in México, via our Joint Venture with Pechiney International and the support of subsidiary, American National Can, and in high-tech power components for Joint Venture partner General Electric.

Working Capital Investments / Sales
(% / sales)

Remarkable cash flow generation and significant reduction in working capital.



Export

Exports by the various businesses of Diverse Industries amounted to 15 percent of total sales. One of the two key export-related moves of 1998 was the establishment of the Enbosur subsidiary of Enbosa (our joint venture with Kimble Glass Inc.) to penetrate the South American pharmaceutical market for borosilicate glass products. The expansion of our exports in Vancan, our aluminum can maker which grew 14 percent from 1997 to 1998, contributes greatly.

Corporate Activities

Vitro's Corporate office plays a particularly important role for the Diverse Industries business unit. Some of the companies within the business unit are very small, yet the corporate function provides world-class legal, human resources and safety. In addition the companies within the unit benefit from corporate-wide quality programs including the recent program with NAFIN to provide funding for small suppliers to meet world-class quality standards.

Partnering

Diverse Industries has a diverse range of Joint Ventures. The longest running Joint Venture , launched in 1957, is with Owens Corning in the fiberglass field. Next oldest is Silicatos y Derivados, S.A. de C.V., a company founded with PQ Corporation in 1963. In 1978 we went into business with Kimble Glass Inc., now part of Germany's Gerresheimer Group, to make and market ampoules and vials of borosilicate glass for the pharmaceutical industry. In 1998 this Joint Venture expanded its territory to include South America, opening an Argentina-based operation to establish marketing presence in the Mercosur nations.

Diverse Industries' newest Joint Venture is MEF with General Electric. Our FAMA subsidiary, which makes molds and machinery for our glass operations, was selected by General Electric in its search for companies that could produce high precision components to demanding standards. Considering such expertise and experience Vitro and GE joined to incorporate MEF, which enjoys a firm commitment from our partner and is a top priority for Vitro management.

Our 50 percent Joint Venture with Pechiney International, global leader in aluminum cans for beverage industry, began in 1994. In 1998 we have turned around the business, coming from a negative one percent EBITDA margin to a 16 percent margin.

" Teaming ANC's technology with Vitro's operational expertise and market knowledge enabled VANCAN to seize and important share of the highly competitive Mexican beverage can market."

Edward A. Lapekas, Senior Executive Vice President and COO Beverage Worldwide,
American National Can, a member of Pechiney Group.

Enbosa, our Joint Venture with Kimble penetrates the South American pharmaceutical market for borosilicate glass products.

Glassware

1998 was a year of consolidation for the Glassware business, with earlier efforts continuing to pay off. In 1997 we partnered with Libbey Inc. for all glassware business with the exception of flatware. In 1998 we worked closely together in an effort to get to know and better understand each other's systems and processes. We talked through differences in our approaches, agreed on some mutual accommodations and set our path for the future of our Joint Venture.

Proof of the success of our relationship is the fact that in December, Libbey announced the decision to close its Canadian plant and transfer part of the production to the Crisa Joint Venture . This brought the year to a happy close, as we will now be able to maximize capacity utilization.

With the sale of World Crisa and Acero Porcelanizado during the third quarter of 1997, sales adjusted to Ps. 1,817 million in 1998 from Ps. 2,274 million in 1997. This accounted for roughly seven percent of Vitro's total. EBITDA grew, however, finishing 1998 at Ps. 541 million and accounted for nine percent of Vitro's total. EBITDA margin as a percentage of sales rose from 25 percent to 30 percent. Exports also rose, climbing from around 31 percent in 1997 to nearly 37 percent in 1998. This meant significant progress on our medium-term goal of a 50/50 ratio of domestic and export sales.

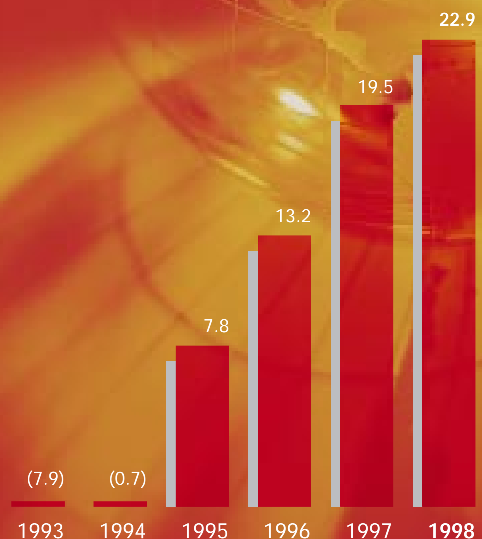
We and Libbey did well against strong competition from a number of international players in our business. Durand (France) was especially aggressive on the consumer side, with Basavachi (Turkey), Anchor-Hocking (U.S.), Cadong (Indonesia) and Bormioli (Italy) also in the race. On what we call the industrial side –mostly borosilicate products such as coffee carafes, bakeware, skillet lids and lantern mantles– we had a lower scale competition.

Advances in Marketing: The marketing and strategic planning unit envisioned in 1997 became a reality in 1998. We brought in some new talent with experience in well-known consumer marketing companies. We redefined our product portfolio as well as our promotion and publicity strategies. We began a more aggressive process to redesign our products, which were shown in trade shows in México, the U.S. and Europe and made available through our product catalog.

As part of our strategy to focus on becoming a full tableware option to our customers, we redefined our flatware business and took steps to revamp it and prepare to better serve the Mexican market. Based on this strategy, we decided to leave the laminated flatware business, which serves the food service industry. We retained a consumer line in order to keep options as a full-table service provider.

Operating Margin
(% / Sales)

Cost and expense reduction programs combined with important productivity improvements have resulted in significant increase in operating margins.



Export

Glassware's growth in exports in 1998 took us nearly to the level of 37 percent of sales, up from 31 percent in 1997. Though we have much work to do to reach our mid-term 50/50 goal, we believe we are on track. As our alliance with Libbey continues to mature, we will become an increasingly powerful player on the global scene. We expect the first payoff to result from our efforts to increase presence in Central and South America. The cultural and language similarities with our home market will be a great competitive advantage.

Corporate Activities

Vitro's Corporate office provided significant support in 1998 in achieving our objectives. On the finance side, the result was a stronger financial base with short-term peso debt substantially switched to long-term dollar-denominated debt at fixed rates, providing the Glassware unit with greater financing strength and flexibility. Another meaningful support came from Vitro's legal affair team. Important issues were settled which favored Vitrocrisa and represented less economic impact. In addition the international legal services unit assisted in finalizing our contracts with Libbey. In Management Information Systems (MIS), Corporate Activities assisted in our one million dollar investment in logistics software.

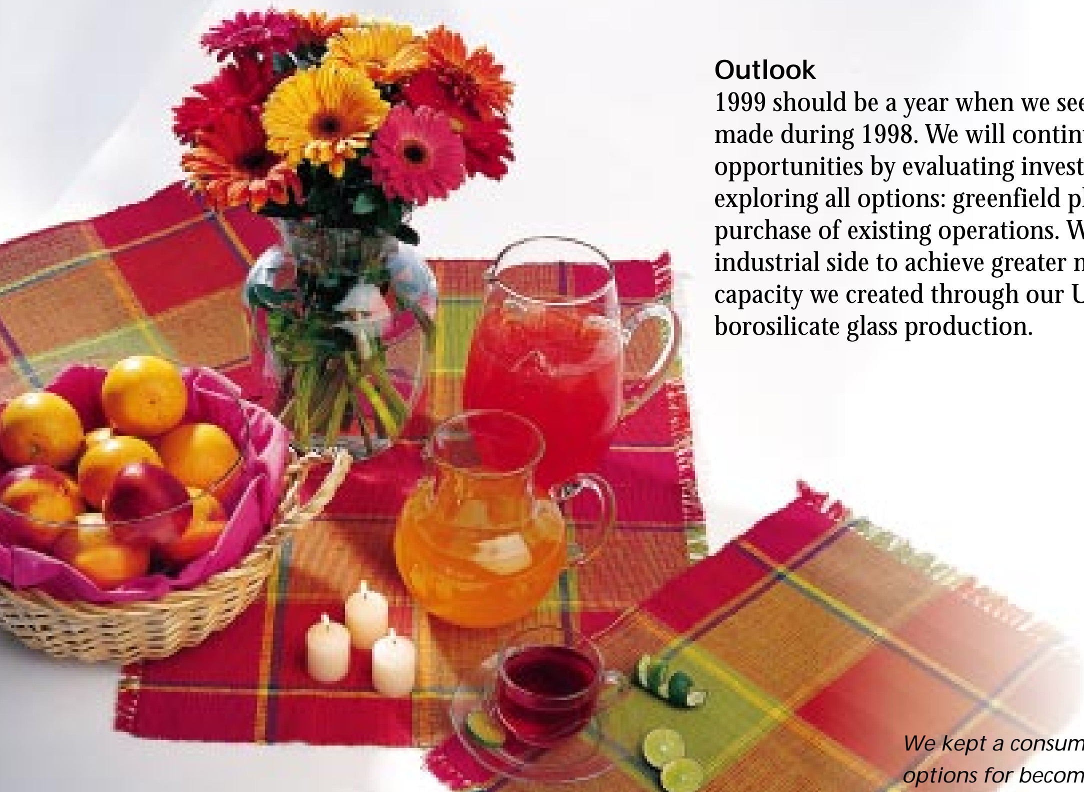
Partnering

"Our Joint Venture in Vitrocrisa is a pivotal strategy for Libbey Inc. The relationship goes well beyond our position as a 49 percent owner in Vitrocrisa. We have mutual distribution agreements, we share technology, and we share a common vision. That vision is to leverage our respective capabilities and resources to enhance our collective efforts to be the preferred source for glass tableware throughout the Western Hemisphere.

"Fundamental to achieving the above is the commitment from both partners and its executives and associates at all levels of our two companies. At Libbey we are most pleased with the integration and involvement of all business disciplines within Vitrocrisa and Libbey to achieving our shared vision. Additionally we are impressed with the commitment of Vitro, S.A. de C.V. to progressive management techniques, future growth, and expansion.

"Libbey looks forward to the promise of the future through our Joint Venture in Vitrocrisa. Together our future is bright."

John F. Meier, Chairman of the Board and Chief Executive Officer, Libbey Inc.



Outlook

1999 should be a year when we see a payoff from the moves made during 1998. We will continue to seek growth opportunities by evaluating investments outside México. We are exploring all options: greenfield plants, Joint Ventures and the purchase of existing operations. We will also be pushing the industrial side to achieve greater market balance and to fill the capacity we created through our US$10 million investment in borosilicate glass production.

We kept a consumer line in order to keep open our options for becoming a full-table service provider.

Officers

Ricardo González S.

Age 43
President, Flat Glass
Joined Vitro in 1980

Industrial Engineering degree from ITESM, Master's from Instituto de Estudios Superiores de la Empresa in Barcelona, Spain. Advanced Program in Administration at Harvard University. Appointed President in 1998.

Alfonso Gómez Palacio G.

Age 56
President, Glass Containers
Joined Vitro in 1985

BS and MBA from University of California at Berkeley and further studies at the University of Burdeos in France. Appointed President in 1994.

José Manuel Contreras M.

Age 51
President, Household Products
Joined Vitro in 1983

Degree in Public Accounting from ITESM and Master's from Columbia University in New York. Member of the Finance Board of Vitro. Appointed President in 1994.

Gonzalo Escámez S.

Age 35
President, Diverse Industries
Joined Vitro in 1984

Business Administration degree from St. Edward's University at Austin, Texas and Master's from Southern Methodist University in Dallas, Texas. Appointed President in 1998.

Roberto Rubio B.

Age 43
President, Glassware
Joined Vitro in 1980

Mechanical Engineering degree from Universidad de Anáhuac in México City and a Master's from the State University of North Carolina and a second from the Massachusetts Institute of Technology. Appointed President in 1996.

Carlos Duno S.

Age 51
President, Business and Executive Development.
Joined Vitro in 1995

Mechanical Engineering degree from Universidad Nacional Autónoma de México, with Master's in Industrial Engineering and MBA from Columbia University, New York. Appointed President in 1998.

Raúl Rangel H.

Age 49
President, Administration and General Counsel
Secretary of the Board
Joined Vitro in 1975

Law and Social Sciences from Universidad Autónoma de Nuevo León and Business Administration from ITESM. Appointed President in 1995. Served from 1991 to 1994 in the public sector.

José Antonio López M.

Age 48
President and Chief Financial Officer
Joined Vitro in 1973

Economics degree from ITESM with a Master's in Administration from the Massachusetts Institute of Technology. Appointed President in 1995.

Corporate Citizenship

Vitro Safeguards the Environment

At Vitro, our care and commitment for the environment is not just talk, it is demonstrated everyday with concrete actions. Our factories have recycling facilities and water treatment plants that help us save more than 41 percent in water consumption. In order to continue to minimize the impact on air quality, we are upgrading our furnace technology by improving combustion through the optimization of the mixtures of oxygen and fuel. The end result of this effort is cleaner air through a considerable reduction in emissions of gasses and particles. An additional effort to improve air quality will begin in 1999 when we initiate the installation of special burners designed to reduce NOx emissions.

In order to assist the state of Nuevo León in industrializing the waste management system, Vitro purchased US$1 million dollars of future recycled glass. However, our commitment does not stop there; we have also agreed to buy 100 percent of total the production of the landfill collection plant. The income generated by our investment in what is in effect “glass futures”, will be used by Nuevo León to build a new collection plant.

As part of our continuing commitment to safeguard the health of our planet, we have invited the Mexican federal authorities to our plants for environmental inspections. In 1998 alone, eight of our plants were successfully inspected and we expect to improve that record to 12 more this year. We are proud that our efforts and can boast successes such as the ISO-14001 certification of Industria del Alcali.

More than our everyday efforts for a better environment, we actively support a number of non-government organizations (NGOs) that protect and promote conservation. One example is the Chipinque Ecological Park (http://www.chipinque.org.mx). We also support wildlife conservation programs such as Organización Vida Silvestre A.C. (http://ovis.vto.com).

Family and Values

In order to promote the culture and history of glass in México we established the first glass museum in México and Latin America (http://www.vto.com/vto98/museon.htm), where visitors can learn the history of glass as well as enjoy glass works of world-renowned artists. We have also supported the research and publication of works related to the history of México and glass.

Vitro has always been concerned about the welfare of our workers and their families. In fact, we want our workers to feel that we are part of their extended family. In that aim we have created recreational centers, sport centers, and events designed for bringing together our families. Recreational facilities such as Vitro Club in México City, Monterrey, Guadalajara and Querétaro and recreation centers such as El Manzano play an important role in cementing this relationship.

A group of some of our executive’s spouses direct a program called Asociación Nacional Pro-Superación Personal, AC (ANSPAC), an association for personal growth, which has 31 units and more than 1,000 participants in México and Vitro operations. The programs are aimed at providing education for personal growth for families and friends of Vitro’s employees. But we not only look after psychological well being of our extended family. Clínica Vidriera, our specialized health center in Monterrey offers medical services to as much as 12,000 people including workers and their families.

Business Organization

At Vitro we encourage active participation of our personnel in civic organizations. During 1998 Vitro’s employees held leadership positions in organizations like Consejo Coordinador Empresarial (CCE), Confederación Patronal de la República Mexicana (COPARMEX), Consejo Nacional de Comercio Exterior (CONACEX), Instituto Mexicano de Ejecutivos de Finanzas (IMEF), Banco de Comercio Exterior (BANCOMEXT), Instituto Federal Electoral (IFE), Cámara de la Industria de la Transformación de Nuevo León (CAINTRA), Asociación Mexicana de Empaques y Embalajes (AMEE) among others. In addition, through contributions during the last year, Vitro supported more than 100 different organizations promoting education, goodwill, cultural development, healthcare and community programs such as Monterrey’s Technical Institute and Cáritas de Monterrey, A.C. (charity).

Board of Directors 1998

Adrián Sada G. [1,2,3,4]

Age 54
(Member since 1982)
Chairman of the Board of Vitro S.A. de C.V.

Chairman of the Board of Grupo Financiero Serfin. Member of the Boards of Cydsa, Gruma, Regio Empresas, Grupo ALFA, Consejo Mexicano de Hombres de Negocios, Consejo de Industriales de Nuevo León, Centro de Ciencias y Arte, A.C.

Federico Sada G. [1,2,3,4]

Age 49
(Member since 1982)
President and Chief Executive Officer of Vitro S.A. de C.V.

Member of the Boards of Grupo Financiero Serfin, Instituto Tecnológico y de Estudios Superiores de Monterrey, The University of Texas MD Anderson Cancer Center, Total Quality Foundation in Mexico.

Adrián Sada T. [1]

Age 78
(Member since 1968)
Honorary Chairman of the Board of Vitro, S.A. de C.V.
President of Vitro's Finance Committee

Chairman of the Board of Vitro, S.A. de C.V. (1972-1991). Chairman of the Board of Fundación Martínez Sada since 1972.

Dionisio Garza M. [1]

Age 44
(Member since 1995)

Chairman of the Board and Chief Executive Officer Grupo ALFA. Member of the Boards of Cemex, Cydsa, Grupo Financiero Bancomer and the Harvard University Advisory Committee to the David Rockefeller Center for Latin American Studies.

Pablo González S.

Age 45
(Member since 1987)

COO of Packaging and Technology Grupo Cydsa; and Chairman of the Board of Club Industrial, A.C. Member of the Boards of Cydsa, Regio Empresas, CINTRA, Grupo Financiero Serfin, Total Quality Foundation in México, Instituto de Mandos Intermedios.

Tomás González S. [3]

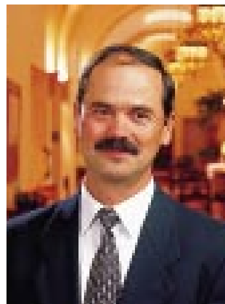
Age 55
(Member since 1980)

Chairman of the Board and Chief Executive Officer of Cydsa. Chairman, México-Japan Business Committee of the Mexican Businessmen Council for International Affairs. Member of the Boards of Grupo Financiero Serfin, Regio Empresas.

Adolfo Lagos E. [4]

Age 50
(Member since 1998)

Chief Executive Officer of Grupo Financiero Serfin. Former Deputy General Director of Grupo Financiero Bancomer.



Gustavo Madero M. [3]

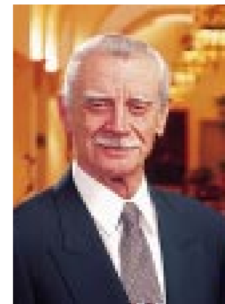
Age 43
(Member since 1996)
President of Vitro's Auditing Committee

Chief Financial Officer of Promotora Empresarial del Norte, S.A. de C.V., President of Hermanos Madero.

Roberto G. Mendoza [1]

Age 53
(Member since 1998)

Vice Chairman and Director of J.P. Morgan & Co. Incorporated. Member of J.P. Morgan Corporate Office since 1990.



Juan F. Muñoz T. [1]

Age 74
(Member since 1970)

Chief Executive Officer of Fomento Bursátil, S.A.

Board of Directors 1998

Carlos E. Represas [2]

Age 53
(Member since 1998)

Executive Vice President Nestlé, S.A. Chairman of the Board of Nestlé Holdings, Inc. (USA) and Nestlé México. Member of the Advisory Board of Nestlé USA, Inc.; Co-Chairman of the Board of Coca-Cola-Nestlé Refreshment Co.

Jaime Serra P. [3]

Age 47
(Member since 1998)

Senior Partner at Serra and Associates International. A trustee of the Yale Corporation. Secretary of Trade and Industry of México (1989-1994) and Secretary of Finance (1994).

Andrés A. Yarte C. [4]

Age 57
(Member since 1991)
President of Vitro's Corporate Responsibility Committee

Chairman of the Board and Chief Executive Officer of Nacional de Cerámica, Distribuidora de Productos Cerámicos, and K-Inver.

Lorenzo H. Zambrano [2]

Age 54
(Member since 1998)
President of Vitro's Compensations Committee

Chairman of the Board and Chief Executive Officer of CEMEX. Chairman of Instituto Tecnológico y de Estudios Superiores de Monterrey. Member of the Boards of Bank's Economic Development Institute, Americas Society, Inc.

Eduardo G. Brittingham S.

Age 72
(Member since 1968)
Alternate

Chief Executive Officer of Auto Express Rápido Nuevo Laredo; Laredo Autos; and Corporación Internacional de Manufacturas.

Julio Escámez F.

Age 64
(Member since 1973)
Alternate
Former President of Glassware (1975-1993)

Private Investor. Member of the Boards of Fabricación de Máquinas, and Consorcio Industrial de Exportación.

Alejandro Garza Lagüera

Age 72
(Member since 1982)
Alternate

Member of the Board Pulsar Internacional. Founder of SAVIA, Seguros Comercial América, Vector Casa de Bolsa, Pulsar Internacional. Member of the Boards of Cydsa, Grupo Industrial Ramírez, Centro de Estudios en Economía y Educación.

Ernesto Martens R.

Age 66
(Member since 1985)
Alternate

Chairman of the Board and Chief Executive Officer of CINTRA; Chairman of the Board of Regio Empresas and Hulnort. Member of the Boards of Instituto Tecnológico y de Estudios Superiores de Monterrey, Thunderbird American Graduate School of International Management, Grupo Banamex Accival.

Raúl Rangel H.

Age 49
President, Administration and General Counsel of Vitro.
Secretary of the Board of Vitro, S.A. de C.V., and Secretary of Vitro's Compensation and Corporate Responsibility Committees

Executive Advisor of the Centro Patronal de Nuevo León and COPARMEX, Secretary and member of the Board of Universidad Autónoma de Nuevo León.

Abelardo Morales P.

Age 43
Examiner

Financial Consultant. Former Chief Executive Officer of Grupo Financiero Serfin.

Salvador González G. Jr. †
Alternate Examiner

Committee Affiliations:
[1] Finance.
[2] Compensations.
[3] Auditing.
[4] Corporate Responsibility.

Letter from the

Chief Financial Officer

To Our Shareholders:

I am pleased to present the 1998 financial statements for Grupo Vitro. The performance reflected the benefits of last year's restructuring efforts to improve our financial position. In a year marked by industry consolidation, we also maintained our strong market positions across the board. This is an accomplishment worth noting because in several of our core businesses we faced increased competition.

As a reflection of Vitro's increased focus on the export market, more than 34 percent of 1998 sales of Mexican subsidiaries were made mainly in NAFTA countries and 47 percent of total revenues were generated in U.S. dollars. Representing Vitro's strategy to seize a position in the Americas. Consolidated sales for the full-year 1998 reached US$2,510 million, up 1.5 percent from last year.

In 1998 we again delivered on our promises. During the year Vitro made great strides toward further strengthening its financial structure and continuing to improve cash flow. Interest expenses were reduced by a total of US$77 million, bringing the average cost of Vitro's debt down to 11.2 percent from 14.5 percent at the end of 1997. The average life of our debt is now more than four years and Vitro has no obligations in the international public markets maturing until 2002. The debt-to-EBITDA ratio was reduced to 2.6 from 2.7 at the end of 1997. The EBITDA-to-net-interest-expense ratio, which is a very accurate measure of the financial health of any company, improved to 2.3 from 1.7 at the end of 1997.

The focus of Vitro's restructuring efforts and the mandate for operations in the future is to improve cash flows. In 1998 internal cash flow generation was enough to cover interest payments, capital expenditures, working capital investments along with payments for taxes and dividends. Earnings before interest and taxes (EBIT) amounted to US$431 and EBITDA reached US$602 million.

Capital expenditures during the year were US$231 million. The most significant capital expenditures were the construction of a new glass furnace with a total investment of US$30 million and the expansion of a refrigerator plant for US$15 million. Capital expenditure projects are closely tied to cash flow-generating ability. In order to qualify for new investments, projects must show positive EVA.

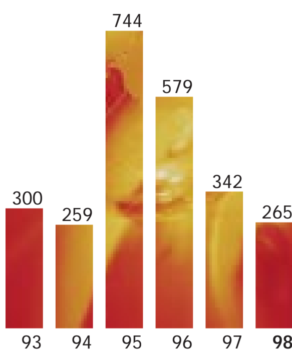
The two most notable non-operating events came from the loss in the value of 48.8 million Vitro shares, held by a trust resulting from the sale of our interest in Cydsa, S. A., and exchange losses from the Mexican peso depreciation of approximately 22.6 percent during the year. The trust was cancelled in November 1998 when all the shares were either repurchased or sold. We anticipate that a decision regarding the future of shares in treasury could be made at the 1999 Ordinary Shareholders Meeting in March.

Our role as overseers of the corporate finance function for Grupo Vitro is to be sure that the Company has the financial health to meet its objectives. Each year we make further strides toward strengthening our position. Vitro's cash flow generation ability continues to improve, providing the means to fund our future. We also continue to make progress towards full implementation of EVA to measure the return on all investments.

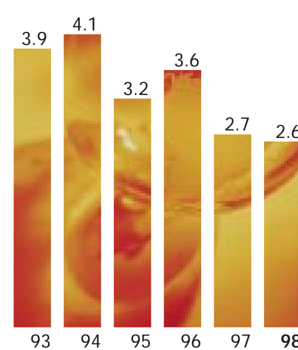
Sincerely,

José Antonio López M.
Chief Financial Officer
February 15, 1999

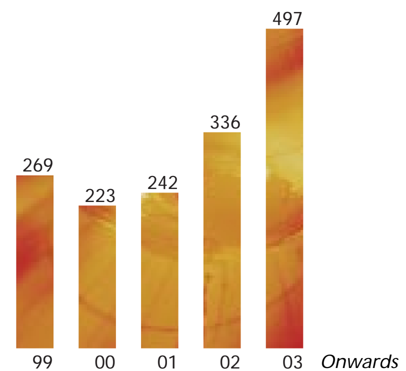
Substantial reduction in interest payments
Annual Interest Expense (million dollars)[1]



Stronger financial structure and interest coverage
Debt / EBITDA (times)



Debt Structure
(million dollars equivalent as of December 1998)
Total debt = US$1,567 million



[1] *As of December 31, 1998; exchange rate Ps. 9.8963 / dollar.*

Independent Auditors' Report

Board of Directors and
Stockholders of Vitro, S.A. de C.V.
San Pedro Garza García, N. L.

Deloitte & Touche

We have audited the accompanying consolidated balance sheets of Vitro, S.A. de C.V. and Subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1998 (all expressed in millions of Mexican pesos). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the subsidiaries and associated companies named in note 2 b), were audited by other auditors and our opinion, regarding the amounts reported by these companies, on the basis of accounting applied in those financial statements, is based only on the reports of such other auditors. The total assets of the companies above mentioned represent 20% in 1997 and 21% in 1998 of the consolidated total assets, whereas their net sales represent 16% of the consolidated net sales in 1996, 27% in 1997 and 28% in 1998.

We conducted our audits in accordance with auditing standards generally accepted in México, which are substantially the same as those followed in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors mentioned in the first paragraph, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vitro, S.A. de C.V. and Subsidiaries as of December 31, 1997 and 1998, and the consolidated results of their operations, changes in their stockholders' equity and changes in their financial position for the years ended December 31, 1996, 1997 and 1998, in conformity with accounting principles generally accepted in México.

Our audits also comprehended the translation of Mexican peso amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in note 2. Such United States dollar amounts are presented solely for the convenience of readers.

The accompanying financial statements have been translated into English language for the convenience of readers.

Deloitte & Touche

February 15, 1999

Deloitte Touche
Tohmatsu
International

Galaz, Gómez Morfín,
Chavero, Yamazaki, S.C.

Consolidated Balance Sheets

(Millions of constant Mexican pesos as of December 31, 1998)

	December 31,		Millions of US dollars (Convenience Translation) December 31,
	1997	1998	1998
ASSETS			
Cash and cash equivalents	Ps. 706	Ps. 595	$ 60
Marketable securities		180	18
Trade receivables, net of allowance for doubtful accounts of Ps. 66 and Ps. 49	2,919	2,677	271
Other receivables	781	752	76
Inventories (note 5)	2,748	3,013	304
Current assets	7,154	7,217	729
Deferred tax assets (note 16 a)	766	677	68
Investment in associated companies (note 6)	150	192	19
Long-term investments (note 7)	2,379	140	14
Land and buildings (note 8)	8,737	8,557	865
Machinery and equipment (note 8)	11,227	11,524	1,165
Construction in progress	775	1,098	111
Excess of cost over fair value of net assets acquired, net of accumulated amortization of Ps. 63 and Ps. 77	196	181	18
Intangible pension asset	550	688	70
Other assets	623	571	58
	25,403	23,628	2,388
Total assets	Ps. 32,557	Ps. 30,845	$ 3,117

	December 31,		Millions of US dollars (Convenience Translation) December 31,
	1997	1998	1998
LIABILITIES			
Short-term borrowings (note 9)	Ps. 2,265	Ps. 1,873	$ 189
Current maturities of long-term debt (note 10)	261	790	80
Trade payables	1,654	1,918	194
Accrued expenses payable	375	474	48
Other current liabilities	789	940	95
Current liabilities	5,344	5,995	606
Long-term debt (note 10)	13,027	12,840	1,298
Seniority premiums, pensions and other long-term liabilities (note 11)	952	1,196	121
Long-term liabilities	13,979	14,036	1,419
Total liabilities	19,323	20,031	2,025
STOCKHOLDERS' EQUITY			
Majority interest:			
Capital stock: no par value shares issued and outstanding, 360,000,000	360	360	36
Restatement of capital stock	4,743	4,743	479
Capital stock restated	5,103	5,103	515
Treasury stock, (46,222,540 shares)		(853)	(86)
Paid-in capital	1,036	1,039	105
Shortfall in restatement of capital	(10,360)	(10,644)	(1,076)
Minimum pension liability adjustment		(83)	(8)
Retained earnings reserved for reacquisition of shares of Vitro	1,300	1,300	131
Retained earnings	9,668	12,013	1,214
Net income (loss) for the year	2,629	(725)	(73)
Total majority interest	9,376	7,150	722
Minority interest in consolidated subsidiaries	3,858	3,664	370
Total stockholders' equity (note 14)	13,234	10,814	1,092
Total liabilities and stockholders' equity	Ps. 32,557	Ps. 30,845	$ 3,117

José Antonio López
President and Chief Financial Officer

Federico Sada G.
President and Chief Executive Officer

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

Vitro, S.A. de C.V. and Subsidiaries

Consolidated Statements of Operations

(Millions of constant Mexican pesos as of December 31, 1998, except per share amounts)

	Year ended December 31,			Millions of US dollars, except per share amounts (Convenience Translation) Year ended December 31,
	1996	1997	1998	1998
Net sales	Ps. 23,633	Ps. 24,488	Ps. 24,843	$ 2,510
Cost of sales	14,487	15,110	15,278	1,543
Gross profit	9,146	9,378	9,565	967
General, administrative and selling expenses	5,214	5,151	5,303	536
Operating income	3,932	4,227	4,262	431
Interest expense	5,727	3,381	2,622	265
Interest income	156	68	64	6
Exchange loss, net	126	344	2,409	243
Gain from monetary position	4,262	2,338	2,234	226
Total financing cost	1,435	1,319	2,733	276
Income after financing	2,497	2,908	1,529	155
Other income (loss), net	328	3	(166)	(17)
Share in net income (loss) of unconsolidated associated companies (note 6)	(2,001)	202	5	
Gain (loss) in value of shares in trust (note 7b)		47	(953)	(96)
Effect of dilution of investment in GFS (note 7a)	(1,488)			
Income (loss) before income tax and workers' profit sharing	(664)	3,160	415	42
Income and asset tax (note 16)	350	1,008	855	86
Workers' profit sharing (note 16)	133	184	166	17
Net income (loss) from continuing operations	(1,147)	1,968	(606)	(61)
Net income (loss) from discontinued operations (note 4)	(658)	47		
Income (loss) on disposal of discontinued operations (note 4)	(4,647)	957	259	26
Extraordinary item (note 17)	223	282	97	10
Net income (loss) for the year	Ps. (6,229)	Ps. 3,254	Ps. (250)	$ (25)
Net income of minority interest	Ps. 578	Ps. 625	Ps. 475	$ 48
Net income (loss) of majority interest	(6,807)	2,629	(725)	(73)
	Ps. (6,229)	Ps. 3,254	Ps. (250)	$ (25)
Earnings per common share (based on 360,000,000 outstanding shares for 1996 and 1997 and 340,197,532 average outstanding shares for 1998) (note 14):				
Net income (loss) from continuing operations	Ps. (3.18)	Ps. 5.47	Ps. (1.78)	$ (0.18)
Net income (loss) from discontinued operations	(1.83)	0.13		
Income (loss) on disposal of discontinued operations	(12.91)	2.66	0.76	0.08
Extraordinary item	0.62	0.78	0.29	0.03
Net income of minority interest	(1.61)	(1.74)	(1.40)	(0.14)
Net income (loss) of majority interest	Ps. (18.91)	Ps. 7.30	Ps. (2.13)	$ (0.21)

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

Consolidated Statements of Changes in Financial Position

(Millions of constant Mexican pesos as of December 31, 1998)

	Year ended December 31,			Millions of US dollars (Convenience Translation) Year ended December 31,
	1996	1997	1998	1998
OPERATING ACTIVITIES:				
Net income (loss) from continuing operations	Ps. (1,147)	Ps. 1,968	Ps. (606)	$ (61)
Add (deduct) non cash items:				
Depreciation and amortization	1,625	1,546	1,698	172
Provision for seniority premiums, pensions and other long-term liabilities	(58)	75	73	7
Share in net (income) loss of unconsolidated associated companies	2,001	(202)	(5)	
Gain from sale of subsidiaries and associated companies		(151)	(65)	(7)
Effect of dilution of investment in GFS	1,488			
Loss to reduce investments to market value		153	277	28
(Gain) loss in value of shares in trust		(47)	953	96
Negative goodwill	(176)			
Deferred income tax and workers' profit sharing	12	116	51	5
Tax effect from discontinued operations and extraordinary item	223	646	356	36
	3,968	4,104	2,732	276
Increase in trade payables	232	150	268	27
Decrease in trade receivables	129	62	239	24
Increase in inventories	(73)	(155)	(487)	(49)
Change in other current assets and liabilities, net	(239)	(263)	280	28
Resources generated from continuing operations	4,017	3,898	3,032	306
Net income (loss) from discontinued operations	(658)	47		
Income (expenses) on disposal of discontinued operations	(226)	1,227		
Operating assets and liabilities from discontinued operations	393	9		
Resources generated from operations	3,526	5,181	3,032	306
FINANCING ACTIVITIES:				
Short-term bank loans	7,697	4,663	4,783	483
Long-term bank loans	16,740	13,751	10,508	1,062
Capital stock contributed by (paid to) minority interest	368	27	(160)	(16)
Monetary effect on liabilities with financing cost	(4,604)	(2,476)	(2,563)	(259)
Payment of short-term loans	(9,697)	(4,972)	(5,025)	(507)
Payment of long-term loans	(10,851)	(15,373)	(7,781)	(786)
Dividends paid to stockholders of Vitro	(170)	(136)	(284)	(29)
Dividends paid to minority interest	(471)	(442)	(338)	(34)
Effect from discontinued operations	22	(21)		
Resources used in financing activities	(966)	(4,979)	(860)	(86)
INVESTMENT ACTIVITIES:				
Investment in land and buildings and machinery and equipment	(1,940)	(1,657)	(2,287)	(231)
Sale of fixed assets	180	115	181	18
Investment in subsidiaries and associated companies	(309)	(38)	(26)	(3)
Sale of subsidiaries and associated companies		2,931	89	9
Long-term investments		(1,959)	895	90
Acquisition of treasury stock			(853)	(86)
Marketable securities			(166)	(17)
Effect from discontinued operations	(713)	(17)		
Other	(136)	(171)	(116)	(11)
Resources used in investment activities	(2,918)	(796)	(2,283)	(231)
Net decrease in cash and cash equivalents	(358)	(594)	(111)	(11)
Balance at beginning of year	1,658	1,300	706	71
Balance at end of year	Ps. 1,300	Ps. 706	Ps. 595	$ 60

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

Vitro, S.A. de C.V. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Millions of constant Mexican pesos as of December 31, 1998, except per share amounts)

	Capital stock	Treasury stock	Paid-in capital	Shortfall in restatement of capital	Minimum pension liability adjustment	Retained earnings	Net income (loss) for the year	Minority interest	Stock-holders' equity
Balance at December 31, 1995	Ps. 5,103	Ps.	Ps. 1,036	Ps. (6,150)	Ps. (340)	Ps. 17,027	Ps. 1,086	Ps. 3,810	Ps. 21,572
Appropriation of net income from prior year						1,086	(1,086)		
Dividends (Ps. 0.94 per share)						(340)			(340)
Loss from holding nonmonetary assets				(2,876)					(2,876)
Increase in minority interest								74	74
Minimum pension liability adjustment					251				251
Net loss for the year							(6,805)		(6,805)
Balance at December 31, 1996	5,103		1,036	(9,026)	(89)	17,773	(6,805)	3,884	11,876
Appropriation of net loss from prior year						(6,805)	6,805		
Loss from holding nonmonetary assets				(1,334)					(1,334)
Decrease in minority interest								(26)	(26)
Minimum pension liability adjustment					89				89
Net income for the year							2,629		2,629
Balance at December 31, 1997	5,103		1,036	(10,360)		10,968	2,629	3,858	13,234
Appropriation of net income from prior year						2,629	(2,629)		
Dividends (Ps. 0.79 per share)						(284)			(284)
Loss from holding nonmonetary assets				(284)					(284)
Decrease in minority interest								(194)	(194)
Minimum pension liability adjustment					(83)				(83)
Paid in capital			3						3
Acquisition of treasury stock		(853)							(853)
Net loss for the year							(725)		(725)
Balance at December 31, 1998	Ps. 5,103	Ps. (853)	Ps. 1,039	Ps. (10,644)	Ps. (83)	Ps. 13,313	Ps. (725)	Ps. 3,664	Ps. 10,814

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

Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 1998)

1. Activities of the company

Pursuant to the stockholders meeting held March 26, 1998, Vitro, S.A. changed its name to Vitro, S.A. de C.V. ("Vitro"). Vitro is a holding company, the subsidiaries of which manufacture and market glass and plastic containers, thermoformed articles, aluminum cans, flat glass for architectural and automotive uses, glassware for table and kitchen use, fiberglass insulation and reinforcements, certain chemical products and minerals, household appliances and capital goods, and conduct related research and development activities.

2. Basis of presentation and principles of consolidation

a) *Basis of presentation*

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

The consolidated financial statements presented herein are expressed in millions of constant Mexican pesos as of December 31, 1998, except per share amounts. However, solely for the convenience of users, the consolidated financial statements as of and for the year ended December 31, 1998 have been translated into United States (US) dollars at the rate of 9.8963 pesos per one dollar, the rate of exchange published by Banco de México (Mexico's Central Bank) on December 31, 1998. The translation should not be construed as a representation that the peso amounts shown could be converted into US dollars at such rate or at any rate.

b) *Consolidated subsidiaries*

Those companies in which Vitro holds, directly or indirectly, more than 50% of the capital stock or which Vitro controls are included in the consolidated financial statements. For those companies in which Vitro has joint control, the proportionate consolidation method is used.

Vitro's subsidiaries Vitromátic, S. A. de C. V. and its subsidiaries; and Vitro Flex, S. A. de C. V.; as well as certain other subsidiaries and associated companies which in the aggregate are not material, are audited by firms of public accountants other than the Company's principal auditor. Grupo Financiero Serfin, S. A. ("GFS"), an associated company until November 1997 (see note 7a), is also audited by another firm of public accountants.

In order to consolidate the financial statements of subsidiaries located in the United States of America, the effect of inflation was taken into consideration in accordance with Bulletin B-10, as amended which is the principal difference between US generally accepted accounting principles ("US GAAP") and Mexican GAAP for these companies. Such companies' financial statements are initially prepared in accordance with US GAAP and are translated into Mexican pesos under the current rate method. The assets, liabilities, stockholders' equity (except capital stock) and the income statement accounts are translated into Mexican pesos using the exchange rate as of the date of the most recent balance sheet presented. The accumulated translation adjustment is included as a component of stockholders' equity.

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

c) *Investment in associated companies*

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

3. Principal accounting policies

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

The consolidated financial statements of the Company have been prepared in accordance with Bulletin B-10, "Recognition of the Effects of Inflation in Financial Information", as amended, issued by the Mexican Institute of Public Accountants ("IMCP"), which relates to the recognition of the effects of inflation. The Third Amendment to Bulletin B-10 (the "Third Amendment") has been adopted in preparing such consolidated financial statements. The Third Amendment requires the restatement of all comparative financial statements to constant pesos as of the date of the most recent balance sheet presented. For that purpose, Vitro's Mexican subsidiaries and associated companies use the "Indice Nacional de Precios al Consumidor" (Mexican National Consumer Price Index: "INPC"), published by Banco de México; Vitro's US subsidiaries use the Consumer Price Index - All Urban Consumers - All Items, Unadjusted ("CPI") published by the US Labor Department.

Bulletin B-12 set the rules related to the statement of changes in financial position. This statement presents the sources and uses of funds of changes in financial position during the period measured as the differences, in constant pesos, between the beginning and ending balances adjusted by the excess (shortfall) in restatement of capital. As regulated by Bulletin B-12, the monetary effect and the effect of changes in exchange rates are not considered noncash items in the determination of funds generated from operations due to the fact they affect the purchasing power of the entity.

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

- *Inventories and cost of sales.*- Inventories are valued at the price of the last purchase made during the year, at the latest production cost or, in some cases, at standard cost, without exceeding the net realizable value. Cost of sales is determined by using the price of the last purchase prior to the date of consumption, the latest production cost at the time of sale or the standard cost.

- *Land, buildings, machinery and equipment.*- Expenditures for land, buildings, machinery and equipment, including renewals and improvements which extend useful lives, are capitalized. The Company follows the principles of the Fifth Amendment to Bulletin B-10, issued by the IMCP and which became effective on January 1, 1997, under which, fixed assets are restated under the method of consumer price index adjustment, using the INPC. The starting balance to apply the INPC is the net replacement value as of December 31, 1996. For machinery and equipment purchased in a foreign country, the restatement is based on a general consumer price index from the country of origin and the exchange rate at the end of each period.

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

	Years
Buildings	20 to 50
Machinery and equipment	5 to 30

- *Excess of cost over fair value of net assets acquired.-* The excess of cost over fair value of net assets acquired of Mexican subsidiaries and associated companies is restated using the INPC. The excess of cost over fair value of net assets acquired of US subsidiaries is restated using the CPI, and such excess is translated to Mexican pesos at the exchange rate at the date of the most recent balance sheet presented.

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

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

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

- *Transactions in foreign currency for Mexican subsidiaries.-* All transactions in foreign currency are translated at the exchange rate as of the date of such transactions. In accordance with the Third Amendment, such transactions are restated using the INPC.

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

b) Cash and cash equivalents

Highly liquid short-term investments with original maturity of ninety days or less, consisting primarily of Mexican Government Treasury Bonds and money market instruments, are classified as cash equivalents.

c) Maintenance expenses

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

d) Long-term investments

Certain long-term investments, which are not accounted for by the equity method, are accounted for by the cost method. Under the cost method, periodic income of the investee is not recognized by the Company based on (i) its share of the investee's income or loss or (ii) changes in market value of the shares of the investee. The value of such long-term investments are reduced, against the results of the period, when management determines that the market value is consistently below carrying value.

e) Seniority premiums, retirement plans and severance payments

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

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

f) Employee stock option plan

An employee stock option plan (see note 14c) was adopted in 1998. The Company is accounting for stock-based compensation using a fair value based method. Compensation cost is measured at the Grant Date based on the value of the stock option award and is recognized over the vesting period.

g) Income tax

Income tax expense for the Mexican subsidiaries is computed in accordance with the partial liability method, as required by Bulletin D-4 issued by the IMCP, under which deferred income taxes are provided for identifiable, nonrecurring timing differences that are expected to reverse over a definite period of time, at the tax rates in effect at the end of each period.

h) Excess of cost over fair value of net assets acquired

The excess of cost over fair value of net assets acquired before December 31, 1991 is amortized on a straight-line basis over a period of 40 years. The excess of cost over fair value of net assets acquired after December 31,1991 is being amortized on a straight-line basis over a period of 20 years. Amortization expense for the years ended December 31, 1996, 1997 and 1998 was Ps. 55, Ps. 7 and Ps. 14, respectively. In addition to this amortization, in 1996 the excess of cost over fair value of net assets acquired for Anchor Glass Container Corporation ("Anchor") and GFS of Ps. 5,908 (included in income (loss) on disposal of discontinued operations) and Ps. 238 (included in other income (loss), net) respectively, were written off.

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

The excess of book value over cost of net assets acquired is amortized over an 18-month period. For the years ended December 31, 1996, 1997 and 1998 the amortization credited to operations amounted to Ps. 234, Ps. 0 and Ps. 0, respectively.

j) *Earning per share*

Earnings per share is computed by dividing income (loss) by the weighted average number of shares outstanding during each period.

k) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of these consolidated financial statements and its disclosures. Actual results could differ from those estimated.

4. Discontinued operations

a) *Anchor Glass Container Corporation*

On September 13, 1996, Anchor filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). As a result of Anchor's bankruptcy filing, the investment of Vitro in Anchor in the amount of Ps. 4,647 was completely written off as of August 31, 1996.

Anchor's results for 1996 are included in "Net income (loss) from discontinued operations". The following sets forth certain statement of operations data for Anchor, for the period of January 1 to August 31, 1996:

Sales	Ps.	5,975
Cost of sales		5,919
Gross profit		56
Operating expenses		329
Operating loss		(273)
Total financing cost		192
Other expenses		283
Income tax		-
Net loss	Ps.	(748)

The 1997 and 1998 tax benefit in the amount of Ps. 365 and Ps. 259, respectively, from the deduction of the loss from discontinued operations registered in 1996 is presented in the 1997 and 1998 statements of operations as "Income (loss) on disposal of discontinued operations".

On February 5, 1997, Anchor sold substantially all of its assets to an affiliate of Consumers Packaging, Inc. ("Consumers") and to Owens-Brockway Glass Containers, Inc. in a transaction approved by the Bankruptcy Court. In connection with the sale of assets of Anchor to Consumers' affiliate, Vitro provided to the Pension Benefit Guaranty Corporation ("PBGC"), a United States governmental agency that guarantees pensions, a limited guarantee of Anchor's pension underfunding liability. No payments would be made under the guarantee unless the PBGC terminates any of Anchor's pension plans, and the guarantee would be payable only to the extent the PBGC could not otherwise recover the underfunding liabilities from Consumers. The amount of the guarantee is limited to US $70 million. Payments would not begin until August 1, 2002, and would then generally be payable in equal semiannual installments over the following 10 years. Payments would not bear interest. The amount and the term of the guarantee would be proportionately reduced if the pension plans were terminated after January 31, 2002.

b) *Operations engaged in the mining of silica sand and feldspar ("Mining Operations")*

On June 27, 1997, Vitro sold 100% of its interest in the subsidiaries of the Company engaged in the mining of silica sand and feldspar to Unimin Corporation for approximately US $129.5 million in cash. A gain of Ps. 592 was recognized from the disposal of the Mining Operations. Also, Vitro and Unimin Corporation signed a 10-year contract, whereby Unimin will supply substantially all Vitro's requirements of silica sand and feldspar, two key raw materials in the manufacture of glass, at prevailing market prices.

These Mining Operations results are included in "Net income (loss) from discontinued operations". The following sets forth certain statements of operations data for these Mining Operations:

	Year ended December 31, 1996	For the period from January 1 to June 27, 1997
Sales to unaffiliated customers	Ps. 153	Ps. 88
Intercompany sales within the Company	384	181
Total net sales	537	269
Cost of sales	262	145
Gross profit	275	124
General, administrative and selling expenses	87	36
Operating income	188	88
Total financing costs	47	9
Income tax	51	32
Net income	Ps. 90	Ps. 47

5. Inventories

Inventories are summarized as follows:

	December 31,	
	1997	1998
Semi-finished and finished products	Ps. 1,847	Ps. 2,079
Raw materials	408	447
Packaging materials	70	69
	2,325	2,595
Spare parts	272	280
Refractory	28	30
Merchandise in transit	96	96
Other	27	12
	Ps. 2,748	Ps. 3,013

6. Investment in associated companies

An analysis of the investment in associated companies follows (the percentage of ownership as of December 31, 1997 and 1998, respectively, appears in parenthesis):

	December 31,	
	1997	1998
Regioplast, S. A. de C. V. (50%, 50%)	Ps. 94	Ps. 94
Compañía Manufacturera de Vidrio del Perú Ltda. S. A. (23%, 23%)	56	63
Sourdillón de México, S. A. de C. V. (100%, 34%)	*	35
	Ps. 150	Ps. 192

** This company was consolidated in 1997*

The Company's share in net income (loss) of unconsolidated associated companies is as follows:

	Year ended December 31		
	1996	1997	1998
Regioplast, S. A. de C. V.	Ps. (2)	Ps. 11	Ps. 2
Compañía Manufacturera de Vidrio del Perú, Ltda, S.A.		(2)	2
Sourdillón de México, S. A. de C. V.			1
GFS (see note 7a)	(3,781)	(8)	
Cydsa, S.A. ("Cydsa") (see note 7b)	294	201	
	Ps. (3,489)	Ps. 202	Ps. 5

7. Long-term investments

The analysis of the long-term investments is as follows:

	December 31,	
	1997	1998
Investment in GFS (market value of Ps. 372 and Ps. 140)	Ps. 372	Ps. 140
Account receivable from the sale of Cydsa	2,007	-
	Ps. 2,379	Ps. 140

a) GFS, a Mexican corporation, is a financial service holding company. Until November 1997 the Company's investment in GFS was accounted for using the equity method. In June 1996, Vitro's ownership interest in GFS was diluted from 20.0% to 11.4%, as a result of the issuance by GFS of new capital stock, of which Vitro purchased only US $15 million. The effect of the dilution on the Company's 1996 operating results was a noncash charge of Ps. 1,322. Additionally, the Company made a provision of Ps. 166 in 1996 for probable future dilution of which it had been advised. Both the Ps. 1,322 and Ps. 166 amounts were the result of new and probable investments by others in the capital stock of GFS at a per share price below the per share carrying value of the Company's investment in GFS. During 1997, because the Company did not make further investments in GFS, its investment in GFS was diluted from 11.4% to 6.8%. Effective November 30, 1997, the Company concluded it no longer had significant influence with respect to GFS and, accordingly, discontinued the use of the equity method of accounting for its investment in GFS, resulting in a write- down included in other income (loss), net of Ps. 153 and Ps. 232 for 1997 and 1998, respectively, to reduce the carrying value of its investment in GFS to market value.

b) Cydsa, a Mexican company, primarily manufactures and distributes petrochemical products in México. Until October 1997 the Company's investment in Cydsa was accounted for using the equity method. In October 1997, the Company entered into the trust agreements described below, pursuant to which the Company agreed to sell the shares representing its 49.9% interest in Cydsa (the "Cydsa Shares") in exchange for the right to receive the proceeds of the sale of approximately 47.6 million of the Company's common shares (the "Vitro Shares") owned in the aggregate by Mrs. Lydia Sada Treviño, Mr. Tomás González Sada and Mr. Pablo González Sada (the "González Sada Family").

The Cydsa Shares were deposited by the Company in a trust (the "Cydsa Trust") created pursuant to the Stock Administration Trust Agreement dated October 10,1997 (the "Cydsa Trust Agreement"), between Vitro, as grantor and beneficiary, and Banca Serfin, S. A., Institución de Banca Múltiple, Grupo Financiero Serfin, S. A., as Trustee (the "Cydsa Trustee"). Pursuant to the terms of the Cydsa Trust, on December 15, 1997, the Cydsa Trustee transferred the Cydsa Shares to the González Sada Family.

The Vitro Shares were deposited by the González Sada Family in a trust (the "Vitro Trust") created pursuant to the Stock Administration Trust Agreement dated October 10, 1997 (the "Vitro Trust Agreement"), among the González Sada Family, as grantor and beneficiaries, Banca Promex, S. A. Institución de Banca Múltiple, Grupo Financiero Promex Finamex, as Trustee (the "Vitro Trustee"), Mrs. Laura Casas de González Sada, and Vitro. Pursuant to the terms of the Vitro Trust Agreement, the Vitro Trustee has been instructed, upon receipt of written instructions of the technical committee to the Vitro Trust appointed by the González Sada Family, to sell, at one or more times, all of the Vitro Shares and to deliver the proceeds of any such sale to the Cydsa Trust for the benefit of Vitro as beneficiary of the Cydsa Trust.

The sale of the Cydsa Shares on December 15,1997 resulted in a loss of Ps. 325, based on the December 15, 1997 market value of the Vitro Shares (Ps. 34.70 per share). The Company recorded the right to receive the proceeds of the sale of the Vitro Shares, as a non-current account receivable which is classified in the consolidated balance sheet as long-term investments. This receivable will be marked-to-market at each period end based on the market value of the Vitro Shares which support this receivable. The Company recorded an additional income of Ps. 47 on December 31, 1997, as a result of the increase in the market value of the Vitro Shares between December 15, 1997 and December 31, 1997. During 1998 the Company recorded a loss of Ps. 953 based on the market value during the year.

During 1998, upon instructions received from the Technical Committee of the Vitro Trust, the Vitro Trust sold 14,450,000 Vitro shares to the Stock Options Trust, and 28,039,000 Vitro shares to Vitro. The proceeds of these sales, approximately Ps. 793 were delivered to the Cydsa Trust which in turn delivered such proceeds to the Company as a beneficiary of the Cydsa Trust. The net effect of these sales resulted in a cash-neutral transaction to the Company. The remaining Vitro shares held in the Vitro Trust, 6,284,140, were sold to a third party at market price. Consequently, both the Vitro trust and the Cydsa trust were terminated during 1998.

Concurrent with the sale of the 6,284,140 Vitro shares, Vitro purchased shares of a publicly traded Mexican company. Such shares purchased, have been recorded as marketable security in the amount of Ps. 147 at December 31, 1998. Vitro has entered into a contract expiring in October 1999, whereby Vitro will i) pay the publicly traded company referred to above, the appreciation on the shares classified as marketable securities or; ii) be reimbursed for the depreciation on such shares. Vitro has also entered into a contract expiring in October 1999, whereby the purchaser of the 6,284,140 Vitro shares will pay to or receive from Vitro the appreciation or depreciation, respectively, in the market value of the related Vitro shares.

8. Land and buildings, and machinery and equipment

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

	December 31,	
	1997	1998
Land	Ps. 3,011	Ps. 2,964
Buildings	8,924	8,964
Accumulated depreciation	(3,198)	(3,371)
	Ps. 8,737	Ps. 8,557
Machinery and equipment	Ps. 23,198	Ps. 24,512
Accumulated depreciation	(11,971)	(12,988)
	Ps. 11,227	Ps. 11,524

As mentioned in note 3 a), machinery and equipment purchased in a foreign country, in the amount of Ps. 5,916, as of December 31, 1998, was restated using the CPI.

9. Short-term borrowings

At December 31, 1997 and 1998, short-term borrowings denominated in Mexican pesos totalled Ps. 757 and Ps. 102, respectively, and short-term borrowings denominated in foreign currency (all of which are denominated in US dollars) totalled Ps. 1,508 and Ps. 1,771, respectively.

10. Long-term debt

Long-term debt consists of the following:

	December 31,	
	1997	1998
I. Foreign subsidiaries (payable in US dollars):		
Secured debt, floating interest rate based on LIBOR plus a spread between 2.25% and 5%, principal payable in several installments through 2003.	Ps. 90	Ps. 153
Unsecured debt, floating interest rate based on LIBOR plus a spread between 1% and 2%, principal payable in several installments through 2002.	721	320
II. Mexican subsidiaries (payable in US dollars):		
Secured debt, floating interest rate based on LIBOR plus a spread between 1.5% and 2.5%, principal payable in several installments through 2006.	1,969	2,045
Unsecured debt, floating interest rate based on LIBOR plus a spread between 0.5% and 1.75%, principal payable in several installments through 2003.	3,102	3,600
10 1/4% guaranted senior unsecured notes due in year 2002 and 11 3/8% guaranteed senior unsecured notes due in year 2007.	4,067	4,107

	December 31,	
	1997	1998
III. Vitro and Mexican subsidiaries (payable in Mexican pesos):		
Secured debt, floating interest rate based on TIIE (interbank equilibrium rate) or TIIP (interbank average rate) adjusted by a spread between -2% and 0.5%, principal payable in year 2006.	Ps. 144	Ps. 14
Unsecured debt, floating interest rate based on TIIE, TIIP or CETES (Treasury Bills) adjusted by a spread between -2% and 0.5%, principal payable in several installments through year 2003.	235	371
Unsecured medium term notes, floating interestrate based on TIIE, TIIP, CETES, etc. (leading rate) plus a spread between 0.4% and 2.5 %, principal payable in several installments through 2003.	1,363	1,380
Unsecured medium term note, interest rate based on TIIE plus 2%, principal payable in year 2004.		700
IV. Vitro and Mexican subsidiaries (denominated in UDI's (investment units), payable in pesos):		
Unsecured debt, interest rate of 8.75%, payable in year 2006.	219	218
9.25% unsecured medium term notes, payable in year 2002.	652	
13% secured medium term notes, payable in year 2004.	726	722
	13,288	13,630
Less current maturities.	261	790
	Ps. 13,027	Ps. 12,840

As of December 31, 1998, the interest rate of TIIE, TIIP, CETES and LIBOR were 34.68%, 34.85%, 31.20% and 5.064%, respectively.

The schedule of principal payments of long-term debt as of December 31, 1998 is as follows:

Year ending December 31,		
2000	Ps.	2,201
2001		2,392
2002		3,327
2003		895
2004 and after		4,025
	Ps.	12,840

In some of the Company's long-term debt agreements certain restrictions and covenants are set forth that require the maintenance of various financial ratios, which were fulfilled.

Debt of certain subsidiaries of the Company and Vitro of a total of Ps. 2,934 is collateralized with fixed assets and trade accounts receivable with a book value of Ps. 5,612 as of December 31, 1998.

11. Pensions plans and seniority premiums

The disclosures relating to the Company's pensions plans and seniority premiums required by Bulletin D-3, issued by IMCP, calculated as described in note 3 e), together with certain actuarial assumptions utilized are presented below as of December 31, 1997 and 1998 (the data set forth below excludes discontinued operations).

	December 31,			
	1997		1998	
Accumulated benefit obligation	Ps.	906	Ps.	1,179
Projected benefit obligation		976		1,259
Plan assets at fair value		8		10
Unrecognized net loss				163
Unrecognized transition obligation		613		561
Changes in assumptions and adjustments from experience				126
Projected net liability	Ps.	355	Ps.	399
Additional minimum liability	Ps.	550	Ps.	775
Net periodic cost		132		174

Weighted-average assumptions:

	December 31,	
	1997	1998
Discount rate	5 %	5 %
Expected rate of return on plan assets	7 %	7 %
Rate of compensation increase	1 %	1 %

12. Contingencies

The Company is not a party, and none of its assets is subject, to any pending legal proceedings nor is the Company subject to any contingent liabilities, other than as described in note 4 and legal proceedings and contingent liabilities arising in the normal course of business and against which the Company is adequately insured or indemnified or which the Company believes are not material in the aggregate.

13. Foreign currency operations

a) At December 31, 1998, the assets and liabilities denominated in foreign currency (other than Mexican pesos) of the Company's Mexican subsidiaries consist of the following:

	Millions of US dollars	Millions of Mexican pesos
Monetary assets	$ 91	Ps. 896
Inventories	24	233
Fixed assets	598	5,916
Monetary liabilities	1,241	12,284

b) Foreign operations of the Company's Mexican subsidiaries during 1998 consisted of the following:

	Millions of US dollars	Millions of Mexican pesos
Exports	$ 685	Ps. 6,778
Imports	467	4,622
Interest expense, net	126	1,251

c) During 1996, 1997 and 1998, the Mexican peso was devalued against the US dollar. The exchange rates used for purposes of the Company's consolidated financial statements at the following dates were:

December 31, 1995	7.7396
December 31, 1996	7.8765
December 31, 1997	8.0681
December 31, 1998	9.8963

On February 15, 1999 the date of issuance of these consolidated financial statements, the exchange rate was Ps. 9.9315 per one US dollar.

14. Stockholders' equity

a) Capital stock of the Company consisted of 360,000,000 ordinary, nominative, fully paid common shares, without par value, as of December 31, 1997 and 1998.

b) In addition to the transactions with the Vitro Trust as described in note 7 b), during 1998 the Stock Option Trust, described in note 14 c), and Vitro purchased 827,000 and 2,988,000 Vitro Common Shares, respectively, in transactions on the Mexican Stock Exchange. The aggregate cost of these purchases was approximately Ps. 59. The 15,195,540 Vitro shares held by the Stock Option Trust and the 31,027,000 Vitro shares held directly by Vitro are considered to be treasury shares of the Company for accounting purposes. These 46,222,540 shares also decrease the average number of shares outstanding used to calculate earnings per share.

c) In March 1998, the Company adopted an employee stock option plan (the "Plan"). Pursuant to the Plan, effective March 1, 1998 (the "Grant Date"), the Company granted to certain of its employees, executive officers and directors (the "Eligible Executives") stock options pursuant to which the Eligible Executives have the right to buy an aggregate of 2,813,300 common shares of the Company at an exercise price to be determined at the time such options are exercised.

   Subject to certain exceptions in case of changes in the employment status, 50%, 25% and 25% of the options become exercisable, respectively, on the third, fourth and fifth anniversary of the Grant Date, and all of the options expire on the tenth anniversary date of the Grant Date.

   All options have been granted at an initial exercise price of Ps. 31.31, which is equal to the average closing price on the Mexican Stock Exchange of the common shares on the 20 trading days prior to the Grant Date. The exercise price of the options will be determined at the time such options are exercised by indexing the initial exercise price using an indexing factor based on the cumulative performance of the Company's common shares relative to the cumulative performance of the Indice de Precios y Cotizaciones of the Mexican Stock Exchange (the "MSE Price Index"), which indexing factor is subject to certain ceilings and floors. The effect of the indexation is that the initial exercise price will be increased less if the Company's common shares outperform the MSE Price Index and will be increased more if the common shares underperform the MSE Price Index.

   If such options were exercisable as of December 31, 1998, the exercise price per share would be Ps. 31.31. The closing price of the Company's shares on the Mexican stock exchange on December 31, 1998 was Ps. 14.90. Although the Plan contemplates yearly grants for a total of 5 years, the Company may at any time, at its sole discretion, amend any of the terms of the ungranted options, or otherwise terminate the Plan.

   Compensation cost charged against income for such Plan was Ps. 3 for 1998. The fair value of each option granted in 1998 was estimated to be Ps. 8.46 per share. Such estimate was made on the Grant Date using the Black-Scholes option-pricing model with the following assumptions: volatility of 44%; risk free interest rate of 15%; and an expected life of five years.

d) Stockholders' equity includes accrued profits and results from the restatement of assets which, in case of distribution, will be subject, under certain circumstances, to the payment of income tax by the Company. Effective January 1, 1999, after a change made to the Income Tax Law in México, the taxable rate for those distributions will be 35%; and in all cases, when dividends are paid to individuals or foreign residents, an additional 5% withholding tax will be paid.

e) At the stockholders' meeting held on April 26, 1996, a dividend of Ps. 340 (Ps. 216 nominal amount) was declared to be paid, 50% in May 1996 and the other 50% when the Board of Directors so determines. The Board of Directors authorized payment of the remaining part in July 1997. At the stockholders' meeting held on March 26, 1998, a dividend of Ps. 284 (Ps. 252 nominal amount) was declared which was paid in April 1998.

f) Minority interest in consolidated subsidiaries consists of the following:

	December 31,	
	1997	1998
Capital stock	Ps. 3,362	Ps. 3,202
Shortfall in restatement of capital	(1,721)	(1,892)
Retained earnings	1,592	1,879
Net income for the period	625	475
	Ps. 3,858	Ps. 3,664

g) Majority interest stockholders' equity consists of the following:

	December 31, 1998		
	Nominal value	Restatement	Restated value
Capital stock	Ps. 360	Ps. 4,743	Ps. 5,103
Treasury stock	(794)	(59)	(853)
Paid-in capital	294	745	1,039
Minimum pension liability adjustment	(83)		(83)
Retained earnings	(1,810)	15,123	13,313
Net loss for the year	(618)	(107)	(725)

h) Retained earnings reserved for reacquisition of Vitro's shares is the amount reserved by the shareholders' meeting with the purpose to repurchase shares of Vitro. In accordance with Mexican regulations once the reserve is established the Board of Directors has the authority to decide when the repurchase is made.

15. Amortizable tax losses

At December 31, 1998, the tax loss carry forwards, the asset tax to be recovered and the capital losses that can be amortized against capital gains consist of the following:

	Tax loss carry forwards		Asset Tax		
Expiration Year	Majority interest	Minority interest	Majority interest	Minority interest	Capital losses
1999	Ps.	Ps.	Ps.	Ps. 6	Ps.
2000				7	
2001		9		8	1,195
2002		12		8	
2003		27		7	
2004	178	67	172	12	
2005		405		8	
2006		211		8	
2007	3,054	103		6	
2008	3,487	154	154	6	
	Ps. 6,719	Ps. 988	Ps. 326	Ps. 76	Ps. 1,195

16. Income tax and workers' profit sharing

a) The income tax and workers' profit sharing included in the Company's results are:

	Year ended December 31,		
	1996	1997	1998
Income tax:			
Current	Ps. 400	Ps. 898	Ps. 647
Deferred	(50)	110	49
	350	1,008	696
Asset tax			159
	Ps. 350	Ps. 1,008	Ps. 855

	Year ended December 31,		
	1996	1997	1998
Workers' profit sharing:			
Current	Ps. 145	Ps. 186	Ps. 183
Deferred	(12)	(2)	(17)
	Ps. 133	Ps. 184	Ps. 166

Deferred tax assets (liabilities) presented on the balance sheet result from the following:

	December 31,	
	1997	1998
Deferred tax from provision of furnace repair	Ps. 331	Ps. 371
Deferred tax benefit from the future deduction of inventories held on December 31, 1986	502	458
Deferred tax from deduction of fixed assets	(67)	(152)
	Ps. 766	Ps. 677

b) At December 31, 1998, there were Ps. 1,933 of previously deducted inventories and Ps. 397 of non-deductible provisions related to seniority premium and pension payments for which no deferred taxes have been provided in accordance with Mexican GAAP.

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

	Year ended December 31,		
	1996	1997	1998
Effective income tax rate	(52.7) %	31.9 %	206.0 %
Asset tax included as income tax			(38.3)
Effect of dilution of investment in GFS	35.8		
Effect of loss in value in long term investments			(82.7)
Purchase deductions	(5.0)	1.0	24.2
Difference between tax and financial accounting for monetary gain	(6.9)	2.0	(10.8)
Share in net income of associated companies	69.8	2.2	
Reserves	2.6	(0.9)	(16.2)
Loss from foreign companies and minority interest	8.3	0.8	(13.5)
Difference between tax and financial accounting for depreciation	(28.7)	4.1	(17.0)
Other	10.8	(7.1)	(17.7)
Statutory income tax rate	34.0 %	34.0 %	34.0 %

d) Effective January 1, 1999, the Mexican income tax law was changed in several respects. In addition to the changes described in note 14d), other significant changes include (i) a company which files a consolidated tax return will be allowed to consolidate only 60% of its share of its subsidiaries for tax purposes, (ii) estimated tax payments will be based on the taxable income of each subsidiary individually as opposed to a consolidated basis, and (iii) the overall tax rate increased from 34% to 35%; however, in 1999 income taxes will be currently payable based on a 32% rate and the remaining 3% will be paid when such amounts are paid out as dividends. The 32% rate will decrease to 30% effective January 1, 2000 and the remaining 5% will be paid when such amounts are paid out as dividends. Tax payers have the option to pay 35% currently rather than deferring a remainder until dividends are paid.

17. Extraordinary item

The extraordinary item in 1996, 1997 and 1998 is the tax benefit that resulted from the utilization of tax loss carryforwards.

18. Related party information

The following reflects transactions between the Company and GFS:

	As of and for the year ended December 31,		
	1996	1997	1998
Short-term investments	Ps. 88	Ps. 8	Ps. 20
Short-term loans payable to GFS	9	111	168
Long-term loans payable to GFS	1,844	1,338	669
Interest paid to GFS	435	843	383

19. Business dispositions

a) Partnership with Libbey Inc.-On August 29, 1997 Vitro entered into a partnership with Libbey Inc., through which Vitro sold 49% of its Glassware business and 100% of its World Crisa subsidiary in the US. The proceeds received in this transaction were US $ 100 million in cash. A gain of Ps. 563 was realized as a result of this transaction and is included in “Other income, net”.

b) Sale of Mining Operations.- During 1997 Vitro sold 100% of its interest in the subsidiaries engaged in the mining of silica sand and feldspar (see note 4 b).

c) Sale of Cydsa.- On December 15, 1997 Vitro sold its 49.9% interest in Cydsa (see note 7 b).

20. Business segment data

The accounting policies of the segments are the same as those describe in notes 2 and 3. The Company evaluates the performance of its segments on the basis of operating income. Intersegment sales and transfers are accounted for as if the sales and transfers were to third parties, that is, at current market prices.

Vitro's reportable segments are strategic business units that offer different products. The segments are managed separately; each requires different manufacturing operations, technology and marketing strategies; and each segment primarily serves a different customer base.

The Company's five reportable operating segments are: Glass Containers, Flat Glass, Glassware, Household Products and Diverse Industries. The principal products of each of the segments are summarized below:

Segment	Principal products
Glass Containers	Glass containers.
Flat Glass	Flat glass for the construction and automotive industries.
Household Products	Home appliances.
Glassware	Glassware for table and kitchen use.
Diverse Industries	Soda ash, fiberglass, plastic and aluminum can containers; glass forming machines and molds for plastic and glass containers.

The segment data presented below does not include discontinued operations for any of the periods presented.

	Containers	Flat Glass	Household Products	Glassware	Diverse Industries	Corporate	Consolidated
December 31, 1996:							
Net sales	Ps. 7,228	Ps. 7,846	Ps. 3,679	Ps. 2,415	Ps. 2,977	Ps. 50	Ps. 24,195
Intersegment sales	33	4	19	12	494		562
Consolidated net sales to external customers	7,195	7,842	3,660	2,403	2,483	50	23,633
Operating income	1,223	1,697	363	318	521	(190)	3,932
Assets	11,467	8,885	3,905	2,692	3,792	4,757	35,498
Capital expenditures	442	860	433	9	105	91	1,940
Depreciation and amortization	618	424	136	190	216	41	1,625
December 31, 1997:							
Net sales	Ps. 7,312	Ps. 7,915	Ps. 4,441	Ps. 2,274	Ps. 2,871	Ps. 48	Ps. 24,861
Intersegment sales		20		12	341		373
Consolidated net sales to external customers	7,312	7,895	4,441	2,262	2,530	48	24,488
Operating income	1,344	1,589	482	443	461	(92)	4,227
Assets	10,859	7,860	3,799	2,139	3,630	4,270	32,557
Capital expenditures	451	608	286	76	177	59	1,657
Depreciation and amortization	614	396	164	127	173	72	1,546
December 31, 1998:							
Net sales	Ps. 7,451	Ps. 8,341	Ps. 4,481	Ps. 1,817	Ps. 3,142	Ps. 50	Ps. 25,282
Intersegment sales	7	22		9	401		439
Consolidated net sales to external customers	7,444	8,319	4,481	1,808	2,741	50	24,843
Operating income	1,277	1,701	442	416	568	(142)	4,262
Assets	11,434	7,876	3,838	2,189	3,819	1,689	30,845
Capital expenditures	1,141	259	318	164	370	35	2,287
Depreciation and amortization	647	462	199	125	198	67	1,698

Export sales from México, substantially all of which are transacted in US dollars, are principally to the United States and Canada and were as follows:

	Year ended December 31,		
	1996	1997	1998
	Ps. 5,553	Ps. 6,369	Ps. 6,778

Certain geographic information about the Company's operations and assets is summarized as follows:

	Year ended December 31,		
	1996	1997	1998
Net sales [1] to external customers:			
México	Ps. 12,723	Ps. 13,394	Ps. 12,998
All foreign countries, principally the United States and Canada	10,910	11,094	11,845
Consolidated	Ps. 23,633	Ps. 24,488	Ps. 24,843

Consolidated net sales to a single external customer did not equal 10% or more of Vitro's total consolidated net sales.

[1] Net sales are attributed to countries based on location of customer.

	Year ended December 31,		
	1996	1997	1998
Land and buildings, machinery and equipment, and construction in progress:			
México	Ps. 20,168	Ps. 19,404	Ps. 19,888
All foreign countries, principally Central and South America and the United States	1,434	1,335	1,291
Consolidated	Ps. 21,602	Ps. 20,739	Ps. 21,179

21. Year 2000

During 1997 the Company began a project to identify and correct the systems applications affected by the year 2000 compliance issue. As part of such project the Company is working with vendors, suppliers, banks and other institutions to determine their status with respect to this issue. Although the Company is planning to finish this project by the end of March 1999, using the remaining of the year for testing and minor adjustments, no assurance can be made of the final outcome.

The Company has incurred, in this concept, approximately Ps. 6 and Ps. 66 in 1997 and 1998, respectively, in connection with this project. Cost relating to achieving Year 2000 compliance are expensed as incurred.

Stock Performance

The price range for Vitro's common stock on the New York Stock Exchange (NYSE) and the Mexican Stock Exchange (BMV) over 1998 was as follows:

	1998			
	NYSE ADR (in dollars)		BMV Shares (in pesos)	
	High	Low	High	Low
First Quarter	13.12	10.50	34.28	29.58
Second Quarter	12.13	6.13	34.50	18.26
Third Quarter	7.56	3.50	21.95	12.02
Fourth Quarter	6.12	3.93	20.05	13.72

Note: One ADR represents three ordinary shares.

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