

Edgar Filing: DESC S A DE C V - Form 6-K

DESC S A DE C V  
Form 6-K  
April 29, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16  
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2004

Commission File Number: 001-13196

DESC, S.A. DE C.V.

(Translation of registrant's name into English)

PASEO DE LOS TAMARINDOS 400-B, BOSQUES DE LAS LOMAS, 05120 MEXICO, D.F., MEXICO

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports  
under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as  
permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as  
permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this  
Form, the registrant is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.  
Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in  
connection with Rule 12g3-2(b): 82-\_\_\_\_\_

The following is included in this report on Form 6-K:

Item

1. English translation of a summary of the resolutions adopted at the Registrant's annual ordinary shareholders' meeting
2. Consolidated Financial Statements of Desc Automotriz, S.A. de C.V. for the years ended December 31, 2003 and 2002, together with the independent auditors' report

## Edgar Filing: DESC S A DE C V - Form 6-K

3. Consolidated Financial Statements of the Registrant for the years ended December 31, 2003 and 2002, together with the independent auditors' report
4. English Translation of a Press Release, dated April 27, 2004, announcing Registrant's First Quarter 2004 results
5. Consolidated Financial Statements of Registrant, at March 31, 2004 and 2003, in the format required to be filed with the Mexican Stock Exchange

Item 1

desc

SUMMARY OF THE RESOLUTIONS ADOPTED AT THE ANNUAL ORDINARY  
SHAREHOLDERS' MEETING OF DESC, S.A. DE C.V.,  
HELD ON APRIL 26, 2004.

I. PRESENTATION OF THE REPORT OF THE BOARD OF DIRECTORS, AS PROVIDED IN ARTICLE 172 OF THE GENERAL CORPORATIONS LAW AND THE REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS, REGARDING THE FISCAL YEAR ENDED DECEMBER 31, 2003 AND RESOLUTIONS REGARDING SUCH REPORTS.

The Report referred to in the general provision of Article 172 of the General Law of Commercial Companies was deemed submitted, as was the Report of the Board of Directors Audit Committee, for the fiscal year from January 1 and December 31, 2003, which were available to the shareholders in advance of the meeting in accordance with the applicable provisions, together with the consolidated and unconsolidated Financial Statements of the Company and of the subsidiaries where the Company's investment exceeds 20% of its consolidated net worth, as well as those that contribute more than 10% to the total assets or profits of DESC, S.A. de C.V., duly audited by the external auditors (Desc Automotriz, S.A. de C.V. and Cantiles de Mita, S.A. de C.V.)

II. RATIFICATION OF THE ACTIONS UNDERTAKEN BY THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES DURING SAID FISCAL YEAR.

Any and all of the actions taken by the Board of Directors of DESC, S.A. de C.V. and its Committees during the fiscal year ended December 31, 2003 were unanimously approved and ratified.

III. DISCUSSION, APPROVAL OR MODIFICATION, IF APPROPRIATE, OF THE FINANCIAL STATEMENTS OF THE CORPORATION AS OF DECEMBER 31, 2003, WITH THE PRIOR READING OF THE REPORT OF THE STATUTORY EXAMINER.

The consolidated and unconsolidated financial statements of the Company through December 31, 2003, were unanimously approved, consisting of the General Balance Sheet, the Profit and Loss Statement, the Statement of Stockholders Equity and the Statement of Changes in the Financial Situation of DESC, S.A. de C.V., with their Notes, audited by the company's external auditors, in the form that they were presented at the Shareholders' Meeting, upon prior reading of the Statutory Auditor's Report.

## Edgar Filing: DESC S A DE C V - Form 6-K

### IV. RESOLUTIONS ON THE APPLICATION OF RESULTS.

The net loss for the fiscal year, which is in the amount of \$2,240'386,163.23 pesos, Mexican Currency, was applied against the Accumulated Profit Account.

### V. ELECTION OR REELECTION, AS THE CASE MAY BE, OF THE MEMBERS OF THE BOARD OF DIRECTORS, AS WELL AS THE BOARD COMMITTEE MEMBERS, AND THE STATUTORY EXAMINERS.

a) Pursuant to Clause Twenty-Sixth of the bylaws, it was resolved that the Board of Directors will be comprised of 11 Directors, of which 6 Directors shall be elected by majority vote of the Series "A" shares represented at the Shareholders' Meeting and 5 Directors shall be elected by majority vote of the Series "B" shares represented at the Shareholders' Meeting.

b) By unanimous vote of those present, the following persons were elected members of the Board of Directors of DESC, S.A. de C.V., who being present or having had knowledge of their possible election, have given their acceptance of their appointments.

#### BOARD OF DIRECTORS

##### SERIES "A" DIRECTORS

|  |                      |
|--|----------------------|
| FERNANDO SENDEROS MESTRE               | Patrimonial/ Related |
| ALBERTO BAILLERES GONZALEZ             | Related              |
| PABLO JOSE CERVANTES BELAUSTEGUIGOITIA | Independent          |
| FEDERICO FERNANDEZ SENDEROS            | Patrimonial/ Related |
| CARLOS GOMEZ Y GOMEZ                   | Patrimonial/ Related |
| ERNESTO VEGA VELASCO                   | Related              |

##### SERIES "B" DIRECTORS

|                           |             |
|---------------------------|-------------|
| RUBEN AGUILAR MONTEVERDE  | Independent |
| VALENTIN DIEZ MORODO      | Independent |
| CARLOS GONZALEZ ZABALEGUI | Independent |
| PRUDENCIO LOPEZ MARTINEZ  | Independent |
| LUIS TELLEZ KUENZLER      | Related     |

c) For purposes of the provisions of the Code of Better Corporate Practices, it was recorded that of the 11 Directors elected at the Shareholders' Meeting, that the company to date has 3 Related Patrimonial Directors; 5 Independent Directors; and 3 Related Directors.

2

d) It was resolved that the Evaluation and Compensation Committee be composed of 3 Directors; the Audit Committee, by 3 Directors; and the Finance and Planning Committee, by 4 Directors.

e) The following Directors were appointed members to the Executive, Evaluation and Compensation, Audit, and Finance and Planning Committees:

#### EVALUATION AND COMPENSATION COMMITTEE

Edgar Filing: DESC S A DE C V - Form 6-K

VALENTIN DIEZ MORODO  
CARLOS GONZALEZ ZABALEGUI  
ERNESTO VEGA VELASCO

Chairman

AUDIT COMMITTEE

RUBEN AGUILAR MONTEVERDE  
PRUDENCIO LOPEZ MARTINEZ  
ERNESTO VEGA VELASCO

Chairman

FINANCE AND PLANNING COMMITTEE

FERNANDO SENDEROS MESTRE  
FEDERICO FERNANDEZ SENDEROS  
CARLOS GOMEZ Y GOMEZ  
ERNESTO VEGA VELASCO

Chairman

f) Messrs. Jose Manuel Canal Hernando and Daniel del Barrio Burgos were, respectively, appointed to the offices of Statutory Examiner and Alternate Statutory Examiner.

g) The dissolution of the Executive Committee was approved by the shareholders, and the Chief Executive Officer will assume the Committee's duties.

VI. RESOLUTION ON THE COMPENSATION TO THE DIRECTORS AND THE STATUTORY EXAMINERS.

It was resolved that the members of the Board of Directors, and the Statutory Auditors, whether or not Alternates, of DESC, S.A. de C.V., will continue receiving a fee of \$25,000.00 Mexican Currency (TWENTY-FIVE THOUSAND AND 00/100 PESOS, MEXICAN CURRENCY) for each Board of Directors Meeting that they attend, and for each meeting that they attend of the Evaluation and Compensation, Audit, and Finance and Planning Committees.

Further, the Committees were authorized to incur, as applicable, additional expenses on studies or work required to fulfill their functions, provided that any such expenses must be duly explained and approved by the Chairman of the Board of Directors.

3

The aforesaid remuneration and additional expenses shall be paid by charging the General Expense Account corresponding to the fiscal year when they are actually paid.

VII. REPORT OF THE BOARD OF DIRECTORS, AS PROVIDED IN ARTICLE 60, SECTION III OF THE GENERAL RULES APPLICABLE TO SECURITIES' ISSUERS AND OTHER PARTICIPANTS OF THE SECURITIES MARKET ISSUED BY THE NATIONAL BANKING AND SECURITIES COMMISSION.

The Secretary of the Board of Directors reported that, in accordance with Article 60, Section III of the General Provisions Applicable to Securities' Issuers and Other Participants in the Securities Market issued by the National Banking and Securities Commission, no repurchase operations of the Desc's shares were completed during fiscal year 2003.

VIII. DESIGNATION OF DEPUTIES TO FORMALIZE THE RESOLUTIONS ADOPTED AT THE MEETING.

Messrs. Fernando Senderos Mestre, Ernesto Vega Velasco, Juan Marco Gutierrez Wanless, Arturo D'Acosta Ruiz, Ramon F. Estrada Rivero y Fabiola G. Quezada

## Edgar Filing: DESC S A DE C V - Form 6-K

Nieto were named as Delegates of this Shareholders Meeting in order that, jointly or severally, they carry out the acts necessary to formalize and effectuate the resolutions adopted by this Shareholders Meeting, and process the formalization before a Notary Public of these minutes in relevant part, signing the relevant instrument, and process themselves or through a third party, their recording with the Public Registry of Commerce.

### IX. READING AND APPROVAL OF THE MINUTES OF THIS MEETING.

The minutes were approved in all their terms, which were prepared and read by the Secretary. The Chairman, the Secretary and the Statutory Examiner are authorized to sign them for the record.

4

Item 2

Desc Automotriz, S. A. de C. V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
Consolidated Financial Statements  
For the Years Ended December 31, 2003 and 2002, and Independent Auditors' Report  
Dated January 23, 2004

Desc Automotriz, S.A. de C.V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
Independent Auditors' Report and Consolidated  
Financial Statements 2002 and 2003

|  | Page |
|--|------|
| Table of contents  |      |
| Independent Auditors' Report                               | 1    |
| Consolidated Balance Sheets                                | 3    |
| Consolidated Statements of Operations                      | 4    |
| Consolidated Statements of Changes in Stockholders' Equity | 5    |
| Consolidated Statements of Changes in Financial Position   | 6    |
| Notes to Consolidated Financial Statements                 | 8    |
|  | 2    |

Independent Auditors' Report to the  
Board of Directors and Stockholders of  
Desc Automotriz, S.A. de C.V.:

We have audited the accompanying consolidated balance sheets of Desc Automotriz, S.A. de C.V. and subsidiaries (the "Company") as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and changes in financial position for the years then ended. 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 consolidated financial statements of the Company as of December 31, 2001 and for the year then ended was audited by other auditors who expressed an unqualified opinion in their report dated January 24, 2002.

We conducted our audits in accordance with auditing standards generally accepted

## Edgar Filing: DESC S A DE C V - Form 6-K

in Mexico and United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. 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.

As discussed in Note 3 to the accompanying consolidated financial statements, as of December 31, 2003, the Company early adopted the provisions of new Bulletin C-15, "Impairment in the Value of Long-lived Assets and their Disposal", which establishes that an impairment loss has occurred if the present value of estimated net future cash flows of a cash generating unit is less than the book value of long-lived assets, tangible or intangible. The effect in thousands of Mexican pesos derived from the application of this principle was the recognition of Ps.676,312, of impairment in the value of certain property, plant and equipment. The charge to 2003 results was Ps.446,366, net of a reduction of Ps.229,946 in the deferred income tax liability.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Desc Automotriz, S.A. de C.V. and subsidiaries as of December 31, 2002 and 2003, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

Accounting practices used by the Company in preparing the accompanying consolidated financial statements conform with accounting principles generally accepted in Mexico but do not conform with accounting principles generally accepted in the United States of America (US GAAP). A description of these differences and a reconciliation of majority net income and stockholders' equity to US GAAP as permitted by the regulations of the US Securities and Exchange Commission, which allows omission of the requirement to quantify, in the US GAAP reconciliation, the differences attributable to the effects of comprehensive inflation adjustments recorded locally, are set forth in Notes 25 and 26.

2

Our audit also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. The translation of the financial statement amounts into US dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member firm of Deloitte Touche Tohmatsu

/s/ Luis Javier Fernandez Barragan

C. P. C. Luis Javier Fernandez Barragan  
Mexico City, Mexico  
January 23, 2004

2

desc Automotriz, S.A. de C.V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
Consolidated Balance Sheets  
As of December 31, 2002 and 2003  
(In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2003

## Edgar Filing: DESC S A DE C V - Form 6-K

and thousands of U.S. dollars (\$))

### Assets

|   | 2002          | 2003          |
|---|---------------|---------------|
| Current assets:   |               |               |
| Cash and temporary investments                              | Ps. 721,881   | Ps. 145,098   |
| Accounts and notes receivable, net                          | 780,856       | 1,013,732     |
| Accounts receivable from parent company and related parties | 30,536        | 972,458       |
| Inventories, net  | 1,106,852     | 1,086,928     |
| Prepaid expenses  | 16,659        | 10,548        |
| Discontinued operations                                     | 4,319         | 4,199         |
| Total current assets  | 2,661,103     | 3,232,963     |
| Property, plant and equipment, Net                          | 6,528,678     | 5,550,909     |
| Noncurrent assets of discontinued operations                | 111,331       | 16,402        |
| Other assets, net   | 237,402       | 144,678       |
| Employee retirement obligation intangible asset             | 13,124        | 12,010        |
|   | Ps. 9,551,638 | Ps. 8,956,962 |

### Liabilities and stockholders' equity

|  | 2002          | 2003        |
|--|---------------|-------------|
| Current:   |               |             |
| Bank loans and current portion of long-term debt                       | Ps. 1,134,264 | Ps. 173,186 |
| Current portion due to Desc, .S.A. de C.V                              | --            | 349,294     |
| Notes and accounts payable to suppliers                                | 718,420       | 432,739     |
| Accounts payable to related parties                                    | 166,782       | 86,703      |
| Other payables and accrued liabilities                                 | 382,536       | 361,514     |
| Income taxes, asset taxes and employee profit sharing                  | 280,610       | 164,129     |
| Discontinued operations  | 31,193        | 4,915       |
| Total current liabilities  | 2,713,805     | 1,572,480   |
| Long-term debt   | 5,455         | --          |
| Due to Desc, S. A. de C. V. (parent company)                           | --            | 1,262,681   |
| Employee retirement obligations  | --            | 28,599      |
| Deferred income tax  | 1,074,046     | 539,977     |
| Additional liability for employee retirement obligations               | 170,374       | 156,306     |
| Total liabilities  | 3,963,680     | 3,560,043   |
| Stockholders' equity:  |               |             |
| Common stock   | 2,825,547     | 2,825,547   |
| Earned surplus from restructuring of subsidiary                        | 68,438        | 68,438      |
| Retained earnings  | 2,261,659     | 1,810,797   |
| Cumulative initial effect of deferred income taxes                     | (1,144,105)   | (1,144,105) |
| Cumulative effect of restatement                                       | (434,047)     | (301,887)   |
| Adjustment of additional liability for employee retirement obligations | (87,164)      | (81,658)    |
| Majority stockholders' equity  | 3,490,328     | 3,177,132   |
| Minority interest  | 2,097,630     | 2,219,787   |
| Total stockholders' equity   | 5,587,958     | 5,396,919   |

Edgar Filing: DESC S A DE C V - Form 6-K

Ps. 9,551,638 Ps. 8,956,962  
 =====

See accompanying notes to consolidated financial statements.

3

desc Automotriz, S.A. de C.V. and Subsidiaries  
 (A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
 Consolidated Statements of Operations  
 For the years ended December 31, 2001, 2002 and 2003  
 (In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2003  
 and thousands of U.S. dollars (\$) except per share information)

|  | 2001           | 2002          |
|--|----------------|---------------|
| Net sales  | Ps. 10,158,203 | Ps. 8,732,651 |
| Cost of sales  | 7,675,805      | 6,878,401     |
| Gross profit   | 2,482,398      | 1,854,250     |
| Operating expenses:  |                |               |
| Administrative   | 1,115,157      | 1,019,583     |
| Selling  | 222,761        | 190,522       |
|  | 1,337,918      | 1,210,105     |
| Income from operations                                     | 1,144,480      | 644,145       |
| Other expenses (income):                                   |                |               |
| Special item - severance indemnities                       | 137,005        | --            |
| Income earned on trust funds                               | (37,020)       | (29,117)      |
| Loss for sale and impairment of fixed assets               | 6,699          | 10,388        |
| Clean-up of accounting records                             | --             | 29,702        |
| Other, net   | 53,631         | 41,239        |
|  | 160,315        | 52,212        |
| Integral financing cost:                                   |                |               |
| Interest income  | (61,315)       | (51,500)      |
| Interest expense   | 197,577        | 107,361       |
| Exchange loss, net   | (65,818)       | 130,764       |
| Monetary position gain                                     | (69,128)       | (3,689)       |
|  | 1,316          | 182,936       |
| Income (loss) from continuing operations before provisions | 982,849        | 408,997       |
| Provisions for:  |                |               |
| Current income taxes                                       | 484,436        | 463,830       |
| Deferred income taxes                                      | (210,146)      | (228,494)     |
| Asset taxes  | 1,116          | --            |
| Employee profit sharing                                    | 119,927        | 95,151        |
|  | 395,333        | 330,487       |
| Income from continuing operations                          | 587,516        | 78,510        |
| Income (loss) from discontinued operations                 | (17,150)       | (81,325)      |
| Extraordinary item   | --             | (40,637)      |
| Cumulative effect of change in accounting principle        | --             | --            |
| Consolidated net income (loss)                             | Ps. 570,366    | Ps. (43,452)  |
| Allocation of consolidated net income:                     |                |               |
| Majority interest  | Ps. 374,611    | Ps. (101,574) |
| Minority interest  | 195,755        | 58,122        |



Edgar Filing: DESC S A DE C V - Form 6-K

|   |     |          |     |          |   |
|---|-----|----------|-----|----------|---|
|   | Ps. | 570,366  | Ps. | (43,452) | P |
| Earning per share:                                  |     |          |     |          |   |
| Income from continuing operations                   | Ps. | 0.5589   | Ps. | 0.0291   | P |
| Income (loss) from discontinued operations          |     | (0.0244) |     | (0.1160) |   |
| Extraordinary item                                  |     | --       |     | (0.0580) |   |
| Cumulative effect of change in accounting principle |     | --       |     | --       |   |
| Majority net income (loss)                          | Ps. | 0.5345   | Ps. | (0.1449) | P |

See accompanying notes to consolidated financial statements.

4

desc Automotriz, S.A. de C.V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
Consolidated Statements of Changes in Stockholders' Equity  
For the years ended December 31, 2001, 2002 and 2003  
(In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2003  
and thousands of U.S. dollars (\$))

|  | Number<br>of Shares | Common Stock |              |
|--|---------------------|--------------|--------------|
|  |                     | Historical   | Restatement  |
| Balances as of January 1, 2001   | 700,968,216         | Ps. 700,968  | Ps. 2,124,57 |
| Dividends declared and paid  | --                  | --           | --           |
| Earned surplus from restructuring of subsidiary                              | --                  | --           | --           |
| Decrease in equity of minority stockholders from restructuring of subsidiary | --                  | --           | --           |
| Consolidated comprehensive income  | --                  | --           | --           |
| Balances as of December 3, 2001  | 700,968,216         | 700,968      | 2,124,57     |
| Dividends declared and paid  | --                  | --           | --           |
| Consolidated comprehensive income  | --                  | --           | --           |
| Balances as of December 31, 2002   | 700,968,216         | 700,968      | 2,124,57     |
| Dividends declared and paid  | --                  | --           | --           |
| Consolidated comprehensive income (loss)                                     | --                  | --           | --           |
| Balances as of December 31, 2003   | 700,968,216         | Ps. 700,968  | Ps. 2,124,57 |
| Balances as of December 31, 2002   | 700,968,216         | \$ 62,588    | \$ 189,69    |
| Dividends declared and paid  | --                  | --           | --           |
| Consolidated comprehensive income (loss)                                     | --                  | --           | --           |
| Balances as of December 31, 2003   | 709,968,216         | \$ 62,588    | \$ 189,69    |

|  |                                  |  |
|--|----------------------------------|--|
| Cumulative Initial Effect of Deferred Income Taxes | Cumulative Effect of Restatement | Adjustment of Additional Liability for Employee Retirement Obligations |
|--|----------------------------------|--|

Edgar Filing: DESC S A DE C V - Form 6-K

|  |                 |               |              |
|--|-----------------|---------------|--------------|
| Balances as of January 1, 2001   | Ps. (1,144,105) | Ps. (372,356) | Ps. --       |
| Dividends declared and paid  | --              | --            | --           |
| Earned surplus from restructuring of subsidiary                              | --              | --            | --           |
| Decrease in equity of minority stockholders from restructuring of subsidiary | --              | --            | --           |
| Consolidated comprehensive income  | --              | (204,484)     | --           |
| -----  |                 |               |              |
| Balances as of December 3, 2001  | (1,144,105)     | (576,840)     | --           |
| Dividends declared and paid  | --              | --            | --           |
| Consolidated comprehensive income  | --              | 142,793       | (87,160)     |
| -----  |                 |               |              |
| Balances as of December 31, 2002   | (1,144,105)     | (434,047)     | (87,160)     |
| Dividends declared and paid  | --              | --            | --           |
| Consolidated comprehensive income (loss)                                     | --              | 132,160       | 5,500        |
| -----  |                 |               |              |
| Balances as of December 31, 2003   | Ps. (1,144,105) | Ps. (301,887) | Ps. (81,650) |
| =====  |                 |               |              |
| Balances as of December 31, 2002   | \$ (102,154)    | \$ (38,755)   | \$ (7,780)   |
| Dividends declared and paid  | --              | --            | --           |
| Consolidated comprehensive income (loss)                                     | --              | 11,800        | 490          |
| -----  |                 |               |              |
| Balances as of December 31, 2003   | \$ (102,154)    | \$ (26,955)   | \$ (7,290)   |
| =====  |                 |               |              |

See accompanying notes to consolidated financial statements.

5

Desc Automotriz, S.A. de C.V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)  
Consolidated Statements of Changes in Financial Position  
For the years ended December 31, 2001, 2002 and 2003  
(In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2003  
and thousands of U.S. dollars (\$))

|   | 2001        | 2002       | 2003       |
|---|-------------|------------|------------|
| Operating activities:   |             |            |            |
| Income from continuing operations                               | Ps. 587,516 | Ps. 78,510 | Ps. 23,000 |
| Add (deduct)- Items which did not require (generate) resources- |             |            |            |
| Depreciation and amortization                                   | 737,420     | 778,200    | 750,000    |
| Deferred income taxes   | (210,146)   | (228,494)  | (422,000)  |
| Net cost of employee benefits for the year                      | 79,948      | 51,441     | 93,000     |
| Loss for sale and impairment of fixed assets                    | 6,699       | 10,388     | 7,000      |
| Non-cash items from discontinued operations                     | 1,493       | (8,635)    | 3,000      |
|   | -----       | -----      | -----      |
| Net resources obtained from results                             | 1,202,930   | 681,410    | 455,000    |
| Change in working capital-                                      |             |            |            |
| (Increase) decrease in-   |             |            |            |
| Accounts and notes receivable, net                              | 446,745     | 53,381     | (232,000)  |
| Accounts receivable from parent company and related parties     | (169,224)   | 542,510    | (941,000)  |
| Inventories, net  | 595,345     | (29,413)   | 126,000    |
| Prepaid expenses  | 18,072      | 19,381     | 6,000      |
| Trust funds   | (58,284)    | 291,969    | --         |
| Current asset from restructuring of subsidiary                  | 104,646     | --         | --         |
| Current assets of discontinued operations                       | 25,659      | 65,775     | --         |
| Increase (decrease) in-   |             |            |            |

Edgar Filing: DESC S A DE C V - Form 6-K

|   |             |             |         |
|---|-------------|-------------|---------|
| Notes and accounts payable to suppliers, other payables and accrued liabilities                           | (182,688)   | (191,480)   | (306)   |
| Accounts payable to related parties   | (17,945)    | 141,406     | (80)    |
| Income taxes, asset taxes and employee profit sharing   | 175,409     | (50,134)    | (116)   |
| Short-term liability from restructuring of subsidiary   | (38,617)    | --          |         |
| Current liabilities of discontinued operations  | (31,286)    | 3,061       | (26)    |
|   | -----       | -----       | -----   |
|   | 867,832     | 846,456     | (1,571) |
|   | -----       | -----       | -----   |
| Net resources generated by (used in) operations before other effects                                      | 2,070,762   | 1,527,866   | (1,116) |
|   | -----       | -----       | -----   |
| Income (loss) from discontinued operating activities  | (17,150)    | (81,325)    | 31      |
| Extraordinary item  | --          | (40,637)    |         |
| Cumulative effect of change in accounting principle   | --          | --          | (446)   |
|   | -----       | -----       | -----   |
|   | (17,150)    | (121,962)   | (414)   |
|   | -----       | -----       | -----   |
| Net resources generated by (used in) operating activities   | 2,053,612   | 1,405,904   | (1,531) |
|   | -----       | -----       | -----   |
| Financing activities:   |             |             |         |
| Variance in bank loans and current portion of long-term debt in real terms                                | (479,091)   | (483,718)   | (917)   |
| Variance in bank loans and current portion of long-term debt from restructuring of subsidiary             | (148,418)   | --          |         |
| Decrease in bank loans and current portion of long-term debt due to restatement in constant Mexican pesos | (104,304)   | (93,705)    | (43)    |
| Repayment of long-term debt   | (429,296)   | (138,005)   | (5)     |
| Decrease in long-term debt from restructuring of subsidiary   | (37,944)    | --          |         |
| Monetary effect on long-term debt   | (27,280)    | (8,177)     |         |
| Due to Desc, S.A. de C.V. (Parent Company)  | --          | --          | 1,611   |
| Dividends paid to majority stockholders   | (118,000)   | (199,492)   | (35)    |
| Dividends paid to minority stockholders of subsidiaries   | (402,094)   | (121,085)   |         |
|   |             | (Continued) |         |
|   |             | 6           |         |
|   |             |             |         |
|   | 2001        | 2002        | 2003    |
| Decrease in minority interest from restructuring of subsidiary  | (250,087)   | --          |         |
| Earned surplus from restructuring of a subsidiary   | 68,438      | --          |         |
| Adjustment of additional liability for employee retirement obligations                                    | --          | (87,164)    | 5       |
| Adjustment to additional liability for employee retirement obligations - minority interest                | --          | (13,058)    | (3)     |
| Deferred income taxes   | (214,846)   | 38,767      | (111)   |
| Deferred income taxes from restructuring of subsidiary  | (94,661)    | --          |         |
| Financing activities of discontinued operations   | (9,003)     | (720)       |         |
|   | -----       | -----       | -----   |
| Net resources generated by (used in) financing activities   | (2,246,586) | (1,106,357) | 499     |
|   | -----       | -----       | -----   |
| Investing activities:   |             |             |         |
| Additions to property, plant and equipment  | (333,104)   | (806,046)   | (556)   |
| Net book value of retirements of property, plant and equipment  | 200,867     | 169,368     | 264     |
| Cumulative effect of change in accounting policy in   |             |             |         |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |             |             |        |
|--|-------------|-------------|--------|
| property, plant and equipment  | --          | --          | 676    |
| Decrease in property, plant and equipment from restructuring of subsidiary       | 269,327     | --          |        |
| Other assets   | (128,040)   | 101,715     | (8     |
| Other assets from restructuring of subsidiary                                    | 11,431      | --          |        |
| Decrease in employee retirement obligation intangible asset                      | --          | 157,489     | (12    |
| Investing activities of discontinued operations                                  | (2,243)     | 5,499       | 91     |
|  | -----       | -----       | -----  |
| Net resources generated by (used in) investing activities                        | 18,238      | (371,975)   | 454    |
|  | -----       | -----       | -----  |
| Net increase (decrease) in cash and temporary investments                        | (160,866)   | (72,428)    | (576   |
| Decrease in cash and temporary investments from restructuring of subsidiary      | (13,870)    | --          |        |
| (Increase) decrease in cash and temporary investments of discontinued operations | 32,533      | 8,024       |        |
| Cash and temporary investments at the beginning of the year                      | 928,489     | 786,286     | 721    |
|  | -----       | -----       | -----  |
| Cash and temporary investments at the end of the year                            | Ps. 786,286 | Ps. 721,881 | Ps 145 |
|  | =====       | =====       | =====  |
| Supplemental cash flow disclosures:  |             |             |        |
| Income and asset taxes paid  | Ps. 419,982 | Ps. 421,083 | Ps 250 |
|  | =====       | =====       | =====  |
| Employee profit sharing paid   | Ps. 104,638 | Ps. 111,063 | Ps 78  |
|  | =====       | =====       | =====  |
| Interest paid  | Ps. 197,519 | Ps. 104,945 | Ps 69  |
|  | =====       | =====       | =====  |

(Concluded)

See accompanying notes to consolidated financial statements.

7

Unil, S.A. de C.V.y Subsidiarias

Notas a los estados financieros consolidados al 31 de diciembre de 1998, 1999 y 2000 Expresadas en miles de pesos (Ps.) de poder adquisitivo del 31 de diciembre de 2000 y miles de dolares americanos (\$)

Desc Automotriz, S.A. de C.V. and Subsidiaries  
(A Wholly-Owned Subsidiary of Desc, S.A. de C.V.)

Notes to Consolidated Financial Statements

For the years ended December 31, 2001, 2002 and 2003

(In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2003 and thousands of U.S. dollars (\$))

1. Activities and significant events

Activities - Desc Automotriz, S.A. de C.V. (DESC AUTOMOTRIZ or the Company) is a subsidiary of Desc, S.A. de C.V. (DESC), representing the automotive parts segment, and is the majority stockholder of a group of companies engaged mainly in the manufacturing and distribution of pick-up truck bodies, pistons, axles, transmissions, constant velocity and propeller shafts, universal joints, gears, cardans joints, steel wheels and other parts, as well as the manufacture of spare parts and accessories for the automotive industry.

Significant events -

- a. The economic decline experienced by the automotive industry in the United States of America and Mexico in 2001, 2002 and 2003 resulted in a decrease in customer demand for original equipment and spare parts, as well as the termination of some contractual agreements. A decrease in sales to Daimler Chrysler contributed to a significant decrease in sales and operating margins of the Company. During 2002 and 2003 DESC

## Edgar Filing: DESC S A DE C V - Form 6-K

began two new programs "Evolucion" and "Evolucion II". The objectives of these programs are to i) review the company's investment portfolio to maximize profitable investments and ii) to align the operating structure of the Company with market demands. Consequently, the Company decided to shut down the spark plug and electrical part plants due to the low profitability of those businesses and began a personnel reduction program that continues during 2003 (see Notes 19 and 20).

- b. In the Extraordinary General Stockholder Meeting held on November 27, 2002, the stockholders approved a change in the name of the Company from Unik, S.A. de C.V. to Desc Automotriz, S.A. de C.V. effective as of that date.
- c. On October 18, 2001, a shareholder restructuring took place at Moresa, S.A. de C.V. (MORESA) a Subsidiary which engages in the manufacturing of pistons, bolts and followers/valve lifters, and the sale of automotive engine components. Such restructuring consisted of the exchange of MORESA equity in Forjas y Maquinas, S.A. de C.V. (FOMASA), representing 60% of the capital stock, for 40% of the equity in Pistones Moresa, S.A. de C.V., Morestana, S.A. de C.V. and Comercializadora Moresa, S.A. de C.V. held by TRW, Inc. (TRW). This resulted in the Company increasing its current equity holdings in MORESA to 96.3%, and the termination of the Company's association/joint venture with TRW. Additionally, in this transaction the Company recognized a capital surplus of Ps. 68,438, resulting from the increase in its participation in the equity of MORESA and a reduction in TRW's minority shareholding of Ps. 250,086.

8

### 2. Basis of presentation

The consolidated financial statements of the Company are presented on the basis of accounting principles generally accepted in Mexico ("MEX GAAP"), which differ in certain significant aspects from the accounting principles generally accepted in the United States of America ("US GAAP"). See Note 25 for an explanation of the differences and Note 26 for the reconciliation of MEX GAAP to US GAAP.

- a. Convenience translation - The translation of Mexican pesos into US dollars is included exclusively for the convenience of the reader, using the exchange rate at December 31, 2003 of 11.1998 Mexican pesos per US dollar. The convenience translations should not be construed as representations that the amounts in Mexican pesos have been, could have been or could in the future be translated into US dollars at this or any another rate of exchange. The statement of operations in U.S. dollars that is prepared monthly by the Company is presented in nominal Mexican pesos and converted at the average exchange rate of the corresponding month. Therefore, they differ from the accompanying financial statements.
- b. Consolidation of financial statements - The accompanying consolidated financial statements include those of DESC AUTOMOTRIZ and its subsidiaries, whose shareholding percentage in their capital stock is shown below for the more significant subsidiaries. Intercompany balances and transactions have been eliminated in these consolidated financial statements.

The Company's principal subsidiaries are:

|  | % of<br>Ownership |
|--|-------------------|
| Spicer, S. A. de C. V. and subsidiaries  | 51.19             |
| Moresa, S. A. de C. V. and subsidiaries  | 96.31             |
| Hayes Wheels de Mexico, S. A. de C. V. and subsidiaries  | 59.99             |
| Velcon, S. A. de C. V.   | 51.05             |
| Pintura, Estampado y Montaje, S. A. de C. V.   | 99.99             |
| Desc Automotriz Comercializadora, S. A. de C. V.   | 99.99             |
| The equity in results of operations and changes in equity of the subsidiaries acquired or sold during the year are included in the |                   |

## Edgar Filing: DESC S A DE C V - Form 6-K

financial statements through or from the date on which the transactions were carried out and are restated in terms of the purchasing power of the Mexican pesos as of the latest year presented.

- c. Translation of financial statements of foreign subsidiaries - To consolidate the financial statements of the foreign subsidiaries, Transmissions Technologies Corporation (TTC) and Uniko, Inc, whose operations are an integral part of the Company, the foreign currency financial statements are remeasured into Mexican pesos with the resulting remeasurement gain or loss included in integral financing cost within the consolidated statements of operations. For remeasurement purposes, amounts are converted into Mexican pesos using the following exchange rates: (i) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities (ii) the historical exchange rate for nonmonetary assets and liabilities (iii) the exchange rate in effect at the date the contributions were made for common stock (iv) the average exchange rate of each month and restated at year-end for revenues and expenses. The resulting translated Mexican peso amounts are then restated to Mexican pesos of purchasing power of the most recent balance sheet date presented using the National Consumer Price Index (NCPI). The effects of the conversion, which are not considered significant in 2003, 2002 and 2001, are included in the statements of operations as part of the exchange gain or loss in the integral financing cost.

9

- d. Comprehensive income (loss) - Comprehensive income (loss) presented in the accompanying consolidated statement of changes in stockholders' equity is comprised of the net income (loss) of the year, plus other comprehensive income (loss) items of the same period which, in accordance with MEX GAAP, are recorded directly in stockholders' equity without affecting the consolidated statements of operations. In 2001, 2002 and 2003, other comprehensive income (loss) includes the effect of gain or loss from holding nonmonetary assets and, in 2002 and 2003, the adjustment of the additional liability for employee retirement obligations.
- e. Reclassifications - Certain amounts in the financial statements as of and for the year ended December 31, 2001 and 2002 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2003.

### 3. Summary of significant accounting policies

The accounting policies followed by the Company and subsidiaries are in conformity with MEX GAAP, which require that management make certain estimates and use certain assumptions to determine the valuation the some of the balances included in the consolidated financial statements and to make the disclosures required for inclusion therein. Although these estimates are based on management's best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

- a. New accounting policies - The Company early adopted the provisions of new Bulletin C-15, "Impairment of Long-lived Assets and Their Disposal" ("C-15"). C-15 establishes, among other issues, new rules for the calculation and recognition of impairment losses for long-lived assets and their reversal. It also provides guidance as to indicators of potential impairment in the carrying amount of tangible and intangible long-lived assets in use, including goodwill. Entities must determine the possible loss from impairment unless they have conclusive evidence that the indicators are temporary. The calculation of such loss requires the determination of the recoverable value, which is now defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the net present value of discounted future net cash flows. The accounting principles issued prior to this new Bulletin used future net cash flows, without

## Edgar Filing: DESC S A DE C V - Form 6-K

requiring the discounting of such cash flows. The Company performed impairment tests on certain of its long-lived assets and determined that the net present value of certain property, plant and equipment was less than its carrying amount. Accordingly, the Company recorded and impairment of the value of such property, plant and equipment in the amount of Ps. 676,312 of the value of such property, plant and equipment of certain subsidiaries, a decrease in the deferred income tax liability of Ps.229,946, and a net charge to results of the period of Ps.446,366, which is presented as a "Cumulative effect of change in accounting principle" in the consolidated statements of operations. Beginning January 1, 2003, the Company adopted the provisions of new Bulletin C-8, "Intangible Assets" ("C-8"), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets; preoperating costs that are not considered development costs should be recorded as a period expense; and intangible assets considered to have indefinite useful lives are not amortized, but instead are subject to impairment tests. The unamortized balance of capitalized preoperating costs up to December 31, 2002, under the former Bulletin C-8 will continue to be amortized according to the provisions of that Bulletin. The adoption of C-8 did not have a material effect on the Company's financial position, results of operations or cash flow.

Beginning January 1, 2003, the Company also adopted the provisions of new Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("C-9"), which establishes additional guidelines clarifying the accounting for provisions, accruals and contingent liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement or substitution of obligations. The adoption of C-9 did not have a material effect on the Company's financial position, results of operations or cash flow.

10

- b. Recognition of the effects of inflation - The Company restates its consolidated financial statements to Mexican pesos purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior years have been restated to Mexican pesos of purchasing power of December 31, 2003 and, therefore, differ from those originally reported in the prior year.
- c. Temporary investments - Temporary investments are stated at the lower of acquisition cost plus accrued yields, or market value, yields are recorded in the statement of operations.
- d. Inventories and cost of sales - Inventories are originally recorded at direct acquisition or production cost adjusted at the end of each year to the full absorption costing method through the capitalization of fixed expenses applicable to the inventories and subsequently restated to the lower of replacement cost or market, without exceed their fair value. Cost of sales is restated using replacement cost at the time of the sale.
- e. Property, plant and equipment - Property, plant and equipment are initially recorded at acquisition cost and restated using the NCPI. For fixed assets of foreign origin, restated acquisition cost expressed in the currency of the country of origin is converted into Mexican pesos at the market exchange rate in effect at the balance sheet date.

If the restatement of all property, plant and equipment of foreign origin had been calculated using the NCPI, the net value of fixed assets as of December 31, 2002 and 2003 would have increased by Ps.287,763 and Ps.70,251, respectively, and the depreciation for the years ended December 31, 2001, 2002 and 2003 would have increased by Ps.95,164, Ps.87,722 and Ps.31,307, respectively.

## Edgar Filing: DESC S A DE C V - Form 6-K

Depreciation of property, plant and equipment is calculated based on the assets' average restated value of the year, using the straight-line method (considering a salvage value that fluctuated between 5% to 10%) based on the estimated remaining useful lives of the related assets.

- f. Financial instruments - Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and yields of financial instruments are recognized in results of the period in which they occur.
  - g. Goodwill - Goodwill results from acquisitions made by the Company at prices greater than the recorded value at the date of acquisition. It is restated using the NCPI, and is being amortized over four years. The amortization recorded in operating expenses in 2001 and 2002 it was Ps.19,212 and in 2003 was Ps.16,223.
  - h. Other assets - Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method over five years. Those disbursements that do not meet such requirements are recorded in results of the period in which they are incurred. Intangible assets with indefinite lives are not amortized because they can be renewed at a reduced cost. However, their value is subject to impairment tests. Preoperating costs incurred after January 1, 2003, are recorded directly in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 are amortized using the straight-line method over ten years.
- 11
- i. Impairment of long-lived assets in use - The Company reviews potential impairments to its long-lived assets in use, when ever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is defined as the greater of the net present value of the future net cash flows or the net selling price upon disposal. Impairment is recorded when the carrying amounts of assets exceeds their recoverable value.
  - j. Warranties - The Company has established warranty reserves that are estimated as a function of the contractual obligations arising at the time sales are made over an average period of two years and based on the experience of warranties granted.
  - k. Start-up costs - These relate to expenses incurred in connection with the acquisition of new production lines and are amortized over a four-year period, the term over which the benefit from the investment is expected to be realized. The amount amortized in 2001 and 2003 amounted to Ps.16,462 and Ps.7,202, respectively.
  - l. Provisions - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.
  - m. Income tax, asset tax and employee statutory profit-sharing - Income tax (ISR) and employee statutory profit-sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits about which there is uncertainty as to their realizability. Deferred PTU is



## Edgar Filing: DESC S A DE C V - Form 6-K

derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that this situation will change in such a way that the liabilities will not be paid or benefits will not be realized.

The asset tax paid that is expected to be recoverable is recorded as an advance payment of income tax and is presented on the balance sheet with deferred ISR.

- n. Employee retirement obligations - Seniority premiums, pension plans and payments that are similar to pensions, are recognized as costs over employee years of service calculated by independent actuaries using the projected unit credit method using real interest rates. Accordingly, the liability accrued at present value will cover the obligation from benefits projected to the estimated retirement date of the Company's employees. Severance is charged to results when the liability is determined to be payable.
- o. Foreign currency balances and transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of integral financing cost in the consolidated statements of operations.
- p. Cumulative effect of restatement - The insufficiency in the restatement of stockholders' equity represents the accumulated monetary position result through the initial restatement of the consolidated financial statements and the gain (loss) from holding nonmonetary assets, which resulted from restating certain nonmonetary assets above (below) inflation, less the related deferred income tax effect.
- q. Revenue recognition - Revenues are recognized when the products are shipped or delivered to the client and the client assumes title to the products.

12

- r. Integral financial result - This represents the net effect of interest earned and incurred, exchange gains and losses and monetary position gain on, which is the result of maintaining monetary assets and liabilities whose real purchasing power is modified by the effects of inflation.
- s. Earnings per share - Basic earnings (loss) per share is calculated by dividing the net income (loss) of majority stockholders' by the weighted average number of shares outstanding during the year.

#### 4. Cash and temporary investments

|  | 2002        | 2003        |
|--|-------------|-------------|
| Cash   | Ps. 146,068 | Ps. 104,373 |
| Investments with maturities of less than three months              | 259,050     | 40,725      |
| Technology and training trust funds to be used within three months | 316,763     | --          |
|  | -----       | -----       |
|  | Ps. 721,881 | Ps. 145,098 |
|  | =====       | =====       |

As of December 31, 2002, the technology and training trust funds held in trust, which would be exercised within three months during 2003 were classified as cash.

#### 5. Accounts and notes receivable

|                                 | 2002        | 2003        |
|---------------------------------|-------------|-------------|
| Customers                       | Ps. 604,152 | Ps. 803,291 |
| Allowance for doubtful accounts | (4,639)     | (3,358)     |
|                                 | -----       | -----       |

Edgar Filing: DESC S A DE C V - Form 6-K

|                                    |             |               |
|------------------------------------|-------------|---------------|
|                                    | 599,513     | 799,933       |
| Creditable value-added taxes       | 46,333      | 59,219        |
| Recoverable income and asset taxes | 93,384      | 98,071        |
| Other debtors                      | 36,111      | 54,465        |
| Officers and employees             | 5,515       | 2,044         |
|                                    | -----       | -----         |
|                                    | Ps. 780,856 | Ps. 1,013,732 |
|                                    | =====       | =====         |

The movements of the allowance for doubtful accounts are as follows:

|                                      |           |           |
|--------------------------------------|-----------|-----------|
|                                      | 2002      | 2003      |
| Balance at the beginning of the year | Ps. 6,345 | Ps. 4,639 |
| Provision for the year               | --        | 1,576     |
| Provision used in the year           | (1,365)   | (2,679)   |
| Restatement of initial balance       | (341)     | (178)     |
|                                      | -----     | -----     |
| Balance at the end of the year       | Ps. 4,639 | Ps. 3,358 |
|                                      | =====     | =====     |

13

During 2002 and 2003, certain subsidiaries sold commercial paper without recourse at an average financial cost of 4.5% and 4.77%, respectively, and terms ranging between 20 and 26 days in 2002 and 15 and 52 days in 2003, with two financial institutions. As of December 31, 2002 and 2003, the balances of commercial paper sold without recourse amounted to \$34.7 and \$30.4 millions, respectively.

6. Inventories

|  |               |               |
|--|---------------|---------------|
|  | 2002          | 2003          |
| Finished goods and work-in-process           | Ps. 513,692   | Ps. 478,762   |
| Raw materials and indirect materials         | 556,478       | 580,323       |
|  | -----         | -----         |
| Allowance for slow-moving and obsolete items | 1,070,170     | 1,059,085     |
|  | (12,445)      | (21,622)      |
|  | -----         | -----         |
|  | 1,057,725     | 1,037,463     |
| Advances to suppliers                        | 856           | 1,051         |
| Merchandise-in-transit                       | 48,271        | 48,414        |
|  | -----         | -----         |
|  | Ps. 1,106,852 | Ps. 1,086,928 |
|  | =====         | =====         |

The movements of the allowance for slow-moving and obsolete inventories are as follows:

|                                      |            |            |
|--------------------------------------|------------|------------|
|                                      | 2002       | 2003       |
| Balance at the beginning of the year | Ps. 21,788 | Ps. 12,445 |
| Provision for the year               | 2,291      | 13,514     |
| Provision used in the year           | (10,461)   | (3,860)    |
| Restatement of the initial balance   | (1,173)    | (477)      |
|                                      | -----      | -----      |
| Balance at the end of the year       | Ps. 12,445 | Ps. 21,622 |
|                                      | =====      | =====      |

7. Property, plant and equipment

|                             |               |               |                           |
|-----------------------------|---------------|---------------|---------------------------|
|                             | 2002          | 2003          | Annual depreciation rates |
| Buildings and installations | Ps. 2,820,204 | Ps. 2,851,550 | 5%                        |
| Machinery and equipment     | 10,062,806    | 9,950,994     | 8%                        |
| Transportation equipment    | 53,717        | 44,854        | 25%                       |
| Furniture and fixtures      | 234,650       | 197,287       | 10%                       |
|                             | -----         | -----         |                           |
| Accumulated depreciation    | 13,171,377    | 13,044,685    |                           |
|                             | (7,916,908)   | (8,410,733)   |                           |
|                             | -----         | -----         |                           |
|                             | 5,254,469     | 4,633,952     |                           |

Edgar Filing: DESC S A DE C V - Form 6-K

|                       |               |               |
|-----------------------|---------------|---------------|
| Projects in progress  | 571,672       | 363,828       |
| Land                  | 424,106       | 418,311       |
| Investment properties | 277,431       | 134,818       |
|                       | -----         | -----         |
|                       | Ps. 6,528,678 | Ps. 5,550,909 |
|                       | =====         | =====         |

14

The Company continues to evaluate all idle assets, to determine their possible use or disposal in the short-term. Temporarily idle assets amounted to Ps. 257,709 and Ps.41,142 in 2002 and 2003, respectively, and permanently idle assets amounted to Ps. 121,327 and Ps.457,171 in 2002 and 2003, respectively.

During 2001, 2002 and 2003, certain subsidiaries entered into machinery sales agreement without the obligation to repurchase with a financial institution. On that same date, a machinery lease agreement (see note 21) covering the same machinery was entered into, as follows:

| Date of transaction | Maturity | Amount          | Lease payments | Interest rate |
|---------------------|----------|-----------------|----------------|---------------|
| June 29, 2001       | 5 years  | \$18.7 millions | Quarterly      | 1.5%          |
| December 19, 2002   | 7 years  | \$11.8 millions | Quarterly      | 3.7%          |
| March 27, 2003      | 7 years  | \$3.1 millions  | Quarterly      | 3.7%          |
| August 19, 2003     | 7 years  | \$12.2 millions | Quarterly      | 3.4% to 3.7%  |

Below is a summary of investment properties at their estimated realizable value at December 31, 2002 and 2003:

|                          | 2002        | 2003        |
|--------------------------|-------------|-------------|
| Buildings                | Ps. 273,143 | Ps. 172,380 |
| Land                     | 176,093     | 67,390      |
| Accumulated depreciation | (171,805)   | (104,952)   |
|                          | -----       | -----       |
|                          | Ps. 277,431 | Ps. 134,818 |
|                          | =====       | =====       |

The annual average depreciation rate of buildings in 2002 and 2003 was 5%. At December 31, 2002 and 2003, the fair value of investment properties determined by an external appraiser amounts to Ps. 322,396 and Ps.153,931, respectively.

As of December 31, 2003, property, machinery and equipment of certain subsidiaries, are designated as collateral for the long term-debt of Desc, S.A. de C.V. (holding company). See Note 16.

8. Other assets

|   | 2002        | 2003        | Annual Amortization Rate |
|---|-------------|-------------|--------------------------|
| Contributions to the technology trust fund              | Ps. --      | Ps. 3,351   | --                       |
| Prepaid contribution of employee benefits (see Note 12) | 55,142      | --          | --                       |
| Installation and preoperating expenses, net             | 45,721      | 39,573      | 10%                      |
| Development expenses and start-up cost, net             | 24,681      | 39,969      | 20% to 25%               |
| Goodwill  | 31,664      | 14,564      | 25%                      |
| Other assets to be amortized                            | 37,119      | 3,065       | 20% to 25%               |
| Other assets not amortized                              | 43,075      | 44,156      | --                       |
|   | -----       | -----       |                          |
|   | Ps. 237,402 | Ps. 144,678 |                          |
|   | =====       | =====       |                          |

15

9. Trust funds

The Company has a trust fund with Banco Santander Mexicano, S.A. as trustee, to earmark funds for research and development of technology. The

## Edgar Filing: DESC S A DE C V - Form 6-K

Company is authorized to make use of these funds for specific purposes, and the fund may be increased by future contributions in accordance with the provisions in the contract, or by interest, dividends and capital gains earned by the fund. At December 31, 2002 and 2003, the unused amounts of the fund were Ps.179,225 and Ps.3,351, respectively.

The Company also had a similar trust fund through a contract with Banco Santander Mexicano, S.A., whose funds were utilized for the training of personnel. The terms governing this trust were similar to those of the technology trust. As of December 31, 2002 unused amounts of the fund were Ps.137,538, which were disposed of in full during 2003.

### 10. Other payables and accrued liabilities

|                        | 2002        | 2003        |
|------------------------|-------------|-------------|
| Taxes payable          | Ps. 143,850 | Ps. 107,670 |
| Other debtors          | 138,260     | 120,966     |
| Royalties              | 31,480      | 15,321      |
| Guarantee reserves     | 21,300      | 91,845      |
| Interest payable       | 7,900       | 2,720       |
| Other accounts payable | 39,746      | 22,992      |
|                        | -----       | -----       |
|                        | Ps. 382,536 | Ps. 361,514 |
|                        | =====       | =====       |

### 11. Long-term debt

The current portion of the long-term debt and short-term bank loans are comprised as follows:

|   | 2002          | 2003        |
|---|---------------|-------------|
| Current portion of the long-term debt for loans, payable in pesos at Libor plus 1.00% interest rate. The three month Libor rate as of December 31, 2002 was 1.38% | Ps. 11,177    | Ps. --      |
| Other bank loans in payable in US dollars with variable interest rates from 2.18% to 7.75% at December 31, 2003 and 2002, respectively                            | 1,123,087     | 173,186     |
|   | -----         | -----       |
|   | Ps. 1,134,264 | Ps. 173,186 |
|   | =====         | =====       |

Since most agreements establish variable interest rates (monthly, quarterly and semiannually) and there has been no significant variance with respect to the fixed interest rate on agreements, it is considered that the loans are recorded at fair value.

### 12. Employee retirement obligations

The employee benefit obligation relates to the pension plan that will cover the pension and seniority premiums due upon retirement. The amount resulting from the actuarial calculations prepared by external actuaries is being funded using the projected unit credit method. The amount of the pension liability is as follows:

|  | 2002        | 2003         |
|--|-------------|--------------|
| Projected benefit obligation (PBO)     | Ps. 495,292 | Ps. 552,981  |
| Plan assets at fair value              | 274,023     | 293,204      |
|  | -----       | -----        |
| Unfunded projected benefit obligation  | (221,269)   | (259,777)    |
| Unrecognized net transition obligation | (114,423)   | (110,020)    |
| Unrecognized variances in assumptions  | 390,834     | 341,198      |
|  | -----       | -----        |
| Net projected asset (liability)        | Ps. 55,142  | Ps. (28,599) |
|  | =====       | =====        |

As of December 31, 2002 and 2003, the amount of the accumulated benefit obligation (ABO) (equal to the PBO without projecting the salaries at the retirement date) exceeds the amount of current funds by Ps.170,373 and Ps.156,306 respectively, which was recognized as an additional liability under the heading of "Other long-term liabilities" as well as a deferred

16

Edgar Filing: DESC S A DE C V - Form 6-K

asset charge, net of the deferred income tax, of Ps.87,164 and Ps.81,658, respectively. As of December 31, 2002 and 2003, the amount of the additional liability exceeds the sum of the transition liability to be amortized plus the prior services and the modifications to the plan, for which excess was recorded in the account "adjustment of additional liability for employee retirement obligations" in stockholders' equity. The net periodic pension cost is as follows:

|   | 2001       | 2002       | 2003       |
|---|------------|------------|------------|
| Service cost  | Ps. 40,084 | Ps. 27,033 | Ps. 22,942 |
| Amortization of transition assets   | 36,823     | 28,324     | 25,245     |
| Amortization of variances in assumptions  | (6,439)    | (6,500)    | (6,626)    |
| Interest cost   | 31,799     | 24,382     | 21,018     |
|   | -----      | -----      | -----      |
|   | 102,267    | 73,239     | 62,579     |
|   | -----      | -----      | -----      |
| Less- Actual return on plan assets  | (22,319)   | (21,798)   | (19,554)   |
| Effect of reduction and anticipated extinguishments of employee retirement obligation | --         | --         | 49,881     |
|   | -----      | -----      | -----      |
| Net periodic cost   | Ps. 79,948 | Ps. 51,441 | Ps. 92,906 |
|   | =====      | =====      | =====      |

The real rates used in calculations of the actuarial present value during 2001, 2002 and 2003 are as follows:

|                      |      |
|----------------------|------|
| Funds rate yield     | 7%   |
| Interest rate        | 5%   |
| Salary increase rate | 5.7% |

The changes in the PBO for the pension liability are show below:

|                       | 2002        | 2003        |
|-----------------------|-------------|-------------|
| Opening balance       | Ps. 565,160 | Ps. 495,292 |
| Service cost          | 27,033      | 22,942      |
| Financial cost        | 28,324      | 25,243      |
| Actuarial gain (loss) | (125,225)   | 9,504       |
|                       | -----       | -----       |
| Final balance         | Ps. 495,292 | Ps. 552,981 |
|                       | =====       | =====       |

17

The changes in the net projected asset (liability) is as follows:

|                           | 2002       | 2003         |
|---------------------------|------------|--------------|
| Opening balance           | Ps. 91,234 | Ps. 55,142   |
| Provision for the year    | (51,441)   | (92,906)     |
| Contributions to the fund | 23,244     | --           |
| Actuarial (loss) gain     | (7,895)    | 9,165        |
|                           | -----      | -----        |
| Final balance             | Ps. 55,142 | Ps. (28,599) |
|                           | =====      | =====        |

The changes in the plan assets are shown below:

|   | 2002        | 2003        |
|---|-------------|-------------|
| Opening balance                                 | Ps. 325,537 | Ps. 274,023 |
| Contributions to the fund                       | 23,244      | --          |
| Actual return on plan assets                    | 21,798      | 19,554      |
| Special payments for the reduction of personnel | (50,507)    | (51,483)    |
| Actuarial (loss) gain                           | (46,049)    | 51,110      |
|   | -----       | -----       |
| Final balance                                   | Ps. 274,023 | Ps. 293,204 |
|   | =====       | =====       |

The amortization period for unamortized items is as follows:

|                      | Remaining Years |      |
|----------------------|-----------------|------|
|                      | 2002            | 2003 |
| Transition liability | 19              | 18   |

## Edgar Filing: DESC S A DE C V - Form 6-K

Variations in assumptions 18 17

### 13. Stockholders' equity

In the General Ordinary Stockholders' Meeting held on July 3, 2001, the shareholders approved the payment of dividends of Ps.118,000 (Ps.105,145 at nominal value) on July 13, 2001, through a partial reduction of the account receivable from DESC.

In the General Annual Ordinary Stockholders' Meeting held on July 1, 2002, dividends of Ps.125,799 (at nominal value of Ps. 117,810) were declared and approved, paid in cash on July 23, 2002.

In the General Annual Ordinary Stockholders' Meeting held on October 23, 2002, dividends of Ps.73,693 (at nominal value of Ps. 70,000) were declared and approved, paid in cash on the same date.

In the General Ordinary Stockholders' Meeting held on June 15, 2002, the shareholders approved payment of dividends from the subsidiary Velcon, S.A. de C.V. Dividends were paid, in cash on the same date, from majority and minority stockholders' equity in the amounts of Ps.126,289 and Ps.121,085 respectively, (Ps.117,930 and Ps.113,070 at nominal value).

In the General Annual Ordinary Stockholders' Meeting held on April 9, 2003, dividends of Ps.35,829 (at nominal value of Ps.35,000) were declared and approved, paid in cash on the same date.

18

As of December 31, 2002 and 2003, the capital stock is comprised as follows:

|  | Shares      |     | Amount  |
|--|-------------|-----|---------|
| <b>Fixed</b>   |             |     |         |
| Nominative Series "A" shares with a par value of one Mexican peso each, which may only be acquired by Mexican companies or individuals     | 25,500      | Ps. | 26      |
| Nominative Series "B" shares with a par value of one Mexican peso each, which are of unrestricted subscription                             | 24,500      |     | 24      |
| <b>Variable-</b>   |             |     |         |
| Nominative Sub-series "A" shares with a par value of one Mexican peso each, which may only be acquired by Mexican companies or individuals | 357,468,291 |     | 357,468 |
| Nominative Sub-series "B" shares with a par value of one Mexican peso each, which are of unrestricted subscription                         | 343,449,925 |     | 343,450 |
|  | 700,968,216 | Ps. | 700,968 |

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The annual net income of each Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve each year, until the reserve equals 20% of capital stock. This reserve may not be distributed to stockholders' during the existence of the Company, except in the form of a stock dividend. At December 31, 2002 and 2003, the legal reserve of DESC AUTOMOTRIZ has a nominal value of Ps.126,143, respectively, and is included in retained earnings.

The balances of the stockholders' equity tax accounts as of December 31, are:

|                             | 2002          |     | 2003      |
|-----------------------------|---------------|-----|-----------|
| Contributed capital account | Ps. 2,737,661 | Ps. | 2,846,346 |
| Net tax income account      | 291,988       |     | 267,588   |

Edgar Filing: DESC S A DE C V - Form 6-K

|       |               |               |
|-------|---------------|---------------|
| Total | Ps. 3,029,649 | Ps. 3,113,934 |
|       | =====         | =====         |

14. Foreign currency balances and transactions

The Company valued its foreign currency assets and liabilities, represented mainly by US dollars, at the exchange rates effective at December 31, 2002 and 2003 of 10.3613 and 11.1998 Mexican pesos per US dollar, respectively, as the Company expects to use foreign currency assets to settle foreign currency liabilities.

19

a The foreign currency position at the end of 2002 and 2003 consists of the following:

|   | US Dollars |            |
|---|------------|------------|
|   | 2002       | 2003       |
| Current assets                                      | \$ 60,117  | \$ 127,014 |
| Current liabilities                                 |            |            |
| Interest free                                       | 58,563     | 54,230     |
| Interest bearing                                    | 118,488    | 15,794     |
| Long-term liability (interest bearing)              | 506        | 143,929    |
|   | 177,557    | 213,953    |
| Net monetary liability position in foreign currency | \$ 117,440 | \$ 86,939  |

At January 23, 2004, date of the issuance of the consolidated financial statements, the unaudited foreign exchange position was similar to that at year-end, and the sale exchange rate was 10.8213 Mexican pesos per US dollar.

b Nonmonetary assets of foreign origin at December 31, 2001 and 2002 are as follows:

|                         | 2002       | 2003       |
|-------------------------|------------|------------|
| Inventories             | \$ 35,123  | \$ 60,087  |
| Machinery and equipment | 282,117    | 248,252    |
|                         | \$ 317,240 | \$ 308,339 |

c During the years ended December 31, 2001, 2002 and 2003, the Company had the following significant transactions in foreign currency, which are recorded at the exchange rate as of the date the transaction took place. Foreign currency transactions, which include those executed in Mexico and denominated in US dollars, as well as those of foreign subsidiaries, are as follows:

|  | U.S. Dollars |            |            |
|--|--------------|------------|------------|
|  | 2001         | 2002       | 2003       |
| Direct export sales                            | \$ 444,618   | \$ 293,798 | \$ 321,994 |
| Indirect export sales under agreement          | 119,234      | 181,728    | 105,356    |
| Sales of foreign subsidiaries                  | 67,255       | 49,962     | 47,410     |
|  | 631,107      | 525,488    | 474,760    |
| Less-  |              |            |            |
| Raw material purchases                         | (287,161)    | (240,873)  | (187,701)  |
| Purchases and expenses of foreign subsidiaries | (45,002)     | (29,281)   | (36,354)   |
|  | \$ 298,944   | \$ 255,334 | \$ 250,705 |
| Interest income                                | \$ 4,148     | \$ 4,238   | \$ 49      |

Edgar Filing: DESC S A DE C V - Form 6-K

|                      |             |            |            |
|----------------------|-------------|------------|------------|
| Interest expense     | (15,096)    | (5,147)    | (4,435)    |
|                      | -----       | -----      | -----      |
| Net                  | \$ (10,948) | \$ (909)   | \$ (4,386) |
|                      | =====       | =====      | =====      |
| Technical assistance | \$ (6,997)  | \$ (3,132) | \$ (8,187) |
|                      | =====       | =====      | =====      |
| Other expense, net   | \$ (8,413)  | \$ (2,412) | \$ (7,763) |
|                      | =====       | =====      | =====      |

20

15. Balances and transactions with holding company and related parties

The Company had the following transactions with related parties, carried out in the ordinary course of business at market value.

|                      | 2001        | 2002        | 2003          |
|----------------------|-------------|-------------|---------------|
| Income-              |             |             |               |
| Sales                | Ps. 473,294 | Ps. 435,433 | Ps. 1,165,824 |
|                      | =====       | =====       | =====         |
| Interest             | Ps. 30,945  | Ps. 33,048  | Ps. 28,489    |
|                      | =====       | =====       | =====         |
| Rent                 | Ps. 1,496   | Ps. 1,477   | Ps. 1,490     |
|                      | =====       | =====       | =====         |
| Other                | Ps. --      | Ps. 5,073   | Ps. 2,412     |
|                      | =====       | =====       | =====         |
| Expenses-            |             |             |               |
| Purchases            | Ps. 643,781 | Ps. 388,658 | Ps. 255,366   |
|                      | =====       | =====       | =====         |
| Technical assistance | Ps. 25,605  | Ps. 36,625  | Ps. 30,486    |
|                      | =====       | =====       | =====         |
| Services             | Ps. 59,492  | Ps. 122,808 | Ps. 172,693   |
|                      | =====       | =====       | =====         |
| Other                | Ps. 23,364  | Ps. 20,918  | Ps. 34,839    |
|                      | =====       | =====       | =====         |

Balances receivable and payable with related parties are as follows:

|  | 2002        | 2003        |
|--|-------------|-------------|
| Accounts receivable-   |             |             |
| Desc, S.A. de C.V. (parent company)  | Ps. --      | Ps. 972,458 |
| Dana Corporation   | 21,643      | --          |
| GKN Automotive International GMBH  | 8,601       | --          |
| Other  | 292         | --          |
|  | -----       | -----       |
|  | Ps. 30,536  | Ps. 972,458 |
|  | =====       | =====       |
| Accounts payable -   |             |             |
| Desc S.A. de C.V. (parent company)   | Ps. 114,870 | Ps. --      |
| Desc Corporativo, S.A. de C.V.<br>(formerly Promocion y Control, S.A. de C.V.) | 10,241      | --          |
| Dana Corporation   | --          | 40,844      |
| Hayes Lemmerz International, Inc.  | 17,009      | 41,767      |
| Glazner Spicer, S.A.   | 5,519       | --          |
| Delphi Energy  | 6,121       | --          |
| GKN & affiliated   | 9,072       | 2,619       |
| Other  | 3,950       | 1,473       |
|  | -----       | -----       |
|  | Ps. 166,782 | Ps. 86,703  |
|  | =====       | =====       |

21

16. Long-term liability with Desc, S.A. de C.V. (parent company)

On December 23, 2003, DESC restructured approximately \$720 million, the majority of its financial liabilities. As part of the negotiated conditions, the Company and several of its subsidiaries became jointly and severally liable for and guarantors of such liabilities. The agreement



## Edgar Filing: DESC S A DE C V - Form 6-K

designates certain fixed assets and the shares of the Company and certain other subsidiaries as guarantees.

Consequently, the Company and its subsidiaries are now subject to a series of obligations and restrictions, including limitations regarding fundamental changes, the sale of and investment in property, plant and equipment, lease transactions and the payment of dividends, among others. Similarly, at that date, the Company signed a debt assignment contract with DESC, through which it undertook to settle the liabilities of DESC under their original terms and conditions contracted with creditor banking institutions.

The main terms and conditions are:

| Maturity               |               | Thousands of<br>US<br>Dollars | Interest<br>Rate |
|------------------------|---------------|-------------------------------|------------------|
| 2004 (current portion) | Ps. 349,294   | \$ 31,188                     | 5.12%            |
|                        | =====         | =====                         |                  |
| Long-term              |               |                               |                  |
| 2005                   | Ps. 126,278   | \$ 11,275                     | 4.16% to 5.17%   |
| 2006                   | 378,801       | 33,822                        | 4.16% to 5.17%   |
| 2007                   | 378,801       | 33,822                        | 4.16% to 5.17%   |
| 2008                   | 378,801       | 33,822                        | 4.16% to 5.17%   |
|                        | -----         | -----                         |                  |
|                        | Ps. 1,262,681 | \$ 112,741                    |                  |
|                        | =====         | =====                         |                  |

17. Income taxes, tax on assets and employee statutory profit-sharing

The Company is subject to income taxes (ISR) and tax on assets (IMPAC). ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated constant prices, and the deduction of purchases in place of cost of sales, which permit the deduction of current costs, and taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the annual adjustment for inflation, which is similar to the result from monetary position. Until 2001, the income tax rate was 35%, with the obligation, through that date, to pay this tax each year at a rate of 30%, with the remainder payable upon distribution of earnings. This remainder is recorded as a short-term liability.

The tax rate was 35% in 2001 and 2002 and 34% in 2003 and will be reduced by one percentage point each year until reaching 32% in 2005. As well, in 2002, the deduction for employee statutory profit sharing (PTU) and the obligation to withhold taxes on dividends paid to individuals or foreign residents were eliminated.

IMPAC is calculated by applying 1.8% to the Company's asset position, as defined in the law, and is payable only to the extent that it exceeds ISR payable for the same period. If in any year IMPAC exceeds the ISR payable, the IMPAC payment for such excess may be reduced by the amount by which ISR exceeded IMPAC in the three preceding years and any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years.

22

As of December 31, 2003, certain subsidiary companies had tax loss carryforwards for ISR purposes and recoverable IMPAC, indexed through December 31, 2003, which will be further indexed for inflation through the year in which they are applied or recovered, as follows:

| Maturity | Restated<br>Tax Loss<br>Carryforwards | Recoverable<br>Asset Taxes |
|----------|---------------------------------------|----------------------------|
| 2004     | Ps. 140,433                           | Ps. 5,060                  |
| 2005     | 141,601                               | 2,747                      |
| 2006     | 1,045                                 | 7,560                      |
| 2007     | 5,946                                 | 1,473                      |
| 2008     | 102,067                               | 7,870                      |

Edgar Filing: DESC S A DE C V - Form 6-K

|      |               |             |
|------|---------------|-------------|
| 2009 | 40,493        | 27,572      |
| 2010 | 89,737        | 45,720      |
| 2011 | 459,591       | 49,657      |
| 2012 | 199,167       | 44,846      |
| 2013 | 356,082       | 36,845      |
|      | -----         | -----       |
|      | Ps. 1,536,162 | Ps. 229,350 |
|      | =====         | =====       |

Income for employee profit sharing purposes excludes the annual inflationary adjustment and unrealized exchange gains or losses, and depreciation is based on historical rather than restated values. In accordance with the Mexican Income Tax Law, the Company files its income and asset taxes in the consolidated income and asset tax returns of DESC. Deferred income taxes - The tax effects of the temporary differences that generated deferred tax liabilities (assets), in accordance with Bulletin D-4, are the following:

|   |               |             |
|---|---------------|-------------|
|   | 2002          | 2003        |
| Property, plant and equipment   | Ps. 1,130,357 | Ps. 833,915 |
| Inventories   | 351,925       | 333,566     |
| Reserves  | (41,132)      | (83,745)    |
| Tax loss carryforwards  | (302,571)     | (515,806)   |
| Recoverable tax on assets   | (214,865)     | (229,350)   |
| Other   | 26,530        | (1,241)     |
| Allowance for tax losses and recoverable asset taxes that may not be applied or recovered | 123,802       | 202,638     |
|   | -----         | -----       |
|   | Ps. 1,074,046 | Ps. 539,977 |
|   | =====         | =====       |

The favorable effect derived from the decrease in the income tax rate in 2002 and 2003 was Ps.74,502 and Ps.41,234, respectively, which was recorded as reduction to the provision for the year.

The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR and employee statutory profit-sharing is as follows:

|  |        |         |          |
|--|--------|---------|----------|
|  | 2001   | 2002    | 2003     |
| Statutory rate   | 35.0%  | 35.0%   | 34.0%    |
| Add (deduct) the effect of permanent differences.              |        |         |          |
| Non - deductible items   | 5.1%   | 16.6%   | (339.8)% |
| Non-taxable income   | 0.3%   | (15.1)% | 424.3%   |
| Allowance for tax loss carryforwards and recoverable asset tax | --     | 15.3%   | 278.4%   |
| Income tax rate reduction effect                               | (7.5)% | (0.2)%  | 145.6%   |
| Others   | (4.8)% | 5.9%    | (118.5)% |
|  | -----  | -----   | -----    |
| Effective rate   | 28.1%  | 57.5%   | 424.1%   |
|  | =====  | =====   | =====    |

23

18. Contingencies

At December 31, 2002, the subsidiary Hayes Wheels Acero, S.A. de C.V. and partner Hayes Lemmerz Int. were negotiating claims made by its customer Nissan Mexicana, S.A. de C.V. (NISSAN) regarding defective steel wheel rims. Accordingly, at that date, the Company recorded a provision of \$2.1 million to cover the payment proposed by the Company to settle this contingency.

During 2003, the Company and Hayes Lemmerz Int. reached an agreement with NISSAN to settle this contingency, whereby the Company agreed to pay \$7.0 million under an established payment plan. At December 31, 2003, the outstanding balance was recorded as a warranty liability of \$2.7 million,

## Edgar Filing: DESC S A DE C V - Form 6-K

with the final expiration date in May 2004.

### 19. Discontinued operations

On June 30, 2002, the management of the Company decided to shut down the plants dedicated to the manufacture of spark plugs and automotive electrical parts. A summary of statements of income for the years ended of December 31, 2001, 2002 and 2003 is as follows:

|   | 2001         | 2002         | 2003       |
|---|--------------|--------------|------------|
| Revenues from discontinued operations                                 | Ps. 170,767  | Ps. 69,045   | Ps. --     |
| Costs and expenses  | 180,597      | 95,386       | 8,728      |
| Integral financing cost   | 2,045        | 2,908        | 3,292      |
| Gain on sale of property  | --           | --           | (72,638)   |
| Other expenses (income)   | 12,368       | 73,243       | (1,403)    |
| Current and deferred income tax and employee statutory profit-sharing | (7,093)      | (21,167)     | 30,591     |
|   | -----        | -----        | -----      |
| Income (loss) from discontinued operations                            | Ps. (17,150) | Ps. (81,325) | Ps. 31,430 |
|   | =====        | =====        | =====      |

As of December 31, 2003, the Company is still in the process of selling a facility and certain machinery and equipment related to these discontinued operations. Such property is recorded at a carrying value less than the selling price.

### 20. Analysis of extraordinary items

|  | 2001   | 2002         | 2003   |
|--|--------|--------------|--------|
| Severance indemnities from restructuring | Ps. -- | Ps. (62,848) | Ps. -- |
| Less related income tax effect           | --     | 21,211       | --     |
|  | -----  | -----        | -----  |
|  | Ps. -- | Ps. (40,637) | Ps. -- |
|  | =====  | =====        | =====  |

24

### 21. Lease commitments

As of December 31, 2002 and 2003, the Company had operating lease for equipment commitments amounting to Ps. 308,865 and Ps.487,240, whose maturity dates are as follows:

|      | Maturity | 2002        | 2003        |
|------|----------|-------------|-------------|
| 2003 |          | Ps. 46,750  | Ps. --      |
| 2004 |          | 53,966      | 107,415     |
| 2005 |          | 67,010      | 110,521     |
| 2006 |          | 61,905      | 97,968      |
| 2007 |          | 16,536      | 46,158      |
| 2008 |          | 16,536      | 45,894      |
| 2009 |          | 46,162      | 45,894      |
| 2010 |          | --          | 33,390      |
|      |          | -----       | -----       |
|      |          | Ps. 308,865 | Ps. 487,240 |
|      |          | =====       | =====       |

### 22. Financial instruments

The Company and its subsidiaries entered into option contracts for risk coverage with Pemex Gas and Petroquimica Basica to hedge against the price volatility of natural gas for the period from January 2002 to December 2003.

The Company acquired insurance that covers the rise in market price of gas over a maximum price through the payment of a premium. The maximum price was \$8.705 US dollars per "MMBTU" (one million energy units) and the minimum price was 4.245 US dollars per "MMBTU". In the event the referred price exceeds the maximum price, a discount will be applied to the invoice; if it is below the minimum price, the invoice will be issued in the amount of the corresponding minimum price. Since this insurance policy represents

## Edgar Filing: DESC S A DE C V - Form 6-K

a contractual obligation, which is guaranteed with the fixed price of gas at 4 US dollars per MMBTU, the Company records the corresponding effects in results upon consumption of the committed MMBTU'S amount, and has not recorded the potential effect of a gain or loss from settling the premium on the gas price at present value. As of December 31, 2002 and 2003, the net (loss) income recorded from this transaction was Ps. (12,210) and Ps.10,393, respectively.

### 23. Subsequent event

On January 15, 2004, Desc Automotriz, S.A. de C.V. concluded its joint investment with Hayes Lemmerz Int. (HLI). This was achieved by selling to HLI the aluminum plant assets and by acquiring 40% of the shares held by HLI for one dollar. Accordingly, Desc Automotriz, S.A. de C.V. now holds 100% of the shares of the steel wheel rim manufacturing company. At December 31, 2003, the Company adjusted the realizable value of the fixed assets of the aluminum plant based on the selling price to HLI, generating a charge to results of the year of Ps.114.2 million, net of taxes. In 2004, the dissolution of the aforementioned joint investment will be recorded as an item of stockholder's equity.

25

### 24. New accounting principles

In May 2003, the Instituto Mexicano de Contadores Publicos ("IMCP") (Mexican Institute of Public Accountants) issued Bulletin C-12, "Financial Instruments of a Debt or Equity Nature or a Combination of Both" (C-12), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. C-12 is the compilation of the standards issued by the IMCP with respect to the issue of debt or equity financial instruments, or a combination of both, and includes additional standards on the accounting recognition for these instruments. Consequently, C-12 indicates the basic differences between liabilities and stockholders' equity and establishes the rules for classifying and valuing the components of debt and equity of combined financial instruments in the initial recognition. Subsequent recognition and valuation of liabilities and stockholders' equity of the financial instruments is subject to the standards issued previously in the applicable bulletins. Since the Company has not issued financial instruments of a debt or equity nature, management believes this new accounting principle will not have significant effects on its financial situation and results of operations.

### 25. Differences between Mexican GAPP and US GAPP

The consolidated financial statements of the Company are prepared in accordance with MEX GAAP, which differs in certain significant respects from US GAAP. A reconciliation of the reported majority net income (loss), net stockholder's equity and comprehensive income to US GAAP is presented in Note 26. It should be noted that this reconciliation to US GAAP does not include the reversal of the restatement of the financial statements for inflation effects as required by Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information", of MEX GAAP. The application of this bulletin represents a comprehensive measure of the effects of price-level changes in the Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting in Mexican pesos for both Mexican and US accounting purposes.

The principal differences between MEX GAAP and US GAAP included in the reconciliation that affect the consolidated financial statements of the Company are described as follow:

- a. Restatement of Prior Year Financial Statements- As explained in Note 2 b) and 3 b), in accordance with Mexican GAAP, the financial statements for Mexican subsidiaries for prior years was restated using inflation factors, and for foreign subsidiaries and affiliated companies for prior years was restated using the inflation rate of the country in which the foreign subsidiary or affiliated company is located, then translated to Mexican pesos at the year-end exchange rate.

## Edgar Filing: DESC S A DE C V - Form 6-K

Under US GAAP, the Company applies the regulations of the Securities and Exchange Commission of the United States of America ("SEC"), which require that prior year financial statements be restated in constant units of the reporting currency, in this case the Mexican peso, which requires the restatement of such prior year amounts using inflation factors.

Additionally, all other US GAAP adjustments for prior years have been restated based upon the SEC methodology.

- b. Classification differences - Certain items require a different classification in the balance sheet or income statement under US GAAP. These include the following:

- Under Mexican GAAP advances to suppliers are recorded as inventories. Under US GAAP, advances to suppliers are classified as prepaid expenses.
- The impairment of goodwill and other long-lived assets, the gain or loss on the disposition of fixed assets, all severance indemnities, and employee profit sharing must be included in operating expenses under US GAAP.

26

- c. Statement of Cash Flows - Under Mexican GAAP, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, "Statement of Changes in Financial Position", which identifies the generation and application of resources by the differences between beginning and ending financial statement balances in constant Mexican pesos. Bulletin B-12 also requires that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operations.

In accordance with US GAAP the Company follows Statement of Financial Accounting Standards (SFAS) No. 95, "Statement of Cash Flows", excluding the effects of inflation.

A cash flow statement in accordance with US GAAP is presented in Note 26e.

- d. Deferred Income Taxes and Employee Profit Sharing - The Company follows SFAS No. 109, "Accounting for Income Taxes", for US GAAP purposes, which differs from Mexican GAAP as follows:
- Under Mexican GAAP, deferred taxes are classified as non-current, while under US GAAP the classification is based on the classification of the related asset or liability.
  - Under Mexican GAAP the effects of inflation on the deferred tax balance generated by monetary items are recognized in the result on monetary position. Under US GAAP the deferred tax balance is classified as a nonmonetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain (loss) on monetary position and deferred income tax provision.
  - Under Mexican GAAP, the change in statutory income tax rate approved early in 2002 was considered in the calculation of deferred taxes at December 31, 2001. Under US GAAP, a change in statutory tax rate may not be considered until the enactment date, which was January 1, 2002.
  - Under Mexican GAAP deferred employee profit sharing is calculated considering only those temporary differences that arise during the year and which are expected to turn around within a defined period, while under US GAAP the same liability method as used for deferred income taxes is applied. Also, for US GAAP purposes, employee profit sharing must be classified as an operating expense.

The differences in the restatement of imported machinery and equipment and the pension plan under Mexican GAAP have a different treatment than under US GAAP. As a consequence, the related deferred income tax presented under Mexican GAAP is different from the effect calculated

## Edgar Filing: DESC S A DE C V - Form 6-K

under US GAAP.

The tax effect of temporary differences that generated deferred tax liabilities (assets) under SFAS No. 109 are as follows:

27

| Deferred income taxes -  | 2002          | 2003        |
|--|---------------|-------------|
| Property, plant and equipment  | Ps. 1,225,593 | Ps. 882,216 |
| Inventories  | 351,925       | 333,566     |
| Reserves   | (41,132)      | (83,745)    |
| Tax loss carryforwards   | (302,571)     | (515,806)   |
| Recoverable asset taxes  | (214,865)     | (229,350)   |
| Other  | 55,527        | (25,539)    |
| Add- Allowance for tax loss carryforwards and recoverable asset taxes that may not be applied or recovered | 123,803       | 202,638     |
|  | -----         | -----       |
|  | Ps. 1,198,280 | Ps. 563,980 |
|  | =====         | =====       |

| Deferred employee profit sharing - | 2002        | 2003        |
|------------------------------------|-------------|-------------|
| Property, plant and equipment      | Ps. 290,689 | Ps. 204,620 |
| Inventories                        | 100,588     | 103,312     |
| Reserves                           | (8,703)     | (19,858)    |
| Unrealized exchange losses         | (4,820)     | (7,694)     |
| Other                              | 46,418      | 17,137      |
|                                    | -----       | -----       |
|                                    | Ps. 424,172 | Ps. 297,517 |
|                                    | =====       | =====       |

- e. Cost of pension plans and other employee benefits - Under Mexican GAAP, the liabilities for employee benefits are determined using actuarial computations in accordance with Bulletin D-3, "Labor Obligations", which is substantially the same as US GAAP SFAS No. 87, "Employers' Accounting for Pensions".
- The Company has no post-retirement health care insurance or other benefit plans, other than the pension plans referred to in Note 12. Therefore, SFAS No. 106, "Employers' Accounting for Post-retirement Benefits other than Pensions", would have no effect on the Company's financial position.
- During 1992, the Company withdrew Ps.26,952 (at nominal value) from plan assets covering pension and seniority premiums for employees of certain subsidiaries, as the plans were overfunded. The amount of the withdrawal was recorded as income under MEX GAAP; however, for purposes of SFAS No. 87, the amount must be amortized over the average remaining working life of the employees, which is approximately 17 years.
- f. Minority interest - Under MEX GAAP, Bulletin B-8, minority interest in subsidiaries must be included as a component of stockholders' equity. Consequently, minority interest in the income of subsidiaries is not presented as an expense in the statement of income. Under US GAAP, minority interest in subsidiaries is presented below liabilities on the balance sheet, and is not part of stockholders' equity.
- g. Property, plant and equipment restatement - As explained in Note 3 e), the Company restates its fixed assets of foreign origin based on the internal rate of inflation of the country of origin and the fluctuation of the Mexican peso against the currency of the country of origin for the period. According to SEC regulations, these fixed assets would be restated using the NCPI.
- 28
- h. Financial instruments - In accordance with MEX GAAP beginning in January 2001, Bulletin C-2 of the MEX GAAP became effective.

## Edgar Filing: DESC S A DE C V - Form 6-K

Under US GAAP, SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities", became effective in 2001. This statement requires the recognition of all derivative financial instruments together with the hedge items as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value.

The changes in the fair value of derivative financial instruments are recognized either in the results for the year or in the other components of comprehensive income if it is demonstrated through statistical effectiveness calculations that such instruments are closely related to the hedged items. Subsequently, upon maturity of the derivative instruments, the corresponding gain or loss is recognized in the results for the year.

Under Mexican GAAP, the financial instruments were classified and valued using the same valuation criteria applied to the underlying asset or liability, which are recognized in the income statement when the consumption or payment takes place.

- i. VELCON goodwill - In 2001, the Company increased its share ownership in VELCON, its subsidiary, at a cost above its book value. The resulting goodwill from this acquisition will be amortized over four years according to MEX GAAP. Under US GAAP, in accordance with SFAS No. 142, effective January 1, 2002 goodwill is no longer subject to amortization, but rather it is subject to periodic assessment for impairment by applying a fair-value-based test.  
In connection with the transition provisions for adopting this standard, the Company performed a transitional impairment test during 2002 and 2003, and found no impairment.  
In accordance with SFAS No. 142, for US GAAP purposes the Company discontinued the amortization of goodwill effective January 1, 2002. The financial statement impact was to reduce amortization expense and increase net income under US GAAP by Ps.16,520 and Ps.16,223, respectively, for the year ended December 31, 2002 and 2003.
- j. Capitalization of preoperating expenses - According to MEX GAAP, in 2001, certain subsidiaries capitalized preoperating expenses related to a new lines of products in the amounts of Ps.42,222. These expenses will be amortized over the term it takes for this business to be fully operational. According to US GAAP, these expenses should be reflected in results as required by Statement of Position (SOP) 98-5 "Recognition on the Costs of Start-Up Activities" issued by the American Institute of Certified Public Accountants (AICPA).
- k. Other pronouncements - Since the Company has a simple capital structure, SFAS No.128, "Earnings per Share", has no impact on the calculation of the approximate majority net income per share. Beginning in 1998, SFAS No.130, "Comprehensive Income", became effective, which requires presenting comprehensive income under US GAAP. Note 26 d) presents a reconciliation of majority net income under US GAAP to comprehensive income also under US GAAP, where the main reconciling item is the result from holding nonmonetary assets. Therefore, other accumulated comprehensive income is included in the balance sheet under cumulative effect of restatement.

30

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" requires that the bases to report the financial information be the same as those used to internally evaluate the performance of the business segments. Since the Company operates as only one segment of auto parts, the consolidated figures provide a basis of evaluation and analysis as only one business segment for DESC, its holding company. Therefore, no additional disclosures are required to comply with this SFAS.

- l. Future Impact of Recently Issued Accounting Standards Not Yet in Effect-

## Edgar Filing: DESC S A DE C V - Form 6-K

In Mexican GAAP:

Bulletin C-12, "Instrumentos Financieros con Caracteristicas de Pasivo, de Capital o de Ambos" ("Financial Instruments with Characteristics of Debt, Equity or Both") ("C-12") - In April 2003, the IMCP issued Bulletin C-12, whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early application is encouraged. C-12 establishes the more significant differences between debt and equity, as the basis for the development of the criteria necessary to appropriately identify, classify and record, upon initial recognition, the debt and equity components, of compound financial instruments. The Company does not anticipate that this new standard will have a significant impact on its financial position or results of operations.

In US GAAP:

SFAS No 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149") - In April 2003 the FASB issued SFAS No. 149, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The changes in this statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. The new standard will be effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this statement should be early applied.

The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The Company does not anticipate that this new standard will have a significant impact on its financial position or results of operations.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") - In January 2003, the FASB issued FIN 46. FIN 46 clarified the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for all variable interests held by the Company in a variable interest entity created after January 31, 2003. For a variable interest held by the Company in a variable interest entity created before February 1, 2003, the Company will be required to apply the provisions of FIN 46 as of December 31, 2004. The Company does not currently have any variable interests in a variable interest entity.

31

Unit, S.A. de C.V.y Subsidiarias

Notas a los estados financieros consolidados al 31 de diciembre de 1998, 1999 y 2000 Expresadas en miles de pesos (Ps.) de poder adquisitivo del 31 de diciembre de 2000 y miles de dolares americanos (\$)

### 26. Reconciliation of MEX GAAP to US GAAP

#### a. Reconciliation of majority net income (loss)-

|   | 2001        |  | 2002         |
|---|-------------|--|--------------|
| Majority net income (loss) under MEX GAAP | Ps. 374,611 |  | Ps. (101,57) |
| US GAAP adjustments:                      |             |  |              |
| Deferred income taxes under US GAAP       | 176,344     |  | 232,49       |
| Deferred income taxes under MEX GAAP      | (210,146)   |  | (228,49)     |



Edgar Filing: DESC S A DE C V - Form 6-K

|  |             |           |
|--|-------------|-----------|
| Deferred employee profit sharing under US GAAP   | 32,406      | 32,66     |
| Additional depreciation of fixed assets of foreign origin restated through the NCPI method | (95,164)    | (87,72)   |
| Withdrawal of pension fund assets and amortization of gains under SFAS No. 87              | 1,609       | 1,52      |
| Effects of inflationary accounting on the US GAAP adjustments                              | 68,356      | 137,62    |
| Effects of the US GAAP adjustments on the minority interest                                | 5,338       | (21,12)   |
| Decapitalization of preoperating expenses  | (3,715)     | (16,00)   |
| Effect from the difference in amortization of goodwill                                     | (1,322)     | 16,52     |
| Effect of adjustments under US GAAP by discontinued operations                             | 4,319       | 57,95     |
|  | -----       | -----     |
| Net income (loss) under US GAAP  | Ps. 352,642 | Ps. 23,85 |
|  | =====       | =====     |
| Weighted average number of outstanding common shares (000)                                 | 700,968     | 700,96    |
|  | =====       | =====     |
| Net income (loss) per share under US GAAP  | Ps. 0.5031  | Ps. 0.034 |
|  | =====       | =====     |

32

b. Reconciliation of majority stockholders' equity -

|   | 2001          | 2002         |
|---|---------------|--------------|
| Majority stockholders equity under MEX GAAP   | Ps. 3,735,765 | Ps. 3,490,32 |
| US GAAP adjustments:  |               |              |
| Deferred income taxes under US GAAP   | (1,585,195)   | (1,198,28    |
| Deferred income taxes under MEX GAAP  | 1,263,773     | 1,074,04     |
| Deferred employee profit sharing under US GAAP  | (482,874)     | (424,17      |
| Adjustment for changes to the NCPI method used to restate machinery of foreign origin | 777,198       | 287,95       |
| Withdrawal of pension fund assets and amortization of under SFAS No. 87               | (11,303)      | (9,17        |
| Effects of the US GAAP adjustments on the minority interest                           | 22,715        | 87,75        |
| Decapitalization of preoperating expenses   | (38,979)      | (32,19       |
| VELCON goodwill   | 3,855         | 20,16        |
| Effect of adjustments under US GAAP by discontinued operations                        | 3,099         | 4,02         |
|   | -----         | -----        |
| Majority stockholders' equity under US GAAP   | Ps. 3,688,054 | Ps. 3,300,45 |
|   | =====         | =====        |

33

c. Changes in majority stockholders' equity under US GAAP-

|  | 2001          | 2002         |
|--|---------------|--------------|
| Majority Stockholders' equity at beginning of year                     | Ps. 3,451,923 | Ps. 3,688,05 |
| Net income (loss) under US GAAP  | 352,642       | 23,85        |
| Result from holding nonmonetary assets                                 | (75,105)      | (124,80      |
| Dividends declared and paid  | (118,000)     | (199,49      |
| Adjustment of additional liability for employee retirement obligations | --            | (87,16       |
| Earned surplus from restructuring of subsidiary                        | 76,594        | -            |
|  | -----         | -----        |
| Majority stockholders' equity at end of year                           | Ps. 3,688,054 | Ps. 3,300,45 |

Edgar Filing: DESC S A DE C V - Form 6-K

|  | 2001        | 2002        |
|--|-------------|-------------|
| d. Comprehensive income under US GAAP -                                |             |             |
| Majority net income (loss) under US GAAP                               | Ps. 352,642 | Ps. 23,85   |
| Other comprehensive income (loss):                                     |             |             |
| Result from holding nonmonetary assets                                 | (75,105)    | (124,80     |
| Adjustment of additional liability for employee retirement obligations | --          | (87,16      |
| Comprehensive income (loss) under US GAAP                              | Ps. 277,537 | Ps. (188,10 |

|   | 2001        | 2002       |
|---|-------------|------------|
| e. Cash flow statement in accordance with US GAAP               |             |            |
| Income from continuing operations under US GAAP                 | Ps. 369,792 | Ps. 145,82 |
| Income (loss) from discontinued operations                      | (17,150)    | (81,32     |
| Extraordinary item  | --          | (40,63     |
| Cumulative effect of change in accounting principle             | --          | -          |
| Consolidated net income (loss) for the year                     | 352,642     | 23,85      |
| Add (deduct)- Items which did not require (generate) resources- |             |            |
| Depreciation and amortization                                   | 832,584     | 865,92     |
| Goodwill amortization reversion                                 | (1,322)     | 16,52      |
| Exchange gain (loss)  | (112,255)   | 188,76     |
| Impairment of fixed asset                                       | 6,699       | 10,38      |
| Allowance for doubtful accounts                                 | 2,857       | (1,36      |
| Change in accounting principle                                  | --          | -          |
| Deferred income taxes   | (208,750)   | (235,76    |
| Non-cash items from discontinued operations                     | 1,493       | (8,63      |
| Inflationary effect   | 124,097     | (162,76    |
| Decapitalization of preoperating expenses                       | --          | -          |
| Net cost of employee benefits for the year                      | 78,339      | 49,91      |
| Change in working capital-                                      |             |            |
| Current assets  | 829,797     | 879,19     |
| Current assets for restructuring of subsidiary                  | 104,646     | -          |
| Current assets of discontinued operations                       | 25,659      | 65,77      |
| Accounts payable to related parties                             | (17,945)    | 141,40     |
| Notes and accounts payable to suppliers and accrued liabilities | (182,688)   | (191,48    |

34

|   | 2001     | 2002   |
|---|----------|--------|
| Short-term liability from restructuring of subsidiary | (38,617) | -      |
| Income taxes, asset taxes and employee profit sharing | 175,409  | (50,13 |
| Current liabilities of discontinued operations        | (31,286) | 3,06   |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |             |            |
|--|-------------|------------|
| Net resources generated by (used in) operating activities  | 1,941,357   | 1,594,66   |
| <hr/>  |             |            |
| Financing activities:  |             |            |
| Variance in bank loans and current portion of long-term debt in real terms   | (366,836)   | (672,48    |
| Variance in bank loans and current portion of long-term debt from restructuring of subsidiary  | (148,418)   | -          |
| Decrease in bank loans and current portion of long-term debt due to restatement in constant Mexican pesos                                  | (104,304)   | (93,70     |
| Repayments of long-term debt   | (429,296)   | (138,00    |
| Decrease in long-term debt from restructuring of subsidiary  | (37,944)    | -          |
| Monetary effect on long-term debt  | (27,280)    | (8,17      |
| Due to Desc, S.A. de C.V. (parent company)   | --          | -          |
| Dividends paid to majority stockholders  | (118,000)   | (199,49    |
| Dividends paid to minority stockholders of subsidiaries  | (402,094)   | (121,08    |
| Adjustment of additional liability for employee retirement obligations   | --          | (87,16     |
| Adjustment to additional liability for employee retirement obligations minority interest   | --          | (13,05     |
| Earned surplus from restructuring of a subsidiary  | 68,438      | -          |
| Decrease in minority interest from restructuring of subsidiary   | (250,087)   | -          |
| Deferred income taxes  | (214,846)   | 38,76      |
| Deferred income taxes from restructuring of subsidiary   | (94,661)    | -          |
| Financing activities of discontinued operations  | (9,003)     | (72        |
| <hr/>  |             |            |
| Net resources (used in) generated by financing activities  | (2,134,331) | (1,295,12  |
| <hr/>  |             |            |
| Investing activities:  |             |            |
| Additions to property, plant and equipment   | (333,104)   | (806,04    |
| Net book value of retirements of property, plant and equipment   | 200,867     | 169,36     |
| Decrease in property, plant and equipment from restructuring of subsidiary   | 269,327     | -          |
| Decrease in employee retirement obligation intangible asset, liability net   | --          | 157,48     |
| Investing activities of discontinued operations  | (2,243)     | 5,49       |
| Other assets   | (128,040)   | 101,71     |
| Other assets from restructuring of subsidiary  | 11,431      | -          |
| <hr/>  |             |            |
| Net resources generated by (used in) investing activities  | 18,238      | (371,97    |
| <hr/>  |             |            |
| Net increase (decrease) in cash and temporary investments (Increase) decrease in cash and temporary investments of discontinued operations | (174,736)   | (72,42     |
|  | 32,534      | 8,02       |
| <hr/>  |             |            |
| Cash and temporary investments at the beginning of the year  | 928,489     | 786,28     |
| <hr/>  |             |            |
| Cash and temporary investments at the end of the year  | Ps. 786,287 | Ps. 721,88 |
| <hr/>  |             |            |
| Supplemental cash flow disclosures:  |             |            |
| Income and asset taxes paid  | Ps. 419,982 | Ps. 421,08 |
| Employee profit sharing paid   | Ps. 104,638 | Ps. 111,06 |
| Interest paid  | Ps. 177,519 | Ps. 104,94 |

## Edgar Filing: DESC S A DE C V - Form 6-K

Desc, S.A. de C.V. and Subsidiaries  
Consolidated financial statements for  
the years ended December 31, 2002 and 2003  
and Independent Auditors' Report  
Dated March 26, 2004

Desc, S. A. de C. V. and Subsidiaries  
Independent auditors' report and consolidated financial statements 2002 and 2003

| Table of contents  | Page |
|--|------|
| Independent auditors' report                             | 1    |
| Consolidated balance sheets                              | 3    |
| Consolidated statements of income (loss)                 | 5    |
| Consolidated statements of stockholders' equity          | 7    |
| Consolidated statements of changes in financial position | 8    |
| Notes to consolidated financial statements               | 10   |

Independent Auditors' Report to the Board of Directors and Stockholders of  
Desc, S.A. de C.V.:

We have audited the accompanying consolidated balance sheets of Desc, S.A de C.V. and subsidiaries (collectively referred to as the "Company") as of December 31, 2002, and 2003, and the related consolidated statements of income (loss), changes in stockholders' equity and changes in financial position for the years then ended. 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 consolidated financial statements of the Company for the year ended December 31, 2001, were audited by other auditors who expressed an unqualified opinion in their report dated March 12, 2002.

We did not audit the financial statements of the chemical and food segments, which statements reflect total assets constituting 42% of consolidated total assets as of December 31, 2002, and 2003, and total revenues constituting 53% and 54%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of such other auditors. We conducted our audits in accordance with auditing standards generally accepted in Mexico (and in the United States of America). 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 and the reports of the other auditors provide a reasonable basis for our opinion.

As mentioned in Notes 1b. and 11 to the accompanying consolidated financial statements, in December 2003 the Company satisfactorily concluded negotiations to restructure a significant portion of its short and long-term debt. As mentioned in Note 4a. to the accompanying consolidated financial statements, as of December 31, 2003 the Company early adopted the provisions of new Bulletin C-15, "Impairment of the Value of Long-lived Assets and their Disposal", which establishes that an impairment loss has occurred if the present value of estimated net future cash flows of a cash generating unit is less than the book value of long-lived assets, tangible or intangible. The effect in thousands of

## Edgar Filing: DESC S A DE C V - Form 6-K

pesos derived from the application of this principle was the recognition of Ps.712,457 of impairment in the value of certain property, plant and equipment and Ps.898,891 of impairment in the value of the goodwill of certain subsidiaries. The charge to 2003 results was Ps.1,384,294, net of a reduction of Ps.227,054 in the related deferred income tax liability.

In our opinion, based on our audit and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Desc, S.A. de C.V. and subsidiaries as of December 31, 2002, and 2003, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2a. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member firm of Deloitte Touche Tohmatsu

/s/ Luis Javier Fernandez Barragan

CPC Luis Javier Fernandez Barragan  
March, 26, 2004

2

Desc, S.A. de C.V. and Subsidiaries  
Consolidated balance sheets  
As of December 31, 2002 and 2003  
Expressed in thousands of constant Mexican pesos (Ps.) and thousands of U.S. dollars (\$)

|  | 2002                  | 2003                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>                                      |                       |                       |
| <b>Current assets:</b>                             |                       |                       |
| Cash and cash equivalents                          | Ps. 2,501,563         | Ps. 719,967           |
| Notes and accounts receivable, net                 | 3,825,351             | 4,270,341             |
| Inventories, net                                   | 3,193,122             | 3,120,436             |
| Prepaid expenses                                   | 56,777                | 78,212                |
| Discontinued operations                            | 102,009               | 8,346                 |
|  | -----                 | -----                 |
| Total current assets                               | 9,678,822             | 8,197,302             |
| Land held for development and real estate projects | 4,290,528             | 3,828,312             |
| Trade receivables - long-term                      | -                     | 1,048,481             |
| Property, plant and equipment, net                 | 13,684,423            | 11,813,121            |
| Goodwill, net                                      | 1,381,563             | 594,673               |
| Other assets, net                                  | 1,286,888             | 1,222,279             |
| Discontinued operations                            | 147,481               | 30,822                |
|  | -----                 | -----                 |
| <b>Total</b>                                       | <b>Ps. 30,469,705</b> | <b>Ps. 26,734,990</b> |
|  | =====                 | =====                 |
| <b>Liabilities and stockholders' equity</b>        |                       |                       |
| <b>Current liabilities:</b>                        |                       |                       |
| Bank loans and current portion of long-term debt   | Ps. 3,641,828         | Ps. 440,553           |
| Notes and accounts payable to suppliers            | 2,087,713             | 1,617,571             |
| Income taxes and employee profit sharing           | 106,412               | 225,117               |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |            |            |
|--|------------|------------|
| Other payables and accrued liabilities | 1,777,136  | 1,731,975  |
| Discontinued operations                | 62,482     | 13,366     |
|  | -----      | -----      |
| Total current liabilities              | 7,675,571  | 4,028,642  |
| Long-term debt                         | 9,051,649  | 11,360,011 |
| Deferred income taxes                  | 1,339,115  | 880,749    |
| Related parties - long-term            | -          | 183,762    |
| Other long-term liabilities            | 577,887    | 375,609    |
|  | -----      | -----      |
| Total liabilities                      | 18,644,222 | 16,828,773 |

(Continued)

3

|   |                |                |
|---|----------------|----------------|
| Stockholders' equity:   |                |                |
| Capital stock   | 11,715,914     | 11,715,914     |
| Paid-in surplus   | 1,170,390      | 1,170,390      |
| Retained earnings   | 19,766,314     | 17,525,927     |
| Reserve for repurchase of shares                                  | 996,847        | 996,847        |
| Cumulative effect of initial recognition of deferred income taxes | (1,887,308)    | (1,887,308)    |
| Cumulative effect of restatement                                  | (23,690,416)   | (23,036,402)   |
| Adjustment of additional employee retirement liability            | (154,105)      | (147,158)      |
|   | -----          | -----          |
| Majority stockholders' equity                                     | 7,917,636      | 6,338,210      |
| Minority interest   | 3,907,847      | 3,568,007      |
|   | -----          | -----          |
| Total stockholders' equity  | 11,825,483     | 9,906,217      |
|   | -----          | -----          |
| Total   | Ps. 30,469,705 | Ps. 26,734,990 |
|   | =====          | =====          |

(Concluded)

The accompanying notes are part of these consolidated financial statements.

4

Desc, S.A. de C.V. and Subsidiaries  
Consolidated statements of income (loss)  
For the years ended December 31, 2001, 2002 and 2003  
Expressed in thousands of constant Mexican pesos (Ps.) and thousands of U.S. dollars (\$), except per share information

|                            | 2001           | 2002           |
|----------------------------|----------------|----------------|
| Net sales                  | Ps. 22,092,872 | Ps. 20,360,380 |
| Cost of sales              | 16,284,573     | 15,572,154     |
|                            | -----          | -----          |
| Gross income               | 5,808,299      | 4,788,226      |
| Operating expenses:        |                |                |
| Administrative             | 2,229,370      | 2,222,587      |
| Selling                    | 1,616,673      | 1,484,339      |
|                            | -----          | -----          |
|                            | 3,846,043      | 3,706,926      |
|                            | -----          | -----          |
| Operating income           | 1,962,256      | 1,081,300      |
| Other (expenses) income:   |                |                |
| Impairment of fixed assets | (101,205)      | (50,988)       |
| Depreciation of idle plant | (75,515)       | (7,539)        |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |             |                 |
|--|-------------|-----------------|
| Amortization of goodwill   | (85,418)    | (79,992)        |
| Goodwill write-off from Club Ecuestre Chiluca, S.A. de C.V.  | -           | -               |
| Amortization of preoperating expenses and patents  | (112,077)   | (37,496)        |
| Loss on sale of shares   | (12,324)    | (6,073)         |
| Special item - severance payments  | (250,708)   | -               |
| Income from the technology fund  | 37,016      | 29,114          |
| Income (loss) on sale of assets  | 4,544       | (27,494)        |
| Recovery of taxes  | 13,991      | 51,434          |
| Other, net   | (39,199)    | (6,272)         |
|  | -----       | -----           |
|  | (620,895)   | (135,306)       |
| Integral financial result:   |             |                 |
| Interest income  | 126,211     | 68,192          |
| Interest expense   | (1,076,283) | (865,104)       |
| UDIS variation   | (109,282)   | (120,648)       |
| Exchange gain (loss), net  | 336,046     | (770,354)       |
| Monetary position gain   | 374,976     | 414,082         |
|  | -----       | -----           |
|  | 348,332     | (1,273,832)     |
|  | -----       | -----           |
| Income (loss) from continuing operations before provisions and equity in associated companies and unconsolidated subsidiaries. | 993,029     | (327,838)       |
|  | (Continued) |                 |
|  |             |                 |
|  | 2001        | 2002            |
| Provisions for:  |             |                 |
| Current income taxes   | 478,682     | 226,099         |
| Deferred income taxes  | (572,760)   | (83,141)        |
| Employee profit sharing  | 159,161     | 108,788         |
|  | -----       | -----           |
|  | 65,083      | 251,726         |
| Equity in associated companies and unconsolidated subsidiaries   | (125,376)   | (5,400)         |
|  | -----       | -----           |
| Income (loss) from continuing operations   | 802,570     | (584,960)       |
| Income (loss) form discontinued operations   | (253,863)   | (629,860)       |
| Change in accounting principle   | -           | -               |
| Extraordinary item   | (309,998)   | -               |
|  | -----       | -----           |
| Net consolidated income (loss) for the year  | Ps. 238,709 | Ps. (1,214,830) |
|  | =====       | =====           |
| Allocation of consolidated net income:   |             |                 |
| Majority stockholders' interest  | Ps. 45,446  | Ps. (1,084,540) |
| Minority stockholders' interest  | 193,263     | (130,290)       |
|  | -----       | -----           |
|  | Ps. 238,709 | Ps. (1,214,830) |
|  | =====       | =====           |
| Income (loss) per share:   |             |                 |
| Income (loss) from continuing operations   | Ps. 0.59    | Ps. (0.40)      |
|  | =====       | =====           |
| Discontinued operations  | Ps. (0.19)  | Ps. (0.40)      |
|  | =====       | =====           |
| Change in accounting principle   | Ps. -       | Ps. -           |
|  | =====       | =====           |
| Extraordinary items  | Ps. (0.23)  | Ps. -           |
|  | =====       | =====           |
| Majority net income (loss)   | Ps. 0.03    | Ps. (0.70)      |
|  | =====       | =====           |

Edgar Filing: DESC S A DE C V - Form 6-K

Weighted average shares outstanding (000's) 1,369,006 1,369,07  
===== =====

(Concluded)

The accompanying notes are part of these consolidated financial statements.

Desc, S.A. de C.V. and Subsidiaries  
 Consolidated statements of stockholders' equity  
 For the years ended December 31, 2001, 2002 and 2003  
 Expressed in thousands of constant Mexican pesos (Ps.) and thousands of U.S.  
 dollars (\$)

|   | Number of<br>shares | Capital Stock |                |
|---|---------------------|---------------|----------------|
|   |                     | Historical    | Restatement    |
| Balances, January 1, 2001                                       | 1,368,998,270       | Ps. 17,797    | Ps. 11,698,057 |
| Increase in capital stock<br>due to merger                      | 81,106              | 1             | 59             |
| Dividends declared  | -                   | -             | -              |
| Decrease in minority interest<br>due to restructuring and sales | -                   | -             | -              |
| Comprehensive income (loss)                                     | -                   | -             | -              |
|   | -----               | -----         | -----          |
| Balances, December 31, 2001                                     | 1,369,079,376       | 17,798        | 11,698,116     |
| Dividends declared  | -                   | -             | -              |
| Comprehensive income (loss)                                     | -                   | -             | -              |
|   | -----               | -----         | -----          |
| Balances, December 31, 2002                                     | 1,369,079,376       | 17,798        | 11,698,116     |
| Purchase of minority shareholding<br>interests                  | -                   | -             | -              |
| Comprehensive income (loss)                                     | -                   | -             | -              |
|   | -----               | -----         | -----          |
| Balances, December 31, 2003                                     | 1,369,079,376       | Ps. 17,798    | Ps. 11,698,116 |
|   | =====               | =====         | =====          |
| Balances, December 31, 2002                                     | 1,369,079,376       | \$ 1,589      | \$ 1,044,493   |
| Purchase of minority shareholding<br>interests                  | -                   | -             | -              |
| Comprehensive income (loss)                                     | -                   | -             | -              |
|   | -----               | -----         | -----          |
| Balances, December 31, 2003                                     | 1,369,079,376       | \$ 1,589      | \$ 1,044,493   |
|   | =====               | =====         | =====          |

|   | Reserve<br>for<br>repurchase<br>of shares | Cumulative<br>effect<br>of initial<br>recognition<br>of deferred<br>income<br>taxes | Cumulative<br>effect of<br>restatement | Adjustme<br>of<br>addition<br>employe<br>retireme<br>liabilit |
|---|---|---|--|---|
| Balances, January 1, 2001                                       | Ps. 996,847                               | Ps. (1,887,308)   | Ps. (23,338,038)                       | Ps.   |
| Increase in capital stock<br>due to merger                      | -   | -   | -                                      | -   |
| Dividends declared  | -   | -   | -                                      | -   |
| Decrease in minority interest<br>due to restructuring and sales | -   | -   | -                                      | -   |
| Comprehensive income (loss)                                     | -   | -   | (768,530)                              | -   |
|   | -----                                     | -----   | -----                                  | -----   |
| Balances, December 31, 2001                                     | 996,847                                   | (1,887,308)   | (24,106,568)                           | -   |
| Dividends declared  | -   | -   | -                                      | -   |



Edgar Filing: DESC S A DE C V - Form 6-K

|   |             |                 |                  |            |
|---|-------------|-----------------|------------------|------------|
| Comprehensive income (loss)                 | -           | -               | 416,152          | (154,1     |
| Balances, December 31, 2002                 | 996,847     | (1,887,308)     | (23,690,416)     | (154,1     |
| Purchase of minority shareholding interests | -           | -               | -                |            |
| Comprehensive income (loss)                 | -           | -               | 654,014          | 6,9        |
| Balances, December 31, 2003                 | Ps. 996,847 | Ps. (1,887,308) | Ps. (23,036,402) | Ps. (147,1 |
| Balances, December 31, 2002                 | \$ 89,006   | \$ (168,513)    | \$ (2,115,254)   | \$ (13,7   |
| Purchase of minority shareholding interests | -           | -               | -                |            |
| Comprehensive income (loss)                 | -           | -               | 58,395           | 6          |
| Balances, December 31, 2003                 | \$ 89,006   | \$ (168,513)    | \$ (2,056,859)   | \$ (13,1   |

|  | Total<br>Stockholders'<br>equity |
|--|----------------------------------|
| Balances, January 1, 2001                                    | Ps. 15,766,127                   |
| Increase in capital stock due to merger                      | 650                              |
| Dividends declared   | (850,240)                        |
| Decrease in minority interest due to restructuring and sales | (652,094)                        |
| Comprehensive income (loss)                                  | (1,079,123)                      |
| Balances, December 31, 2001                                  | 13,185,320                       |
| Dividends declared   | (550,009)                        |
| Comprehensive income (loss)                                  | (809,828)                        |
| Balances, December 31, 2002                                  | 11,825,483                       |
| Purchase of minority shareholding interests                  | (314,101)                        |
| Comprehensive income (loss)                                  | (1,605,165)                      |
| Balances, December 31, 2003                                  | Ps. 9,906,217                    |
| Balances, December 31, 2002                                  | \$ 1,055,866                     |
| Purchase of minority shareholding interests                  | (28,405)                         |
| Comprehensive income (loss)                                  | (143,322)                        |
| Balances, December 31, 2003                                  | \$ 884,499                       |

The accompanying notes are part of these consolidated financial statements.

6

Desc, S.A. de C.V. and Subsidiaries  
 Consolidated statements of changes in financial position  
 For the years ended December 31, 2001, 2002 and 2003  
 Expressed in thousands of constant Mexican pesos (Ps.) and thousands of U.S.  
 dollars (\$)

2001

2002

Operating activities:

Edgar Filing: DESC S A DE C V - Form 6-K

|   |             |              |
|---|-------------|--------------|
| Income (loss) from continuing operations  | Ps. 802,570 | Ps. (584,96) |
| Add (deduct)-Items which do not require (generate) resources-                         |             |              |
| Depreciation and amortization   | 1,310,465   | 1,319,52     |
| Depreciation of idle plant  | 75,517      | 7,53         |
| Impairment of fixed assets  | 101,205     | 50,98        |
| Capitalized integral financial cost   | (5,838)     |              |
| Equity in associated companies and unconsolidated subsidiaries                        | 125,376     | 5,40         |
| Amortization and write-off of goodwill  | 85,418      | 79,99        |
| Deferred income taxes   | (572,760)   | (83,14)      |
| Non-cash items from discontinued operations   | 114,055     | 57,81        |
|   | -----       | -----        |
|   | 2,036,008   | 853,14       |
| Changes in operating assets and liabilities-  |             |              |
| Notes and accounts receivable   | 1,147,934   | (53,95)      |
| Inventories   | 604,575     | 53,60        |
| Prepaid expenses  | 24,718      | 20,86        |
| Real estate assets available for sale   | (19,610)    | 19,61        |
| Decrease in current assets due to sale of assets of Industrias Resistol, S.A. de C.V. | -           |              |
| Current assets from discontinued operations   | 79,055      | 281,36       |
| Notes and accounts payable to suppliers, other payables and accrued liabilities       | 71,941      | (140,60)     |
| Income taxes and employee profit sharing  | 196,350     | (291,01)     |
| Current liabilities from discontinued operations                                      | (31,511)    | (34,03)      |
|   | -----       | -----        |
|   | 2,073,452   | (144,15)     |
|   | -----       | -----        |
| Discontinued operations   | (253,863)   | (629,86)     |
| Change in accounting principle  | -           |              |
| Extraordinary items   | (309,998)   |              |
|   | -----       | -----        |
| Net resources generated by (used in) operations                                       | 3,545,599   | 79,12        |
|   | -----       | -----        |

(Continued)

|   | 2001        | 2002       |
|---|-------------|------------|
| Financing activities:   |             |            |
| Proceeds from debt  | (1,384,338) | 4,852,72   |
| Payments of debt  | (508,058)   | (2,654,64) |
| Effect of the variance on short-term bank loans, current portion of long-term debt and long-term debt | (558,659)   | (598,23)   |
| Related parties - long-term   | -           |            |
| Other long-term liabilities   | (231,462)   | 322,19     |
| Deferred income taxes   | (516,591)   | 252,28     |
| Increase in capital stock due to merger   | 650         |            |
| Dividends paid  | (228,323)   | (440,46)   |
| Dividends paid to minority interest   | (402,055)   | (121,07)   |
| Adjustment of additional employee retirement liability  | -           | (154,10)   |
| Decrease in minority stockholders' interest due to restructuring and sale                             | (652,094)   |            |
|   | -----       | -----      |
| Net resources (used in) generated by financing activities   | (4,480,930) | 1,458,67   |
|   | -----       | -----      |
| Investing activities:   |             |            |
| Land acquisition  | (7,154)     | (3,14)     |
| Cost of land sold   | 282,278     | 64,77      |
| Investment in real estate projects  | (761,902)   | (405,75)   |
| Cost of real estate projects sold   | 137,552     | 368,97     |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |               |              |
|--|---------------|--------------|
| Trade receivables - long-term  | -             |              |
| Investments in shares  | (260,854)     | 29,13        |
| Cumulative effect of change in accounting policy of goodwill   | -             |              |
| Sale of shares of subsidiaries   | 1,574,561     |              |
| Cash and cash equivalents of subsidiaries sold   | (79,368)      |              |
| Purchase of minority shareholdings   | -             |              |
| Acquisitions of property, plant and equipment  | (785,151)     | (1,117,41    |
| Net book value of retirements of property, plant and equipment   | 666,375       | 262,44       |
| Net book value of retirements of property, plant and equipment of<br>Industrias Resistol, S.A. de C.V. | -             |              |
| Cumulative effect of change in accounting policy in property<br>plant and equipment                    | -             |              |
| Net increase of investment properties  |               | (28,34       |
| Other assets   | (94,961)      | 242,14       |
| Investing activities of discontinued operations  | 3,718         | 66,46        |
|  | -----         | -----        |
| Net resources generated by (used in) investing activities  | 675,094       | (520,71      |
|  | -----         | -----        |
| Net increase (decrease) in cash and cash equivalents   | (260,237)     | 1,017,07     |
| Net decrease in cash and cash equivalents from<br>discontinued operations                              | (13,919)      | (8,28        |
| Cash and cash equivalents:   |               |              |
| Balance at beginning of year   | 1,766,929     | 1,492,77     |
|  | -----         | -----        |
| Balance at end of year   | Ps. 1,492,773 | Ps. 2,501,56 |
|  | =====         | =====        |

(Concluded)

The accompanying notes are part of these consolidated financial statements.

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

Notes to consolidated financial statements

As of December 31, 2001, 2002 and 2003

Expressed in thousands of constant Mexican pesos (Ps.) and thousands of U.S.  
dollars (\$)

1. Principal activities and significant events

Activities- Desc, S.A. de C.V. ("DESC") is the controlling stockholder of a group of companies engaged mainly in the manufacture and sale of autoparts, chemicals and food. It is also engaged in the acquisition, sale and development of real estate.

Significant events-

- a. The economic slowdown recorded in the last few years had a significant impact in the United States of America and Mexico, with adverse consequences on the results of DESC, primarily in the automotive and chemical sectors. For this reason, during 2002 and 2003 DESC decided to reviewing its investment portfolio and realigning its operating structure to reflect market conditions. Therefore, during 2002 DESC decided to close the following non-strategic businesses: spark plugs and electric parts from the automotive sector, the natural pigments business in the chemicals sector, and in the food sector the hog raising operation in the Bajio region and the shrimp farming business, which was donated to the Instituto Tecnologico de Estudios Superiores de Monterrey; it also began a downsizing program which continued during 2003, during which period the group's work force was reduced by 15.1% (see Notes 17 and 18).
- b. In December 2003 the Company satisfactorily concluded the agreement with bank creditors to refinance syndicated loans and a significant part of the Company's short-term debt. The total amount of the restructured debt was approximately \$667,000 (\$445,700 and Ps.1,223,000 of long-term loans and \$112,000 of revolving credit and letters of credit), which represents around 63% of the Company's consolidated debt. The terms of the negotiation include maturity of the debt after

## Edgar Filing: DESC S A DE C V - Form 6-K

five years and a grace period of 30 months as of January 2004 for payment of principal. The interest rates obtained for the dollar debt are LIBOR rate plus a variable interest margin, while the rate for the Mexican peso debt is TIIE (Interbank interest rate) plus a variable interest margin (see Note 11).

- c. Continuing with the programs mentioned in subsection a) above, the following resolutions were adopted at the Stockholders' Ordinary General and Special Meeting held on April 28, 2003:
- i. Merge DESC with Industrias Resistol, S.A. de C.V. with DESC surviving as the merged company. Such merger went into effect for accounting and tax purposes as of September 29, 2003, DESC sold basically all of the assets of the aforementioned subsidiary engaged in the manufacture and sale of adhesives and waterproofing materials as of September 30, 2003. As a result of such asset sale, the Company generated a loss of Ps.11,013 which is recorded in the statement of income (loss) under the heading "Other expenses".
  - ii. Merge DESC with Industrias Ruiz Galindo, S.A. de C.V., with DESC surviving as the merged company. Such merger went into effect for accounting and tax purposes as of May 1, 2003, for which reason as of this date Industrias Ruiz Galindo, S.A. de C.V. ceased to exist as a legal entity.

10

### 2. Basis of presentation

- a. Convenience translation - U.S. dollar amounts shown in the financial statements have been included solely for the convenience of users and are translated at the exchange rate for December 31, 2003 of 11.1998 Mexican pesos per U.S. dollar. Such translation should not be interpreted as a representation that the Mexican peso amounts have been, could have been, or could in the future be, translated into U.S. dollars at this or any other exchange rate. The statements of income in US dollars generated monthly by the Company for local purposes are determined based on historical amounts for each month and are converted at the average exchange rates of the respective months, for which reason they differ from the accompanying consolidated statement of income (loss).
- b. Basis of consolidation- The accompanying consolidated financial statements include those of DESC and the subsidiaries in which there is stockholding and administrative control. All significant intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements.

The Company's principal subsidiaries are:

|  | 2002  | 2003  |
|--|-------|-------|
| Automotive segment-                                    |       |       |
| Desc Automotriz, S.A. de C.V. and Subsidiaries         | 99.9% | 99.9% |
| Chemical segment ("GIRSA")-                            |       |       |
| Industrias Negromex, S.A. de C.V.                      | 99.9% | 99.9% |
| Paratec, S.A. de C.V.                                  | 99.9% | -     |
| Industrias Resistol, S.A. de C.V.                      | 99.9% | -     |
| Quimir, S.A. de C.V.                                   | 99.9% | 99.9% |
| Resirene, S.A. de C.V.                                 | 99.9% | 99.9% |
| Rexcel, S.A. de C.V.                                   | 99.9% | 99.9% |
| Nhumo, S.A. de C.V.                                    | 60%   | 60%   |
| Dynasol Elastomeros, S.A. de C.V.                      | 50.1% | 50.1% |
| Food sector-   |       |       |
| Agroken, S.A. de C.V. and subsidiaries                 | 99.9% | 99.9% |
| Corfuerte, S.A. de C.V. and subsidiaries ("CORFUERTE") | 77.6% | 96.1% |
| Authentic Acquisition Corporation and Subsidiaries     | 81.3% | 99.9% |
| Real estate segment ("DINE")-                          |       |       |

## Edgar Filing: DESC S A DE C V - Form 6-K

|                                     |        |      |
|-------------------------------------|--------|------|
| Cantiles de Mita, S.A. de C.V.      | 96%    | 96%  |
| Canada Santa Fe, S.A. de C.V.       | 73%    | 73%  |
| Promociones Bosques, S.A. de C.V.   | 100%   | 100% |
| Inmobiliaria Dine, S.A. de C.V.     | 100%   | 100% |
| Club Ecuestre Chiluca, S.A. de C.V. | 77.26% | -    |

To simplify the Company's administrative structure, DESC was merged with GIRSA and DINE on November 29, 2001 and April 25, 2002, respectively, with DESC surviving as the merged company. Additionally Club Ecuestre Chiluca, S.A. de C.V. and Paratec, S.A. de C.V. were merged into Cantiles de Mita, S.A. de C.V. and Industrias Negromex, S.A. de C.V. in June and September 2003, respectively.

The equity in net income (loss) and changes in stockholders' equity of those subsidiaries that were acquired or sold, has been included in the financial statements as of or up to the date on which the transactions took place and was restated in terms of the purchasing power of the Mexican peso as of December 31, 2003.

Investments in shares of associated companies and unconsolidated subsidiaries are recorded using the equity method based on the financial statements prepared using same accounting policies as the Company, and are included under the "Other assets" heading in the balance sheets.

11

- c. Sale of certain assets of Industrias Resistol, S.A. de C.V. - As mentioned in Note 1c, on September 29, 2003 the merger of Industrias Resistol, S.A. de C.V. into DESC went into effect for accounting and tax purposes. On September 30, 2003 DESC sold basically all the assets of such subsidiary engaged in the manufacture and sale of adhesives and mortar proofing materials suspending its operations in such businesses. Consequently, the consolidated financial statements include the results of the subsidiary Industrias Resistol, S.A. de C.V. as of December 31, 2001 and 2002, and for the period from January 1 through September 30, 2003. Following is a summary of the condensed statements of income of such subsidiary for the aforementioned periods:

|                              | 2001        | 2002         | 2003      |
|------------------------------|-------------|--------------|-----------|
| Net sales                    | Ps. 938,193 | Ps. 916,097  | Ps. 694   |
| Cost of sales                | (447,531)   | (479,852)    | (389)     |
| Operating expenses           | (246,094)   | (268,414)    | (183)     |
| Integral result of financing | (108,069)   | (111,259)    | (73)      |
| Other expenses               | (43,223)    | (101,387)    | (89)      |
| Income tax provision         | 30,920      | 23,306       | (68)      |
|                              | -----       | -----        | -----     |
| Net income (loss)            | Ps. 124,196 | Ps. (21,509) | Ps. (110) |
|                              | =====       | =====        | =====     |

- d. Purchase of minority interests of CORFUERTE and AAC - As mentioned in Note 20, on November 11, 2003 the minority shareholders of the subsidiaries CORFUERTE and AAC formally notified their decision to exercise the sale option of their shares to DESC, which was formalized on January 29, 2004. Consequently, as of that date the shareholding of DESC in such subsidiaries increased from 77.6% to 96.1% and from 81.3% to 99.9%, respectively. The amount paid was \$14,311 (Ps.156,194) and is recorded as a liability in "Other payables and accrued liabilities".
- e. Conversion of financial statements of foreign subsidiaries- The financial statements of foreign subsidiaries, whose operation is not integrated into that of the Mexican companies (foreign entity), are restated using the national inflation index of the respective country and are converted to Mexican pesos at the exchange rate in effect at the end of the year. The financial statements in local currency of

## Edgar Filing: DESC S A DE C V - Form 6-K

foreign companies whose operations are integrated with those of the Mexican companies are converted at the exchange rates in effect at the transaction closing or origin, depending on whether they are monetary or nonmonetary items, and are restated by using the Mexican National Consumer Price Index (NCPI). The conversion effects of the foreign entity are recorded in stockholders' equity in the "Cumulative restatement effect" account. Additionally, the conversion effects of the integrated transactions are recorded in results of the year in net comprehensive financing cost, within the "Monetary position gain" account. Such effects are not material.

- f. Comprehensive income (loss)- Comprehensive income (loss) is comprised of the net consolidated income for the period plus (less) any gains or losses that under specific accounting regulations are recorded directly in stockholders' equity, such as the gain or loss from holding nonmonetary assets. In 2001, 2002 and 2003 other comprehensive income is comprised of the gain or loss from holding nonmonetary assets and the effect of translation of foreign subsidiaries and, in 2002 and 2003, the adjustment of additional employee retirement liability.
- g. Reclassifications- Certain amounts in the consolidated financial statements at December 31, 2001 and 2002 have been reclassified in order to conform to the presentation of the consolidated financial statements at December 31, 2003.

12

### 1. Summary of financial data by business segment

The presentation below sets forth certain financial information regarding the Company's industry segments. Intersegment transactions have been eliminated.

Total assets by industry are those assets that are used in the operations of each industry segment. Corporate assets are principally cash and long-term investments.

| 2001        | Net<br>Sales   | Operating<br>income | Net<br>consolidated<br>income (Loss) | Total<br>assets | T<br>liab |
|-------------|----------------|---------------------|--------------------------------------|-----------------|-----------|
| Automotive  | Ps. 10,157,225 | Ps. 1,144,371       | Ps. 570,316                          | Ps. 10,230,142  | Ps. 4     |
| Chemicals   | 7,334,118      | 549,791             | 30,725                               | 7,535,897       | 3         |
| Food        | 3,693,349      | 174,927             | (143,282)                            | 5,920,482       | 1         |
| Real estate | 887,107        | 159,438             | (48,583)                             | 5,578,556       | 1         |
| Corporate   | 21,073         | (66,271)            | (170,467)                            | 950,479         | 5         |
|             | -----          | -----               | -----                                | -----           | -----     |
|             | Ps. 22,092,872 | Ps. 1,962,256       | Ps. 238,709                          | Ps. 30,215,556  | Ps. 17    |
|             | =====          | =====               | =====                                | =====           | =====     |
| 2002        |                |                     |                                      |                 |           |
| Automotive  | Ps. 8,731,810  | Ps. 644,084         | Ps. (43,445)                         | Ps. 9,550,708   | Ps. 3     |
| Chemicals   | 7,211,861      | 341,415             | (228,835)                            | 7,457,870       | 3         |
| Food        | 3,581,989      | 102,380             | (576,144)                            | 5,379,833       | 1         |
| Real estate | 799,283        | 84,913              | (38,193)                             | 6,202,016       | 1         |
| Corporate   | 35,437         | (91,492)            | (328,220)                            | 1,879,278       | 10        |
|             | -----          | -----               | -----                                | -----           | -----     |
|             | Ps. 20,360,380 | Ps. 1,081,300       | Ps. (1,214,837)                      | Ps. 30,469,705  | Ps. 18    |
|             | =====          | =====               | =====                                | =====           | =====     |
| 2003        |                |                     |                                      |                 |           |
| Automotive  | Ps. 7,820,304  | Ps. 226,670         | Ps. (391,865)                        | Ps. 7,984,504   | Ps. 1     |
| Chemicals   | 7,868,456      | 202,924             | (493,956)                            | 6,942,505       | 3         |
| Food        | 3,883,594      | 123,985             | (1,059,688)                          | 4,338,087       | 1         |
| Real estate | 1,968,953      | 412,329             | (68,383)                             | 6,124,230       | 1         |
| Corporate   | 213,748        | (123,444)           | (390,018)                            | 1,345,664       | 10        |
|             | -----          | -----               | -----                                | -----           | -----     |
|             | Ps. 21,755,055 | Ps. 842,464         | Ps. (2,403,910)                      | Ps. 26,734,990  | Ps. 16    |
|             | =====          | =====               | =====                                | =====           | =====     |

Edgar Filing: DESC S A DE C V - Form 6-K

|             | Depreciation<br>and<br>amortization | Impairment of<br>fixed assets | Interest<br>expense | Interest<br>income | Change i<br>accountin<br>princip |
|-------------|-------------------------------------|-------------------------------|---------------------|--------------------|----------------------------------|
| 2001        |                                     |                               |                     |                    |                                  |
| Automotive  | Ps. 737,349                         | Ps. 6,699                     | Ps. 197,558         | Ps. 61,309         | Ps.                              |
| Chemicals   | 398,191                             | 49,859                        | 382,988             | 30,245             |                                  |
| Food        | 182,281                             | 7,559                         | 147,205             | 11,781             |                                  |
| Real estate | 39,112                              | -                             | 125,155             | 42,871             |                                  |
| Corporate   | 29,049                              | 37,088                        | 223,377             | (19,995)           |                                  |
|             | -----                               | -----                         | -----               | -----              | -----                            |
|             | Ps. 1,385,982                       | Ps. 101,205                   | Ps. 1,076,283       | Ps. 126,211        | Ps.                              |
|             | =====                               | =====                         | =====               | =====              | =====                            |
| 2002        |                                     |                               |                     |                    |                                  |
| Automotive  | Ps. 738,041                         | Ps. 10,387                    | Ps. 84,585          | Ps. 22,187         | Ps.                              |
| Chemicals   | 357,598                             | 32,294                        | 134,176             | 9,085              |                                  |
|             | 173,306                             | 8,307                         | 53,474              | 6,721              |                                  |
| Food        |                                     |                               |                     |                    |                                  |
|             | 23,407                              | -                             | 99,932              | 15,660             |                                  |
| Real estate |                                     |                               |                     |                    |                                  |
|             | 34,716                              | -                             | 492,937             | 14,539             |                                  |
|             | -----                               | -----                         | -----               | -----              | -----                            |
| Corporate   | Ps. 1,327,068                       | Ps. 50,988                    | Ps. 865,104         | Ps. 68,192         | Ps.                              |
|             | =====                               | =====                         | =====               | =====              | =====                            |
| 2003        |                                     |                               |                     |                    |                                  |
| Automotive  | Ps. 750,105                         | Ps. -                         | Ps. 56,498          | Ps. 5,568          | Ps. (482,2                       |
| Chemicals   | 354,575                             | -                             | 135,380             | 10,782             | (3,1                             |
| Food        | 79,968                              | 14,097                        | 33,726              | 6,533              | (898,8                           |
| Real estate | 438,223                             | -                             | 74,920              | 2,873              |                                  |
| Corporate   | 86,623                              | 43                            | 775,548             | 16,380             |                                  |
|             | -----                               | -----                         | -----               | -----              | -----                            |
|             | Ps. 1,383,381                       | Ps. 14,140                    | Ps. 1,076,072       | Ps. 42,136         | Ps. (1,384,2                     |
|             | =====                               | =====                         | =====               | =====              | =====                            |

2. Significant accounting policies

The accounting policies followed by DESC and subsidiaries (the "Company") are in conformity with Mexican GAAP, which require management to make certain estimates and use certain assumptions to determine the valuation of some of the balances included in the financial statements and to make the disclosures required for inclusion therein.

Although actual results may differ from those estimates, management believes that the estimates and assumptions used were appropriate in the circumstances. The significant accounting policies followed by the Company are as follows:

- a. Adoption of accounting principles- The Company early adopted the provisions of new Bulletin C-15, "Impairment in the value of long-lived assets and their disposal" ("C-15"). C-15 establishes, among other issues, that in the presence of indicators of impairment of a long-lived asset in use, whether tangible or intangible, including goodwill, entities must determine the possible loss from impairment, unless they have evidence clearly demonstrating that such indicators are of a temporary nature. To calculate the loss from impairment requires the determination of the recovery value, now defined as the higher of the net selling price of a cash generating unit and its use value, which is the present value of future net cash flows, at an appropriate discount rates. In the provisions prior to C-15, net future cash flows referenced to the purchasing power in effect at the evaluation date were used, without requiring the discounting of such flows. The effect derived from the application of this new principle was the recognition of Ps.712,457 of impairment in the value of certain property, plant and equipment and Ps.898,891 of impairment in the value of the

## Edgar Filing: DESC S A DE C V - Form 6-K

goodwill of certain subsidiaries. The charge to 2003 results was Ps.1,384,294, net of a reduction of Ps.227,054 in the related deferred income tax liability, presented in the statement of income under the heading "Change in accounting principle". Beginning January 2003, the Company adopted the provisions of the following Mexican bulletins:

- . Bulletin C-8, "Intangible Assets" (C-8), went into effect. This bulletin establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Any preoperating costs incurred after the effective date of this Bulletin should be recorded as an expense, unless they meet certain criteria. The unamortized balance of capitalized preoperating costs under the former Bulletin C-8 will continue to be amortized. During the year ended December 31, 2003, there was no adverse effect derived from the application of new Bulletin C-8.
  - . Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" (C-9), which establish additional guidelines clarifying the accounting for liabilities, provisions and contingent assets and liabilities, and establish new standards for the use of present value techniques to measure liabilities and accounting for the early settlement of obligations. During the year 2003, there was no adverse effect derived from the application of new Bulletin C-9.
  - . Bulletin E-1, "Agriculture" (E-1), which establishes the rules for valuing, presenting and disclosing biological assets and agricultural products, which includes the administration carried out by a related party with the respect to biological transformation of live animals or plants (biological assets) that are destined to be sold as an agricultural product or as a comprehensive part of a biological asset. Bulletin E-1 requires biological assets and agricultural products to be valued at their fair market value, less the estimated costs at the point of sale. Bulletin E-1 also states that when the fair market value cannot be determined in a reliable and objective manner, the aforementioned assets should be valued at production cost, less accumulated depreciation. Crop production in progress as of December 31, 2003 is valued at cost. The effects derived from the application of E-1 in the consolidated financial statements as of December 31, 2003 were not material.
- b. Recognition of the effects of inflation- The companies restate all of their financial statements in terms of the purchasing power of the Mexican peso as of the end of the latest period, thereby comprehensively recognizing the effects of inflation. The prior year amounts presented herein differ from those originally reported in terms of Mexican pesos of the respective year. Consequently, all financial statement amounts are comparable, both for the current and the prior year, because all are stated in terms of Mexican pesos of the same purchasing power.
- c. Temporary investments- Temporary investments are stated at the lower of acquisition cost plus accrued yields, or at market value, yields are recorded in the statement of income (loss).
- 14
- d. Inventories and cost of sales- Inventories are originally recorded at their acquisition or manufacturing cost and restated to their specific net replacement cost without exceeding net realizable value. Substantially all subsidiaries compute cost of sales using the replacement cost at the time of sale.
- e. Land held for development and real estate projects- Undeveloped land represents land reserves that, together with developed land and ongoing and completed projects held for sale, are considered non-current inventories. They include acquisition, development and construction costs and are restated in U.S. dollars based on the slippage of the market exchange rate for the purpose of showing values in accordance with the current situation



## Edgar Filing: DESC S A DE C V - Form 6-K

of the real estate market.

If the Mexican NCPI had been used to restate land held for development, developed land and real estate projects, their net value at December 31, 2002 and 2003 would have increased by Ps.873,621 and Ps.609,431, respectively, and the cost of land sold for the years ended December 31, 2001, 2002 and 2003 would have increased by Ps.143,681, Ps.121,277 and Ps.159,621, respectively.

The Company capitalizes the integral financing cost on debt used to finance real estate projects in progress, in addition to their construction and development costs. During 2001, 2002 and 2003, the Company did not have real estate projects whose integral financing cost was subject to capitalization.

- f. Property, plant and equipment- This item is recorded at acquisition cost and is restated by using NCPI factors. For foreign fixed assets, their acquisition cost is restated for inflation of the country of origin and the fluctuation of the Mexican peso against such currency is considered. If the restatement of all property, plant and equipment had been calculated using the NCPI, the net value of fixed assets as of December 31, 2002 and 2003 would have increased by Ps.1,905,377 and Ps.174,565, respectively, and the depreciation as for the years ended December 2001, 2002 and 2003 would have increased by Ps.212,913, Ps.210,416 and Ps.44,702, respectively. The companies capitalize the integral financing cost on debt used to finance construction in progress and the installation of equipment, until they are placed in service. During 2001 the integral financing cost capitalized was Ps.5,838. During 2002 and 2003, the Company did not have construction in progress whose net comprehensive financing cost was subject to capitalization. Depreciation of property, plant and equipment is calculated using the straight-line method applied to month-end balances based on the average restated value of the year deducted from a salvage value, which, depending on the heading, fluctuates between 5% and 10% of its restated value, and their estimated useful lives.
- g. Impairment of fixed assets- The amounts shown in the accompanying consolidated statements of income (loss) basically refer to the reduction in value of property and machinery of some productive facilities, in order to reflect their realizable value in accordance with the current situation of such businesses.
- h. Financial instruments - Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and yields of financial instruments are recognized in results of the period in which they occur.
- i. Derivative financial instruments - These instruments are traded only with authorized institutions and trading limits have been established for each institution. The Company does not carry out transactions with derivative financial instruments for the purpose of speculation.

15

The derivative financial instruments currently used by the Company are primarily hedge contracts to reduce its exposure to exchange rate and interest rate fluctuations. Premiums paid are amortized over the term of the derivative financial instrument using the unpaid balance of the liability being hedged.

Derivative financial instruments identified as hedges are valued by applying the same valuation criteria used for the assets or liabilities hedged, and the effects of their valuation are recognized in results of operations, net of costs, expenses, or revenue from the assets or liabilities whose risks are being hedged. The financial assets or liabilities generated by these instruments are presented in

## Edgar Filing: DESC S A DE C V - Form 6-K

- the balance sheet as a reduction of the liabilities or assets whose risks are being hedged.
- j. Goodwill- Up to 2003, the goodwill resulting from acquisitions made in excess of book value is restated by applying the NCPI amortized over periods ranging from five to 20 years, the terms over which the benefits from the investment will be realized. Due to the early adoption of new Bulletin C-15, goodwill is subject to the impairment of long-lived assets calculation.
  - k. Other assets - Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method over five years. Those disbursements that do not meet such requirements are recorded in results of the period in which they are incurred. Intangible assets with indefinite lives are not amortized because they can be renewed at a reduced cost, however, their value is subject to impairment tests. Preoperating costs incurred after January 1, 2003, are recorded directly in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 are amortized using the straight-line method over five years.
  - l. Impairment of long-lived assets in use- The Company reviews the book value of long-lived assets in use tangible and intangible, in the presence of any indicator of impairment that might indicate that such book value might not be recoverable, considering the higher of the present value of future net cash flows or the net selling price, in the event of their eventual disposal. The impairment is recorded considering the amount by which the book value exceeds the higher of the aforementioned values.
  - m. Provisions - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.
  - n. Income tax, asset tax and employee profit sharing - Income tax (ISR) and employee statutory profit sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities, plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits that, in the opinion of management, will probably not be realized. Deferred PTU is derived from temporary differences between the book result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that this situation will change in such a way that the liabilities will not be paid or benefits will not be realized  
The asset tax paid that is expected to be recoverable is recorded as an advance payment of income tax and is presented on the balance sheet with deferred ISR.
  - o. Employee retirement obligations- The liability from seniority premiums, pensions and retirement payments, which is similar to a pension, is recorded as accrued, and is calculated by independent actuaries based on the projected credit unit method, at real interest rates. Therefore, the liability is being recognized which, at present value, is expected to cover the obligation for these benefits at the estimated retirement date of all the Companies' employees. Severance payments are charged to results when they are determined to be payable.
  - p. Foreign currency balances and transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at

## Edgar Filing: DESC S A DE C V - Form 6-K

the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income.

- q. Restated stockholders' equity- This item consists of monetary position result accumulated through the first restatement of the financial statements and the gain (loss) from holding monetary assets, because price levels increased above (below) inflation.
- r. Revenue recognition - Revenues of the subsidiaries of the autoparts, chemical and food sectors are recognized when the inventories are delivered or shipped to customers and customers assume responsibility for them.
- The real estate sector recognizes the revenues and costs from sales of urbanized plots of land in results when the sales are formalized and the deposits securing the transaction are received. The individual assignment of the cost of the land and real estate project takes into consideration the relative selling price of the total project so as to maintain the same profit margin throughout the project. Revenues and costs from real estate projects are recorded originally as a deferred credit for construction commitments and as real estate projects in process and are recognized in results based on the "percentage of completion" method. Therefore, revenue is matched with costs incurred to reach the stage of completion to terminate the project. If the latest estimated costs determined exceed the total revenues contracted, the respective provision is charged to results of the year.
- s. Integral financial result- This represents the net effect of interest earned and incurred, exchange gains and losses and monetary position gain or loss on, which is the result of maintaining monetary assets and liabilities whose real purchasing power is modified by the effects of inflation.
- t. Income per share- Basic income (loss) per ordinary share is calculated by dividing net income (loss) of majority stockholders by the weighted average number of shares outstanding during the year.
5. Cash and cash equivalents

|   | 2002          | 2003        |
|---|---------------|-------------|
| Cash  | Ps. 436,715   | Ps. 243,663 |
| Restricted cash   | -             | 16,400      |
| Cash equivalents  | 1,748,116     | 459,904     |
| Technology and trust funds to be used within three months | 316,732       | -           |
|   | -----         | -----       |
|   | Ps. 2,501,563 | Ps. 719,967 |
|   | =====         | =====       |

As part of the sale of the assets of Industrias Resistol, S.A. de C.V., the Company received Ps.53,539 in cash with formal restrictions as to its availability, of which Ps.16,400 represents short-term restricted cash, and Ps.37,139 on a long term basis, recorded under the heading "Other assets". As of December 31, 2002 the technology and training funds held in trust, which would be exercised within three months during 2003 were classified as cash.

17

6. Notes and accounts receivable
- |                                       | 2002          | 2003          |
|---------------------------------------|---------------|---------------|
| Trade                                 | Ps. 2,882,150 | Ps. 3,492,644 |
| Less- Allowance for doubtful accounts | (58,847)      | (109,596)     |
|                                       | -----         | -----         |

Edgar Filing: DESC S A DE C V - Form 6-K

|                   |               |               |
|-------------------|---------------|---------------|
|                   | 2,823,303     | 3,383,048     |
| Other debtors     | 84,467        | 109,665       |
| Recoverable taxes | 301,969       | 412,578       |
| Other receivables | 615,612       | 365,050       |
|                   | -----         | -----         |
|                   | Ps. 3,825,351 | Ps. 4,270,341 |
|                   | =====         | =====         |

The movements of the allowance for bad debts are as follows:

|                                      | 2002       | 2003        |
|--------------------------------------|------------|-------------|
| Balance at the beginning of the year | Ps. 56,080 | Ps. 56,600  |
| Provision for the year               | 15,377     | 68,306      |
| Provision used in the year           | (15,808)   | (17,557)    |
| Restatement of initial balance       | 3,198      | 2,247       |
|                                      | -----      | -----       |
| Balance at the end of the year       | Ps. 58,847 | Ps. 109,596 |
|                                      | =====      | =====       |

During 2002 and 2003, certain subsidiaries sold commercial paper without recourse at an average financial cost of 9.23% and 9.08% for Mexican pesos, respectively, and 3.62% and 3.86% for U.S. dollars, respectively, and terms ranging between 4 and 89 days in 2002 and between 4 and 74 days in 2003, with two financial institutions. As of December 31, 2002 and 2003, the balances of commercial paper sold without recourse were Ps.520,883, and Ps.493,486, respectively (equivalent to \$46.5 and \$44.1 million, respectively).

Trade receivables - long-term - Certain real estate sector have long-term trade receivables in US dollars, which are recorded at present value at a 3% discount rate with the following maturities:

|                     |               |
|---------------------|---------------|
| 2005                | Ps. 295,399   |
| 2006                | 311,312       |
| 2007 and thereafter | 441,770       |
|                     | -----         |
|                     | Ps. 1,048,481 |
|                     | =====         |

7. Inventories

|                                       | 2002          | 2003          |
|---------------------------------------|---------------|---------------|
| Finished goods and work-in-process    | Ps. 1,978,504 | Ps. 2,001,478 |
| Raw materials, supplies and other     | 1,236,041     | 1,153,483     |
|                                       | -----         | -----         |
|                                       | 3,214,545     | 3,154,961     |
| Less- Allowance for slow-moving items | (55,568)      | (61,416)      |
|                                       | -----         | -----         |
|                                       | 3,158,977     | 3,093,545     |
| Advances to suppliers                 | 34,145        | 26,891        |
|                                       | -----         | -----         |
|                                       | Ps. 3,193,122 | Ps. 3,120,436 |
|                                       | =====         | =====         |

18

Movements in the reserve for obsolete and slow-moving inventories are as follows:

|                                      | 2002       | 2003       |
|--------------------------------------|------------|------------|
| Balance at the beginning of the year | Ps. 73,050 | Ps. 53,447 |
| Provision for the year               | 33,770     | 53,049     |
| Provision used in the year           | (52,428)   | (47,201)   |
| Restatement of the initial balance   | 1,176      | 2,121      |
|                                      | -----      | -----      |
| Balance at the end of the year       | Ps. 55,568 | Ps. 61,416 |
|                                      | =====      | =====      |

8. Land held for development and real estate projects

|                                  | 2002        | 2003          |
|----------------------------------|-------------|---------------|
| Land held for development        | Ps. 982,148 | Ps. 1,035,260 |
| Real estate projects-in-progress | 1,462,090   | 1,511,118     |

Edgar Filing: DESC S A DE C V - Form 6-K

|                         |               |               |
|-------------------------|---------------|---------------|
| Developed land          | 1,817,782     | 1,254,485     |
| Advances to contractors | 23,274        | 26,283        |
| Other                   | 5,237         | 1,166         |
|                         | -----         | -----         |
|                         | Ps. 4,290,528 | Ps. 3,828,312 |
|                         | =====         | =====         |

9. Property, plant and equipment

|                             | 2002                       | 2003                       | Annual<br>Depreciation<br>Rate (%) |
|-----------------------------|----------------------------|----------------------------|------------------------------------|
| Buildings and installations | Ps. 6,121,907              | Ps. 6,056,109              | 2 to 31.5                          |
| Machinery and equipment     | 17,110,130                 | 16,758,770                 | 3.8 to 31.8                        |
| Vehicles                    | 283,735                    | 413,807                    | 9 to 33.3                          |
| Furniture and fixtures      | 427,064                    | 402,681                    | 10 to 30                           |
| Other                       | 527,123                    | 536,749                    | 3.5 to 33                          |
|                             | -----                      | -----                      |                                    |
| Accumulated depreciation    | 24,469,959<br>(12,908,484) | 24,168,116<br>(13,845,357) |                                    |
|                             | -----                      | -----                      |                                    |
| Projects-in-progress        | 11,561,475                 | 10,322,759                 |                                    |
| Land                        | 916,816<br>1,206,132       | 462,993<br>1,027,369       |                                    |
|                             | -----                      | -----                      |                                    |
|                             | Ps. 13,684,423             | Ps. 11,813,121             |                                    |
|                             | =====                      | =====                      |                                    |

Temporarily idle assets amount Ps.332,316 and Ps.66,800 in 2002 and 2003, respectively, and permanently idle assets Ps.198,378 and Ps.544,458 in 2002 and 2003, respectively.

19

Certain subsidiaries entered into a machinery sale agreement (without obligation to repurchase) with a financial institution. On that date, a machinery lease agreement covering the same machinery was executed (see Note 19).

| Date of contract  | Term    | Amount          | Leases payment | Interest rate |
|-------------------|---------|-----------------|----------------|---------------|
| June 29, 2001     | 5 years | \$ 18.7 million | Quarterly      | 1.5%          |
| December 19, 2002 | 7 years | \$ 11.0 million | Quarterly      | 3.7%          |
| March 27, 2003    | 7 years | \$ 3.1 million  | Quarterly      | 3.7%          |
| August 19, 2003   | 7 years | \$ 21.2 million | Quarterly      | 3.4% to 3.7%  |

Investment properties as of December 31, 2002 and 2003 are comprised as follows:

|                          | 2002        | 2003        |
|--------------------------|-------------|-------------|
| Buildings                | Ps. 340,079 | Ps. 217,500 |
| Accumulated depreciation | (171,788)   | (104,952)   |
| Land                     | 190,734     | 77,997      |
|                          | -----       | -----       |
|                          | Ps. 359,025 | Ps. 190,545 |
|                          | =====       | =====       |

The annual average rate of depreciation of buildings in 2002 and 2003 was 2.4%. As of December 31, 2003 the fair value of investment properties is Ps.209,658.

As of December 31, 2003, property, plant and equipment of certain subsidiaries are pledged against the Company's long-term bank debt (see Note 11).

10. Other payables, accrued liabilities and business reserves and contingencies

|   | 2002       | 2003       |
|---|------------|------------|
| Accounts and notes payable to contractors | Ps. 24,606 | Ps. 36,365 |
| Other debtors                             | 322,317    | 366,110    |
| Account payable to minority investors     | --         | 156,194    |
| Warranty reserves                         | 38,213     | 91,845     |

Edgar Filing: DESC S A DE C V - Form 6-K

|                                     |               |         |
|-------------------------------------|---------------|---------|
| Business reserves and contingencies | 438,359       | 92,125  |
| Expense provisions                  | 166,065       | 162,611 |
| Advances from customers             | 14,465        | 56,291  |
| Royalties and technical assistance  | 31,447        | 15,384  |
| Dividends payable                   | 208,328       | 2,013   |
| Taxes payable                       | 229,590       | 407,253 |
| Interest payable                    | 105,886       | 116,941 |
| Other                               | 197,830       | 228,843 |
|                                     | -----         | -----   |
| Ps. 1,777,136                       | Ps. 1,731,975 |         |
| =====                               | =====         |         |

20

Movements of the restructuring and contingencies reserve are as follows:

|                                      | 2002        | 2003        |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | Ps. 665,443 | Ps. 421,621 |
| Reserve for the year                 | 108,741     | 100,961     |
| Reserve used in the year             | (373,756)   | (447,195)   |
| Restatement of the initial balance   | 37,931      | 16,738      |
|                                      | -----       | -----       |
| Balance at the end of the year       | Ps. 438,359 | Ps. 92,125  |
|                                      | =====       | =====       |

- a. The Company recorded a restructuring reserve in the year ended December 31, 2001 which has been increased and used in accordance with the project for realigning its operating restructure. The balance as of December 31, 2003 will be exercised during 2004, for the termination of the project mentioned above and the definitive close of Bioquimex, S.A. de C.V. (natural pigments business)
  - b. On January 7, 2003, the Company's subsidiary Fenquimia, S.A. de C.V. was notified of a new ancillary claim filed by Sales Nacionales, S.A. de C.V., in which the latter quantifies the aforementioned damages and monetary losses in the amount of Ps.159,804. Such claim was answered by Fenquimia, S.A. de C.V.; however, on December 11, 2003, the Company reached an agreement with its counterparty to conclude this dispute, with a one-time payment of Ps.54,480 in cash and real estate assets, for which there was a provision recorded in prior years within the restructuring and contingencies reserve..
  - c. Certain subsidiaries are engaged in lawsuits as plaintiffs and defendants in the regular course of operations. These lawsuits always involve uncertainty, and some of them may result in adverse judgments for the companies. While it is impossible to determine the amount involved in pending lawsuits, management believes that based on the facts any resulting liability would not materially affect the financial position or results of operations of the companies.
11. Bank loans and long-term debt
- Bank loans and long-term debt are as follows:

|                       | Maturity | 2002 Interest Rate | Amount        | Maturity     |
|-----------------------|----------|--------------------|---------------|--------------|
| Syndicated loan-      |          |                    |               |              |
| DESC \$445.7 million  | --       | --                 | --            | 2006 to 2008 |
| DESC Ps.1,223 million | --       | --                 | --            | 2006 to 2008 |
| DESC \$100 million    | --       | --                 | --            | 2006         |
| DESC \$97.17 million  | 2005     | LIBOR + 1.375      | Ps. 1,046,778 | --           |
| DESC \$177.83 million | 2007     | LIBOR + 1.625      | 1,915,699     | --           |

Edgar Filing: DESC S A DE C V - Form 6-K

|                               |               |              |           |               |
|-------------------------------|---------------|--------------|-----------|---------------|
| DESC Ps.1,300 million         | 2007          | TIIE + 0.9   | 1,351,610 | --            |
| Medium-term promissory notes- |               |              |           |               |
| DESC 680,569 million UDIS     | 2006 and 2007 | 9% and 8.20% | 2,282,519 | 2006 and 2007 |

21

|                                    | Maturity      | 2002<br>Interest Rate | Amount        | Maturity     |
|------------------------------------|---------------|-----------------------|---------------|--------------|
| International Finance Corporation- |               |                       |               |              |
| Chemical segment                   |               |                       |               |              |
| \$6.57 million                     | 2003 to 2006  | Variable              | 204,681       | 2004 to 2006 |
| Chemical segment                   |               |                       |               |              |
| \$90 million                       | 2003 to 2009  | Variable and fixed    | 1,131,128     | 2004 to 2009 |
| Loans-                             |               |                       |               |              |
| DESC \$15 million                  | 2003 and 2004 | 3.85%                 | 161,590       | --           |
| DESC \$35 million                  | 2003 and 2004 | 3.75%                 | 377,043       | --           |
| Secured bonds-                     |               |                       |               |              |
| DESC (formerly DINE)               |               |                       |               |              |
| \$73 million                       | 2007          | 8.75%                 | 786,952       | 2007         |
| Secured syndicated loans-          |               |                       |               |              |
| Desc Automotriz \$4.23 million     | 2003          | 7.34%                 | 45,527        | --           |
| Desc Automotriz \$0.5 million      | 2004          | LIBOR + 1             | 16,159        | 2004         |
| Other loans payable in-            |               |                       |               |              |
| Mexican pesos                      | 2003 to 2010  | Variable              | 31,179        | 2004 to 2010 |
| Foreign currency                   | 2003 to 2010  | Variable              | 362,995       | 2004 to 2010 |
|                                    |               |                       | -----         |              |
|                                    |               |                       | 9,713,860     |              |
| Less- Current portion              |               |                       | 662,211       |              |
|                                    |               |                       | -----         |              |
|                                    |               |                       | Ps. 9,051,649 |              |
|                                    |               |                       | =====         |              |

As of December 31, 2002 and 2003, the LIBOR rate was 1.38% and 1.46% respectively, and the Mexican Interbank rate (TIIE) was 8.45% and 7.9% respectively.

Long-term debt maturities as of December 2003 are as follows:

|                     |                |
|---------------------|----------------|
| 2005                | Ps. 198,918    |
| 2006                | 4,469,882      |
| 2007                | 4,264,706      |
| 2008                | 2,258,496      |
| 2009 and thereafter | 168,009        |
|                     | -----          |
|                     | Ps. 11,360,011 |
|                     | =====          |

The current portions of long-term debt and short-term bank loans are as follows:

|                                   | 2003          | 2002        |
|-----------------------------------|---------------|-------------|
| Current portion of long-term debt | Ps. 662,211   | Ps. 246,666 |
| Other loans payable in-           |               |             |
| Foreign currency                  | 2,979,617     | 193,887     |
|                                   | -----         | -----       |
|                                   | Ps. 3,641,828 | Ps. 440,553 |
|                                   | =====         | =====       |

Debt refinancing- As mentioned in Note 1, during December 2003, an agreement was satisfactorily reached with the bank creditors to refinance the Company's syndicated loans and most of its short-term debt. The most

## Edgar Filing: DESC S A DE C V - Form 6-K

important terms of the financial restructuring signed on December 23, 2003 are indicated below:

- a. Syndicated loan of \$445.7 million at the LIBOR interest rate plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortization, which fluctuates between 1.625 and 4.000, with maturities between 2006 and 2008. As of December 31, 2003, the variable margin is 3.5. The interest will be payable on a monthly or quarterly basis.
- b. Syndicated loan of Ps.1,223 million, at an interest rate equal to TIIE plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortizations, which fluctuates between 1.125 and 4.000, with maturities from 2006 to 2008, respectively. As of December 31, 2003 the variable margin determined is 3.5. The interest will be payable on a monthly basis.
- c. Credit of \$112 million, divided into two tranches, (i) \$100 million revolving credit, at the LIBOR interest at rate plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortization, which fluctuates between 1.375 and 3.50, and (ii) \$12 million credit letters, both with maturity in 2006. As of December 31, 2003 the Company has applied dispositions against the tranche of \$100 million, and the variable interest margin determined is 3.0. The interest will be payable on a monthly or quarterly basis.  
As part of the conditions negotiated, the operating subsidiaries and certain holding subsidiaries were considered jointly and severally liable and guarantors for the debt, and a package of concrete guarantees was created consisting of fixed assets, accounts receivable of the real estate sector and stock in certain subsidiaries.

The financing received establishes certain restrictions for the Company, with which the Company has complied. The most important restrictions are:

- Maintain the interest coverage ratio in excess of 2.25. At the close of 2003 the ratio is 2.91.
- Maintain the ratio of total debt of subsidiaries to consolidated debt below 0.20. At the close of 2003 the ratio is 0.11.
- Maintain the ratio of consolidated debt to operating profit, plus depreciation to amortization, at below 5.35 based on nominal pesos and U.S. dollars. At the close of 2003 the ratio is 4.96.
- Maintain the ratio of consolidated debt to total capitalization below 0.55. At the close of 2003 the ratio is 0.53.
- Certain restrictions on the establishment of new liens.
- Restriction on the sale and investments in assets, as well as lease transactions.
- Restriction on the sale of assets, except when performed at market value and the proceeds obtained are used to pay the debt.
- Certain restrictions applicable to dividend declarations.

Medium-term promissory notes- In October 1999 and July 2000, the Company issued medium-term promissory notes equivalent to 324,000,000 and 356,568,600 units of investment ("UDIS"), respectively. The UDI value as of December 31, 2003 was 3.352003, which is equal to Ps.1,086,049 and Ps.1,195,219, respectively. The issues bear quarterly interest of 9% and 8.20%, respectively, and mature in 2006 and 2007, respectively. There are no restrictions on the promissory notes.

International Finance Corporation- As a result of the merger between DESC and GIRSA, on December 14, 2001, a contract to transfer the debt was executed by the subsidiaries of the chemical sector of DESC and International Finance Corporation (IFC), through which GIRSA transferred to the subsidiaries of the chemical sector the loans obtained from IFC, as follows:



## Edgar Filing: DESC S A DE C V - Form 6-K

- a. Loan of \$6.57 million executed between GIRSA and IFC subdivided into two (A and C) loans bearing semiannual interest at LIBOR plus 2.125. The repayment of loan A will have the following installment on February 15, 2004 and loan C in semiannual payments for two years as of the payment date of loan A.

23

- b. Loan of \$90 million executed between GIRSA and IFC subdivided into two loans, generating interest at LIBOR plus 3.75 for the \$38.6 million loan and 10.35% for the \$51.4 million loan. Payments on such loans will be made in equal semiannual installments for six years beginning March 15, 2003.

The financing received establishes certain restrictions for GIRSA, with which the Company has complied. The most important restrictions are:

- Maintaining a liquidity ratio equal to or higher than 1.1.
- Limitations on the disposal of property, plant and equipment.
- Consolidated short-term debt shall not exceed 20% of the consolidated net sales of the immediately preceding year.

Issuance of secured bonds - On October 9, 1997, DINE issued long-term bonds guaranteed by DESC in international markets at 8.75% annual interest, with principal and interest due and payable on October 9, 2007. As a result of the merger between DESC and DINE, DESC acquired the obligations related to the issue of such bonds.

At December 31, 2003 the book value of the bonds issued by DINE is \$73 million and fair value \$70.8. million.

### 12. Related parties

Club Ecuestre Chiluca, S.A. de C.V., a 77.26% subsidiary of the Company, sold all of its territorial reserves for \$79.4 million. Prior to the sale of such reserves, the Company acquired the remaining 22.74% interest from minority shareholders (which in turn are the Company's main shareholders) at their commercial value, which will be paid on the same terms and conditions as the realization of the account receivable; i.e., four annual payments from December 2004 to 2007. Therefore, such balance is presented in the balance sheets as a long-term liability.

### 13. Employee retirement benefits

The liability for employee benefit obligations relates to the pension plan, which will cover the pension and seniority premiums due upon retirement of the Company's employees. The amount resulting from independent actuarial calculations using the projected unit credit method, is as follows:

|   | 2002          | 2003          |  |
|---|---------------|---------------|--|
| Projected benefit obligation ("PBO")    | Ps. 1,028,836 | Ps. 1,063,475 |  |
| Plan assets                             | 577,885       | 615,686       |  |
|   | -----         | -----         |  |
|   | (450,951)     | (447,889)     |  |
| Unrecognized transition liability       | (303,849)     | (279,753)     |  |
| Unrecognized variances in assumptions   | 824,288       | 659,718       |  |
|   | -----         | -----         |  |
| 7                                       |               |               |  |
| Net projected benefit asset (liability) | Ps. 69,488    | Ps. (67,924)  |  |
|   | =====         | =====         |  |

As of December 31, 2002 and 2003, the amount of the accumulated benefit obligation ("ABO"), (equal to the PBO without projecting the wages to the retirement date) in certain subsidiaries, exceeds the amount of current funds by Ps.255,487 and Ps.252,649, respectively. Consequently, this amount was recognized as an additional liability under the heading of "Other long term liabilities" creating a deferred asset charge and the difference net of deferred income tax of Ps.154,105 and Ps.147,158, which was recorded in the "Adjustment to the additional liability for employee retirement obligations" account, within stockholders' equity, because as of December 31, 2002 and 2003, the amount of the additional liability exceeds the algebraic sum of the unrecognized transition liability, plus previous services rendered and plan modifications.

The subsidiaries have established irrevocable trust funds to cover accrued employee benefits. The contributions made in 2001 and 2002, based on actuarial computations, were Ps.143,207 and Ps.23,241, respectively. The Company follows the funding recommendations of its actuaries. At December 31, 2003 the balance of these funds is Ps.615,586, which consists of the Company's common stock shares and certain fixed-rate investments.

The number and series of common stock shares of the Company held by the trusts at December 31, 2003 were as follows:

|          |            |
|----------|------------|
| Series A | 32,917,520 |
| Series B | 2,381,315  |
| Series C | 20,147,735 |

The market value of the Company's shares held at December 31, 2003 was Ps.191,229. During 2003 the trusts sold 267,400 shares of the Company's stock.

The cost of employee benefits is as follows:

|  | 2001        | 2002        | 2003        |
|--|-------------|-------------|-------------|
| Service cost                             | Ps. 73,776  | Ps. 59,055  | Ps. 53,900  |
| Financial cost                           | 62,078      | 51,738      | 51,459      |
| Amortization of transition liability     | 8,773       | 13,926      | 5,304       |
| Amortization of variances in assumptions | 34,907      | 26,406      | 22,449      |
|  | -----       | -----       | -----       |
|  | 179,534     | 151,125     | 133,112     |
| Effect of early personnel reduction      | --          | --          | 74,881      |
| Less- Actual return on plan assets       | 45,607      | 41,413      | 31,485      |
|  | -----       | -----       | -----       |
| Net result for the period                | Ps. 133,927 | Ps. 109,712 | Ps. 176,508 |
|  | =====       | =====       | =====       |

Interest rates utilized in the actuarial calculations recommended by the Mexican Association of Consultant Actuaries for 2001, 2002 and 2003 were as follows:

|                       |      |
|-----------------------|------|
| Investment yield rate | 7.0% |
| Interest rate         | 5.0% |
| Salary increase rate  | 1.5% |

The changes in the projected benefit obligation are as follows:

|                  | 2002          | 2003          |
|------------------|---------------|---------------|
| Opening balance  | Ps. 1,101,629 | Ps. 1,028,836 |
| Service cost     | 59,055        | 53,900        |
| Financial cost   | 51,738        | 51,459        |
| Actuarial result | (183,586)     | (70,720)      |
|                  | -----         | -----         |
| Final balance    | Ps. 1,028,836 | Ps. 1,063,475 |
|                  | =====         | =====         |

25

The changes in the net projected asset (liability) were as follows:

|                                     | 2002        | 2003         |
|-------------------------------------|-------------|--------------|
| Opening balance                     | Ps. 156,479 | Ps. 69,488   |
| Provision for the year              | (109,712)   | (176,508)    |
| Contributions to the fund           | 23,241      | --           |
| Payments for reduction of personnel | (77,404)    | --           |
| Actuarial gain                      | 76,884      | 39,096       |
|                                     | -----       | -----        |
| Final balance                       | Ps. 69,488  | Ps. (67,924) |
|                                     | =====       | =====        |

The changes in the fund were as follows:

Edgar Filing: DESC S A DE C V - Form 6-K

|                                       | 2002        | 2003        |
|---------------------------------------|-------------|-------------|
| Opening balance                       | Ps. 652,873 | Ps. 577,885 |
| Contributions to the fund             | 23,241      | --          |
| Yield on fund assets                  | 41,413      | 31,485      |
| Variation in the value of fund assets | (62,238)    | 6,216       |
| Payments for reduction of personnel   | (77,404)    | --          |
|                                       | -----       | -----       |
| Final balance                         | Ps. 577,885 | Ps. 615,586 |
|                                       | =====       | =====       |

The amortization periods are as follows:

|                          | Remaining<br>Years |
|--------------------------|--------------------|
| Transition liability     | 15 to 21           |
| Variances in assumptions | 16 to 28           |

14. Stockholders' equity

During a Stockholders' Ordinary and Extraordinary General Meeting held on April 28, 2003, the stockholders approved the following:

1. The merger of DESC and Industrias Resistol, S.A. de C.V., with DESC as the surviving company. Such merger became effective for accounting and tax purposes on September 29, 2003.
2. The merger of DESC and Industrias Ruiz Galindo, S.A. de C.V., with DESC as the surviving company. Such merger became effective for accounting and tax purposes on May 1, 2003; therefore, as of such date Industrias Ruiz Galindo, S.A. de C.V. ceased to exist as a legal entity

During a Stockholders' Ordinary and Extraordinary General Meeting held on April 25, 2002, the stockholders approved the following:

1. Payment of cash dividends of 29 Mexican cents for each of the outstanding shares, equivalent to Ps.397,033, whose restated amount is Ps.428,936, payable in four quarterly payments in July and October 2002 and January and April 2003.
2. Merger of DESC and DINE, with DESC as the surviving company. Such merger became effective for accounting and tax purposes on May 1, 2002; therefore, as of such date DINE ceased to exist as a legal entity.

26

As of December 31, 2001, 2002, and 2003 capital stock is represented by:

|  | Number of<br>Shares | Amount     |
|--|---------------------|------------|
| Fixed portion-   |                     |            |
| Nominative Series "A" shares<br>(without withdrawal rights and<br>which must represent at least 51%<br>of voting stock)  | 587,479,900         | Ps. 7,637  |
| Variable portion-  |                     |            |
| Nominative Series "B" shares (with<br>withdrawal rights and which may not<br>represent more than 49% of<br>voting stock) | 506,257,866         | 6,581      |
| Series "C" shares (with voting<br>restrictions)  | 275,341,610         | 3,580      |
|  | -----               | -----      |
|  | 1,369,079,376       | Ps. 17,798 |
|  | =====               | =====      |

Series "A" and "B" shares may only be acquired by Mexican citizens or Mexican entities with an exclusion clause for foreign investors. Series "C" shares may be freely subscribed.

This shareholding structure was modified on March 8, 2004, as indicated in Note 21.

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend

## Edgar Filing: DESC S A DE C V - Form 6-K

is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The annual net income of each Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve each year, until the reserve equals 20% of capital stock. This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.

During the years ended 2001 and 2002 the Company distributed restated retained earnings of Ps.448,185 and Ps.428,936, respectively as dividends, reducing total equity to an amount lower than restated capital stock, which for accounting purposes represents a capital reduction.

The balances of the stockholders' equity tax accounts as of December 31 are:

|                             | 2002           | 2003           |
|-----------------------------|----------------|----------------|
| Contributed capital account | Ps. 9,105,963  | Ps. 9,105,963  |
| Net tax income account      | 4,394,401      | 4,190,160      |
|                             | -----          | -----          |
| Total                       | Ps. 13,500,364 | Ps. 13,296,123 |
|                             | =====          | =====          |

### 15. Transactions and balances in foreign currency

The Company valued its foreign currency assets and liabilities, represented mainly by U.S. dollars, at the exchange rates effective at December 31, 2002 and 2003 of 10.3613 and 11.1998 Mexican pesos per U.S. dollar, respectively, as the Company expects to use foreign currency assets to settle foreign currency liabilities.

27

As of December 31, 2002 and 2003, monetary assets and liabilities denominated in foreign currency were as follows:

|   | 2002         | 2003         |
|---|--------------|--------------|
| Monetary assets                                     |              |              |
| Current   | \$ 351,852   | \$ 263,297   |
| Long-Term   | --           | 93,616       |
|   | -----        | -----        |
|   | 351,852      | 356,913      |
| Current monetary liabilities-                       |              |              |
| Interest-free                                       | 136,047      | 137,618      |
| Interest-bearing                                    | 344,786      | 38,826       |
|   | -----        | -----        |
|   | 480,833      | 176,444      |
| Long-term liabilities                               | 521,120      | 716,223      |
|   | -----        | -----        |
|   | 1,001,953    | 892,667      |
|   | -----        | -----        |
| Net monetary liability position in foreign currency | \$ (650,101) | \$ (535,754) |
|   | =====        | =====        |

During the years ended December 31, 2001, 2002 and 2003, the Company had the following transactions in foreign currency, which were translated into Mexican pesos at the exchange rate in effect at the date of each transaction. Foreign currency transactions were as follows:

|                                       | 2001       | 2002       | 2003       |
|---------------------------------------|------------|------------|------------|
| Direct export sales                   | \$ 706,150 | \$ 597,601 | \$ 595,227 |
| Indirect export sales under agreement | 119,234    | 181,728    | 141,973    |
| Sales of foreign subsidiaries         | 132,640    | 122,710    | 123,271    |
|                                       | -----      | -----      | -----      |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |            |            |            |
|--|------------|------------|------------|
|  | 958,024    | 902,039    | 860,471    |
| Less-  |            |            |            |
| Purchases of inventories                       | (439,051)  | (405,591)  | (394,403)  |
| Purchases and expenses of foreign subsidiaries | (92,770)   | (104,281)  | (102,690)  |
|  | -----      | -----      | -----      |
|  | (531,821)  | (509,872)  | (497,093)  |
|  | -----      | -----      | -----      |
|  | 426,203    | 392,167    | 363,378    |
|  | -----      | -----      | -----      |
| Interest earned                                | 5,150      | 4,359      | 1,012      |
| Less- Interest expense                         | (77,691)   | (32,893)   | (52,652)   |
|  | -----      | -----      | -----      |
|  | (72,541)   | (28,534)   | (51,640)   |
|  | -----      | -----      | -----      |
| Technical assistance                           | (6,997)    | (5,307)    | (8,187)    |
|  | -----      | -----      | -----      |
| Net  | \$ 346,665 | \$ 358,326 | \$ 303,551 |
|  | =====      | =====      | =====      |

As of March 26, 2003, the unaudited foreign exchange position was similar to that at yearend, and the exchange rate was 11.0130 Mexican pesos per U.S. dollar.

16. Income and asset taxes and employee statutory profit sharing  
The Company is subject to income taxes ("ISR") and tax on assets ("IMPAC"). ISR is computed by taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated constant prices and the deduction of purchases instead of cost of sales, which permit the deduction of current costs, and taxable income is increased or reduced on certain monetary assets and liabilities through the annual adjustment for inflation, which is similar to the monetary position result. ISR is calculated in terms of currency when the transactions occurred and not in terms of the currency at yearend. Up to 2001, the income tax rate was 35%, with the obligation to pay this tax each year at the 30% rate, with the remaining 5% payable when income is distributed.

28

The tax rate was 35% in 2002 and 34% in 2003 and reduces by one percentage point each year until reaching 32% in 2005. The deduction for employee statutory profit-sharing ("PTU") and the obligation to withhold taxes on dividends paid to individuals or foreign residents were also eliminated. IMPAC is calculated by applying 1.8% to the Company's asset position, as defined in the law, and is payable only to the extent that it exceeds ISR payable for the same period. If in any year IMPAC exceeds the ISR payable, the IMPAC payment for such excess may be reduced by the amount by which ISR exceeded IMPAC in the three preceding years and any required payment of IMPAC can be credited against the excess of ISR over IMPAC during the next 10 years

Some subsidiaries in the agribusiness sector have authorization to pay income and asset taxes under a simplified scheme based on cash receipts and disbursements. Other subsidiaries have the right to a 50% reduction in their taxable income depending on their activities.

DESC is subject to ISR and IMPAC with its subsidiaries on a consolidated basis in the proportion in which the Company holds the voting stock of its subsidiaries at the balance sheet date. As of January 1, 2002, the proportion is calculated based on the average daily equity percentage that DESC holds of its subsidiaries during the year. The tax results of the subsidiaries are consolidated at 60% of such proportion. Estimated payments of ISR and IMPAC of both DESC and its subsidiaries are made as if the Company did not file a consolidated tax return.

Employee profit sharing has been determined based on the individual results of each operating company, rather than on a consolidated basis.

## Edgar Filing: DESC S A DE C V - Form 6-K

Tax loss carryforwards and recoverable asset tax- As of December 31, 2003, the Company has tax loss carryforwards for income tax purposes and recoverable asset taxes, which will be indexed for inflation through the year applied or recovered, in the following restated amounts:

| Maturity | Tax                   |                            |
|----------|-----------------------|----------------------------|
|          | Loss<br>Carryforwards | Recoverable<br>Asset Taxes |
| 2004     | Ps. 315,781           | Ps. 27,231                 |
| 2005     | 196,277               | 21,289                     |
| 2006     | 32,039                | 24,084                     |
| 2007     | 98,881                | 22,713                     |
| 2008     | 88,875                | 20,619                     |
| 2009     | 144,859               | 50,850                     |
| 2010     | 1,387,334             | 63,858                     |
| 2011     | 669,858               | 72,864                     |
| 2012     | 333,727               | 67,266                     |
| 2013     | 1,072,752             | 141,161                    |
|          | -----                 | -----                      |
|          | Ps. 4,340,383         | Ps. 511,935                |
|          | =====                 | =====                      |

On December 12, 2003, the Company won the lawsuit involving the deduction of the loss from the sale of shares obtained in 2000, as an operating tax loss; consequently, as of that date such loss is presented within tax loss carryforwards.

29

Deferred income taxes- The tax effects of the temporary differences that generated deferred tax liabilities (assets) are as follows:

|   | 2002          | 2003          |
|---|---------------|---------------|
| Property, plant and equipment   | Ps. 1,865,513 | Ps. 1,466,891 |
| Inventories   | 539,177       | 400,042       |
| Land held for development and real estate projects                        | 677,907       | 659,391       |
| Reserves and provisions   | (186,313)     | (147,103)     |
| Tax loss carryforwards  | (1,446,973)   | (1,388,923)   |
| Recoverable asset tax   | (409,432)     | (511,935)     |
| Allowance for doubtful tax loss carryforwards and recoverable asset taxes | 325,693       | 519,289       |
| Other   | (26,457)      | (116,903)     |
|   | -----         | -----         |
|   | Ps. 1,339,115 | Ps. 880,749   |
|   | =====         | =====         |

The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before provisions, discontinued operations and extraordinary items is as follows:

|   | 2001    | 2002    | 2003    |
|---|---------|---------|---------|
| Statutory rate  | 35.0%   | 35.0%   | 34.0%   |
| Add (deduct) the effect of permanent differences-                   |         |         |         |
| Nondeductible items   | 15.0%   | (30.8%) | (26.2%) |
| Non-taxable income  | (12.8%) | 29.0%   | 20.2%   |
| Monetary gain position  | (8.7%)  | 63.4%   | 10.0%   |
| Adjustment for inflation  | 10.6%   | (81.1%) | (10.6%) |
| Income related to subsidiaries subject to the simplified tax system | 1.8%    |         | 2.0%    |
| Allowance for tax loss carryforwards and asset tax                  | --      | (98.8%) | (21.8%) |
| Other   | (31.4%) | 39.7%   | (14.6%) |
|   | -----   | -----   | -----   |
| Effective rate  | (9.5%)  | (43.6%) | (7.0%)  |
|   | =====   | =====   | =====   |

Edgar Filing: DESC S A DE C V - Form 6-K

17. Discontinued operations

As mentioned in Note 1, the Company decided to shut down the spark plugs and automotive electrical parts businesses of the autoparts segment, the natural pigments business in the chemicals sector, in the food sector the hog raising operation located in the Bajio region, and the shrimp business was disposed of by means of donation. A summary of the combined statements of income of the discontinued operations for the years ended December 31, 2001, 2002 and 2003 is as follows:

|   | 2001          | 2002          | 2003        |
|---|---------------|---------------|-------------|
| Revenues from discontinued operations                       | Ps. 588,732   | Ps. 405,814   | Ps. 124,771 |
| Costs and expenses  | 717,309       | 948,433       | 153,225     |
| Integral financial result                                   | (11,560)      | 26,835        | (1,364)     |
| Other (income) expense                                      | 39,664        | 115,430       | (107,372)   |
| Current and deferred income tax and employee profit sharing | 97,184        | (55,016)      | 57,386      |
|   | -----         | -----         | -----       |
| Net income (loss) from discontinued operations              | Ps. (253,863) | Ps. (629,868) | Ps. 22,896  |
|   | =====         | =====         | =====       |

30

18. Extraordinary item

The extraordinary item, net of the related income tax effects, represents a provision for restructuring expenses.

19. Lease commitments

As of December 31, 2002 and 2003, the Company had operating leases for equipment commitments equal to Ps.447,797 and Ps.623,875 whose maturity dates are as follows:

| Maturity | 2002        | 2003        |
|----------|-------------|-------------|
| -----    |             |             |
| 2003     | Ps. 108,195 | Ps. --      |
| 2004     | 96,743      | 149,892     |
| 2005     | 82,626      | 142,943     |
| 2006     | 68,871      | 125,041     |
| 2007     | 23,386      | 68,938      |
| 2008     | 21,816      | 57,759      |
| 2009     | 46,160      | 45,894      |
| 2010     | --          | 33,390      |
|          | -----       | -----       |
|          | Ps. 447,797 | Ps. 623,857 |
|          | =====       | =====       |

Lease expenses recorded in the statements of income (loss) during 2001, 2002 and 2003 amounted Ps.42,853, Ps.30,673 and Ps.108,195 respectively.

20. Financial instruments

The Company has contracted exchange rate forwards and calls on U.S. dollar debts, fixing the exchange rate to hedge against exchange losses on U.S. dollar loans. The exchange result of the forward or call is recorded in the integral financing result, by offsetting the exchange result from the liability hedged, while the asset generated is deducted from the hedged liability. As of December 31, 2003 the Company has four contracts to buy and sell U.S. dollars for a total amount of \$2,141 maturing during 2004. The Company also has interest rate swaps to manage the interest rate risk on its variable interest debt. The Company has entered into interest rate swaps in which it pays amounts calculated based on fixed interest rates and receives amounts calculated based on variable interest rates. The difference between such amounts is recorded in the integral financing result, offsetting the effect of the variable interest rate on the hedged loans. The asset generated in the swap is deducted from the payable interest hedged.

Some of the Company's subsidiaries contracted forwards with Pemex Gas y Petroquimica Basica to protect themselves from natural gas price volatility

## Edgar Filing: DESC S A DE C V - Form 6-K

for the period from January 2002 to December 2003.

The Company purchased insurance coverage against natural gas market prices increases above the maximum price it selected by paying a premium. The maximum price level was 8.705 U.S. dollars per million units of energy "MMBTU" and the minimum price was 4.245 U.S. dollars per "MMBTU". If the reference price exceeds the maximum price a discount will be included in its invoice, while if it is below the minimum price, the invoice will be issued for the respective minimum price. Given that the insurance contract represents a contractual obligation, guaranteed with the fixed gas price of 4.00 U.S. dollars per MMBTU, the Company records the respective effects in results as the MMBTU amounts committed are consumed, and it has not recorded the effect of the potential gain or loss if the gas price premium were settled at present value. At December 31, 2003, the net loss recorded for this transaction was Ps.10,393.

31

The market value of the derivative contracts mentioned above is estimated based on quoted market prices to terminate the contracts at the reporting date. As of December 31, 2003 the market value of the financial instruments is Ps.47,405, and the net loss recorded during the year for the forwards, calls and swaps was Ps.124,928.

Sales options in the food sector- With regard to the 1998 acquisition of CORFUERTE and AAC, companies in the food sector, the Company executed contracts known as "puts" with its minority shareholders so that at a given date and amount, DESC would undertake to acquire the shareholding packages of such minority shareholders.

On November 11, 2003, the minority shareholders of CORFUERTE and AAC formally notified their decision to exercise their put options to DESC, which was formalized on January 29, 2004. Accordingly, as of the date, the shareholding percentage of DESC in such subsidiaries increased from 77.6% to 96.1% and from 81.3% to 99.9%, respectively. The amount paid was \$14,311 (Ps.156,194) and is recorded in the consolidated balance sheets as a liability under the heading of "Other payables and accrued liabilities."

### 21. Subsequent events

Resolutions adopted at stockholders' meetings- At a Stockholders' Special Meeting and a Stockholders' Ordinary and Extraordinary Meeting held on March 8, 2004, the following resolutions were adopted:

- a. The mandatory conversion of the totality of the Series "C" shares into Series "B" shares, and the cancellation of the inscription of the Series "C" shares in the National Securities Registry. This agreement went into effect on March 16, 2004. As of that date, the American Depositary Shares (ADS), which are registered with the Securities and Exchange Commission (SEC), and are traded in the New York Stock Exchange, Inc. (NYSE), will represent 20 Series "B" shares.
- b. The voluntary conversion of the Series "A" shares into Series "B" shares and the voluntary conversion of Series "B" shares into Series "A" shares, by those shareholders who so request. The Series "A" shares have not been and will not be registered under the 1933 Securities Act, or under any other applicable law in jurisdictions other than Mexico. Consequently, the voluntary conversion will be offered only in Mexico and the US shareholders of DESC will not be able to participate.
- c. The amendments to the corporate bylaws of DESC, which include the elimination of the restrictions on foreigners holding Series "B" shares.
- d. Proposal to perform a capital stock increase in the amount of Ps.2,738 million (\$248 million), through the issuance of 912,719,584 new ordinary shares at a subscription price of three pesos per share.

With regard to the proposed capital increase, DESC entered into a Share Subscription Collaboration Agreement with Inversora Bursatil, S.A. de C.V. Casa de Bolsa, Grupo Financiero Inbursa ("Inbursa"). Such agreement establishes that, if the shareholders do not exercise their entire right of



## Edgar Filing: DESC S A DE C V - Form 6-K

first refusal regarding the shares subject to the increase, DESC will be obligated to offer, and Inbursa will be obligated to subscribe, subject to certain conditions, for itself or on account of third parties, up to the equivalent of Ps.2,000 million, in unsubscribed shares at the same price of three pesos per share. The rights of first refusal to such subscription will be offered only in Mexico.

Close of operations of Fenoquimia, S.A. de C.V. - On February 17, 2004, the Company decided to begin closing down the operation of Fenoquimia, S. A. de C. V., which is engaged in the production and sale of phenol.

32

The condensed financial position Fenoquimia, S. A. de C. V. as of December 31, 2002 and 2003, and the results of its operations for the years ended December 31, 2001, 2002 and 2003, are shown below:

|                                  | 2002          | 2003          |               |
|----------------------------------|---------------|---------------|---------------|
| Current assets                   | Ps. 5,156     | Ps. 34,217    |               |
| Property, plant and equipment    | 38,433        | 36,436        |               |
| Other assets                     | 42,869        | 46,782        |               |
|                                  | -----         | -----         |               |
|                                  | 86,458        | 117,435       |               |
| Current liabilities              | 316,465       | 384,429       |               |
| Long-term debt                   | 16,150        | 15,533        |               |
|                                  | -----         | -----         |               |
|                                  | 332,615       | 399,962       |               |
|                                  | -----         | -----         |               |
| Net                              | Ps. (246,157) | Ps. (282,527) |               |
|                                  | =====         | =====         |               |
|                                  | 2001          | 2002          | 2003          |
| Net sales                        | Ps. 313,277   | Ps. 91,454    | Ps. 109,447   |
| Cost of sales                    | (431,489)     | (129,623)     | (83,656)      |
| Operating expenses               | (50,216)      | (15,812)      | (10,014)      |
| Net comprehensive financing cost | (4,822)       | (29,374)      | (30,039)      |
| Other revenues and expenses- Net | (102,898)     | (10,944)      | (66,459)      |
| Income tax                       | (4,804)       | 7,735         | 8,001         |
|                                  | -----         | -----         | -----         |
| Net loss                         | Ps. (280,952) | Ps. (86,564)  | Ps. (172,720) |
|                                  | =====         | =====         | =====         |

Joint investment with Hayes Lemmerz, Int. - On January 15, 2004 Desc Automotriz, S.A. de C.V. concluded its joint investment with Hayes Lemmerz, Int. ("HLI"). To do this, the assets of the aluminum wheel rim plant were sold to HLI and 40% of the shares owned by HLI, were acquired for \$1.00, so that now Desc Automotriz, S.A. de C.V. owns 100% of the shares of the Company that manufactures steel wheel rims. As of December 31, 2003, the Company adjusted the net realizable value of the fixed assets of the aluminum plant, which generated a charge to results for the year of Ps.114,200, net of taxes. In 2004 the dissolution of the joint investment will be recorded as an item of stockholders' equity.

### 22. New accounting principles

In May 2003, the IMCP issued Bulletin C-12, "Financial Instruments of a Debt or Equity Nature or a Combination of Both" (C-12), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. C-12 is the compilation of the standards issued by the IMCP with respect to the issue of debt or equity financial instruments, or a combination of both, and includes additional standards on the accounting recognition for these instruments. Consequently, C-12 indicates the basic differences between liabilities and stockholders' equity and establishes the rules for classifying and valuing the components of debt and equity of combined financial instruments in the initial recognition. Subsequent recognition and valuation of liabilities and stockholders' equity of the financial instruments is subject to the standards issued previously in the applicable bulletins. The Company believes that the effects of adopting this new

## Edgar Filing: DESC S A DE C V - Form 6-K

accounting principle will not have significant effects on its consolidated financial position and results of operations.

\* \* \* \* \*

33

Item 4

[LOGO OF DESC]

### DESC ANNOUNCES FIRST QUARTER 2004 RESULTS

-----

\Mexico City, April 27, 2004 - Desc, S.A. de C.V. (NYSE: DES; BMV: DESC) announced today its results for the first quarter ended March 31, 2004 (1Q04). All figures were prepared according to generally accepted accounting principles in Mexico.

#### Highlights

-----

- . Sales and exports were 3.1% and 7.6% higher, respectively, when compared to 1Q03.
- . Operating income was 12.4% higher than in 1Q03.
- . Desc successfully concluded a capital increase for approximately US \$248 million.
- . The funds generated by the capital increase will be used to reduce the Company's debt.

### DESC, S.A. DE C.V. and SUBSIDIARIES

-----

Table 1. Consolidated Figures  
(Figures in millions of constant Pesos (Ps.) and U.S. dollars (US\$))  
Desc, S.A. de C.V. and Subsidiaries

|                               | 1Q04  | 1Q03  | 1Q04 vs.<br>1Q03 | 4Q03   | 1Q04 vs.<br>4Q03 |
|-------------------------------|-------|-------|------------------|--------|------------------|
| Sales (Ps.)/3/                | 5,357 | 5,343 | 0.2%             | 5,322  | 0.7%             |
| Sales (US\$)/1/               | 486   | 471   | 3.1%             | 466    | 4.3%             |
| Exports (US\$)/2/             | 232   | 216   | 7.6%             | 216    | 7.5%             |
| Operating Income (Ps.)/3/     | 247   | 227   | 8.9%             | 17     | NA               |
| Operating Income (US\$)/1/    | 22    | 20    | 12.4%            | 2      | NA               |
| Operating Margin              | 4.6%  | 4.2%  |                  | 0.3%   |                  |
| EBITDA/4/ (Ps.)/3/            | 564   | 576   | -2.0%            | 371    | 52.1%            |
| EBITDA/4/ (US\$)/1/           | 51    | 51    | 1.0%             | 32     | 57.7%            |
| Net Majority Income (Ps.)/3/  | -117  | -337  | -65.4%           | -1,671 | -93.0%           |
| Net Majority Income (US\$)/1/ | -11   | -30   | -65.2%           | -146   | -92.8%           |

/1/ Figures in U.S. dollars for sales, operating income, EBITDA and net income are calculated using monthly figures in current pesos divided by the average monthly exchange rate.

/2/ All export figures are based on real sales invoiced in U.S. dollars.

/3/ All figures in this report are expressed in constant pesos as of March 31, 2004.

/4/ "EBITDA" as used in this Press Release is Operating Income (Loss) plus the sum of Depreciation and Amortization (these under Mexican GAAP), and is presented because we believe that this term provides useful information regarding our debt service ability and other internal financial analysis. "EBITDA" should not be considered in isolation or as a substitute for our consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity.

## Edgar Filing: DESC S A DE C V - Form 6-K

\* Please refer to the end of this release to the Non-GAAP Financial Reconciliation Schedule.

First Quarter 2004 Results

### Sales

During 1Q04 total sales in dollars increased 3.1% compared to 1Q03, from US\$471 million to US\$486 million, primarily due to higher revenue from the Automotive, Food and Real Estate Sectors.

GRAPH 1 - NET SALES 1Q04

| Sector      | New Sales 1Q04(%) |
|-------------|-------------------|
| Autoparts   | 41%               |
| Chemical    | 35%               |
| Food        | 19%               |
| Real Estate | 5%                |

The Automotive Sector registered a 10.2% recovery in dollar sales when compared to 1Q03 due to higher requirements from the Tractor Project, higher part sales in the gear business for BMW North America, higher export sales volumes in the transmission business and the integration of new products in the domestic parts market.

In the Food Sector, sales volume increased 10.7% in the domestic market when compared to 1Q03. This resulted from higher sales in practically all our product lines, primarily "Del Fuerte" brand tomato paste, "Zuko" brand powdered beverage mix and "Blason" brand coffee, as well as higher export sales to the U.S. and the increase in sales in the pork business due to higher prices. In the Real Estate Sector, sales reached US\$27 million mainly due to sales in the North C building project, within the Arcos Bosques development, and the Punta Mita project.

### Exports

Total exports for the first quarter of 2004 reached US\$232 million, which represented an increase of 7.6% when compared to 1Q03. This result was primarily due to the increase in export sales of the Automotive and Food Sectors, which were 14.5% and 5.9% higher, respectively, when compared to 1Q03.

### Operating Income

Consolidated operating income in dollars was US\$22 million in 1Q04, which represent an increase of 12.4% with respect to 1Q03. This result is attributable to the improvements in the Automotive and Food Sectors.

### EBITDA

Consolidated EBITDA in dollars reached US\$51 million in 1Q04, an increase of 1.0% compared to 1Q03. This result is attributed to the improvements in the Automotive and Food Sectors.

2

[www.desc.com.mx](http://www.desc.com.mx)

First Quarter 2004 Results

However, after divesting the aluminum wheel and adhesive and waterproofing

## Edgar Filing: DESC S A DE C V - Form 6-K

material businesses, EBITDA was US\$48 million in 1Q03, therefore the increase is actually 6.25%.

### Taxes

-----

During the quarter, US\$8.7 million was provisioned for income tax, asset tax and employee profit sharing, which was below the US\$1.5 million reported in 1Q03. In addition, US\$3.2 million in deferred taxes was reported.

### Debt Structure

-----

In 1Q04 the Company registered a net debt decrease of US\$3 million when compared to 4Q03 reaching US\$987 million, mainly due to the depreciation of the Mexican peso against the dollar, which partially offset the US\$11 million payment realized to International Finance Corporation during the period.

Table 2. Debt Breakdown

-----  
(Figures in millions of U.S. dollars)

|                   | Dec-31-02 | Mar-31-03 | Jun-30-03 | Sep-30-03 | Dec-31-03 | Mar-31-04 |
|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash              | 232       | 103       | 82        | 117       | 62        | 61        |
| Total Debt        | 1,178     | 1,082     | 1,069     | 1,084     | 1,052     | 1,048     |
| Net Debt          | 946       | 979       | 987       | 967       | 990       | 987       |
| Interest Coverage | 2.8x      | 2.6x      | 2.45x     | 2.7x      | 2.9x      | 2.9x      |
| Leverage Ratio*   | 4.8x      | 4.9x      | 4.8x      | 5.5x      | 4.9x      | 4.9x      |

\*Total debt - Cash + US \$50 million / EBITDA last 12 months.

As of 4Q03, the way of calculating the leverage ratio changed, and in order for all the figures to be comparable, all previous quarters were recalculated.

At the close of 1Q04, the debt mix was 69% dollar-denominated, 11% peso-denominated and 20% in UDIS. The maturity profile at the close of 1Q04 was 97% long-term and 3% short-term. The average cost of debt on March 31, 2004 was 5.58% for dollar-denominated debt and 8.72% for peso-denominated debt.

### Desc successfully concludes capital increase

-----

On April 20, 2004, Desc announced that it had successfully completed the capital increase approved at the Annual Ordinary and Extraordinary Shareholders Meeting held on March 8.

100% of the 912,719,584 ordinary shares were subscribed and issued for this capital increase, equivalent to Ps. 2,738,158,752. The funds generated by the capital increase will be used during 2Q04 to reduce the Company's debt.

Upon expiration of the rights offering, 502,544,745 shares or 55% of the total shares issued were subscribed, and the actions taken by the shareholders show their commitment with the future of the Company.

3

www.desc.com.mx

First Quarter 2004 Results

-----

Subsequent to and in accordance with the Stock Subscription Cooperation Agreement with Inversora Bursatil, S.A. de C.V. Casa de Bolsa, 410,174,839 shares were placed which corresponded to the number of shares unsubscribed in the rights offering. Therefore, due to the response from shareholders in the rights offering, only Ps. 1,230 million of the Ps. 2,000 million established in this Agreement with Inbursa were utilized.

# Edgar Filing: DESC S A DE C V - Form 6-K

Results by Sector

[LOGO OF DESC]

-----  
automotriz

Automotive Sector

Table 3 shows the figures obtained in the Automotive Sector.

Table 3. Automotive Sector Results

(Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))  
Automotive Sector

|                         | 1Q04  | 1Q03  | 1Q04 vs.<br>1Q03 | 4Q03  | 1Q04 vs.<br>4Q03 |
|-------------------------|-------|-------|------------------|-------|------------------|
| Sales (Ps.)             | 2,176 | 2,029 | 7.2%             | 2,018 | 7.8%             |
| Sales (US\$)            | 197   | 179   | 10.2%            | 177   | 11.7%            |
| Exports (US\$)          | 133   | 117   | 14.5%            | 118   | 13.5%            |
| Operating Income (Ps.)  | 141   | 121   | 16.4%            | 63    | 123.1%           |
| Operating Income (US\$) | 13    | 11    | 20.0%            | 6     | 132.0%           |
| Operating Margin        | 6.5%  | 6.0%  |                  | 3.1%  |                  |
| EBITDA/1/ (Ps.)         | 319   | 313   | 1.7%             | 252   | 26.2%            |
| EBITDA (US\$)           | 29    | 28    | 5.1%             | 22    | 30.9%            |

/1/ All EBITDA figures used in this report are calculated as Operating Income (Loss) plus the sum of Depreciation and Amortization (according to Mexican GAAP). This information is included since it is useful for our credit contracts. EBITDA should not substitute income or cash flow in our Consolidated Income Statement or any other Financial Statement prepared according to Mexican GAAP.  
\* Please refer to the end of this release to the Non GAAP Financial Reconciliation Schedule.

During the first quarter of 2004 sales and operating income in dollars increased by 10.2% and 20%, respectively, compared to the first quarter of 2003 due to:

- a) Higher requirements from the Tractor Project in the forge, cardan shaft and axle businesses whose application is in light trucks and SUVs.
- b) Higher part sales in the gear business to BMW North America for the X5 platform.
- c) Increase in the export sales volume of the transmission business.
- d) Integration of new products in the domestic parts business.

These factors helped offset:

- a) Lower sales in the constant velocity joint business due to lower production by VW in Mexico.
- b) The decline in sales in the valve lifters business in the export market.

During the quarter increases were registered in the prices of raw materials which were offset by new contracts, additional volumes and plans for reduction of costs, thereby achieving results above those obtained in 4Q03, with operating income 132% higher and EBITDA 30.9% higher. Additionally, the Company is working on plans for productivity, the replacement of suppliers and the passing on of increases to clients so that the impact is distributed along the chain.

4

www.desc.com.mx

First Quarter 2004 Results

## Edgar Filing: DESC S A DE C V - Form 6-K

In recent weeks the price of steel has increased significantly. Nevertheless, this did not significantly affect the Automotive Sector during 1Q04. Export sales were US\$133 million, 14.5% higher than the first quarter of 2003, in-line with the expansion in demand, primarily in the US market.

5

www.desc.com.mx

### First Quarter 2004 Results

-----  
Average capacity utilization during the first quarter was 63%, an increase of 10.5% compared to 1Q03. Sales per employee reached US\$113 thousand, above the US\$111 thousand reported in the first quarter of 2003, thanks to the combined effect of the increase in sales and the lay-off of 663 employees.

The Tractor I and II Project, which consist of the production and sale of parts for axles, semiaxles and output-shafts for Dana, increased its sales by over 100% when compared to 1Q03, to US\$29 million due to the successful conclusion of the project.

The US \$4.5 million investment in assets were allocated to the following projects:

1. Gears - Enco (US \$1.6 million)
2. Tractor I and II Project (US\$0.70 million)
3. Pistons (US\$0.40 million)
4. Constant Velocity Joints (US\$0.19 million)
5. Other minor projects (US\$1.61 million)

The divestitures completed during the quarter reached US\$15.7 million, primarily in the aluminum wheel business.

#### Other Events

##### Divestiture of the Aluminum Wheel Business

-----  
On January 16, 2004, Desc announced the sale of assets in the aluminum wheel business to Hayes Lemmerz International, Inc. and the simultaneous purchase of their stake in Hayes Wheels Acero, S.A. de C.V. Through this transaction, the association with Hayes Lemmerz International, Inc. was concluded.

#### Awards

-----  
During February, 6 companies in the Autoparts Sector were presented the following award by Nissan:

|                       |                                   |
|-----------------------|-----------------------------------|
| .. Velcon             | "The Most Improvement Award"      |
| .. Pensa y Etrac      | "Zero Defects" & "Quality Master" |
| .. Morestana y Tremec | "Zero Defects"                    |
| .. Cardanes           | "Quality Master"                  |

These awards represent our commitment to maintain a leading position as suppliers of autoparts at th international level, as well as a commitment to our clients for quality, efficiency and technology.

6

www.desc.com.mx

## Chemical Sector

Table 4 shows the figures obtained in the Chemical Sector.

[LOGO]

Table 4. Chemical Sector Results

(Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))  
Chemical Sector

|                         | 1Q04  | 1Q03  | 1Q04 vs.<br>1Q03 | 4Q03  | 1Q04 vs.<br>4Q03 |
|-------------------------|-------|-------|------------------|-------|------------------|
| Sales (Ps.)             | 1,866 | 2,122 | -12.1%           | 1,879 | -0.7%            |
| Sales (US\$)            | 169   | 187   | -9.5%            | 164   | 2.9%             |
| Exports (US\$)          | 71    | 73    | -2.8%            | 73    | -2.9%            |
| Operating Income (Ps.)  | 32    | 42    | -23.1%           | 55    | -41.0%           |
| Operating Income (US\$) | 3     | 4     | -20.5%           | 5     | -38.8%           |
| Operating Margin        | 1.7%  | 2.0%  |                  | 2.9%  |                  |
| EBITDA (Ps.)/1/         | 112   | 138   | -18.7%           | 138   | -18.8%           |
| EBITDA (US\$)/1/        | 10    | 12    | -16.3%           | 12    | -15.8%           |

1 "EBITDA" as used in this Press Release is Operating Income (Loss) plus the sum of Depreciation and Amortization (these under Mexican GAAP), and is presented because we believe that this term provides useful information regarding our debt service ability and other internal financial analysis. "EBITDA" should not be considered in isolation or as a substitute for our consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity.

\*Please refer to the end of this release to the Non-GAAP Financial Reconciliation Schedule.

Given that the adhesives and waterproofing business, which generated sales of US\$19.3 million in 1Q03, is no longer a part of Desc, the results that stand out during 1Q04 include the sales growth in the carbon black, rubber solution and acrylics businesses, mainly due to the recovery experienced in these markets in Mexico and the U.S.

These factors helped offset:

- The decline in sales of synthetic rubber as a result of the strength of the Euro against the dollar and the increased level of competition in the European market by both local producers as well as Asian producers.
- The decline in sales in the phosphate business due to the adverse effect of over-stocked levels at some clients, a situation which occurred at the end of 2003.
- Lower sales in the polystyrene business where there was lower volume compared to the previous year due to lower demand associated with the decline in economic activity, which continues to be observed in

## Edgar Filing: DESC S A DE C V - Form 6-K

Mexico, and oversupply conditions stemming from international producers.

These operations reached average production levels above 90% of installed capacity.

The behavior of monomer prices was highly linked to the behavior of oil and equivalents; the price of butadiene monomer, the main raw material for producing synthetic rubber, has remained flat for 10 months without any important changes while styrene and acrylonitrile monomers have suffered significant increases compared to what was seen in 2003. In addition, the supply has been affected by higher demand and operating problems at the most important suppliers in the world. While a low supply level is expected in 2Q04, the Company is guaranteed a continuous supply without contingencies by its contractors.

8

www.desc.com.mx

### First Quarter 2004 Results

The sales prices at the beginning of 2004 were greatly pressured by the global economic situation and the continuing presence of competition, offering very low prices, in our markets, resulting in the oversupply at a global level, which we expect will begin to level out in the immediate future. Additionally, the unexpected increase in monomer prices during the first part of the year and the resistance of our clients to absorb these differences, great affected the operating margin of many of our businesses, thus creating a significant lag in the transfer of these increases the markets. However, prices have reached historical highs, which is why we expect them to decline in the medium term. Since the adhesive and waterproofing material business no longer forms part of the Company, the adopted measures in terms of savings and costs and expenses, as well as the achievement of higher productivity levels, have allowed operating income and EBITDA for the quarter to reach levels equivalent to those of the same period of the previous year, which was even reached with lower sales volumes.

Investment in fixed assets reached US\$2.7 million, of which the majority was allocated towards meeting future demand in the elastomer sector as well as maintenance measures in the phosphate plants.

9

www.desc.com.mx

### First Quarter 2004 Results

Food Sector

Table 5 shows the figures obtained in the Food Sector.

[LOGO]

Table 5. Food Sector Figures

(Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))  
Food Sector

|                         | 1Q04  | 1Q03 | 1Q04 vs.<br>1Q03 | 4Q03  | 1Q04 vs.<br>4Q03 |
|-------------------------|-------|------|------------------|-------|------------------|
| Sales (Ps.)             | 1,017 | 949  | 7.2%             | 1,079 | -5.8%            |
| Sales (US\$)            | 92    | 83   | 10.7%            | 95    | -2.4%            |
| Exports (US\$)          | 27    | 26   | 5.9%             | 25    | 10.2%            |
| Operating Income (Ps.)  | 57    | 10   | 484.1%           | 49    | 17.1%            |
| Operating Income (US\$) | 5     | 1    | 509.8%           | 4     | 21.2%            |
| Operating Margin        | 5.7%  | 1.0% |                  | 4.6%  |                  |



## Edgar Filing: DESC S A DE C V - Form 6-K

|                  |    |    |       |     |       |
|------------------|----|----|-------|-----|-------|
| EBITDA (Ps.)/1/  | 95 | 50 | 88.7% | 103 | -8.0% |
| EBITDA (US\$)/1/ | 9  | 4  | 95.7% | 9   | -4.5% |

1 "EBITDA" as used in this Press Release is Operating Income (Loss) plus the sum of Depreciation and Amortization (these under Mexican GAAP), and is presented because we believe that this term provides useful information regarding our debt service ability and other internal financial analysis. "EBITDA" should not be considered in isolation or as a substitute for our consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. \*Please refer to the end of this release to the Non-GAAP Financial Reconciliation Schedule.

### Branded Products

During 1Q04 sales increased 10.7% in the domestic market compared to 1Q03, due to higher sales in practically all our product lines, primarily "Del Fuerte" brand tomato paste, "Zuko" brand powdered beverage mix and coffee "Blason", as well as higher export sales to our affiliate in the U.S. The increase in the U.S. market is due mainly to the foodservice segment.

The operating results had significant increases due to the improved utilization of the plants and the correction of problems in the U.S. plant operations, as well as the use of fresh tomatoes instead of tomato paste, which has generated an improvement in costs and in the operating margin.

Another relevant factor was the acquisition of 40% of the shares of the companies that make up Grupo Nair, which focus on the fishing and canning of tuna, whereby the ownership of Grupo Corfuerte in Nair is 100%. Through this, Desc expects to obtain greater economies of scale and synergies throughout the group.

On November 11, 2003, the minority partner in the branded products business formally notified the Company that they would exercise their put option to sell their shares. As a result, the Company paid US\$12.3 million and US\$2 million for 18.6% of Corfuerte and of ASF, respectively, on January 30, 2004. Consequently, Desc increased its shareholder stake to 96.1% in Corfuerte and 99.9% in ASF.

### Pork Business

Pork prices have demonstrated a favorable trend during 1Q04, increasing over 4Q03. On the other hand, the price of the main raw materials, such as grain and soy paste, have also increased during the period. The increases in sales and margins was mainly derived from the price level realized.

10

[www.desc.com.mx](http://www.desc.com.mx)

### First Quarter 2004 Results

-----  
The sales volume for the quarter suffered a decline of 16.3% when compared to the same period of the previous year due to the effects of the closing of three Bajio locations.

The capacity utilization rate remains 100% in the southeast region given the strong demand levels.

Capex for the quarter reached US\$0.11 million, allocated to farm equipment and infrastructure.

Investment in fixed assets during the quarter reached US\$0.21 millions and was allocated to to farm equipment and infrastructure.

## Edgar Filing: DESC S A DE C V - Form 6-K

Sales prices in Mexico improved when compared to the previous year to Ps. 19.98 per Kg., which represents an increase of 26.5%.

The following table provides the operating margins of the branded products and pork businesses:

Table 6. Food Sector - Relevant Figures

|                          | 1Q04   | 1Q03  | 1Q04 vs. 1Q03 |
|--------------------------|--------|-------|---------------|
| Branded Products         |        |       |               |
| Sales (millions of US\$) | 57     | 53    | 7.2%          |
| Operating Margin         | 1.9%   | 1.0%  |               |
| Pork Business            |        |       |               |
| Sales (millions of US\$) | 35     | 30    | 16.4%         |
| Operating Margin         | 11.50% | 1.20% |               |

11

www.desc.com.mx

### First Quarter 2004 Results

#### Real Estate Sector

[LOGO]

Following are the results for the real estate sector for the first quarter of 2004:

Table 7. Real Estate Sector Figures

(Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))  
Real Estate Sector

|                         | 1Q04  | 1Q03  | 1Q04 vs.<br>1Q03 | 4Q03   | 1Q04 vs.<br>4Q03 |
|-------------------------|-------|-------|------------------|--------|------------------|
| Sales (Ps.)             | 292   | 243   | 20.2%            | 179    | 63.6%            |
| Sales (US\$)            | 27    | 21    | 24.3%            | 16     | 69.4%            |
| Operating Income (Ps.)  | 41    | 60    | -31.5%           | -102   | NA               |
| Operating Income (US\$) | 4     | 5     | -28.8%           | -9     | NA               |
| Operating Margin        | 14.2% | 24.7% |                  | -57.4% |                  |
| EBITDA (Ps.)/1/         | 47    | 67    | -29.9%           | -83    | NA               |
| EBITDA (US\$)/1/        | 4     | 6     | -27.2%           | -7     | NA               |

1 "EBITDA" as used in this Press Release is Operating Income (Loss) plus the sum of Depreciation and Amortization (these under Mexican GAAP), and is presented because we believe that this term provides useful information regarding our debt service ability and other internal financial analysis. "EBITDA" should not be considered in isolation or as a substitute for our consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity.

\*Please refer to the end of this release to the Non-GAP Financial Reconciliation Schedule.

Sales in 1Q04 reached US\$27 million, a 24.3% increase when compared to the sales for 1Q03, primarily due to the increase in sales of the North C Building project, within the Arcos Bosques development, and the Punta Mita project. Sales within the Punta Mita project represented 64%, while the North C building within the Arcos Bosques development represented 22%, the Bosques de Santa Fe project 9%, and the remaining 5% was related to the sale of commercial lots and

## Edgar Filing: DESC S A DE C V - Form 6-K

finished inventory.

During the period, operating income reached US\$4 million, which was US\$1 million below the figure obtained in 1Q03, mainly as a result of an increase in the selling expenses of the North C Building within the Arcos Bosques development, where 2,829 m2 was sold during the quarter, thereby achieving the sale of 69% of available space. During the quarter, the construction of the building was completed within budget and the Company invested US\$1.7 million in this project.

In Bosques de Santa Fe, the exclusive residential development in western Mexico City, 4 residential lots were sold. With these, the sale of 89% of the residential lots and 57% of apartment units have closed. The construction of the club house continues according to schedule and within budget and is expected to be inaugurated in October 2004. Investment in this project reached US\$2.7 million during 1Q04.

Lastly, at Punta Mita, the tourist development located at Bahia de Banderas in the state of Nayarit, the sale of 5 beachfront lots, 3 golf course lots and 3 villas were completed. The commercialization and urbanization of the remaining residential beachfront and golf course lots and the villas under construction continues. Investment in this project reached US \$1.4 million during 1Q04.

\*\*\*\*\*

Contacts: Marisol Vazquez-Mellado Mollon/Jorge Padilla Ezeta  
Tel.: (5255) 5261 8044  
jorge.padilla@desc.com.mx  
-----

12

www.desc.com.mx

First Quarter 2004 Results

-----  
.. Financial Tables Follow ..  
-----

|                         | FINANCIAL INDICATORS |      |      |       |      |
|-------------------------|----------------------|------|------|-------|------|
|                         | 1Q04                 | 4Q03 | 3Q03 | 2Q03  | 1Q03 |
| Interest Coverage       | 2.93x                | 2.9x | 2.7x | 2.45x | 2.6x |
| Short-term debt         | 3%                   | 3%   | 29%  | 27%   | 23%  |
| Long-term debt          | 97%                  | 97%  | 71%  | 73%   | 77%  |
| Peso-denominated debt   | 31%                  | 30%  | 30%  | 32%   | 31%  |
| Dollar-denominated debt | 69%                  | 70%  | 70%  | 68%   | 69%  |

-----  
SHARES OUTSTANDING  
-----

|                   |               |         |
|-------------------|---------------|---------|
| Series "A" Shares | 587,479,900   | 42.90%  |
| Series "B" Shares | 781,599,476   | 57.10%  |
| Total             | 1,369,079,376 | 100.00% |

The shares outstanding correspond to March 31, 2004. However, due to the approval of the capital increase as well as the voluntary share conversion, these figures have changed.

To reconcile all Non-GAAP items the following tables, which include Depreciation and Amortization figures, are provided:

Non GAAP Reconciliation Schedule Tables  
-----

## Edgar Filing: DESC S A DE C V - Form 6-K

Desc, S.A. de C.V. and Subsidiarias  
 Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$)

|                                     | 1Q04 | 1Q03 | 1Q04 vs<br>1Q03 | 4Q03 | 1Q04 vs.<br>4Q03 |
|-------------------------------------|------|------|-----------------|------|------------------|
| Operating Profit/ (Loss) pesos      | 247  | 227  | 8.9%            | 17   | NA               |
| Operating Profit US\$               | 22   | 20   | 12.4%           | 2    | NA               |
| Depreciation and Amortization pesos | 317  | 349  | -9.0%           | 354  | -10.5%           |
| Depreciation y Amortization US\$    | 29   | 31   | -6.5%           | 30   | -7.3%            |
| EBITDA pesos                        | 564  | 576  | -2.0%           | 371  | 52.1%            |
| EBITDA US\$                         | 51   | 51   | 1.0%            | 32   | 57.7%            |

13

www.desc.com.mx

### First Quarter 2004 Results

Automotive Sector  
 (Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))

|                                     | 1Q04 | 1Q03 | 1Q04 vs<br>1Q03 | 4Q03 | 1Q04 vs.<br>4Q03 |
|-------------------------------------|------|------|-----------------|------|------------------|
| Operating Profit/ (Loss) (Ps.)      | 141  | 121  | 16.4%           | 63   | 123.1%           |
| Operating Profit (US\$)             | 13   | 11   | 20.0%           | 6    | 132.0%           |
| Depreciation and Amortization (Ps.) | 178  | 193  | -7.7%           | 189  | -6.1%            |
| Depreciation y Amortization (US\$)  | 16   | 17   | -4.4%           | 16   | -2.7%            |
| EBITDA (Ps.)                        | 319  | 313  | 1.7%            | 252  | 26.2%            |
| EBITDA (US\$)                       | 29   | 28   | 5.1%            | 22   | 30.9%            |

Chemical Sector  
 (Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))

|                                     | 1Q04 | 1Q03 | 1Q04 vs<br>1Q03 | 4Q03 | 1Q04 vs.<br>4Q03 |
|-------------------------------------|------|------|-----------------|------|------------------|
| Operating Profit/ (Loss) (Ps.)      | 32   | 42   | -23.1%          | 55   | -41.0%           |
| Operating Profit (US\$)             | 3    | 4    | -20.5%          | 5    | -38.8%           |
| Depreciation and Amortization (Ps.) | 80   | 96   | -16.8%          | 84   | -4.3%            |
| Depreciation y Amortization (US\$)  | 7    | 8    | -14.4%          | 7    | -0.8%            |
| EBITDA (Ps.)                        | 112  | 138  | -18.7%          | 138  | -18.8%           |
| EBITDA (US\$)                       | 10   | 12   | -16.3%          | 12   | -15.8%           |

Food Sector  
 (Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))

|                                      | 1Q04 | 1Q03 | 1Q04 vs<br>1Q03 | 4Q03 | 1Q04 vs.<br>4Q03 |
|--------------------------------------|------|------|-----------------|------|------------------|
| Operating Profit/ (Loss) (Ps.)       | 57   | 10   | 484.1%          | 49   | 17.1%            |
| Operating Profit (US\$)              | 5    | 1    | 509.8%          | 4    | 21.2%            |
| Depreciation and Amortization (Ps.)  | 38   | 40   | -7.1%           | 54   | -30.6%           |
| Depreciation and Amortization (US\$) | 4    | 3    | 3.5%            | 5    | -27.7%           |
| EBITDA (Ps.)                         | 95   | 50   | 88.7%           | 103  | -8.0%            |
| EBITDA (US\$)                        | 9    | 4    | 95.7%           | 9    | -4.5%            |

Real Estate Sector  
 (Figures in millions of constant pesos (Ps.) and U.S. dollars (US\$))

|  | 1Q04 | 1Q03 | 1Q04 vs<br>1Q03 | 4Q03 | 1Q04 vs.<br>4Q03 |
|--|------|------|-----------------|------|------------------|
|--|------|------|-----------------|------|------------------|

Edgar Filing: DESC S A DE C V - Form 6-K

|                                      |    |    |        |      |        |
|--------------------------------------|----|----|--------|------|--------|
| Operating Profit/ (Loss) (Ps.)       | 41 | 60 | -31.5% | -102 | NA     |
| Operating Profit (US\$)              | 4  | 5  | -28.8% | -9   | NA     |
| Depreciation and Amortization (Ps.)  | 6  | 7  | -14.5% | 19   | -72.7% |
| Depreciation and Amortization (US\$) | 0  | 1  | -12.1% | 2    | -71.7% |
| EBITDA (Ps.)                         | 47 | 67 | -29.9% | -83  | NA     |
| EBITDA (US\$)                        | 4  | 6  | -27.2% | -7   | NA     |

14

www.desc.com.mx

First Quarter 2004 Results

Desc, S.A. de C.V. and Subsidiaries  
Consolidated Balance Sheet  
(In millions of constant pesos as of March 31, 2004)

|  | 2004    | 2003    | %      |
|--|---------|---------|--------|
| <b>Assets</b>                                      |         |         |        |
| <b>Current Assets:</b>                             |         |         |        |
| Cash and Short Term Investments                    | 687     | 1,153   | -40.4% |
| Account and Documents Receivable                   | 6,230   | 5,152   | 20.9%  |
| Inventories and Other Assets                       | 2,995   | 2,964   | 1.0%   |
| Total Current Assets                               | 9,912   | 9,269   | 6.9%   |
| Land held for development and real estate projects | 3,978   | 4,614   | -13.8% |
| Fixed Assets                                       | 11,522  | 13,969  | -17.5% |
| Other Assets                                       | 1,530   | 2,742   | -44.2% |
| Total Assets                                       | 26,942  | 30,594  | -11.9% |
| <b>Liabilities</b>                                 |         |         |        |
| <b>Current Liabilities:</b>                        |         |         |        |
| Banks Loans  | 400     | 2,820   | -85.8% |
| Suppliers  | 1,831   | 2,051   | -10.8% |
| Taxes to be paid                                   | 245     | 834     | -70.6% |
| Other Liabilities                                  | 1,908   | 1,586   | 20.3%  |
| Total Current Liabilities                          | 4,384   | 7,291   | -39.9% |
| Long-Term Debt                                     | 11,350  | 9,248   | 22.7%  |
| Deferred taxes                                     | 893     | 1,317   | -32.2% |
| Other  | 681     | 605     | 12.6%  |
| Total Liabilities                                  | 17,308  | 18,461  | -6.2%  |
| <b>Stockholders' Equity</b>                        |         |         |        |
| Capital Stock                                      | 18      | 18      | 0.0%   |
| Paid-in Surplus                                    | 1,170   | 1,170   | 0.0%   |
| Retained Earnings and Capital Reserve              | 18,316  | 18,792  | -2.5%  |
| Other  | -13,406 | -11,883 | 12.8%  |
| Total Majority Interest                            | 6,098   | 8,097   | -24.7% |
| Minority Interest                                  | 3,536   | 4,036   | -12.4% |
| Total Stockholders' Equity                         | 9,634   | 12,133  | -20.6% |
| Total Liabilities and Stockholders' Equity         | 26,942  | 30,594  | -11.9% |

15

www.desc.com.mx

First Quarter 2004 Results

Desc, S.A. de C.V. and Subsidiaries  
Consolidated Income Statement  
(In millions of constant pesos as of March 31, 2004)

|           | 1Q04  | 1Q03  | %    |
|-----------|-------|-------|------|
| Net Sales | 5,356 | 5,343 | 0.2% |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |       |        |        |
|--|-------|--------|--------|
| Cost of Sales  | 4,289 | 4,191  | 2.3%   |
| Gross Profit   | 1,067 | 1,152  | -7.3%  |
| Operating Expenses:                                      |       |        |        |
| Administrative and Selling Expenses                      | 820   | 925    | -11.3% |
| Operating Income   | 247   | 227    | 8.9%   |
| Interest Expense   | 202   | 210    | -3.7%  |
| Interest Income  | (5)   | (12)   | -53.2% |
| Exchange Gain (loss), net                                | 37    | 290    | -87.1% |
| Gain on Monetary Position                                | (138) | (78)   | 76.8%  |
| Others   | 40    | 41     | -3.1%  |
| Comprehensive Financial Result                           | 136   | 451    | -69.8% |
| Other Extraordinary Income or Expenses                   | 39    | 10     | 284.3% |
| Income before Provisions                                 | 72    | (234)  | NA     |
| Provisions for:  |       |        |        |
| Income and Asset Tax                                     | 69    | 91     | -24.3% |
| Employee Profit Sharing                                  | 27    | 23     | 15.2%  |
| Deferred Income Taxes                                    | 36    | (19)   | NA     |
| Total Taxes  | 132   | 96     | 37.1%  |
| Net Consolidated Income                                  | (60)  | (330)  | -81.8% |
| Minority Interest  | 56    | 7      | 774.8% |
| Other Non-consolidated                                   | 0     | 0      |        |
| Majority Net Income                                      | (116) | (337)  | -65.4% |
| Net Income per Share (last 12 months)                    |       | (1.67) | (1.12) |
| Number of shares outstanding:<br>(in millions of shares) | 1,369 | 1,369  |        |
| EBITDA   | 564   | 576    | -2.0%  |

16

www.desc.com.mx

First Quarter 2004 Results

|                         | 1Q04  | Acum.<br>2003 | 4Q03   | 3Q03  | 2Q03  | 1Q03  |
|-------------------------|-------|---------------|--------|-------|-------|-------|
| Sales (US\$)            |       |               |        |       |       |       |
| Consolidated            | 486   | 1,975         | 466    | 488   | 550   | 471   |
| Automotive Sector       | 197   | 709           | 177    | 177   | 176   | 179   |
| Chemical Sector         | 169   | 714           | 165    | 183   | 179   | 187   |
| Food Sector             | 92    | 352           | 95     | 89    | 85    | 83    |
| Real Estate Sector      | 27    | 180           | 16     | 36    | 107   | 21    |
| Exports (US\$)          |       |               |        |       |       |       |
| Consolidated            | 232   | 860           | 215    | 217   | 212   | 216   |
| Automotive Sector       | 133   | 475           | 117    | 121   | 120   | 117   |
| Chemical Sector         | 71    | 282           | 74     | 69    | 66    | 73    |
| Food Sector             | 27    | 104           | 25     | 27    | 26    | 26    |
| Operating Income (US\$) |       |               |        |       |       |       |
| Consolidated            | 22    | 77            | 2      | 13    | 42    | 20    |
| Automotive Sector       | 13    | 20            | 5      | 0     | 4     | 11    |
| Chemical Sector         | 3     | 18            | 4      | 5     | 5     | 4     |
| Food Sector             | 5     | 11            | 4      | 4     | 2     | 1     |
| Real Estate Sector      | 4     | 38            | -9     | 9     | 33    | 5     |
| Operating Margin        |       |               |        |       |       |       |
| Consolidated            | 4.6%  | 3.9%          | 0.3%   | 2.8%  | 7.7%  | 4.2%  |
| Automotive Sector       | 6.5%  | 2.9%          | 3.1%   | 0.1%  | 2.3%  | 6.0%  |
| Chemical Sector         | 1.7%  | 2.6%          | 2.9%   | 2.7%  | 2.9%  | 2.0%  |
| Food Sector             | 5.7%  | 3.2%          | 4.6%   | 4.1%  | 2.8%  | 1.0%  |
| Real Estate Sector      | 14.2% | 21.1%         | -57.3% | 24.9% | 30.5% | 24.7% |
| EBITDA (US\$)           |       |               |        |       |       |       |
| Consolidated            | 51    | 202           | 32     | 45    | 74    | 51    |
| Automotive Sector       | 29    | 88            | 22     | 17    | 21    | 28    |
| Chemical Sector         | 10    | 50            | 12     | 13    | 13    | 12    |

Edgar Filing: DESC S A DE C V - Form 6-K

|                    |   |    |    |    |    |   |
|--------------------|---|----|----|----|----|---|
| Food Sector        | 9 | 27 | 8  | 8  | 6  | 5 |
| Real Estate Sector | 4 | 42 | -7 | 10 | 33 | 6 |

-----

This press release contains "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that reflect the current views of Desc's management with respect to future events. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," and "should" and similar expressions generally are intended to identify forward-looking statements. These statements are subject to risks, uncertainties and changes in circumstances. Actual results may differ materially from present expectations as a result of many factors, including, but not limited to, changes in global and domestic political, economic, business, competitive, market and regulatory factors, the cyclicity of the autoparts and chemicals industries and other factors which are described under the heading "Risk Factors" in Desc's most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission. Desc does not assume any obligation to update these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made.

-----

17

www.desc.com.mx

Item 5

CONSOLIDATED BALANCE SHEET  
AT MARCH 31 OF 2004 AND 2003  
(Thousands of Pesos)

| REF S | CONCEPTS  | FIRST QUARTER OF PRESENT FINANCIAL YEAR |      | FIRST QUARTER       |
|-------|---|---|------|---------------------|
|       |   | Amount                                  | %    | FINANCIAL<br>Amount |
| 1     | TOTAL ASSETS  | 26,942,326                              | 100% | 30,594,429          |
| 2     | CURRENT ASSETS  | 8,885,212                               | 33%  | 9,268,670           |
| 3     | CASH AND SHORT-TERM INVESTMENTS   | 686,862                                 | 3%   | 1,153,144           |
| 4     | ACCOUNTS AND DOCUMENTS RECEIVABLE (NET)                                 | 4,322,251                               | 16%  | 3,512,624           |
| 5     | OTHER ACCOUNTS AND DOCUMENTS RECEIVABLE                                 | 806,570                                 | 3%   | 1,639,196           |
| 6     | INVENTORIES   | 3,021,568                               | 11%  | 2,963,706           |
| 7     | OTHER CURRENT ASSETS  | 47,961                                  | 0%   | 0                   |
| 8     | LONG-TERM   | 5,005,174                               | 19%  | 4,613,951           |
| 9     | ACCOUNTS AND DOCUMENTS RECEIVABLE (NET)                                 | 1,101,944                               | 4%   | 0                   |
| 10    | INVESTMENT IN SHARES OF SUBSIDIARIES AND<br>NON-CONSOLIDATED ASSOCIATED | 183,695                                 | 1%   | 114,196             |
| 11    | OTHER INVESTMENTS   | 3,719,535                               | 14%  | 4,499,755           |
| 12    | PROPERTY, PLANT AND EQUIPMENT   | 11,522,435                              | 43%  | 13,968,968          |
| 13    | PROPERTY  | 6,325,435                               | 23%  | 7,234,675           |
| 14    | MACHINERY AND INDUSTRIAL EQUIPMENT (NET)                                | 15,671,898                              | 58%  | 17,142,200          |
| 15    | OTHER EQUIPMENT   | 3,136,517                               | 12%  | 2,112,658           |
| 16    | ACCUMULATED DEPRECIATION  | 13,991,371                              | 52%  | 13,528,247          |
| 17    | CONSTRUCTION IN PROGRESS  | 379,956                                 | 1%   | 1,007,682           |
| 18    | DEFERRED ASSETS (NET)   | 507,062                                 | 2%   | 1,622,252           |
| 19    | OTHER ASSETS  | 1,022,443                               | 4%   | 1,120,588           |
| 20    | TOTAL LIABILITIES   | 17,308,405                              | 100% | 18,461,416          |
| 21    | CURRENT LIABILITIES   | 4,384,066                               | 25%  | 7,290,591           |
| 22    | SUPPLIERS   | 1,830,680                               | 11%  | 2,051,437           |
| 23    | BANK LOANS  | 400,099                                 | 2%   | 2,820,287           |
| 24    | STOCK MARKET LOANS  | 0                                       | 0%   | 0                   |
| 25    | TAXES TO BE PAID  | 245,398                                 | 1%   | 834,191             |
| 26    | OTHER CURRENT LIABILITIES   | 1,907,889                               | 11%  | 1,584,677           |
| 27    | LONG-TERM LIABILITIES   | 11,350,116                              | 66%  | 9,247,561           |

Edgar Filing: DESC S A DE C V - Form 6-K

|    |  |             |       |             |
|----|--|-------------|-------|-------------|
| 28 | BANK LOANS   | 9,030,393   | 52%   | 6,932,974   |
| 29 | STOCK MARKET LOANS                                   | 2,319,723   | 13%   | 2,314,587   |
| 30 | OTHER LOANS  | 0           | 0%    | 0           |
| 31 | DEFERRED LOANS                                       | 892,639     | 5%    | 1,316,583   |
| 32 | OTHER LIABILITIES                                    | 681,584     | 4%    | 606,680     |
| 33 | CONSOLIDATED STOCK HOLDERS' EQUITY                   | 9,633,921   | 100%  | 12,133,013  |
| 34 | MINORITY INTEREST                                    | 3,536,131   | 37%   | 4,035,587   |
| 35 | MAJORITY INTEREST                                    | 6,097,790   | 63%   | 8,097,426   |
| 36 | CONTRIBUTED CAPITAL                                  | 13,101,416  | 136%  | 13,127,465  |
| 37 | PAID-IN CAPITAL STOCK (NOMINAL)                      | 17,798      | 0%    | 17,798      |
| 38 | RESTATEMENT OF PAID-IN CAPITAL STOCK                 | 11,913,228  | 124%  | 11,939,277  |
| 39 | PREMIUM ON SALES OF SHARES                           | 1,170,390   | 12%   | 1,170,390   |
| 40 | CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES           |             |       |             |
| 41 | CAPITAL INCREASE (DECREASE)                          | -7,003,626  | -73%  | -5,030,039  |
| 42 | RETAINED EARNINGS AND CAPITAL RESERVE                | 17,525,927  | 182%  | 18,227,286  |
| 43 | REPURCHASE FUND OF SHARES                            | 907,079     | 9%    | 907,079     |
| 44 | EXCESS (SHORTFALL) IN RESTATEMENT OF HOLDER'S EQUITY | -25,320,079 | -263% | -23,827,227 |
| 45 | NET INCOME FOR THE YEAR                              | -116,553    | -1%   | -337,177    |

CONSOLIDATED BALANCE SHEET  
BREAKDOWN OF MAIN CONCEPTS  
(Thousands of Pesos)

| REF S | CONCEPTS                                | FIRST QUARTER OF PRESENT FINANCIAL YEAR |      | FIRST QUAR PREVIOUS FINA |
|-------|---|---|------|--------------------------|
|       |   | Amount                                  | %    |                          |
| 3     | CASH AND SHORT-TERM INVESTMENTS         | 686,862                                 | 100% | 1,153,144                |
| 46    | CASH                                    | 211,424                                 | 31%  | 408,259                  |
| 47    | SHORT-TERM INVESTMENTS                  | 475,438                                 | 69%  | 744,885                  |
| 18    | DEFERRED ASSETS (NET)                   | 507,062                                 | 100% | 1,622,252                |
| 48    | AMORTIZED OR REDEEMED EXPENSES          |   | 0%   |                          |
| 49    | GOODWILL                                | 507,062                                 | 100% | 1,622,252                |
| 50    | DEFERRED TAXES                          |   | 0%   |                          |
| 51    | OTHERS                                  |   | 0%   |                          |
| 21    | CURRENT LIABILITIES                     | 4,384,066                               | 100% | 7,290,592                |
| 52    | FOREIGN CURRENCY LIABILITIES            | 1,737,933                               | 40%  | 4,103,022                |
| 53    | MEXICAN PESOS LIABILITIES               | 2,646,133                               | 60%  | 3,187,570                |
| 24    | STOCK MARKET LOANS                      | 0                                       | 100% | 0                        |
| 54    | COMMERCIAL PAPER                        |   | 0%   | 0                        |
| 55    | CURRENT MATURITIES OF MEDIUM TERM NOTES |   | 0%   | 0                        |
| 56    | CURRENT MATURITIES OF BONDS             |   | 0%   | 0                        |
| 26    | OTHER CURRENT LIABILITIES               | 1,907,889                               | 100% | 1,584,677                |
| 57    | OTHER CURRENT LIABILITIES WITH COST     |   | 0%   |                          |
| 58    | OTHER CURRENT LIABILITIES WITHOUT COST  | 1,907,889                               | 100% | 1,584,677                |
| 27    | LONG-TERM LIABILITIES                   | 11,350,116                              | 100% | 9,247,561                |
| 59    | FOREIGN CURRENCY LIABILITIES            | 7,760,575                               | 68%  | 5,552,317                |
| 60    | MEXICAN PESOS LIABILITIES               | 3,589,541                               | 32%  | 3,695,244                |
| 29    | STOCK MARKET LOANS                      | 2,319,723                               | 100% | 2,314,587                |
| 61    | BONDS                                   |   | 0%   |                          |
| 62    | MEDIUM TERM NOTES                       | 2,319,723                               | 100% | 2,314,587                |
| 30    | OTHER LOANS                             | 0                                       | 100% | 0                        |
| 63    | OTHER LOANS WITH COST                   |   | 0%   | 0                        |
| 64    | OTHER LOANS WITHOUT COST                |   | 0%   | 0                        |
| 31    | DEFERRED LOANS                          | 892,639                                 | 100% | 1,316,583                |
| 65    | NEGATIVE GOODWILL                       |   | 0%   |                          |
| 66    | DEFERRED TAXES                          | 892,639                                 | 100% | 1,316,583                |
| 67    | OTHERS                                  |   | 0%   |                          |
| 32    | OTHER LIABILITIES                       | 681,584                                 | 100% | 606,680                  |



Edgar Filing: DESC S A DE C V - Form 6-K

|    |   |             |      |             |
|----|---|-------------|------|-------------|
| 68 | RESERVES  |             | 0%   |             |
| 69 | OTHERS LIABILITIES  | 681,584     | 100% | 606,680     |
| 44 | EXCESS (SHORTFALL) IN RESTATEMENT OF STOCK<br>HOLDERS' EQUITY | -25,320,079 | 100% | -23,827,227 |
| 70 | ACCUMULATED INCOME DUE TO MONETARY POSITION                   |             | 0%   |             |
| 71 | INCOME FROM NON-MONETARY POSITION ASSETS                      | -25,320,079 | 100% | -23,827,227 |

CONSOLIDATED BALANCE SHEET  
OTHER CONCEPTS  
(Thousands of Pesos)

| REF S | CONCEPTS                                | FIRST QUARTER<br>OF PRESENT<br>FINANCIAL YEAR<br>Amount |  | FIRST QUARTER<br>OF PREVIOUS<br>FINANCIAL YEAR<br>Amount |
|-------|---|---|--|--|
| 72    | WORKING CAPITAL                         | 4,501,146   |  | 1,978,078  |
| 73    | PENSIONS FUND AND SENIORITY<br>PREMIUMS | 416,251   |  | 599,820  |
| 74    | EXECUTIVES (*)                          | 0   |  | 0  |
| 75    | EMPLOYERS (*)                           | 4,384   |  | 5,787  |
| 76    | WORKERS (*)                             | 9,789   |  | 10,336   |
| 77    | CIRCULATION SHARES (*)                  | 1,369,073,376   |  | 1,369,079,376  |
| 78    | REPURCHASED SHARES (*)                  | 0   |  | 0  |

(\*) THESE FIGURES ARE EXPRESSED IN UNITS

CONSOLIDATED INCOME STATEMENT  
FROM JANUARY 1ST TO MARCH 31 OF 2004 AND 2003  
(Thousands of Pesos)

| REF R | CONCEPTS   | FIRST QUARTER OF<br>PRESENT FINANCIAL YEAR<br>Amount | %    | FIRST QUARTER<br>FINANCIAL YEAR<br>Amount |
|-------|--|--|------|---|
| 1     | NET SALES  | 5,356,630  | 100% | 5,343,349                                 |
| 2     | COST OF SALES  | 4,289,160  | 80%  | 4,191,477                                 |
| 3     | GROSS INCOME   | 1,067,470  | 20%  | 1,151,872                                 |
| 4     | OPERATING EXPENSES   | 819,999  | 15%  | 924,555                                   |
| 5     | OPERATING INCOME   | 247,471  | 5%   | 227,317                                   |
| 6     | TOTAL FINANCING COST   | 136,007  | 3%   | 451,590                                   |
| 7     | INCOME AFTER FINANCING COST  | 111,464  | 2%   | -224,273                                  |
| 8     | OTHER FINANCIAL OPERATIONS   | 39,118   | 1%   | 10,179                                    |
| 9     | INCOME BEFORE TAXES AND WORKERS' PROFIT<br>SHARING                             | 72,346   | 1%   | -234,452                                  |
| 10    | RESERVE FOR TAXES AND WORKERS' PROFIT SHARING                                  | 132,087  | 2%   | 96,312                                    |
| 11    | NET INCOME AFTER TAXES AND WORKERS' PROFIT<br>SHARING                          | -59,741  | -1%  | -330,764                                  |
| 12    | SHARE IN NET INCOME OF SUBSIDIARIES AND<br>NON-CONSOLIDATED ASSOCIATES         | -426   | 0%   | 0   |
| 13    | CONSOLIDATED NET INCOME OF CONTINUOUS  | -60,167  | -1%  | -330,764                                  |
| 14    | INCOME OF DISCONTINUOUS OPERATIONS   | 282  | 0%   | 0   |
| 15    | CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY<br>ITEMS                          | -60,449  | -1%  | -330,764                                  |
| 16    | EXTRAORDINARY ITEMS NET EXPENSES (INCOME)                                      | 0  | 0%   | 0   |
| 17    | NET EFFECT AT THE BEGINNING OF THE YEAR BY<br>CHANGES IN ACCOUNTING PRINCIPLES |  | 0%   |   |
| 18    | NET CONSOLIDATED INCOME  | -60,449  | -1%  | -330,764                                  |
| 19    | NET INCOME OF MINORITY INTEREST  | 56,104   | 1%   | 6,413                                     |

Edgar Filing: DESC S A DE C V - Form 6-K

20 NET INCOME OF MAJORITY INTEREST -116,553 -2% -337,177

CONSOLIDATED INCOME STATEMENT  
BREAKDOWN OF MAIN CONCEPTS  
(Thousands of Pesos)

| REF R | CONCEPTS  | FIRST QUARTER OF<br>PRESENT FINANCIAL YEAR |       | FIRST QUARTER OF<br>PREVIOUS FINANCIAL YEAR |
|-------|---|--|-------|---|
|       |   | Amount                                     | %     | Amount                                      |
| 1     | NET SALES                                       | 5,356,630                                  | 100%  | 5,343,349                                   |
| 21    | DOMESTIC  | 2,799,096                                  | 52%   | 2,898,339                                   |
| 22    | FOREIGN   | 2,557,534                                  | 48%   | 2,445,010                                   |
| 23    | TRANSLATED INTO DOLLARS (***)                   | 232,087                                    | 4%    | 215,682                                     |
| 6     | TOTAL FINANCING COST                            | 136,007                                    | 100%  | 451,590                                     |
| 24    | INTEREST PAID                                   | 242,214                                    | 178%  | 251,191                                     |
| 25    | EXCHANGE LOSSES                                 | -305                                       | 0%    | 245,073                                     |
| 26    | INTEREST EARNED                                 | 5,439                                      | 4%    | 11,626                                      |
| 27    | EXCHANGE PROFITS                                | 0  | 0%    | 0   |
| 28    | GAIN DUE TO MONETARY POSITION                   | -138,278                                   | -102% | -78,192                                     |
| 29    | LOSS IN UDI'S ACTUALIZATION                     | 37,815                                     | 16%   | 45,144                                      |
| 29    | PROFIT IN UDI'S ACTUALIZATION                   | 0  | 0%    | 0   |
| 8     | OTHER FINANCIAL OPERATIONS                      | 39,118                                     | 100%  | 10,179                                      |
| 29    | OTHER NET EXPENSES (INCOME) NET                 | 39,118                                     | 100%  | 10,179                                      |
| 30    | (PROFIT) LOSS ON SALE OF OWN SHARES             | 0  | 0%    | 0   |
| 31    | (PROFIT) LOSS ON SALE OF SHORT-TERM INVESTMENTS | 0  | 0%    | 0   |
| 10    | RESERVE FOR TAXES AND WORKERS' PROFIT SHARING   | 132,087                                    | 100%  | 96,312                                      |
| 32    | INCOME TAX                                      | 69,178                                     | 52%   | 91,836                                      |
| 33    | DEFERRED INCOME TAX                             | 35,911                                     | 27%   | -18,951                                     |
| 34    | WORKERS' PROFIT SHARING                         | 26,998                                     | 20%   | 23,427                                      |
| 35    | DEFERRED WORKERS' PROFIT SHARING                | 0  | 0%    | 0   |

CONSOLIDATED INCOME STATEMENT  
OTHER CONCEPTS  
(Thousands of Pesos)

| REF R | CONCEPTS                             | FIRST QUARTER<br>OF PRESENT<br>FINANCIAL YEAR | FIRST QUARTER<br>OF PREVIOUS<br>FINANCIAL YEAR |
|-------|--------------------------------------|---|--|
|       |                                      | Amount  | Amount   |
| 36    | TOTAL SALES                          | 5,553,383                                     | 5,623,451                                      |
| 37    | NET INCOME OF THE YEAR               | 0   | 0  |
| 38    | NET SALES (**)                       | 22,112,551                                    | 20,924,751                                     |
| 39    | OPERATION INCOME (**)                | 875,963                                       | 935,357  |
| 40    | NET INCOME OF MAJORITY INTEREST (**) | -2,286,450                                    | -1,648,013                                     |
| 41    | NET CONSOLIDATED INCOME (**)         | -2,171,463                                    | -1,824,474                                     |

(\*\*) THE INFORMATION IS BASED ON THE LAST TWELVE MONTHS

CONSOLIDATED INCOME STATEMENT  
FROM JANUARY 1st TO MARCH 31th OF 2004 AND 2003  
(Thousands of Pesos)

| REF R | CONCEPTS | FIRST QUARTER OF<br>PRESENT FINANCIAL YEAR | FIRST QUARTER OF<br>PREVIOUS FINANCIAL YEAR |
|-------|----------|--|---|
|-------|----------|--|---|

Edgar Filing: DESC S A DE C V - Form 6-K

|    |   | Amount    | %    | Amount    |
|----|---|-----------|------|-----------|
| 1  | NET SALES   | 5,356,630 | 100% | 5,343,349 |
| 2  | COST OF SALES   | 4,289,160 | 80%  | 4,191,477 |
| 3  | GROSS INCOME  | 1,067,470 | 20%  | 1,151,872 |
| 4  | OPERATING EXPENSES  | 819,999   | 15%  | 924,555   |
| 5  | OPERATING INCOME  | 247,471   | 5%   | 227,317   |
| 6  | TOTAL FINANCING COST  | 136,007   | 3%   | 451,590   |
| 7  | INCOME AFTER FINANCING COST   | 111,464   | 2%   | -224,273  |
| 8  | OTHER FINANCIAL OPERATIONS  | 39,118    | 1%   | 10,179    |
| 9  | INCOME BEFORE TAXES AND WORKERS' PROFIT SHARING                             | 72,346    | 1%   | -234,452  |
| 10 | RESERVE FOR TAXES AND WORKERS' PROFIT SHARING                               | 132,087   | 2%   | 96,312    |
| 11 | NET INCOME AFTER TAXES AND WORKERS' PROFIT SHARING                          | -59,741   | -1%  | -330,764  |
| 12 | SHARE IN NET INCOME OF SUBSIDIARIES AND NON-CONSOLIDATED ASSOCIATES         | (426)     | 0%   | 0         |
| 13 | CONSOLIDATED NET INCOME OF CONTINUOUS                                       | -60,167   | -1%  | -330,764  |
| 14 | INCOME OF DISCONTINUOUS OPERATIONS  | 282       | 0%   | 0         |
| 15 | CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS                          | -60,449   | -1%  | -330,764  |
| 16 | EXTRAORDINARY ITEMS NET EXPENSES (INCOME)                                   | 0         | 0%   | 0         |
| 17 | NET EFFECT AT THE BEGINNING OF THE YEAR BY CHANGES IN ACCOUNTING PRINCIPLES | --        | 0%   | 0         |
| 18 | NET CONSOLIDATED INCOME   | -60,449   | -1%  | -330,764  |
| 19 | NET INCOME OF MINORITY INTEREST   | 56,104    | 1%   | 6,413     |
| 20 | NET INCOME OF MAJORITY INTEREST   | -116,553  | -2%  | -337,177  |

CONSOLIDATED INCOME STATEMENT  
BREAKDOWN OF MAIN CONCEPTS  
(Thousands of Pesos)

| REF R | CONCEPTS  | TRIMESTER PRESENT<br>FINANCIAL YEAR |       | TRIMESTER P<br>FINANCIA |
|-------|---|-------------------------------------|-------|-------------------------|
|       |   | Amount                              | %     | Amount                  |
| 1     | NET SALES                                       | 5,356,630                           | 100%  | 5,343,349               |
| 21    | DOMESTIC  | 2,799,096                           | 52%   | 2,898,339               |
| 22    | FOREIGN   | 2,557,534                           | 48%   | 2,445,010               |
| 23    | TRANSLATED INTO DOLLARS (***)                   | 232,087                             | 4%    | 215,632                 |
| 6     | TOTAL FINANCING COST                            | 136,007                             | 100%  | 451,590                 |
| 24    | INTEREST PAID                                   | 242,214                             | 178%  | 251,191                 |
| 25    | EXCHANGE LOSSES                                 | -305                                | 0%    | 245,073                 |
| 26    | INTEREST EARNED                                 | 5,439                               | 4%    | 11,626                  |
| 27    | EXCHANGE PROFITS                                | 0                                   | 0%    | 0                       |
| 28    | GAIN DUE TO MONETARY POSITION                   | -138,278                            | -102% | -78,192                 |
| 29    | LOSS IN UDI'S ACTUALIZATION                     | 37,815                              | 28%   | 45,144                  |
|       | PROFIT IN UDI'S ACTUALIZATION                   | 0                                   | 0%    | 0                       |
| 8     | OTHER FINANCIAL OPERATIONS                      | 39,118                              | 100%  | 10,179                  |
| 29    | OTHER NET EXPENSES (INCOME) NET                 | 39,118                              | 100%  | 10,179                  |
| 30    | (PROFIT) LOSS ON SALE OF OWN SHARES             | 0                                   | 0%    | 0                       |
| 31    | (PROFIT) LOSS ON SALE OF SHORT-TERM INVESTMENTS | 0                                   | 0%    | 0                       |
| 10    | RESERVE FOR TAXES AND WORKERS' PROFIT SHARING   | 132,087                             | 100%  | 96,312                  |
| 32    | INCOME TAX                                      | 69,178                              | 52%   | 91,836                  |
| 33    | DEFERRED INCOME TAX                             | 35,911                              | 27%   | -18,951                 |
| 34    | WORKERS' PROFIT SHARING                         | 26,998                              | 20%   | 23,427                  |
| 35    | DEFERRED WORKERS' PROFIT SHARING                | 0                                   | 0%    | 0                       |

## Edgar Filing: DESC S A DE C V - Form 6-K

### CONSOLIDATED CASH FLOW STATEMENT FROM JANUARY 1ST TO MARCH 31 OF 2003 AND 2002 (Thousands of Pesos)

| REF C | CONCEPTS  | FIRST QUARTER<br>OF PRESENT<br>FINANCIAL YEAR<br>Amount | FIRST QUARTER<br>OF PREVIOUS<br>FINANCIAL YEAR<br>Amount |
|-------|---|---|--|
| 1     | CONSOLIDATED NET INCOME                                       | -60,449   | -330,764   |
| 2     | +(-) ITEMS ADDED TO INCOME WHICH DO NOT<br>REQUIRE USING CASH | 219,470   | 348,195  |
| 3     | CASH FLOW FROM NET INCOME OF THE YEAR                         | 159,021   | 17,431   |
| 4     | CASH FLOW FROM CHANGE IN WORKING CAPITAL                      | -84,655   | -375,570   |
| 5     | CASH GENERATED (USED) IN OPERATING ACTIVITIES                 | 74,366  | -358,139   |
| 6     | CASH FLOW FROM EXTERNAL FINANCING                             | -235,194  | -825,271   |
| 7     | CASH FLOW FROM INTERNAL FINANCING                             | 0   | 0  |
| 8     | CASH FLOW GENERATED (USED) BY FINANCING                       | -235,194  | -825,271   |
| 9     | CASH FLOW GENERATED (USED) IN INVESTMENT<br>ACTIVITIES        | 116,448   | -204,351   |
| 10    | NET INCREASE (DECREASE) IN CASH AND<br>SHORT-TERM INVESTMENTS | -44,380   | -1,387,762   |
| 11    | CASH AND SHORT-TERM INVESTMENTS AT THE<br>BEGINNING OF PERIOD | 731,242   | 2,540,905  |
| 12    | CASH AND SHORT-TERM INVESTMENTS AT THE END OF<br>PERIOD       | 686,862   | 1,153,144  |

### CONSOLIDATED CASH FLOW STATEMENT BREAKDOWN OF MAIN CONCEPTS (Thousands of Pesos)

| REF C | CONCEPTS   | FIRST QUARTER<br>OF PRESENT<br>FINANCIAL YEAR<br>Amount | FIRST QUARTER<br>OF PREVIOUS<br>FINANCIAL YEAR<br>Amount |
|-------|--|---|--|
| 2     | + (-) ITEMS ADDED TO INCOME WHICH DO NOT<br>REQUIRE                      | 219,470   | 348,195  |
| 13    | DEPRECIATION AND AMORTIZATION FOR THE YEAR                               | 316,700   | 348,195  |
| 14    | + (-) NET INCREASE (DECREASE) IN PENSIONS<br>FUND AND SENIORITY PREMIUMS |   |  |
| 15    | + (-) NET LOSS (PROFIT) IN MONEY EXCHANGE                                |   |  |
| 16    | + (-) NET LOSS (PROFIT) IN ASSETS AND<br>LIABILITIES ACTUALIZATION       |   |  |
| 17    | + (-) OTHER ITEMS  | -97,230   | 0  |
| 4     | CASH FLOW FROM CHANGE IN WORKING CAPITAL                                 | -84,655   | -375,570   |
| 18    | + (-) DECREASE (INCREASE) IN ACCOUNT<br>RECEIVABLE                       | -923,251  | -876,248   |
| 19    | + (-) DECREASE (INCREASE) IN INVENTORIES                                 | 194,289   | 228,349  |
| 20    | + (-) DECREASE (INCREASE) IN OTHER ACCOUNT<br>RECEIVABLE                 | 201,725   | 108,339  |
| 21    | + (-) INCREASE (DECREASE) IN SUPPLIER ACCOUNT                            | 187,771   | -155,671   |
| 22    | + (-) INCREASE (DECREASE) IN OTHER<br>LIABILITIES                        | 254,811   | 319,661  |
| 6     | CASH FLOW FROM EXTERNAL FINANCING  | -235,194  | -825,271   |
| 23    | + SHORT-TERM BANK AND STOCK MARKET FINANCING                             | -47,355   | -877,130   |
| 24    | + LONG-TERM BANK AND STOCK MARKET FINANCING                              | -187,839  | 51,858   |
| 25    | + DIVIDEND RECEIVED  |   |  |

Edgar Filing: DESC S A DE C V - Form 6-K

|    |   |          |          |
|----|---|----------|----------|
| 26 | + OTHER FINANCING   |          | 0        |
| 27 | (-) BANK FINANCING AMORTIZATION   |          |          |
| 28 | (-) STOCK MARKET AMORTIZATION   |          |          |
| 29 | (-) OTHER FINANCING AMORTIZATION  |          |          |
| 7  | CASH FLOW FROM INTERNAL FINANCING                                       | 0        | 0        |
| 30 | + (-) INCREASE (DECREASE) IN CAPITAL STOCKS                             |          |          |
| 31 | (-) DIVIDENDS PAID  | 0        | 0        |
| 32 | + PREMIUM ON SALE OF SHARES   |          |          |
| 33 | + CONTRIBUTION FOR FUTURE CAPITAL INCREASES                             |          |          |
| 9  | CASH FLOW GENERATED (UTILIZED) IN INVESTMENT<br>ACTIVITIES              | 116,448  | -204,351 |
| 34 | + (-) DECREASE (INCREASE) IN STOCK<br>INVESTMENTS OF A PERMANENT NATURE | -108,864 |          |
| 35 | (-) ACQUISITION OF PROPERTY, PLANT AND<br>EQUIPMENT                     | -81,340  | -182,497 |
| 36 | (-) INCREASE IN CONSTRUCTIONS IN PROGRESS                               | 116,622  | -69,608  |
| 37 | + SALE OF OTHER PERMANENT INVESTMENTS                                   | 0        | 0        |
| 38 | + SALE OF TANGIBLE FIXED ASSETS   | 190,030  | 47,754   |
| 39 | + (-) OTHER ITEMS   |          | 0        |

RATIOS  
CONSOLIDATED

| REF P | CONCEPTS  | FIRST QUARTER OF<br>PRESENT FINANCIAL<br>YEAR |       | FIRST QUAR<br>PREVIOUS FI<br>YEAR |
|-------|---|---|-------|-----------------------------------|
|       | YIELD   |   |       |                                   |
| 1     | NET INCOME TO NET SALES                                   | -1.13   | %     | -6.19                             |
| 2     | NET INCOME TO STOCK HOLDERS' EQUITY (**)                  | -37.5   | %     | -20.35                            |
| 3     | NET INCOME TO TOTAL ASSETS (**)                           | -8.06   | %     | -5.96                             |
| 4     | CASH DIVIDENDS TO PREVIOUS YEAR NET INCOME                | 0   | %     | 0                                 |
| 5     | INCOME DUE TO MONETARY POSITION TO NET INCOME             | -228.75                                       | %     | -23.64                            |
|       | ACTIVITY  |   |       |                                   |
| 6     | NET SALES TO NET ASSETS (**)                              | 0.82  | times | 0.68                              |
| 7     | NET SALES TO FIXED ASSETS (**)                            | 1.92  | times | 1.5                               |
| 8     | INVENTORIES ROTATION (**)                                 | 2.77  | times | 5.19                              |
| 9     | ACCOUNTS RECEIVABLE IN DAYS OF SALES                      | 63  | days  | 51                                |
| 10    | PAID INTEREST TO TOTAL LIABILITIES WITH<br>COST (**)      | 6.6   | %     | 6.39                              |
|       | LEVERAGE  |   |       |                                   |
| 11    | TOTAL LIABILITIES TO TOTAL ASSETS                         | 64.24   | %     | 60.34                             |
| 12    | TOTAL LIABILITIES TO STOCK HOLDERS' EQUITY                | 1.8   | times | 1.52                              |
| 13    | FOREIGN CURRENCY LIABILITIES TO TOTAL<br>LIABILITIES      | 5488  | %     | 52.3                              |
| 14    | LONG-TERM LIABILITIES TO FIXED ASSETS                     | 98.5  | %     | 66.2                              |
| 15    | OPERATING INCOME TO INTEREST PAID                         | 1.02  | times | 0.9                               |
| 16    | NET SALES TO TOTAL LIABILITIES (**)                       | 1.28  | times | 1.13                              |
|       | LIQUIDITY   |   |       |                                   |
| 17    | CURRENT ASSETS TO CURRENT LIABILITIES                     | 2.03  | times | 1.27                              |
| 18    | CURRENT ASSETS LESS INVENTORY TO CURRENT<br>LIABILITIES   | 1.34  | times | 0.86                              |
| 19    | CURRENTS ASSETS TO TOTAL LIABILITIES                      | 0.51  | times | 0.5                               |
| 20    | AVAILABLE ASSETS TO CURRENT LIABILITIES                   | 15.67   | %     | 15.82                             |
|       | CASH FLOW   |   |       |                                   |
| 21    | CASH FLOW FROM NET INCOME TO NET SALES                    | 2.97  | %     | 0.33                              |
| 22    | CASH FLOW FROM CHANGES IN WORKING CAPITAL TO<br>NET SALES | -1.58   | %     | -7.03                             |
| 23    | CASH GENERATED (USED) IN OPERATING TO<br>INTEREST PAID    | 0.31  | times | -1.43                             |

## Edgar Filing: DESC S A DE C V - Form 6-K

|    |  |        |   |       |
|----|--|--------|---|-------|
| 24 | EXTERNAL FINANCING TO CASH GENERATED (USED)<br>IN FINANCING  | 100    | % | 100   |
| 25 | INTERNAL FINANCING TO CASH GENERATED (USED)<br>IN FINANCING  | 0      | % | 0     |
| 26 | ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT<br>TO CASH GENERATED (USED) IN INVESTMENT<br>ACTIVITIES | -69.85 | % | 65.94 |

(\*\*) THESE RATIOS ARE BASED ON DATA FROM THE LAST TWELVE MONTHS

### DATA PER SHARE

| REF D | CONCEPTS  | FIRST QUARTER OF<br>PRESENT FINANCIAL YEAR<br>Amount | FIRST QUAR<br>PREVIOUS FINA<br>Amount |
|-------|---|--|---------------------------------------|
| 1     | BASIC PROFIT PER ORDINARY SHARE (**)  | -1.67  | -1.12                                 |
| 2     | BASIC PROFIT PER PREFERENT SHARE (**)   | 0  | 0                                     |
| 3     | DILUTED PROFIT PER ORDINARY SHARE (**)  | 0  | 0                                     |
| 4     | CONTINUOUS OPERATING PROFIT PER COMMON<br>SHARE (**)                                      | 0  | 0                                     |
| 5     | EFFECT OF DISCONTINUOUS OPERATING ON<br>CONTINUOUS OPERATING PROFIT PER SHARE (**)        | \$ 0.00  | \$ 0.00                               |
| 6     | EFFECT OF EXTRAORDINARY PROFIT AND LOSS ON<br>CONTINUOUS OPERATING PROFIT PER SHARE (**)  | 0  | 0                                     |
| 7     | EFFECT BY CHANGES IN ACCOUNTING POLICIES ON<br>CONTINUOUS OPERATING PROFIT PER SHARE (**) | 0  | 0                                     |
| 8     | CARRYING VALUE PER SHARE  | 4.45   | 5.67                                  |
| 9     | CASH DIVIDEND ACCUMULATED PER SHARE   | 0  | 0                                     |
| 10    | DIVIDEND IN SHARES PER SHARE  | 0  | 0                                     |
| 11    | MARKET PRICE TO CARRYING VALUE  | 3.84   | 3.66                                  |
| 12    | MARKET PRICE TO BASIC PROFIT PER ORDINARY<br>SHARE (**)                                   | 0  | 0                                     |
| 13    | MARKET PRICE TO BASIC PROFIT PER PREFERRED<br>SHARE (**)                                  | 0  | 0                                     |

(\*\*) TO CALCULATE THE DATA PER SHARE USE THE NET INCOME FOR THE LAST TWELVE MONTHS

Annex 1: [Press Release Announcing First Quarter Results\*]  
[\*Filed as an Exhibit with the Form 6-K to which this document is included]

Annex 2: Auditor Notes

### ANNEX 2

#### PRINCIPAL ACCOUNTING POLICIES

THE ACCOUNTING POLICIES FOLLOWED BY THE COMPANY ARE IN CONFORMITY WITH MEXICAN GAAP, WHICH REQUIRE MANAGEMENT TO MAKE CERTAIN ESTIMATES AND USE CERTAIN ASSUMPTIONS TO DETERMINE THE VALUATION OF SOME OF THE BALANCES INCLUDED IN THE FINANCIAL STATEMENTS AND TO MAKE THE DISCLOSURES REQUIRED FOR INCLUSION THEREIN. ALTHOUGH ACTUAL RESULTS MAY DIFFER FROM THOSE ESTIMATES, MANAGEMENT BELIEVES THAT THE ESTIMATES AND ASSUMPTIONS USED WERE APPROPRIATE IN THE CIRCUMSTANCES.

THE SIGNIFICANT ACCOUNTING POLICIES FOLLOWED BY THE COMPANY ARE AS FOLLOWS:

NEW ACCOUNTING POLICIES - IN JANUARY 2003, THE NEW BULLETIN C-9 "LIABILITIES, PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS" WENT INTO EFFECT, WHICH ESTABLISH ADDITIONAL GUIDELINES CLARIFYING THE ACCOUNTING FOR LIABILITIES, PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES, AND ESTABLISH NEW STANDARDS

## Edgar Filing: DESC S A DE C V - Form 6-K

FOR THE USE OF PRESENT VALUE TECHNIQUES TO MEASURE LIABILITIES AND ACCOUNTING FOR THE EARLY SETTLEMENT OF OBLIGATIONS.

IN JANUARY 2003, THE NEW BULLETIN C-8 "INTANGIBLE ASSETS" WENT INTO EFFECT. THIS BULLETIN ESTABLISHES THAT PROJECT DEVELOPMENT COSTS SHOULD BE CAPITALIZED IF THEY FULFILL THE CRITERIA ESTABLISHED FOR RECOGNITION ASSETS. ANY PREOPERATING COSTS INCURRED AFTER THE EFFECTIVE DATE OF THIS BULLETIN SHOULD BE RECORDED AS AN EXPENSE, UNLESS THEY MEET CERTAIN CRITERIA. THE UNAMORTIZED BALANCE OF CAPITALIZED PREOPERATING COSTS UNDER THE FORMER BULLETIN C-8 WILL CONTINUE TO BE AMORTIZED.

IN MARCH 2003, BULLETIN C-15 "IMPAIRMENT OF LONG-LIVED ASSETS AND THEIR RELATED DISPOSAL" WAS ISSUED, WHICH MUST BE APPLIED TO FINANCIAL STATEMENTS FOR PERIODS BEGINNING JANUARY 1, 2004. ALTHOUGH EARLY APPLICATION IS ENCOURAGED, THIS BULLETIN HAS BEEN APPLIED BY THE COMPANY SINCE 2003. BULLETIN C-15 ESTABLISHES, AMONG OTHER THINGS, NEW RULES FOR THE CALCULATION AND RECOGNITION OF LOSSES FROM IMPAIRMENT AND THEIR REVERSAL AND, PRIOR TO THE PRESENCE OF INDICIA OF THE DETERIORATION OF LONG-LIVED ASSETS, INTANGIBLE OR TANGIBLE ASSETS, INCLUDING GOODWILL. COMPANIES MUST TEST FOR IMPAIRMENT UNLESS THERE IS CONCLUSIVE EVIDENCE THAT THE INDICATORS OF IMPAIRMENT ARE TEMPORARY.

IN DECEMBER 2002, THE NEW BULLETIN E-1 "AGRICULTURE" WENT INTO EFFECT, WHICH IS COMPULSORY FOR FISCAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2003. BULLETIN E-1 ESTABLISHES THE RULES FOR VALUING, PRESENTING AND DISCLOSING BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCTS, WHICH INCLUDES THE ADMINISTRATION CARRIED OUT BY A RELATED PARTY WITH RESPECT TO BIOLOGICAL TRANSFORMATION OF LIVE ANIMALS OR PLANTS (BIOLOGICAL ASSETS) THAT ARE INTENDED TO BE SOLD AS AN AGRICULTURAL PRODUCT OR AS A COMPREHENSIVE PART OF A BIOLOGICAL ASSET. BULLETIN E-1 REQUIRES BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCTS TO BE VALUED AT THEIR FAIR MARKET VALUE, LESS THE ESTIMATED COSTS AT THE POINT OF SALE. BULLETIN E-1 ALSO STATES THAT WHEN THE FAIR MARKET VALUE CANNOT BE DETERMINED IN A RELIABLE AND OBJECTIVE MANNER, THE AFOREMENTIONED ASSETS SHOULD BE VALUED AT PRODUCTION COST, LESS ACCUMULATED DEPRECIATION.

IN 2001, THE NEW BULLETIN C-2 "FINANCIAL INSTRUMENTS", WENT INTO EFFECT. THIS BULLETIN ESTABLISHES THE METHODOLOGY FOR VALUING AND RECORDING FINANCIAL INSTRUMENTS, AND REQUIRES RECOGNITION OF ALL EFFECTS OF THE FINANCIAL INSTRUMENTS CONTRACTED ON THE BALANCE SHEET AS EITHER ASSETS OR LIABILITIES, UNDER NET COMPREHENSIVE FINANCIAL RESULT. THE FINANCIAL INSTRUMENTS THAT HAVE BEEN DESIGNATED AND EFFECTIVELY FUNCTION AS HEDGING OF ASSETS AND LIABILITIES OR FUTURE TRANSACTIONS WILL AFFECT THE ASSETS, LIABILITIES OR THE RESPECTIVE TRANSACTIONS WHEN THEY ARE REALIZED, SETTLED OR TAKE PLACE, RESPECTIVELY.

AS OF 2001, INTERNATIONAL ACCOUNTING STANDARD 40, "INVESTMENT PROPERTIES," ENTERED INTO EFFECT ON A SUPPLEMENTAL BASIS, ESTABLISHING VALUATION CRITERIA FOR PROPERTIES WHOSE PURPOSE IS TO GENERATE PROFITS OR INCREASE VALUE OR BOTH. PURSUANT TO CIRCULAR 55 ISSUED BY THE MEXICAN INSTITUTE OF PUBLIC ACCOUNTANTS, THE VALUATION MODEL APPLICABLE TO MEXICO IS THE COST MODEL, WHICH ESTABLISHES THAT SUCH PROPERTIES MUST BE VALUED AT ACQUISITION AND/OR CONSTRUCTION COST AND ARE RESTATED BY APPLYING THE NPCI, LESS THE RESPECTIVE ACCUMULATED DEPRECIATION.

BEGINNING JANUARY 2000, THE COMPANY ADOPTED THE PROVISIONS OF NEW BULLETIN D-4, "ACCOUNTING FOR INCOME AND ASSET TAXES AND EMPLOYEE PROFIT SHARING". THE EFFECT OF THE ADOPTION WAS TO RECOGNIZE, AN INITIAL LONG-TERM LIABILITY FOR DEFERRED INCOME TAXES AFFECTING STOCKHOLDERS' EQUITY UNDER "CUMULATIVE EFFECT OF INITIAL RECOGNITION OF DEFERRED INCOME TAXES".

AS A RESULT OF THE IMPLEMENTATION OF THE ADOPTION OF BULLETIN D-4 MENTIONED

## Edgar Filing: DESC S A DE C V - Form 6-K

ABOVE, THE COMPANY CHANGED ITS METHOD FOR RECORDING THE EFFECT FROM TAX CONSOLIDATION. UNTIL 1999, IT WAS RECORDED IN THE YEAR IN WHICH THE RESPECTIVE ANNUAL CONSOLIDATED TAX RETURN WAS FILED. BEGINNING IN 2000, THIS BENEFIT IS RECORDED IN RESULTS OF THE YEAR IN WHICH THE BENEFIT IS GENERATED.

BASIS OF CONSOLIDATION - THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THOSE OF DESC AND THE SUBSIDIARIES IN WHICH THERE IS STOCKHOLDING AND ADMINISTRATIVE CONTROL. ALL SIGNIFICANT INTERCOMPANY TRANSACTIONS AND BALANCES HAVE BEEN ELIMINATED IN THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS.

THE EQUITY IN NET INCOME (LOSS) AND CHANGES IN STOCKHOLDERS' EQUITY OF THOSE SUBSIDIARIES THAT WERE ACQUIRED OR SOLD, HAS BEEN INCLUDED IN THE FINANCIAL STATEMENTS AS OF OR UP TO THE DATE ON WHICH THE TRANSACTIONS TOOK PLACE AND WAS RESTATED IN TERMS OF THE PURCHASING POWER AS OF THE END OF THE LATEST PERIOD.

INVESTMENTS IN SHARES OF ASSOCIATED COMPANIES AND UNCONSOLIDATED SUBSIDIARIES ARE RECORDED USING THE EQUITY METHOD.

TRANSLATION OF FINANCIAL STATEMENTS OF SUBSIDIARIES - THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES, WHOSE OPERATIONS ARE NOT AN INTEGRAL PART OF THE MEXICAN COMPANIES ("FOREIGN ENTITIES"), ARE RESTATED FOR THE INFLATION RATE OF THE RESPECTIVE FOREIGN COUNTRY AND ARE TRANSLATED INTO MEXICAN PESOS AT THE EXCHANGE RATE IN EFFECT AT THE END OF THE YEAR. THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES, WHOSE OPERATIONS ARE AN INTEGRAL PART OF THE MEXICAN COMPANIES ("INTEGRATED FOREIGN OPERATIONS"), ARE TRANSLATED USING YEAR-END EXCHANGE RATES FOR MONETARY ITEMS AND HISTORICAL EXCHANGE RATES FOR NONMONETARY ITEMS, AND THE TRANSLATED FINANCIAL STATEMENTS ARE THEN RESTATED USING THE NATIONAL CONSUMER PRICE INDEX (NCPI) OF MEXICO. THE EFFECTS OF TRANSLATING FOREIGN ENTITIES ARE RECORDED DIRECTLY IN STOCKHOLDERS' EQUITY IN THE "CUMULATIVE EFFECT OF RESTATEMENT" ACCOUNT. THE EFFECTS OF TRANSLATING INTEGRATED FOREIGN OPERATIONS ARE INCLUDED IN THE "INTEGRAL FINANCING RESULT" OF THE YEAR IN THE "MONETARY POSITION GAIN" ACCOUNT. SUCH EFFECTS ARE NOT SIGNIFICANT.

3

RECOGNITION OF THE EFFECTS OF INFLATION - THE COMPANIES RESTATE ALL OF THEIR FINANCIAL STATEMENTS IN TERMS OF THE PURCHASING POWER OF THE MEXICAN PESO AS OF THE END OF THE LATEST PERIOD, THEREBY COMPREHENSIVELY RECOGNIZING THE EFFECTS OF INFLATION. THE PRIOR YEAR AMOUNTS PRESENTED HEREIN DIFFER FROM THOSE ORIGINALLY REPORTED IN TERMS OF MEXICAN PESOS OF THE RESPECTIVE YEAR. CONSEQUENTLY, ALL FINANCIAL STATEMENT AMOUNTS ARE COMPARABLE, BOTH FOR THE CURRENT AND THE PRIOR YEAR, BECAUSE ALL ARE STATED IN TERMS OF MEXICAN PESOS OF THE SAME PURCHASING POWER.

CASH EQUIVALENTS - INVESTMENTS IN MARKETABLE SECURITIES CONSIST MAINLY OF ACCEPTANCES, BANK PROMISSORY NOTES, AND PAPER ISSUED BY THE MEXICAN AND UNITED STATES OF AMERICA GOVERNMENTS, AT MARKET VALUE (COST PLUS ACCRUED INTEREST).

INVENTORIES AND COST OF SALES - INVENTORIES ARE ORIGINALLY RECORDED AT THEIR ACQUISITION OR MANUFACTURING COST AND RESTATED TO THEIR SPECIFIC NET REPLACEMENT COST WITHOUT EXCEEDING NET REALIZABLE VALUE. SUBSTANTIALLY ALL SUBSIDIARIES COMPUTE COST OF SALES USING THE REPLACEMENT COST AT THE TIME OF SALE.

LAND HELD FOR DEVELOPMENT AND REAL ESTATE PROJECTS - UNDEVELOPED LAND REPRESENTS LAND RESERVES THAT, TOGETHER WITH DEVELOPED LAND AND ONGOING AND COMPLETED PROJECTS, ARE CONSIDERED NON-CURRENT INVENTORIES, SINCE THEY ARE HELD FOR SALE. THEY INCLUDE ACQUISITION, DEVELOPMENT AND CONSTRUCTION COSTS AND ARE RESTATED IN U.S. DOLLARS BASED ON THE SLIPPAGE OF THE MARKET EXCHANGE RATE FOR THE PURPOSE OF SHOWING VALUES IN ACCORDANCE WITH THE CURRENT SITUATION OF THE REAL ESTATE MARKET.



## Edgar Filing: DESC S A DE C V - Form 6-K

THE COMPANY CAPITALIZES THE NET COMPREHENSIVE FINANCING COST ON DEBT USED TO FINANCE REAL ESTATE PROJECTS IN PROGRESS, IN ADDITION TO THEIR CONSTRUCTION AND DEVELOPMENT COSTS.

INVESTMENT IN SHARES - INVESTMENT IN SHARES HAS BEEN RECORDED USING THE EQUITY METHOD, BASED ON THE FINANCIAL STATEMENTS PREPARED ON THE SAME BASIS AS THOSE OF THE COMPANY, AND IS PRESENTED UNDER OTHER ASSETS IN THE BALANCE SHEET.

PROPERTY, PLANT AND EQUIPMENT - THIS ITEMS IS RECORDED AT ACQUISITION COST AND IS RESTATED BY USING NCPI FACTORS. FOR FOREIGN FIXED ASSETS, THEIR ACQUISITION COST IS RESTATED FOR INFLATION OF THE COUNTRY OF ORIGIN AND THE FLUCTUATION OF THE MEXICAN PESO AGAINST SUCH CURRENCY IS CONSIDERED.

4

DEPRECIATION IS CALCULATED BY THE STRAIGHT-LINE METHOD BASED ON THE REMAINING USEFUL LIVES OF THE ASSETS.

THE COMPANIES CAPITALIZE THE NET COMPREHENSIVE FINANCING COST ON DEBT USED TO FINANCE CONSTRUCTION IN PROGRESS AND THE INSTALLATION OF EQUIPMENT, UNTIL THEY ARE PLACED IN SERVICE.

IMPAIRMENT OF FIXED ASSETS - THE AMOUNTS SHOWN IN THE ACCOMPANYING CONSOLIDATED STATEMENTS OF INCOME BASICALLY REFER TO THE REDUCTION IN VALUE OF PROPERTY AND EQUIPMENT OF SOME PRODUCTION FACILITIES, IN ORDER TO REFLECT THEIR REALIZABLE VALUE IN ACCORDANCE WITH THE CURRENT SITUATION OF SUCH BUSINESSES.

GOODWILL - THE GOODWILL RESULTING FROM ACQUISITIONS MADE IN EXCESS OF BOOK VALUE IS AMORTIZED OVER PERIODS RANGING FROM FIVE TO 20 YEARS, THE TERMS OVER WHICH THE BENEFITS FROM THE INVESTMENT WILL BE REALIZED.

FINANCIAL INSTRUMENTS - FINANCIAL ASSETS AND LIABILITIES RESULTING FROM ANY TYPE OF FINANCIAL INSTRUMENT, EXCEPT FOR INVESTMENTS IN FINANCIAL INSTRUMENTS HELD TO MATURITY, ARE PRESENTED IN THE BALANCE SHEET AT FAIR VALUE. THE EFFECTS OF THE VALUATION OF A FINANCIAL ASSET OR LIABILITY ARE RECOGNIZED IN RESULTS OF OPERATIONS OF THE RESPECTIVE PERIOD. INVESTMENTS IN FINANCIAL INSTRUMENTS HELD TO MATURITY ARE VALUED AT ACQUISITION COST. THE COSTS AND YIELDS OF FINANCIAL INSTRUMENTS ARE RECOGNIZED IN RESULTS OF THE PERIOD IN WHICH THEY OCCUR.

DERIVATE FINANCIAL INSTRUMENTS - THE INTERNAL CONTROL SYSTEM ESTABLISHED BY THE COMPANY INCLUDES POLICIES AND PROCEDURES TO MANAGE ITS EXPOSURE TO FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES USING DERIVATIVE FINANCIAL INSTRUMENTS. THESE INSTRUMENTS ARE TRADED ONLY WITH AUTHORIZED INSTITUTIONS AND READING LIMITS HAVE BEEN ESTABLISHED FOR EACH INSTITUTION. THE COMPANY DOES NOT CARRY OUT TRANSACTIONS WITH DERIVATIVE FINANCIAL INSTRUMENTS FOR THE PURPOSE OF SPECULATION.

THE DERIVATIVE FINANCIAL INSTRUMENTS CURRENTLY USED BY THE COMPANY ARE PRIMARILY HEDGE CONTRACTS TO REDUCE ITS EXPOSURE TO EXCHANGE RATE FLUCTUATIONS. PREMIUMS PAID ARE AMORTIZED OVER THE TERM OF THE DERIVATIVE FINANCIAL INSTRUMENT USING THE UNPAID BALANCE OF THE LIABILITY BEING HEDGED.

5

DERIVATIVE FINANCIAL INSTRUMENTS IDENTIFIED AS HEDGES ARE VALUED BY APPLYING THE SAME VALUATION CRITERIA USED FOR THE ASSETS OR LIABILITIES HEDGED, AND THE EFFECTS OF THEIR VALUATION ARE RECOGNIZED IN RESULTS OF OPERATIONS, NET OF COSTS, EXPENSES, OR REVENUE FROM THE ASSETS OR LIABILITIES WHOSE RISKS ARE BEING HEDGED. THE FINANCIAL ASSETS OR LIABILITIES GENERATED BY THESE INSTRUMENTS ARE

## Edgar Filing: DESC S A DE C V - Form 6-K

PRESENTED IN THE BALANCE SHEET AS A REDUCTION OF THE LIABILITIES OR ASSETS WHOSE RISKS ARE BEING HEDGED.

INCOME TAX, ASSET TAX AND EMPLOYEE PROFIT SHARING - INCOME TAX (ISR) AND EMPLOYEE STATUTORY PROFIT-SHARING (PTU) ARE RECORDED IN RESULTS OF THE YEAR IN WHICH THEY ARE INCURRED. DEFERRED INCOME TAX ASSETS AND LIABILITIES ARE RECOGNIZED FOR TEMPORARY DIFFERENCES RESULTING FROM COMPARING THE BOOK AND TAX VALUES OF ASSETS AND LIABILITIES, PLUS ANY FUTURE BENEFITS FROM TAX LOSS CARRYFORWARDS DEFERRED INCOME TAX ASSETS ARE REDUCES BY ANY BENEFITS THAT, IN THE OPINION OF MANAGEMENT, WILL PROBABLY NOT BE REALIZED. DEFERRED PTU IS DERIVED FROM TEMPORARY DIFFERENCES BETWEEN THE BOOK RESULT AND INCOME FOR PTU PURPOSES AND IS RECOGNIZED ONLY WHEN IT CAN BE REASONABLY ASSUMED THAT THEY WILL GENERATE A LIABILITY OR BENEFIT, AND THERE IS NO INDICATION THAT THIS SITUATION WILL CHANGE IN SUCH A WAY THAT THE LIABILITIES WILL NOT BE PAID OR BENEFITS WILL NOT BE REALIZED.

THE ASSET TAX PAID THAT IS EXPECTED TO BE RECOVERABLE IS RECORDED AS AN ADVANCE PAYMENT OF INCOME TAX AND IS PRESENTED ON THE BALANCE SHEET WITH DEFERRED ISR.

EMPLOYEE RETIREMENT OBLIGATIONS - THE LIABILITY FROM SENIORITY PREMIUMS, PENSIONS AND RETIREMENT PAYMENTS, WHICH IS SIMILAR TO A PENSION, IS RECORDED AS ACCRUED, AND IS CALCULATED BY INDEPENDENT ACTUARIES BASED ON THE PROJECTED CREDIT UNIT METHOD, AT REAL INTEREST RATES. THEREFORE, THE LIABILITY IS BEING RECOGNIZED WHICH, AT PRESENT VALUE, IS EXPECTED TO COVER THE OBLIGATION FOR THESE BENEFITS AT THE ESTIMATED RETIREMENT DATE OF ALL THE COMPANIES' EMPLOYEES. SEVERANCE PAYMENTS ARE CHARGED TO RESULTS WHEN THEY ARE DETERMINED TO BE PAYABLE.

RESTATE STOCKHOLDERS' EQUITY - THIS ITEM CONSISTS OF MONETARY POSITION RESULT ACCUMULATED THROUGH THE FIRST RESTATEMENT OF THE FINANCIAL STATEMENTS AND THE GAIN (LOSS) FROM HOLDING MONETARY ASSETS, BECAUSE PRICE LEVELS INCREASED ABOVE (BELOW) INFLATION.

6

REVENUE RECOGNITION - REVENUES OF THE SUBSIDIARIES OF THE AUTOPARTS, CHEMICAL AND FOOD SECTORS ARE RECOGNIZED WHEN THE INVENTORIES ARE DELIVERED OR SHIPPED TO CUSTOMERS AND CUSTOMERS ASSUME RESPONSIBILITY FOR THEM.

THE REAL ESTATE SECTOR RECOGNIZES THE REVENUES AND COSTS FROM SALES OF URBANIZED PLOTS OF LAND IN RESULTS WHEN THE SALES ARE FORMALIZED AND THE DEPOSITS SECURING THE TRANSACTION ARE RECEIVED. THE INDIVIDUAL ASSIGNMENT OF THE COST OF THE LAND AND REAL ESTATE PROJECT TAKES INTO CONSIDERATION THE RELATIVE SELLING PRICE OF THE TOTAL PROJECT SO AS TO MAINTAIN THE SAME PROFIT MARGIN THROUGHOUT THE PROJECT.

REVENUES AND COSTS FROM REAL ESTATE PROJECTS ARE RECORDED ORIGINALLY AS A DEFERRED CREDIT FOR CONSTRUCTION COMMITMENTS AND AS REAL ESTATE PROJECTS IN PROCESS, AND ARE RECOGNIZED IN RESULTS BASED ON THE "PERCENTAGE OF COMPLETION" METHOD. THEREFORE, REVENUE IS MATCHED WITH COSTS INCURRED TO REACH THE STAGE OF COMPLETION TO TERMINATE THE PROJECT. IF THE LAST ESTIMATED COSTS DETERMINED EXCEED THE TOTAL REVENUES CONTRACTED, THE RESPECTIVE PROVISION IS CHARGED TO RESULTS OF THE YEAR.

INTEGRAL FINANCIAL RESULT - THIS REPRESENTS THE NET EFFECT OF INTEREST EARNED AND INCURRED, EXCHANGE GAINS AND LOSSES AND MONETARY POSITION GAIN OR LOSS ON, WHICH IS THE RESULT OF MAINTAINING MONETARY ASSETS AND LIABILITIES WHOSE REAL PURCHASING POWER IS MODIFIED BY THE EFFECTS OF INFLATION.

FOREIGN CURRENCY TRANSACTIONS ARE RECORDED AT THE EFFECTIVE EXCHANGE RATE AT THE DATE THE TRANSACTIONS ARE CARRIED OUT AND FOREIGN CURRENCY ASSETS AND

## Edgar Filing: DESC S A DE C V - Form 6-K

LIABILITIES ARE ADJUSTED TO THE EXCHANGE RATE EFFECTIVE AT YEAR-END.

INCOME PER SHARE - BASIC INCOME (LOSS) PER ORDINARY SHARE IS CALCULATED BY DIVIDING CONSOLIDATED NET INCOME (LOSS) OF MAJORITY STOCKHOLDERS BY THE WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE YEAR.

COMPREHENSIVE INCOME (LOSS) - COMPREHENSIVE INCOME (LOSS) IS COMPRISED OF THE NET CONSOLIDATED INCOME FOR THE PERIOD PLUS (LESS) ANY GAINS OR LOSSES THAT UNDER SPECIFIC ACCOUNTING REGULATIONS ARE RECORDED DIRECTLY IN STOCKHOLDERS' EQUITY, SUCH AS THE GAIN OR LOSS FROM HOLDING NONMONETARY ASSETS.

7

STOCK EXCHANGE CODE:DESC

QUARTER:1

YEAR: 2004

### Annex 3 SHARE OWNERSHIP

| COMPANY NAME                                | MAIN ACTIVITIES    | NUMBER OF<br>SHARES | OWNERSHIP |
|---|--------------------|---------------------|-----------|
| SUBSIDIARIES                                |                    |                     |           |
| BOSQUES DE LAS LOMAS, S.A. DE C.V.          | Real Estate Sector | 34,051,500          | 100.00    |
| OPERADORA NAYARIT, S.A. DE C.V.             | Real Estate Sector | 49                  | 78.00     |
| PROMOCIONES BOSQUES, S.A. DE C.V.           | Real Estate Sector | 100,402,106         | 100.00    |
| CORPORATIVO DINE, S.A. DE C.V.              | Real Estate Sector | 2,344,119,922       | 100.00    |
| HOLDING DICOMEX, S.A. DE C.V.               | Real Estate Sector | 70,870,000          | 50.00     |
| TURISTICA AKKO, S.A. DE C.V.                | Real Estate Sector | 9,998               | 100.00    |
| BOSQUES DE SANTA FE, S.A. DE C.V.           | Real Estate Sector | 1,361               | 98.00     |
| CANA DE SANTA FE, S.A. DE C.V.              | Real Estate Sector | 202,939,999         | 73.00     |
| INMOBILIARIA DINE, S.A. DE C.V.             | Real Estate Sector | 36,710,199          | 100.00    |
| CANTILES DE MITA                            | Real Estate Sector | 115,003,237         | 95.90     |
| CLUB DE GOLF PUNTA MITA, S.A. DE C.V.       | Real Estate Sector | 12,410,869          | 87.69     |
| DESC AUTOMOTRIZ, S.A. DE C.V.               | Autoparts Sector   | 700,968,215         | 100.00    |
| CORFUERTE, S.A. DE C.V.                     | Food Sector        | 872,193,685         | 95.90     |
| AGROKEN, S.A. DE C.V.                       | Food Sector        | 703,480,668         | 100.00    |
| AUTHENTIC SPECIALITY FOODS                  | Food Sector        | 316,004             | 99.93     |
| AGROBIOS CORPORATIVO                        | Food Sector        | 550,000             | 100.00    |
| CID CENTRO DE INVESTIGACION Y<br>DESARROLLO | Chemicals Sector   | 190,386,960         | 100.00    |
| DIRECCION IRSA, S.A. DE C.V.                | Chemicals Sector   | 4,201,800           | 100.00    |
| FENOQUIMIA, S.A. DE C.V.                    | Chemicals Sector   | 5,000,000           | 100.00    |
| FORESTACIONES OPERATIVAS DE MEXICO, S.A.    | Chemicals Sector   | 31,658              | 100.00    |
| GIRSA CORPORATIVO, S.A. DE C.V.             | Chemicals Sector   | 41,510,000          | 100.00    |
| GIRSA CONCENTRADORA, S.A. DE C.V.           | Chemicals Sector   | 615,124,721         | 100.00    |
| H2ORIZONTES, S.A. DE C.V.                   | Chemicals Sector   | 50,000              | 100.00    |
| QUIMIR, S.A. DE C.V.                        | Chemicals Sector   | 1,930,987           | 100.00    |
| RESIRENE, S.A. DE C.V.                      | Chemicals Sector   | 236,058,979         | 100.00    |
| TECNO INDUSTRIA RF, S.A. DE C.V.            | Chemicals Sector   | 10,675,000          | 100.00    |
| REXCEL, S.A. DE C.V.                        | Chemicals Sector   | 1,001,000           | 100.00    |
| INDUSTRIAS NEGROMEX, S.A. DE C.V.           | Chemicals Sector   | 585,833,830         | 99.99     |
| DYNASOL ELASTOMEROS, S.A. (ESPANA)          | Chemicals Sector   | 1                   | 50.00     |
| DYNASOL GESTION, S.A.                       | Chemicals Sector   | 1                   | 50.00     |
| DYNASOL, L.L.C.                             | Chemicals Sector   | 1                   | 50.00     |
| PARATEC ELASTOMERS, L.L.C.                  | Chemicals Sector   | 1                   | 100.00    |
| PLASTIGLAS DE MEXICO, S.A. DE C.V.          | Chemicals Sector   | 200,778,201         | 95.00     |
| AEROPYCSA, S.A. DE C.V.                     | Chemicals Sector   | 458,329,279         | 100.00    |
| CORPORATIVO ARCOS, S.A. DE C.V.             | Chemicals Sector   | 260,524,996         | 100.00    |

Edgar Filing: DESC S A DE C V - Form 6-K

|   |                   |             |        |
|---|-------------------|-------------|--------|
| DESC CORPORATIVO, S.A. DE C.V.              | Service Company   | 266,253,830 | 100.00 |
| BIG SOFT, S.A. DE C.V.                      | Service Company   | 8,612,508   | 100.00 |
| PACIFIC INTERNATIONAL AIRWAYS, S.A. DE C.V. | Service Company   | 244,498     | 100.00 |
| SERVICIOS CORPORATIVOS ARCOS, S.A. DE C.V.  | Service Company   | 449         | 100.00 |
| BIOQUIMEX                                   | Service Company   | 419,841,899 | 100.00 |
| OTHER SUBSIDIARIES+A78 (4)<br>Associates    | Service Companies | 1           | 100.00 |
| 1. Others                                   |                   |             |        |
| SERVICES                                    |                   | 1           | 0      |
| Other Permanent Investments                 |                   |             |        |
| Total                                       |                   |             |        |

STOCK EXCHANGE CODE:DESC

QUARTER: 1

YEAR: 2004

Annex 5

CREDITS BREAKDOWN  
(Thousands of Pesos)

| Credit Type / Institution | Amortization Date | Rate of Interest | Amortization of Credits National Entities |                  |              |              |               |   |   |
|---------------------------|-------------------|------------------|---|------------------|--------------|--------------|---------------|---|---|
|                           |                   |                  | Time Inter                                |                  |              |              |               |   |   |
|                           |                   |                  | Denominated in Pesos                      |                  |              |              |               |   |   |
|                           |                   |                  | Until 1 Year                              | More Than 1 Year | Current Year | Until 1 Year | Until 2 Years |   |   |
|                           |                   |                  | LT  | ST               | LP           |              |               |   |   |
| WITH WARRANTY             |                   |                  |   |                  |              |              |               |   |   |
| DEUTSCHE BANK             | 15-Oct-07         | 8.75000          |   |                  |              |              |               |   |   |
| Financial Institutions    |                   |                  |   |                  |              |              |               |   |   |
| IFC                       | 15-Feb-06         | 3.30000          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| IFC                       | 15-Sep-09         | 4.90000          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| IFC                       | 15-Sep-09         | 10.35000         | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| DEG                       | 28-Dec-06         | 4.12500          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| CITIBANK NA (SIND)        | 23-Jun-06         | 4.14630          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| CITIBANK NA (SIND)        | 23-Dec-08         | 4.64630          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| BBVA BANCOMER (SIND)      | 23-Dec-08         | 8.71110          | 0   | 1,222,553        | 0            | 0            | 0             | 0 | 0 |
| Various Suppliers         | 31-Dec-10         | 8.40000          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| BANCO SANTANDER MEXICANO  | 31-Jan-07         | 10.02350         | 3,261                                     | 6,513            | 0            | 0            | 0             | 0 | 0 |
| INBURSA                   | 31-Aug-04         | 12.54000         | 15,000                                    | 0                | 0            | 0            | 0             | 0 | 0 |
| INBURSA                   | 28-Feb-07         | 12.90000         | 5,000                                     | 30,000           | 0            | 0            | 0             | 0 | 0 |
| BANCO SANTANDER MEXICANO  | 31-Jan-07         | 7.79670          | 1,038                                     | 1,892            | 0            | 0            | 0             | 0 | 0 |
| BANAMEX-CITIBANK          | 16-May-08         | 8.06140          | 1,550                                     | 8,860            | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 26-Apr-04         | 2.62000          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 9-Apr-04          | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 21-Dec-04         | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 20-Apr-04         | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 7-May-04          | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 18-May-04         | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 9-Apr-04          | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| COMERICA BANK             | 20-Apr-04         | 3.21880          | 0   | 0                | 0            | 0            | 0             | 0 | 0 |
| TOTAL BANKS               |                   |                  | 25,849                                    | 1,269,818        | 0            | 0            | 0             | 0 | 0 |

Edgar Filing: DESC S A DE C V - Form 6-K

| Credit Type / Institution | Amortization of Credits in Foreign Currency with foreign entities<br>(Thousands of \$) |                 |                  |                  |                  |                  |
|---------------------------|--|-----------------|------------------|------------------|------------------|------------------|
|                           | Time Interval  |                 |                  |                  |                  |                  |
|                           | Current Year   | Until 1<br>Year | Until 2<br>Years | Until 3<br>Years | Until 4<br>Years | Until 5<br>Years |
| Banks                     | ST   | LP              |                  |                  |                  |                  |
| WITH WARRANTY             |  |                 |                  |                  |                  |                  |
| DEUTSCHE BANK             |  |                 |                  |                  | 818,924          | 0                |
| Financial Institutions    |  |                 |                  |                  |                  |                  |
| IFC                       | 8,007  | 8,007           | 16,015           |                  |                  |                  |
| IFC                       | 36,033   | 36,033          | 72,066           | 72,066           | 72,066           | 108,099          |
| IFC                       | 48,044   | 48,044          | 96,088           | 96,088           | 96,088           | 144,132          |
| DEG                       | 3,487  | 583             | 2,346            | 1,763            | 0                | 0                |
| CITIBANK NA (SIND)        | 0  | 0               | 0                | 1,121,030        | 0                | 0                |
| CITIBANK NA (SIND)        | 0  | 0               | 0                | 1,665,660        | 1,665,660        | 1,665,660        |
| BBVA BANCOMER (SIND)      | 0  | 0               | 0                | 0                | 0                | 0                |
| Various Suppliers         | 4,683  | 0               | 8,002            | 7,149            | 7,878            | 23,795           |
| BANCO SANTANDER MEXICANO  | 0  | 0               | 0                | 0                | 0                | 0                |
| INBURSA                   | 0  | 0               | 0                | 0                | 0                | 0                |
| INBURSA                   | 0  | 0               | 0                | 0                | 0                | 0                |
| BANCO SANTANDER MEXICANO  | 0  | 0               | 0                | 0                | 0                | 0                |
| BANAMEX-CITIBANK          | 0  | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 56,052   | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 4,088  | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 89,682   | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 1,432  | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 10,284   | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 5,470  | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 9,567  | 0               | 0                | 0                | 0                | 0                |
| COMERICA BANK             | 4,754  | 0               | 0                | 0                | 0                | 0                |
| TOTAL BANKS               | 281,583  | 92,667          | 194,517          | 2,963,756        | 2,660,616        | 1,941,686        |

| LISTED IN THE MEXICAN<br>STOCK EXCHANGE | Amortization<br>Date | Rate of<br>Interest | Amortization of Credits<br>Denominated in Pesos National Entities |                     |                 |                 |                  |
|---|----------------------|---------------------|---|---------------------|-----------------|-----------------|------------------|
|   |                      |                     | Time Interval   |                     |                 |                 |                  |
|   |                      |                     | Until<br>1 Year   | More Than<br>1 Year | Current<br>Year | Until<br>1 Year | Until<br>2 Years |
| UNSECURED DEBT                          |                      |                     |   |                     |                 |                 |                  |
| UDIBONOS                                | 10/21/2006           | 9.00                | 0   | 1,104,356           | 0               | 0               | 0                |
| UDIBONOS                                | 7/13/2007            | 8.20                | 0   | 1,215,367           | 0               | 0               | 0                |
|   |                      |                     | 0   | 2,319,723           | 0               | 0               | 0                |
| TOTAL STOCK EXCHANGE                    |                      |                     |   |                     |                 |                 |                  |
| SUPPLIERS                               |                      |                     | 806,907   | 0                   | 0               | 0               | 0                |

Edgar Filing: DESC S A DE C V - Form 6-K

|  |           |           |   |   |   |   |
|--|-----------|-----------|---|---|---|---|
| OTHERS   |           |           | 0 | 0 | 0 | 0 |
| TOTAL SUPPLIERS                                | 806,907   |           | 0 | 0 | 0 | 0 |
| OTHERS   | 1,567,979 |           | 0 | 0 | 0 | 0 |
| OTHER CURRENT LIABILITIES<br>AND OTHER CREDITS | 2,400,735 | 3,589,541 | 0 | 0 | 0 | 0 |

| LISTED IN THE MEXICAN<br>STOCK EXCHANGE        | Amortization of Credits in Foreign Currency with foreign entities<br>(Thousands of \$) |                 |                  |                  |                  |                  |
|--|--|-----------------|------------------|------------------|------------------|------------------|
|  | Time Interval  |                 |                  |                  |                  |                  |
|  | Current Year   | Until 1<br>Year | Until 2<br>Years | Until 3<br>Years | Until 4<br>Years | Until 5<br>Years |
| UNSECURED DEBT                                 |  |                 |                  |                  |                  |                  |
| UDIBONOS                                       | 0  | 0               | 0                | 0                | 0                | 0                |
| UDIBONOS                                       | 0  | 0               | 0                | 0                | 0                | 0                |
|  | 0  | 0               | 0                | 0                | 0                | 0                |
| TOTAL STOCK EXCHANGE                           |  |                 |                  |                  |                  |                  |
| SUPPLIERS                                      | 0  | 1,023,773       | 0                | 0                | 0                | 0                |
| OTHERS   | 0  | 0               | 0                | 0                | 0                | 0                |
| TOTAL SUPPLIERS                                | 0  | 1,023,773       | 0                | 0                | 0                | 0                |
| OTHERS   | 0  | 339,910         | 0                | 0                | 0                | 0                |
| OTHER CURRENT LIABILITIES<br>AND OTHER CREDITS | 281,583  | 1,456,350       | 194,517          | 2,963,756        | 2,660,616        | 1,941,686        |

STOCK EXCHANGE CODE:DESC

QUARTER: 1

YEAR: 2004

Annex 6

MONETARY POSITION IN FOREIGN EXCHANGE  
(Thousands of Pesos)

| TRADE BALANCE                   | DOLLARS (1)             |                       | OTHER CURRENCIES        |                       | TOTAL<br>THOUSANDS OF<br>PESOS |
|---------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|--------------------------------|
|                                 | THOUSANDS<br>OF DOLLARS | THOUSANDS<br>OF PESOS | THOUSANDS<br>OF DOLLARS | THOUSANDS<br>OF PESOS |                                |
| TOTAL ASSETS                    | 353,792                 | 3,966,117             | 0                       | 0                     | 3,966,117                      |
| LIABILITIES POSITION            | 871,174                 | 9,766,121             | 0                       | 0                     | 9,766,121                      |
| SHORT TERM LIABILITIES POSITION | 155,030                 | 1,737,933             | 0                       | 0                     | 1,737,933                      |
| LONG TERM LIABILITIES POSITION  | 716,144                 | 8,028,188             | 0                       | 0                     | 8,028,188                      |
| NET BALANCE                     | -517,382                | -5,800,004            | 0                       | 0                     | -5,800,004                     |



Edgar Filing: DESC S A DE C V - Form 6-K

| PLANT OR CENTER                              | ECONOMIC ACTIVITY                            |
|--|--|
| EJES TRACTIVOS, S.A. DE C.V.                 | REAR AXLES ASSEMBLY (PIECES)                 |
| EJES TRACTIVOS, S.A. DE C.V.                 | REAR AXLES TRACTOR LINE (PIECES)             |
| PISTONES MORESA, S.A. DE C.V. (SALTILLO)     | PISTONS (PIECES)                             |
| PISTONES MORESA, S.A. DE C.V. (CELAYA)       | PISTONS (PIECES)                             |
| MORESTANA, S.A. DE C.V.                      | TAPPETS (PIECES)                             |
| PISTONES MORESA, S.A. DE C.V.                | PISTON PINS (PIECES)                         |
| ENGRANES CONICOS, S.A. DE C.V.               | GEARS (SETS)                                 |
| PRODUCTOS ESTAMPADOS DE MEXICO, S.A. DE C.V. | STAMPED (A) (STROKES)                        |
| VELCON, S.A. DE C.V.                         | CONSTANT VELOCITY JOINTS (PIECES)            |
| TRANSMISIONES TSP, S.A DE C.V.               | TRANSMISSIONS (MEDIUM & HEAVY TRANSMISSIONS) |
| TREMEC, S.A. DE C.V.                         | TRANSMISSIONS (LIGHT TRANSMISSIONS)          |
| TREMEC, S.A. DE C.V.                         | TRANSMISSIONS (HEAVY DUTTY COMPONENTS)       |
| CARDANES, S.A. DE C.V.                       | PROPELLER SHAFTS ASSEMBLY (PIECES)           |
| CARDANES, S.A. DE C.V.                       | PROPELLER SHAFTS TRACTOR LINE (PIECES)       |
| HAYES WHEELS ACERO, S.A. DE C.V.             | STEEL WHEELS (PIECES)                        |
| AUTOMETALES, S.A. DE .CV.                    | IRON FOUNDRY (TONS)                          |
| TF VICTOR, S.A. DE C.V.                      | GASKETS, SEALS, MOTOR PARTS (PIECES)         |
| FORJAS SPICER, S.A. DE C.V.                  | PRECISION FORGES (TONS)                      |
| 1 COATZACOALCOS, VER.                        | POLYSTYRENE (TONS)                           |
| 2 XICOHTZINGO, TLAX.                         | POLYSTYRENE (TONS)                           |
| 3 ALTAMIRA, TAMPS. (DYNASOL)                 | SYNTHETIC RUBBER (TONS)                      |
| 4 ALTAMIRA, TAMPS. (INSA)                    | SYNTHETIC RUBBER (TONS)                      |
| 5 ALTAMIRA, TAMPS. (PARATEC)                 | SYNTHETIC RUBBER (TONS)                      |
| 6 COATZACOALCOS, VER.                        | PHOSPHATE (TONS)                             |
| 7 TULTITLAN, EDO. MEX.                       | PHOSPHATE (TONS)                             |
| 8 LECHERIA, EDO. MEX.                        | PHOSPHATE (TONS)                             |
| 9 ALTAMIRA, TAMPS.                           | CARBON BLACK (TONS)                          |
| 10 OCOYOACAC, EDO. MEX.                      | ACRYLIC SHEET (TONS)                         |
| 11 SAN LUIS POTOSI. S.L.P.                   | ACRYLIC SHEET (TONS)                         |
| 12 LERMA, EDO. MEX.                          | MELAMINE LAMINATES (K M2)                    |
| 13 ZITACUARO, MICH.                          | PARTICLE BOARD (K M3)                        |
| 14 LECHERIA, EDO. MEX.                       | ORTHOPHOSPHATE (TONS)                        |

MEXICAN STOCK EXCHANGE

SIFIC / ICS

STOCK EXCHANGE CODE:DESC

QUARTER: 1

YEAR: 2004

PLANTS, COMMERCE CENTERS OR DISTRIBUTION CENTERS

ANNEX 9

| PLANT OR CENTER       | ECONOMIC ACTIVITY   | PLANT CAPACITY (1) | UTILIZATION |
|-----------------------|---|--------------------|-------------|
| 1 MERIDA              | MILL (ton/month)  | 25,000             |             |
| 2 IRAPUATO            | MILL (ton/month)  | 12,000             |             |
| 3 PENINSULA           | HOG (thousands)   | 35                 |             |
| 4 MERIDA              | SLAUGHTER HOUSE   | 222                |             |
| 5 PENJAMO             | SLAUGHTER HOUSE   | 125                |             |
| 7 MOCHIS (SANTA ROSA) | FRESH TOMATO PROCESSING (TONS/DAY IN 100 DAYS)            | 3,000              |             |
| 8                     | TOMATO PRODUCTS IN TETRABRIK CONTAINER (MILLION OF CASES) | 6                  |             |
|                       | TOMATO PASTE (TONS IN 100 DAYS)                           | 44,500             |             |
| MOCHIS (LA CORONA)    | CANNED VEGETABLES (TONS)                                  | 72,567             |             |



Edgar Filing: DESC S A DE C V - Form 6-K

|                         |  |         |
|-------------------------|--|---------|
|                         | CANNED VEGETABLES (MILLIONS OF CASES)    | 7       |
| 9 MAZATLAN              | TUNA (thousands boxes)                   | 2,500   |
| OAXACA                  | COFEE (TONS/MONTH)                       | 212     |
| 10 ROSEMEAD, CALIFORNIA | SALSA & CANNED VEGETABLES (thousands lb) | 166,226 |

MEXICAN STOCK EXCHANGE  
 SIFIC / ICS  
 STOCK EXCHANGE CODE:DESC                      QUARTER: 1                      YEAR: 2004

MAIN RAW MATERIALS  
 ANNEX 10

| DOMESTIC                       | MAIN SUPPLIERS                              | FOREIGN            | MAIN SUPPLIERS      |
|--------------------------------|---|--------------------|---------------------|
| 1 LAMINATE                     | HYLSA, S. A. DE C.V.                        | STEEL              | MC STEEL            |
| 2 STEEL                        | INDUSTRIAS CH, S. A.                        | STEEL              | MITSUBISHI          |
| 3 ALUMINUM                     | NACOBRE                                     | LAMINATE           | NISHO OWAI          |
| 4 COLOR PAINTS                 | P.P.G. INDUSTRIAS DE MEXICO , S. A. DE C.V. | STEEL              | TOTH INDUSTRIES     |
| 5 LAMINATE                     | AHMSA                                       | AUTOMOTIVE PARTS   | DANA CO.            |
| 6 COLOR PAINTS                 | DUPONT DE MEXICO                            | FORGE              | GSB FORJA           |
| 7 RODAMIENTOS                  | KOYO DE MEXICO                              | LAMINATE           | DAEWOO CORP.        |
| 8 RODAMIENTOS                  | TIMKEM                                      | ALUMINUM           | REYNOLDS METAL      |
| 9 LAMINATE                     | GENERAL MOTORS                              | RODAMIENTOS        | THE TIMKEN CO.      |
| 10                             |   | FORGE              | THYSSEN PRECISION F |
| 11                             |   |                    |                     |
| 12                             |   |                    |                     |
| 13 STYRENE                     | PEMEX                                       | STYRENE            | STERLING, MITSUI    |
| 14 BUTADIEN                    |   | BUTADIEN           | SHELL, POLIMERI EUR |
| 15                             |   |                    | BP CHEMICAL, EQUIST |
| 16 METHANOL                    | PEMEX                                       | METHANOL           | SABIC, REPSOL QUIMI |
| 17 TOLUEN                      | PEMEX                                       |                    | CELANESE, PETROCEL  |
| 18                             |   |                    |                     |
| 19 NATURAL GAS                 | PEMEX                                       |                    |                     |
| 20 PHOSPHORIC ACID MERCANTILE  | RHODIA MEXICANA                             |                    |                     |
| 21 PHOSPHORIC ACID (TECHNICAL) | RHODIA MEXICANA                             |                    |                     |
| 22                             |   | ACETOCYANOHIRDRINE | BP CHEMICAL         |
| 23                             |   |                    |                     |
| 24 FRESH JALAPENO              | OWN PRODUCTION & FRESH MARKET ( VARIOUS )   |                    |                     |
| 25 FRESH TOMATO                | OWN PRODUCTION & FRESH MARKET ( VARIOUS )   |                    |                     |
| 26 FRESH TOMATILLO             | OWN PRODUCTION & FRESH MARKET ( VARIOUS )   |                    |                     |
| 27 TETRABRIK CONTAINER         | TETRAPAK                                    |                    |                     |
| 28 METALLIC CAN                | GRUPO ZAPATA                                |                    |                     |
| 29 METALLIC CAN                | ZAPATA ENVASES                              |                    |                     |
| 30 CORN OIL                    | ARANCIA CORN PRODUCTS                       |                    |                     |
| 31 SHIPPING CARTON             | CELULOSA Y CORRUGADOS                       |                    |                     |
| 32 SHIPPING CARTON             | EMPAQUE DE CARTON TITAN                     |                    |                     |
| 33                             |   | TOMATO PASTE       | MORNING STAR        |
| 34                             |   | REYNOLD'S ITEMS    | REYNOLDS            |
| 35 VARIOUS                     |   |                    |                     |
| 36 METALLIC CAN                | ENVASES DE SINALOA                          |                    |                     |
| 37 DIESEL                      | PEMEX                                       |                    |                     |
| 38                             |   | VEGETABLES         | RIO FARMS           |

Edgar Filing: DESC S A DE C V - Form 6-K

|                |     |  |                    |                   |
|----------------|-----|--|--------------------|-------------------|
| 39             |     |  | VEGETABLES         | WOOLF ENTERPRISES |
| 40             |     |  | PACKAGING MATERIAL |                   |
|                |     |  | - GLASS            | OWENS BROCKWAY    |
| 41             |     |  | PACKAGING MATERIAL |                   |
|                |     |  | - CANS             | PECHINEY PLASTIC  |
| 42 HOG GENETIC | PIC |  |                    |                   |
|                |     |  | GRAIN              | CARGILL           |

MEXICAN STOCK EXCHANGE  
SIFIC / ICS

STOCK EXCHANGE CODE:DESC                      QUARTER: 1                      YEAR: 2004

Annex 11

SALES DISTRIBUTION BY PRODUCT  
DOMESTIC SALES

| MAIN PRODUCTS                  | Total Production |        | SALES  |                  | MARKET SHARES (%) | MAIN       |           |
|--------------------------------|------------------|--------|--------|------------------|-------------------|------------|-----------|
|                                | VOLUME           | AMOUNT | VOLUME | AMOUNT           |                   | TRADEMARKS | CUSTOMERS |
| AUTOPARTS SECTOR               |                  | 0      | 0      | 705,239          |                   |            |           |
| CHEMICAL SECTOR                |                  | 0      | 0      | 1,081,410        |                   |            |           |
| FOOD SECTOR                    |                  | 0      | 0      | 714,428          |                   |            |           |
| REAL ESTATE SECTOR             |                  | 0      | 0      | 292,226          |                   |            |           |
| COMPANIES OF<br>OTHER SERVICES |                  | 0      | 0      | 5,793            |                   |            |           |
| <b>TOTAL</b>                   |                  |        |        | <b>2,799,096</b> |                   |            |           |

SALES DISTRIBUTION BY PRODUCT  
FOREIGN SALES

| MAIN PRODUCTS    | Total Production |        | SALES  |                  | MARKET SHARES (%) | MAIN       |           |
|------------------|------------------|--------|--------|------------------|-------------------|------------|-----------|
|                  | VOLUME           | AMOUNT | VOLUME | AMOUNT           |                   | TRADEMARKS | CUSTOMERS |
| AUTOPARTS SECTOR |                  | 0      | 0      | 1,470,319        |                   |            |           |
| CHEMICAL SECTOR  |                  | 0      | 0      | 784,758          |                   |            |           |
| FOOD SECTOR      |                  | 0      | 0      | 302,457          |                   |            |           |
| <b>TOTAL</b>     |                  |        |        | <b>2,557,534</b> |                   |            |           |

STOCK EXCHANGE CODE:DESC                      QUARTER: 1                      YEAR: 2004

COMPOSITION OF THE PAID SOCIAL CAPITAL STOCK  
CHARACTERISTICS OF THE SHARES

Edgar Filing: DESC S A DE C V - Form 6-K

| Series | Nominal Value | Valid Coupon | Number of Shares |                  |         |              | Capital Stock<br>(Thousands of Pesos) |          |
|--------|---------------|--------------|------------------|------------------|---------|--------------|---------------------------------------|----------|
|        |               |              | Fixed Portion    | Variable Portion | Mexican | Unrestricted | Fixed                                 | Variable |
| A      | 0.01300       | 20           | 766,462,085      |                  |         |              | 766,462,085                           | 9,964    |
| B      | 0.01300       | 20           |                  | 602,617,291      |         |              | 602,617,291                           |          |
| Total  |               |              | 766,462,085      | 602,617,291      | 0       |              | 1,369,079,376                         | 9,964    |

TOTAL NUMBER OF SHARES REPRESENTING THE PAID-IN CAPITAL STOCK ON THE DATE THE INFORMATION IS SENT: 1,369,079,376

SHARES PROPORTION BY:

CPO'S:  
 UNITS:  
 ADRS'S:  
 GDRS'S:  
 ADS'S:  
 GDS'S:

General Data of the Issuer:

Corporate Name: Desc, S.A. de C.V.  
 Address: Paseo de los Tamarindos 400-B  
 City: Bosques de las Lomas  
 Zip Code: 5120  
 State: Mexico, D.F.  
 Telephone: 52-61-80-00  
 Fax: 52-61-80-98  
 E-Mail: eloy.vega@desc.com.mx  
 Internet Address: www.desc.com.mx

Fiscal Data of the Issuer:

RFC of Company: DES9405182F1  
 Domicile: Paseo de los Tamarindos 400-B  
 City: Bosques de las Lomas  
 Zip Code: 5120  
 State: Mexico, D.F.

Responsibility for Payments:

Name: Lic. Jorge Francisco Padilla Ezeta  
 Address: Paseo de los Tamarindos 400-B  
 City: Bosques de las Lomas  
 Zip Code: 5120  
 State: Mexico, D.F.  
 Telephone: 52-61-80-00  
 Fax: 52-61-80-98  
 E-Mail: jorge.padilla@desc.com.mx

Data with respect to officers:

Mexican Stock

Exchange equivalent: Chairman of the Board of Directors  
 Title at company: Chairman and Chief Executive Officer  
 Name: Mr. Fernando Senderos Mestre  
 Address: Paseo de los Tamarindos 400-B  
 City: Bosques de las Lomas  
 Zip Code: 5120

Edgar Filing: DESC S A DE C V - Form 6-K

State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-98  
Mexican Stock  
Exchange equivalent: General Manager  
Title at company: Chief Executive Corporate Area  
Name: Ing. Juan Marco Gutierrez Wanless  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-98  
E-Mail: juan.gwanless@desc.com.mx

Mexican Stock  
Exchange equivalent: Chief Financial Officer  
Title at company: Director of Finance  
Name: Lic. Arturo D'Acosta Ruiz  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-98  
E-Mail: arturo.dacosta@desc.com.mx

Mexican Stock  
Exchange equivalent: Officer in Charge of Sending  
Quarterly Financial Information  
Title at company: Corporate Manager of Financial Information  
Name: Lic. Jorge Francisco Padilla Ezeta  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-98  
E-Mail: jorge.padilla@desc.com.mx

Mexican Stock  
Exchange equivalent: Alternate Officer in Charge of Sending  
Quarterly Financial Information  
Title at company: Corporate Comptroller  
Name: Lic. Eduardo Philibert Garza  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-96  
E-Mail: eduardo.philibert@desc.com.mx

Mexican Stock  
Exchange equivalent: Officer Responsible for Legal Affairs  
Title at company: General Counsel  
Name: Lic. Ramon Estrada Rivera  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-97  
E-Mail: ramon.estrada@desc.com.mx  
Mexican Stock

## Edgar Filing: DESC S A DE C V - Form 6-K

Exchange equivalent: Secretary of the Board of Directors  
Title at company: Secretary of the Board of Directors  
Name: C.P. Ernesto Vega Velasco

Address: Bosque de Ciruelos No. 130 Room 1203  
City: Bosques de las Lomas  
Zip Code: 11700  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-60  
E-Mail: ernesto.vega@desc.com.mx

Mexican Stock  
Exchange equivalent: Officer in Charge of Providing  
Information to Investors  
Title at company: Corporate Manager of Financial Information  
Name: Lic. Jorge Francisco Padilla Ezeta  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-97  
E-Mail: jorge.padilla@desc.com.mx

Mexican Stock  
Exchange equivalent: Officer Authorized to Send  
Information via Emisnet  
Title at company: Chief Financial Officer  
Name: Lic. Arturo D'Acosta Ruiz  
Address: Paseo de los Tamarindos 400-B  
City: Bosques de las Lomas  
Zip Code: 5120  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-98  
E-Mail: arturo.dacosta@desc.com.mx

Mexican Stock  
Exchange equivalent: Officer Authorized to Send Relevant  
Events via Emisnet  
Title at company: Secretary of the Board of Directors  
Name: C.P. Ernesto Vega Velasco  
Address: Bosque de Ciruelos No. 130 Room 1203  
City: Bosques de las Lomas  
Zip Code: 11700  
State: Mexico, D.F.  
Telephone: 52-61-80-00  
Fax: 52-61-80-60  
E-Mail: ernesto.vega@desc.com.mx

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Desc, S.A. de C.V.  
-----

(Registrant)

Edgar Filing: DESC S A DE C V - Form 6-K

Date: April 29, 2004  
-----

By /s/ Arturo D'Acosta Ruiz  
-----

(Signature)

Name: Arturo D'Acosta Ruiz  
Title: Chief Financial Officer