DESC S A DE C V
Form 20-F
June 30, 2004
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As filed with the Securities and Exchange Commission on June 30, 2004.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 1 13196

DESC, S.A. DE C.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Paseo de los Tamarindos 400-B, Bosques de las Lomas, 05120 Mexico, D.F.

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing Twenty Series B Shares(1)	**New York Stock Exchange, Inc.**
Series B Shares, without expression of par value(2)	**New York Stock Exchange, Inc.**

(1) Evidenced by American Depositary Receipts.
(2) Not for trading, but only in connection with the registration of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

8- $^{3}/_{4}$% Guaranteed Notes due 2007 of Desc, S.A. de C.V.

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.[(3)]

Series A Common Stock, without expression of par value: 587,479,900

Series B Common Stock, without expression of par value: 506,257,866

Series C Common Stock, without expression of par value: 275,341,610

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

(3) At our stockholders meetings held on March 8, 2004, our stockholders approved a mandatory conversion of all of the issued and outstanding Series C shares into Series B shares on a one-for-one basis (the Reclassification). The effective date of the Reclassification was March 16, 2004. At the effective date of the Reclassification, each Series C share was reclassified as a Series B share and each of our American Depositary Shares, which formerly represented twenty Series C shares, thereafter represented twenty Series B shares. As of May 19, 2004, the number of outstanding shares of each of the issuer s classes of capital or common stock was as follows:

Series A Common Stock:	1,166,108,597
Series B Common Stock:	1,115,690,363

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Presentation of Information

In this annual report:

Automotive Sector means the numerous companies of Desc that operate our autoparts business as more fully described in Item 4. Information on our Company Automotive ;

Chemical Sector means the numerous companies of Desc that operate our chemical business as more fully described in Item 4. Information on our Company Chemicals ;

Depositary means Citibank, N.A., as depositary, under that certain Amended and Restated Deposit Agreement, dated as of June 29, 1994, effective as of July 20, 1994, amended as of July 15, 1996, among Desc, Citibank, N.A. and all holders and beneficial owners from time to time of American Depositary Receipts (ADRs), evidencing American Depositary Shares (**ADSs**), issued thereunder. Each ADS currently represents twenty Series B shares of Desc;

Desc Automotriz means Desc Automotriz, S.A. de C.V. (formerly Unik, S.A. de C.V.), a wholly owned subsidiary of Desc engaged in the autoparts business;

Dollars and $ refer to the currency of the United States of America;

Financial Statements means Desc s audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001;

GAAP means generally accepted accounting principles in the indicated country;

LIBOR means the London interbank offered rate;

Mexico means the United Mexican States;

Mexican government means the Mexican federal government;

NCPI means the Mexican National Consumers Price Index, a measure of inflation in Mexico;

Noon Buying Rate means the noon buying rate in New York City for cable transfers in Pesos as certified for customs purposes by the U.S. Federal Reserve Bank, expressed in Pesos per $1.00;

Notes means the notes issued pursuant to that certain Indenture, dated as of October 17, 1997, among Desc (as successor to Dine, S.A. de C.V.), as issuer, Desc, as guarantor, and Deutsche Bank Trust Company Americas (as successor to Bankers Trust Company), as trustee, authorizing the creation of an issue of $150,000,000 aggregate principal amount of 8¾% Guaranteed Notes due 2007;

Pesos and Ps. refer to the currency of Mexico. Except as otherwise indicated, all Peso amounts reflect thousands of Pesos;

Real Estate Sector means the numerous companies of Desc that operate our real estate business as more fully described in Item 4. Information on our Company Real Estate ;

Food Sector means the numerous companies of Desc that operate our branded food and pork businesses as more fully described in Item 4. Information on our Company Food ;

SEC means the U.S. Securities and Exchange Commission;

TIIE means the *Tasa de Interes Interbancaria de Equilibrio* or Equilibrium Interbank Interest Rate; and

we, our, us and similar terms, as well as Desc, mean Desc, S.A. de C.V. and its consolidated subsidiaries, unless the context indicates otherwise.

Our fiscal year ends on December 31 of each year, and references to fiscal year reflect a 52-week period.

Our Financial Statements are expressed in Pesos and prepared in accordance with Mexican GAAP, which differ from U.S. GAAP in significant respects, in particular by requiring Mexican companies to recognize effects of inflation. Please see Notes 23 and 24 to our Financial Statements for a discussion of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Desc.

The Mexican Institute of Public Accountants has issued Bulletin B-10, Recognition of the Effects of Inflation on Financial Information , as amended, and Bulletin B-12, Statement of Changes in Financial Position . These bulletins outline the inflation accounting methodology mandatory for all Mexican companies reporting under Mexican GAAP. Mexican GAAP provides for the recognition of effects of inflation by restating nonmonetary assets and liabilities using the NCPI, restating the components of stockholders equity using the NCPI and recording gains or losses in purchasing power due to the holding of monetary liabilities or assets. Mexican GAAP also requires that all financial information be presented in constant Pesos, having the same purchasing power for each period indicated taking into account inflation, as of the date of the most recent balance sheet presented. The effect of these inflation accounting principles has not been reversed in the reconciliation to U.S. GAAP, as permitted by the SEC.

In this annual report, all financial data presented in Pesos for all periods in the Financial Statements, unless otherwise indicated, have been restated in constant Pesos as of December 31, 2003. Dollar amounts, unless otherwise indicated, are stated on a nominal, that is, noninflation adjusted basis, except for convenience translations of Peso amounts.

Solely for your convenience, this annual report contains translations of Peso amounts into Dollars. We have used an exchange rate of Ps. 11.1998 per Dollar for these translations, which is the exchange rate quoted by Banco de México on December 31, 2003. The Noon Buying Rate was Ps. 11.242 per $1.00 on December 31, 2003. Translations contained in this annual report do not constitute representations that the stated Peso amounts actually represent Dollar amounts or vice versa, or that amounts could be or could have been converted into Dollars or Pesos, as the case may be, at any particular rate.

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Cautionary Statement for Purposes of the Safe Harbor

Provisions of the Private Securities Litigation Reform Act of 1995

This annual report includes forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology such as estimate, project, believe, anticipate, intend, expect, plan, may, will, would, could, or should or the negative of these words or other variations of these words or other similar expre These forward-looking statements reflect the current views of our management with respect to our future financial performance and future events. All forward-looking statements contained in this annual report, including those presented with numerical specificity, however, are uncertain. They are based on assumptions and are subject to many risks and uncertainties that could cause actual results to differ materially from our expectations described in these forward-looking statements. These factors include, among other things, the following:

- changes in general political, economic and business conditions, especially an economic downturn or slow economic growth in Mexico or North America;
- Mexican political instability, including the reversal of market-oriented reforms and economic recovery measures or the failure of those reforms and measures to achieve their goals;
- fluctuations in the demand of our products or for products in which our products are incorporated;
- competitive product and pricing pressures in both the domestic and international markets;
- foreign currency rate fluctuations and fluctuations in other market rate sensitive instruments to which we are a party;
- shortages or interruptions in the supply of fuel or production materials or an increase in the cost of raw materials;
- labor strikes;
- changes in business strategy; and
- other risks and uncertainties, some of which are described under the heading Risk Factors in Item 3. Key Information.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Risks and uncertainties also include the impact of any future events with material unforeseen impacts. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. We do not undertake any obligation or intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by U.S. federal securities laws. Any forward-looking statement speaks only as of the date on which it is made.

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Statements Regarding Competitive Position

Statements made in Item 4. Information on our Company and Item 5. Operating and Financial Review and Prospects referring to our competitive position are based on our belief and, in some cases, on a range of sources, including market studies by consultants retained by Desc, independent market information provided by Mexican institutions and our internal assessment of market share based on the financial results and performance of market participants and analysis of various market indicators.

No Internet Site is Part of This Annual Report

Desc maintains an Internet site at www.desc.com.mx. Information contained in or otherwise accessible through this website is not part of this annual report. All references in this annual report to this Internet site are inactive textual references to this URL (uniform resource locator) and are for your informational purposes only.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The table below presents selected consolidated financial data of Desc for the fiscal years ended December 31, 1999, 2000, 2001, 2002 and 2003. You should read this information in conjunction with Item 5. Operating and Financial Review and Prospects and the Financial Statements included elsewhere in this annual report.

The Financial Statements have been prepared in accordance with Mexican GAAP, which differ in significant respects from U.S. GAAP, in particular by requiring Mexican companies to recognize effects of inflation. Please refer to Note 4 of our Financial Statements for a summary of our significant accounting policies and Notes 23 and 24 for a description of the principal differences between Mexican GAAP and U.S. GAAP, as they relate to Desc, and a reconciliation to U.S. GAAP of Desc s net income (loss) and stockholders equity. The effect of inflation accounting principles has not been reversed in the reconciliation to U.S. GAAP as permitted by the SEC.

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Mexico has experienced high inflation in the past, although inflation rates have declined significantly in recent years. The annual rates of inflation in Mexico, as measured by changes in the NCPI, were 12.3% in 1999, 9.0% in 2000, 4.4% in 2001, 5.7% in 2002 and 4.0% in 2003. In accordance with Mexican GAAP rules on inflation accounting, the Financial Statements recognize effects of inflation and restate data for prior periods in constant Pesos as of December 31, 2003. Accordingly, financial data for all periods in the selected consolidated financial information derived from the Financial Statements and presented below have been restated in constant Pesos as of December 31, 2003.

Selected Consolidated Financial Information

	Year ended December 31,					Convenience Translation[1]
	1999	**2000**	**2001**	**2002**	**2003**	**2003**
	(In thousands, except for net income (loss) per share/ADS and weighted average shares outstanding)					
Income statement data:						
Mexican GAAP:						
Net sales	Ps. 28,105,698	Ps. 26,209,221	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055	$ 1,942,450
Operating income	3,794,538	2,589,893	1,962,256	1,081,300	842,464	75,221
Income (loss) from continuing operations	2,977,135	484,945	802,570	(584,969)	(1,042,512)	(93,083)
Discontinued operations[2]	40,490	7,170	(253,863)	(629,868)	22,896	2,044
Extraordinary items	0	76,494	(309,998)	0	0	0
Change in accounting policy	0	143,184	0	0	(1,384,294)	(123,600)
Net consolidated income (loss) for the year	3,017,625	711,793	238,709	(1,214,837)	(2,403,910)	(214,639)
Minority interest	(797,408)	(396,391)	(193,263)	130,292	163,523	14,601
Majority net income (loss)	2,220,217	315,402	45,446	(1,084,545)	(2,240,387)	(200,038)
Income (loss) from continuing operations per share	1.28	0.05	0.39	(0.28)	(0.55)	(0.05)
Majority net income (loss) per share	1.29	0.19	0.03	(0.68)	(1.41)	(0.13)
	25.80	3.80	0.57	(13.60)	(28.20)	(2.52)

Majority net income (loss) per ADS(3)						
Dividends declared per share	0.00	0.28	0.28	0.27	0.00	0.00
Dividends declared per ADS(4)	0.00	5.71	5.68	5.34	0.00	0.00
U.S. GAAP amounts:						
Net sales	Ps. 28,106,136	Ps. 26,217,378	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055	$ 1,942,450
Operating income	3,049,434	1,646,784	1,114,764	714,757	252,289	22,526
Income (loss) from continuing operations	2,851,059	1,405,706	1,201,922	(556,175)	(617,161)	(55,105)
Income (loss) from continuing operations per share	1.66	0.85	0.76	(0.35)	(0.39)	(0.03)
Net income (loss)	1,987,251	568,335	(133,908)	(2,178,061)	(350,876)	(31,328)
Net income (loss) per share	1.16	0.34	(0.08)	(1.37)	(0.22)	(0.02)
Net income (loss) per ADS(3)	23.20	6.80	(1.68)	(27.42)	(4.42)	(0.39)
Dividends declared per share	$ 0.00	$ 0.03	$ 0.03	$ 0.03	$ 0.00	$ 0.00
Dividends declared per ADS(4)	$ 0.00	$ 0.52	$ 0.52	$ 0.52	$ 0.00	$ 0.00
Balance sheet data (at period end):						
Mexican GAAP:						
Land held for development and real estate projects in progress	4,320,700	4,288,589	4,298,869	4,290,528	3,828,312	341,820
Property, plant and equipment, net(5)	17,826,892	16,232,698	13,591,677	13,684,423	11,813,121	1,054,762
Total assets	37,072,172	36,844,058	30,215,556	30,469,705	26,734,990	2,387,095
Capital stock	11,601,797	11,715,854	11,715,914	11,715,914	11,715,914	1,046,082
Total stockholders equity	20,091,687	19,008,219	13,185,322	11,825,483	9,906,217	884,499
U.S. GAAP amounts:						
Property, plant and equipment, net(5)	Ps. 19,025,631	Ps. 17,538,468	Ps. 15,576,958	Ps. 14,825,512	Ps. 12,587,136	$ 1,123,871
Total assets	39,167,685	39,302,114	33,754,755	31,328,603	27,904,759	2,491,540
	12,194,283	10,835,058	9,963,556	6,963,498	6,561,428	585,852

Stockholders equity						
Other data:						
Dividends declared	0	470,242	448,185	428,936	0	0
Dividends declared to minority interest	0	51,244	402,055	121,073	0	0
Weighted average shares outstanding	1,709,341	1,637,734	1,588,614	1,588,687	1,588,687	1,588,687
Net sales under Mexican GAAP:						
Automotive Sector	Ps. 12,148,024	Ps. 12,225,417	Ps. 10,157,225	Ps. 8,731,810	Ps. 7,820,304	$ 698,254
Chemical Sector	8,064,429	8,718,730	7,334,118	7,211,861	7,868,456	702,553
Food Sector	6,853,662	4,102,740	3,693,349	3,581,989	3,883,594	346,756
Real Estate Sector	1,005,603	1,142,385	887,107	799,283	1,968,953	175,802
Desc	33,980	19,949	21,073	35,437	213.748	19.085
Total	Ps. 28,105,698	Ps. 26,209,221	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055	$ 1,942,450

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Selected Consolidated Financial Information

	Year ended December 31,					Convenience Translation(1)
	1999	2000	2001	2002	2003	2003
			(In thousands)			
Operating income under Mexican GAAP:						
Automotive Sector	Ps. 1,957,847	Ps. 1,798,255	Ps. 1,144,371	Ps. 644,084	Ps. 226,670	$ 20,239
Chemical Sector	1,070,107	628,479	549,791	341,415	202,924	18,119
Food Sector	464,856	45,458	174,927	102,380	123,985	11,070
Real Estate Sector	354,341	177,812	159,438	84,913	412,329	36,816
Desc	(52,613)	(60,111)	(66,271)	(91,492)	(123,444)	(11,023)
Total	Ps. 3,794,538	Ps. 2,589,893	Ps. 1,962,256	Ps. 1,081,300	Ps. 842,464	$ 75,221

(1) Dollar amounts shown in the Financial Statements have been included solely for the convenience of the reader and are translated from Pesos, as a matter of arithmetic computation only, at the exchange rate quoted by Banco de Mexico for December 31, 2003 of 11.1998 Pesos per Dollar. Such translation should not be interpreted as a representation that the Peso amounts have been, could have been, or could in the future be, translated into Dollars at this or any other exchange rate.

(2) During the second half of 2002, we discontinued the following non-strategic businesses: spark plugs and electrical parts (Automotive Sector), natural pigments business (Chemical Sector) and our pork production operations in the Bajio region (Food Sector).

(3) Calculated as if the applicable number of outstanding shares plus the increase in shares resulting from the increase in capital stock in 2004 (see discussion below in Item 8. Significant Changes) were all represented by ADSs at a ratio of 20 weighted average shares outstanding per ADS.

(4) Dividends per ADS was calculated by dividing the total dividends by the weighted average number of shares outstanding during the period plus the increase in shares resulting from the increase in capital stock in 2004 and multiplying the amount by 20. See discussion regarding dividends in Item 5. Operating and Financial Review and Prospects Liquidity .

(5) Includes investment properties, net.

Exchange Rates

The table below lists, for the periods indicated, the period-end, average, high and low Noon Buying Rate for the purchase and sale of Dollars, presented in each case as the average between the purchase and sale rates, expressed in Pesos per Dollar. The rates have not been restated in constant currency units.

	Noon Buying Rate			
	High	Low	Average(1)	Period End
Year Ended December 31,				

1999	10.60	9.24	9.56	9.48
2000	10.09	9.18	9.47	9.62
2001	9.97	8.95	9.33	9.16
2002	10.43	9.00	9.66	10.43
2003	11.41	10.11	10.80	11.24
Most Recent 6 months:				
December 2003	11.41	11.17	11.25	11.24
January 2004	11.10	10.81	10.92	11.01
February 2004	11.25	10.91	11.03	11.06
March 2004	11.23	10.92	11.02	11.18
April 2004	11.43	11.16	11.27	11.40
May 2004	11.64	11.38	11.52	11.41

(1) Average of month-end rates.

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On June 29, 2004, the Noon Buying Rate was Ps.11.525 to $1.00.

During 1997 and 1998, the foreign exchange markets were affected significantly by the financial crises in Asia and Russia and financial turmoil in various other countries, including Brazil and Venezuela. Fluctuations in the exchange rate between the Peso and the Dollar will affect the market price of the ADSs traded on the NYSE. To the extent that Desc pays cash dividends and other cash distributions (including the net proceeds from any sale of securities, property or rights distributed to the owners of Series B shares) denominated in Pesos, the Depositary must convert or cause to be converted, as soon as possible, such amounts into Dollars, to the extent that the Depositary, in its judgment, can do so on a reasonable basis and in accordance with applicable law. As a result, any exchange rate fluctuations will affect the Dollar amounts received by the holders of the ADSs upon conversion of any such Peso-denominated dividend payment or distribution.

Historically, the Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos to Dollars, and the terms of the North American Free Trade Agreement, to which Mexico is a signatory, generally prohibit exchange controls, no assurance can be given that the Mexican government will not institute a restrictive exchange control policy in the future. Furthermore, there can be no assurance that the Peso will not experience a significant depreciation or appreciation in the future.

Please refer to Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures About Market Risk, if you would like to read about the effect exchange rate fluctuations has on our business and our operations. In that section, you can also find a discussion of the hedging techniques we use to manage our exposure to exchange rate fluctuations.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We are subject to various risks resulting from changing economic, political, social, industry, business and financial conditions, particularly in Mexico and North America. The principal risks are described below. If we do not successfully address any of the risks described below, we could experience a material adverse effect on our business, operating results and financial condition and the price of Desc s shares, ADSs, and Notes may decline. We cannot assure you that we will successfully address all of these risks.

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Risk Factors Relating to Our Operations

Restrictive covenants in our outstanding debt instruments may reduce our operating and financial flexibility

Certain of our outstanding debt instruments contain various restrictive covenants that impose significant operating and financial limitations on us including, but not limited to, restrictions on our ability to: (i) incur additional debt; (ii) pay dividends and make restricted payments; (iii) create liens; (iv) use the proceeds from sales of assets and subsidiary stock; (v) incur capital expenditures; (vi) enter into sale and leaseback transactions; (vii) enter into transactions with affiliates; and (viii) enter into certain mergers, consolidations and transfers of all or substantially all of our assets. Our failure to comply with the covenants contained in our outstanding debt instruments could result in an event of default, which could materially and adversely affect our operating results and our financial condition.

We depend upon our subsidiaries for cash to meet our obligations

We are structured as a holding company that operates through more than 90 direct and indirect subsidiaries. Accordingly, we rely upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of dividends, interest payments or otherwise to pay our debt, operating, financing and investing obligations. The ability of our subsidiaries to pay dividends is subject to Mexican legal requirements, which provide that a corporation may declare and pay dividends only out of the profits reflected in the year-end financial statements that are approved by its stockholders. If such payment is approved by a subsidiary s stockholders, then dividends may be paid only after the creation of a required legal reserve and the set-off or satisfaction of losses, if any, incurred by such subsidiary in previous fiscal years. In addition dividends and other payments by some of our direct and indirect subsidiaries are shared with substantial minority stockholders of some of those subsidiaries. Therefore, our cash flows could be affected if we do not receive dividends or other payments from our subsidiaries.

We face risks related to fluctuations in interest rates

We are exposed to fluctuations in interest rates. As of year-end 2003, approximately Ps. 8,260 million, or 72%, of our long-term borrowings bear interest on a floating basis. Accordingly, changes in interest rates can affect the cost of these interest-bearing borrowings. As a result, our financial condition, results of operations and liquidity could be materially adversely affected. Our attempts to mitigate interest rate risk by financing long-term liabilities with fixed interest rates and our use of derivative financial instruments, such as interest rate swaps, to manage our risk could result in our failure to realize savings if interest rates fall. For additional information, please see Item 11. Quantitative and Qualitative Disclosures about Market Risk .

Inability to renew joint ventures, technological assistance or licensing agreements may affect our competitive position and revenues

Some of our subsidiaries conduct all or a portion of their businesses through joint ventures or technological alliances with Mexican and non-Mexican partners. Certain of our partners and other Mexican and non-Mexican companies also license technology and other intellectual property (e.g., trade names) to our subsidiaries for use in the manufacture and sale of various products, including autoparts and carbon black. We believe that these ventures, alliances and license arrangements provide us access to advanced technologies and competitive advantages. However, we cannot assure you that in the future any of these partners will not prefer to conduct business directly in Mexico and terminate their relationships with us mainly in light of opportunities created by the North American Free Trade Agreement or for other reasons. In addition, we cannot assure you that we will be successful in renewing any of our technology,

licenses, joint ventures or other agreements or arrangements upon their expiration, in renewing these agreements or arrangements on terms as favorable as the present ones, in forming similar alliances with other partners or in developing equivalent technologies independently.

Compliance with governmental laws and regulations could result in added expenditures or liabilities

Our businesses are subject to extensive Mexican and U.S. federal, state, local and foreign laws, regulations, rules and ordinances concerning, among other things, emissions to the air, discharges and releases to land and water, the generation, handling, storage, transportation, treatment and disposal of wastes and other materials and the remediation of environmental pollution caused by releases of wastes and other materials (collectively, **Environmental Laws**). The operation of any manufacturing plant and the distribution of chemical products entail risks under Environmental Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that significant costs or liabilities will not be incurred with respect to our operations and activities.

We are also subject to extensive governmental regulation from both domestic and U.S. governmental entities concerning our competitive and marketplace conduct, as well as the health, safety and working conditions of our employees.

The Food Sector is subject to extensive governmental regulation from both domestic and U.S. governmental entities concerning, among other things, product composition, packaging, labeling, advertisement and the safety of its products.

From time to time, additional legislative initiatives may be introduced that may affect our operations and the conduct of our businesses, and we cannot provide assurance that the cost of complying with these initiatives or that the effects of these initiatives will not have a material adverse effect on our profitability or financial condition in the future. In addition, we have no basis for predicting what effect, if any, stricter enforcement of existing laws and regulations would have on our results of operations, cash flows or financial condition.

Risks Relating to Our Automotive Sector

The automotive industry is highly cyclical and could adversely affect our revenues and results of operations

Our Automotive Sector is directly affected by domestic and foreign automotive production and sales, in particular with respect to our principal clients. Automotive production and sales are highly cyclical and impacted by, among others, the strength of the general economic conditions, interest rates, money supply and consumer confidence. The largest U.S. and foreign automobile manufacturers were affected by the slow growth of the U.S. economy and the success of their marketing plans to promote sales, and therefore, have reduced, delayed or refocused their output, which has adversely affected our Automotive Sector, as well as the automotive parts industry in Mexico. We cannot predict when the U.S. economy will totally recover or whether a recovery will result in increased sales or profit margins.

Increase in steel prices could affect our production and results of operations

During 2003 and the first half of 2004, steel prices increased significantly. We cannot assure you that if steel prices increase or persist Desc will not experience increased costs or disruptions in supply over the remainder of the year or for a longer term, or that such increased costs will not adversely impact earnings.

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We are dependent on a small group of principal customers and the sales of certain products and the loss of these customers could affect our revenues and results of operations

Our largest customers in our Automotive Sector are General Motors, Ford, Dana, Renault-Nissan and Volkswagen. In 2003, these customers represented 55% of our total autoparts sales, of which General Motors accounted for 20%, Ford for 14%, Dana for 10%, Renault-Nissan for 6% and Volkswagen for 5%. Aggregated sales to Original Equipment Manufacturers (**OEMs**) represented 81% of our total sales, of which 19% was for aftermarket products. If we lost any significant portion of our sales to any of these customers, it would adversely affect our business and operating results.

In 2003, a significant percentage of our sales was derived from the following products: transmissions (31%), constant velocity joints (15%), propeller shafts (12%), rear and front traction axles (12%), valve lifters, pistons and piston pins (6%), stamped metal products (5%), gears (5%) and steel wheels (5%). A significant decrease or change in product mix of such sales could also adversely affect our business and operating results.

The OEM supplier industry is highly competitive, which could affect our net sales and operating expenses

The automotive industry is characterized by a small number of OEMs that are able to exert considerable pressure on automotive parts suppliers to reduce prices, improve quality and provide additional design and engineering capabilities. We cannot assure you that our business will not be adversely affected by increased competition in the markets in which we operate.

Labor relations may affect our revenues and results of operations

We consider our relations with our employees and their union representatives to be on good terms, but cannot assure you that future contract negotiations with union representatives will be favorable to us or that a change in the nature of these relationships will not result in labor interruptions, or that work stoppages or other labor unrest will not occur in the ordinary course of these relationships.

Risks Relating to Our Chemical Sector

We are involved in governmental investigations and litigation

In 2003, our former subsidiary Girsa, S.A. de C.V. s joint venture partner, Uniroyal Chemical Company, Inc. (**Uniroyal**), in our currently wholly owned subsidiary, ParaTec Elastomers, L.L.C. (**ParaTec**), and Uniroyal s parent Crompton Corporation (**Crompton**) were implicated in an investigation by United States, Canadian and European authorities concerning alleged price fixing and anticompetitive activity in the nitrile butadiene rubber (**NBR**) and other elastomer and rubber chemical markets. In September 2003, ParaTec was accepted, as part of Crompton s application, into the Corporate Leniency Program of the U.S. Department of Justice (**DOJ**) and received a letter of conditional amnesty with respect to allegations of price fixing. As a condition of the amnesty, ParaTec and its representatives are required to cooperate in the ongoing investigation of the NBR industry and pay restitution to any person or entity injured as a result of the alleged anticompetitive activity in which

ParaTec may have been a participant. So long as ParaTec observes the conditions of the letter, the DOJ will not bring a criminal prosecution against it. The conditional amnesty granted by the DOJ does not exempt ParaTec from possible civil lawsuits that any direct or indirect NBR purchaser may file, seeking damages incurred as a consequence of the alleged anticompetitive activity.

Last January, Canada s Attorney General and Commissioner of Competition granted ParaTec a provisional guarantee of immunity from prosecution under Canada s Competition Act. The immunity is conditional on ParaTec providing the Competition Bureau and the Attorney General information and evidence in connection with the Commissioner s inquiry into the NBR industry.

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A similar investigation based on the same allegations is still pending in the European Union. Crompton did not include ParaTec in its application for conditional amnesty in the EU, which application, according to Crompton, was allowed. ParaTec is attempting on its own to obtain conditional amnesty in that jurisdiction as well, however a final resolution of this matter is still pending.

In December of 2003, a federal antitrust class action suit was commenced in federal court in Pennsylvania by Diamond Holding Corporation, on behalf of itself and other direct purchasers of NBR, against ParaTec, the parent holding company Desc and other sellers of NBR, including Uniroyal and its parent Crompton. The action seeks treble damages for alleged damages incurred as a result of the alleged price fixing scheme. Desc has filed a motion to dismiss all claims against it on the basis that, among other grounds, Desc is not adequately alleged to be a member of the alleged combination or conspiracy. ParaTec intends to defend both as to liability and damages, and as to damages will vigorously assert that if and to the extent there was any improper activity, that activity had no substantial impact on prices. ParaTec has also filed several crossclaims against Crompton and Uniroyal, which was the majority shareholder of ParaTec during most of the class period, seeking full indemnification, on the basis of certain contractual and non-contractual claims, for any losses that ParaTec may incur as a result of the suit, as well as injunctive relief, punitive damages, attorneys fees and costs and expenses. In the event that Desc s motion to dismiss is unsuccessful, Desc will assert a similar crossclaim.

Desc and ParaTec are also named defendants in a state court civil case commenced in Superior Court of California by Competition Collision Center L.L.C., on behalf of itself and other indirect purchasers of NBR in California. Plaintiffs seek treble damages for alleged price fixing and unfair competition in violation of California law. Desc and ParaTec intend to respond similarly in this action as they did in the federal action, except Desc may also move to dismiss for lack of personal jurisdiction in this state case.

As of this date, the contingencies related to this matter, including any amounts that ultimately be paid in judgement or settlement by Desc and or ParaTec, together with the projected legal fees and expenses, can not be quantified. Any claims against us and any future claims could have an adverse impact on our financial condition, cash flows or results of operations.

Our chemicals business is cyclical and may be adversely affected by events and conditions beyond our control

The chemicals industry is a highly cyclical business. Ethylene- and benzene- derivative products, such as petrochemicals, are heavily impacted by the business cycles of the chemicals industry. Our chemicals business may also be affected by other events or conditions that are beyond our control, including changes or developments in domestic or foreign economic markets, increases in natural gas prices or the cost of raw materials, competition from other chemicals manufacturers, changes in the availability or supply of chemical products generally, and unanticipated downtime of plants. These external factors may cause fluctuations in the demand for our chemical products and fluctuations in our prices and our margins, which may adversely affect our financial results, income and cash flow.

The principal raw materials used in our chemicals business (such as styrene monomer, butadiene and natural gas) are subject to substantial price fluctuations, which may adversely affect the financial results of our Chemical Sector.

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We are dependent on a small group of principal customers in some of our chemicals businesses and the loss of these customers could affect our revenues and results of operations

Our largest customers in our synthetic rubber business are tire manufacturing facilities, in our phosphates business are Procter & Gamble and Fabrica de Jabon La Corona and in our polystyrene business are Plasticos Bosco (Vitro) and Jaguar Group. The 10 major customers of the Chemical Sector accounted for 36% of the Chemical Sector s total sales in 2003. If we lost any significant portion of our sales to any of these customers, it would adversely affect our business and operating results.

We rely on one supplier to provide all our phosphoric acid requirements

The principal raw material needed for the production of phosphate is phosphoric acid. Currently, Rhodia de México, S.A. de C.V. supplies all of our phosphoric acid on competitive terms. If Rhodia de México, S.A. de C.V. were unable to supply this raw material, we believe we could secure alternative suppliers, but it may result in increased raw material costs. In addition, Rhodia de México, S.A. de C.V. was recently sold to another company, and although we continue to have a good relationship with Rhodia, we cannot assure you that the change in ownership will not affect our commercial relationship with Rhodia in the future.

Risks Relating to Our Food Sector

Competition in the food industry may affect our operations

The food industry is highly competitive. We compete with companies that have greater capital resources, research and development staffs, facilities, diversity of product lines and brand recognition. Increased competition as to any of our products could result in reduced prices, which would reduce our sales and profit margins. In addition, our competitors may also prove to be more successful in marketing and selling their products than we are with ours.

Dependence upon food retailers may adversely affect our sales and margins

With the growing trend towards consolidation of food distributors and retailers in Mexico and United States, we are increasingly dependent upon large food retailers (such as Wal-Mart) whose bargaining strength is growing. As a result, we may be negatively affected by changes in the policies of such customers, such as limitations on access to shelf space, payment terms and other conditions, which may adversely affect our sales and margins.

Price increases and shortages of food raw materials could adversely affect our results of operations

Our results of operations may be affected by the availability and pricing of raw materials, principally materials needed to produce our food products (such as tomatoes, tuna and hot peppers) or used in our pork production operations (such as grains, corn, sorghum and soy). Factors such as changes in the global or regional levels of supply and demand, weather conditions and government controls could substantially impact the price of food raw materials. A substantial increase in the raw material prices of our Food Sector (if not passed on to customers through price increases) or a continued interruption in supply could have a material adverse effect on our financial condition and results of operations.

Outbreaks of disease can adversely affect our revenues and operating margins

The productivity and profitability of any pork operation depends, to a great extent, on the ability to maintain animal health and control disease. Disease can reduce the number of offspring weaned per sow and hamper the growth of pigs to finished size. Diseases can be spread from other infected pigs, in feed, in trucks, by rodents or birds, by people visiting the farms or through the air. We have experienced outbreaks of certain diseases in the past, and may in the future, including Porcine Reproductive and Respiratory Syndrome (PRRS), a respiratory disease commonly affecting swine herds.

The prices of our pork products may decline as a result of lower-priced U.S. pork imports

In May 2002, the U.S. Farm Security and Rural Investment Act of 2002 (the **Farm Bill**) was enacted into law, which, among other things, grants subsidies to U.S. pork producers. As a result of these subsidies, and their over-production, U.S. pork producers have been exporting pork to Mexico at prices below Mexican market prices.

Risks Relating to Our Real Estate Sector

The value of our real estate investments is subject to factors and conditions outside of our control

Our revenue from real estate operations is affected by many factors outside of our control, including the granting of governmental permits related to the supply of water, ecology, land use and construction, the overall economic conditions in Mexico and the conditions of the Mexican and the United States real estate sector. Our real estate business would be adversely affected if these external factors reduced demand for our properties or resulted in increased costs, which we were not able to reflect in the price of our projects.

Risks Relating to Our Controlling Stockholder and Capital Structure

Certain members of the Senderos family effectively control our management and their interests may differ from those of other security holders

As of May 19, 2004, Fernando Senderos Mestre, our chairman and chief executive officer, and his immediate family approximately own (beneficially or of record) 59.2% of our Series A shares and 8.8% of our Series B shares. As a result of the shares owned by the Senderos family together with additional shares as to which Fernando Senderos Mestre exercises voting control (see Item 6. Compensation of Directors and Officers for information about these additional shares), the Senderos family has the power to elect a majority of our board of directors, to control the general management of Desc and to determine the outcome of substantially all matters requiring stockholder approval, including the payment of dividends.

Future sales of our shares by the controlling stockholder may affect the stock prices of our securities

Sales of Desc shares held by the Senderos family may adversely affect the trading price of the Series A and Series B shares traded on the Bolsa Mexicana de Valores, S.A. de C.V. (the **Mexican Stock Exchange**) and the price of the ADSs traded on the New York Stock Exchange (**NYSE**). The Senderos family is not subject to any contractual restrictions that limit their right to dispose of their Series A and Series B shares.

Exchange rate fluctuations may affect the value of our securities

Fluctuations in the exchange rate between the Peso and the Dollar will affect the Dollar value of an investment in our equity securities and of dividend and other distribution payments on those securities. See above under the heading   Exchange Rates.

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The market for the ADSs and the Series B shares is limited

The Series B shares are listed on the Mexican Stock Exchange, which is Mexico s only stock exchange. There is no public market outside of Mexico for the Series B shares. The ADSs are listed on the NYSE. The Mexican securities market is not as large or as active as securities markets in the United States and certain other developed market economies. As a result, the Mexican securities market has experienced less liquidity and more volatility than has been experienced in such other markets. These market characteristics may limit the ability of a holder of ADSs to sell the underlying Series B shares and may also affect the market price of the Series B shares and the ADSs.

Desc is subject to different corporate disclosure and accounting standards than U.S. companies

As a listed company, we are required to provide annual audited and quarterly unaudited financial information to the Mexican Stock Exchange and the *Comisión Nacional Bancaria y de Valores* (the National Banking and Securities Commission or the **CNBV**) and to file certain information with the SEC pursuant to U.S. law. However, you may not be able to obtain as much publicly available information about foreign issuers of securities traded in the United States as is regularly published by or about U.S. issuers of publicly traded securities.

Mexican companies must prepare their financial statements in accordance with Mexican GAAP. Mexican GAAP differs in significant respects from U.S. GAAP, including, but not limited to, the treatment of capitalized interest, deferred income taxes, deferred employee profit sharing, minority interest, amortization of negative goodwill and fixed asset valuations. In particular, all Mexican companies must incorporate the effects of inflation directly in their accounting records and in financial statements. The effects of inflation accounting under Mexican GAAP are not eliminated in a reconciliation to U.S. GAAP, as permitted by the SEC. For this and other reasons, the presentation of Mexican financial statements and reported earnings may differ from that of U.S. companies. See Notes 23 and 24 to the Financial Statements.

Holders of ADSs are not entitled to attend stockholders meetings, and they may only vote through the Depositary

Under our ByLaws, our stockholders must deposit their shares with our secretary or with a Mexican custodian in order to attend our stockholders meetings. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend our stockholders meetings. Our ADS holders also will not be permitted to vote their ADSs directly at our stockholders meetings or to appoint a proxy to do so. Rather, our ADS holders are entitled to instruct the Depositary as to how to vote their Series B shares represented by the ADS in accordance with the procedures provided in the deposit agreement with respect to the ADSs.

You may not be entitled to participate in any future preemptive rights offering, which may result in a dilution of your equity interest in Desc

Under Mexican law, if we issue new shares for cash as a part of a capital increase, we generally must grant our stockholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in Desc. Rights to purchase shares in these circumstances are commonly referred to as preemptive rights. We may not be legally permitted to allow holders of ADSs in the United States to exercise preemptive rights in any future capital increase unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration

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statement with the SEC, as well as the benefits of preemptive rights to holders of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We cannot make any assurances that we will file a registration statement with the SEC to allow holders of ADSs in the United States to participate in a preemptive rights offering or that an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended will be available. As a result, the equity interests of holders of ADSs would be diluted to the extent that ADS holders cannot participate in a preemptive rights offering.

Minority stockholder protections in Mexico are different from those in the United States

Under Mexican law, the protections provided to minority stockholders are different from those in the United States. Specifically, the law respecting fiduciary duties of directors is not well developed, there is no procedure for class actions or stockholder derivative actions and the procedural requirements for bringing stockholder lawsuits are different. Therefore, it may be more difficult for minority stockholders to enforce their rights against us, our directors or our controlling stockholders than it would be for minority stockholders to do so in the United States.

Risks Relating to Mexico

Economic developments in Mexico may adversely affect our business

Desc is a Mexican company and most of its assets are located in Mexico, including its manufacturing facilities. Therefore, the financial situation, operational results, the prospects and the capacity to pay its debt, may be affected by different factors, including inflation, interest rates, currency fluctuations, social instability, changes in legal and other political or economic events that occur in Mexico or that affect Mexico, over which we have no control.

Political Events in Mexico may adversely affect our business

Political events in Mexico may also significantly impact our operations. Vicente Fox of the *Partido Acción Nacional* (the National Action Party) or **PAN** , won the presidency in the Mexican national elections held on July 2, 2000. Although his victory ended over 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party) or **PRI** , neither the PRI nor the PAN succeeded in securing a majority in the Mexican congress. In addition, the PAN lost additional seats in the Mexican congress and state governorships in the 2003 elections. This political landscape has resulted in a legislative gridlock that has impeded the progress of reforms in Mexico, which may adversely affect economic conditions in Mexico or our financial condition. There will be an election for governors in ten of 32 states and for local congresses in 14 states in 2004.

We are subject to currency exchange rate fluctuations

We generate revenues primarily in Pesos and Dollars and, to a lesser extent, in Euros. As a result, we are exposed to foreign currency exchange rate risk because the mix of currencies in which our costs are denominated are different from the mix of currencies in which we earn revenues. As an example, the majority of our equipment purchases are in Dollars and, as of May 2004, 67% of our indebtedness was in Dollars and 33% was in Pesos (and we may incur additional non-Peso denominated debt) and most of our costs in the synthetic rubber business in Spain are in Euros while sales are in Dollars. Consequently, declines in the value of the Peso relative to other currencies may increase our costs and result in foreign exchange losses, which may adversely affect our results of operation and cash flow.

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An increase in inflation may adversely affect our financial condition and results of operation

In the past, inflation in Mexico has led to higher interest rates, depreciations of the Peso and substantial government controls over exchange rates and prices, which at times adversely affected our operating revenues and margins. High rates of inflation relative to the rate of depreciation of the Peso against the Dollar reduce our operating margins in business segments where some costs are denominated in Pesos while sales are denominated in Dollars, such as autoparts. The annual rates of inflation, as measured by changes in the NCPI, were 4.4%, 5.7%, and 4.0% for the years, 2001, 2002, and 2003, respectively. We cannot assure you that Mexico will not experience high inflation in the future.

Developments in other markets may affect our business or the market price of our securities

The market value of Mexican company securities might be affected by economic and market conditions in the U.S., or in other emerging markets. Although economic conditions in such countries may differ significantly from economic conditions in Mexico, investors reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. During the second half of 1998, prices of Mexican securities were adversely affected by the economic crises in Russia and Brazil. A serious deterioration in the political and economic climate in Argentina occurred in December 2001, including high inflation levels and the rapid depreciation of the Argentine peso against the Dollar (which did not have the same affect on Mexico as previous emerging market country crises). The slowdown in the American economy, the war in Middle East, and the terrorist attacks, affected the markets in 2002. We can make no assurance that the market value of our securities would not be adversely affected by events elsewhere, especially in emerging markets.

Item 4. Information on our Company

A. History and Development of Our Company

Desc is a corporation (*sociedad anónima de capital variable*) organized under the laws of Mexico. It was incorporated in 1973 under the name Desc, Sociedad de Fomento Industrial, S.A. de C.V. On April 28, 1994, we changed our name to Desc, S.A. de C.V. Desc s duration is 99 years from the date of its incorporation.

Our executive offices are located at Paseo de los Tamarindos 400-B, 27th Floor, Bosques de las Lomas, 05120 Mexico, D.F., Mexico, our telephone number at that address is (5255) 5261-8000.

Desc s agent for service for actions brought by the SEC pursuant to the requirements of U.S. federal securities laws is CT Corporation System, which is located at 111 Eighth Avenue, 13th Floor, New York, NY 10011.

See Restructuring of our Business Portfolios in Item 5 for additional information regarding the divestiture of certain of our businesses.

Principal Capital Expenditures and Divestitures

The table below lists our capital expenditures and other investments by business segment for the periods shown. Capital expenditures and other investments may include investments in or acquisitions of assets or the capital stock of existing businesses. A more-detailed explanation of Desc s principal capital expenditures and divestitures and the restrictions on our capital expenditures is described under each of the business segments below and in Item 5. Operating and Financial Review and Prospects *Credit Facilities* and *Capital Expenditures*.

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	Year ended December 31,		
	2001	2002	2003
		(In millions)	
Automotive Sector	Ps. 333.1	Ps. 777.0	Ps. 556.8
Chemical Sector	261.2	278.9	159.2
Food Sector	185.4	31.3	80.0
Real Estate Sector (1)	2.8	25.0	2.5
Desc	2.7	5.2	4.1
Total	Ps. 785.2	Ps. 1,117.4	Ps. 802.6

(1) Does not include the Real Estate Sector s operating expenses, such as expenditures for land acquisitions, construction costs, permits, architects and engineering fees and related expenditures.

B. Business Overview

General

Desc is one of the most important conglomerates in Mexico. It focuses its activity on four business sectors: Automotive, Chemical, Food and Real Estate. The diversity of Desc allows it to compensate for the effects of the natural economic cycles of the businesses in which it participates and to concentrate its investments and efforts in areas offering the best economic opportunities.

The following charts depict the percentage of our 2003 consolidated net sales and operating income by business segment:

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The following chart depicts our stockholders equity for each of our sectors as of December 31, 2003:

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Sales information by geographic market

The following table shows the approximate aggregate sales of Desc s products for each of the past three years by geographic region:

Region	Net Sales for the Years Ended December 31, 2001	2002	2003
	(Thousands of Pesos)		
Europe	Ps. 618,304	Ps. 599,354	Ps. 868,708
U.S. and Canada	7,858,587	7,424,643	7,479,705
Asia	679,395	732,101	311,505
Mexico	12,031,813	11,073,681	12,277,830
Rest of the World	904,773	530,601	817,307
Total	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055

Autoparts

Our Automotive Sector manufactures 31 different types of autoparts products, including light, medium and heavy duty manual transmissions, constant velocity joints, stamping products, valve lifters, pistons and piston pins, steel wheels, rear and front traction axles, propeller shafts, gears, gaskets and seals.

We are one of the largest independent autoparts manufacturers in Mexico. For the years ended December 31, 2001, 2002 and 2003, our autoparts business contributed 56.4%, 54.7% and 23.5%, respectively, of our consolidated operating income and 46.1%, 43.0% and 36.3%, respectively, of our consolidated net sales.

The following table presents the net sales generated by our principal autoparts products for the years ended December 31, 2001, 2002 and 2003, and the percentage of this segment s 2003 net sales that is represented by these products:

	Net Sales 2001	2002	2003	% of Net Sales 2003
	(Thousands of Pesos)			
Transmissions	Ps. 2,720,234	Ps. 2,691,925	Ps. 2,436,353	31.2%
Constant velocity joints	1,191,169	1,110,047	1,155,680	14.8
Rear and front traction axles	1,762,373	1,261,951(1)	945,029	12.1
Propeller shafts	651,484	605,151(1)	928,121	11.9

Motor valves and tappets, pistons and piston pins	620,671(2)	596,410	504,215	6.4
Gears	400,548	360,098	398,064	5.1
Pick-up truck bodies and other stamped metal products	1,326,527	890,705(1)	390,354	5.0
Steel and aluminum wheels	506,422	472,332	391,555	5.0
Other autoparts[3]	977,797	743,191	670,933	8.5
Total	Ps. 10,157,225	Ps. 8,731,810	Ps. 7,820,304	100.0%

(1) Our sales were impacted by the closing of the DaimlerChrysler Lago Alberto Facility and the non-renewal of certain contracts with DaimlerChrysler (as the parties failed to reach agreement on the principal terms thereof), which collectively translated into a decline of approximately $200 million in annual sales.

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(2) During October 2001, Desc swapped 60% of its valve business for 40% of TRW Inc. s piston business (pistons, pins and tappets). As a result, TRW acquired 100% of the valve business and Desc Automotriz retained 100% of the pistons, pins and tappets business and the Moresa brand.

(3) During 2002, we discontinued our spark plug and electrical parts operations.

The Automotive Sector s total capital expenditures during 2003 were $50 million, of which $15.5 million was financed using sale and leaseback transactions. These capital expenditures were principally for the continued implementation of phases I and phases II of the Tractor Project (propeller shafts, axles, forge and foundry) and the expansion of our production capacity of constant velocity joints, gears and valve lifters.

The Tractor Project, which consists of the manufacture and sale of parts for axles, semi-axles and output-shafts to Dana Corporation. In 2002, phase I of the project was implemented and included propeller shafts and forging. During 2003, phase II was implemented and included the platform and axle businesses. The total sales of this project during 2003 reached $66 million. As of today, the project is operating at full capacity.

The companies of our Automotive Sector have received numerous quality awards from the Mexican government, clients and joint venture partners. In 2003, Velcon, S.A. de C.V. (**Velcon**), our subsidiary which manufactures constant velocity joints, received The Most Improved Award , Pintura y Estampado, S.A. de C.V. (**Pemsa**), and Ejes Tractivos, S.A. de C.V., our subsidiaries that manufacture stamping products and rear axles respectively received the Zero Defects and Quality Master awards, Morestana, S.A. de C.V. (**Morestana**) and Transmisiones y Equipos Mecánico, S.A. de C.V. (**Tremec**), our subsidiaries that manufacture valve lifters and manual transmissions each received the Zero Defects award and Cardanes, S.A. de C.V. (**Cardanes**), our subsidiary that manufactures propeller shafts received the Quality Master awards from Renault-Nissan. Also in 2003, Velcon received the Volkswagen Group Award from Volkswagen, Cardanes received the Kenworth Mexicana award from Kenworth, S.A. de C.V. and TF Victor, S.A. de C.V. (**TF Victor**), our subsidiary that focuses in aftermarket products, received an award from the Confederación Nacional de Talleres de Servicio Automotriz y Similares.

Cardanes received the Dana Quality Leadership Process and the Supplier of the Year award from General Motors in 2001. Pemsa and Velcon received a Supplier of the Year award from General Motors in 2001. In 2001, Velcon, TF Victor and Morestana received the Yurio Shoh award from Nissan.

All of our plants that supply OEMs are QS-9000 certified, which qualifies them as each approved suppliers to DaimlerChrysler, Ford and General Motors. Tremec, Cardanes and TF Victor have received ISO-14001 certification, which is an international standard for environmental management.

Market overview; competition

We sell autoparts to OEMs for installation in new cars and trucks, among others, as well as to distributors for sale in the autoparts aftermarket. Our significant OEM customers include General Motors, Dana, Ford, Renault-Nissan, Volkswagen, DaimlerChrysler, International, Getrag, ZF-Meritor, Kenworth, BMW, Aston Martin, John Deere and Freightliner.

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Both the OEM market and the aftermarket for autoparts are highly competitive with regard to price and quality. We compete with numerous domestic and foreign manufacturers of autoparts. We continually seek to maintain a competitive advantage over other manufacturers with respect to productivity and product quality. We accomplish this, in part, through technical assistance and license agreements with leading foreign manufacturers of autoparts, the development of our own technology, our knowledge of the markets in which we compete and our ability to achieve manufacturing efficiencies.

The table below presents information concerning our domestic and export sales of autoparts. Approximately 91.7% of our exports of autoparts are to the United States and Canada.

	% of Net Sales		
	2001	**2002**	**2003**
Domestic market			
OEMs	18%	18%	14%
Aftermarket	17%	17%	19%
Export market[1]	65%	65%	67%
Total export sales (Ps. in millions)	P s 6,592.0	P s. 5,695.4	P s. 5,234.0
Total export sales ($ in millions)	$ 638.0	$ 555.0	$ 475.0

(1) Includes indirect exports by OEMs that purchase parts from us, direct exports, and aftermarket exports.

In 2003, exports by the Automotive Sector constituted 67% of its total sales to more than 21 countries, which furthers our objective of diversifying our markets.

Technological assistance, licensing agreements and joint ventures

Most of our major autoparts are produced using technology and licenses from leading international automobile manufacturers and autoparts producers. Through these arrangements, we have access to up-to-date technology necessary to manufacture automotive components competitively in world markets. In many cases, these arrangements not only provide us with technological information, but also give us access to worldwide markets and customers. The following are the most significant of these arrangements:

Licensor	Product	Termination Date
Dana Corporation	Driveshaft assemblies and light axle assemblies and related products	Evergreen unless terminated upon eighteen months written notice, provided such notice is not given prior to January 1, 2006. This contract also contains other customary termination provisions.
GKN Industries Limited	Constant velocity joints Tripod plunging joints and drive shafts	Renews automatically for successive one year terms unless either party gives twelve months prior written notice of termination. This contract also contains other customary termination provisions.

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Licensor	Product	Termination Date
Hayes Lemmerz International	Steel wheels	January 15, 2009. This contract also contains other customary termination provisions.

Generally, under technology and license agreements, these foreign manufacturers provide us with technological assistance or license their proprietary technology to us in return for a fee based upon a percentage of sales. These technology assistance and license agreements typically were entered into for initial fixed terms; however, many are renewed on an annual or biannual basis, and could now be terminated by either party on relatively short notice. We also develop our own technology with respect to some automotive products, such as transmissions, pistons, piston pins, valve lifters and stamping products and we work with our partners to jointly develop technologies for specific applications.

We are also partners with some of these foreign manufacturers in joint venture companies that produce various automobile parts utilizing technology licensed by the foreign joint venture partner. In the fourth quarter of 2000, we restructured the ownership of Velcon, our joint venture with Dana Corporation and GKN Industries Limited, which manufactures constant velocity joints. As a result of this restructuring, Desc Automotriz increased its ownership to 51%, GKN increased its ownership to 49% and Dana exited this subsidiary.

During October 2001, Desc reached an agreement to swap 60% of its valve business for 40% of TRW Inc. s piston business (pistons, piston pins and valve lifters). This transaction ended the partnership between TRW and Desc Automotriz, as TRW acquired 100% of the valve business. However, Desc Automotriz retained 100% of the pistons, piston pins and valve lifters business and retained the Moresa brand, which is a leader in the Mexican autoparts market.

During July 2001, Desc sold its heavy duty and medium duty truck clutch business (Transmisiones TSP, S.A. de C.V.) to Eaton Corporation.

In June 2002, as part of our broader efforts to divest assets that are underperforming or non-strategic, we closed our spark plugs (Bujías Mexicanas, S.A. de C.V.) and electrical parts (Industria Eléctrica Automotriz, S.A. de C.V.) businesses, which we believe is an important step to enhancing our competitive stance.

In January 2004, we sold our aluminum wheel business to Hayes Lemmerz International, Inc. and acquired Hayes Lemmerz International Mexico, Inc. s equity stake in Steel Wheels, S.A. de C.V., a manufacturer of steel wheels. As a result, Desc Automotriz now owns 100% of the equity of Steel Wheels, S.A. de C.V.

The following is a list of the most significant of our joint ventures in the Automotive Sector and the percentage ownership of our partner in the joint venture:

Joint Venture Partner	Joint Venture Company	% Ownership By Joint Venture Partner
Dana Corporation	Spicer, S.A. de C.V.	49.0
GKN Industries Limited	Velcon, S.A. de C.V.	49.0

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Distribution arrangements

Our autoparts products generally are sold by means of open purchase orders, which require us to supply products for particular model releases during the life of the platform. We have been seeking to increase our participation in the export market. In 2002, exports represented 65% of Desc Automotriz total sales, while in 2003 exports represented 67% of its total sales. The autoparts exports in 2003 totalled Ps. 5,233,967 or $475 million.

Suppliers

The primary raw materials used in the manufacture of our autoparts are iron castings, steel and aluminum. Generally, these raw materials are available from numerous qualified sources in quantities sufficient for our needs, and, normally, we do not experience difficulty in obtaining these commodities. However, in 2003 and first half of 2004, steel prices increased significantly. We cannot assure you that if steel prices increase or persist, Desc will not experience increased costs or disruptions in supply over the remainder of the year or in the long term, or that such increased costs will not adversely impact earnings.

Properties/plants

During the past few years, we have implemented a modernization program to improve our existing autoparts manufacturing facilities and also built new facilities to replace outdated facilities. We invested approximately Ps. 333,071 in this program in 2001, Ps. 776,994 in 2002 and Ps. 556,810 in 2003. We believe that the resulting improvements in efficiency, the increased flexibility in utilizing excess plant capacity and decreases in fixed costs resulting from this modernization program have enabled us to improve our operating margins.

The average capacity utilization increased from 53% in 2002 to 55% in 2003, reflecting a combination of the moderate improvement of the U.S. economy and increased sales from the Tractor Project.

We produce our autoparts at 17 plants located throughout Mexico and one plant located in the United States. It is our policy to own our facilities. A few sites are leased under long-term leases. Some of our principal facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions. The following table presents the principal products produced at each of the most significant of these plants and their locations and their respective plant capacity and rates of utilization:

Company	Location of the plant	Products	Plant capacity (in thousands / year)	Utilization
Ejes Tractivos, S.A. de C.V.	La Presa, Estado de México	Front and rear axles	320 rear axles 565 rear axles (tractor line)	30% 88%
Transmisiones TSP, S.A. de C.V.	Pedro Escobedo, Qro.;	Medium & heavy	69 medium & heavy transmissions	24%

	Knoxville, Tennessee	transmissions		
Transmisiones y Equipos Mecánicos, S.A. de C.V.	Querétaro, Qro.	Light and medium-duty manual transmissions	282 light transmissions 2,267 heavy-duty components	66% 50%
Stamping & Wheels, S.A. de C.V.	Tlanepantla, Estado de México	Steel wheels	6,100 pieces	37%
Pistones Moresa, S.A. de C.V.	Celaya, Gto.; Saltillo, Coah.; Celaya, Gto.	Pistons Pistons Piston Pins	11,800 pieces 1,200 pieces 23,500 pieces	30% 80% 47%

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Company	Location of the plant	Products	Plant capacity (in thousands / year)	Utilization
Pintura, Estampado y Montaje, S.A. de C.V.	Celaya, Gto.	Stamping products	32,000 strokes	35%
Velcon, S.A. de C.V.	Celaya, Gto.	Constant velocity joints	2,900 pieces	64%
Forjas Spicer, S.A. de C.V.	Querétaro, Qro.; Tlaxcala, Tlax.	Steel forging	50 tons	45%
Cardanes, S.A. de C.V.	Querétaro, Qro.	Propeller shafts and universal joints	585 propeller shafts assembly pieces 756 propeller shaft, tractor line pieces	51% 58%
Engranes Cónicos, S.A. de C.V.	Querétaro, Qro.	Gears	850 sets	78%
TF Víctor, S.A. de C.V.	Naucalpan, Estado de México	Gaskets and seals	24,275 pieces	46%
Morestana, S.A. de C.V.	Aguascalientes, Ags.	Valve lifters	14,238 pieces	87%
Autometales, S.A. de C.V.	La Presa, Estado de México	Iron casting foundry	24 tons	62%

We believe that these facilities are in good condition and are adequate to meet customer requirements. We are in the process of expanding the production capacity of our gears production facility to 184,000 kits per year.

Chemicals

We conduct our chemical business through various chemical subsidiaries, such as Industrias Negromex, S.A. de C.V., Resirene, S.A. de C.V., Quimir, S.A. de C.V., Plastiglás de México, S.A. de C.V., Nhumo, S.A. de C.V. and Rexcel, S.A. de C.V. The Chemical Sector produces and sells chemical products and is the leading (and in some cases the only) producer of some of these chemical products in Mexico. Our main chemical products include synthetic rubber, phosphates, polystyrene, acrylics, carbon black and particle board and laminates. For the years ended December 31, 2001, 2002 and 2003, the Chemical Sector contributed 27.0%, 29.1% and 21.0%, respectively, of our consolidated operating income, and 33.2%, 35.4% and 36.5%, respectively, of our consolidated net sales.

The following table presents the net sales generated by our principal Chemical Sector products for the years ended December 31, 2001, 2002 and 2003, and the percentage of this segment s 2003 net sales that is represented by these products:

	Net Sales			% of Net Sales
	2001	2002	2003	2003
		(Pesos in thousands)		
Synthetic rubber	Ps. 1,948,187	Ps. 2,295,598	Ps. 2,663,382	33.9%
Polystyrene	1,135,507	1,061,507	1,217,898	15.5
Phosphates	1,321,374	1,088,806	1,187,749	15.1
Acrylics sheet	458,628	581,053	761,688	9.7
Carbon black	588,454	572,355	731,961	9.3
Waterproofing and adhesives[1]	941,326	918,328	694,805	8.8

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	Net Sales			% of Net Sales
	2001	2002	2003	2003
Particle board & laminates	424,435	554,525	601,467	7.6
Phenol[(2)]	415,117	63,867	9,506	0.1
Emulsions (specialty lattices)[(3)]	101,090	75,822	0.0	0.0
Total	Ps. 7,334,118	Ps. 7,211,861	Ps. 7,868,456	100.0%

(1) We sold our waterproofing and adhesives businesses in September 2003.
(2) We discontinued our phenol business in February 2004.
(3) We combined our emulsions business with our synthetic rubber business in January 2003.

Our chemical products are used in the manufacture of a wide variety of other products, including asphalt and plastic modifiers, disposables, packaging, tires and other industrial rubber goods, automotive rubber parts, footwear, carpeting, furniture and detergents. We sell our chemical products in Mexico and export markets, exporting products to over 40 countries in 2003. Our export sales were Ps. 3,106,309 in 2003 and Ps. 2,538,326 in 2002.

In the chemical sector, our subsidiaries Industrias Negromex, S.A. de C.V., Nhumo, S.A. de C.V., Resirene, S.A. de C.V., Plastiglás de México, S.A. de C.V., Rexcel, S.A. de C.V., Quimir, S.A. de C.V. and Industrias Resistol, S.A de C.V., each has received ISO-9002 or ISO-9001 certification, which are international standards for quality management and assurance adopted by more than 90 countries, thus enhancing our reputation as a reliable, high-quality supplier of chemicals.

Market overview; competition

We are Mexico s only producer of synthetic rubber and carbon black, and we are a leading Mexican producer of polystyrene and phosphates. The majority of our chemical products are sold in both the domestic and export markets. The domestic market accounted for 61% of our chemicals sales in 2003, and the export market accounted for 39% of such sales. We compete with foreign companies such as Royal Dutch/Shell Company, Dow Chemical Company, Basf Chemical Company, Nova Chemicals Corp., Atofina Chemicals, Inc., Degussa Corporation, Georgia Gulf Chemicals, Goodyear Tire & Rubber Company, Rhodia de México, S.A. de C.V., Astaris LLC and Ralph Wilson Co.

Technology and Joint Ventures

With respect to the majority of our chemical businesses, we utilize proprietary technology that we have developed or acquired from third parties. Our carbon black business utilizes technology developed by Cabot Corporation, our partner in this business and a world leader in carbon black research, development and production. Our polystyrene business utilizes technology originally licensed from Monsanto Company, which the Chemical Sector has improved and developed over the years. Similarly, our synthetic rubber business utilizes technology originally licensed from Phillips Petroleum, which the Chemical Sector has improved and adapted over the years. More recently, we have entered into reciprocal technological exchange agreements in connection with our joint ventures in synthetic rubber with Repsol Química, which is a world leader in synthetic rubber research, development and production. Our phosphate business utilizes technology originally licensed from Monsanto Company, which the Chemical Sector has improved and further developed, and has also developed new technology over the years.

The following is a list of the most significant of our joint ventures in the Chemical Sector and the percentage ownership of our partner in the joint venture:

Joint Venture Partner	Joint Venture Company	% Ownership By Joint Venture Partner
Repsol Química, S.A.	Dynasol Companies [1]	50.0
Cabot Corporation	Nhumo S.A. de C.V.	40.0
Calsak Corporation	Plastiglás de México, S.A. de C.V.	5.0

[1] This entity is accounted for under the proportionate consolidation method.

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Supply arrangements and suppliers

Petróleos Mexicanos (**Pemex**) is one of our principal suppliers of raw materials used in our chemical businesses. Pemex supplies us styrene monomer, hydrogen cyanide, carbon black feedstock, natural gas and methanol. We also purchase raw materials from numerous other domestic and foreign suppliers. The market for the raw materials used by our Chemical Sector is highly price competitive, and we believe that there generally is an adequate supply of these raw materials. However, in 2003 and 2004, there was an increase in the price of styrene monomer, butadiene monomer, acrylonitrile monomer and natural gas, which was due to the increase in crude oil prices and severely affected the industry in general. The increase in raw material prices could not be transferred with the same speed to our final products due to aggressive competition and the weakness of product demand.

Products

The following table presents information with respect to our chemical products:

Product	Principal Uses	Raw Materials Used in the Production of the Product
Synthetic rubber	Production of tires, footwear, asphalt and plastic modifiers, adhesives, industrial rubber products, automotive engines and other autoparts	Butadiene and styrene monomer
Polystyrene	Production of plastics for disposable packaging, home appliances, cassettes, compact discs, light fixtures, school supplies and office equipment	Styrene monomer
Carbon black	Production of tires, ink, hoses, belts and other products using rubber	Carbon black feedstock and natural gas
Phosphates	Detergents, water treatment and soft drink production	Phosphoric acid and soda ash or caustic soda
Acrylic sheets	Manufacturing of signs, displays, advertisements and safety devices	Polymethyl Metha Acrylate
Particle boards and laminates	Manufacturing of furniture, office and home products, kitchen countertops and tabletops, and floors	Raw wood, urea and melamine resins

Synthetic Rubber

This is the largest business of the Chemical Sector. In 2003, the synthetic rubber business contributed 33.9% of the Chemical Sector s net sales. We are the only manufacturer of synthetic rubber in Mexico. We produce solution rubber and emulsion rubber, as well as elastomers, thermoplastics and specialty rubbers. We are a leading manufacturer of asphalt modifying rubbers, which we sell to highway

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paving companies in the United States and more recently in Europe. Synthetic rubber products are exported to over 40 countries, principally to the United States, Canada and countries in Europe, South America and the Far East. In 2003, exports accounted for approximately 79% of our synthetic rubber sales.

Polystyrene

Our polystyrene business produces crystal polystyrene (GPPS) and high impact polystyrene (HIPS), which are used in disposable packaging and packing industries, lighting fixtures, school supplies, office equipment and home appliances, including audio and video equipment and refrigerators. In 2003, our polystyrene business contributed 15.5% of the Chemical Sector s net sales. Most of our polystyrene sales are to the domestic market, where we estimate that our market share in 2003 was approximately 45%. We attribute our dominance in the domestic polystyrene market to our ability to customize products, the quality of our service and our timely delivery.

Carbon Black

We are the only manufacturer of carbon black in Mexico. Carbon black is principally used by the tire industry. Cabot Corporation, a world leader in carbon black research, development and production, owns a 40% interest in our carbon black business. We believe that our share of the domestic carbon black market in 2003 exceeded 95% and attribute our dominance to our technology, our large installed plant capacity, our focus on those carbon black varieties which have the highest demand, our continuous development of carbon black varieties with specific competitive advantages for their application, and our low-production costs which enable us to price our products competitively. Approximately 37% of our carbon black sales in 2003 were exported primarily to the United States, Germany, Spain and Latin America.

Phosphates

Our phosphates business produces chemicals for use in the manufacturing of household detergents, in soft drinks and for water treatment. In 2003, our phosphates business contributed 15.1% of the Chemicals Sector s net sales. We are the largest manufacturer of phosphates in Mexico, and rank third in rated capacity of industrial sodium phosphates worldwide. In 2003, we had approximately a 78% market share of the phosphates business in Mexico. We principally compete with Rhodia de México, S.A. de C.V. and some imports from Astaris of USA.

Acrylic Sheet

We are the leading manufacturer of acrylic sheets in Mexico. These products are used in the manufacture of signs, displays, advertisements and safety devices. Approximately 43% of our sales of these products in 2003 were to the United States, Canada, Europe, Central and South America. Our manufacturing technology allows us to develop differentiated products targeted at greater value-added markets in the different countries where our products are sold. We estimate that our market share in 2003 was approximately 41% of the Mexican market.

Particle Board And Laminates

We manufacture particle board and plastic laminates using wood as a principal raw material. We sell these products to manufacturers in the furniture and construction industries. Approximately 91% of our sales of these products in 2003 were sold in the domestic market, with the remainder being exported principally to North America and Central America. Last year there was a shortage of cellulosic supply due to the closing of certain saw mills and new regulations from the Mexican government. We acquired forest plantations in 2001, which are operated by Forestaciones Operativas de México, S.A. de C.V. This acquisition guaranteed the supply of the raw materials necessary for the production of particle board.

Properties/plants. The table below presents the location of the facilities at which our chemical products are manufactured and their respective plant capacity and rates of utilization:

Company	Location of the Plant	Products	Plant capacity (in thousands /year)	Utilization
		Synthetic rubber		
Industrias Negromex, S.A. de C.V.	Altamira, Tamps.	Emulsion Rubber	96,000 tons	84%
Dynasol Elastómeros, S.A. de C.V.	Altamira, Tamps.	Solution Rubber	90,000 tons	86%
Dynasol Elastómeros, S.A.	Santander, Spain	Solution Rubber	110,000 tons	90%
Industrias Negromex, S.A. de C.V.	Altamira, Tamps.	Nitrile Rubber	24,000 tons	75%
Resirene, S.A. de C.V.	Coatzacoalcos, Ver. Xicohtzingo, Tlax.	Polystyrene	80,000 tons 70,000 tons	84% 57%
Nhumo, S.A. de C.V.	Altamira, Tamps.	Carbon black	120,000 tons	93%
Fenoquimia, S.A. de C.V.	Cosoleacaque, Ver.	Methyl methacrylate (MMA)	24,000 tons	97%
Quimir, S.A. de C.V.	Coatzacoalcos, Ver. Tultitlán, Edo. de Méx. Lechería, Edo. de Méx.	Phosphates/phosphorus derivatives	100,000 tons 85,000 tons 40,000 tons	100% 69% 20%
Plastiglás de México, S.A. de C.V.	Ocoyoacac, Edo. de Méx San Luis Potosí, SLP	Acrylic sheet	10,700 sheets 5,000 sheets	73% 92%
Rexcel, S.A. de C.V.	Lerma, Edo. de Méx. Zitácuaro, Mich.	Laminates/particle board	4,600 m^2 10,270 m^2	71% 89%

We believe that these facilities are in good condition and are adequate to meet our needs, and we do not currently have any plans to build any new facilities or expand our existing facilities. We intend to increase our utilization levels by increasing our sales volumes to existing and new clients.

It is our policy to own our facilities. A few sites are leased under long-term leases. Some of our principal facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions.

The Chemical Sector s research efforts are focused on the development of specialty chemical products, which enhances our competitive position and is expected to generate higher profit margins. Our styrenic and acrylic transparent copolymers and high impact resistant acrylic sheets are examples of such specialty products yielding higher margins. At the end of 2001, the Chemical Sector began to use a miniaturized robotic system acquired from Symyx Technologies, establishing a strategic technological platform to compete in the chemical industry for the 21st century.

Food

Our food operations involve the production and sale of pork and shelf-stable branded products. For the years ended December 31, 2001, 2002 and 2003, our food segment contributed 8.6%, 8.7%, and 12.8%, respectively, to our consolidated operating income, and 16.7%, 17.6%, and 18.0%, respectively, to our consolidated net sales.

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Our strategy for our Food Sector business has been to gradually shift its product mix away from commodity products to branded products, which have more stable margins.

We use Corfuerte, S.A. de C.V. (Corfuerte) as our vehicle for the expansion of our branded food products business in Mexico and Authentic Acquisition Corporation for the expansion of this business in the United States.

The following table presents the net sales generated by each product line in our food segment for the years ended December 31, 2001, 2002 and 2003 and the percentage of this segment s 2003 net sales that is represented by each product line:

	Net Sales			% of Net Sales
	2001	**2002**	**2003**	**2003**
		(Pesos in thousands)		
Shelf-stable branded products (Mexico)	1,412,414	1,487,402	1,619,564	41.7
Shelf-stable branded products (U.S.)	779,790	763,838	816,761	21.0
Pork[(1)]	1,501,145	1,330,749	1,447,269	37.3
Total	Ps. 3,693,349	Ps. 3,581,989	Ps. 3,883,594	100.0%

(1) We discontinued our pork business located in the Bajio in 2002.

Products

Pork. Our pork business is conducted through our subsidiary Agrokén, S.A. de C.V., which is operated principally in the southeastern region of Mexico. We have operating slaughterhouses in Guanajuato and Yucatán, and from the latter we supply products for the export market, principally to Japan. Our domestic sales strategy seeks to reduce the intermediary channels between producers like us and consumers by establishing distribution centers where consumers may buy different pork products directly from us. We currently operate 43 distribution centers. Our pork products are marketed under the Keken brand name, Mexico s southeastern leader.

Shelf-stable branded products. Our branded food product operations are conducted in Mexico through Corfuerte and in the United States through Authentic Acquisition Corporation. We are a domestic leader in the production of tomato sauce and related products and canned vegetables with our Del Fuerte brand. We also have a large share of the domestic corn oil and gelatin with our La Gloria brand of products. We participate in the canned jalapeño peppers market and in the salsa market with our Del Fuerte brand, in the coffee market with our Blasón brand, in the canned tuna market with our Nair brand and in the ketchup market with our Embasa brand. We also have exclusive distribution rights in Mexico for Smuckers jams, Zuko and Liveat drinks mix, which have been embraced by the domestic market and continue to increase in market share.

In the United States, we manufacture and/or distribute a wide variety of high quality, authentic Mexican food products such as salsas, taco sauces, other Mexican sauces, and items such as jalapeño peppers under labels that include La Victoria and Embasa. Our products are targeted principally at the U.S. Hispanic market, and our brands have strong market positions in the southwestern and western regions of the United

States, particularly in California.

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Market overview; competition

Pork. The pork industry in Mexico is highly fragmented, but smaller, inefficient companies in Mexico are being replaced by larger, higher quality, more efficient, integrated companies, principally located in the states of Sonora, Sinaloa and Yucatán. We have developed a fully integrated business with high quality genetics and advanced farming techniques, composed of breeding farms and facilities for raising, slaughtering, cutting and processing pork. We have approximately a 50% market share in the Southeastern region of Mexico.

We also have exported Ps. 265,574 of pork cuts and products to Japan, which contributed 6.8% of the Food Sector s net sales in 2003.

Shelf-stable branded products. The shelf-stable branded food industry in Mexico is highly competitive. Corfuerte has significant market share in Mexico with respect to tomato puree, which has a 63.2% market share and ketchup, which has a 22.2% market share. Corfuerte also has significant market shares in the canned vegetables and corn oil sectors. Its principal competitors are Del Monte, Herdez, La Costeña and Clemente Jacques. The principal competitors of Nair s products are Herdez, Dolores, Tuny and Calmex. In the United States, our products compete principally with Mexican food products that are distributed in the southwestern and western regions of the United States and are marketed principally to the Hispanic market, particularly in California. Its principal competitors are Pace, Old El Paso, Tostitos, Ortega, Herdez, La Costeña and San Marcos.

Supply arrangements and suppliers

The primary ingredients used by our Food Sector in our branded food operations are tomatoes, carrots, onions, corn and peppers. The primary supplies used in our pork operations are corn, sorghum grain and soybean. These products are purchased from various suppliers at prevailing market prices. We have not recently experienced any shortages in the supply of these products and generally expect these products to be generally available for the foreseeable future.

Joint Ventures

The following is a list of our joint ventures in the Food Sector and the percentage ownership of our partner in the joint venture:

Joint Venture Product	Joint Venture Company	% Ownership By Joint Venture Partner
Grupo Casares	Grupo Porcícola Mexicano	37.0
Nutrimentos Agropecuarios Cargill, S.A. de C.V.	Nutrimentos Agropecuarios Purina, S.A. de C.V.(1)	50.0
Silvia Holm Baigts	Intercafé, S.A. de C.V.	50.0

(1) This subsidiary is reported under equity in associated companies and unconsolidated subsidiaries.

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Properties/plants

The following table presents the principal production facilities of our food segment and their respective plant capacity and rates of utilization:

Company	Location of the plant	Activity	Plant capacity (in thousands / year (except as noted))	Utilization
Grupo Porcícola Mexicano, S.A. de C.V.	Yucatán and Penjamo	Pork production / slaughterhouse	49,000 pigs / month	100%
Corfuerte, S.A. de C.V.	Los Mochis, Sinaloa	Tomato products	6 million in containers	97%
Intercafé, S.A. de C.V.	Oaxaca, Oax.	Coffee	212 tons / month	39%
Authentic Specialty Food, Inc.	Rosemead, California	Salsa and chili products	166,226 pounds	40%
Nair Industrias, S.A. de C.V.	Mazatlán, Sinaloa	Tuna	2,500 boxes	70%

In addition, Corfuerte has five distribution centers in Los Mochis, Guadalajara, Monterrey, Veracruz and Mexico City.

We believe that these facilities are in good condition, and we do not currently have any plans to build any new facilities or expand our existing facilities. We intend to increase our utilization levels by increasing our sales volumes to existing and new clients.

It is our policy to own our facilities. A few sites are leased under long-term leases. Some of our principal facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions.

Real Estate

Our Real Estate Sector develops land for commercial, residential and tourism and resort uses. We have over 30 years of experience in this business and believe that we are among the largest diversified real estate developers in Mexico. Desc owns large land reserves for residential development in the Mexico City metropolitan area (Lagos de la Estadía) as well as properties for tourism development along the Pacific coast of Mexico. We focus on the upper-income segments of the real estate market, developing high quality projects that are unique in their respective market segments. The Real Estate Sector was the developer during the late 1960s, 1970s and early 1980s of Bosques de las Lomas , a five million square meter upper-income residential and commercial development in Mexico City, and of La Estadía , a high-income residential suburb of Mexico City. Our more recent projects include the Centro Comercial Santa Fe in Mexico City, Mexico s largest regional shopping mall, Arcos Bosques Corporativo, Mexico City s largest office complex, Punta Mita, an upscale tourist resort, and La Punta Bosques and Bosques de Santa Fe, both of which are residential projects in Mexico City, which target upper-income residents.

For the years ended December 31, 2001, 2002 and 2003, our real estate business contributed 7.9%, 7.6% and 42.7%, respectively, of our consolidated operating income and 4.0%, 3.9% and 9.1%, respectively, of our consolidated net sales. As part of our strategy for this sector, we continue to assess the profitability of each of our real estate projects. In February 2001, we sold our stake in the Four Seasons Punta Mita Hotel to Strategic Hotel Capital LLC for an aggregate consideration of $52 million (including the assumption by the buyer of $11 million of net debt), and in September 2001, we sold our stake in Centro Comercial Santa Fe for an aggregate amount of $70 million. In 2002 and 2003, we sold 14 of 18 commercial lots in the Santa Fe Reserve for $15 million. Additionally in 2003, we sold an important land reserve, known as Bosques de La Estadía, with a total area of 3.75 million square meters in the Mexico City metropolitan area, for $76 million. Also, in 2003, we sold the land on which the West Tower of Arcos Bosques Corporativo was to be constructed for $20 million.

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The following is a list of the major properties we are developing, which are discussed in greater detail below:

Name and Location	Land Area (square meters)	Available for Sale	Ownership by Desc (%)	Other Partners
Commercial development projects (office buildings)				
Arcos Bosques Corporativo, México, D.F.	72,570	8,702	100	None
Residential development projects				
La Punta Bosques, México, D.F.	293,000	4,612	100	None
Bosques de Santa Fe, México, D.F.	1,100,000	142,165	73	Several investors
Tourist/resort development projects				
Punta Ixtapa, Guerrero	390,000	124,676	100	None
Punta Mita, Nayarit	6,770,000	2,742,000(1)	100	None
Other properties				
Lagos de la Estadía, Estado de Mexico	2,412,572	2,412,572	39.4	Fernando Senderos, Lucía Senderos and several investors(2)
La Estadía, Estado de Mexico	105,514	31,318	100	None
Los Cabos, Baja California Sur(3)	38,521	38,521	14.7	Grupo Casa, S.A. de C.V.
Punta Gorda, Baja California Sur	4,000,000	4,000,000	25	Grupo Casa, S.A. de C.V.
Santa Fe land reserve	89,000	26,386	45	Several investors, of which the principal investors are Palacio del Hierro and Liverpool

(1) Punta Mita s approximate available area for sale does not include roads, green areas, service areas and future golf courses.
(2) The stockholders of Operadora de Nayarit, S.A. de C.V. (Lagos de la Estadía project) are Desc, Fernando Senderos and Lucía Senderos, who is Mr. Senderos s sister, and their ownership interest in the Lagos de la Estadía project is 39.4%, 3.5% and 8.1%, respectively.
(3) Desc owns 100% of the land and has entered into a joint venture agreement with Grupo Casa, S.A. de C.V. (**Grupo Casa**) pursuant to which Desc contributed the land and Grupo Casa developed the land. Desc is entitled to 14.7% of both the time-share units constructed and the net income generated by the hotel built on the site.

We invested approximately Ps. 771,809 in 2001, Ps. 433,876 in 2002 and Ps. 438,223 in 2003 to develop our real estate properties for commercial, residential and resort use.

Strategy for the Real Estate Sector

We intend to continue to sell our existing inventory of developed properties and our land reserves, so long as conditions in the real estate market in Mexico remain favorable. We also intend to continue to seek partnerships to develop our land reserves in order to reduce our risk and increase the profit margins and market share of our Real Estate Sector. We also continue to evaluate the profitability of each of our remaining real estate projects and may decide to divest additional properties in the future.

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We believe that our real estate projects, which are aimed at the high-end market, generally offer superior quality, amenities and value.

All of our projects are organized into a predetermined number of phases designed to reduce our risk and exposure to market conditions and shifts in the economy. When market indicators project a downturn in the real estate market, a project can be stopped in an orderly and cost-efficient manner at the end of a phase of construction and further delayed construction until market conditions improve, and when these indicators predict high growth at an accelerated pace, two or more phases can be initiated simultaneously. We generally subcontract the design and construction of projects, including, but not limited to, hiring independent project managers, architects, construction companies and project supervisors.

Commercial developments

Arcos Bosques Corporativo. This project consists of a five-phase office development located in Bosques de las Lomas. The first 3 phases, the East Building, the East Tower and the first stage of the North Building A project were completed and sold since 1999. In November 1999, pursuant to a 50/50 partnership with Ingenieros Civiles Asociados (**ICA**), Mexico s largest construction company, we began the construction of the B and C stages of the North Building. The first stage, which consisted of 16,500 square meters of office area available for sale, was finished and sold by 2001. Desc and ICA reinvested the proceeds from the North Building B to commence the construction of North Building C in November 2001. Stage C was completed by March 2004, and 69% of the area available for sale has been sold. The remaining area is expected to be sold during 2004. Desc sold the land for the development of the West Tower for $20 million, and is in negotiations to sell the remaining 8,702 square meters of land in Arcos Bosques Corporativo.

Residential developments

Bosques de Santa Fe. This 1,100,000 square meter development, located two miles south from the Santa Fe shopping mall, is currently being developed in partnership with private investors. The current plans call for the development of a high-income residential community with a nine-hole golf course. We own 73% of this development. We began building the infrastructure for this project in 1998 and commenced selling lots in June 1998. As of December 31, 2003, we had sold 66% of the available units. During the third quarter of 2001, we increased our stake in Bosques de Santa Fe from 50% to 73% with an investment of $30 million.

Tourist/resort developments

Punta Ixtapa. This development is a resort consisting of approximately 390,000 square meters located on the western end of the hotel zone of Ixtapa. As currently planned, the total project will consist of a residential area containing lots for private construction, finished homes, villas and condominiums, a recreation center and two beach clubs. This project is intended to be developed in five phases over a twelve-year period. The first phase, consisting of the construction of finished homes and villas on a site of approximately 63,000 square meters, has been fully sold and construction has been completed. The second and third phases, consisting of the development and sale of residential lots on a site of approximately 153,000 square meters commenced in June 1993, of which approximately 88% of the lots were sold as of December 31, 2003. The remaining land is available for two additional phases of development for which firm plans have not yet been formulated.

Punta Mita. In 1997, Desc commenced the development of its Punta Mita project; which is the Real Estate Sector s highest profile tourist project. Punta Mita is a 6.77 million square meter resort

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project, with 14 kilometers of shoreline, which is located in Bahía de Banderas Nayarit on the coast of the Mexican Pacific near Puerto Vallarta s International Airport. We plan on developing this project over a 20-year period. The project will include 3 golf courses, 5 hotels and a variety of real estate properties (both for homeowners and property subdevelopers). Punta Mita is targeting the upper-income market of Mexico, United States and Canada.

The first stage of this project was developed in partnership with the Four Seasons Hotels and included a world-class luxury hotel, an 18-hole championship golf course and clubhouse, a tennis and sports complex, a fitness club, a spa facility, timeshare units, villas and residential lots. We invested $100 million in the first phase of this project. We completed the golf course construction in 1998, under the supervision of Jack Nicklaus, and completed the hotel construction in 1999. The hotel and golf course opened for business on September 1, 1999. The hotel was expanded to 140 rooms in 2000. In February 2001, we sold our participation in the hotel to Strategic Hotel Capital LLC for $52 million plus the purchaser s assumption of $11 million in net debt, of which we used $26.5 million to reduce our consolidated debt. The hotel is currently operated by Four Seasons Hotels Ltd. pursuant to a long-term contract.

During the first stage of the project, we developed 20 lots of beachfront property, each measuring 10,000 square meters, which were on average each sold for approximately $1,250,000. We also developed 32 lots on the golf course with ocean-front views, each measuring 1,000 square meters, of which 12 lots have been sold for approximately $500,000 per lot.

As part of the second stage of this project, we are constructing a Four Seasons development consisting of 65 luxury villas. In addition we are constructing 37 time-sharing units pursuant to a joint venture with Four Seasons and Strategic Hotel Capital. This development will be situated adjacent to the Four Seasons Hotel, allowing residents of the development access to common areas, restaurants and the spa located in the Four Seasons Hotel.

We also sold property to a group of investors that have already commenced the construction of a Rosewood hotel and 56 time-sharing villas, which will be marketed as a Rosewood development. We are also considering selling property on the tip of the peninsula on which a luxury hotel will be situated. In the near term, we will commence the construction of another eighteen-hole golf course designed by Jack Nicklaus. The second stage of this project will also include the construction of three residential developments located on the exclusive beachfront property, which will be built by high-profile sub-developers.

We expect a sustained increase of sales for this project due to the increasing interest in such luxury developments. We continue to invest in the urbanization and infrastructure of this project. This project will include other phases of development, which will be initiated once the first two stages have been successfully completed.

Other properties

Bosques de La Estadía. In June 2003, Cantiles de Mita, S.A. de C.V. (**Cantiles**) sold all of the territorial reserves of Club Ecuestre Chiluca, S.A. de C.V. (**Chiluca**) for $76 million. Prior to May 29, 2003, Desc owned 77.26% of Club Ecuestre Chiluca, S. de R.L. de C.V. (**Club Ecuestre**) and Fernando Senderos and Lucía Senderos owned the remaining 22.74%. On May 29, 2003, Desc acquired the Senderos s 22.74% equity stake in Club Ecuestre and agreed to pay Fernando and Lucía Senderos their pro rata share (based upon their relative equity holdings in Club Ecuestre immediately prior to Desc s acquisition of the Senderos s equity stake, as noted above) of the proceeds of the sale of the Chiluca territorial reserves, with the balance of the proceeds being paid to Desc.

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Competition

We believe that Desc, through its real estate business subsidiaries, is one of the largest real estate developers in the commercial and residential real estate markets in Mexico City. We compete with many mid-size Mexican real estate developers.

Governmental Regulation

The North American Free Trade Agreement (**NAFTA**) became effective on January 1, 1994. Under NAFTA, Mexico, the United States and Canada agreed to phase out tariffs and other trade barriers on each other s products, as well as to liberalize or eliminate many barriers to investment. The lowering of U.S. and Canadian trade barriers has facilitated access to those markets while the lowering of Mexican barriers to U.S. and Canadian products, and in some cases investments, also has increased the competition in the Mexican market. While most changes required by NAFTA had to be implemented during the first six years of operation of the agreement, tariff and non-tariff restrictions on the most sensitive products will continue to be phased down through 2003, or in the case of a few products, 2008.

In the automotive industry, the liberalization of automotive trade between the parties is now virtually complete, to the extent required by NAFTA. All autoparts traded between the NAFTA countries are now duty free if they originate in Canada, Mexico or the United States. NAFTA has also required Mexico to gradually phase out its trade balancing and domestic value-added requirements imposed on OEMs. The phasing out of artificial restrictions has facilitated the integration of the North American industry, with beneficial effects for efficient Mexican parts producers such as Desc. This liberalization as required by NAFTA is now essentially complete in all three countries.

In the chemicals industry, NAFTA requires Mexico to phase out its tariffs to reduce barriers to foreign investment in Mexico, and imposes requirements that prohibit Pemex from discriminating against U.S. or Canadian persons in the supply of raw materials, over which Pemex has a monopoly. As in the case of the automotive sector, duties and other restrictions in all three countries have now been eliminated to the extent required by the NAFTA.

In the food industry, NAFTA requires Mexico to gradually phase out tariffs on imported feed products used by us. Since the enactment of NAFTA special regulations enacted by the Mexican government have permitted livestock growers to import feed products duty-free when domestic feed consumption is projected to exceed domestic feed production. While some Mexican farm groups have recently objected to this continued liberalization, the Mexican government is aware it could face a strong U.S. reaction if Mexico took restrictive actions.

In the food industry, NAFTA also implements procedures for certification of conformity with health and sanitary requirements to facilitate the export of Mexican pork and other agricultural products to the United States. The regulatory clearing procedures for importing pork products from Mexico s Yucatan Peninsula and the Northwest region into the United States have been put in place and these areas have been certified as disease-free areas by the U.S. Department of Agriculture. The state of Sonora also exports pork products to the United States. The United States is finalizing regulations in this regard which would open further export opportunities for Mexican producers.

Desc continues to benefit from the policy changes required by NAFTA. Despite occasional disputes and threats of restrictions from both sides of the border, overall compliance has been good. Mexico, Canada and the United States have all benefited from NAFTA, and each country realizes that if it failed to continue to honor its commitments, such breaches could result in sanctions by the other countries. These circumstances give greater stability to the liberalization required by NAFTA than the normal unilateral policies of governments.

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Domestic and Foreign Laws

Our businesses are subject to extensive Mexican and U.S. federal, state and local and foreign environmental laws concerning, among other things, emissions to the air, discharges and releases to land and water, the generation, handling, storage, transportation, treatment and disposal of wastes and other materials and the remediation of environmental pollution caused by releases of wastes and other materials. The operation of any manufacturing plant and the distribution of chemical products entail risks under environmental laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that significant costs or liabilities will not be incurred with respect to our operations and activities.

For example, the fundamental environmental law in the Mexican federal system is the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (which translates into **General Law of Ecological Balance and Environmental Protection** or the **Ecological Law**). Under the Ecological Law, the Mexican government has implemented an aggressive program to protect the environment by promulgating standards concerning water, land and air pollution, hazardous waste and hazardous materials. The Mexican government also has enacted regulations concerning the importation and exportation of hazardous materials and hazardous waste. The Mexican federal agency in charge of overseeing compliance with, and enforcing the federal environmental laws is the *Secretaría del Medio Ambiente y Recursos Naturales* (the **Ministry of Environmental Protection and Natural Resources** or the **Semarnat**). As part of its enforcement powers, the Semarnat is empowered to bring administrative proceedings against companies that violate environmental laws, impose economic sanctions and close temporarily or permanently non-complying facilities.

We, and particularly our Chemical Sector, due to the use and production of substantial amount of substances, have emissions that are or could become subject to regulatory control. To our knowledge all of our facilities are presently in substantial compliance with applicable environmental laws as currently enforced.

We are also subject to extensive governmental regulation from both domestic and U.S. governmental entities concerning our competitive and marketplace conduct, as well as the health, safety and working conditions of our employees.

The Food Sector is subject to extensive governmental regulation from both domestic and U.S. governmental entities concerning, among other things, product composition, packaging, labeling, advertisement and the safety of our products.

From time to time, additional legislative initiatives may be introduced that may affect our operations and the conduct of our businesses, and we cannot provide assurance that the cost of complying with these initiatives or that the effects of these initiatives will not have a material adverse effect on our profitability or financial condition in the future. In addition, we have no basis for predicting what effect, if any, stricter enforcement of existing laws and regulations would have on our results of operations, cash flows or financial condition.

Seasonality

Our business is subject to seasonal effects and we have generally experienced the highest level of operations for our Automotive Sector during the second and third quarters, in the second and third quarter for the Chemical Sector and in the third and fourth quarters for the Food Sector. Given the nature our real estate business, it is difficult to identify a pattern with respect to the sales of this sector.

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C. Organizational Structure

Desc is a holding company and its operations are carried out by its direct and indirect wholly owned subsidiaries. Set forth below is a list of our principal subsidiaries as of December 31, 2003, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held:

Name of Entity	Country of Incorporation or Residence	Proportion of Ownership Interest or Proportion of Voting Power Held
Automotive Sector		
Desc Automotriz, S.A. de C.V. and Subsidiaries	Mexico	99.9%
Chemical Sector		
Industrias Negromex, S.A. de C.V.	Mexico	99.9%
Quimir, S.A. de C.V.	Mexico	99.9%
Resirene, S.A. de C.V.	Mexico	99.9%
Rexcel, S.A. de C.V.	Mexico	99.9%
Nhumo, S.A. de C.V.	Mexico	60.0%
Dynasol Elastómeros, S.A. de C.V.	Mexico	50.1%
Real Estate Sector		
Cantiles de Mita, S.A. de C.V.	Mexico	100.0%
Cañada de Santa Fe, S.A. de C.V.	Mexico	73.0%
Promociones Bosques, S.A. de C.V.	Mexico	100%
Inmobiliaria Dine, S.A. de C.V.	Mexico	100%
Food Sector		
Agrokén, S.A. de C.V. and Subsidiaries	Mexico	99.9%
Corfuerte, S.A. de C.V. and Subsidiaries	Mexico	96.1%
Authentic Acquisition Corporation and Subsidiaries	Delaware, U.S.	99.9%

As of December 31, 2003, Desc Automotriz and Cantiles de Mita, S.A. de C.V. are our significant subsidiaries. Desc, directly or through its subsidiaries, Desc Automotriz, Agrokén, Corfuerte and Authentic Acquisition Corporation controls or owns majority interests in more than 90 companies, including our principal subsidiaries such as Industrias Negromex, S.A. de C.V., Quimir, S.A. de C.V., Resirene, S.A. de C.V., Rexcel, S.A. de C.V., Nhumo, S.A. de C.V., Dynasol Elastómeros, S.A. de C.V., Cantiles de Mita, S.A. de C.V., Promociones Bosques, S.A. de C.V. and Inmobiliaria Dine, S.A. de C.V.

From time to time, we have merged our subsidiaries to streamline and simplify our corporate and administrative structure. In 2001, Girsa, S.A. de C.V. was merged with and into Desc, with Desc surviving the merger. In 2002, Division Dine, S.A. de C.V. was merged with and into Desc, with Desc surviving the merger. In 2003, Industrias Resistol, S.A. de C.V. was merged with and into Desc, with Desc surviving the merger.

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The following charts summarize our corporate structure as of December 31, 2003. The charts also show, for each company, our approximate direct or indirect percentage of equity or economic ownership interest. The charts have been simplified to show only our major and operating companies.

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(1) This subsidiary is reported under equity in associated companies and unconsolidated subsidiaries

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D. Property, Plant and Equipment

Our corporate headquarters and executive offices, which we own, are located in Mexico City, Mexico and measure approximately 6,400 square meters. We believe that all our current properties and facilities are adequate for our present needs.

For a description of our properties and plants, please reference each of the business segment descriptions set forth above under the heading Business Overview. We are not aware of any material environmental issues that may affect the company s utilization of its assets.

Item 5. Operating and Financial Review and Prospects

Basis of Presentation

You should read the following discussion together with our consolidated financial statements and the related notes included elsewhere in this annual report. The Financial Statements have been prepared in accordance with Mexican GAAP, which differ in significant respects from U.S. GAAP, in particular by requiring Mexican companies to recognize the effects of inflation. Note 4 to the Financial Statements provides a description of our significant accounting policies and Notes 23 and 24 to the Financial Statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Desc and reconciliation to U.S. GAAP of our majority net income (loss) and majority stockholders equity. Net income (loss) information included in this section consists of majority net income (loss), as referred to in the Financial Statements, and therefore is net of minority interests attributable to third party equity interests in some of our subsidiaries, unless discussed in another context.

The annual rates of inflation in Mexico, as measured by changes in the NCPI, were 4.4% in 2001, 5.7% in 2002 and 4.0% in 2003. Mexican GAAP requires that the Financial Statements recognize the effects of inflation. Financial statements are adjusted by applying NCPI factors. As a result, financial statements prepared under Mexican GAAP are stated in constant terms, that is, with adjustments for inflation, rather than in nominal terms. Therefore, all data for all periods in the Financial Statements, and the financial information derived from the Financial Statements presented in this section, unless otherwise indicated, have been restated in constant Pesos as of December 31, 2003. Increases or decreases shown as percentages reflect variations in constant Pesos.

Overview

We faced a very challenging year in 2003 (as well as in the prior two years), which was principally due to the disappointing growth of the Mexican economy (1.3%) and the contraction of the manufacturing sector in the United States (-2.2%), mainly due to the lack of investment by corporations. These anemic market and economic conditions affected both us and our clients. As a result, we experienced a decrease in sales volume and a significant decrease in cash flows (from Ps. 1,382,125 in 2002 to Ps. 976,775 in 2003). This decrease in cash flows prevented us from satisfying certain financial covenants in our credit agreements. In response to the challenging business environment, we undertook the following steps:

Debt restructuring: At the end of 2003, we refinanced several of our then existing credit agreements, which extended the maturities of these loans and relaxed certain financial covenants.

Operational restructuring: We focused on improving our operations and reducing our operating costs in order to increase our cash flows.

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Administrative restructuring: We undertook a major reduction of personnel by laying off 1000 employees, which enabled us to improve our efficiency, competitiveness and flexibility. We anticipate that this restructuring will yield significant savings and we expect to reduce operating costs to 15% in 2004.

Divestiture of non-strategic assets: During 2003, we sold non-strategic businesses for approximately $100 million, the proceeds of which were used to reduce our debt levels and strengthen our cash flows.

We believe that these measures will enable us to become a stronger competitor in 2004 and allow us to commence recovering shareholder value. In furtherance of these goals, we completed an increase in capital stock in 2004. The proceeds of the capital increase and internally generated cash flows were used to prepay $162 million of our long-term credit facility and $20 million of our revolving bank credit line and $74 million will be used to redeem the outstanding notes on June 30, 2004.

Our Businesses in 2003

The closing in 2002 of the DaimlerChrysler plant in Lago Alberto continued to affect the Automotive Sector s sales of stamped parts, axles and propeller shafts. In addition, the delay in initiating the Tractor Project (which consists of the operation of certain production lines acquired from Dana Corporation) significantly affected the Automotive Sector s sales and profit margins.

The Chemical Sector was affected by the pressure on sale prices caused by the global oversupply of chemicals and by the increase in prices for principal raw materials. These factors caused a reduction of the Chemical Sector s profit margins even though its sales volume increased from 2002 levels. During 2003, the Chemical Sector continued its strategy of migrating towards specialty chemicals products, which yields higher profit margins.

Our branded food business increased its operating margins by, in part, marketing its brands as high-quality products. New product lines, such as new canned peppers, were introduced into the market and enabled the food business to increase its market share.

In our pork business, we closed our Bajio pork operations, which was operating at a loss. This closing had a positive impact on our results. Our pork business in the Southeastern part of Mexico achieved reasonable profits, in part, due to the recovery of international pork prices during 2003.

The Real Estate Sector experienced exceptional sales and cash flow due to sales from its Bosques de Santa Fe and Punta Mita projects, as well as the sale of a territorial reserve in the State of Mexico and land from our Arcos Bosques development. The construction of the Arcos Bosques North Building C was completed, and more than half of the building was sold during the presale stage.

Financial Restructuring

In 2002, we entered into two credit agreements (the **Credit Agreements**). One credit agreement, for which BBVA-Bancomer, S.A. acted as the administrative agent, was for an amount of Ps. 1,300 million (or $130 million) with a maturity of five years and an average life of 3.3 years. The second credit agreement, for which Citibank, N.A. acted as the administrative agent, was for an amount of $275 million with a maturity of five years and an average life of 3.5 years.

Each of the Credit Agreements required us to, among other things, maintain a certain Leverage EBITDA (net debt to earnings before taxes, depreciation and amortization) ratio each quarter. The

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ratios became gradually stricter with time. The Credit Agreements were amended effective as of December 31, 2002 to, among other things, relax the Leverage EBITDA covenant (which we had not complied with in December 2002), restrict the declaration and payment of dividends during 2003 (other than the payment of dividends declared in 2002) and limit the amount of our capital expenditures.

Due to the effects of the devaluation of the Peso against the Dollar and the decline of our revenues caused by the weak U.S. and Mexican economies as well as other factors, we failed to comply with the Leverage EBITDA covenant applicable during the first quarter of 2003. Desc s noncompliance with the Leverage EBITDA covenant constituted an event of default under the Credit Agreements.

In 2003, we reached an agreement with our creditors to the Credit Agreements and the majority of our short-term debt and entered into three new credit agreements. Approximately $720 million of debt was refinanced ($479 million in dollar-denominated long-term debt, Ps. 1,300 million in peso-denominated long-term debt and $112 million in revolving debt and letters of credit). These credit agreements require us to comply with certain covenants, including, among others, restrictions with respect to maximum permitted capital expenditures and the incurrence of indebtedness, and to meet certain financial ratios and tests.

As a result of restrictions in these credit facilities, we were forced to reduce our capital expenditures from Ps. 1,117.4 million in 2002 to Ps. 802.6 million in 2003. This refinancing improved our liquidity position and financial flexibility through the extension of debt maturity dates, the relaxing of certain financial covenants and the establishment of a debt reduction program contemplating, among other things, the sale of certain non-strategic assets.

In 2004, we consummated an increase in capital stock. The proceeds of the capital increase and internally generated cash flows were used to prepay $162 million of our long-term credit facility and $20 million of our revolving bank credit line and $74 million will be used to redeem the outstanding Notes on June 30, 2004, thereby enabling us to reduce our total net indebtedness. The resulting improvement in our liquidity and capital structure should enhance our ability to access the capital markets in the future, thereby increasing our financial flexibility and enhancing stockholder value.

Restructuring of our Business Portfolios

We selectively divest businesses and assets that no longer fit in our strategic plan. We took the following steps in the years indicated to streamline our operations and concentrate on our core businesses:

In 2001:

- we sold our 51% participation in the Four Seasons Punta Mita Hotel;
- we sold our 51% participation in the Santa Fe shopping mall;
- we sold our clutch business; and

we swapped 60% of our valve business for 40% of TRW Inc. s piston business (pistons, pins and tappets). As a result, TRW acquired 100% of the valve business and Desc retained, through Desc Automotriz, 100% of the pistons, pins and tappets business and the Moresa brand.

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In 2002:

- we exited the following non-strategic businesses:
  - the spark plugs and electrical parts businesses;
  - the natural pigments business;
  - the pig raising operation, located in the Bajío region (the Food Sector); and
  - the shrimp business (which was disposed of by means of donation).

In 2003:

- we sold our adhesives and waterproofing businesses.

In 2004:

- we sold our aluminum wheel business to Hayes Lemmerz International, Inc. and acquired Hayes Lemmerz International Mexico, Inc. equity stake in Steel Wheels, S.A. de C.V., which manufactures steel wheels. Accordingly, Desc Automotriz now holds 100% of the shares of Steel Wheels, S.A. de C.V.;
- our equity ownership of Corfuerte, Authentic Acquisition Corporation and Nair Companies increased from 77.6% to 96.1%, from 81.3% to 99.9% and from 60% to 100%, respectively; and
- we closed our phenol business (Fenoquimia, S.A. de C.V.).

See the discussion below under the heading *Credit Facilities* regarding limitations under our new credit facilities on the divestiture of assets.

Critical Accounting Estimates

The preparation of the Financial Statements requires that we make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates, assumptions and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different estimates, assumptions, judgments or conditions. Our significant accounting policies are described in Note 4 to our Financial Statements. We evaluate our estimates, assumptions and judgments on an on-going basis, and we believe our most critical accounting policies that implicate the application of estimations, assumptions and/or judgments to be:

Revenue recognition

Revenues generated by the subsidiaries of the Automotive, Chemical and Food Sectors are recognized when the inventories are delivered or shipped to customers and customers assume responsibility for them. Revenue is recorded net of discounts. As discussed below, we periodically review the collectability of accounts in order to determine and record the recoverability of our accounts receivable.

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The Real Estate Sector recognizes revenues and costs related to sales of developed plots and tracts when the sales contracts are formalized and sufficient down payment has been received. Therefore revenue is matched with costs incurred to reach the stage of completion to terminate the project. Our estimation of the percentage of completion requires considerable judgment and significantly impacts the revenues recognized by the Real Estate Sector. If the latest estimated costs determined exceed the total revenues contracted, the respective provision is charged to results of the year.

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.

Land held for development and real estate projects

Undeveloped land, which represents territorial reserves held for future development, and real estate projects in progress are recorded at acquisition and construction costs are restated at their value in Dollars translated at the exchange rate in effect as of year-end. Periodically, the accounting and market values of real estate assets are compared in order to adjust the value of such assets. This method is consistent with the practices followed in the real estate market in Mexico in order to reflect current market prices.

Allowance for bad debts

Estimates are used in determining our allowance for bad debts and are based on our historical collection experience, current trends, credit policy and a percentage of our accounts receivable by aging category. In determining these percentages, we look at the historical write-offs for our receivables. We also look at current trends in the credit quality of our customer base as well as changes in the credit policies. We believe that our allowance for bad debts is a critical accounting estimate because changes in this estimation could have a significant effect on our financial statements.

Useful Lives of Long-Lived Tangible and Intangible Assets

We consider that the determination of the useful lives of long-lived tangible and intangible assets to be a critical accounting estimate because such estimate has a significant impact on the related depreciation and amortization of these assets. In making these estimations, we take into account manufacturer specifications and internal operating estimates. Additionally, we consider the salvage value of buildings and equipment.

With regard to major repairs that can increase the useful life of an asset, the related costs are capitalized and the asset s useful life is revised accordingly. All other repairs and maintenance costs are charged to the results of the period in which they were incurred.

Impairments of assets

We recognize impairment losses on long-lived assets such as property, plant and equipment and goodwill used in operations when events and circumstances indicate that the assets might be impaired and the discounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

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In 2003, we early adopted the provisions of new Bulletin C-15, Impairment in the Value of Long-Lived Assets and Their Disposal . In connection with this adoption, we recorded long-lived tangible and intangible asset impairment totaling Ps. 1,384,294, net of taxes.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income (taxable on our best estimate of future results of operations), and, to the extent that we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. We believe that this accounting policy is critical because significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

Labor liabilities

Our employee liabilities include pension plan and seniority premium obligations. The determination of our obligation and expense for pension and other post-retirement benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13 to the Financial Statements and include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs, as well as expected contributions to the plan. In accordance with generally accepted accounting principles, actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and future expenses.

Contingencies

We account for contingencies in accordance with Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments . Such accounting principles require that we record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred or an obligation arises from a past event as of the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as environmental, legal and income tax matters requires us to use our judgment. When necessary, we engage an expert to assess the contingency and provide us with the best estimate of the contingency to be recorded in our financial statements. While we believe that our accruals for these matters are adequate, if the actual loss from a loss contingency is significantly different than the estimated loss, our results of operations may be overstated or understated. Our significant contingencies are described in Note 10 to our Financial Statements.

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A. Operating Results

Results of Operations for Years Ended December 31, 2001, 2002 and 2003

The following table provides information derived from our Financial Statements:

	Year ended December 31,		
	2001	2002	2003
	(In thousands, except percentages)		
Net sales	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055
Cost of sales	16,284,573	15,572,154	17,024,252
Gross margin	26.3%	23.5%	21.7%
Operating expenses	Ps. 3,846,043	Ps. 3,706,926	Ps. 3,888,339
Operating income	1,962,256	1,081,300	842,464
Operating margin	8.9%	5.3%	3.9%
Integral financial result	Ps. (348,332)	Ps. (1,273,832)	Ps. (1,351,473)
Impairment of fixed assets	(101,205)	(50,988)	(14,140)
Other income (expenses), net	(519,690)	(84,318)	(364,629)
Provisions for income taxes and employee profit sharing	65,083	251,725	165,986
Equity in associated companies and unconsolidated subsidiaries	(125,376)	(5,406)	11,252
Change in accounting principle			(1,384,294)
Extraordinary item	(309,998)		
Majority net income (loss)	45,446	(1,084,545)	(2,240,387)
Exports (Ps. in millions) [(1)]	Ps. 10,061	Ps. 9,287	Ps. 9,477

(1) The 2003 increase in exports as measured in Pesos is principally attributable to a favorable foreign exchange rate impact.

The following table presents financial data from our consolidated statements of income expressed as a percentage of net sales:

	Year ended December 31,		
	2001	2002	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	73.7	76.5	78.3
Gross margin	26.3	23.5	21.7
Operating expenses	17.4	18.2	17.8
Operating margin	8.9	5.3	3.9
Integral financial result	(1.6)	(6.3)	(6.2)
Equity in associated companies and unconsolidated subsidiaries	(0.6)	(0.0)	0.0
Other expenses, net	(2.4)	(0.4)	(1.7)
Majority net income (loss)	0.2	(5.3)	(10.3)

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Foreign Exchange Rates

We transact business in many currencies other than the Dollar. On average in 2003, the Dollar was weaker against the Euro and was stronger against the Peso.

As a result of our foreign currency exposure, exchange rate fluctuations have a significant impact in the form of both translation risk and transaction risk on our financial statements. Translation risk is the risk that our consolidated financial statements for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various currencies of the reporting subsidiaries against the Dollars. Transaction risk is the risk that the value of transactions executed in currencies other than the subsidiary s measurement currency may vary according to currency fluctuations. The Automotive Sector and the Chemical Sector are particularly affected by foreign exchange rates because a significant portion of their revenues are in Dollars.

New Administrative Restructuring

In the past few years, we have experienced a decrease in sales, which resulted in an increase in operating expenses (administrative and sales) as a percentage of sales, from 13.5% in 1998 to 18.2% in 2002. As a result in 2003, we laid off approximately 400 administrative employees, which resulted in a decrease in our operating expenses to 17.8%.

However, in an effort to further reduce costs, we initiated a new organizational restructuring at the end of 2003. This restructuring resulted in a layoff of more than 1,000 administrative employees. We anticipate that this restructuring will yield significant savings and we expect to reduce operating expenses to 15% in 2004.

This restructuring project should be completed by the end of 2004 and is expected to allow us to have a more flexible, efficient and lower-cost organizational structure.

Additional Considerations

AquaNova Donation. In October 2002, our board of directors decided to donate our shrimp business (AquaNova) to the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). This was part of our broader efforts to divest assets that are underperforming or non-strategic, which we believe will enhance our competitiveness.

Closing of Bajío Operations. The decline of results of our pork business in 2002 can be attributed to the poor results in the Bajío region, as well as the high costs, low production levels, low efficiency and higher mortality of animals in that area. Accordingly, our board of directors decided to close the Bajío operations in September 2002. We incurred costs of Ps. 424,729 to discontinue the Bajío operations.

Fenoquimia. In 1994, Fenoquimia, S.A. de C.V., a wholly owned subsidiary of Desc (**Fenoquimia**), filed a lawsuit against, Sales Nacionales, S.A. de C.V. (**Sales Nacionales**), seeking to confirm the termination of certain agreements between them. Sales Nacionales filed a countersuit demanding, among other things, mandatory compliance with these contracts, plus the payment of damages and lost income. A final judicial resolution was issued on November 5, 1998, which ordered Fenoquimia to comply with the agreements in question and pay Sales Nacionales accrued damages and lost income, which amounts were to be approved by a court. On November 18, 2003, Sales Nacionales was awarded damages equal to Ps. 150,703. On December 11, 2003, Desc settled the claim with Sales Nacionales for an aggregate cash amount of Ps. 22,000 and real estate assets valued at Ps. 32,480, for which a reserve had previously been established.

Recall in the Automotive Sector. At the end of 2001, Stamping & Wheels, S.A. de C.V., an indirect 60% subsidiary of Desc, received a claim from its customer, Nissan Mexicana, S.A. de C.V. (**Nissan**) alleging the existence of defects in certain steel rims manufactured by Stamping & Wheels, S.A. de C.V. In 2003, Desc and Hayes Lemmerz Int. reached an agreement with Nissan to settle this claim for $7 million pursuant to an installment payment plan. As of December 31, 2003, the outstanding balance of the settlement payment was $2.7 million, which was recorded as a warranty liability. The final payment was made in May 2004.

Hayes Lemmerz Mexican Joint Venture. On January 15, 2004, Desc Automotriz and Hayes Lemmerz International Mexico, Inc. (**HLI**) agreed to end their joint venture. In furtherance of this agreement and in settlement of then pending litigation claims, Desc sold its aluminum wheel business to Hayes Lemmerz International, Inc. and acquired HLI s equity interest in Steel Wheels, S.A. de C.V. Accordingly, Desc Automotriz now holds 100% of the shares of Steel Wheels, S.A. de C.V., which manufactures steel wheels. As of December 31, 2003, Desc adjusted the realizable value of the fixed assets of the aluminum wheels plant based on the selling price to HLI, generating a charge to year-end results of Ps. 114.2 million, net of taxes.

2003 and 2002 compared. Consolidated net sales for 2003 increased 6.8%, reaching Ps. 21,755,055 versus Ps. 20,360,380 in 2002, mainly due to improved revenues in the Chemical, Food and Real Estate Sectors. On the other hand, sales in the Automotive Sector decreased 10.4%. Exports totaled Ps. 9,477 million (or $860 million) representing a 2.0% annual increase principally due to a favorable exchange rate. The Chemical Sector increased its exports by of 22.4% and the Automotive Sector s exports decreased by 8.1%. During 2003, our profitability was adversely affected by expenses for the implementation of the Tractor Project and non-recurring charges in the Automotive Sector, significant increases in the prices of basic raw materials used by the Chemical Sector, and increases in the Food Sector s raw material prices. Cost increases could not be transferred to our customers due to the weakness of the markets. Therefore, our margins were adversely affected. Operating expenses increased 4.9% due to higher administrative and sales expenses. As a result, operating margin decreased from 5.3% in 2002 to 3.9% in 2003.

2002 and 2001 compared. Consolidated net sales for 2002 decreased 7.8% to Ps. 20,360,380 from Ps. 22,092,872 in 2001, and exports were Ps. 9,286,698 or ($902 million), representing a 7.6% decrease from 2001. These decreases were mainly due to the economic slowdown in the U.S. and Mexico, which started in 2001 and continued in 2002, primarily affecting the Autoparts and Chemical Sectors. In addition, net sales was also affected by higher raw material costs in the Chemical Sector, which were not passed on to final product prices at the same rate, and foreign currency exchange translation effects. Cost of sales decreased 4.4% from Ps. 16,284,573 in 2001 to Ps. 15,572,154 in 2002, principally due to the cost-reduction programs we implemented during the year, which was offset by the higher raw material costs. Our gross margin was 23.5% in 2002, which was lower than the 26.3% gross margin reported in 2001. Operating expenses decreased 3.6% from Ps. 3,846,043 in 2001 to Ps. 3,706,926 in 2002, due to our cost-reduction measures. As a result, operating margin decreased from 8.9% in 2001 to 5.3% in 2002. The factors described above and the charges for discontinued operations contributed to our net majority loss in 2002.

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Segment Reporting

Automotive

The results of the Automotive Sector continued to be affected by the slow growth of the U.S. economy affecting the results of the Automotive Sector. Production in the NAFTA region declined by 3%, reaching 16.2 million vehicles and the Mexican automotive industry declined 13% compared with 2002. Additionally, Ford, General Motors and DaimlerChrysler, the North American OEMs, which represented 38% of our sales, lost 2% of the market to non-American manufacturers) globally. Our clients reduced their inventory levels by temporarily shutting down some of their assembly plants and using various sales promotions such as 0% financings and price discounts, which adversely affected our sales volume.

The following table presents selected operating data for our Automotive Sector:

	Year ended December 31,				
	2001	Change from Previous Year (%)	2002	Change from Previous Year (%)	2003
	(In thousands, except percentages)				
Net sales	Ps. 10,157,225	-14.0%	Ps. 8,731,810	-10.4%	Ps. 7,820,304
Cost of sales	7,674,936	-10.4%	6,877,621	-5.5%	6,500,085
Gross margin	24.4%		21.2%		16.9%
Operating expenses	Ps. 1,337,918	-9.6%	Ps. 1,210,105	-9.6%	Ps. 1,093,549
Operating income	1,144,371	-43.7%	644,084	-64.8%	226,670
Operating margin	11.3%		7.4%		2.9%

2003 and 2002 compared. During 2003, the Automotive Sector s net sales decreased by 10.4%, from Ps. 8,731,810 in 2002 to Ps. 7,820,304 in 2003, and operating income decreased 64.8% from Ps. 644,084 in 2002 to Ps. 226,670 in 2003. These decreases were attributable to:

a 13% decline in annual production of cars and light trucks in Mexico to 1,518,628 units, and a 1.35% drop in the United States to 11,825,151 units;

temporary shutdowns of several assembly plants operated by General Motors, Ford, Renault-Nissan, Volkswagen and DaimlerChrysler in order to reduce inventory levels;

lower sales of axles, transmissions, pistons, wheels and stamping products due to a decreased demand from OEMs in the United States and Mexico, such as DaimlerChrysler, General Motors, Eaton and Renault-Nissan;

the impact on operating income of pre-operating expenses relating to the implementation of the Tractor Project installation at the propeller shaft, axle and forge businesses; and

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the non-recurring charges associated with the write-off of inventory, pension reserves and guarantees, asset value adjustments, and administrative restructuring costs.

Sales were positively affected by:

The Tractor Project consists of the manufacturing and sale of parts for axles, semi-axles and output-shafts to Dana. In 2002, phase I of the project was implemented and included propeller shafts and forging. During 2003, phase II was implemented and included the platform and axle businesses. The Tractor Project generated $66 million in sales during 2003. As of today, the project is operating at full capacity.

Our gear business began supplying components to BMW North America for the front axle of its X5 platform as well as components for the front axle of Nissan s ZW platform.

During 2003, exports sales were Ps. 5,233,967 (or $475 million), which represents an annual decrease of 8.1% compared to Ps. 5,695,321 in export sales during 2002. Cost of sales decreased 5.5%, from Ps. 6,877,621 in 2002 to Ps. 6,500,085 in 2003 due to lower sales. Operating expenses decreased 9.6% from Ps. 1,210,105 in 2002 to Ps. 1,093,549 in 2003, which in part reflects lower expenses due to lower sales volume. As a result of the above-mentioned reasons, operating margin decreased to 2.9% in 2003 compared to 7.4% in 2002.

2002 and 2001 compared. During 2002, the Automotive Sector s net sales decreased by 14.0%, from Ps. 10,157,225 in 2001 to Ps. 8,731,810 in 2002. Sales were impacted by the closing of the Daimler Chrysler Lago Alberto Facility and the non-renewal of certain contracts with DaimlerChrysler (as the parties failed to reach agreement on the principal terms thereof), which collectively translated into a decline of approximately $200 million in annual sales, the reduced demand of automobiles in the NAFTA market as a result of the economic slowdown in the U.S. and Mexico and the strengthening of the Peso versus the Dollar. Production in the U.S. and Mexican automotive industries rose 7.5% and declined 2.4%, respectively, when compared to 2001. In addition, during 2002, as part of our strategy to sell non-strategic assets we closed our spark plugs (Bujías Mexicanas, S.A. de C.V.) and electric parts (Industria Eléctrica Automotriz, S.A. de C.V.) businesses and sold the underlying operational assets; the total sales of these businesses represented Ps. 16.2 million in 2001 and did not contribute to our operating income. During 2002, exports sales were Ps. 5,695,321 (or $555 million), which represents an annual decrease of 13.6% compared to Ps. 6,592,039 in export sales during 2001. Cost of sales decreased 10.4%, from Ps. 7,674,936 in 2001 to Ps. 6,877,621 in 2002 due to lower sales volume. Operating expenses decreased 9.6% from Ps. 1,337,918 in 2001 to Ps. 1,210,105 in 2002, which in part reflects lower expenses due to lower sales volume. As a result, operating income was Ps. 644,084 in 2002 compared to Ps. 1,144,371 in 2001. As a result of the above-mentioned reasons, operating margin decreased to 7.4% in 2002 compared to 11.3% in 2001.

Chemicals

Introduction

During 2003, the Chemical Sector s sales increased by 9.1% and totaled Ps. 7,868.5 million despite the divestiture of its adhesive business and waterproofing products in the third quarter of 2003. Exports increased by 22.4%, totaling Ps. 3,106.3 million (or $282 million) principally due to increased exports in synthetic rubber (mainly to U.S., European and Asian markets) and polystyrene (mainly to U.S. markets). This increase in exports offset the decrease in Mexican market demand for some of our products. The domestic tire market showed a recovery during 2003 due to the reopening of the Michelin plant in Queretaro.

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During 2003, due to global instability beginning in late 2002 stemming from political problems in Venezuela, the impact of the SARS epidemic in China and the war in Iraq, the price of crude oil has significantly increased resulting in a rise in the prices of products and services derived from crude oil. Consequently, basic raw materials in the petrochemical industry, such as vinyl benzene, butadiene and acrylonitrile, experienced major price increases during 2003, some of them even reaching historical highs. In addition, the increase in natural gas prices has severely affected the petrochemical industry in general.

Such increased raw material costs could not be transferred immediately to the prices of final products due to aggressive competition and weak demand, which had a negative impact on the operating results of the chemical sector. As a result of these factors, the operating margin for 2003 was 2.6% compared to 4.7% in 2002.

The following table presents selected operating data for our Chemical Sector:

	Year ended December 31,				
	2001	Change from Previous Year (%)	2002	Change from Previous Year (%)	2003
	(In thousands, except percentages)				
Net sales	Ps. 7,334,118	-1.7%	Ps. 7,211,861	9.1%	Ps. 7,868,456
Cost of sales	5,473,909	-0.1%	5,470,290	15.6%	6,325,727
Gross margin	25.4%		24.1%		19.6%
Operating expenses	Ps. 1,310,418	6.8%	Ps. 1,400,156	-4.3%	Ps. 1,339,805
Operating income	549,791	-37.9%	341,415	-40.6%	202,924
Operating margin	7.5%		4.7%		2.6%

2003 and 2002 compared. Net sales increased 9.1%, from Ps. 7,211,861 in 2002 to Ps. 7,868,456 in 2003, despite the divestiture of the adhesives and waterproofing businesses in October 2003.

The increase in net sales was principally due to an increase in demand and a slight recovery of the global markets. The principal businesses that experienced an increase in sales were carbon black (22%), acrylics (16%), phosphates (2%) and polystrene (1%). Inventory repositioning by some of our clients, the seasonal increase in demand at the end of the year and a slight recovery of markets were the main reasons for the volume growth. The Chemical Sector improved its utilization rates (operating at approximately 90% of installed capacity for most of its products) due to a slight recovery of markets, mainly in Europe and the United States.

These increases were offset, in part, by decreases in the sale of:

- nitrile rubber, which was adversely affected by the slow recovery of the automotive industry, and

- specialty rubber, which was adversely affected by the strength of the Euro and the challenging competitive landscape in the European market.

The Chemical Sector businesses posted improvements in utilization, reaching 90% of installed capacity in practically all of its products (particularly in the solution rubber and polystyrene business) due to a slight recovery of the markets, mainly in Europe and the United States. Inventory repositioning by some of our clients and the seasonal increase in demand at the end of the year were the main reasons for the volume growth.

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Prices of our chemical products decreased in 2003, as a result of the anemic global economic environment and the continued presence of integrated competition with very low pricing. This situation resulted in a global oversupply of certain chemicals.

The weakness of the markets and the rise in raw material prices such as styrene monomer, butadiene monomer and acrylonitrile monomer, as well as natural gas, severely affected the industry in general. These increases in raw material prices were not passed on at the same rate to the price of our finished products, due to aggressive competition and the weak demand. As a result, operating income decreased 40% to Ps. 202,924 while the operating margin decreased to 2.6% in 2003, compared to 4.7% reported in 2002.

2002 and 2001 compared. Net sales decreased 1.7%, from Ps. 7,334,118 in 2001 to Ps. 7,211,861 in 2002. The continuing depressed global economic conditions, the global oversupply of chemical products and increased price competition contributed to the decrease in sales. The decrease in sales was primarily due to lower volumes during the second half of the year resulting from the worldwide economic slowdown, market contractions in the tire, furniture, construction, packaging and disposable products industries, as well as the high inventory levels of our clients. In 2002 prices were affected, in most businesses, by the depressed global economic situation, and strong competitive landscape characterized by low prices and the oversupply of some products such as plastic, rubber and laminates. In 2002, export sales were equal to Ps. 2,538,326, which reflects an 12% increase from 2001, but were partially offset by a decrease in demand in the Mexican market due to the closing of the Euzkadi tire-production facility, as well as the structural crisis in the footwear industry. During 2002, cost of sales decreased 0.1% to Ps. 5,470,290, compared to Ps. 5,473,909 in 2001, and operating expenses increased 6.8% to Ps. 1,400,156, compared to Ps. 1,310,418 in 2001. The decrease in costs of sales was due to cost-reduction measures and the greater utilization of installed capacity. The rise in the prices of raw materials like styrene monomer, butadiene monomer and acrylonitrile monomer, as well as, natural gas severely affected the industry in general, including Desc. The rise in raw material prices could not be transferred at the same rate to the final product due to the aggressive competition and the weak demand. Due to the decrease in sales, operating income declined 37.9%, from Ps. 549,791 in 2001 to Ps. 341,415 in 2002. As a result of the above-mentioned reasons, operating margin decreased to 4.7% in 2002 compared with 7.5% in 2001.

Food

Introduction

Branded Products

Sales of our branded products grew in 2003 despite a decrease in demand due to the weak economic activity in Mexico and the United States. The increase in sales volume growth was principally due to increased sales of our Del Fuerte chile and salsa lines, increased distribution of Ybarra tuna and increased sales of Zuko powdered drinks.

Our sales of branded products in the United States were affected by a strike at Southern California s three main convenience store chains and increased costs due to a small fish harvest.

In 2003, we increased our marketing and promotion of our branded food products. Our brand La Victoria continued to distinguish itself as a leader in the Mexican sauce market in the west coast of the United States and, as a result we introduced additional product lines under the La Victoria brand.

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Our Embasa brand, which includes jalapenos, chipotles, serranos, green tomatoes, peppers and sauces, maintained its market share. Tomato-based products marketed under the Del Fuerte brand had a 63.2% market share, demonstrating it is a leading product favored by consumers. Our Blasón coffee brand, which is a premium product in the toasted and ground coffee bean segment, improved its exports to the U.S. market by 40%.

Pork business

In 2003, our pork business experienced an increase in sales, principally as a result of a recovery of international pork prices and the stability of the Peso against the Dollar. Due to an increased demand of grains, we experienced higher raw material costs.

The following table presents selected operating data for our Food Sector:

	Year ended December 31,				
	2001	**Change from Previous Year (%)**	**2002**	**Change from Previous Year (%)**	**2003**
	(In thousands, except percentages)				
Net sales	Ps. 3,693,349	-3.0%	Ps. 3,581,989	8.4%	Ps. 3,883,594
Cost of sales	2,690,972	3.0%	2,772,484	2.1%	2,831,602
Gross margin	27.1%		22.6%		27.1%
Operating expenses	Ps. 827,450	-14.5%	Ps. 707,125	31.2%	Ps. 928,005
Operating income	174,927	-41.5%	102,380	21.1%	123,985
Operating margin	4.7%		2.9%		3.2%

2003 and 2002 compared. During 2003, net sales increased by 8.4%, from Ps. 3,581,989 in 2002 to Ps. 3,883,594 in 2003. This increase was mainly due to: a 7.6% increase in the sales of branded products in the domestic market, which was primarily supported by the strong performance of Del Fuerte tomato puree, Embasa ketchup; higher exports of our coffee to the United States; an 8.8% increase in pork sales, due to higher domestic and international pork prices, and a 3.3% increase in pork exports to Japan. Cost of sales increased 2.1% to Ps. 2,831,602 from Ps. 2,772,484 due to increases in raw material prices such as cans and cooking oil, which are used in our branded products business, and in 2002, grains, corn, sorghum and soy, which are used in our pork operations. Operating expenses increased 31.2%, from Ps. 707,125 in 2002 to Ps. 928,005 in 2003, principally due to costs associated with employee layoffs and higher marketing, administrative and sales expenses. As a result of the foregoing and the closing of our Bajio pork operations, operating income increased 21.1%, from Ps. 102,380 in 2002 to Ps. 123,985 in 2003, and operating margin increased to 3.2% in 2003 compared with 2.9% in 2002.

2002 and 2001 compared. During 2002, net sales declined by 3.0%, from Ps. 3,693,349 in 2001 to Ps. 3,581,989 in 2002, due to lower sales in our pork business, the closing of the Bajio operations, a 22% reduction in pork prices and the discontinuance of our shrimp business in 2001. The decrease in net sales was partially offset by increases in our branded food business and savings from cost reduction programs. In our pork business, exports to Japan increased by 21.9%. Cost of sales increased 3.0% to Ps. 2,772,484, compared to Ps. 2,690,972 in 2001 due in part to an increase in price of grains used in our pork business, and operating expenses decreased 14.5% from Ps. 827,450 in 2001 to Ps. 707,125 in 2002, due in part to our cost-reduction measures. Operating income decreased 41.5%, from Ps. 174,927 in 2001 to Ps. 102,380 in 2002, due to the restructuring of our branded food business and the implementation of a new distribution strategy. As a result, operating margin decreased from 4.7% in 2001 to 2.9% in 2002.

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Real Estate

In 2003, the Real Estate Sector was affected by the slow recovery of the North American economy.

Nevertheless, the Real Estate Sector had an exceptional year due to sales in Bosques de Santa Fe and Punta Mita, as well as the sale of a territorial reserve in the Estado de México and a piece of land from our Arcos Bosques development. The construction of the Arcos Bosques North Building C was completed and more than half of the building was sold during the presale stage.

With regard to our tourist projects, we continued selling Ranchos , which are large lots of approximately one hectare, near the seashore. Sales of lots adjacent to the golf course continued, as well as some luxury beach lots. Also, Punta Mita started the construction and promotion of the first phase of hillside villas.

As for our residential developments, we made significant advances in the urbanization as well as in the sales of Bosques de Santa Fe , a project located in the southern part of Santa Fe in Mexico City. This project s infrastructure and recreational areas are expected to be completed by October of 2004. Approximately 87% of the residential lots and 57% of the multifamily lots have been sold. Currently, there are more than 29 houses and 115 apartments under construction, with several families already living in this residential development.

We continued marketing the residential lots of La Estadía , Punta Ixtapa and La Punta Bosques (with only 2 lots available for sale in La Punta Bosques , 6 lots remaining in Punta Ixtapa and 15 lots remaining in La Estadia).

Due to the sale of Club Ecuestre, we had non-recurring revenues in 2003. Therefore, we anticipate that the Real Estate Sector s sales and operating margins for 2004 will be lower than 2003 figures.

The following table presents selected operating data for the Real Estate Sector:

	Year ended December 31,				
	2001	Change from Previous Year (%)	2002	Change from Previous Year (%)	2003
	(In thousands, except percentages)				
Net sales					
Residential	Ps. 340,837	4.1%	Ps. 354,770	241.9%	Ps. 1,213,066
Tourism/resort	293,710	-29.0%	208,437	111.7%	441,267
Commercial	252,560	-6.5%	236,076	33.3%	314,620
Total	Ps. 887,107	-9.9%	Ps. 799,283	146.3%	Ps. 1,968,953

Cost of sales[1]	470,429	-4.0%	451,623	180.2%	1,265,649
Gross margin	47.0%		43.5%		35.7%
Operating expenses	Ps. 257,240	2.1%	Ps. 262,747	10.7%	Ps. 290,975
Operating income	159,438	-99.5%	84,913	385.6%	412,329

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	Year ended December 31,				
	2001	Change from Previous Year (%)	2002	Change from Previous Year (%)	2003
	(In thousands, except percentages)				
Operating margin	18.0%		10.6%		20.9%

(1) Includes recognized cost of land, subcontracted construction costs, permit costs, architects and engineering fees and related costs. These costs are recognized proportionately as revenues are recognized for the particular project.

2003 and 2002 compared. During 2003, net sales increased by 146.3%, from Ps. 799,283 in 2002 to Ps. 1,968,953 in 2003. This increase was due to the sale of the Bosques de la Estadía and West Tower land reserves. The cost of sales increased by 180.2% to Ps. 1,265,649 in 2003 compared to Ps. 451,623 in 2002, and operating expenses increased by 10.7%, from Ps. 262,747 in 2002 to Ps. 290,975 in 2003, in each case due to an increase in net sales. Consequently, gross margin decreased to 35.7% in 2003 compared to 43.5% in 2002. Operating income increased 385.6% to Ps. 412,329 in 2003 from Ps. 84,913 in 2002 due to the increase in net sales. The operating margin in 2003 was 20.9% compared to 10.6% in 2002, which reflects a mixture of sales with higher margins. During 2003, capital expenditures decreased to Ps. 2,477 from Ps. 24,979 in 2002.

2002 and 2001 compared. During 2002, net sales declined by 9.9%, from Ps. 887,107 in 2001 to Ps. 799,283 in 2002. This decline was due to the slowdown of the U.S. and Mexican economies, thereby delaying sales of the Punta Mita and Bosques de Santa Fe projects into 2003. The cost of sales declined by 4.0% to Ps. 451,623 in 2002 compared to Ps. 470,429 in 2001, due to a lower sales volume and our cost-reduction programs, and operating expenses increased by 2.1%, from Ps. 257,240 in 2001 to Ps. 262,747 in 2002. Consequently, gross margin decreased to 43.5% in 2002 compared to 47.0% in 2001. Operating income declined 46.7% to Ps. 84,913 in 2002 from Ps. 159,438 in 2001 due to the decline in sales. The operating margin in 2002 was 10.6% compared to 18.0% in 2001, which reflects a mixture of sales with smaller margins.

Integral financial result

Integral financial result includes: (1) interest expense paid by us on financing, (2) interest earned by us on temporary investments, (3) the variations in our UDI-denominated debt which result from the inflation adjustment mechanism of these instruments, (4) foreign exchange gains or losses on our foreign currency-denominated monetary assets or liabilities, and (5) monetary earnings or losses due to the effects of inflation on our net monetary liability or asset position. To the extent that our monetary liabilities exceed our monetary assets during inflationary periods, we will generate a monetary position gain.

The following table presents the components of our integral financial result for each of the periods indicated:

	Year ended December 31,		
	2001	2002	2003
	(In thousands)		

Interest expense	Ps. (1,076,283)	Ps. (865,104)	Ps. (1,076,072)
Interest income	126,211	68,192	42,136
UDIS variation	(109,282)	(120,648)	(93,847)

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	Year ended December 31,		
	2001	2002	2003
		(In thousands)	
Exchange, gain (loss), net	336,046	(770,354)	(529,668)
Gain on monetary position	374,976	414,082	305,978
Integral financial result	Ps. (348,332)	Ps. (1,273,832)	Ps. (1,351,473)

2003 and 2002 compared. In 2003, the integral financial result reflected a loss of Ps. 1,351,473 compared to a loss of Ps. 1,273,832 in 2002. This result was mainly due to a combination of the following factors: (i) an increase of 24.4% in interest expense from Ps. 865,104 in 2002 to Ps. 1,076,072 in 2003, which reflects an increase in the interest spread of our debt and Ps. 200 million in banking fees, commissions and other expenses incurred in connection with our debt restructuring; (ii) a decrease of 38.2% in interest earned from Ps. 68,192 in 2002 to Ps. 42,136 in 2003, owing to lower levels of cash (iii) the depreciation of the Peso during 2003, which created an exchange rate loss of Ps. 529,668 in comparison to the exchange rate loss of Ps. 770,354 in 2002; (iv) a loss of Ps. 93,847 in 2003 from the two medium-term notes denominated in UDIS, and (v) a 26.1% decrease in the gain from monetary position, from Ps. 414,082 in 2002 to Ps. 305,978 in 2003, which is due to a lower inflation rate.

2002 and 2001 compared. In 2002, the integral financial result reflected a loss of Ps. 1,273,832 compared to a loss of Ps. 348,332 in 2001. This result was mainly due to the combination of the following factors: (i) a decline of 19.6% in interest expense from Ps. 1,076,283 in 2001 to Ps. 865,104 in 2002, which is attributable to the decline in interest rates; (ii) a 46.0% decrease in interest income from Ps. 126,211 in 2001 to Ps. 68,192 in 2002, which is due to a decline in cash levels and interest rates; (iii) a depreciation of the Peso exchange rate during 2002, which resulted in an exchange rate loss of Ps. 770,354 compared to an exchange rate gain of Ps. 336,046 in 2001; (iv) a loss of Ps. 120,648 from the two medium-term notes denominated in UDIS; and (v) a 10.4% increase in the gain from monetary position, from Ps. 374,976 in 2001 to Ps. 414,082 in 2002 due to an increase in the inflation rate in 2002.

Other expense and change in accounting principles

In 2003, net other expenses amounted to Ps. 1,763,063, compared to Ps. 135,306 in 2002. The principal expenses in 2003 consisted of amortization of goodwill, pre-operating expenses and patents of Ps. 154,377, severance payments of Ps. 121,131, loss on the sale of assets and stock of Ps. 87,661 and impairment of fixed assets of Ps. 14,140. In 2002, other expenses principally consisted of amortization of goodwill, expenses incurred prior to the commencement of operations and amortization of patents, which collectively were equal to Ps. 117,488 and impairment of fixed assets of Ps. 50,988.

Additionally, Desc adopted the new Bulletin C-15, which resulted in a charge to the 2003 year-end results of Ps. 1,384,294, net of taxes.

Income taxes and employee profit sharing

As a result of amendments to the Mexican income tax law, which became effective on January 1, 1999, the nominal corporate income tax rate was increased from 34% to 35%. The nominal corporate tax rate, however, may not be less than 1.8% of the average value of a company s assets, subject to some adjustments, whether or not the company had taxable income for the year. From 1999 through 2001, companies were permitted to defer a portion of their income tax liability on their net taxable income until dividends were paid from that income. For 1999, companies initially were required to pay income tax at a

32% rate, with the remaining 3% income tax liability payable on a proportional basis upon the distribution of dividends. For 1999, 2000 and 2001, the income tax liability due initially was 30% and the remaining 5% income tax could be deferred. Effective January 1, 2002, a new Mexican income tax became effective and eliminated the option to defer the 5% portion of the income tax payment and reduces the 35% tax rate 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. With some exceptions, the amendments to the Mexican income tax laws also limit the extent to which we may reduce our consolidated tax liability by offsetting tax liabilities in some of our subsidiaries against tax losses in other subsidiaries, to 60% of our equity interest in the relevant subsidiaries.

In addition, aside from wages and agreed-upon fringe benefits, we and each of our subsidiaries are required by law to provide to our workers PTU equal to 10% of taxable profit of the relevant company, calculated before any adjustments for inflation or amortization of tax losses for previous years.

Revised Bulletin D-4, Accounting for Income and Asset Taxes and Employee Profit Sharing, became effective on January 1, 2000 for all Mexican companies. Prior to the effective date of this Bulletin, companies reporting under Mexican GAAP did not record the deferred tax effect of recurring temporary differences in the timing of the recognition of income and expenses for financial statement and income tax purposes. These differences, together with other non-recurring and permanent differences between income and expenses for accounting and tax purposes, resulted in an effective income tax rate that was lower than the statutory rate. New Bulletin D-4 requires that the comprehensive deferred effects (assets or liabilities) applicable to the cumulative temporary differences between assets and liabilities for financial statement and tax purposes be recorded. Deferred employee profit sharing will be calculated only for the temporary differences of the year whose reversal period can be determined. Our effective income tax rate for corporate income taxes was (9.5)% in 2001, (43.6)% in 2002 and (7.0)% in 2003, as compared to the combined statutory rates of 35% in 2001 and 2002 and 34% in 2003.

U.S. GAAP Reconciliation

In 2003, we had a net loss under U.S. GAAP of Ps.350,876 compared to a net loss under Mexican GAAP of Ps. 2,240,387. In 2002, we a had net loss under U.S. GAAP of Ps. 2,178,062 compared to a net loss under Mexican GAAP of Ps. 1,084,545. In 2001, we had a net loss under U.S. GAAP of Ps. 133,910 compared to net income under Mexican GAAP of Ps. 45,446. These differences are attributable mainly to the recognition of deferred taxes and employee profit sharing, net of their monetary gain, and the effect of restatement of fixed assets based on NCPI for U.S. GAAP rather than Dollars as recorded under Mexican GAAP. The other major reasons for these differences relate to the recognition of the benefits of tax consolidation, preoperating expenses, as well as the minority interest and inflation effect of the U.S. GAAP adjustments and additionally in 2002 for the impairment of the goodwill.

For a further description of these and other adjustments under U.S. GAAP, see Notes 23 and 24 to the Financial Statements. Also, in Note 23 to the Financial Statement there is a discussion of recently issued accounting standards and their estimated impact on Desc s financial position and results of operations.

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New Accounting Principles

Mexican GAAP

In December 2001, the Mexican Institute of Public Accountants (the **IMCP**) issued new Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments (C-9) (**New Bulletin C-9**), whose provisions are mandatory for fiscal years beginning January 2003, although early application is encouraged. C-9 supersedes the former bulletins C-9, Liabilities , and C-12, Contingencies and Commitments , and establishes additional guidelines clarifying the accounting for liabilities, provisions and contingent assets and liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement of obligations. During 2003, there was no adverse effect as a result of the application of New Bulletin C-9.

In January 2002, the IMCP issued a new Bulletin C-8, Intangible Assets (**New Bulletin C-8**), whose provisions are mandatory for fiscal years beginning January 1, 2003, although early application is encouraged. New Bulletin C-8 supersedes the former Bulletin C-8, Intangibles , and 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 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. New Bulletin C-8 requires identification of all intangible assets to reduce as much as possible the goodwill relative to business combinations. During the year ended December 31, 2003, there was no adverse effect derived from the application of New Bulletin C-8.

In December 2002, the IMCP issued a new bulletin E-1, Agriculture (**New Bulletin E-1**), the observance of which is also compulsory for fiscal years beginning on or after January 1, 2003, although earlier adoption is recommended. New 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 destined to be sold as an agricultural product or as a comprehensive part of a biological asset. New 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. New 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 New Bulletin E-1 in the consolidated financial statements were not material.

In May 2003, the IMCP issued Bulletin C-12 Financial Instruments of a Debt or Equity Nature or a Combination of Both (**Bulletin C-12**), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. Bulletin 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, Bulletin 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. We believe that the effects of adopting this new accounting principle will not have significant effects on its consolidated financial position and results of operations.

In April 2003, Bulletin B-5, Financial Information by Segment (**Bulletin B-5**), issued by IMCP went into effect superseding the provisions in International Accounting Standard (**IAS**) No. 14, Segment Reporting, which was a supplement based on the provisions in Bulletin A-8, *Aplicación Supletoria de Normas Interacionales de Contabilidad* (Supplementary Application of International Accounting Standards), with respect to disclosing financial information by segment. The provisions of this new bulletin are substantially similar to those of IAS No. 14; however, Bulletin B-5 incorporates a managerial focus, which requires at a minimum disclosure of the segment information that is used by management to make decisions. These new provisions do not change the segment information previously presented by us.

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In March 2003, the IMCP issued Bulletin C-15, Impairment of Long-Lived Assets and their Related Disposal (**Bulletin C-15**), whose application is mandatory for financial statements of periods beginning January 1, 2004, although early application is encouraged. Desc early adopted the provisions of new Bulletin C-15. Bulletin C-15 establishes, among other things, that if there is an indication of impairment of a long-lived asset in such use, whether tangible or intangible, including goodwill, entities must determine the possible loss from impairment, unless they have evidence clearly demonstrating that such impairment is 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 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 Bulletin 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 goodwill of certain subsidiaries. The charge to the 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 .

U.S. GAAP

In June 2001, the Financial Accounting Standards Board (**FASB**) issued Statements of Financial Accounting Standards (**SFAS**) No. 143, which was effective for Desc beginning in 2003. Desc plans to adopt this new standard in 2003. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the year in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 did not have a significant impact on our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections , which requires that gains and losses from extinguishment of debt in all years presented be classified as extraordinary items only if they meet the criteria of Accounting Principles Board Opinion 30, Reporting the Results of Operations - Discontinued Events and Extraordinary Items . The amendment of SFAS No. 13, Accounting for Leases , eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The new standard will be effective for financial statements issued for fiscal years beginning after May 15, 2002 and lease transactions occurring after May 15, 2002, with early application encouraged. Desc adopted this new standard in 2003. SFAS No. 145 did not have a significant impact on our financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which nullifies Emerging Issues Task Force (**EITF**) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . The principal difference between SFAS No. 146 and EITF 94-3 relates to the SFAS requirement that a liability for a cost associated with an exit or disposal activity

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be recognized and measured initially at fair value when the liability is incurred, as opposed to recognition under EITF 94-3 at the date of an entity s commitment to an exit plan. The provisions of SFAS No. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. Previously issued financial statements cannot be restated, and the provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan prior to the initial application of SFAS No. 146. Desc adopted this new standard in 2003. SFAS No. 146 did not have a significant impact on our financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (**FIN 45**), which requires that a guarantor recognize, when certain guarantees are established, a liability for the fair value of the obligation undertaken in issuing such guarantee. FIN 45 also requires additional disclosure requirements about the guarantor s obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statement periods ending after December 15, 2002. FIN 45 did not have a significant impact on our financial position or results of operations.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities . 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 Desc in a variable interest entity created after January 31, 2003. For a variable interest held by Desc in a variable interest entity created before February 1, 2003, Desc 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.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , 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 SFAS No. 149 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 applied prospectively.

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. SFAS No. 149 did not have a significant impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , which aims to eliminate diversity in practice by requiring that the following three types of financial instruments be reported as liabilities by their issuers:

Mandatorily redeemable instruments (i.e., instruments issued in the form of shares that unconditionally obligate the issuer to redeem the shares for cash or by transferring other assets).

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Forward purchase contracts, written put options, and other financial instruments not in the form of shares that either obligate or may obligate the issuer to settle its obligation for cash or by transferring other assets.

Certain financial instruments that include an obligation that (1) the issuer may or must settle by issuing a variable number of its equity shares and (2) has a monetary value at inception that (a) is fixed, (b) is tied to a market index or other benchmark (something other than the fair value of the issuer s equity shares), or (c) varies inversely with the fair value of the equity shares, for example, a written put option.

To date these types of instruments have been variously reported by their issuers as liabilities, as part of equity, or between the liability and equity sections (sometimes referred to as mezzanine reporting) of the balance sheet. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and pre-existing instruments effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 did not have a significant impact on our financial position, results of operation or cash flows.

B. Liquidity and Capital Resources

Liquidity

We are a holding company and, as such, have no operations of our own. Our ability to meet our obligations is primarily dependent on the earnings and cash flows of our direct and indirect subsidiaries and the ability of those subsidiaries to pay us dividends, interest on intercompany loans or other amounts.

In 2002, we relied primarily on cash flows from our operations, as well as cash from our credit facilities, to fund our obligations. At the end of 2002 and in 2003, we were in default of the Credit Agreements and were unable to incur new indebtedness or borrow from our existing facilities. As a result, in 2003, we exclusively relied on internally generated cash flow and proceeds from the sale of non-strategic assets to satisfy our obligations.

During 2003, we used cash resources to (1) pay interest expense, (2) pay taxes, (3) finance working capital requirements and (4) finance capital expenditures. At the end of 2003, we used a portion of the proceeds from the sale of our adhesives and waterproofing business to make a $40 million principal payment on our indebtedness, which was the sole principal payment of the year. Since our debt refinancing in 2003, we have principally used our cash flows to prepay our indebtedness.

Currently, we do not have any capital commitments related to any capital expenditures investments. We have also increased our internally generated cash flows by reducing our working capital requirements and operating expenses. In addition, in March 2004, our stockholders approved a proposal to increase our capital stock by approximately Ps. 2.738 billion by issuing approximately 912,719,584 shares of our Series A and Series B shares. In connection with the capital increase, Desc entered into a Stock Subscription Cooperation Agreement with Inversora Bursátil, S.A. de C.V., Casa de Bolsa, Grupo Financiero Inbursa (**Inbursa**), pursuant to which Inbursa agreed to purchase up to Ps. 2 billion of any unsubscribed shares on the same terms as our stockholders. Approximately 502,544,745 shares or 55% of the total shares issued in the capital increase were subscribed by our stockholders, and 410,174,839 shares were sold to Inbursa. The proceeds from the increase in capital stock and internally generated cash flows were used to prepay our indebtedness in the following manner: $162 million was used to prepay our long-term credit facility, $20 million was applied towards repayment of our revolving bank credit line and $74 million will be used to redeem the outstanding Notes on June 30, 2004. As a result of these prepayments, the interest spread on certain of our credit facilities have been reduced. See the discussion below under the heading Credit Facilities for additional information on our new credit facilities.

In accordance with Desc s strategy and the terms of some of our credit agreements, the net available cash obtained from any asset sale or equity or indebtedness issuance, as well as a significant percentage of the excess cash generated by our operations will be used to reduce our outstanding indebtedness. The reduction of our debt levels will improve our financial situation, optimize our weighted average cost of debt, improve our financial indicators and recover our profitability levels.

Accordingly, we believe that these sources will be adequate to meet our cash requirements over the next 12 months.

The table below summarizes the sources and uses of cash for the three years ended December 31, 2003. Under Mexican GAAP, we present our consolidated statement of changes in financial position in accordance with Bulletin B-12, Statement of Changes in Financial Position (**Bulletin B-12**), which identifies the generation and application of resources by the differences between opening and final 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.

Principal Sources and Uses of Cash

Year ended December 31,

(thousands of constant Pesos at December 31, 2003)

	2001	2002	2003
Net cash generated by (used in) operating activities	Ps 3,545,599	Ps 79,122	Ps (1,628,153)
Net cash generated by (used in) investing activities	675,094	(520,714)	1,195,110
Net cash provided by (used in) financing activities	(4,480,930)	1,458,670	(1,348,553)
Payments of debt	(508,058)	(2,654,645)	(7,505,534)
Proceeds from debt	(1,384,338)	4,852,720	7,097,310
Dividends paid	(228,323)	(440,469)	(206,315)

Net Cash Generated by (Used In) Operating Activities

Net cash generated by operating activities was Ps. 3,545,599 in 2001 and Ps. 79,122 in 2002 and net cash used in operating activities was approximately Ps. 1,628,153 in 2003. In 2003, the cash used in our operating activities was primarily attributable to a loss in our integral financial result of Ps. 1,351,473, the extraordinary charge for the adoption of the Bulletin C-15 of Ps. 1,384,294 and increased working capital requirements equal to Ps. 505,633. This was partially offset by depreciation and amortization for Ps. 1,380,750.

As of December 31, 2003, we had cash and marketable securities totaling Ps. 286,453 on a non-consolidated basis, and Ps. 719,967 on a consolidated basis.

During 2003, we received Ps. 102,452 in dividends from our subsidiaries, which we used to pay dividends to our stockholders totaling Ps. 206,315 (which dividends were declared in 2002) and to service debt. During 2002, we received Ps. 285,814 in dividends from our subsidiaries, which we also used to pay dividends to our stockholders totaling Ps. 440,469 and to service debt. During 2001, we received Ps. 117,988 in dividends from our subsidiaries, which we used to pay dividends to our stockholders totaling Ps. 228,323. The dividend policies of the entity proposing to pay the dividend may change at the discretion of its stockholders and is subject to the limitations under our credit agreements. In addition, general limitations under Mexican corporate law apply to the amount of dividends payable by each of Desc and its direct and indirect subsidiaries.

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All of our series of shares are entitled to the same dividend and distribution rights, and, therefore, any dividends must be declared and paid in equal amounts with respect to all outstanding shares. We did not declare any dividends in 1999 and 2003, and paid cash dividends in 2000, 2001 and 2002. The table below presents the cash and stock dividends paid on each share, as well as the number of shares entitled to these dividends during the periods indicated. Dividend per share amounts have not been adjusted for inflation, and reflect share amounts outstanding immediately prior to the distribution of the dividend. Peso figures have been translated into Dollars at the Noon Buying Rate on the first date that the dividend was available for payment:

Period	Number of shares entitled to dividends	Dividends per share[(1)]
1999	1,492,363,425	0.00
2000	1,444,774,155	0.27
2001[(2)]	1,368,998,270	0.29
2002[(3)]	1,369,079,376	0.29
2003	1,369,079,376	0.00

(1) Dividends reflected in the table are in nominal Pesos.
(2) Paid on July 20, 2001, October 19, 2001, January 31, 2002 and April 18, 2002.
(3) Paid on July 25, 2002, October 24, 2002, January 31, 2003 and April 9, 2003.

In accordance with Mexican Law and our ByLaws, at least 5% of our net income, as reflected in the financial statements approved by our stockholders, must be allocated to a legal reserve until this reserve equals 20% of our paid-in capital. We increased this reserve in April 1998 to reflect the increase in paid-in-capital caused by the stock dividend declared in 1997. After this allocation, the remainder of our net profits is available for distributions as dividends subject to stockholders approval and the terms of any applicable law or indebtedness that restricts dividends.

The declaration, amount and payment of dividends are determined by majority vote of the holders of the Series A shares and the Series B shares, generally, but not necessarily, on the recommendation of our board of directors, and will depend on our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors and the holders of the Series A and the Series B shares.

As a general policy, approximately 35% of the legally available net income of Desc has been paid annually to our stockholders. However in 1999 and 2003, we were not permitted to pay cash dividends under the terms of our then existing credit facilities that have since been repaid. On December 23, 2003, Desc refinanced a significant portion of its bank indebtedness. As part of such refinancing, Desc agreed not to pay cash dividends to its stockholders unless it complies with certain financial ratios and its outstanding indebtedness is below certain thresholds. Our outstanding indebtedness does not currently allow us to pay any dividends. Therefore, at our last stockholders meeting held on April 26, 2004, our stockholders resolved not to pay cash dividends in 2004.

We cannot assure you that we will be able to pay cash dividends in the future or that any future dividends will be comparable to historical dividends.

Owners of ADSs are entitled to receive any dividends payable in respect of the Series B shares underlying the ADSs. The Depositary generally will convert cash dividends received by it in respect of Series B shares evidenced by ADSs from Pesos into Dollars and, after deduction or upon payment of expenses of the Depositary, pays these dividends to the holders of ADSs in Dollars.

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Net Cash Generated by (Used In) Investing Activities

In 2003, our investment activities primarily consisted of capital expenditures and the acquisition of the capital stock of our minority partners equity interests in Corfuerte and Authentic Acquisition Corporation. Net cash provided by investing activities in 2001 and 2003 was approximately Ps. 675,094 and Ps. 1,195,110, respectively. Net cash used in investing activities in 2002 was approximately Ps. 520,714.

Net Cash Generated by (Used In) Financing Activities

Net cash (applied to) generated by financing activities was Ps. (4,480,930) in 2001, Ps. 1,458,670 in 2002 and Ps. (1,348,553) in 2003. In 2003, net cash was primarily used to pay indebtedness of Ps. 892,913 and dividends in the amount of Ps. 206,315.

In the past, our principal subsidiaries generally did not rely on Desc or each other for financing, except when substantial capital expenditures were to be made and in other limited circumstances. Since the last quarter of 2001, Desc has been the source of financing for our subsidiaries through intercompany loans. We anticipate that Desc alone will make future debt offerings in the capital markets. The proceeds of any future offerings of this kind would be used to repay debt at the Desc level or, to the extent required by a subsidiary and to the extend permitted by the covenants in our credit agreements, would be provided to the subsidiary either by means of a capital contribution or an intercompany loan, as determined by Desc at the time. See below under the heading Credit Facilities for a discussion of the restrictions under our credit agreements.

Credit Facilities

As of December 31, 2003, our consolidated liabilities were Ps. 11,801 million. Of this amount, Ps. 1, 283 million are Peso-denominated, Ps. 2,282 are UDIS, Ps. 7,418 ($662 million) are Dollar-denominated and Ps. 818 ($73 million) correspond to the Notes. The total indebtedness of our syndicated credit facilities is Ps. 8,064 million (including the Peso, Dollar and revolving credit facilities)

As part of our 2003 restructuring plan, we reached an agreement with our creditors to refinance our then existing syndicated loans and the majority of our short-term debt. Approximately $720 million of debt was refinanced ($479 million in dollar-denominated long-term debt, Ps. 1,300 million in peso-denominated long-term debt and $112 million in revolving debt and letters of credit). The refinancing substantially reduces our short- and medium-term financial requirements as the maturities for the remaining debt are $27 million for 2004 and $18 million for 2005.

In connection with the refinancing, we entered into the following credit agreements:

Credit Agreement, dated as of December 19, 2003, among Desc, as the borrower, Citibank, N.A. as the administrative agent, and the lenders party thereto from time to time for a $479 million credit facility (the **Dollar Facility**). The facility amortizes in 6 equal installments, payable on June 30, 2006, December 31, 2006, June 30, 2007, December 31, 2007, June 30, 2008 and December 19, 2008.

Revolving Loan and Letter of Credit Agreement, dated as of December 19, 2003, among Desc, as the borrower, Citibank, N.A. as the administrative agent, and the other entities and lenders party thereto from time to time for a $112 million revolving credit and letters of credit facility (the **Revolving Facility**). The facility amortizes on June 30, 2006.

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Credit Agreement, dated as of December 23, 2003, among Desc, as the borrower, BBVA Bancomer, S.A. as the administrative agent, and the lenders party thereto from time to time for a Ps. 1,300 million credit facility (the **Peso Facility**, and together with the Dollar Facility and the Revolving Facility, the **New Credit Facilities**). The facility amortizes in 6 equal installments, payable on June 30, 2006, December 31, 2006, June 30, 2007, December 31, 2007, June 30, 2008 and December 23, 2008.

We used the proceeds from our recent increase in capital stock and internally generated cash flows to prepay $256 million of our debt during the second quarter of 2004. As of May 2004, our total net indebtedness was $761 million.

As a result of this prepayment, the interest rate applicable to the New Credit Facilities decreased:

for the Dollar Facility debt, the applicable rate is LIBOR + 250 basis points;

for the Peso Facility debt, the applicable rate is TIIE + 250 basis points; and

for the Revolving Facility, the applicable rate is LIBOR + 250 basis point.

Each of the New Credit Facilities provides for a reduction in interest rates if Desc s financial leverage improves.

The obligations of Desc under the New Credit Facilities are guaranteed by Desc Automotriz, Moresa, S.A. de C.V., Comercializadora Moresa, S.A. de C.V., Morestana, S.A. de C.V., Pistones Moresa, S.A. de C.V., Inmobiliaria Corcel, S.A. de C.V., Inmobiliaria Unik, S.A. de C.V., Pintura Estampado y Montaje, S.A. de C.V, Agrokén, S.A. de C.V., Corporativo Dine, S.A. de C.V., Promociones Bosques, S.A. de C.V., Cantiles de Mita, S.A. de C.V., Aeropycsa, S.A. de C.V., Corporativo Arcos Desc, S.A. de C.V., Corporativo Arcos II, S.A. de C.V., Operadora de Nayarit, S.A. de C.V., Corfuerte, Alimentos del Fuerte, S.A. de C.V., Nair Industrias, S.A. de C.V., Pesquera Nair, S.A. de C.V., Inmobiliaria El Puente, S.A. de C.V., Authentic Acquisition Corporation, Authentic Specialty Foods Inc. and Cañada de Santa Fé, S.A. de C.V. (collectively the **Guarantors**). In addition, as security for the performance by Desc of its obligations under the New Credit Facilities, the following companies acted as pledgors of different assets: Desc, S.A. de C.V., Pistones Moresa, S.A. de C.V., Inmobiliaria Corcel, S.A. de C.V., Inmobiliaria Unik, S.A. de C.V., Pintura Estampado y Montaje, S.A. de C.V., Corporativo Arcos Desc, S.A. de C.V., Corporativo Arcos II, S.A. de C.V., Cantiles de Mita, S.A. de C.V., Promociones Bosques, S.A. de C.V., Desc Automotriz, S.A. de C.V., Moresa, S.A. de C.V., Operadora de Nayarit, S.A. de C.V., Corporativo Dine, S.A. de C.V., Corfuerte, S.A. de C.V., Authentic Acquisition Corporation.

The terms of the New Credit Facilities contain a number of restrictive covenants that impose significant operating and financial covenants on us including, among other things, restrictions on our ability to: (i) incur additional debt; (ii) pay dividends and make restricted payments; (iii) create liens; (iv) use the proceeds from sales of assets and subsidiary stock; (v) incur capital expenditures; (vi) enter into sale and leaseback transactions; (vii) enter into transactions with affiliates; and (viii) enter into certain mergers, consolidations and transfers of all or substantially all of our assets.

The New Credit Facilities require Desc to comply with certain financial covenants, such as maintaining:

- an interest coverage ratio in excess of 2.25. At the close of 2003, the ratio was 2.91.
- a ratio of total debt of subsidiaries to consolidated debt below 0.20. At the close of 2003, the ratio was 0.11.
- a ratio of consolidated debt to operating profit, plus depreciation to amortization, at below 5.35 based on nominal Pesos and Dollars. At the close of 2003, the ratio was 4.96.
- a ratio of consolidated debt to total capitalization below 0.55. At the close of 2003, the ratio was 0.53.

These ratios become gradually stricter over the term of the credit agreement.

The New Credit Facilities contain customary events of default, including, among others, the failure to pay amounts thereunder, breach of other obligations, any representation and warranty being incorrect or misleading in any respect, cross-defaults, certain insolvency events or ceasing to carry on business, imposition of any currency restrictions, change of control of Desc or any of the Guarantors, the failure of the corresponding security agreements to create or maintain a valid and duly perfected first priority security interest in and lien upon any of the collateral securing Desc s obligations under the corresponding credit agreements or breach of any covenants.

On April 27, 2004, we entered into: (a) the Consent, Waiver and First Amendment (the **First Amendment to the Dollar Facility** to our Dollar Facility, (b) the Consent, Waiver and First Amendment (the **First Amendment to the Revolving Facility**) to the Revolving Facility and (c) the Consent, Waiver and First Amendment (the **First Amendment to the Peso Facility** , and together with the First Amendment to the Dollar Facility and the First Amendment to the Revolving Facility, the **First Amendments**) to our Peso Facility. The purpose of the First Amendments was to give us greater flexibility from the covenants found in the New Credit Facilities. Specifically, the First Amendments allowed us to enter into various consents with lenders Citibank and Bancomer to, among other things, decrease the interest rates on the New Credit Facilities and to permit Desc to redeem the Notes.

Our failure to comply with the covenants contained in our outstanding debt instruments could result in an event of default, which could materially and adversely affect our operating results and our financial condition.

On July 12, 2000, Desc issued approximately Ps. 1 billion in UDI-denominated Medium Term Notes with a maturity period of seven years. These notes bear interest at a net rate of 8.20% and were rated MAA- by Fitch Ratings. This placement was done under the Ps. 3 billion program authorized by the CNBV, from which Ps. 850 million (or 324 million in UDIS) was placed during October 1999. **UDIs** are *Unidades de Inversión* or investment units, which are denominated in Pesos and adjusted periodically for inflation by Banco de México, the Mexican Central Bank.

In January 2000, Girsa entered into a ten-year, $105 million loan agreement with the International Finance Corporation. As a result of the merger between Girsa and Desc, Girsa s obligations under this loan agreement were assumed by certain of our Chemical Sector subsidiaries with a guarantee by Desc of those obligations. The proceeds from this loan were used to fund the establishment of a joint venture in the synthetic rubber business, increase capacity at various facilities, implement quality, technology and process improvements in various businesses, and implement various cost reduction programs as well as maintenance and environmental investments. As of December 31, 2002, we had borrowed all $105 million under this facility.

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In October 1999, Desc issued approximately Ps. 850 million of UDI-denominated Medium Term Notes due 2006. These notes were our first issuance under a Ps. 3 billion program structured by the Chase Manhattan Bank Mexico and authorized by the CNBV. These notes bear interest at a net rate of 9% and were rated MAA- by Fitch Ratings. We used the proceeds of this issuance to refinance short-term debt.

On October 9, 1997, Dine placed the Notes, which are guaranteed by Desc, in international markets, bearing interest at 8.75% and maturing on October 9, 2007. As a result of Dine s merger into Desc, Desc has assumed all of Dine s obligations under the indenture for such notes. As of December 31, 2003, the carrying amount of the notes was $73 million and their fair value was $70.8 million. We are scheduled to redeem the Notes on June 30, 2004. See Item 8B. Significant Changes for a discussion of the redemption of the Notes.

We are in compliance with all covenants or other requirements set forth in our financing agreements.

See Note 11 to our Financial Statements for additional information concerning our credit facilities.

From time to time, as part of our financing activities, we and our subsidiaries have entered into various financing agreements, including bank sale-leaseback transactions.

Credit Ratings

In January 2004, Fitch Ratings lowered our national scale rating to BBB- (mex) from BBB (mex) and also maintained our unsecured bond rating on local and foreign currency to B , and our secured bond rating on local and foreign currency to B+ .

In February 2004, Fitch Ratings placed our national scale rating of BBB- (mex) on positive watch.

In March 2004, Standard & Poor s Ratings Services affirmed its B+ long-term foreign and local currency corporate credit ratings on Desc and on Desc Automotriz. The ratings were removed from credit watch. Moody s downgraded our Senior Implied rating to B3, from B2, and upgraded the Notes to B3, from Caa1.

The interest rates we pay on our current indebtedness are not directly impacted by changes in credit ratings. Desc has no rating-downgrade triggers that would accelerate the maturity dates of its debt. A change in ratings is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon Desc s credit agreements. Although credit ratings may impact the rate at which we can borrow funds, a credit rating is not a recommendation to buy, sell or hold securities. In addition, a credit rating is subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

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Capital Expenditures

The following table lists our capital expenditures and other investments by business segment for the periods shown. Capital expenditures and other investments may include investments in or acquisitions of the capital stock of existing businesses.

	Year ended December 31,		
	2001	2002	2003
		(In millions)	
Automotive Sector	Ps. 333.1	Ps. 777.0	Ps. 556.8
Chemical Sector	261.2	278.9	159.2
Food Sector	185.4	31.3	80.0
Real Estate Sector[1]	2.8	25.0	2.5
Desc	2.7	5.2	4.1
Total	Ps. 785.2	Ps. 1,117.4	Ps. 802.6

(1) Does not include the Real Estate Sector s operating expenses, such as expenditures for land acquisitions, construction costs, permits, architects and engineering fees and related expenditures.

In 2003, our capital expenditures related to:

- increasing the utilization capacity of our constant velocity joint facilities; and
- expenses incurred to implement the Tractor Project.

In 2002, most of our capital expenditures were allocated to:

- increasing the utilization capacity of our constant velocity joints facilities;
- installation of an additional forge production line; and
- expenses relating to the Tractor Project.

In 2001, most of our capital expenditures related to:

- increasing the utilization capacity of our constant velocity joints facilities; and increasing the capacity of our gear production business.

Pursuant to the terms of certain of our credit agreements and subject to certain exceptions, we may not make capital expenditures (in the aggregate) that exceed $60,000,000 in fiscal year 2003, $75,000,000 in fiscal year 2004, $90,000,000 in fiscal year 2005 and $50,000,000 in each of fiscal years 2006, 2007 and 2008. However, the limit for any of fiscal years 2006, 2007 and 2008 may be increased to $90,000,000 for such fiscal year if the ratio of our consolidated net indebtedness (as defined in our credit agreements) at the end of the prior fiscal year to consolidated EBITDA (as defined in our credit agreements) for the then most recently concluded period of four consecutive fiscal quarters of Desc is less than 3.0 to 1.0.

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Treasury Policy

Our treasury activities are coordinated and managed by the corporate treasury office in accordance with the policies approved by our board of directors and our Finance and Planning Committee. These policies include the management of investments and counterparty risk, interest rate risk and the hedging of currency risk, which are reviewed regularly and have not changed significantly over the past year. Compliance with these policies is tested on a regular basis. As with all hedging instruments, there are risks associated with the use of foreign currency forward exchange contracts, as well as interest rate swap agreements. While providing protection from certain fluctuations in currency exchange and interest rates, by utilizing such hedging instruments we potentially forego benefits that might result from other fluctuations in currency exchange and interest rates. We have entered into, and expect to continue to enter into, such hedging arrangements with counterparties that will be selected and approved primarily on the basis of general creditworthiness. However, any default by such counterparties might have an adverse effect on us.

Income Tax Refunds

In Mexico, each corporation is required to pay an asset tax (substantially equivalent to an alternative minimum income tax) for each year in an amount not less than 1.8% of the average value of its assets (subject to some adjustments), whether or not the corporation had taxable income for the year. Under Mexican income tax law, each year, each of our consolidated subsidiaries has been required to pay to Desc the amount of tax it would have paid to the Mexican government in respect of its annual taxable income and assets had the subsidiary filed a separate return. These payments were made pro-rata based on our proportionate equity interest in the subsidiary making the payment. We were required to collect these tax payments and pay to the Mexican government the amount of tax due on behalf of Desc and its subsidiaries calculated on a consolidated basis. We generally made payments in respect of each year early in the following year, after completion of our year end audit. Because we were entitled to apply this requirement on the basis of our consolidated taxable income, we were generally able to reduce our consolidated tax liability below the aggregate amount of tax payments we receive from our subsidiaries, depending on how many subsidiaries made payments based on the minimum tax and the extent of consolidated taxable income compared to consolidated taxable assets. Any amount by which these tax payments to Desc exceeded our consolidated tax liability for any year was retained by Desc and therefore provided a source of cash at the parent company level. We refer to these excess payments as refunds. These refunds and the Mexican tax system are addressed in Notes 4 and 16 to the Financial Statements.

As a result of amendments to Mexican income tax law, which became effective on January 1, 1999, each subsidiary made 40% of its income tax payments directly to the Mexican government. The income tax law also limits the extent to which we may reduce our consolidated tax liability by offsetting tax liabilities in some of our subsidiaries against tax losses in other subsidiaries including Desc, to 60% of our equity interest in the relevant subsidiaries, thus reducing the amount of refunds available to us.

From 1999 to 2001, the Mexican income tax rate was 35%, with the obligation to pay this tax each year at a rate of 30%, with the remainder payable upon distribution of earnings. Beginning in 2002, the option to defer a portion of the income tax payment until dividends were distributed was eliminated. The maximum income tax rate was 35% in 2002 and 34% in 2003, is 33% in 2004 and will be 32% beginning in 2005.

C. Research and Development, Patents and Licenses

We have proprietary technologies some of them protected as trade secrets, Mexican, U.S. and foreign patents, registered trademarks, trade names and applications for, or licenses in respect of, the

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same that relate to various businesses. We believe that certain of these intellectual property rights are intangible assets of material importance to Desc and to the businesses to which they relate. We also believe that the material patents, trademarks, trade names and trade secrets of our operating subsidiaries and divisions are adequately protected.

The following table lists our research and development investments by business segment for the periods shown:

	Year ended December 31,		
	2001	**2002**	**2003**
Automotive Sector	Ps. 119,161	Ps. 118,104	Ps. 162,850
Chemical Sector	69,920	65,962	41,652
Food Sector	458	13,256	0
Corporate R&D	60,443	48,866	45,000
Total	Ps. 249,982	Ps. 246,188	Ps. 249,502

D. Trend Information

Overview:

2004 will doubtless continue to be a year of many challenges, and, accordingly, we have established the following objectives:

To improve our financial position by increasing our earnings and completing an increase in capital stock.

To continue to reduce our indebtedness, which will improve our financial ratios and lower our financing costs.

To recover our profitability by improving our sales volume and operating profit.

To further consolidate our administrative structure and achieve a 15% operating-to-sales ratio.

To continue defining our core and non-core businesses, and divesting our non-core businesses, which will enhance our flexibility and competitiveness and allow us to focus on recovering shareholder value. Our flexibility to divest assets is subject to restrictions in certain of our credit agreements, regardless of whether those assets are pledged as collateral.

We accomplished our first objective in 2004 by successfully completing an increase in capital stock. The proceeds of the capital increase of $240 million and internally generated funds were used to prepay $162 million of our long-term credit facility and $20 million of our revolving bank credit line and $74 million will be used to redeem the outstanding Notes on June 30, 2004. As of May 2004, our net indebtedness was reduced to $761 million, thereby improving our debt profile and reducing our interest expense. We plan on using any excess cash to further reduce our indebtedness.

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We will continue implementing our administrative restructuring and are confident about reducing our sales-to-operating expenses ratio to 15%.

However, we believe that the recovery of our profitability levels will be affected by the following:

Automotive Sector: The discount programs being established by our customers, together with the significant increases in steel prices (which is the principal raw material for this sector) and problems encountered with steel supplies, give us no assurances that the Automotive Sector s earnings will improve from 2003 levels. We are evaluating whether to sell our low-profit margin (or, in some cases, negative margin) products or, unless there is an increase in the price of such products, eliminate the sale of such products.

Chemical Sector: During the first half of 2004, the chemicals industry, including the Chemical Sector, was adversely affected by the increase in oil prices, as well as the considerable increase in raw material prices. The Chemical Sector has been unable to transfer these cost increases to its customers at the same rate. However, we believe that raw material prices are beginning to stabilize, which may help the Chemical Sector improve its performance in comparison to the first half of 2004. In addition, we have seen an increase in the demand of our products due to slightly increased economic activity.

Food Sector: In general, the Food Sector shows some possibilities of continued growth in profitability, which stems from the implementation of extensive cost and expense controls and an increase in our sales attributable to the promotion of new products and brands, as well as an increase in price levels for our pork products. However, we cannot assure you that our operations will not experience increased raw material prices or that the current price levels of our food and pork products will be maintained. The demand for our products has been growing and is attributable to improved economic conditions.

Real Estate Sector: Generally, we expect a stable year in the Real Estate Sector. We expect to generate value with sales from our Punta Mita project. We believe that the demand of our real estate projects may be affected if there is an increase in interest rates.

E. Off Balance Sheet Arrangements

We utilize certain off-balance sheet arrangements, none of which are material. We own a 99.99% equity participation in Fomento Hipotecario, S.A. de C.V., SOFOL (or Limited Purpose Financial Corporation) (**Fomento**). Fomento is a mortgage company, which is regulated by the *Secretaria de Hacienda* (Mexican Treasury Department), the Banco de México and the CNBV. Fomento issues loans for the construction of new homes and the acquisition of real estate properties. Fomento s mortgages are subject to Mexican law and regulation by the CNBV and the *Secretaria de Hacienda* (Mexican Treasury Department).

Fomento obtained a $10 million line of credit from Grupo Financiero Inbursa, S.A. de C.V., which is guaranteed by Desc. As of December 31, 2003, Fomento had drawn $8.2 million on the line of credit.

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Fomento is reported under equity in associated companies and unconsolidated subsidiaries. A summary of the balance sheets as of December 31, 2002 and 2003 of this subsidiary is as follows:

	2002	2003
Cash and cash equivalents	Ps. 13,293	Ps. 11,441
Accounts receivable	93,619	98,075
Total assets	109,239	111,389
Banks loans	86,226	91,097
Total liabilities	86,627	91,843
Total stockholder s equity	22,612	19,546

F. Tabular Disclosure of Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2003:

	Payments Due By Period (In millions of Dollars)				
Contractual Obligations Total	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations[1]	1,009.7	17.2	778.5[4]	214.0	0.0
Capital (Finance) Lease Obligations	4.6	0.5	1.2	1.5	1.4
Operating Lease Obligations	55.7	13.3	24.0	11.3	7.1
Purchase Obligations[2]	103.7	22.3	51.4	15.0	15.0
Other Obligations[3]	6.7	6.7	0.0	0.0	0.0
Total	1,180.4	60.0	855.1[4]	241.8	23.5

(1) Under our bank facilities, the maturity on our outstanding debt could be accelerated if we do not maintain certain covenants. See also discussion above under the heading Credit Facilities .

(2) These purchase obligations arise under supply agreements with Nutrimentos Purina, S.A. de C.V., for the purchase of grain for our pork operations, and Pemex, for the purchase of natural gas.

(3) These payment obligations relate to the exercise of certain put rights held by Desc s minority stockholders (see the discussion below regarding the Nair Put right).

(4) In 2004, we prepaid $256 million of our indebtedness, thereby reducing our future principal payments.

In connection with our acquisition of certain companies in the Food Sector, we entered into the following stockholders agreements with our partners in those businesses:

Stockholders Agreement, dated July 31, 1998, among JPMCC Belgium (SCA) and Sixty Wall Street Belgium (SCA) (as the assignees of J.P. Morgan Capital Corporation, collectively, the **JP Group**), Agrobíos, S.A. de C.V. (which has been merged with and into Desc), Corfuerte and Desc (the **Corfuerte Stockholders Agreement**).

Stockholders Agreement, dated July 31, 1998, among the JP Group, Agrobíos, S.A. de C.V. (which has since been merged with and into Desc), Authentic Acquisition Corporation and Desc (the **Agrobios Stockholders Agreement**).

Stockholders Agreement, dated December 9, 1998, among Ignacio Gavaldón Guajardo, Conservas Gavaldón, S.A. de C.V. (**Conservas**), Grupo Pesquero Industrial Zeus, S.A. de C.V. (and together with Mr. Gavaldón and Conservas, collectively referred to as **Grupo Gavaldón**) and Corfuerte (the **Nair Stockholders Agreement**).

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In 2003, the JP Group notified Desc that it was exercising its put rights under the Corfuerte Stockholders Agreement. In addition, Desc agreed to purchase the JP Group s equity stake in Authentic Acquisition Corporation. As a result, on January 30, 2004, Desc acquired the JP Group s 18.6% equity stake in each of Corfuerte and Authentic Acquisition Corporation for a purchase price of $12.3 million and $2 million, respectively. Desc now owns 96.1% of Corfuerte and 99.9% of Authentic Acquisition Corporation.

The Nair Stockholders Agreement provides that Grupo Gavaldón has the right to exchange its shares in Nair Industrias, S.A. de C.V., Pesquera Nair, S.A. de C.V. and Propemaz, S.A. de C.V. (collectively, the **Nair Companies**) for shares in Corfuerte (the **Nair Put**) on or prior to August 14, 2003. Grupo Gavaldón did not exercise the Nair Put. However, on February 26, 2004, Corfuerte acquired Grupo Gavaldón s equity holdings in the Nair Companies for a purchase price of $10 million. Corfuerte now wholly owns the Nair Companies.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Our board of directors is responsible for the management of our business. Our ByLaws provide that the board of directors will be comprised of no less than 5 and no more than 20 directors as determined by our stockholders at each annual stockholders meeting. Our ByLaws also provide that our stockholders will elect the alternate directors, if any. Our ByLaws require that not less than 25% of our directors constitute independent directors (as defined by the Mexican Securities Law).

The holders of the Series A shares have the right to elect one more than half of the directors on our board. Stockholders or groups of stockholders holding shares of any one class, which represent at least 10% of our total equity capitalization, have a right to elect one director of the relevant series of shares for each 10% held. The holders of the Series B shares have the right to elect the remaining members of our board of directors. Each director is elected to serve a one-year term and remains in office until the person elected to replace such director takes office. At our April 26, 2004 stockholders meeting, our stockholders set the size of our board of directors at 11 members.

The table below lists the names of our directors who were elected by our stockholders at our annual meeting held on April 26, 2004, their principal occupation, their business experience (including other directorships), the type of director and the period of service on the board. Except as indicated below, none of our directors holds any offices or positions with Desc. The members of our board of directors serve a one-year term.

Name of Director	Principal Occupation And Positions With Desc	Business Experience	Type(1)	First Elected
Series A Directors:				
Fernando Senderos Mestre(2)	Chairman of the Board of Directors and Chief Executive Officer of Desc, S.A. de C.V.	Member of Desc s Finance and Planning Committee and Director of Industrias Peñoles, S.A. de C.V., Kimberly Clark de México, S.A. de C.V., Alfa, S.A. de C.V., Teléfonos de México, S.A. de C.V. and Televisa, S.A. de C.V.	Patrimonial / Related	1973

Alberto Bailleres González	Chairman of the Board of Directors of Industrias	Member of the Board of Directors of Desc, S.A. de	Related	1973

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Name of Director	Principal Occupation And Positions With Desc	Business Experience	Type(1)	First Elected
	Peñoles, S.A. de C.V., Grupo Nacional Provincial, S.A., GNP Pensiones, S.A. de C.V., Grupo Palacio de Hierro, S.A. de C.V., Profuturo GNP, S.A. de C.V., and Aseguradora Porvenir GNP, S.A. de C.V., Valores Mexicanos, Casa de Bolsa, S.A. de C.V. and a Trustee of the Instituto Technologico Autonoma de Mexico	C.V. and majority shareholder of Industrias Peñoles, S.A. de C.V., Grupo Nacional Provincial, S.A., GNP Pensiones, S.A. de C.V., Grupo Palacio de Hierro, S.A. de C.V., and Member of the Board of Directors of Valores Mexicanos, Casa de Bolsa, S.A. de C.V.		
Pablo José Cervantes Belausteguigoitia	Entrepreneur	Member of the Board of Directors of Desc, S.A. de C.V.	Independent	2004
Federico Fernández Senderos	President of Acciones Activas, S.A. de C.V. and President of Grupo SIM.	Member of the Board of Directors of Desc, S.A. de C.V. and Member of Desc s Finance and Planning Committee	Patrimonial / Related	1993
Carlos Gómez y Gómez	Chairman of the Board of Directors of Grupo Financiero Santander Serfin, S.A. de C.V., Banco Santander Mexicano, S.A., Banca Serfín, S.A., Casa de Bolsa Santander Serfín, S.A. and all the subsidiaries of Grupo Santander Serfin, S.A. de C.V.	Member of the Board of Directors of Desc, S.A. de C.V., Member of Desc s Finance and Planning Committee and Member of the Board of Directors of Cintra, S.A. de C.V., Bolsa Mexicana de Valores, Club de Banqueros, A.C., Club de Industriales, A.C., Grupo Yoreda, S.A. de C.V., Grupo Ceslo, S.A. de C.V., Grupo Trimex, S.A. de C.V., Arena Media Communications and Grupo Dupuis, S.A. de C.V.	Patrimonial / Related	1973
Ernesto Vega Velasco	Member of the Board of Directors and Secretary of Desc, S.A. de C.V., Vice Chairman of the Board of Directors and President of the Audit Committee of Wal-Mart de Mexico, S.A. de C.V.	Member of Desc s Finance and Planning Committee, Audit Committee, and Evaluation and Compensation Committee and Member of the Board of Directors of Grupo Nacional Provincial, S.A., Profuturo GNP, S.A. de C.V. and Industrias Peñoles, S.A. de C.V., Chief Financial Officer of Desc, S.A. de C.V. until 1990 and Corporative Vice President and CFO of Desc, S.A. de C.V. until 2001.	Related	1973

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Name of Director	Principal Occupation And Positions With Desc	Business Experience	Type[(1)]	First Elected
Series B Directors:				
Rubén Aguilar Monteverde	Entrepreneur	Member of the Board of Directors of Desc, S.A. de C.V. and Member of Desc s Audit Committee.	Independent	1978
Valentín Díez Morodo	Partner and Director of Grupo Modelo, S.A. de C.V.	Member of the Board of Directors of Desc, S.A. de C.V., Member of the Board of Directors of Kimberly Clark de México, S.A. de C.V., Grupo Financiero Banamex, S.A. de C.V., Alfa, S.A. de C.V., Grupo MVS, S.A. de C.V., Grupo Ferroviario Mexicano, S.A. de C.V., Grupo México, S.A. de C.V., Citigroup-Salomon Smith Barney, Acciones y Valores de México, S.A. de C.V. and Avantel, S.A.	Independent	1999
Carlos González Zabalegui	Vice Chairman and Chief Executive Officer of Controladora Comercial Mexicana, S.A. de C.V.	Member of the Board of Directors of Desc, S.A. de C.V. and Member of the Evaluation and Compensation Committee of Desc, S.A. de C.V.	Independent	1996
Prudencio López Martínez	Chairman of the Board of Directors of Sanvica, S.A. de C.V.	Member of the Board of Directors of Desc, S.A. de C.V. and Member of Desc s Audit Committee	Independent	1973
Luis Téllez Kuenzler	Managing Director at The Carlyle Group Mexico	Member of the Board of Directors of Desc, S.A. de C.V. Member of the Board of Grupo México, S.A. de C.V., Monex, Femsa and Global Industries Ltd. and Executive Vice President of Desc, S.A. de C.V. until December 2003	Related	2001

(1) The Mexican Code of Best Corporate Practices (*Codigo de Mejores Practicas Corporativas*) provides for the selection of three types of directors: Independent, Patrimonial and Related. Independent directors are selected for their experience and professional recognition and are subject to certain independence requirements as specified by the Securities Market Law and Code of Best Corporate Practices. Patrimonial directors are those who either qualify as a significant stockholder or are designated by a significant stockholder. Related directors are all those not falling within the previous two categories.

(2) Fernando Senderos Mestre is the uncle of Federico Fernández Senderos and the brother-in-law of Carlos Gómez y Gómez.

Senior Management

The following table presents information concerning our current senior management:

Name	Current Position	Prior Position	Years with Desc
Fernando Senderos Mestre	Chief Executive Officer and Chairman of the Board of Directors of Desc	Chief Executive Officer and Chairman of the Board of Directors of Desc, S.A. de C.V. since 1989	31

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Name	Current Position	Prior Position	Years with Desc
Juan Marco Gutiérrez Wanless	Chief Corporate Officer		
Andrés Baños Samblancat	Managing Director, Real Estate Sector	Chief Executive Officer of the Real Estate Business Subsidiaries since 1993	20
Mario Suro Rodríguez	Managing Director, Automotive Sector	General Manager of Spicer, S.A. de C.V.	30
Juan René Cárdenas López	Managing Director, Grupo Porcícola Mexicano	General Manager of Grupo Porcícola Mexicano, S. A. de C.V.	26
Nicolás Gutiérrez Montero	Managing Director, Chemical Sector	General Manager of Resirene, S.A. de C.V.	32
Roger Patrón González	Managing Director, Branded Products Sector	General Manager of Industrias Resistol, S.A. de C.V.	25
Arturo D Acosta Ruiz	Chief Financial Officer	Treasurer, Controller and Director of Financial Planning of Desc, S.A. de C.V.	22
Jorge Luis Almada Wright	Chief Strategic Planning Officer	Business Development and Foreign Trade and Purchasing Corporate Director of Desc, S.A. de C.V.	5
Abel Archundia Pineda	Chief Information Technology Officer		2
Jorge Jáuregui Morales	Chief Human Resources Officer		1
Carlos Rodríguez Castillo	Chief Internal Audit Officer	Controller of the Desc Corporate Office	25
Ramón F. Estrada Rivero	General Counsel	General Counsel of the Chemical Sector and the Food Sector	15

Statutory Examiner

In addition to electing our directors, our stockholders generally elect a statutory examiner and an alternate examiner at their annual ordinary meeting. Under Mexican law, the duties of the examiner include, among other things, examining the operations, books, records and any other documents of Desc and presenting at the annual ordinary stockholders meeting a report on the accuracy, sufficiency and reasonableness of the information presented by the board of directors at that meeting. Under our ByLaws, the statutory examiner is also authorized to call ordinary or extraordinary general stockholders meetings. Under our ByLaws, any stockholder or group of stockholders that represents 10% of our shares has the right to designate a statutory examiner and an alternate. This right was not exercised at the April 26, 2004 stockholders meeting. Our statutory examiner is José Manuel Canal Hernando, and his alternate is Daniel del Barrio Burgos.

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B. Compensation of Directors and Senior Management

For the year ended December 31, 2003, the aggregate compensation of all directors and officers of Desc, S.A. de C.V. as a group that was paid or accrued by us was approximately Ps. 89,896. This group includes 11 directors, one examiner, one alternate examiner and 13 officers, one of whom also serves as a director of Desc. We did not set aside or accrue any other funds for pension, retirement or similar benefits for our directors and executive officers as a group.

C. Board Practices

In accordance with our ByLaws, Mexican Law and the Mexican Code of Best Corporate Practices (*Codigo de Mejores Practicas Corporativas*), the committees of our board of directors consist of the Evaluation and Compensation Committee, the Audit Committee and the Finance and Planning Committee. Each of these committees is to be comprised of no less than 3 and no more than 7 directors, as determined at each annual general stockholders meeting, in addition to Desc s statutory examiner, who must attend (but not vote at) meetings of the board and of each of its committees. See Statutory Examiner above for more information about the statutory examiner s responsibilities. At the April 26, 2004 meeting, our stockholders set the size of the Finance and Planning Committee at 4 members, the size of the Audit Committee at 3 members and the size of the Evaluation and Compensation Committee at 3 members.

Evaluation and Compensation Committee: The duties of the Evaluation and Compensation Committee include recommending criteria to our board of directors for the selection and evaluation of the performance of our executive officers in accordance with general guidelines established by our board of directors, and analyzing the structure and amount of the compensation of our executive officers proposed by our Chief Executive Officer and making a recommendation to our board of directors. The current members of the Evaluation and Compensation Committee are Messrs. Ernesto Vega Velasco, Carlos González Zabalegui and Valentín Díez Morodo.

Audit Committee: The duties of the Audit Committee include evaluating and recommending to our board of directors candidates to serve as our external auditors, the terms under which such candidates will serve and the scope of their audit; assisting our board of directors in its supervision of our external auditors compliance with the terms of their engagement; acting as liaisons between our board of directors and our external auditors; ensuring the independence and objectivity of our external auditors; reviewing our auditors reports and letters and reporting the results of their review to our board of directors; and, when required by our ByLaws, reviewing (i) the terms of transactions that are not in the ordinary course of business of Desc or its subsidiaries, (ii) the terms of any purchases or sales conducted by Desc, or any of its subsidiaries for an amount of ten percent or more of our consolidated assets, (iii) the terms of guarantees of Desc or any of its subsidiaries for an amount of more than thirty percent of our consolidated assets, (iv) terms of, and approving, any material related party transactions, (v) the terms of any other transactions of Desc or any of its subsidiaries that represent more than one percent of our consolidated assets, (vi) oversight of Desc s internal accounting controls, internal controls over financial reporting and disclosure controls and procedures and (vii) oversight of Desc s code of ethics. The Audit Committee must submit an annual report at each annual stockholders meeting with respect to its activities during the prior year. The current members of the Audit Committee are Messrs. Prudencio López Martínez, Rubén Aguilar Monteverde and Ernesto Vega Velasco. Our board of directors approves, with the evaluation and recommendation of our Audit Committee, all audit and review services, as well as all tax and other permissible non-audit services (see also discussion in Item 16C. Principal Accountant Fees and Services).

Finance and Planning Committee: The duties of the Finance and Planning Committee include evaluating and, if applicable, recommending for approval to our board of directors the investment and financing policies proposed by our chief executive officer; evaluating and recommending general guidelines for our strategic planning; reviewing our annual budget; overseeing the implementation of our

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budget and strategic plan; and identifying the financial risks to which we are subject and evaluating our policies to manage those risks. The current members of the Finance and Planning Committee are Messrs. Fernando Senderos Mestre, Carlos Gómez y Gómez, Federico Fernández Senderos and Ernesto Vega Velasco.

At our annual stockholders meeting held on April 26, 2004, our stockholders approved the dissolution of the Executive Committee. Our chief executive officer will assume the duties of the Executive Committee, which include supervising the performance of our subsidiaries; appointing their top tier officers and determining their compensation with the advice of the Evaluation and Compensation Committee, establishing the premises and guidelines for the growth and development of our Company and its subsidiaries and deciding on their investments and financing, with the advice of the Finance and Planning Committee.

Our board of directors has six regular meetings scheduled per year and each of the committees has two regular meetings scheduled per year. See Item 6A Directors and Senior Management above for more information about our directors.

None of our directors has any type of arrangement or agreement with Desc whereby such a director would receive benefits upon termination of employment.

NYSE Rules

The new NYSE corporate governance listing standards will not apply to us until July 31, 2005. Once these standards become effective next year, they will allow us to follow Mexican corporate law and corporate governance practices on all matters except the audit committee s composition and function as prescribed by SEC Rule 10A-3 and related NYSE listing standards beginning July 31, 2005, so long as we explain the significant differences between the NYSE requirements and Mexican law and governance practices that we follow. In the very near future we will post on our website (www.desc.com.mx) an explanation of the significant differences between NYSE governance standards applicable in 2005 and our corporate governance practices that comply with Mexican law and practice.

D. Employees

The following table sets forth the approximate number of employees, by business sector, at December 31, 2001, 2002 and 2003:

	Year ended December 31,		
Sector	**2001**	**2002**	**2003**
Automotive	8,794	7,280	6,728
Chemical	4,083	3,698	2,309
Food	6,047	4,824	4,446
Real Estate	155	121	44
Corporate[1]	265	401	327

(1) At the end of 2002, all the corporate personnel of the four divisions was concentrated in one corporate company.

We employed approximately a total of 13,854 people as of December 31, 2003, of which 4,371 were non-union employees and 7,329 belonged to a union and 2,154 were temporary workers. The majority of these workers are based in Mexico. As a result of our administrative restructuring and the

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closing of non-strategic businesses, we reduced our workforce by 8.5% in 2003. The administrative restructuring was a result of a continuous increase in the operating cost (administrative and sales) to sales, due mainly to the decrease in sales of our businesses, and it resulted in the layoff of more than 1,000 administrative employees. As a result of our administrative restructuring, we now have a more flexible and efficient organization.

Each of our operating subsidiaries has entered into a collective bargaining agreement with the unions representing certain of our employees. These agreements usually have a term of two years and generally provide for an annual review of employees wages and working conditions. Overall, we consider that our relations with our workers and the diverse unions are very good.

E. Share Ownership by Our Executive Officers and Directors

Share ownership of Fernando Senderos Mestre and certain members of his immediate family and Eneko de Belausteguigoitia Arocena is set forth in Major Stockholders under Item 7. Except as noted in the immediately proceeding sentence and in the following table, none of our other directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock:

Name	Series A	Series B	Total	% Series A	% Series B	% Total
Federico Fernandez Senderos	30,630,000	18,966,017	49,596,017	2.6%	1.7%	2.2%
Valentin Diez Morodo	0	33,333,333	33,333,333	0.0%	3.0%	1.5%
Alberto Bailleres Gonzalez	24,718,633	0	24,718,633	2.1%	0.0%	1.1%

Item 7. Major Stockholders and Related Party Transactions

A. Major Stockholders

The following table presents information with respect to the ownership of Desc s Series A and Series B shares as of April 26, 2004 (except as noted in footnote 5 below), the date of our last annual stockholders meeting, by each stockholder known to us to own beneficially more than 5% of our outstanding Series A and Series B shares and by all of our officers and directors as a group:

	Number of Shares Owned	
Name	Series A	Series B
Fernando Senderos Mestre(1)(2)	503,205,141	29,007,277
Lucía Senderos de Gómez(1)(3)	144,131,635	39,979,225
Eneko de Belausteguigoitia Arocena(4)	144,416,199	14,855,767
Grupo Financiero Inbursa, S.A. de C.V. and related parties(5)	0	447,284,806
Officers and directors as a group(6)	503,336,941	36,261,459

Name	Percentage Owned	
	Series A	Series B
Fernando Senderos Mestre[1][2]	43.15%	2.60%
Lucía Senderos de Gómez[1][3]	12.36%	3.58%
Eneko de Belausteguigoitia Arocena	12.40%	1.30%
Grupo Financiero Inbursa, S.A. de C.V. and related parties[5]	0.00%	40.10%
Officers and directors as a group[6]	43.16%	3.25%

(1) Includes shares owned by Mr. Senderos s immediate family. Lucía Senderos de Gómez is the sister of Fernando Senderos Mestre and the wife of Carlos Gómez y Gómez, a director of Desc.

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(2) Includes shares owned by SEN, S.A. de C.V., a corporation wholly-owned by Fernando Senderos Mestre. Does not include the 54,862,528 Series A shares and 37,548,412 Series B shares owned by our pension funds, for which Fernando Senderos Mestre and other officers and directors serve as trustees or members of the investment committee, or shares owned by Lucía Senderos de Gómez. Does not include approximately 17,213,438 Series B shares currently owned by the trust referred to under Item 6. Compensation of Directors and Officers , as to which Fernando Senderos Mestre has voting control. Does not include 10,000,000 Series A shares and 10,000,000 Series B shares owned by Manuel Senderos Irigoyen, the father of Fernando Senderos.
(3) Includes 4,979,225 Series B shares owned by Carlos Gómez y Gómez, the husband of Lucía Senderos de Gómez.
(4) Includes 429,608 shares owned by companies controlled by Eneko de Belausteguigoitia Arocena.
(5) The information is based on a Schedule 13D/A filed with the SEC on May 19, 2004 filed by Grupo Financiero Inbursa, S.A. de C.V. and related parties, including Carlos Slim Helu and other members of his family, which are deemed to have beneficial ownership over such shares.
(6) Includes shares owned by Fernando Senderos Mestre.

Desc s major stockholders do not benefit from different voting rights than other stockholders in the same class. See Item 10. Additional Information Share Capital and Voting Rights for a discussion on the voting rights of each series of Desc s shares.

As a result of the shares owned by the Senderos family together with additional shares as to which Fernando Senderos Mestre exercises voting control (see the table above and Item 6. Directors, Senior Management and Employers Compensation of Directors and Officers for information about these additional shares), the Senderos family has the power to elect a majority of our board of directors, to control our general management and to determine the outcome of substantially all matters requiring stockholder approval. Except as provided in the immediately preceding sentence, to our knowledge, we are not directly or indirectly owned or controlled by another corporation, any government or any other natural or legal person severally or jointly. There is no arrangement known to us, the operation of which may at any subsequent date result in a change in control of Desc.

As a result of the reclassification of our Series C shares into Series B shares, the voluntary conversion of Series A shares into Series B shares (and vice versa) and the capital increase in capital stock, which all occurred in 2004 (see the discussion below in Item 8 for additional information), (1) Mr. Senderos s beneficial of the Series A shares decreased from 61.24% in 2003 to 43.15% in 2004 and his beneficial ownership of the Series B shares increased from .35% in 2003 to 2.60% in 2004, (2) Ms. Senderos de Gomez s beneficial ownership of Series A shares increased from 0% in 2003 to 12.36% in 2004 and her beneficial ownership of the Series B shares decreased from 26.63% in 2003 to 1.30% in 2004, and (3) Mr. de Belausteguigoitia Arocena s beneficial ownership of the Series A shares decreased from 14.70% in 2003 to 12.40% in 2004 and his beneficial ownership of the Series B shares decreased from 1.75% in 2003 to 1.30% in 2004. According to a Schedule 13D filed by Grupo Financiero Inbursa, S.A. de C.V. and other related parties with the SEC on December 17, 2003, Grupo Financiero Inbursa, S.A. de C.V. beneficially owned 42.8% of our Series C shares. As of the result of the foregoing, Grupo Financiero Inbursa, S.A. de C.V. now beneficially owns 40.10% of the Series B shares.

As of April 26, 2004, we had 17 ADS holders of record in the United States, holding approximately 849,971 ADSs, which represents 1.52% of our outstanding Series B shares. Since a larger number of ADSs are held by the nominee of the Depository Trust Company, the number of beneficial owners of our ADSs is greater than the number of record holders of the ADSs.

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B. Related Party Transactions

From time to time, we may enter into transactions with parties that have relationships with our officers, directors, significant stockholders or entities in which we have an ownership interest. We disclose all material transactions that, in our judgment, constitute related party transactions.

The table below sets forth information regarding loans extended by Fomento to members of our board of directors and our senior management as of May 2004. These loans were granted in Fomento s ordinary course of business and were made on market terms and conditions offered to the public. Fomento is a non-consolidated limited purpose financial corporation, which is regulated by the *Secretaria de Hacienda* (Mexican Treasury Department), Banco de México and the CNBV, and is subject to the provisions of the *Ley de Instituciones de Crédito* (Mexican Banking Law) and other rules, as applicable. Except for the loans to Messrs. Senderos and Tellez, all indebtedness described below was incurred prior to July 30, 2002, which is the date the United States Sarbanes-Oxley Act of 2002 came into effect, and no such loans were renewed or modified after July 30, 2002. Fomento has decided to sell the loans granted after July 31, 2002 to an unrelated financial institution(s), as soon as commercially practicable.

Name of Loan Recipient	Largest Aggregate Amount of Indebtedness Outstanding During Period (In Dollars)	Indebtedness Currently Outstanding (In Dollars)	Nature of Loan	Interest Rate
Abel Archundia Pineda	$ 215,000	$ 156,250	Home Mortgage Loan	TIIE
Jorge Luis Almada Wright	$ 225,000	$ 166,168	Home Mortgage Loan	LIBOR plus 6%
Andres Baños Samblancat	$ 1,980,000	$ 1,151,680	Commercial Property Loan	LIBOR plus 6%
Luis Téllez Kuenzler	$ 550,000	$ 482,131	Home Mortgage Loan	LIBOR plus 6%
Fernando Senderos Mestre	$ 607,000	$ 581,734	Home Mortgage Loan	LIBOR plus 6%

In addition, Desc also entered into the following related party transactions:

Desc and its subsidiaries sold 2 real estate lots and office space in our Arcos Bosques building, having an aggregate sales price of Ps. 5,740,000, to three companies affiliated with Andres Baños Samblancat, a member of our senior management.

In June 2003, Cantiles de Mita, S.A. de C.V. (**Cantiles**) sold all of the territorial reserves of Club Ecuestre Chiluca, S.A. de C.V. (**Chiluca**) for $76 million. Prior to May 29, 2003, Desc owned 77.26% of Club Ecuestre Chiluca, S. de R.L. de C.V. (**Club Ecuestre**) and Fernando Senderos and Lucía Senderos owned the remaining 22.74%. On May 29, 2003, Desc acquired the Senderos s 22.74% equity stake in Club Ecuestre and agreed to pay Fernando and Lucía Senderos their pro rata share (based upon their relative equity holdings in Club Ecuestre immediately prior to Desc s acquisition of the Senderos s equity stake, as noted above) of the proceeds of the sale of the Chiluca territorial reserves, with the balance of the proceeds being paid to Desc.

Fernando Senderos and his sister, Lucía Senderos, collectively own 11.6% of Lagos de la Estadia project with Desc owning 39.4% and other partners owning 49%. See Item 4 under the heading Real Estate for additional information.

On December 10, 2002, Fernando Senderos acquired a Fours Seasons Villa, located inside the Punta Mita development, which is worth $1.94 million. During the construction period, he paid 69.1% of the estate s value, and the balance of $600,000 was paid on January 27, 2004, when the villa was finally completed. Residents of this Four Seasons development may enter into leasing agreements with Four Seasons to have their homes rented to guests or used as a model for prospective homeowners and receive up to $16,000 per month based on the number of times such villa is used. Mr. Senderos has entered into such a leasing agreement.

In connection with our increase in capital stock in March 2004 (see Item 8. Significant Changes for a discussion of the increase in capital stock), Desc entered into a Share Subscription Collaboration Agreement with Inbursa. Such agreement established that, Desc was obligated to offer, and Inbursa was obligated to subscribe, subject to certain conditions, on the same terms offered to our stockholders, for itself or on account of third parties, up to the equivalent of Ps. 2,000 million of the shares not subscribed by our stockholders in connection with the increase in capital stock. This agreement terminated in accordance with its terms on May 19, 2004. Inbursa is a subsidiary of Grupo Financiero Inbursa, S.A. de C.V. Carlos Slim Helu and certain members of his family beneficially own, directly and indirectly, a majority of the outstanding voting equity securities of Grupo Financiero Inbursa, S.A. de C.V.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Financial Statements and other Financial Information

See pages F-1 through F-59 of this annual report, which are incorporated herein by reference.

Our external auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., which is the Mexican national practice of Deloitte Touche Tohmatsu. Prior to June 10, 2002, our external auditors were Ruiz, Urquiza y Cía, S.C. (**Ruiz Urquiza**), a former member firm of Andersen Worldwide, which was subject to the quality control procedures of Arthur Andersen LLP required for foreign associated firms that are embodied in the requirements of the SEC Practice Section of the American Institute of Certified Public Accountants. Subsequent to June 9, 2002, Ruiz Urquiza was subject to the quality control procedures of Deloitte & Touche LLP. The change in external auditors resulted from the integration of the partners and personnel of Ruíz Urquiza with Deloitte Touche Tohmatsu s prior Mexican national practice, Galaz, Gomez, Morfín, Chavero, Yamazaki, S.C.

Litigation

In 2003, our former subsidiary Girsa, S.A. de C.V. s joint venture partner, Uniroyal Chemical Company, Inc. (**Uniroyal**), in our currently wholly owned subsidiary, ParaTec Elastomers, L.L.C. (**ParaTec**), and Uniroyal s parent Crompton Corporation (**Crompton**) were implicated in an investigation by United States, Canadian and European authorities concerning alleged price fixing and anticompetitive activity in the nitrile butadiene rubber (**NBR**) and other elastomer and rubber chemical markets. In September 2003, ParaTec was accepted, as part of Crompton s application, into the Corporate Leniency Program of the U.S. Department of Justice (**DOJ**) and received a letter of conditional amnesty with respect to allegations of price fixing. As a condition of the amnesty, ParaTec and its representatives are required to cooperate in the ongoing investigation of the NBR industry and pay restitution to any person or entity injured as a result of the alleged anticompetitive activity in which ParaTec may have been a participant. So long as ParaTec observes the conditions of the letter, the DOJ

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will not bring a criminal prosecution against it. The conditional amnesty granted by the DOJ does not exempt ParaTec from possible civil lawsuits that any direct or indirect NBR purchaser may file, seeking damages incurred as a consequence of the alleged anticompetitive activity.

Last January, Canada s Attorney General and Commissioner of Competition granted ParaTec a provisional guarantee of immunity from prosecution under Canada s Competition Act. The immunity is conditional on ParaTec providing the Competition Bureau and the Attorney General information and evidence in connection with the Commissioner s inquiry into the NBR industry.

A similar investigation based on the same allegations is still pending in the European Union. Crompton did not include ParaTec in its application for conditional amnesty in the EU, which application, according to Crompton, was allowed. ParaTec is attempting on its own to obtain conditional amnesty in that jurisdiction as well, however a final resolution of this matter is still pending.

In December of 2003, a federal antitrust class action suit was commenced in federal court in Pennsylvania by Diamond Holding Corporation, on behalf of itself and other direct purchasers of NBR, against ParaTec, the parent holding company Desc and other sellers of NBR, including Uniroyal and its parent Crompton. The action seeks treble damages for alleged damages incurred as a result of the alleged price fixing scheme. Desc has filed a motion to dismiss all claims against it on the basis that, among other grounds, Desc is not adequately alleged to be a member of the alleged combination or conspiracy. ParaTec has answered plaintiffs amended consolidated complaint. While denying that it met with any defendants for the purposes of forming and carrying out a combination or conspiracy, ParaTec admitted that it met with representatives of some of the defendants to discuss the prices of NBR sold in the United States. ParaTec intends to defend both as to liability and damages, and as to damages will vigorously assert that if and to the extent there was any improper activity, that activity had no substantial impact on prices. ParaTec has also filed several crossclaims against Crompton and Uniroyal, which was the majority shareholder of ParaTec during most of the class period, seeking full indemnification, on the basis of certain contractual and non-contractual claims, for any losses that ParaTec may incur as a result of the suit, as well as injunctive relief, punitive damages, attorneys fees and costs and expenses. In the event that Desc s motion to dismiss is unsuccessful, Desc will assert a similar crossclaim.

Desc and ParaTec are also named defendants in a state court civil case commenced in Superior Court of California by Competition Collision Center L.L.C., on behalf of itself and other indirect purchasers of NBR in California. Plaintiffs seek treble damages for alleged price fixing and unfair competition in violation of California law. Desc and ParaTec intend to respond similarly in this action as they did in the federal action, except Desc may also move to dismiss for lack of personal jurisdiction in this state case.

As of this date, the contingencies related to this matter, including any amounts that will ultimately be paid in judgement or settlement by Desc and or ParaTec, together with the projected legal fees and expenses, can not be quantified. Any claims against us and any future claims could have an adverse impact on our financial condition, cash flows or results of operations.

In addition, we are involved in legal proceedings not described in this annual report that are incidental to the normal conduct of our business. Litigation is subject to many uncertainties, and we cannot predict the outcome of individual matters with assurance. It is reasonably possible that the final resolution of some of these matters could require us to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that we cannot reasonably estimate. Although the final resolution of any such matters could have a material effect on our consolidated operating results for a particular reporting period, we believe that it should not materially affect our consolidated financial position.

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B. Significant Changes

At stockholders meetings held on March 8, 2004, our stockholders approved the:

(i) mandatory conversion of all Series C shares into Series B, on a one-for-one basis (the **Reclassification**). As a result, the ADSs are now represented by 20 Series B shares. The Reclassication has enabled us to simplify our capital structure and we expect it will improve the liquidity of our capital stock;

(ii) voluntary conversion of Series A shares into Series B shares, and voluntary conversion of Series B shares into Series A shares, on a one-for-one basis, at the request of the corresponding stockholders, which was completed on May 19, 2004;

(iii) amendment to our ByLaws in order to allow Mexican and non-Mexican investors to hold Series A shares and our Series B shares; and

(iv) an increase of Desc s capital stock of approximately 2.738 billion pesos by issuing an aggregate of 912,719,584 of its common stock (both Series A and Series B), of which 502,544,745 shares were subscribed by Desc s stockholders and 410,174,839 shares were sold to Inbursa pursuant to a Stock Subscription Cooperation Agreement dated February 17, 2004. This agreement terminated in accordance with its terms on May 19, 2004.

On May 24, 2004, Desc notified Deutsche Bank Trust Company Americas (**Deutsche Bank**), pursuant to Section 1105 of the Indenture dated as of October 17, 1997 (the **Indenture**) between Desc, as issuer and guarantor (as successor-in-interest to Dine, the original issuer of the Notes), and Deutsche Bank, as trustee, that all of the outstanding Notes have been called for redemption on June 30, 2004 (the **Redemption Date**) at a price of 102.9167% of the principal amount together with accrued interest to the Redemption Date (the **Redemption Price**), in accordance with Section 1101(b) of the Indenture. The Notes will no longer be outstanding after the Redemption Date. Unless the Company defaults in paying the Redemption Price to the holders of the Notes, interest on the Notes will cease to accrue on and after the Redemption Date. Thereupon, the only remaining right of the holders of the Notes will be the receipt of the Redemption Price.

Item 9. The Offer and Listing

Trading Prices of our Shares and ADS

All series of our stock are listed on the Mexican Stock Exchange and our ADSs are listed on the New York Stock Exchange under the symbol DES .

As of April 26, 2004, approximately 849,971 of the Series B shares were held in the form of ADSs. It is not practicable for us to determine the number of Series B shares beneficially owned by U.S. persons.

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The table below sets forth for the periods indicated the high and low sales prices of the Series B shares on the Mexican Stock Exchange in nominal Pesos and the available high and low sales prices of the ADSs on the New York Stock Exchange in Dollars. These prices are not representative of the prices for the Series A and Series B shares for these periods:

	Mexican Stock Exchange Pesos Per Series B Share		New York Stock Exchange Dollars Per ADS[(1)]	
	High	Low	High	Low
Prior Five Years:				
1999	Ps. 11.24	Ps. 5.96	N.A.	N.A.
2000	6.91	3.11	N.A.	N.A.
2001	4.45	2.68	N.A.	N.A.
2002	5.76	3.12	N.A.	N.A.
2003	3.72	2.9	N.A.	N.A.
2002:			N.A.	N.A.
First Quarter	Ps. 4.74	Ps. 3.60	N.A.	N.A.
Second Quarter	5.76	4.27	N.A.	N.A.
Third Quarter	5.01	3.83	N.A.	N.A.
Fourth Quarter	3.96	3.12	N.A.	N.A.
2003:			N.A.	N.A.
First Quarter	Ps. 3.46	Ps. 2.92	N.A.	N.A.
Second Quarter	3.66	2.93	N.A.	N.A.
Third Quarter	3.72	3.06	N.A.	N.A.
Fourth Quarter	3.41	2.9	N.A.	N.A.
Most Recent Five Months:			N.A.	N.A.
December 2003	Ps. 3.34	Ps. 2.90	N.A.	N.A.
January 2004	3.67	3.09	N.A.	N.A.
February 2004	4.31	3.34	N.A.	N.A.
March 2004[(1)]	4.16	3.64	$ 7.61	$ 6.46
April 2004	4.07	3.65	7.22	6.22

(1) On March 11, 2004, the Series C shares were mandatorily converted into Series B shares on a one-for-one basis. Prior to the date, the ADS was represented by 20 Series C shares. Accordingly, there is no price history for the ADS represented by the Series B shares prior to March 2004.

As of June 29, 2004, the closing sales price of the Series B shares on the Mexican Stock Exchange was Ps. 3.28 and the closing sales price of the ADSs on the New York Stock Exchange was $5.74.

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange was founded in 1894 and has operated continuously since 1907. The Mexican Stock Exchange is located in Mexico City and is Mexico s only stock exchange. The Mexican Stock Exchange is organized as a corporation and its shares are owned by authorized brokerage firms. These firms are exclusively authorized to trade on the floor of the Mexican Stock Exchange.

Electronic trading on the Mexican Stock Exchange takes place between the hours of 8:30 a.m. and 3:00 p.m., Mexico City time, on each weekday other than public holidays. Since January 11, 1999, all trading of equity securities listed on the Mexican Stock Exchange has been made through the Electronic Negotiation System, an automated, computer-linked system commonly known as *BMV SENTRA Capitales*.

The Mexican Stock Exchange publishes a daily official price list that includes information on each listed security. If the Mexican Stock Exchange considers that the suspension is necessary for the public to be fully informed, trading may be suspended in the event of disclosure of material non-public information. The Mexican Stock Exchange may also suspend trading of a particular security as a result of significant price fluctuations during a given trading day (fluctuations exceeding a given price level by more than 15%) or as a result of unusual movements in the price of a security during a period of no more than five consecutive trading days. The Mexican Stock Exchange may also suspend trading generally as a result of unexpected events or force majeure, or if unusual market fluctuations arise.

Settlement takes place two trading days after a share transaction is effected on the Mexican Stock Exchange. Deferred settlements, even if by mutual agreement, are not permitted without the approval of the CNBV. Most securities traded on the Mexican Stock Exchange, including our shares, are on deposit with S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores, a privately owned central securities depositary that acts as a clearing house, depositary, custodian, settlement, transfer and registration institution for Mexican Stock Exchange transactions, eliminating the need for physical delivery of securities.

As of December 31, 2003, approximately 158 Mexican companies were listed on the Mexican Stock Exchange, excluding mutual funds. During the second half of 2003, the ten most actively traded equity issues represented approximately 71% of the total volume of the shares traded on the Mexican Stock Exchange, not including public offerings. Although there is substantial public participation in the trading of securities on the Mexican Stock Exchange, a major part of such activity reflects institutional investors transactions. There is no formal over-the-counter market for securities in Mexico.

The Mexican Stock Exchange is Latin America s third largest exchange in terms of market capitalization, but it remains relatively small and illiquid compared to major world stock markets and is subject to significant volatility. As of December 31, 2003, the total market value of all shares, excluding mutual funds, listed on the Mexican Stock Exchange was Ps. 1.376 billion.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. ByLaws

Set forth below is a brief summary of certain principal provisions of our ByLaws as of March 16, 2004 and certain provisions of Mexican law. This description does not purport to be complete and is qualified in its entirety by reference to our ByLaws and the applicable provisions of Mexican law. For a description of the provisions of our ByLaws relating to our board of directors and the statutory examiner, see Item 6.

Organization and Register; Purposes

Desc is a corporation (*sociedad anónima de capital variable*) organized under the laws of Mexico on August 28, 1973. Desc is registered in the Public Registry of Commerce of Mexico City under the number 8089.

Pursuant to Article Three of our ByLaws, Desc s general purpose includes promoting and encouraging industrial and tourist development, participating as a stockholder or partner in any type of Mexican company and acquiring all types of real estate and rendering all services necessary for the attainment of its purposes.

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Voting Rights

Each Series A share and Series B share entitles the holder to one vote at any general meeting of our stockholders. The holders of the Series A shares have the right to elect one more than half of the board of directors. Stockholders or groups of stockholders holding shares of any one class of shares, which represent at least 10% of our total equity capitalization, have a right to elect one director of the relevant series for each 10% held. The holders of the Series B shares have the right to elect the remaining members of our board of directors.

Under Mexican law, the holders of shares of any series are also entitled to vote as a class at a special meeting on any action that would prejudice the rights of holders of such series, and a holder of such series would be entitled to judicial relief against any such action taken without such a vote. The determination whether an action requires a class vote on these grounds would initially be made by our board of directors or other party calling for stockholder action. Any determination that an action does not require a vote at a special meeting would be subject to judicial challenge by an affected stockholder, and the need for a vote at a special meeting would ultimately be determined by a court. There are no other procedures for determining whether a proposed stockholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

Stockholders Meetings

Under Mexican law and Desc s ByLaws, Desc may hold three types of stockholders meetings: ordinary, extraordinary and special. Ordinary stockholders meetings are those called to discuss any issue specified in Article 181 of the *Ley General de Sociedades Mercantiles* (the **Mexican Companies Law**) and other issues not reserved for extraordinary stockholders meetings. An ordinary stockholders meeting must be held at least annually during the four months following the end of each fiscal year to consider certain matters specified in Article 181 of the Mexican Companies Law, including, among other things, the approval of the report prepared by the board of directors on Desc s financial statements for the preceding fiscal year, the appointment of members of Desc s board of directors and statutory examiners and the determination of compensation for members of Desc s board of directors and statutory examiners.

Extraordinary stockholders meetings are those called to consider the matters specified in Article 182 of the Mexican Companies Law, including:

- extension of Desc s duration or voluntary dissolution;
- an increase or decrease in Desc s minimum fixed capital;
- change in Desc s corporate purpose or nationality;
- any transformation, merger or spin-off of Desc;
- any stock redemption or issuance of preferred stock or bonds;
- the cancellation of the listing of Desc s shares with the Registro Nacional de Valores;

amendments to Desc s ByLaws; and

other matters for which applicable Mexican law or the ByLaws specifically require an extraordinary meeting.

Special stockholders meetings are those called and held by stockholders of the same series or class to consider any matter particularly affecting the relevant series or class of shares.

Under Mexican law, holders of 20% of Desc s outstanding capital stock may have any stockholder action set aside by filing a complaint with a Mexican court of competent jurisdiction within 15 days after the close of the meeting at which the action was taken, which shows that the challenged action violates Mexican law or Desc s ByLaws. Relief under these provisions is only available to holders (1) who were entitled to vote on the challenged stockholder action and (2) whose shares were not represented when the action was taken or, if represented, voted against such action.

Stockholders meetings are required to be held in Desc s corporate domicile, which is Mexico City. Calls for stockholders meetings must be made by Desc s board of directors or statutory examiners or any Mexican court of competent jurisdiction. Desc s board of directors or statutory examiners may be required to call a meeting of stockholders by the holders of 10% of Desc s outstanding capital stock.

Notice of stockholders meetings must be published in the *Diario Oficial de la Federación* or in a newspaper of major circulation in Mexico City at least 15 days prior to the meeting. Unless the approval of financial statements is to be discussed at the meeting, such notice period may be reduced to 5 days if Desc s board of directors deems such reduction appropriate based on the urgency of the matters to be discussed at such meeting. Each call of a stockholders meeting must set forth the place, date and time of the meeting and the matters to be addressed at such meeting. Calls of a stockholders meeting must be signed by whoever makes such calls.

In order to attend and vote at a stockholders meeting, a stockholder must request and obtain an admission card by depositing its share certificates (or evidence of deposit thereof in a Mexican bank) with the Secretary of Desc at least one day prior to the meeting. The stockholders may be represented at a stockholders meetings by proxies named through a notarized power of attorney, a proxy letter or a power of attorney conferred in the form prepared by Desc for a specific meeting.

Quorum

A quorum on a first call of an ordinary stockholders meeting is at least 50% of the outstanding shares. In order for a resolution of the ordinary stockholders meeting to be validly adopted as a result of a first or a subsequent call, the favorable vote of the majority of the shares represented at such meeting is required.

The quorum on a first call for an extraordinary stockholders meeting is at least 75% of the outstanding shares. An extraordinary stockholders meeting may be validly held pursuant to a second call with a quorum of at least 50% of the outstanding shares. In order for a resolution of the extraordinary general meeting to be validly adopted as a result of a first or a subsequent call, the favorable vote of 50% of the outstanding shares is required.

Withdrawal Rights

The outstanding variable portion of Desc s capital stock may be fully or partially withdrawn by the stockholders. The minimum fixed portion of Desc s capital stock specified in Desc s ByLaws cannot be withdrawn. A holder of shares representing Desc s variable capital stock that wishes to effect a total or partial withdrawal of its shares must notify Desc in an authenticated written notice to that effect. If notice of withdrawal is received prior to the last quarter of the fiscal year, the withdrawal becomes effective at the end of the fiscal year in which the notice is given. Otherwise, the withdrawal becomes effective at the end of the following fiscal year.

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The redemption of a stockholder s shares would be made at the lower of: (i) 95% of the value quoted on the *Bolsa Mexicana de Valores, S.A. de C.V.* (the **Mexican Stock Exchange**) obtained from the weighted average price per volume of operations done during the last thirty days during which the shares of Desc have been traded, prior to the date on which the redemption must take effect, for a period that may not be more than six months; or (ii) the book value of the shares according to the general balance sheet corresponding to the close of the fiscal year immediately prior to that in which the separation must take effect, previously approved by the General Ordinary Stockholders Meeting. If the number of days on which the shares have been traded during the period set forth in the preceding paragraph is less than thirty, the days shall be taken when they were actually traded. If the shares were not traded in said period, the book value of the shares shall be used.

The redemption shall be done against delivery and cancellation of the respective shares. Since Desc s inception, no stockholder has ever exercised its right to withdraw.

Dividends and Distributions

At Desc s annual ordinary general stockholders meeting, Desc s board of directors must submit to the holders of the Series A shares and the Series B shares Desc s financial statements for the preceding fiscal year. Five percent of Desc s net earnings must be allocated to a legal reserve fund until such fund reaches an amount equal to 20% of Desc s capital stock. Prior to the increase in capital approved by our stockholders on March 8, 2004, Desc s legal reserve fund satisfied this requirement. Additional amounts may be allocated to extraordinary, special or additional reserve funds as the stockholders may from time to time determine. The remaining balance, if any, of net earnings may be distributed as dividends or allocated for the redemption of shares. Any redemption must be approved in advance at an extraordinary stockholders meeting.

Dividends are paid to the registered holder of the relevant share or the duly authorized representative of such holder upon delivery of the applicable coupon. With respect to share certificates deposited with Indeval, S.A. de C.V., Institución para el Depósito de Valores (**Indeval**), payment of dividends is made through Indeval in accordance with customary payment procedures. Partially paid shares may participate in any distribution to the extent that such shares have been paid at the time of the distribution. Desc s ability to pay dividends is subject to limitations under our credit agreements and to Mexican legal requirements, which provide that a corporation may declare and pay dividends only out of the profits reflected in its year-end financial statements (approved by its stockholders), only if such payment is approved by its stockholders, and then only after the creation of a required legal reserve and the set off or satisfaction of losses, if any, incurred in previous fiscal years. See Item 3. Risk Factors Relating to Our Operations *Dependence on dividends from subsidiaries* and Risks Relating to Our Controlling Stockholder and Capital Structure *Certain members of the Senderos family effectively control our management and their interests may differ from those of other security holders* .

Liquidation Rights

Upon a dissolution of Desc, one or more liquidators must be appointed at an extraordinary stockholders meeting to wind up Desc s affairs. All fully paid and outstanding shares of capital stock, regardless of class, will be entitled to participate equally in any distribution upon liquidation. Partially paid shares participate in a liquidation distribution in the same manner as they would in a dividend distribution.

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Changes in Share Capital

An increase of capital stock may be effected through the issuance of new shares for payment in cash or in kind, by capitalization of indebtedness or by capitalization of certain items of stockholders equity. No increase of capital stock may be effected until all previously issued shares have been fully paid. A reduction of capital stock may be effected to absorb losses, to redeem shares or to release stockholders from payments not made. A reduction of capital stock to absorb losses may be effected by reducing the value of all outstanding shares. A reduction of capital stock to redeem shares may be effected by reimbursing holders of shares pro-rata or through a drawing before a public broker. Stockholders may also approve the redemption of fully paid shares with retained earnings, which would be effected by a repurchase of shares on the Mexican Stock Exchange (in the case of shares listed thereon).

Desc s capital stock may be increased or decreased only by resolution of an extraordinary general stockholders meeting and, if such increase or decrease affects the fixed portion of Desc s capital, an amendment to Desc s ByLaws. Any holders of the Series A shares or the Series B shares would be entitled to vote on an increase or decrease in capital stock.

No stockholder resolution is required for decreases in capital stock based on the exercise of a stockholder s right to withdraw variable shares or Desc s purchase of its shares or for increases based on a resale by Desc of shares it previously purchased.

Preemptive Rights

In the event of a capital increase through the issuance of new shares for payment in cash or in kind, a holder of existing shares generally has a preferential right to subscribe for a sufficient number of new shares to maintain the holder s proportionate holdings of shares.

Except in limited circumstances, preemptive rights must be exercised within the period and under the conditions established for such purpose by the stockholders meeting approving the increase and under Desc s ByLaws, and in no case may such period be less than 15 calendar days following the publication of notice of the capital increase in the *Diario Oficial de la Federación*, provided that if all stockholders are present or represented at such meeting such publication shall not be required. Otherwise, such rights will lapse. Under Mexican law, preemptive rights may not be waived in advance by a stockholder and cannot be represented by an instrument that is negotiable separately from the corresponding share. Holders of American Depositary Shares may exercise preemptive rights only through the depositary.

Registration and Transfer of the Shares

All of Desc s series of shares are evidenced by share certificates in registered form, and registered dividend coupons may be attached to the certificates. Share certificates held by stockholders may have dividend coupons attached. If Desc and Indeval agree, share certificates deposited with Indeval will have no dividend coupons attached. Dividend coupons may only be presented for payment by the registered holder of the related share or its duly appointed agent. Stockholders of Desc may either hold their shares directly, in the form of physical certificates, or indirectly through institutions that have accounts with Indeval. Accounts may be maintained at Indeval by brokers, banks, other financial institutions or other entities (**Indeval Participants**) approved by the CNBV. Desc maintains a share registry, and only those persons listed in such registry and those holding certificates issued by Indeval and any relevant Indeval Participant indicating ownership will be recognized as stockholders by Desc.

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Other Provisions

Liabilities of the members of the board of directors

Under Mexican law, an action for civil liabilities against members of Desc s board of directors may be initiated by a stockholders resolution. The director against whom such action is brought will cease to be a member of the board immediately upon the stockholders adoption of a resolution demanding responsibility for such civil liabilities. Additionally, stockholders representing not less than 15% of Desc s outstanding shares may directly take such action against members of Desc s board of directors, if (1) such stockholders have not voted against taking such action at the relevant stockholders meeting and (2) the claim in question covers damage alleged to have been caused to Desc and not merely to the individual plaintiffs. Any recovery of damages with respect to the action will be for Desc s benefit and not for the stockholders bringing such action.

Purchase by Desc of its shares

According to Mexican law, Desc may repurchase any Desc shares on the Mexican Stock Exchange at any time at the then prevailing market price. If Desc repurchases Desc s shares and holds onto them (i.e., the shares are not cancelled or placed in Desc s treasury), Desc must record such repurchase as a charge to Desc s net worth. If the repurchased shares are placed in Desc s treasury, Desc must record such repurchase as a charge to Desc s stockholders equity and no stockholder approval is required. The general ordinary stockholders meeting must expressly approve for each fiscal year the maximum amount of funds that may be used for stock repurchases, with the sole limitation that such designated amount may not exceed Desc s net profits, including retained profits. Any of Desc s shares that are owned by Desc and are not cancelled or placed in Desc s treasury may not be represented at any stockholders meeting. Desc may publicly sell any of these repurchased shares, whether owned directly by Desc or held as treasury shares.

Repurchases in the event of delisting

In accordance with the regulations of the CNBV, Desc s majority stockholders are obligated to make a public offer for the purchase of stock held by minority stockholders if the listing of Desc s stock with the Mexican Stock Exchange is canceled, either by resolution of Desc or by an order of the CNBV. The price at which the stock must be purchased by the majority stockholders is the higher of:

- the average quotation price for the 30 days prior to the date of the offer; or
- the book value, as reflected in the last quarterly report filed with the CNBV and the Mexican Stock Exchange.

The majority stockholders are not bound to make the repurchase if all Desc s stockholders agree to waive that right.

Appraisal rights

Whenever a stockholders meeting approves a change of our corporate purpose, a change of our nationality, a restructuring from one type of corporate form to another or a spin-off (*escisión*), any stockholder who has voted against such change or restructuring has the right to withdraw from Desc and receive an amount broadly equal to the book value of Desc s shares (in accordance with Desc s latest balance sheet approved by an ordinary general meeting), provided the dissenting stockholder exercises its right to withdraw during the 15-day period following the meeting at which such change or restructuring was approved.

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Stockholder s conflicts of interest

Pursuant to Article 196 of the Mexican General Law of Commercial Companies, any stockholder that has a direct or indirect conflict of interest with respect to a transaction must abstain from discussing and voting with respect to such transaction at the relevant stockholders meeting. A stockholder that votes on a transaction in which its interest conflicts with that of Desc may be liable for damages if the relevant transaction would not have been approved without such stockholder s vote.

Director s conflicts of interest

Pursuant to Article 14 Bis 5 of the *Ley del Mercado de Valores* (the **Securities Market Law**), any director, the statutory examiner that attends the Audit Committee meetings or any member of such committee, that has a direct or indirect conflict of interest with respect to a transaction that is presented to the board of directors or to the Audit Committee must disclose such conflict to the board of directors or committee and abstain from discussing and voting with respect to such transaction.

Rights of stockholders

The protections afforded to minority stockholders under Mexican law are different from those in the United States and many other jurisdictions. The substantive law concerning fiduciary duties of directors has not been the subject of extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions help to shape the rights of minority stockholders. Mexican civil procedure does not contemplate class actions or stockholder derivative actions, which permit stockholders in U.S. courts to bring actions on behalf of other stockholders or to enforce rights of the corporation itself. Stockholders cannot challenge corporate action taken at a stockholders meeting unless they meet certain procedural requirements, as described above under Stockholders Meetings. As a result of these factors, in practice it may be more difficult for Desc s minority stockholders to enforce rights against us or Desc s directors or controlling stockholders than it would be for stockholders of a U.S. company. In 2001, the Mexican government increased minority stockholders rights by amending the Securities Market Law and enacting other regulations to reduce the ownership percentages necessary to exercise minority rights and permit minority stockholders to sell their shares in the event of a change of control in Desc.

Enforceability of civil liabilities

Desc is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located in Mexico. As a result, it may be difficult for investors to effect service of process within the United States on such persons. It may also be difficult to enforce against them, either inside or outside of the United States, judgments obtained against them in U.S. courts, or to enforce in U.S. courts judgments obtained against them in courts in jurisdictions outside of the United States, in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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Exclusive jurisdiction

Our ByLaws provide that legal actions relating to the execution, interpretation or performance of the ByLaws shall be brought only in the courts of Mexico City, Federal District.

Duration

Our existence under our ByLaws is 99 years from the date of our incorporation.

C. Material Contracts

For the two years preceding the date of this Form 20-F, Desc has not entered into any material contracts, other than contracts entered into in the ordinary course of business and those described below.

On December 19, 2003, we entered into the Dollar Facility and the Revolving Facility. On December 23, 2003 we entered into the Peso Facility.

On September 29, 2003, we entered into an Asset Purchase Agreement with Henkel Capital, S.A. de C.V. pursuant to which we substantially sold our adhesives and waterproofing assets.

In January 2004, we entered into an Asset Purchase Agreement pursuant to which we sold our aluminum wheel business to Hayes Lemmerz International, Inc. and acquired Hayes Lemmerz International Mexico, Inc. s equity stake in Steel Wheels, S.A. de C.V., a manufacturer of steel wheels. As a result, Desc Automotriz now owns 100% of the equity of Steel Wheels, S.A. de C.V.

In June 2003, Cantiles sold all of the territorial reserves of Chiluca for $76 million. Prior to May 29, 2003, Desc owned 77.26% of Club Ecuestre and Fernando Senderos and Lucía Senderos owned the remaining 22.74%. On May 29, 2003, Desc acquired the Senderos s 22.74% equity stake in Club Ecuestre and agreed to pay Fernando and Lucía Senderos their pro-rata share (based upon their relative equity holdings in Club Ecuestre immediately prior to Desc s acquisition of the Senderos s equity stake, as noted above) of the proceeds of the sale of the Chiluca territorial reserves, with the balance of the proceeds being paid to Desc.

D. Exchange Controls

Exchange Controls

Mexico abolished its exchange control system on November 11, 1991. From November 11, 1991 to October 20, 1992, *Banco de México* permitted the rate of exchange between the Peso and the Dollar to fluctuate according to supply and demand within a moving band. In December 1994, the Mexican government, in response to exchange rate pressures, increased by 15% the upper limit of the Peso - Dollar exchange rate band, and two days later allowed the Peso to fluctuate freely against the Dollar. By December 31, 1994, the Peso - Dollar exchange rate, which had been Ps. 3.466 to $1.00 on December 19, 1994, was Ps. 5.000 to $1.00.

Fluctuations in the exchange rate between the Peso and the Dollar affect the Dollar equivalent of the Peso price of securities traded on the Mexican Stock Exchange, including our shares and, as a result, are likely to affect the market price of our securities. Fluctuations in the exchange rate can also affect our operating results depending on the terms of our contractual arrangements and the effect of the fluctuation on the specific industries in which we operate.

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Except for the period from September through December 1982, during the Mexican liquidity crisis, *Banco de México* consistently has made foreign currency available to Mexican private sector entities. However, in the event of renewed shortages of foreign currency, we cannot assure you that *Banco de México* would continue to make foreign currency available, or that the foreign currency we need to service foreign currency obligations could be purchased in the open market without substantial additional cost.

Pursuant to the provisions of NAFTA, Mexico remains free to impose foreign exchange controls on investments made in Mexico, including those made by U.S. and Canadian investors.

Restrictions on Foreign Investment

Foreign investment in the capital stock of Mexican companies is regulated by the 1993 *Ley de Inversión Extranjera* (the **Foreign Investment Law**) and the 1998 regulations promulgated under the Foreign Investment Law (the **Foreign Investment Regulations**). The Foreign Investment Law defines foreign investment as (i) the participation of foreign investors in the capital stock of Mexican corporations, or investments made in the capital stock of Mexican corporations by a Mexican corporation in which foreign capital has a majority participation, and (ii) the participation of foreign investors in those activities that are regulated by the Foreign Investment Law. Foreign investors are defined as individuals or entities that are not Mexican nationals. The *Comisión Nacional de Inversión Extranjera* (the **Foreign Investment Commission**), the *Dirección General de Inversiones Extranjeras* (the **Foreign Investments Bureau**) and the *Registro Nacional de Inversiones Extranjeras* (the **National Registry of Foreign Investments**) of the Ministry of Economy are responsible for the administration of the Foreign Investment Law and the Foreign Investment Regulations. In order to comply with foreign investment restrictions, Mexican companies typically limit particular classes of their stock to ownership by Mexican individuals and Mexican corporations in which foreign investment has a minority participation.

As a general rule, the Foreign Investment Law allows foreign investment in up to 100% of the capital stock of Mexican companies except for those engaged in restricted industries. With respect to restricted industries, the Foreign Investment Law not only limits or forbids share ownership but also requires that Mexican stockholders retain the power to determine the administrative control and the management of those corporations. Restricted industries currently include retail trade in gasoline and distribution of liquid petroleum gas, radio broadcasting, credit unions, development banks, land transportation of passengers, tourists and freight in Mexico other than messenger and package delivery services, and the rendering of specified professional and technical services. Desc and its subsidiaries currently do not engage in any restricted industry, except that Desc owns a limited purpose financing entity where foreign investment is allowed up to 49%, but since Desc is a Mexican investor, our ownership satisfies the requirements of the Foreign Investment Law.

E. Taxation

Tax Treaty between the United States and Mexico

The United States and Mexico have signed and ratified a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Protocols thereto. We refer to this Convention as the **Tax Treaty** . The Tax Treaty is currently in effect and summarized below are the provisions of the Tax Treaty that may affect holders of ADSs, Series B shares and our Notes who are residents of the United States (as defined in the Tax Treaty).

Mexico has also executed treaties to avoid double taxation with other countries as well as agreements providing for the exchange of information with respect to tax matters, some of which

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presently are in force. The following summary does not take into account the effect of any such treaties. Readers should consult their tax advisors as to their entitlement to the benefits afforded by the Tax Treaty or such other treaties.

Mexican Federal Income Tax Considerations for Holders of ADSs and Series B Shares

The following is a summary of the principal consequences under current Mexican federal tax laws, the regulations and administrative rules issued by the Ministry of Finance and Public Credit and the Tax Treaty of the purchase, ownership and disposition of ADSs or Series B shares by a holder that is not a resident of Mexico, as in effect as of the date hereof. Readers are cautioned that these laws and regulations are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. This summary does not address the tax laws of any state or municipality in Mexico. Readers are cautioned that this is not a complete analysis or a listing of all potential tax effects that may be relevant to a decision to purchase, hold or dispose of ADSs or Series B shares.

For purposes of Mexican taxation, an individual is a resident of Mexico if he has established his home or main business location in Mexico. An individual is deemed to have his main business location in Mexico when (i) more than 50% of his worldwide income in the calendar year is Mexican sourced or (ii) Mexico is the main center of his professional activity. Individuals of Mexican nationality are deemed to be Mexican residents for tax purposes, unless proof is submitted to the contrary. A legal entity established under Mexican law or having its principal offices or management in Mexico is deemed a resident of Mexico. A person having a permanent establishment in Mexico will be regarded as a resident of Mexico and will be required to pay taxes in Mexico in accordance with applicable law in respect of all Mexican source income.

Taxation of dividends

Dividends paid either in cash or in any other form to Mexican individuals and to all non-Mexican stockholders, whether individuals or entities, with respect to the ADSs or the Series B shares represented by ADSs, are not subject to a Mexican withholding tax.

We will not be subject to any tax in connection with a dividend payment if the amount maintained in our previously taxed net earnings account (*cuenta de utilidad fiscal neta* or **CUFIN**) exceeds the dividend payment to be made. However, if the dividend payment is in an amount greater than our CUFIN balance (which may occur in a year when net profits exceed the balance in such accounts), then we will be required to pay up to 33% in 2004 and 32% beginning in 2005 on an amount equal to the product of (i) the portion of the amount which exceeds such balance times (ii) 1.4925 in 2004 and 1.4706 in 2005.

Taxation of capital gains

Gains on the sale or other disposition of ADSs by holders who are not residents of Mexico will not be subject to Mexican tax, if such disposition takes place over a stock exchange located in a highly liquid market of a country with which Mexico has executed a treaty to avoid double taxation. Deposits of Series B shares in exchange for ADSs and withdrawals of Series B shares in exchange for ADSs will not give rise to Mexican taxes.

Gains on the sale of Series B shares by holders who are not residents of Mexico will not be subject to any Mexican tax if (1) the transaction is carried out through the Mexican Stock Exchange, (2) such disposition takes place over a stock exchange located in a highly liquid market of a country with which Mexico has executed a treaty to avoid double taxation or (3) the Series B shares are on the list of publicly-traded shares published by the Ministry of Finance and Public Credit through general rules.

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Under current law, the sale or disposition of Series B shares other than through the Mexican Stock Exchange by holders who are not residents of Mexico is generally subject to a Mexican tax at a rate of 25% of the gross sales price. However, if the holder is a resident of a country which is not considered to be a low tax rate country (by reference to a list of low-rate countries published by the Mexican Ministry of Finance and Public Credit), the holder may elect to designate a resident of Mexico as its representative for Mexican tax purposes, in which case taxes would be payable at a maximum rate of 3% on the gain on such disposition. The maximum rate will be gradually reduced by one percent per year until 2005. In 2005 and thereafter, the maximum rate will be 32%. The United States is not considered to be a low tax rate country. The Tax Treaty exempts United States residents from Mexican capital gains taxes on dispositions of stock (whether or not those dispositions are carried out through the Mexican Stock Exchange), provided that (i) during the 12 month period before the disposition, the U.S. resident did not hold, directly or indirectly, an equity interest of 25% or more in the Mexican company, (ii) less than 50% of the assets of the Mexican company consist of immovable property situated in Mexico or (iii) the gain is not attributable to a permanent establishment in Mexico of the U.S. resident.

Other Mexican taxes

There are no Mexican inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of ADSs or Series B shares, although gratuitous transfers of Series B shares may in some circumstances cause a Mexican federal tax to be imposed on the recipient. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of ADSs or Series B shares.

Mexican Federal Income Tax Considerations for Holders of the Notes

The following is a summary of the principal consequences under current Mexican federal tax laws, the regulations and administrative rules issued by the Ministry of Finance and Public Credit and the Tax Treaty of the purchase, ownership and disposition by a Foreign Holder of the Notes. The Notes were issued by Dine, S.A. de C.V. (**Dine**) with the full and unconditional guarantee of Desc. As a result of Dine s merger into Desc, Desc has assumed all of Dine s obligations under the indenture. A **Foreign Holder** is a holder who (1) is not a resident of Mexico for tax purposes and (2) will not hold Notes or a beneficial interest in Notes in connection with the conduct of a trade or business through a permanent establishment in Mexico. This summary does not address the tax laws of any state or municipality in Mexico. Readers are cautioned that this is not a complete analysis or listing of all potential tax effects that may be relevant to a decision to purchase, hold or dispose of Notes.

The statements of Mexican federal income tax laws that we make below are based on the federal laws of Mexico, the regulations and administrative rules issued by the Ministry of Finance and Public Credit, as in effect as of the date hereof. We caution that these laws and regulations and the Tax Treaty are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

Taxation of payments of interest and principal

Under the Mexican Income Tax Law, payments of interest made by Desc to a Foreign Holder in respect of the Notes will be subject to Mexican withholding taxes assessed at a rate of 4.9% if (i) as is the case, the Notes have been placed through banks or brokers in a country with which Mexico has executed a treaty to avoid double taxation and such treaty is in force, (ii) as is the case, the Notes have been registered with the Special Section of the National Registry for Securities and Intermediaries (the