DESC S A DE C V
Form 6-K
July 28, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR

15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of July , 2004

Commission File Number: 001-13196

Desc, S.A. de C.V.

(Translation of registrant s name into English)

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

(Address of principal executive office)

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

Form 20-F __ü__ Form 40-F ______

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

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

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

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

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

Item

1. English Translation of a Press Release, dated July 21, 2004, announcing Registrant s Second Quarter 2004 results
2. Consolidated Financial Statements of Registrant, at June 30, 2004 and 2003, in the format required to be filed with the Mexican Stock Exchange

Item 1

DESC ANNOUNCES SECOND QUARTER 2004 RESULTS

Mexico City, July 21, 2004 - Desc, S.A. de C.V. (NYSE: DES; BMV: DESC) announced today its results for the second quarter ended June 30, 2004 (2Q04). Except as noted below, all figures were prepared according to generally accepted accounting principles in Mexico (Mexican GAAP). Unless otherwise noted below, the 2Q03 results have been adjusted to exclude the financial figures for Desc s aluminum wheel and adhesive and sealant businesses and the Chiluca real estate project, which were sold in 2003. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without these divested businesses and real estate project and, thus, unless otherwise noted comparisons below are to the adjusted 2Q03 figures.

The results for 2Q04 demonstrate Desc s efforts under a strict expense control to return to profitability by following its strategic plan and focusing on its core businesses. This is reflected in the strength of Desc s balance sheet as well as in the stabilization of cash flows.

Highlights

Sales and exports were 11.7% and 15.3% higher, respectively, when compared to 2Q03.

Operating expenses reached 14.6% of sales, which represents a reduction of 9.9% when compared to 2Q03.

EBITDA reached US$50 million, which represents an increase of 58.1% when compared to 2Q03.

Volume and sales prices increased, which partially offset the rise in raw material costs.

There were significant improvements in Desc s financial situation, such as a reduction in the debt level and an optimization of its average cost of financing.

Desc prepaid US$279 million of its debt, thereby reducing its total debt by approximately 26.6%.

Internal cash flow generation completely financed working capital and part of the debt reduction.

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

Table 1. Consolidated Figures

(Figures in millions of constant Pesos (Ps.) and U.S. dollars (US$))

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

	2Q04	Adjusted 2Q03[5]	2Q04 vs. Adjusted 2Q03[5]	Actual 2Q03	2Q04 vs. Actual 2Q03	1Q04	2Q04 vs. 1Q04
Sales (Ps.) [3]	5,680	4,862	16.8%	5,999	-5.3%	5,360	6.0%
Sales (US $) [1]	498	446	11.7%	550	-9.3%	486	2.6%
Exports (US $) [2]	241	209	15.3%	212	13.7%	232	4.0%
Operating Income (Ps.) [3]	243	23	960.2%	461	-47.3%	248	-1.8%
Operating Income (US $) [1]	21	2	858.1%	42	-49.6%	23	-5.2%
Operating Margin	4.3%	0.5%				4.6%	
EBITDA (Ps.) [3, 4]	572	351	62.8%	805	-29.0%	564	1.3%
EBITDA (US $) [1, 4]	50	32	58.1%	74	-32.0%	51	-1.7%
Net Majority Income (Ps.) [3]	-140	-163	-14.1%	131	-207.6%	-117	19.7%
Net Majority Income (US $) [1]	-12	-15	-20.0%	12	-204.4%	-11	9.1%

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

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

3 All figures in this report are expressed in constant pesos as of June 30, 2004.

4 EBITDA , as used in this press release, is Operating Income (Loss) plus the sum of Depreciation and Amortization, all of which are presented under generally accepted principles in Mexico. EBITDA is presented herein because Desc believes it provides useful information regarding Desc s ability to service its debt. EBITDA should not be considered in isolation or as a substitute for Desc s consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. Please refer to the section entitled *Non-GAAP Financial Reconciliation Tables* for a reconciliation of EBITDA to Operating Income.

5 **The Adjusted 2Q03 totals exclude the financial figures for Desc s aluminum wheel and adhesive and sealant businesses and the Chiluca real estate project, which were sold. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without these divested businesses and real estate project.**

EBITDA

Consolidated EBITDA[1] in dollars totaled US$50 million in 2Q04. This represents a significant increase of 58.1% when compared to 2Q03[2] and a 27.3% increase in the first half of 2004 compared to the same period in 2003, which reflects the improvement in all of the sectors results. In addition, it demonstrates that results have stabilized during the last two quarters.

---

1 EBITDA , as used in this press release, is Operating Income (Loss) plus the sum of Depreciation and Amortization, all of which are presented under generally accepted principles in Mexico. EBITDA is presented herein because Desc believes it provides useful information regarding Desc s ability to service its debt. EBITDA should not be considered in isolation or as a substitute for Desc s consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. Please refer to the section entitled *Non-GAAP Financial Reconciliation Tables* for a reconciliation of EBITDA to Operating Income.

2 **The adjusted 2003 information excludes the financial figures for Desc s aluminum wheel and adhesive and sealant businesses and the Chiluca real estate project, which were sold. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without these divested businesses and real estate project.**

Operating Expenses

During 2Q04, there was a marked reduction in operating expenses of 9.9% when compared to 2Q03[1], which is in-line with the goals established at the beginning of 2004.

---

1 **The adjusted 2003 information excludes the financial figures for Desc s aluminum wheel and adhesive and sealant businesses and the Chiluca real estate project, which were sold in 2003. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without these divested businesses and real estate project.**

Debt Structure

During 2Q04, Desc s total debt declined by US$279 million, or 26.6%, when compared to 1Q04, from US$1,048 million to US$769 million.

Table 2. Debt Breakdown

(Figures in millions of U.S. dollars)

	Mar-31-03	Jun-30-03	Sep-30-03	Dec-31-03	Mar-31-04	Jun-30-04
Cash	103	82	117	62	61	36
Total Debt	1,082	1,069	1,084	1,052	1,048	769
Net Debt	979	987	967	990	987	733
Interest Coverage	2.6x	2.45x	2.7x	2.9x	2.9x	2.7x
Leverage Ratio*	4.9x	4.8x	5.5x	4.9x	4.9x	4.1x

*** The Leverage Ratio is equal to (Total Debt less Cash plus US$50 million) / EBITDA for the last 12 months.**
As of 4Q03, the way of calculating the Leverage Ratio changed, and in order for all the figures to be comparable, all previous quarters were recalculated.

As a result of the proceeds from the capital increase and cash generated by Desc s businesses, Desc made debt prepayments totaling US$279 million. The prepayments reduced net debt by approximately 25.7%, leaving a balance of US$733 million. Notably, in the last 18 months, the total debt has decreased by US$409 million.

These prepayments were applied in the following manner: US$162 million towards long-term bank credit agreements, US$40 million towards revolving bank credit agreements (both were part of the credit agreements restructured last December), US$74 million towards Desc s 8.75% coupon bond due October 2007, and US$3 million towards other credit agreements.

The following is a breakdown of Desc s total debt:

As of June 30, 2004, the total debt mix was 67% dollar-denominated, 9% peso-denominated and 24% in UDIS and the debt maturity profile was 95% long-term and 5% short-term. The average cost of debt as of that date was 5.17% for the dollar-denominated debt and 8.86% for the peso-denominated debt.

Financing expenses were US$15.3 million in 2Q04, which represents a decline of 16.8% when compared to 1Q04. In addition, due to debt prepayments, the new interest rate for Desc s credit agreements restructured last December, applicable as of 2Q04, are as follows: LIBOR + 250 basis points for the dollar debt facility, TIIE + 250 basis points for the peso debt facility, and LIBOR + 250 basis points for the revolving credit facility.

Sales and Exports

During 2Q04, dollar-denominated sales increased 11.7% compared to 2Q03, from US$446 million to US$498 million. Similarly, there was an increase of 10.1% in dollar-denominated sales during the first half of 2004 when compared to the first half of 2003.

Total exports totaled US$241 million in 2Q04, which represents an increase of 15.3% when compared to 2Q03. The main drivers were the increases in export sales in the Automotive, Chemical and Food sectors, which were 4.0%, 33.4% and 18.6%, respectively, higher than in 2Q03. For the first half of 2004 compared to 2003, the increase was 12.2%.

Operating Income

Consolidated operating income in dollars posted a notable increase in 2Q04 totaling US$21 million, which is US$19 million higher than in 2Q03 and US$23 million higher than in the first half of 2003.

Results by Sector

Automotive Sector

Table 3 shows the figures obtained for the Automotive Sector.

Table 3. Automotive Sector Results

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

Automotive Sector

	2Q04	Adjusted 2Q03[2]	2Q04 vs. Adjusted 2Q03[2]	Actual 2Q03	2Q04 vs. Actual 2Q03	1Q04	2Q04 vs. 1Q04
Sales (Ps.)	2,067	1,889	9.4%	1,924	7.4%	2,177	-5.1%
Sales (US $)	181	173	4.7%	176	2.8%	197	-7.9%
Exports (US $)	122	117	4.0%	120	1.6%	133	-8.4%
Operating Income (Ps.)	34	55	-37.3%	44	-21.5%	141	-75.7%
Operating Income (US $)	3	5	-39.8%	4	-24.8%	13	-76.7%
Operating Margin	1.7%	2.9%		0		6.5%	
EBITDA (Ps.) [1]	216	237	-8.9%	234	-7.6%	319	-32.3%
EBITDA (US $) [1]	19	22	-12.8%	21	-11.5%	29	-34.5%

1 EBITDA , as used in this press release, is Operating Income (Loss) plus the sum of Depreciation and Amortization, all of which are presented under generally accepted principles in Mexico. EBITDA is presented herein because Desc believes it provides useful information regarding Desc s ability to service its debt. EBITDA should not be considered in isolation or as a substitute for Desc s consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. Please refer to the section entitled *Non-GAAP Financial Reconciliation Tables* for a reconciliation of EBITDA to Operating Income.

2 **The Adjusted 2Q03 totals exclude the financial figures for Desc s aluminum wheel business, which was sold. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without this divested business.**

During the second quarter of 2004 sales reached US$181 million, an increase of 4.7% compared to 2Q03. This is attributed to a higher sales volume (i) from the Tractor Project related to the cardan shaft, forge and axle businesses and (ii) in the gear business for Dana related to the BMW X5 platform.

Revenues for this period decreased 7.9% compared to 1Q04 due primarily to the unplanned strike at a Volkswagen plant, which impacted Desc s constant velocity joint business, and a contraction in the aftermarket.

Operating income in dollars decreased by 39.8% in 2Q04 compared to 2Q03, which is attributed to sharp increases in the prices of raw materials (steel and scrap, including transportation costs payable by Desc) that affected Desc s transmission, wheel, forging and foundry businesses.

The negative effect of steel prices has been partially offset by a reduction in expenses resulting from Desc s administrative and operating restructuring implemented at the end of 2003. In addition, negotiations with customers continue in an effort to pass on these cost increases to customers.

Export sales were US$122 million, which represents a 4.0% increase compared to the same period last year. This was due to increased sales stemming from the Tractor Project and increased gear sales.

Average capacity utilization during 2Q04 was 59%. However, there were plants operating at 80% capacity or in some cases, above capacity, such as Desc s axle, gear, cardan shaft and foundry businesses.

Chemical Sector

Table 4 shows the figures for the Chemical Sector.

Table 4. Chemical Sector Results

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

Chemical Sector

	2Q04	**Adjusted 2Q03[2]**	**2Q04 vs. Adjusted 2Q03[2]**	**Actual 2Q03**	**2Q04 vs. Actual 2Q03**	**1Q04**	**2Q04 vs. 1Q04**
Sales (Ps.)	2,196	1,681	30.7%	1,956	12.3%	1,867	17.6%
Sales (US $)	193	154	25.5%	179	7.4%	169	13.8%
Exports (US $)	88	66	33.7%	66	33.7%	71	23.9%
Operating Income (Ps.)	73	7	885.1%	56	31.6%	32	128.1%
Operating Income (US $)	6	1	475.2%	5	25.4%	3	119.4%
Operating Margin	3.3%	0.4%				1.7%	
EBITDA (Ps.) [1]	157	86	81.7%	143	9.6%	112	40.2%
EBITDA (US $) [1]	14	8	79.4%	13	4.7%	10	35.2%

1 EBITDA , as used in this press release, is Operating Income (Loss) plus the sum of Depreciation and Amortization, all of which are presented under generally accepted principles in Mexico. EBITDA is presented herein because Desc believes it provides useful information regarding Desc s ability to service its debt. EBITDA should not be considered in isolation or as a substitute for Desc s consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. Please refer to the section entitled *Non-GAAP Financial Reconciliation Tables* for a reconciliation of EBITDA to Operating Income.

2 **The Adjusted 2Q03 totals exclude the financial figures for Desc s adhesive and sealant businesses, which was sold in 2003. Management believes that investors can better evaluate and analyze Desc s historical and future business trends if they consider results of operations without this divested business.**

Sales reached US$193 million in 2Q04, representing an increase of 25.5% compared to 2Q03 and 13.8% with respect to 1Q04, due mainly to higher sales volumes in all of Desc s chemicals businesses, as well as increased prices.

The principal raw material costs continue to increase due to rising oil and butadiene monomer prices (as result of a scarcity of butadiene monomer in the international market, because the main suppliers of this raw material continue with allocation plans due to the imbalance that exists between supply and demand. This plan has been aggravated by the temporary exit of one of Repsol s production units, a situation that has further increased prices.

The higher operating margins are fundamentally due to the rise in sales volume, an improved performance of the plants through greater installed capacity utilization, as is the case with phosphates, laminates and particle boards, as well as stricter controls in operating expenses.

Food Sector

Table 5 shows the figures obtained in the Food Sector.

Table 5. Food Sector Figures

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

Food Sector

	2Q04	2Q03	2Q04 vs. 2Q03	1Q04	2Q04 vs. 1Q04
Sales (Ps.)	1,084	932	16.3%	1,017	6.5%
Sales (US $)	95	85	11.4%	92	3.0%
Exports (US $)	31	26	18.6%	27	12.7%
Operating Income (Ps.)	87	26	236.2%	58	51.6%
Operating Income (US $)	8	2	219.8%	5	48.1%
Operating Margin	8.1%	2.8%		5.7%	
EBITDA (Ps.) [1]	127	68	88.5%	95	33.5%
EBITDA (US $) [1]	11	6	80.0%	9	30.2%

[1] EBITDA , as used in this press release, is Operating Income (Loss) plus the sum of Depreciation and Amortization, all of which are presented under generally accepted principles in Mexico. EBITDA is presented herein because Desc believes it provides useful information regarding Desc s ability to service its debt. EBITDA should not be considered in isolation or as a substitute for Desc s consolidated income statements or other financial statements prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. Please refer to the section entitled Non-GAAP Financial Reconciliation Tables for a reconciliation of EBITDA to Operating Income.

Branded Products

During 2Q04, sales increased 4.7% in comparison to 2Q03, which is principally due to higher sales in most of Desc s food product lines, including: Del Fuerte brand tomato paste, a 16% increase in sales in comparison to 2Q03 and a market share of 65.9%; Embasa brand ketchup with a market share of 23%; and Zuko and Livean brand powdered beverage mix continue growing successfully with increases in volume of 80% and 97%, respectively, in comparison to 2Q03.

In the domestic market, sales volume increased by 10% in comparison to the previous year. The products with the greatest growth are: tomato paste 17%, ketchup 18%, jellies 9%, tuna 19%, powered beverage mix 79%, gelatin 10% and coffee 7%.

In our U.S. business (Authentic Specialty Foods), sales to supermarkets increased 4.3% in comparison to 2Q03; sales to restaurants increased by 14.6% in comparison to 2Q03; and sales to fast food restaurants grew by 9.4% in comparison to 2Q03.

Desc has increased the prices for some of its food products, which has been offset in part by an increase in raw material costs. Tuna prices have increased 21% year-to-date to counteract the increases in fish, packaging and soybean oil.

In comparison to 2Q03, operating income in 2Q04 increased by 137.1% due to improved sales, improved costs from plant efficiency and the use of fresh tomatoes, in addition to positive changes in operations and the strict control of expenses that compensated for the increases in raw material and packaging costs.

At the Santa Rosa Plant, Desc invested in a project to develop healthy vegetable products in a new and modern container. The new plant for processing and packing foods was equipped in a record time for Desc of 5 months by Corfuerte and Tetra Pak, which is a leader in the food processing and packing field. In the first phase, a new line of vegetables was introduced to the market: potato cubes, chayote, zucchini and carrots, which complement an existing line of vegetable salads, baby corn, peas and carrots, and baby peas.

The launching of the new line of Del Fuerte vegetables in innovative packaging, *Tetra Recart* by Tetra Pak, marks the beginning of a new era for Desc of a healthy foods category. Its weight and shape brings several advantages to retailers during its distribution and display. For the consumer, it provides safety, ease in opening, and convenience in its handling and use. For Corfuerte, this is an extremely important step towards becoming a modern, leading company in its field.

Pork Business

Pork prices continued the upward trend through 2Q04, increasing 23.2% compared to 2Q03, which offset the increases in grain and soy paste costs. This resulted in an improved operating margin which rose from 2.7% in 2Q03 to 10.5% in 2Q04. Another positive effect was the improved sales in the export market due to higher export sales to Japan.

Sales volume for the quarter decreased by 14.9% in comparison to the same period last year due to the closing of the Bajío operations in May.

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

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

Table 6. Food Sector Relevant Figures

	2Q04	2Q03

&