

Innovating strategies



Annual Report 2005



MINERA AUTLAN

Autlán Today

Minera Autlán is a Mexican leading company in the mining and steel industries producing manganese ores and ferroalloys for more than 50 years.

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Innovating strategies

Financial summary

as of December 31 of each year

| | 2005 | 2004 |
|--|---------|---------|
| P&L (millions of Mexican pesos of December 31, 2005 purchasing power) | | |
| Net Sales | 2,097.9 | 1,811.8 |
| Net Sales (US Million)* | 195.9 | 155.7 |
| Gross Margin | 641.4 | 608.3 |
| Operating Income | 386.2 | 395.5 |
| Net Income | 202.7 | 426.7 |
| Balance Sheet (millions of Mexican pesos of December 31, 2005 purchasing power) | | |
| Total Assets | 2,672.9 | 2,559.0 |
| Total Debt | 247.1 | 67.8 |
| Net Debt | 230.6 | 37.2 |
| Total Liabilities | 934.8 | 894.9 |
| Stockholder's equity | 1,738.1 | 1,664.1 |
| EBITDA (millions of Mexican pesos of December 31, 2005 purchasing power) | | |
| EBITDA | 480.5 | 475.1 |
| EBITDA (US Million)* | 44.9 | 40.8 |
| Financial Ratios | | |
| Gross Margin / Net Sales | 31% | 34% |
| Operating Income / Net Sales | 18% | 22% |
| Net Income / Net Sales | 10% | 24% |
| EBITDA / Net Sales | 23% | 26% |
| EBITDA / Net interest (times) | 6.9 | 10.9 |
| Debt / EBITDA (times) | 0.5 | 0.1 |
| Debt / Assets (%) | 9% | 3% |

*Using the official Exchange rate published by Banco de México (Banxico)

Solid results
and healthy capital
structure

National Steel Production

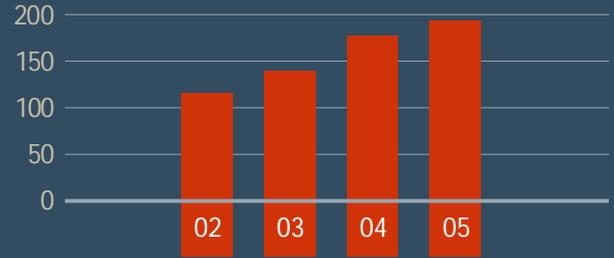
Millions of mt



Source: CANACERO

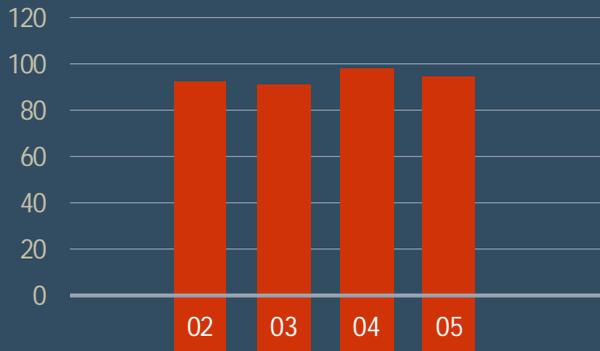
Manganese Ferroalloy Production

Thousands of mt



USA Steel production

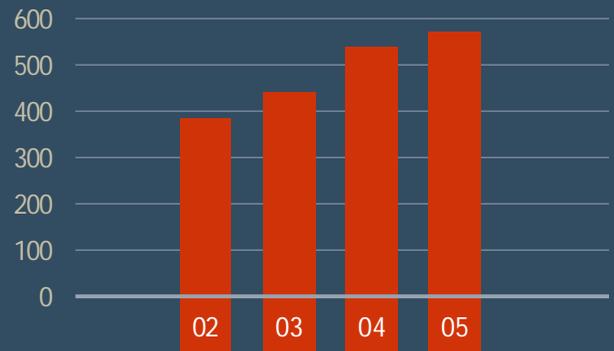
Millions of mt



Source: IISI

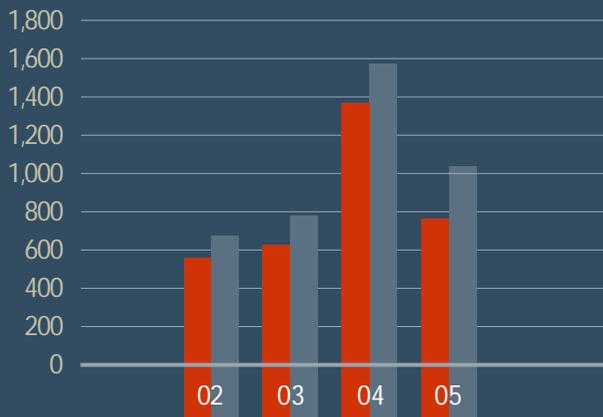
Manganese Carbonates Production

Thousands of mt



USA spot prices of Mn Alloys

US\$/mt

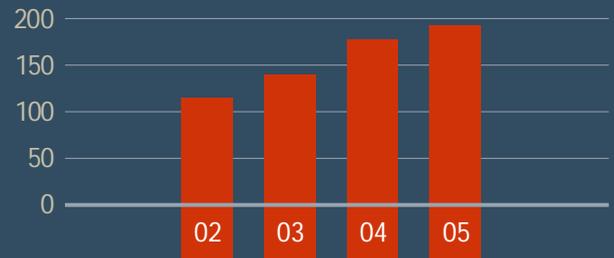


Source: Ryan's Notes

■ SiMn ■ FeMnMC

Manganese Ferroalloy Sales

Thousands of mt



Our flexibility and rapid adaptation to changes allowed us to take **advantage of opportunities**

A message from the **Chairman**

2005 was a year of great achievements and interesting challenges for Minera Autlán. The accomplished results make us proud, nonetheless they motivate us to renew our efforts as well as establish and innovate our strategies so that we can assure the viability and growth of the company in the long term. In Management, we are aware of the challenges that come from a global and rapidly changing environment, which drives us to continue working in order to achieve Minera Autlán's objectives.

The outstanding results of the year, with all-time records in sales and EBITDA, are not the only notable achievements in 2005. The trust that new creditors have placed in the company has allowed us to develop investment projects, upgrade equipment and modernize processes while maintaining a healthy capital structure. Solid results and healthy finances have characterized Autlán in the last two years although unfortunately this has not been reflected in our stock value. We will continue to work with innovative strategies so that the market acknowledges the creation of value, increasing confidence among investors.

The rapid changes experienced by the manganese industry in past years have forced us

to stop and validate our objectives as well as the strategies to achieve them. For this, we have worked very closely with our Planning Committee in conjunction with The Boston Consulting Group. We confirmed the results of our past efforts and implemented important changes in our planning methodology, giving this process greater dynamism, efficiency and focus. Five major improvement areas, on which we have been working, were identified as triggers that will allow us to consolidate Autlán's position as a low cost producer, maximize its operation flexibility, and capitalize on the skills of its personnel to provide a more integral service to clients. Moreover, this practice became the impulse to change the way we manage the company and, even though there were many achievements, we have been focusing our energy to reach our objectives with a new philosophy based on values, creativity and innovation.

This process has been supported by the priceless advice of the members of our board of directors, whose active participation in different committees has allowed us to achieve greater agility in the analysis and decision making processes. In this matter, the independence and transparency of the Audit Committee has been

We continue our work in order to anticipate and react faster to the ever-changing market conditions and today we know that the distance is shorter because of the work and effort that everybody in Minera Autlán has been doing.

notable, as well as the new compensation system that the Evaluation and Compensation Committee has been analyzing to reward the efforts and results of Minera Autlán's personnel.

We continue to work in order to quickly anticipate and react to the ever-changing market conditions and, today, we know that the distance to reach our objectives is shorter than ever due to everyone's work and effort at Minera Autlán.

During 2005 we were able to profit from corporate maturity and

favorable economic conditions, elements that rarely coincide, in order to consolidate the position of a unique industry in the country. For 2006, we foresee a year of challenges in which past market conditions would hardly continue. Nevertheless, we trust in the strengths and skills that we have developed in order to take on these challenges as new opportunities to reap the most from.

I confirm the management's commitment to continue strengthening Minera Autlán's position in the country and in the manganese

industry worldwide. I would like to thank our personnel and the members of the Board of Directors for their effort and work, and the stockholders, clients, suppliers and partners for the trust they have deposited in the company.

Sincerely,

José Antonio Rivero Larrea
Chairman of the Board
April 26, 2006

A message from the CEO

The achievements reached in 2005, including significant growths in sales, operating cash flow and production, were truly important.

These achievements demonstrated the company's ability to profit from windows of opportunity that the market offered. It is worth mentioning that the challenges we faced were not easy to overcome. During this period, the steel production dropped in Mexico and the US, and manganese ferroalloys faced a worldwide oversupply which kept prices decreasing during the first nine months of the year. In spite of these events and due to the company's flexibility and rapid adaptation to changes, we obtained successful results.

The increase in sales did not translate directly into operating profit, even when we kept a strict discipline in cost control and company expenses. The increasing energy costs, mainly in electricity and natural gas, continued to have a significant impact on our results.

Because of this importance of energy inputs, we have devoted resources and efforts to strengthen Minera Autlán's position in this regard.

By the end of 2005, the building of a sinter plant at the Tamós unit was completed and it started operating. With this plant, we will produce high

quality manganese sinter and optimize the use of energy sources. Likewise, the investment in research and development was intensified aiming to: benefit the ore through other processes; give a commercial use to our by-products and; generate new products that allow us to lower our costs, diversify our risk, and preserve the environment we operate in.

The maintenance and modernization of our equipment were also priorities during the year, therefore we were able to operate in optimal conditions and rely upon these tools in order to fully take advantage of the favorable market conditions.

In terms of human resources, we completed another year without labor conflicts, establishing agreements with the union to benefit both parties in a healthy and respectful work relationship.

In the other hand, I want to thank Minera Autlán's entire workforce for the great effort, dedication and care shown to the company.

During 2005, we took an important step to consolidate Autlán's operations. Relying on the experience of our personnel, we reacted promptly to maximize the windows of opportunity that opened up during the year. For

2005 was an important step towards the consolidation of Autlán's operations. Based on the experience of our personnel, we reacted fast to maximize the opportunity windows that arose during the year.

2006, some of these have closed due to the volatility of the manganese and steel industries, however, we are confident that by keeping a work culture throughout the organization, we can face new challenges and lay the strategies to overcome them.

I am grateful for the trust placed in to the company by our stockholders, members of the Board, employees, clients, suppliers and all those whose contribution strengthens Minera Autlán's position in the market, and I encourage them to continue

shaping and improving the manganese industry in Mexico.

José Madero Marcos
Chief Executive Officer
April 26, 2006



Summary of Operations 2005

Market trends

Steel producers, the main consumers of manganese products, took a rational approach by adjusting their production to match demand in order to avoid dramatic declines in steel prices and gain stability throughout the year. World production increased by 5.9% driven mainly by China, while other regions such as Europe and North America, reported declines in production volumes.

In the US, Minera Autlán's main export client, steel production fell to the lowest level in the last three years. However, this decline was induced by steelmakers in order to avoid important reductions in prices. Production volume is expected to be similar in 2006. In Mexico, steel production suffered a 2% decline. Union strikes, technical problems and the energy crisis were contributing factors to this decrease. Autlán foresees a recovery of 4% in 2006, reaching 16.7 million mt due to new investments in capacity made by some steel producers.

In 2005, the world manganese alloy

industry was characterized by a marked oversupply with a resulting drop in prices and consumption in certain world regions. International manganese ferroalloy prices suffered a significant decrease during the first nine months of the year. Subsequently, spot prices in the United States had a recovery during the last months of 2005 due to a sustained demand and reduced supply.

Production

Thanks to the company's adaptability, in 2005 we were able to maximize the months of high demand, meeting the needs of the market and adjusting our production when our client's consumption decreased.

Manganese carbonates production increased by 6% during the year, reaching 574,431 metric tons. Even when we produced the same volume of manganese nodules as in 2004, the additional manganese carbonates were used for the start of operations of the sinter plant.

In our ferroalloy division, 2005 was an



outstanding year that recorded growth in the output of all our products, reaching 10% in total. It is important to note the increase of 42% in our line of refined products, whose added value is greater, and of which we increased our market share in the US.

At our Nonoalco mining unit, whose market dynamics are different because they do not depend on the steel industry, ceramic grade natural manganese dioxide and manganous oxide production volumes increased by 28% and 88%, respectively. Due to this growth, new projects to increase the capacity of these products are being developed. Production of battery grade natural manganese dioxide was in line with market conditions.

Sales

During 2005 we continued to focus on our customers, keeping close relationships with them and receiving their input to offer better products and services.

Exports registered an

important increase in the ferroalloy division. In spite of the decrease in steel production, total sales volume was 7% higher, driven by a growth of 94% in exports mainly from our refined ferroalloy products, which have a higher added value.

In Molango, our exports of manganese nodule fines dropped by 19%, while the sale of manganese carbonates was 12% lower due to labor related problems from our main clients.

Thanks to the efforts of our sales team, Nonoalco's non-steel related products increased by 14%. Ceramic grade manganese dioxide and manganous oxide registered the highest increases, with 12% and 14% respectively. In light of this important growth, efforts are being made to increase production capacity and to optimize the manufacturing of these products. Battery grade natural manganese dioxide sales were in line with the conditions of the market.

Once again, the excellent work of the sales department has been recognized. This time, Nitrocor – Hascor

Group awarded the company with its "Supplier of the Year 2005" award commending our customer focus efforts.

Marketing

This year, actions were taken to further improve the relationship with our clients. Market polls were conducted in order to measure customer satisfaction levels of ferroalloy and Nonoalco products. In both cases, the market showed a very positive perception of Minera Autlán and we also detected opportunities to continue strengthening our commercial links.

Likewise, market surveys, econometric models, and technical-commercial encounters (between personnel and clients) were carried out at our operational units in order to identify present needs, preferences, and market trends, while looking for new opportunities. In this sense, the company's presence has grown in publications, shows and conferences in the steel sector.

The results, as last year, were very good. Net sales increased by 16% in comparison to 2004, reaching \$2,097.9 million pesos.

Internally, we have developed programs to improve the quality of our market research, and upgraded our Web site (www.aultan.com.mx) with a more commercial focus.

Aside from this, our efforts to confront unfair commercial practices in Mexico have not ceased, as we closely monitor imports.

Additionally, Minera Autlán had the support of the Board of Directors of the Mexican Mining Chamber (Cámara Minera de México) and established the first "Customs Committee" for the mining industry, presiding over it since October 2005.

We continued our membership and active participation in different CANACERO working committees as well as in the International Manganese Institute.

Finances

2005 was a year full of challenges and accomplishments. The entry of new creditors, who placed their trust in the company, allowed us to accelerate some investment projects as well as substitute debt with more favorable terms of cost and guarantees; all these were accomplished while maintaining a solid capital structure and low leverage.

The results of 2005 were, once more, very satisfactory. Net sales increased by 16% in comparison to those of 2004, reaching \$2,097.9 million pesos. This was achieved even when the peso kept gaining ground against the U.S. dollar, currency in which the company generates most of its income. In spite of the strict cost and expense control, the operating profit generated by the company decreased by 2% due to high energy costs, as we faced an average increase of 9% in natural gas prices and 17% in electricity costs. The operating cash flow reflected in our EBITDA was of \$480.5 million pesos, 1% higher than that of 2004 and the company reported \$202.7 million pesos of net profit.

During the past two years, the company has been investing heavily in modernizing its equipments and processes to keep them in optimal operating conditions. Moreover, we have carried out projects to reduced consumption and dependency on energy resources. In 2005, investments reached \$164.1 million pesos. The most important project was the sinter plant that was completed in September and began operations in October. This new sinter plant will give Minera Autlán the flexibility to depend less on natural gas and will benefit the manganese



ore by using other fuels. At the same time, it will increase the production of higher grade manganese ore, allowing us to export manganese nodules used in ferroalloy production. By 2006, the sinter plant will be able to run at full capacity if required.

Human Resources

The effort of Minera Autlán's personnel was, again, a significant factor in the achievement of this year's results. Aware of this effort, the management, through the Evaluation and Compensation Committee, started a project in 2005 to modernize the present evaluation and compensation system for employee performance, in order to fairly reward their efforts and results.

With the help of a renowned consulting firm, we carried out an executive and employee diagnosis and evaluations. The specialists' conclusion was that Minera Autlán's personnel are in line with the company's objectives and work in a

very healthy environment.

In terms of labor relations, 2005 was a year without conflicts. Collective labor agreements were negotiated with the National Mining Labor Union in a healthy and respectful environment and we reached satisfactory agreements for both parties.

Information Technology

In 2005, we continued the upgrade process started in 2004 for our IT systems, including hardware, software and communications equipment. These investments will give us a greater degree of quality and control of information and the decision-making process will be more efficient.

During the year we reviewed our software licenses, the networks were updated, an internal security and integrity audit was conducted and we continued to reinforce several aspects of the company's IT systems. Additionally, a general Intranet for the company was designed and

established successfully.

Aside from this, we invested in a Mining Planning System with the latest technology to aid our geologists and engineers in maximizing the exploit of mineral resources.

Strategic Planning

As a consequence of the fast changes experienced by the manganese industry, in 2005 we decided to re-evaluate the strategy designed to achieve the company's objectives. For this matter we hired The Boston Consulting Group, who, in conjunction with the company's Planning Committee, helped us to validate our long term strategies. We developed a new planning methodology within the organization that more adequately fits our market dynamics with the speed to anticipate and react to the frequent changes in our industry.

During this practice several improvement areas were detected and since then, we have begun to work on them to reduce the impact of variations



in energy costs, provide our customers with a more integral service, and increase the company's operational flexibility in order to face rapid changes in the market. With these measures we seek assure the company's profitability and growth in the long term.

The development of this planning process led the whole organization to plan under a new philosophy in which values and creativity are the cornerstones. Furthermore, the mission statement, vision and company philosophy were adjusted to the new environmental trends in this ever-changing and global industry.



Perspectives

For 2006, most recent projections foresee a steel production increase in developing countries, specifically in China and India. Developed countries next year will be characterized by stability especially in mature markets such as the USA and Europe. In Mexico we estimate steel production to be 3% higher than this year, reaching 16.7 millions metric tons.

In terms of ferroalloys, prices have been recovering during the last months from the slant they suffered the first three quarters of 2005. We expect these price levels to continue for the remainder of 2006 allowing us to have stable prices throughout the year.

During 2006 we will increase our production capacity of refined ferroalloys which will allow us to continue to increase our market share in this growing segment both in Mexico and in the USA. We will continue our initiatives aimed at the reduction of our energy costs following the first important step taken with the sinter plant. We will participate in the Atexcaco

hydroelectric project and we will analyze other power generation projects, all of which may represent huge savings in energy costs. We also expect to capitalize on the commercial efforts we have performed aimed at satisfaction of our customer.

Maintaining our philosophy of resource optimization, we expect to overcome the challenges foreseen in a tough 2006. However, we see such challenges as new opportunities and we are confident that the capability and laboriousness of the organization as a whole will keep up the good performance that the company has rendered in recent years and it will also strengthen our position in a unique and strategic industry for our country.

Board of Directors

Directors

José Antonio Rivero Larrea
Chairman, *Affiliated, Family Member*

José H. Madero Marcos
Vicechairman, *Affiliated, Family Member*

Fernando Rivero Larrea
Vicechairman, *Affiliated, Family Member*

Erik Jurgensen Bell-Irving
Independent Member

Pedro Reynoso Ennis
Independent Member

Jorge Morales Treviño
Independent Member

Héctor Medina Aguiar
Independent Member

Antonio Elosúa González
Independent Member

Alvaro Hernández Martínez
Independent Member

Ernesto Martens Rebolledo
Independent Member

Ernesto Canales Santos
Independent Member

Statutory Auditor and

Alternate Statutory Auditor

Gildardo Lili Camacho Comisario
Héctor Puente Segura

Secretary of the Board, Alternate Secretary

Juan Pablo del Río Benítez
Almaquio Basurto Rosas

Alternate Directors

María Guadalupe González de Rivero
Affiliated, Family Member

José Madero Vizcaino
Affiliated, Family Member

Ernesto Vargas Guajardo
Independent Member

José Antonio Rivero González
Affiliated

Pedro Reynoso de la Garza
Independent Member

Lizardo Galván Gómez
Affiliated

Ing. Humberto Moreira Rodríguez
Independent Member

Esteban Rivero González
Affiliated

Agustín Torres Montoya
Affiliated

Roberto Rivero Larrea
Affiliated

Mr. Peter A.V. Schoeffer
Affiliated

Statutory Auditor
Alternate Statutory Auditor

Secretary of the Board
Alternate Secretary

Organization's Committees

Executive Committee

| | |
|----------------------------|---------------------------------|
| José Antonio Rivero Larrea | Chairman |
| José H. Madero Marcos | Permanent Member |
| Erik Jurgensen Bell-Irving | Permanent Member |
| Jorge Morales Treviño | Permanent Member |
| Independent Directors | According to their availability |

Audit and Finance Committee

| | |
|----------------------------|------------------|
| Erik Jurgensen Bell-Irving | Chairman |
| José Antonio Rivero Larrea | Permanent Member |
| Pedro Reynoso Ennis | Permanent Member |
| Jorge Morales Treviño | Permanent Member |
| Samuel Melendez Soto | Internal Auditor |

Planning Committee

| | |
|----------------------------|------------------|
| José Antonio Rivero Larrea | Chairman |
| Héctor Medina Aguiar | Permanent Member |
| Ernesto Canales Santos | Permanent Member |
| Ernesto Martens Rebolledo | Permanent Member |
| Antonio Elosúa González | Permanent Member |

Evaluation and Compensation Committee

| | |
|----------------------------|------------------|
| José Antonio Rivero Larrea | Chairman |
| Jorge Morales Treviño | Permanent Member |
| Fernando Rivero Larrea | Permanent Member |
| Álvaro Hernández Martínez | Permanent Member |
| José H. Madero Marcos | Permanent Member |

Compañía Minera Autlán, S.A. de C.V. and Subsidiaries

(subsidiaries of Grupo Ferrominero, S.A. de C.V.)

Consolidated Financial Statements

December 31, 2005 and 2004

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stockholder's equity

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financial position

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Report of Independent Auditors

To the Stockholders of
Compañía Minera Autlán, S. A. de C. V.

Monterrey, N. L., February 20, 2006

We have audited the consolidated balance sheets of Compañía Minera Autlán, S. A. de C. V. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with generally accepted accounting principles. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Compañía Minera Autlán, S. A. de C. V. and subsidiaries at December 31, 2005 and 2004, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers, S. C.

Héctor Puente Segura

Compañía Minera Autlán, S.A. de C.V. and Subsidiaries

(subsidiaries of Grupo Ferrominero, S.A. de C.V.)

Consolidated Balance Sheet

at december 31, 2005 with comparative figures for 2004

Thousands of Mexican pesos of
December 31, 2005 purchasing power

| | 2005 | 2004 |
|---|--------------|--------------|
| Assets | | |
| CURRENT ASSETS: | | |
| Cash and temporary investments | Ps 16,475 | Ps 30,616 |
| Trade accounts receivable, less allowance for doubtful accounts of Ps18,894 in 2005 and Ps13,840 in 2004 | 161,703 | 183,469(*) |
| Accounts receivable from related parties (Note 3) | 76,446 | 51,600 |
| Value added tax recoverable | 52,381 | |
| Other accounts receivable | 26,707 | 30,705 |
| Inventories, net (Note 4) | 217,833 | 170,583 |
| Prepaid expenses | 9,205 | 10,676 |
| Other assets (Note 7) | 27,313 | |
| Total current assets | 588,063 | 477,649 |
| LONG - TERM ACCOUNT RECEIVABLE FROM PARENT COMPANY (Note 3) | 66,205 | |
| PROPERTY, MACHINERY AND EQUIPMENT (Note 5) | 2,004,790 | 2,061,754 |
| OTHER ASSETS AND DEFERRED CHARGES | 13,823 | 19,553 |
| Total assets | Ps 2,672,881 | Ps 2,558,956 |

(*) Figures reclassified for presentation purposes.

The accompanying notes are an integral part of these financial statements

C. P. José H. Madero M.
Chief Executive Officer

Thousands of Mexican pesos of
December 31, 2005 purchasing power

| | 2005 | 2004 |
|---|--------------|--------------|
| Liabilities and Stockholders' Equity | | |
| CURRENT LIABILITIES: | | |
| Short-term debt and notes payable (Note 7) | Ps 89,888 | Ps 19,301(*) |
| Suppliers | 145,993 | 143,215 |
| Income tax payable | 6,899 | 42,316 |
| Employees' profit sharing payable | 19,406 | 20,831 |
| Other accounts payable and accrued expenses | 81,755 | 133,789 |
| Total current liabilities | 343,941 | 359,452 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt (Note 7) | 157,206 | 48,501 |
| Deferred income tax (Note 12) | 380,498 | 436,088 |
| Estimated liabilities for seniority premiums and pension plans (Note 8) | 53,178 | 50,842 |
| Total long-term liabilities | 590,882 | 535,431 |
| Total liabilities | 934,823 | 894,883 |
| STOCKHOLDERS' EQUITY (Note 9): | | |
| Capital stock | 3,486,530 | 3,498,301 |
| Premium on issuance of capital stock | 2,098,497 | 2,098,497 |
| Contributed capital | 5,585,027 | 5,596,798 |
| Deficit | (3,846,969) | (3,932,725) |
| Total stockholders' equity | 1,738,058 | 1,664,073 |
| CONTINGENCIES (Note 13) | | |
| Total liabilities and stockholders' equity | Ps 2,672,881 | Ps 2,558,956 |

Ing. Lorenzo Belden T.
Chief Financial Officers

Compañía Minera Autlán, S.A. de C.V. and Subsidiaries
Consolidated statement of income
for the year 2005 with comparative figures for 2004

Thousands of Mexican pesos of
December 31, 2005 purchasing power

| | 2005 | 2004 |
|--|-------------------|-------------------|
| Net sales | Ps 2,097,851 | Ps 1,811,809 |
| Cost of sales | (1,456,411) | (1,203,464) |
| Gross margin | 641,440 | 608,345 |
| Operating expenses | (255,263) | (212,825) |
| Operating income | 386,177 | 395,520 |
| Comprehensive financing (expense) income: | | |
| Financial expense, net | (70,025) | (43,484) |
| Exchange loss, net | (4,114) | (8,327) |
| Gain on monetary position | 1,683 | 9,464 |
| | (72,456) | (42,347) |
| | 313,721 | 353,173 |
| Other expenses, net (Note 10) | (83,158) | (65,460) |
| Special items (Note 11) | | 22,334 |
| Income before the following provisions | 230,563 | 310,047 |
| Provisions for (Note 12): | | |
| Income tax | (8,451) | (1,906) |
| Employees' profit sharing | (19,406) | (20,831) |
| | (27,857) | (22,737) |
| Income before effect of changes in accounting principles | 202,706 | 287,310 |
| Effect of changes in accounting principles (Note 5) | | 139,360 |
| Consolidated net income | Ps 202,706 | Ps 426,670 |
| Earnings per share, in pesos (Note 2.m) | Ps 0.71 | Ps 1.49 |

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

C. P. José H. Madero M.
Chief Executive Officer

Ing. Lorenzo Belden T.
Chief Financial Officer

Compañía Minera Autlán, S.A. de C.V. and Subsidiaries
Consolidated statement of changes in stockholders' equity
for the year 2005 with comparative figures for 2004

Thousands of Mexican pesos of December 31, 2005 purchasing power

Thousands of Mexican pesos of December 31, 2005 purchasing power

| | Contributed capital | | | | Deficit | | | |
|--|---------------------|--------------------------------------|---------------------|--|-----------------------------|-----------------------------------|-----------------------|----------------------------|
| | Capital stock | Premium on issuance of capital stock | Total | | Retained earnings (Deficit) | Deficit on restatement of capital | Total | Total stockholders' equity |
| Balances at January 1, 2004 | Ps 3,498,301 | Ps 2,098,497 | Ps 5,596,798 | | (Ps 409,033) | (Ps 3,875,846) | (Ps 4,284,879) | Ps 1,311,919 |
| Changes in 2004: | | | | | | | | |
| Loss from holding nonmonetary assets | | | | | | (74,516) | (74,516) | (74,516) |
| Net income for the year | | | | | 426,670 | | 426,670 | 426,670 |
| Comprehensive income | | | | | 426,670 | (74,516) | 352,154 | 352,154 |
| Balances at December 31, 2004 | 3,498,301 | 2,098,497 | 5,596,798 | | 17,637 | (3,950,362) | (3,932,725) | 1,664,073 |
| Changes in 2005: | | | | | | | | |
| Loss from holding nonmonetary assets | | | | | | (116,950) | (116,950) | (116,950) |
| Net income for the year | | | | | 202,706 | | 202,706 | 202,706 |
| Comprehensive income | | | | | 202,706 | (116,950) | 85,756 | 85,756 |
| Repurchase of own shares | (11,771) | | (11,771) | | | | | (11,771) |
| Balances at December 31, 2005 (Note 9) | Ps 3,486,530 | Ps 2,098,497 | Ps 5,585,027 | | Ps 220,343 | (Ps 4,067,312) | (Ps 3,846,969) | Ps 1,738,058 |

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

C. P. José H. Madero M.
Chief Executive Officer

Ing. Lorenzo Belden T.
Chief Financial Officer

Compañía Minera Autlán, S.A. de C.V. and Subsidiaries
Consolidated statement of changes in financial position

for the year 2005 with comparative figures for 2004

Thousands of Mexican pesos of
December 31, 2005 purchasing power

| | 2005 | 2004 |
|---|------------|-------------|
| Operations | | |
| Consolidated net income | \$ 202,706 | \$ 426,670 |
| Initial effect of changes in accounting principles | | (139,360) |
| | 202,706 | 287,310 |
| Items not affecting resources: | | |
| Depreciation and amortization | 94,286 | 79,593 |
| Deferred income tax | (14,053) | 1,906 |
| Estimated liabilities for seniority premiums and pension plans | 2,366 | 5,220 |
| | 285,305 | 374,029 |
| Changes in working capital, other than financing: | | |
| Trade accounts receivable, other accounts receivable, recoverable taxes, and other assets | (27,547) | (64,293)(*) |
| Inventories | (71,358) | (75,464) |
| Prepaid expenses | 1,471 | (4,142) |
| Suppliers | 1,086 | (49,891) |
| Taxes and other accounts payable and accrued expenses | (88,909) | (522) |
| Net resources provided by operations | 100,048 | 179,717 |
| Financing | | |
| Bank loans | 179,292 | (22,195)(*) |
| Changes in restricted cash | (27,313) | |
| Repurchase of own shares | (11,771) | |
| Related parties, net | (24,050) | (7,270) |
| Resources provided by (used in) financing activities | 116,158 | (29,465) |
| Investment | | |
| Property, machinery and equipment, net | (161,399) | (122,522) |
| Related parties | (66,205) | |
| Net assets of subsidiaries acquired, less cash and temporary investments of Ps69 | (2,743) | |
| Resources used in investment activities | (230,347) | (122,522) |
| (Decrease) increase in cash and temporary investments | (14,141) | 27,730 |
| Cash and temporary investments at beginning of year | 30,616 | 2,886 |
| Cash and temporary investments at end of year | \$ 16,475 | \$ 30,616 |

(*) Figures reclassified for presentation purposes

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

C. P. José H. Madero M.
Chief Executive Officer

Ing. Lorenzo Belden T.
Chief Financial Officer

COMPAÑIA MINERA AUTLAN, S. A. DE C. V. AND SUBSIDIARIES

(subsidiaries of Grupo Ferrominero, S. A. de C. V.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2005 WITH COMPARATIVE FIGURES FOR 2004

Thousands of Mexican pesos of December 31, 2005 purchasing power
(except where otherwise indicated)

1. ENTITY AND OPERATIONS

Compañía Minera Autlán, S. A. de C. V. (Autlán), was incorporated in 1953. It is a Mexican company whose main activity is the extraction of manganese ore, and the production and sale of ferroalloys, used mainly in the production of steel. The term "the Company", as used in this report, refers to Autlán together with its consolidated subsidiaries.

Autlán carries out its activities through operating units located in Tamós in the State of Veracruz, Molango and Nonoalco in the State of Hidalgo, Teziutlán in the State of Puebla and Gómez Palacio, in the State of Durango. It also has various service subsidiaries mentioned in Note 2

2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Bases for presentation and disclosure

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Mexico, including the standard requiring comprehensive recognition of the effects of inflation on the financial information. Consequently, all financial statements, including those of prior periods presented for comparative purposes, are stated in constant pesos of December 31, 2005 purchasing power.

The financial statements of GFM Trading, Inc., a foreign subsidiary, were conformed to accounting principles generally accepted in Mexico. The related cumulative translation adjustment is recorded directly in stockholders' equity.

The preparation of the financial information in accordance with accounting principles generally accepted in Mexico requires management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from those estimates.

The most important indexes (National Consumer Price Index-NCPI) used to reflect the effects of general inflation on the financial statements were: 116.301, 112.550 and 106.996 at December 31, 2005, 2004 and 2003, respectively (June 2002=100).

b. Bases for consolidation

The consolidated financial statements comprise those of Autlán and all its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

The principal subsidiaries of Autlán are as follows:

| | % ownership at December 31, | |
|--|-----------------------------|------|
| | 2005 | 2004 |
| Service companies and other: | | |
| Arrendadora Autlán, S. A. de C. V. | 100 | 100 |
| Compañía Recuperadora de Escorias, S. A. de C. V. | 100 | 100 |
| Grupo de Construcciones y Edificaciones, S. A. de C. V. | 100 | 100 |
| Inmobiliaria Aire Libre I, S. A. de C. V. (a) | - | 98 |
| Inmobiliaria Molango, S. A. | 100 | 100 |
| Industrial Minera Teziutlán Acatlán, S. A. | 96 | 96 |
| La Herradura de México, S. A. de C. V. (b) | 99 | - |
| Metcore de México, S. A. de C. V. (a) | 100 | 100 |
| Minas de Santa Marta, S. A. | 98 | 98 |
| Servicios Autlán, S. A. de C. V. (a) | - | 100 |
| Servicios de Administración de Proyectos, S. A. de C. V. (a) | - | 99 |
| Trading companies: | | |
| Autlan Metal Services, S. A. de C. V. | 100 | 100 |
| Comercial Autlán, S. A. de C. V. | 100 | 100 |
| GFM Trading de México, S. A. de C. V. | 99 | 99 |
| GFM Trading, Inc. | 99 | 99 |

(a) At an extraordinary meeting held on December 9, 2005, the stockholders of Metcore México, S. A. de C. V. (Metcore), resolved to merge the following related companies: Inmobiliaria Aire Libre I, S. A. de C. V., Servicios Autlán, S. A. de C. V. and Servicios de Administración de Proyectos, S. A. de C. V. into Metcore. The related resolution states that this merger is effective as of December 31, 2005.

(b) In December 2005, Autlán acquired the majority ownership interest in this company.

c. Cash and temporary investments

This item is stated at market value. The differences in value between the investment date and the balance sheet date are recorded in the statement of income under the caption comprehensive financing income (expense).

d. Inventories and cost of sales

Inventories are stated at estimated replacement cost, basically at the latest purchase prices and production costs of the year. The amounts shown for inventories do not exceed market value.

The cost of sales is determined based on the estimated replacement costs prevailing on the dates when the sales were effected.

e. Property, machinery, equipment and depreciation

Property, plant and equipment and the related accumulated depreciation are stated at cost restated by applying factors derived from the NCPI to the historical cost, except for machinery and equipment of foreign origin, which are stated at cost restated by applying factors derived from the general inflation index of the country of origin to the corresponding foreign currency amounts and translating those amounts to pesos at the exchange rate prevailing at the balance sheet.

Depreciation is calculated by the straight-line method based on the estimated useful lives of the assets, as determined by the companies.

Property, machinery and equipment are subject to recognition of impairment, as well as the reversal of such impairment, when appropriate.

f. Deferred charges

This caption is stated at cost restated by applying factors derived from the NCPI to the historical cost. It comprises principally costs relative to exploration and investigation and mining concessions, all of which are subject to amortization once the mines start operating.

Intangible assets having indefinite useful lives are subject to at least one impairment evaluation on an annual basis, or when circumstances indicate the existence of a possible impairment.

g. Transactions in foreign currency and exchange differences

Monetary assets and liabilities in foreign currencies, mainly U.S. dollars (US\$), are stated in Mexican currency at the rates of exchange in effect at the balance-sheet date. Exchange differences arising from changes in exchange rates between the transaction and settlement dates or the balance-sheet date are charged or credited to comprehensive financing income (expense).

h. Estimated liabilities for seniority premiums

The cost of the employee retirement plans (pensions and seniority premiums), both formal and informal, is recognized as an expense of the years in which the services are rendered, in accordance with actuarial studies made by independent experts.

From January 1, 2005 onwards the Company adopted the amendments to Statement D-3 "Labor liabilities" issued by the Mexican Institute of Public Accountants (MIPA). These amendments provide additional valuation, presentation and recording rules for recognition of benefits at termination of employment for

causes other than from restructuring. At January 1, 2005, the adoption of these amendments gave rise to a transition liability, which will be amortized over the average remaining service life of the employees. The adoption of these amendments had no significant effect on the accompanying financial statements

Until December 31, 2004 compensation based on length of service to which employees might be entitled in the event of dismissal or death, in accordance with the Federal Labor Law, was charged to income in the year in which it became payable.

i. Repurchase of own shares

The repurchase of the Company's own shares is recorded by charging their acquisition cost to stockholders' equity. The theoretical restated value is charged to capital stock, and the difference to the reserve for acquisition of own capital stock. These amounts are stated at cost restated by applying factors derived from the NCPI.

j. Revenue recognition

The Company recognizes revenues when merchandise is delivered and billed to customers. The revenues and accounts receivable are recorded net of allowances for returns and doubtful accounts, respectively.

k. Comprehensive financing income (expense)

This item is determined by grouping in the statement of income all financial income and expense, exchange gains and losses, and the gain or loss on monetary position.

The gain or loss on monetary position represents the effect of inflation, as measured by the NCPI, on the Company's monthly net monetary assets or liabilities during the year.

l. Income tax and employees' profit sharing

Income tax and employees' profit sharing are recorded under the accounting method requiring recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of all assets and liabilities and their respective tax bases.

Autlán and its subsidiaries consolidate their income for income tax and asset tax purposes.

m. Earnings per share

Earnings per share are computed by dividing the net majority income (loss) by the weighted average of common shares outstanding during the year. There are no effects arising from potentially dilutive shares.

n. Comprehensive income

The transactions recorded in the various captions relating to earned surplus for the year, other than those carried out among stockholders, are included in the statement of changes in stockholders' equity under the caption comprehensive income (loss).

o. Concentration of business risks

The main financial instruments maintained by the Company under a credit risk concentration correspond to cash in banks and temporary investments, as well as trade accounts receivable. Cash and temporary investments are maintained in recognized financial institutions. The relative investments are in fixed interest and money market securities. The risk concentration with respect to accounts receivable is important since at December 31, 2005, 67% of the total accounts receivable portfolio was concentrated in five customers (63% in 2004). In addition, the Company maintains allowances for doubtful accounts based on the estimated recoverability of the accounts receivable.

3. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

At December 31 accounts receivable from related parties were as follows:

| | 2005 | 2004 |
|---|-----------|-----------|
| Short-term: | | |
| Grupo Ferrominero, S. A. de C. V. (1) | Ps 47,158 | Ps 6,028 |
| Lynx Servicios Aéreos, S. A. de C. V. (1) | 13,809 | |
| Metal Trading, S. A. de C. V. (2) | 11,723 | 15,181 |
| La Herradura de México, S. A. de C. V. | | 9,224 |
| Auto Express Santa Marta, S. A. de C. V. | | 2,435 |
| Other | 3,756 | 18,732 |
| | Ps 76,446 | Ps 51,600 |
| Long-term: | | |
| Grupo Ferrominero, S. A. de C. V. (3) | Ps 66,205 | |

(1) These balances arise from current account lines of credit; they are estimated as recoverable and/or receivable in a short-term.

(2) These balances arise from the purchase and sale relating to ferroalloys; they bear no interest, and are estimated as recoverable and/or receivable in a short-term.

(3) This balance arises from a loan amounting to US\$6.2 million, maturing in the year 2010; it bears interest at rates similar to those prevailing in the market (8.5% at December 31, 2005).

The statement of income includes the following transactions with related parties:

| | 2005 | 2004 |
|---|------------|----------|
| Air transportation service income (expense) | (Ps 2,756) | (Ps 590) |
| Interest expense | (18,437) | (19,891) |
| Technical services expense | (20,098) | (19,891) |

4. INVENTORIES

This caption comprised the following:

| | 2005 | 2004 |
|--|------------|------------|
| Finished goods | Ps 109,031 | Ps 70,513 |
| Minerals and raw materials | 63,633 | 58,012 |
| Spare parts inventory | 44,146 | 40,389 |
| Goods in transit | 1,950 | 2,626 |
| | 218,760 | 171,540 |
| Allowance for slow-moving and obsolete inventories | (927) | (957) |
| Estimated replacement cost | Ps 217,833 | Ps 170,583 |

5. PROPERTY, MACHINERY AND EQUIPMENT

This caption comprised the following:

| | 2005 | 2004 |
|---|--------------|--------------|
| Land | Ps 58,629 | Ps 58,222 |
| Buildings and constructions | 1,057,352 | 1,002,764 |
| Machinery and equipment | 3,808,756 | 3,791,169 |
| Furniture and equipment | 34,956 | 34,994 |
| Transportation equipment | 40,571 | 23,328 |
| Data-processing equipment | 46,652 | 43,691 |
| Construction in progress | 35,497 | 34,043 |
| Other assets | 67,205 | 53,148 |
| | 5,090,989 | 4,983,137 |
| Less - Accumulated depreciation | (3,144,828) | (3,207,631) |
| | 1,946,161 | 1,775,506 |
| Add - Reversal of impairment in the value of assets (1) | | 228,026 |
| Net restated value | Ps 2,004,790 | Ps 2,061,754 |

Depreciation charged to income represented average annual rates of approximately 3% for buildings and constructions and 4% for machinery, furniture and equipment in both years.

(1) As from the year ended December 31, 2004, the Company had an improvement in its operating margins and a greater demand for its products, as a result of the recovery of the iron and steel industry at the domestic and international levels. This situation resulted from: a) an increase in the price of manganese ferroalloys (the Company's main product), b) an increase in sales volumes due to reopening operations at the Teziutlán and Gómez Palacio units, and c) consolidation of the program to reduce costs and expenses through preventive maintenance of machinery, as well as the redistribution of personnel.

In view of these favorable circumstances and based on the new standards contained in Statement C-15 "Impairment of long-lived assets and their disposal" issued by the MIPA, effective as of 2004, management carried out the corresponding studies, mainly based on the projections of expected cash

flows. Based on these studies, the Company partially reversed the impairment in the value of fixed assets recognized in 2001. The reversal at the beginning of 2004 and for the year then ended amounted to Ps139,360 and Ps34,469, respectively. These amounts are included in the statement of income, under special items. The study carried out by Autlán and its subsidiaries at December 31, 2005 did not reflect any additional impairment or recovery of the impairment previously recognized.

6.FOREIGN CURRENCY POSITION

At December 31, 2005 and 2004, the exchange rates were 10.71 and 11.26 nominal pesos to the U.S. dollar, respectively. At February 20, 2006, date of issuance of the audited financial statements, the exchange rate was 10.45 nominal pesos to the dollar.

Amounts shown below in this note are expressed in thousands of U.S. dollars (US\$), since this is the currency in which most of the companies' foreign currency transactions are carried out.

At December 31, 2005 and 2004, the Company had the following foreign currency assets and liabilities:

| | 2005 | 2004 |
|------------------------------------|--------------|--------------|
| Monetary assets | US\$ 28,075 | US\$ 28,010 |
| Current liabilities | (26,398) | (15,882) |
| Foreign currency monetary position | US\$ 1,677 | US\$ 12,128 |
| Nonmonetary assets | US\$ 139,610 | US\$ 121,845 |

The nonmonetary assets (inventories, machinery and equipment) mentioned above are those manufactured outside Mexico or whose replacement costs are denominated in foreign currency, and they are stated at their net restated cost.

Following is a summary of the foreign currency transactions:

| Goods and services: | 2005 | 2004 |
|----------------------------|-------------|-------------|
| Exports | US\$ 31,911 | US\$ 21,857 |
| Imports | (43,704) | (25,091) |

7. NOTES PAYABLE AND LONG-TERM DEBT

At December 31, 2005, the long-term debt of Autlán and its subsidiaries comprised the following:

| | Interest rate(*) | |
|--------------------------------|------------------|-------|
| Préstamo bancario: | | |
| Bank loans (1): WestLB AG Bank | Ps 245,459 | 9.02% |
| Notes payable (2) | 1,635 | 7.08% |
| | 247,094 | |
| Less - Current maturities | 89,888 | |
| Long-term debt | Ps157,206 | |

(*) Nominal rates effective at December 31, 2005.

At December 31, 2005, long-term maturities of the debt were as follows:

| | Bank loans | Notes payable | Total |
|------|------------|---------------|------------|
| 2007 | Ps 89,257 | Ps 624 | Ps 89,881 |
| 2008 | 66,944 | 381 | 67,325 |
| | Ps 156,201 | Ps 1,005 | Ps 157,206 |

(1) Refers to a revolving line of credit of up to US\$25 million, secured by invoices of export customers and cash deposits (restricted cash) to guarantee future maturities of capital and interest. At December 31, 2005, these deposits amounted to US\$2.5 million, equivalent to Ps27,313, and are included in current assets under the caption "Other assets".

(2) Notes payable correspond to financial lease agreements covering the purchase of machinery and transportation equipment. They bear interest at rates similar to those prevailing in the market and are payable on a monthly basis.

The loan agreement entered into with WestLB AG Bank contains the usual covenants, principally in respect of compliance with certain financial ratios, payment of dividends and submission of financial information. If these are not complied with, or the non-compliance is not cured in a time period satisfactory to the creditors, the latter may require immediate payment of the loans. At December 31, 2005, Autlán and its subsidiaries were in compliance with such covenants and restrictions

8. ESTIMATED LIABILITIES FOR SENIORITY PREMIUMS AND PENSION PLANS

The Company has established noncontributory pension plans for its employees. Plan benefits are primarily based on the employees' years of service, their present age and their remuneration at date of retirement. The liabilities and costs relative to these plans, as well as those relative to seniority premiums, are recognized on the basis of actuarial studies made by independent experts, through contributions to trust funds and provisions

Following is a summary of the principal financial data relative to these liabilities:

| | 2005 | 2004 |
|--|-----------|-----------|
| Accumulated benefit obligation | Ps 62,401 | Ps 54,105 |
| Accumulated net liability | Ps 37,706 | Ps 48,588 |
| Projected benefit obligation | Ps 63,143 | Ps 55,661 |
| Plan assets at market value | (24,695) | (33,018) |
| Unamortized prior services (transition liability) | (268) | 2,802 |
| Actuarial gains and losses | 14,998 | 25,397 |
| Estimated liability for seniority premiums and pension plans | Ps 53,178 | Ps 50,842 |
| Net cost for the year | Ps 3,985 | Ps 5,256 |

The cost of prior services (transition liability), amendments to plans and actuarial gains and losses are amortized through charges to income by the straight-line method over the average remaining service life of the employees expected to receive the benefits, as follows:

| | 2005 | 2004 |
|--|----------|----------|
| Amortization period: | | |
| Transition liability | 5 years | 6 years |
| Unamortized actuarial gains and losses | 14 years | 14 years |
| Weighted real discount rate | 4% | 4% |
| Real estimated return at long-term on plan assets | 4% | 4% |

9. STOCKHOLDERS' EQUITY

At December 31, 2005 the restated amounts of stockholders' equity were as follows:

| | Nominal amount | Restatement | Restated amount |
|--------------------------------------|----------------|--------------|-----------------|
| Contributed capital: | | | |
| Capital stock | Ps 285,211 | Ps 3,201,319 | Ps 3,486,530 |
| Premium on issuance of capital stock | 391,914 | 1,706,583 | 2,098,497 |
| Total contributed capital | 677,125 | 4,907,902 | 5,585,027 |
| Deficit: | | | |
| Retained earnings | (1,088,456) | 1,228,799 | 220,343 |
| Deficit on restatement of capital | | (4,067,312) | (4,067,312) |
| Total deficit | (1,008,456) | (2,838,513) | (3,846,969) |
| Consolidated stockholders' equity | Ps 331,331 | Ps 2,069,389 | Ps 1,738,058) |

At December 31, 2004, the fixed minimum capital stock without right of withdrawal, fully subscribed and paid in, amounted to Ps133,409, and was represented by 46,222,785 Series "B", common nominative shares, without par value.

At December 31, 2005, Autlán had 2,565,500 shares held in treasury; each such share had a market value of Ps4.35 at that date.

At December 31, 2005 the retained earnings included Ps21,333 appropriated to the legal reserve.

Dividends paid are not subject to income tax if they arise from the after-tax earnings account (CUFIN). Dividends paid in excess of this account are subject to a tax equivalent to 42.85%, 40.84% and 38.91% if paid in 2005, 2006 or 2007, respectively. The tax is payable by the Company and may be credited against the income tax payable by the Company in the year in which the dividends are paid and in the two following years. Dividends paid are not subject to tax withholding.

In the event of capital stock reductions, any excess of stockholders' equity over capital contributions, the latter inflation-indexed in accordance with the provisions of the Mexican Income Tax Law, is accorded the same tax treatment as dividends.

The deficit on restatement of capital comprises principally the loss from holding nonmonetary assets and represents the difference between restating these assets by the specific cost method and restating them based on inflation measured in terms of the NCPI.

10. OTHER EXPENSES, NET

Company's management follows the practice of recognizing in this caption, expenses not directly identified with the Company's normal operations. They comprise principally surcharges, fines, technical services, nonrecurring expenses and other reserves.

11. SPECIAL ITEMS

During the year ended December 31, 2004, the Company was involved in various situations and transactions that resulted in the recording of extraordinary expenses and losses, certain of which, could be characterized as nonrecurring and/or infrequent. They are analyzed as follows:

| | 2004 |
|--|-------------|
| Severance compensation | (Ps 8,586) |
| Expenses for suspension of plant activities | (986) |
| Partial reversal of impairment in value of fixed assets and deferred charges | 34,469 |
| Otros | (2,563) |
| | Ps 22,334 |

Management estimates that the aforementioned situations are not part of the Company's normal operations or are unusual, and does not expect them to occur again in the near future.

12. INCOME TAX AND EMPLOYEES' PROFIT SHARING

Autlán and each of its subsidiaries determine and pay income tax and employees' profit sharing on an individual basis. In accordance with the amendments to the Mexican Income Tax Law published on December 1, 2004, the income tax rate for the year 2005 was reduced to 30%; this rate will be reduced by 1% annually until reaching a 28% rate in the year 2007. This change resulted in a decrease of Ps53,268 in the amount of deferred income tax payable recorded at December 31, 2004. Such amount was credited to 2004 income.

The net (charge) credit to consolidated income for income tax was as follows:

| | 2005 | 2004 |
|-------------------|-------------|------------|
| Currently payable | (Ps 22,504) | |
| Deferred | 14,054 | (Ps 1,906) |
| Total income tax | (Ps 8,451) | (Ps 1,906) |

The reconciliation between the statutory and effective income tax rates was as follows:

| | 2005 | 2004 |
|--|-------------|--------------|
| Income before income tax and employees' profit sharing | Ps 230,563 | Ps 310,047 |
| Income tax at statutory rate (30% in 2005 and 33% in 2004) | (Ps 69,169) | (Ps 102,315) |
| Add (deduct) effect of income tax on: | | |
| Inflation accounting and tax effects | (3,346) | 11,140 |
| Non-deductible expenses | (4,232) | (4,779) |
| Benefit from employees' profit sharing deduction | 5,434 | |
| Cancellation of allowance for unrecoverable tax loss carryforwards and asset tax credits | 50,740 | 54,526 |
| Allowance for unrecoverable asset tax | | (13,746) |
| Other permanent differences, net | 12,122 | (55,174) |
| Effect of reduction in statutory income tax rate | (8,451) | 53,268 |
| Total income tax provision charged to income | (Ps 8,451) | (Ps 1,906) |
| Effective income tax rate | (4%) | (1%) |

At December 31 the principal temporary differences requiring recognition of deferred income tax were as follows:

| | 2005 | 2004 |
|--|-------------|-------------|
| Allowance for doubtful accounts | (Ps 18,894) | (Ps 13,840) |
| Inventories | (29,624) | (31,491) |
| Property, machinery and equipment, net | 1,730,081 | 1,798,480 |
| Other assets | 78,330 | 48,742 |
| Estimated liabilities | (102,302) | (59,189) |
| Employees' profit sharing payable | (19,204) | |
| Estimated liability for seniority premiums and pension plans | (53,591) | (50,842) |
| Tax loss carryforwards | (128,767) | (218,511) |
| | 1,456,029 | 1,473,349 |
| Valuation allowance (*) | | 84,108 |
| | 1,456,029 | 1,557,457 |
| Income tax at statutory rate | 28% | 28% |
| Deferred income tax liability | 407,688 | 436,088 |
| Asset tax recoverable | (27,190) | (41,863) |
| Valuation allowance (*) | | 41,863 |
| Deferred income tax liability | Ps 380,498 | Ps 436,088 |

(*) It was recognized since the realization of tax loss carryforwards against future taxable income and the recovery of asset tax are uncertain.

The deferred income tax payable recorded at December 31 was (charged) credited to the following accounts:

| | 2005 | 2004 |
|--|--------------|--------------|
| Balance from prior year | (Ps 436,088) | (Ps 422,674) |
| Income (loss) for the year | 14,053 | (1,906) |
| Initial effect of changes in accounting principles | | (54,196) |
| Deficit on restatement of capital | 41,537 | 28,970 |
| Asset tax paid | | 13,718 |
| Total | (Ps 380,498) | (Ps 436,088) |

The deferred income tax payable recorded at December 31 was (charged) credited to the following accounts:

| | |
|------|------------|
| 2012 | Ps 45,977 |
| 2013 | 82,790 |
| | Ps 128,767 |

The foregoing losses are shown at their inflation-indexed amounts at December 31, 2005.

Asset tax is payable at the rate of 1.8% on the net amount of certain assets and liabilities but only when the amount of asset tax exceeds the current income tax due. Asset tax paid may be recovered in the following ten years to the extent income tax exceeds asset tax in those years.

Employees' profit sharing was determined at the rate of 10% on the taxable income adjusted as prescribed by the Income Tax Law. Tax loss carryforwards are not available for purposes of reducing employees' profit sharing.

13. CONTINGENCIES

The Company has contingent obligations in connection with the following:

a. At December 31, 2004, the Company had a balance receivable from AHMSA, which amounted to Ps42,244 at the date this company was declared in suspension of payments (March 31, 2001). At the date of issuance of these financial statements, this situation continues unresolved. However, management estimates that this balance is recoverable in the future since ferroalloys are required for the manufacturing process of AHMSA; consequently, at December 31, 2005, no reserve for doubtful account has been recorded in connection with this balance. It should be mentioned that currently sales to AHMSA, subsequent to the date it was declared in suspension of payments, have been collected in an average period of 30 days.

b. The Company has entered into an agreement with Banco de Comercio Exterior, S. N. C. (Bancomext) covering a revolving line of credit of up to an amount of US\$8 million, ending in May 2010. In accordance with which, Autlán cedes the rights of invoices of domestic customers. At December 31, 2005, the Company had placed Ps83,724 (US\$7.8 million) with recourse. The amount of the invoices ceded to Bancomext is shown net of the caption trade accounts receivable in the balance sheet.

14. NEW REPORTING STANDARDS

On June 1, 2004, the Mexican Financial Reporting Standards Board (CINIF) assumed the responsibility for prescribing accounting and reporting standards in Mexico. As part of this responsibility and after a detailed examination process carried out during the years 2004 and 2005, the CINIF issued various Financial Reporting Standards (FRS), which became effective on January 1, 2006. The purpose of the FRS is to harmonize local standards adopted by various domestic business sectors and to converge as far as possible with the International Financial Reporting Standards (IFRS).

The FRS are mandatory from January 1, 2006 onwards. Their related adoption is subject to the following hierarchy:

- The FRS and related interpretation issued by the CINIF.
- The statements issued by the Accounting Principles Board (APB) of the MIPA, which have not been modified, replaced or invalidated by new FRS.
- The IFRS applicable on a supplementary basis.

The circulars issued by the APB will remain as recommendations and will be part of the FRS until they are no longer applicable because they were invalidated or covered by a financial reporting standard.

The adoption of the FRS will have no significant effect on the financial information of Autlán and its subsidiaries.

C. P. José H. Madero M.
Director General

Ing. Lorenzo Belden T.



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