



**AUTLAN<sup>®</sup>**

# ANNUAL REPORT 2017





1953 |

The company is founded to exploit the San Francisco manganese mine in Autlán, State of Jalisco, Mexico. It was the first mining company led by Mexicans in the country.

1960 |

The company moved its mining operations from the State of Jalisco to the State of Hidalgo to explore and exploit the Molango mine, which is the largest manganese deposit in North America and one of the largest in the world.

1973 |

The Plant in the Puebla State called Ferroaleaciones Teziutlán, SA de CV is acquired by Autlán and the company evolves from being a pure mining company into a ferroalloy producer.

1976 |

The construction of the first stage of the Tamós ferroalloys plant is finished in the State of Veracruz.



1993 |

Grupo Ferrominero (GFM) acquired Autlán in July, returning it to the private sector. The assets of a ferroalloy plant called Ferroaleaciones de Mexico, S.A. de C.V. (Gómez Palacio, Durango) were acquired by GFM, consolidating the company's position in the domestic market.

2011 |

A new growth stage began for the company and in this year Autlán inaugurated the Atexcaco Hydroelectric Plant in Puebla.

2013 |

Autlán celebrated its 60th anniversary.

2017 |

The company reached record production levels in manganese ferroalloys production, sales, cash flow and net profit.

# CONTENTS



<b>07</b>	<b>SALIENT FIGURES</b>	<b>08</b>	<b>MESSAGES</b>	<b>22</b>	<b>ECONOMIC OUTLOOK</b>	<b>26</b>	<b>OPERATIONS</b>	<b>42</b>	<b>CORPORATE</b>	<b>55</b>	<b>HUMAN CAPITAL</b>	<b>56</b>	<b>INSTITUTIONAL RELATIONS</b>	<b>58</b>	<b>CORPORATE GOVERNANCE</b>
-----------	----------------------------	-----------	-----------------	-----------	-----------------------------	-----------	-------------------	-----------	------------------	-----------	--------------------------	-----------	------------------------------------	-----------	---------------------------------

07  
SALIENT FIGURES

08  
MESSAGE  
FROM THE  
CHAIRMAN

14  
MESSAGE  
FROM THE  
CEO

22  
ECONOMIC  
OUTLOOK

28  
MINING

30  
FERROALLOYS

34  
SUPPLY CHAIN

36  
SUSTENTABILITY

44  
COMMERCIAL

46  
STRATEGIC  
PLANNING

47  
INFORMATION  
TECHNOLOGY

48  
ENERGY

50  
FINANCIAL  
RESULTS

55  
HUMAN  
CAPITAL

56  
INSTITUTIONAL  
RELATIONS

58  
CORPORATE  
GOVERNANCE

# SALIENT FIGURES

Millions of US dollars

DECEMBER 31<sup>st</sup>

## P & L

	2016	2017
Net sales	230.7	359.3
Operating income	14.5	90.6
Operating margin	6.3%	25.2%
Net revenues	7.2	61.8
Net margin	3.1%	17.2%
EBITDA *	42.4	115.1
EBITDA margin	18.4%	32.0%

\* Operating Income + Depreciation and Amortization

## Balance

Total assets	519.4	605.9
Debt with cost	101.8	105.9
Net debt	77.9	34.0
Total liabilities	258.1	307.1
Stockholders' equity	261.3	298.8
Total liabilities and equity	519.4	605.9

## MESSAGE FROM THE CHAIRMAN

A successful year for any company is usually measured by its internal and external achievements. Thus, it gives me great pleasure to inform you that in 2017 Autlán truly went the extra mile, generating exceptional results for our stockholders, employees and other stakeholders. Undoubtedly, 2017 was a year that will be remembered as one of the periods of greatest pride and satisfaction for Autlán.

Market conditions, an excellent operating and administrative performance, and our employees' dedication allowed us to achieve ambitious key goals, despite a complex global and national setting.

We cannot avoid the difficulties associated with the renegotiation of the North American Free Trade Agreement or the process's effects on the Mexican economy.

Thus, at Autlán, we have been responding by consolidating our competitiveness in each and

every aspect of our operations and enhancing our innovation, growth and continuous improvement processes.

This policy has enabled us to make the most of the changing environment in which we operate. With the gradual expansion of the global steel industry, we have observed a perceptible increase in demand for steel, which is reflected in positive production figures and heartening manganese and ferroalloy consumption volumes.



“

**Fortunately, in 2017, the international market was also favorable for the company, with upward trending indicators, in particular significantly increasing manganese benchmark prices”**

Fortunately, in 2017, the international market was also favorable for the company, with upward trending indicators, in particular significantly increasing manganese benchmark prices. U.S. manganese ferroalloy spot prices also rose considerably despite new challenges of global oversupply, speculation and China's futures market.

With this backdrop, we introduced diverse initiatives to drive our administrative and productive performance, with a special focus on compliance with international quality standards. Thus, our operating units are working with rigorous control systems in order to meet our consumers' demands and assure extensive market coverage.



Autlán has consolidated its position in the steel industry by taking advantage of an entrepreneurial spirit that allows us to generate business opportunities and by continuously seeking new possibilities for growth and diversification.

As a consequence of our enhancement initiatives, and after the implementation of strict evaluation processes, during the year our customers recognized our efforts with key awards.

I would like to stress that this enormous achievement reflects the efforts of all the company's employees, from those occupying the simplest of positions to the highest executive level.

Teamwork at Autlán is characterized by the unwavering collaboration and comradeship that has been part of the company since its founding.

Very few companies have the honor of receiving such distinctions, which undoubtedly lay the foundations for a better future and represent a positive response to the question of how a company can become more committed to the steel industry.

Throughout its 64 years of existence, from its start-up at the San Francisco Mine in Autlán, Jalisco, to our current level of world-class operations, Autlán has undergone a number of changes. Today, we successfully exploit manganese deposits at our state-of-the-art Molango production unit, supplying metallurgical manganese to our ferroalloy plants.

Renewable energy also plays a fundamental role in our operations. The company's Atexcaco Hydroelectric Plant is a project that contributes to our strategic vision of vertical integration and of being one of the world's lowest-cost producers.

“

**Autlán has consolidated its position as a globally successful enterprise, with a record year in production, sales, cash flow and net profit”**

These initiatives, materialized by a group of over two thousand employees and workers, encompass the efforts and dedication of all of us during 2017. We can now affirm that Autlán has consolidated its position as a globally successful enterprise, with a record year in production, sales, cash flow and net profit, far surpassing not only 2016 levels, but also the goals set at the start of 2017.

Moreover, the support of government institutions has been vital for protecting the domestic steel industry. Two years after the Mexican Ministry of Economy imposed tariffs on some steel imports from countries with which Mexico has not signed a free-trade agreement, such as China, its echo and relevance are still a reality for the sector.





During the year, the Ministry of Economy extended the 15% import duty on imports to steel products classified under 97 tariff codes. There is no doubt that this support eased concerns and was a significant step forward in our defense against unfair international trade practices.

In 2017, we strengthened our institutional relations with the public sector and with the chambers to which we belong. The year brought some surprising and complex moments in our country's economy but, at the same time, a number of sensitive events. Great countries need great companies. Under this premise, in September, Autlán joined forces with the Mexican Iron and Steel

Industry Chamber (CANACERO), the Mexican Mining Chamber (CAMIMEX) and diverse companies from the private sector to provide assistance to Mexicans who had been affected by the earthquakes that occurred in several states across the nation.

Autlán, through CANACERO and CAMIMEX, offered support with monetary and in-kind donations, which were channeled to different foundations in order to contribute to the reconstruction efforts.

Our history, experience and background have shown us that our most honorable vocation is to serve Mexico and its people.

To this end, in 2017 Autlán employees showed their outstanding generosity, preparation and commitment, exalting the name of the company, not only through their acts of solidarity with the Mexican people, but also within our organizational structure.

Our magnificent results in sustainability reflect this positive attitude, which suggests that social responsibility should go beyond a mere obligation for the company, to thinking about community and environmental actions in a totally different way.

This means that, for Autlán, sustainable development is not just a concept unconnected to our growth strategy, but is, and always will be, at the core of our activities.

This brings me to an important conclusion: 2017 was a valuable year for our industry, an achievement that was undoubtedly influenced by Autlán's enormous collaboration with all its stakeholders.

This reality has moved our operations forward and also built the trust of our stockholders, communities, suppliers, customers and employees, who comprise the cornerstone of what we have grown to become.

Today, Autlán is the leading manganese ferroalloy producer in Mexico and on the American Continent, as well as one of the most strategic manganese ferroalloy players in the international steel market.

However, we are not just relying on our current strength, but are investing all our capabilities to expand Autlán's operations in synchrony with the steel industry, without neglecting our diversification strategy, and simultaneously seeking diverse ways of increasing our generation of sustainable electricity.

I am certain that, with our united efforts, we will continue to progress steadfastly in the coming years. 2018 will be a year of fortification and of enormous challenges, all of which will enable us to consolidate our leadership position.

Many challenges lie ahead, but I am confident that, with our culture of work, operating efficiency and creation of tangible value, we will be able to guarantee the highest levels of progress and wellbeing.

Finally, I would like to express my sincerest thanks to all our employees, board members, stockholders and customers for their loyalty and the trust they have placed in our company over the years.

José Antonio Rivero  
Chairman of the Board  
April 2018

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Autlán enjoyed an extraordinary year in 2017, achieving some of the best results of the past decade. Our organization's increased operating efficiency, the total commitment of our personnel and the favorable conditions in our markets, in combination with our drive and determination, allowed us to advance towards the goals that further the company's success.

During the year, Autlán produced solid results, taking advantage of all the financial, commercial and operating opportunities that arose in order to maximize benefits and reduce risks.

The global environment of the manganese and ferroalloy industry was positive, though not exempt from a number of ups and downs produced by diverse economic, political and social events, which impacted the dynamics of our markets.

Ferroalloys and manganese are a basic feedstock for steel production. Therefore, a large part of their performance reflects the events that determine the course of the steel industry.

In this context, in 2017, we witnessed the sector's vitality and exceptional progress. At year end, the results of the steel industry were outstanding, with solid increases in consumption and production in practically every corner of the world.

During the year, global crude steel output grew 3% compared to the previous year, reaching a record level for the industry. In addition, global steel consumption totaled 1,587 million tonnes of finished product, a 5% increase over 2016, influenced by the economic recovery of regions such as the European Union, Asia and North America.

Steel production and consumption also increased significantly in Mexico, by 6% and 4%, respectively. In the specific case of steel consumption, our country is now in the Top 10, boasting ninth place in global importance, and is the only Latin American nation to be included in this group.

According to data from the Mexican Iron and Steel Industry Chamber (CANACERO), in 2017, our country produced a record amount of crude steel, 19.9 million tonnes, a figure which is significantly above the 18.8 million tonnes produced in 2016.





The news was also exceptional in the global manganese ore and ferroalloy markets in 2017, with international prices reaching the highest level of the past few years.

The Chinese manganese market was affected by a combination of factors that had repercussions on local prices and subsequently across every continent. Additionally, very positive steel production figures generated a consistent demand for manganese ferroalloys that underpinned prices throughout the year.

As a consequence of the environment and, above all, the company's best operating and commercial practices, Autlán posted extraordinary results in sales volumes and income.

Autlán's total net sales in 2017 reached US\$359.3 million, 56% higher than those of 2016. The company's EBITDA totaled US\$115.1 million and net profit US\$61.8 million, figures that far exceed those of the previous year.

These results leave a very satisfactory footprint on our path and reflect a work strategy that is constantly evolving. For example, during 2017, Autlán consolidated the coordination between its diverse areas and laid the foundations for maximizing resources and strengthening the culture of teamwork.

In this respect, we made the decision to transform the company's organizational structure through the creation of two new positions: the Vice Presidency of Operations and the Corporate Vice Presidency, which strategically and logically group together Autlán's critical processes.

Our Vice Presidency of Operations is now responsible for the areas of Mining, Ferroalloys, Supply Chain and Sustainability, while our Corporate Vice Presidency heads the functions and processes of Finance, Commercial, Energy, Strategic Planning and Information Technology.



Throughout 2017, our plants in Tamós, in the state of Veracruz, Teziutlán, in Puebla, and Gómez Palacio, in Durango, operated at full capacity, thus achieving record annual ferroalloy production volumes”

With these changes, we have improved the effectiveness of our business processes and consolidated transversal coordination between the different areas of the company.

On the basis of this organizational platform, in the area of Mining, our exploration investments were intensified in 2017 to expand manganese ore reserves, and we successfully began exploiting a new section (Comextetitla) of the underground mine in Molango, Hidalgo. During the year, we met, and even surpassed, manganese nodule production programs, efficiently supplying our ferroalloy plants.

Throughout 2017, our plants in Tamós, in the state of Veracruz, Teziutlán, in Puebla, and Gómez Palacio, in Durango, operated at full capacity, thus achieving record annual ferroalloy production volumes.

It is important to note that, over the past two years, we have been implementing a program, which will be ongoing into the near future, to increase the capacity and efficiency of our electric furnaces with relatively marginal, though high-yield, investments.

Enhanced production levels were achieved simultaneously with the improvement of our safety, operating efficiency and customer service indices during the year.

After exhaustive, meticulous audits, the Tamós and Teziutlán Plants received Clean Industry Certifications from the Mexican Federal Environmental Protection Agency (PROFEPA).

In addition, the Tamós Plant won the Mining-Metallurgical Industry Safety Competition in the Metallurgical Plant and Foundry Category.

In this national competition, organized annually by the Mexican Mining Chamber, the Tamós Plant won the prestigious “Silver Helmet” Award, which we will now hold permanently since Tamós is one of the few plants in the country that has won the recognition three times.

In addition, our operating units obtained ISO 9001 and ISO 14001 certifications; the Nonoalco Unit was recertified in FAMI-QS, having satisfactorily met the corresponding quality and statutory requirements; and, for the eighth consecutive time, Autlán was recognized as a Socially Responsible Enterprise.

In relation to corporate matters, in March, Autlán made a national public offering, known as future flow receivables securitization, on the Mexican Stock Exchange, which was very well accepted.

Through the issue, the company refinanced all its long-term debt, reducing its financial cost and improving the amortization schedule. This placement represented the company’s first foray into the Mexican long-term bond market.

In our Energy sector, the Atexcaco Hydroelectric Plant, in Puebla, implemented new projects to increase the self-supply of clean, renewable energy. Additionally, during the year, the purchase of electricity from third parties was successfully arranged under favorable conditions to assure the supply of this key input for our ferroalloy plants.



The strategy of diversifying our electricity supply sources will allow us to maintain our integrated leadership position with the most competitive ferroalloy production costs in the global industry.

In the short term, we will continue to explore value opportunities in the energy sector through additional hydroelectric projects, energy sales to third parties, and investment and growth partnerships to develop other renewable energy sources.

A fundamental factor for Autlán's success and consolidation across its more than 64 years of existence has been to operate with a range of values and ethical principles. Our new Code of Ethics broadened the reporting mechanisms, through an Ethics Line operated 24/7 by an independent firm specializing in the field, thus guaranteeing utmost confidentiality and respect for our personnel and suppliers.

In the area of Human Capital, we developed and coordinated diverse continuous improvement programs, creating high-performance work teams at all our production units to drive the skills and talent of our workers.

In Institutional Relations, we intensified our active participation in the national and international chambers and organizations to which we belong.

During the year, we continued our fight against unfair international trade practices through timely, effective interaction with the authorities, and also strengthened our external and internal communication strategy with stakeholders.

In short, 2017 was a year of major progress and key achievements for Autlán. Looking to the future, 2018 will be a year of enormous challenges and high levels of uncertainty. However, I know that Autlán currently has the best elements to face up to and overcome any difficulties that might arise.

Without doubt, success in the global manganese industry demands competitiveness and excellence. Fortunately, the experience and strength we have gained as a team over the years allow us to look to the future with confidence and optimism.

I am extremely grateful for the trust placed in me to continue with this intense, but magnificent, responsibility, and I would like to invite all our workers and employees to continue giving their best to guarantee the future development of Autlán.

Oscar Maldonado  
Chief Executive Officer  
April 2018

# ECONOMIC OUTLOOK

2017 was a year that brought a plethora of challenges and marked contrasts in the global economic context. Even though the economic outlook was far more positive than in 2016, numerous events and trends had to be addressed during the year.

One of the chapters that had the greatest effect on Mexico in 2017 was the start of the North American Free Trade Agreement renegotiations. A possible breakdown of the trade agreement due to the United States' disruptive stance generated extreme uncertainty. This affected the U.S. Dollar-Mexican peso exchange rate and produced negative fluctuations during the last six months of 2017.

International steel prices improved in 2017 compared to 2016. In addition, global crude steel production recovered significantly, growing on every continent, without exception.

The regions with the greatest production and most outstanding results were: the European Union (+4%), South America (+9%), North America (+5%) and Asia (+6%). On a global level, production rose at an annual rate of 3%, to 1,687 million tonnes.

Mexico enjoyed noteworthy growth in steel production and consumption during the year, 6% and 4% respectively.

These results positioned Mexico as the country with the highest steel consumption in Latin America and in the top ten worldwide. In fact, 2017 domestic steel output was the highest in the history of the nation.

Nevertheless, the country continued to face a wave of steel imports at undervalued prices, forcing the industry to protect itself with a 15% tariff on several products.

2017 was an exceptional year for manganese ore prices, with abundant audacious strategies implemented by various trading companies and players in the Chinese market.

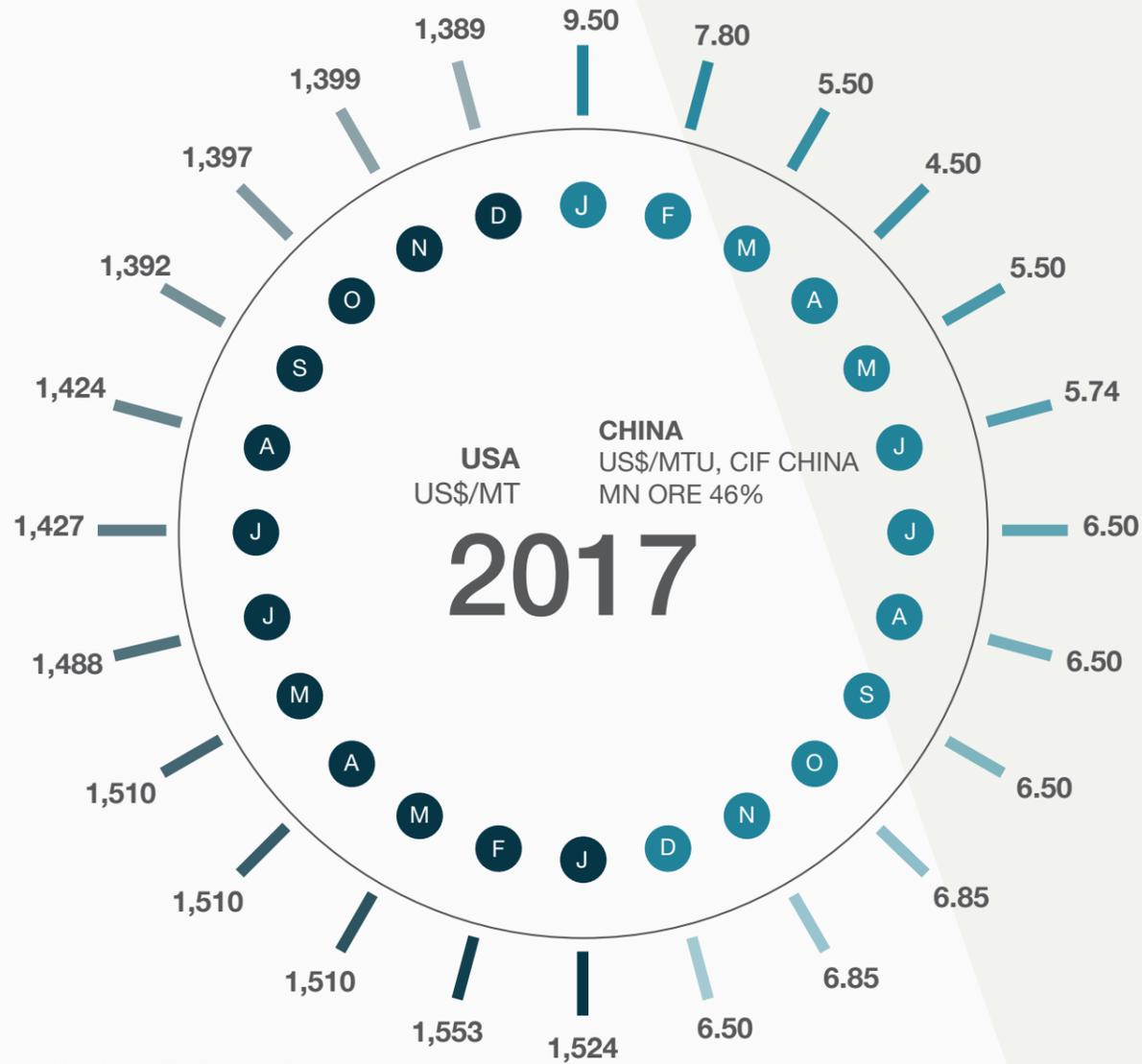
These actions set the standard for manganese and ultimately had a significant impact on the rest of the world.

In January, the manganese benchmark price reached its highest level since 2008, US\$9.50/mtu, as a result of a wave of speculation created at the end of 2016 by surprise environmental inspections made by the Chinese government at several ferroalloy plants. However, the price did not hold past January, and dropped to end the first quarter of the year at US\$4.50/mtu.



SILICOMANGANESE AVERAGE SPOT PRICES IN THE USA

MANGANESE ORE BENCHMARK PRICES IN CHINA



SOURCE: CRU, THE TEX REPORT

To the surprise of western markets, the benchmark price in China strengthened across the following quarters, ending the year at US\$6.50/mtu, as a result of arbitration practices, speculation and the influence of silicomanganese futures on the Zhengzhou Commodity Exchange.

In the United States, manganese ferroalloy spot prices performed spectacularly. Average 2017 prices for silicomanganese, high-carbon ferromanganese and medium-carbon ferromanganese rose 52%, 71% and 36%, respectively, over 2016 average prices.

These results were influenced by the recovery of crude steel production in the United States, manganese ore prices and a decrease in ferroalloy inventories in the U.S. market compared to the previous year.



Average 2017 spot prices for silicomanganese, high-carbon ferromanganese and medium-carbon ferromanganese rose 52%, 71% and 36%, respectively, over 2016 average prices”

## VICE PRESIDENCY OF OPERATIONS

With geographically diverse operations, the fundamental focus of the Vice Presidency of Operations is the creation of competitive advantages for our production units that, together with our supply-chain model, will enable us to become a more efficient and vibrant company.

Through our vertically integrated structure, we plan strategies for reducing costs and improving operations and services, in our efforts to ensure that we are a key operator for our customers, as well as a proactive and sustainable market player.

By integrating our Ferroalloy, Mining and Supply Chain segments and the area of Sustainability, we have been able to materialize more synergies than before. This consolidation has also allowed us to evaluate the reuse of raw materials and by-products in our system, thus reducing the acquisition of manganese from third parties.

Moreover, we have broadened our vision of the environmental needs of the different units, streamlining procedures for permit applications and our community outreach initiatives.



## MINING FOCUS ON OPERATING EXCELLENCE

The Mining Division continued with geological studies and exploration to expand its production potential and capitalize on the extensive resources and reserves in the Molango manganese district.

In 2017, manganese carbonate production increased 16% year-over-year. In addition, manganese nodule production rose 4% compared to 2016, making 2017 the second-best year for the company, after 2014.

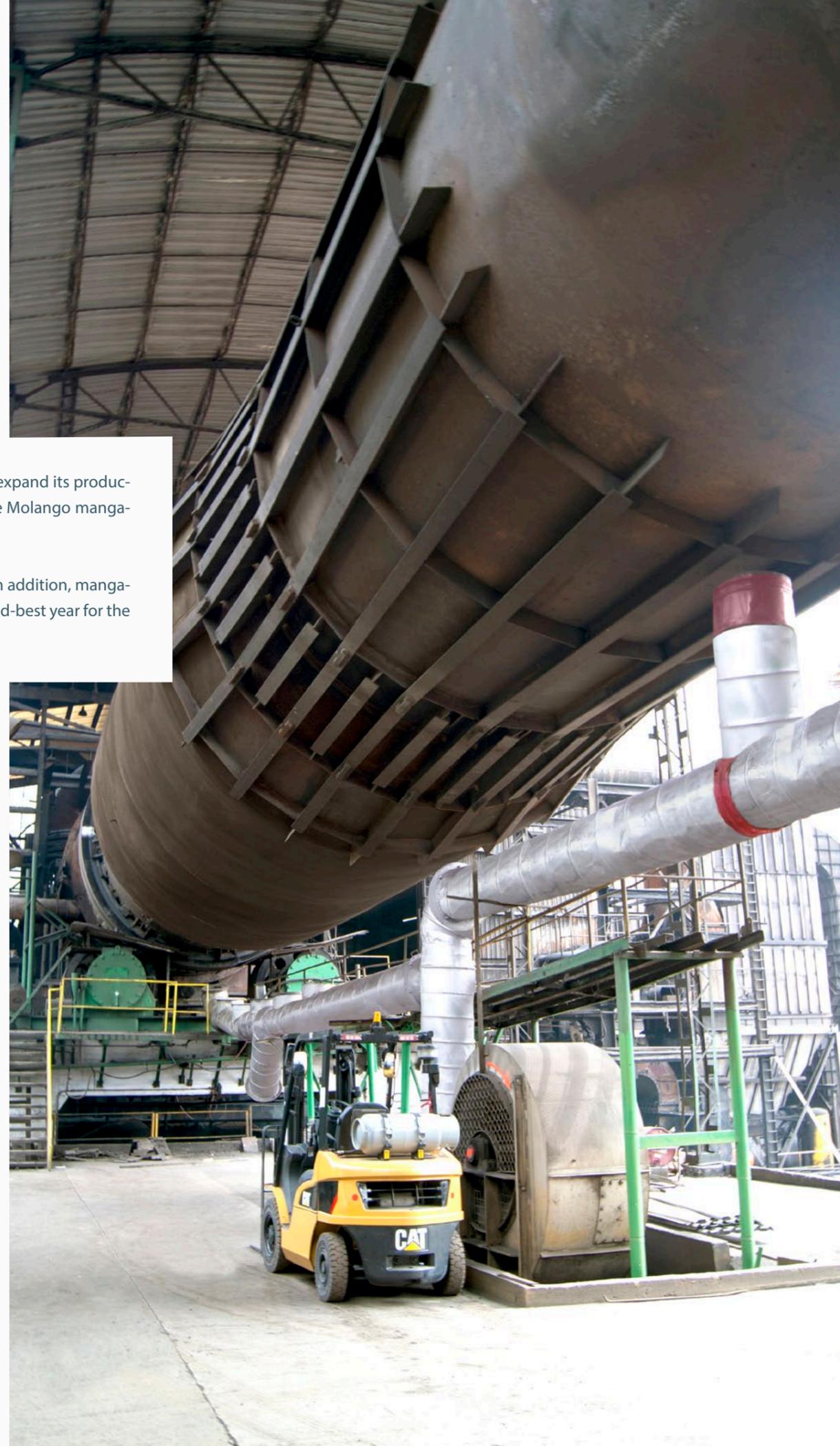
To consolidate these achievements, we implemented diverse work protocols at the three mining units under QA/QC exploration and geology guidelines. This allowed us to enhance the precision and integrity of the exploration data generated, both in previously operating areas and new projects.

In addition, by focusing on best practices, mine design and the incorporation of technology, the company achieved savings of the order of \$2.7 million dollars across its mining operations.

### MOLANGO UNIT

During the year, the Molango Unit consolidated its position as the most important manganese producer in Mexico and North America, and we continued our work toward growing the underground mine's production.

In the area of acquisitions, we obtained approval for major investments to refurbish 16 pieces of underground mining equipment, giving us leading-edge infrastructure that will result in annual manganese carbonate extraction figures in excess of 500 thousand tons.



Consolidating the sublevel-caving, horizontal cut-and-fill methods to enhance ore recovery and diminish risks to workers from falling rocks resulted in considerable operating improvement at the plant in 2017.

We also made great strides in the Comex-tetitla Project, which will provide us with the reserves we need to increase our production program in 2018.

### NAOPA UNIT

The Naopa open-pit operations met manganese carbonate production program goals, posting record production figures for the last six years, with a 26% increase in 2017 compared to 2016.

In addition, we reinforced our operating, maintenance, safety, sustainability and community outreach plans, in order to assure the highest levels of efficiency and quality.

### NONOALCO UNIT

The Nonoalco Unit worked very hard during 2017, producing two important achievements. The unit complied satisfactorily with FAMI-QS recertification and launched the High-Performance Team Project, incorporating new Basic Management Units (BMUs) into the Mining Division's operations.

Simultaneously, the progress made in operations generated 19% and 16% reductions in production costs for ceramic grade and animal nutrition grade products, respectively.

# FERROALLOYS RESPONSIBLE STRATEGIC EXECUTION

2017 was a very positive year for our Ferroalloy Division, which successfully improved its operating conditions. During the year, the three Ferroalloy Plants moved forward with initiatives to assure utterly safe and state-of-the-art operations.

By virtue of the determination and discipline of our employees and workers, we achieved record manganese ferroalloy production figures for the year, producing volumes that were 9% above those registered in 2016.

It is important to note that all three Ferroalloy Plants increased their production levels and produced favorable results.

## TAMÓS PLANT

The Tamós Plant responded with resolve and audacity to the main challenges of 2017, implementing a strategic plan to improve and innovate its technical and operating processes.

“A historical record was established in the production of manganese ferroalloys”



“The Tamós Plant obtained the Silver Helmet Award; both Teziutlán and Tamós Plants received Clean Industry Certifications from PROFEPA”

In the area of operations, changes were made in the preparation of raw materials in furnaces 11, 12 and 13, while nitrogenization operations for furnaces 9 and 10 were positively automated in order to further consolidate our vision of continuous improvement.

In November, the Tamós Plant obtained, for the third time in its history and for the second consecutive year, the Silver Helmet Award for its excellent results in safety.

The Mexican Mining Chamber awarded this important recognition to Autlán during the opening ceremony of the XXXII International Mining Convention in Guadalajara.

The Tamós Plant also received Clean Industry Certification from PROFEPA, having satisfactorily met environmental requirements.

## TEZIUTLÁN PLANT

In 2017, the Teziutlán Plant implemented key initiatives to perfect its production processes and, at the same time, reduce operating costs.

During the year, we finished installing a conveyor belt for transporting and grinding finished product at the plant.





Another important activity of the year was the installation of an X-ray spectrometer and a cutting-edge carbon and sulfur analyzer in our quality laboratory, thereby assuring rapid and precise analyses. The plant also acquired a 17.5 MVA furnace transformer to increase the capacity of furnace 8.

Teziutlán Plant employees and workers performed outstandingly in 2017, fulfilling the goal of zero accidents for the year. Moreover, in January, PROFEPA awarded the plant with the Clean Industry Certification, as a result of its efforts to assure appropriate environmental processes.

#### **GÓMEZ PALACIO PLANT**

A particularly outstanding event in the Gómez Palacio Plant's operations was the increase in power of its two furnaces. This improvement required significant changes in the transformer cooling process and the reinforcement of electrical conductors.

Regarding our environmental protection performance, we installed new high-temperature bags in the plant's dust collector, as a continuation of our commitment to sustainable development.

# SUPPLY CHAIN EFFECTIVE AND INTEGRATED OPERATIONS



The Supply and Raw Materials department achieved significant savings through the timely supply of main feedstocks. In this respect, we placed particular emphasis on developing new manganese and metallurgical coke suppliers in order to diversify our raw materials supply network.

In the area of Purchasing Materials and Services, we formulated a major competitive bidding plan for the renovation of underground mining machinery, among other projects, at the different mining units. The company also continued with the comprehensive development of the purchasing departments, IT investments in standardized indicators, and the launch of a purchasing website.

In 2017, Construction and Building worked on 22 projects for the Mining, Ferroalloy and Energy Divisions, which represented a 40% increase in new projects compared to 2016. The most outstanding initiatives included: the left-edge grit removal, the third stage of the Naopa highway, the installation of flooring at the Tamós Plant, and the repair of the chimney of the Molango Unit's nodulizing kiln.

The area of Logistics faced major challenges in 2017, with a year-over-year increase of just over 12% in the number of tons transported, reflected in an enhanced movement of manganese nodules, raw materials and finished product, as well as haulage in the mines.

Imports rose 26% over the previous year, with the second highest number of imported tons in the past five years. Although export volumes remained high, they were lower than in the last four years, since we responded immediately to internal demand in order to satisfy growing domestic ferroalloys production.



# SUSTENTABILITY OUR PATH TO SUSTAINABLE DEVELOPMENT



In today's rapidly changing settings, Autlán is committed not only to being a profitable company, but also to generating value shared with all our stakeholders. We do this by ensuring that sustainability is the driving force of all our business units.

The vision of shared value goes beyond complying with the law, to a search, through innovation, for new alternative ways to contribute to climate change mitigation.



“  
Autlán's diverse certifications reflect our commitment to environmental protection and quality.”

We measure and promote the efficient use of natural resources and implement continuous improvement initiatives to perfect our environmental performance index across the production chain.

In addition, in partnership with diverse allies, we design and execute programs to promote social wellbeing, and have internal programs in place to promote a work environment based on our code of ethics and conduct.

### Environmental Performance

Autlán's diverse certifications reflect our commitment to environmental protection and quality.

In addition to ISO 14001:2015 and ISO 9001:2015 Certifications, the Tamós Plant was awarded with the Clean Industry Certification by PROFEPA in 2017, adding value to the Teziutlán Plant, which has held this accolade since 2015.

Investing in ecosystem conservation is of utmost importance to Autlán. The creation and maintenance of our nurseries have made us proactive in reforestation activities.

During 2017, we planted over 25 thousand trees to reforest the region, including native species such as oak, pine and liquidambar.



During 2017, we planted over 25 thousand trees to reforest the region.”

We also donated more than 12 thousand trees to communities, educational institutions and five municipalities in the areas surrounding our operations, thus complying with the Regional Sustainability Agreement established in 2015 with municipal governments in Hidalgo.

In the State of Puebla, the company donated more than 10 thousand trees to the Teziutlán municipal government and surrounding communities.

Reforestation (Trees planted/donated)		
2015	2016	2017
33,142	44,329	48,676

As part of our responsible water use, we have implemented a variety of operating controls to increase the volume of water we reuse. For example, the Nonoalco Unit acquired a dewatering filter press to recover water from sludge.

Additionally, during the year, our mining units consumed 14% less water than in 2016, reflecting a reduction in water extraction and the improved recirculation processes.

Water Consumption (thousands of cubic meters)			
	2015	2016	2017
Mining Division	495	398	341
Ferroalloy Division	454	532	572
Total	949	930	913

Regarding air emissions, we have implemented a series of actions to mitigate the environmental impact of our transportation services. We have installed dust control systems to dampen the loads on trucks and mitigate fugitive emissions at different ore loading and unloading points.

We have also introduced a program to moisten unpaved roads, which, through the application of dust suppressors, has considerably reduced the amount of dust blown in the wind.

We have also installed dust collectors to eliminate the direct emission of fine manganese particles into the atmosphere.

With regard to Greenhouse Gases (GHGs), we have implemented energy efficiency improvements to reduce fuel and electricity consumption in our operations, resulting in a total of 1,118,738 tCO<sub>2</sub>eq. emitted during 2017, under the following GHG emission efficiency indicators:

GHG Emission Efficiency (thousands of tons of carbon dioxide equivalent [ktCO <sub>2</sub> eq.]/ton produced)			
	2015	2016	2017
Mining Division	0.51	0.48	0.49
Ferroalloy Division	2.76	2.34	2.41

Using the potential energy of water which is 100% renewable, the Atexcaco Hydroelectric Plant was instrumental in reducing CO<sub>2</sub> emissions by 122 thousand tons in 2017.

Furthermore, savings in gasoline consumption totaled 9% in the two divisions, with energy efficiency rising 15% in the Mining Division. The following table displays fuel and electricity consumption, reflecting the energy efficiency of our operations.

Energy Efficiency (Giga Joules [GJ]/ton produced)			
	2015	2016	2017
Mining Division	2.44	2.68	2.28
Ferroalloy Division	11.86	11.65	11.74

### Social Responsibility

Committed to the comprehensive wellbeing of our stakeholders, in 2017 we earned Socially Responsible Enterprise Certification for the eighth consecutive time, confirming our deep sense of social responsibility to our stakeholder groups.

We, at Autlán, know that our neighboring communities are of fundamental importance. To ensure effective communication with them and early risk detection, we have established a Community Communication and Outreach System.

This system enables the formalization of all the concerns, requests, recommendations and reports of the external stakeholders associated with our operations.

It serves to strengthen community-company relations, consolidating relationships of trust and helping to reach common solutions as we work together and provide mutual feedback. During 2017, we received a total of 251 requests, compared to 195 in 2016.

Moreover, our social responsibility strategy includes alignment with Sustainable Development Goals (SDGs). Autlán has developed focalized programs that seek to contribute to, and enhance, the indicators of specific SDGs.

To this end, we have a portfolio of programs that have a positive impact on environmental and social development issues.

### Strategic Alliances

A clear example of Autlán's vision in relation to SDGs can be seen in the alliances forged to contribute to social wellbeing.

Today, we continue to work with well-established partnerships with academic institutions, including Universidad Autónoma del Estado de Hidalgo, ITESM and Instituto Tecnológico de Teziutlán, who year after year join forces with Autlán to develop high-impact community projects.

### Mining Fund

No mining company can achieve success without the support of the authorities and the local communities. To this end, Autlán also works with different stakeholders in public works programs that benefit our local communities.

Through the Mining Fund, 17 infrastructure projects have been approved within our areas of influence, with an investment of over 11.5 million Mexican pesos and distributed among five municipalities: Molango, Tlanchinol, Lolotla, Tepehuacán de Guerrero and Xochicoatlán.



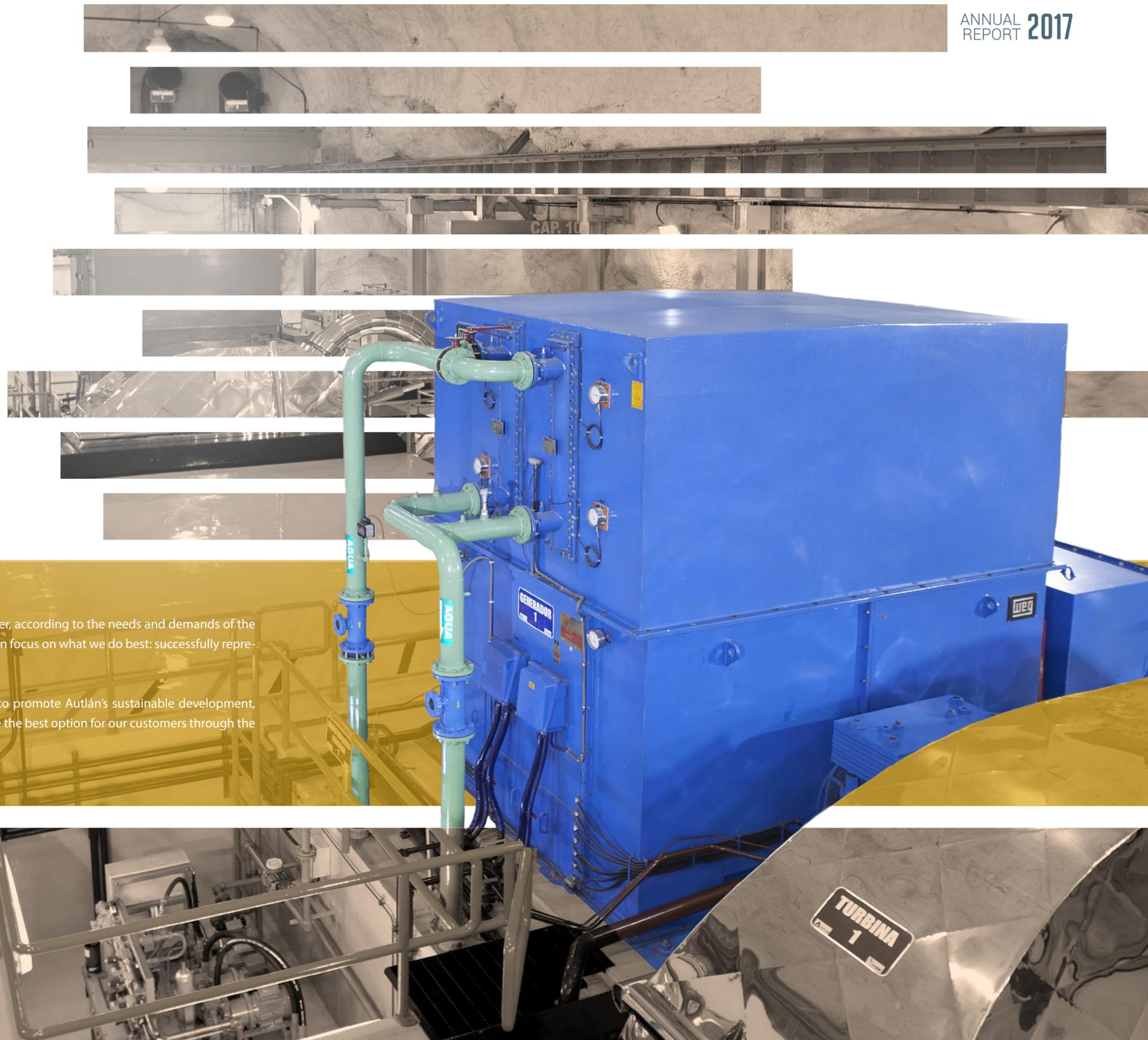
# CORPORATE VICE PRESIDENCY

Through the Corporate Vice Presidency, we have optimized our performance in the areas that, by their nature, are strategic for the company. Defining and understanding our priorities helps us leverage our resources and capabilities better, in order to offer practical solutions to Autlán and its different stakeholders.

We coordinate Finance, Energy and Commercial, as well as the areas of Strategic Planning and Information Technology, in order to offer better services and satisfy our clients needs.

Our goal is to professionalize our leadership even further, according to the needs and demands of the market. With a 64-year track record of experience, we can focus on what we do best: successfully representing the Mexican manganese and energy industries.

Thus, the Mission of the Corporate Vice Presidency is to promote Autlán's sustainable development, strengthen its financial structure and ensure that we are the best option for our customers through the excellence of our services.



## COMMERCIAL QUALITY AND CUSTOMER SERVICE

In 2017, Autlán's Commercial Division continued with its efforts to make the company more competitive through technical and commercial services. This initiative enabled the company to forge closer ties with its main domestic and international customers.

During the year, our markets improved substantially in Mexico and other parts of the world. Notably, international manganese and ferroalloy prices performed positively all year round, which had favorable repercussions on ferroalloy consumption and sales.

**In this context, total sales revenue for the Ferroalloy, Mining and Trading Divisions grew 56% in 2017 compared to the previous year.**

Accumulated ferroalloy sales revenue increased by 62% over 2016. At the same time, Autlán consolidated important synergies with its domestic and international clients. In the second half of the year, Autlán's customers awarded the company for its excellence in service and quality, which inspires us to continue to improve every day.

Furthermore, in the manganese derivatives market, we penetrated new regions in order to increase our presence in the animal nutrition industry. Our trading company consolidated its efforts throughout the year, maintaining a robust presence in the domestic market with silicon and chromium ferroalloys and responding to the steel industry with the highest quality level.

## STRATEGIC PLANNING BUILDING BETTER ACTION PROCESSES

In 2017, we implemented stricter standards for processing, evaluating and following up on capital expenditures, assuring more reliable and well-founded decision-making.

During the year, we successfully completed the major repairs program at our ferroalloy plants and, at the same time, consolidated the bases for continuing with our production capacity growth program.

In order to guarantee the future quality of manganese ore, additional resources were allocated to exploration in the regions where Autlán currently operates, as well as in other areas of the country. This will facilitate a broader diversification in the supply sources for our main feedstock.

During the year, we improved the integration of our Internal Forecasting System by incorporating a module focused on predicting ferroalloys production, seeking to automate the division's production planning, which is currently updated on a monthly basis.

The company's strategic vision concentrates on maximizing profit and reducing its volatility, so we continued with our efforts to assess projects that focus on greater market diversification. In this way, we can capitalize on Autlán's strengths and combine synergies in each and every project.

## INFORMATION TECHNOLOGY DIGITAL SOLUTIONS FOR THE FUTURE

Autlán uses information technology as a tool to support its growth and optimize its processes.

In 2017, changes in the Mexican tax law and the creation of a supplier website made it possible to implement projects for the automatic, timely recording of the company's accounts payable. The new portal also serves as a tax vault, recording information in the accounting system with the level of quality that electronic accounting requires.

During the year, changes in manganese nodules production required the modification of ore weighing processes, cost assignment and procedures for transferring product to the ferroalloy units. Our system configurations were adapted to all these changes, preventing external data from entering the systems and optimizing the processes that needed to be improved.

The automation of reports that support decision-making included the development of data models that systematize the consolidation of financial reports, new expenditure, purchasing and logistics models. These computer models comprise the last link in projects for improving procedures and process documentation.

## ENERGY

## PROMOTING RENEWABLE ENERGY

2017 was the backdrop for a number of events of great relevance for the Energy Division, paving the way for the success of our activities. During the year, we signed important agreements for acquiring electricity from third parties, under highly favorable conditions.

Apart from diversifying our energy sources at competitive prices, this initiative expanded our electricity supply, allowing us to streamline operations at the ferroalloy plants. This created attractive advantages for the company, enabling us to make considerable progress as one of the world's lowest-cost manganese producers.

During the year, we remained steadfast to our vision of growth and, consequently, Autlán acquired a minority interest in its subsidiary Compañía de Energía Mexicana S.A. de C.V. (CEM), which it did not fully own.

With this agreement, the company now commands 100% of its Energy Division's capital, making it possible to optimize our business plan.

We also explored growth and cooperation opportunities, seeking to take part in new renewable energy projects in Mexico and in the sale and marketing of clean energy to potential customers.

In relation to work executed at the Atexcaco Hydroelectric Plant, numerous efficiency, maintenance and training activities were implemented throughout the year, aiming to enhance our operating conditions and drive the continuous improvement and standardization of the preventive processes.

In this way, we obtained better results during the dry season, optimizing water availability and increasing the generation of energy in order to operate at full capacity during peak hours.

The Atexcaco Hydroelectric Plant currently contributes approximately 30% of Autlán's total energy requirements. During 2017, the facility generated 240 GWh, 2% more than in 2016.

This growth reflects the constant improvement of our processes and the ongoing commitment, dedication and efficiency of our personnel.

We will continue with our growth strategy during 2018, especially in light of our participation in new energy projects. In this way, we will be able to reaffirm our goal of being a leading producer of renewable energy.

# FINANCIAL RESULTS SOLID GROWTH FOR OUR COMPANY



2017 will be remembered in Autlán's history as the second-best year in net sales, EBITDA and net income, reflecting the company's excellent results in productivity, increased capacity, and reduced operating and financial costs. Moreover, we were able to leverage the rapid recovery of the environment, capitalizing on price increases and enhanced efficiencies, and translating them into positive results.

During the year, the company forayed for the first time into the long-term bond market in Mexico, through the Mexican Stock Exchange, thereby prepaying the total balance of the debt that was due in 2019. This refinancing forms part of Autlán's strategic plan to reduce its financial costs and improve its debt profile, in order to continue to strengthen its healthy capital structure and assure its potential to finance investment projects.

Fitch Ratings and HR Ratings raised their short-term rating of Autlán to HR2 and F2 (Mex.), as a result of the improvement in the company's operating and financial position. Greater profitability, a reduction in liquidity risk because of the debt restructuring, and the positive outlook for the industry also contributed significantly to this rating improvement.

## Consolidated P & L

As of December 31, 2017, Autlán's net sales were 56% higher than in 2016, totaling US\$ 359.3 million and reflecting the Ferroalloy Division's new sales volume record.

During the year, investments translated into the increased efficiency and capacity of our ferroalloy furnaces. Another key factor was the recovery in ore and manganese ferroalloy prices, as they reached levels that had not been seen since 2010.

This combination of rising volumes and prices allowed Autlán to achieve the second-highest revenues in its history.

The accumulated 2017 cost of sales was 62% of sales, compared to 78% in 2016 (US\$221.2 million versus US\$ 179.9 million the previous year). The nominal increase was a result of the enhanced ferroalloy sales volume and rises in the price of some inputs, such as manganese ore, electricity and reductants. Thus, even though the growth in amount was 23%, it was lower than the percent growth in net sales.

Operating income reached US\$ 90.6 million in 2017, resulting in a margin of 25%, 19 percentage points above of the previous year. Solid operating improvements, the price recovery and our strict control of operating expenses translated into an enhanced operating cash flow (EBITDA), which was US\$115.1 million in 2017.

This figure represents a margin of 32% of sales, 14 percentage points above 2016 and the second highest in the entire history of Autlán.

The comprehensive financing cost for the year was US\$19.6 million, US\$10.5 million more than in 2016. This increase was a result of the foreign exchange loss in 2017, which, for the most part, did not represent a cash outflow, and of long-term debt refinancing costs. Finally, net revenues for 2017 was US\$61.8 million, with a record-breaking net margin of 17.2%.

## Balance Sheet

As of December 31, 2017, cash and cash equivalents increased US\$71.8 million.

This growth is three times that obtained in 2016, thus the company closed the year with an optimal cash position.

The balance of accounts receivable was US\$56.8 million, reflecting a healthy performance during the year. The 56% growth over December 2016 was a result of higher sales volumes and the favorable prices that lasted practically throughout the year.

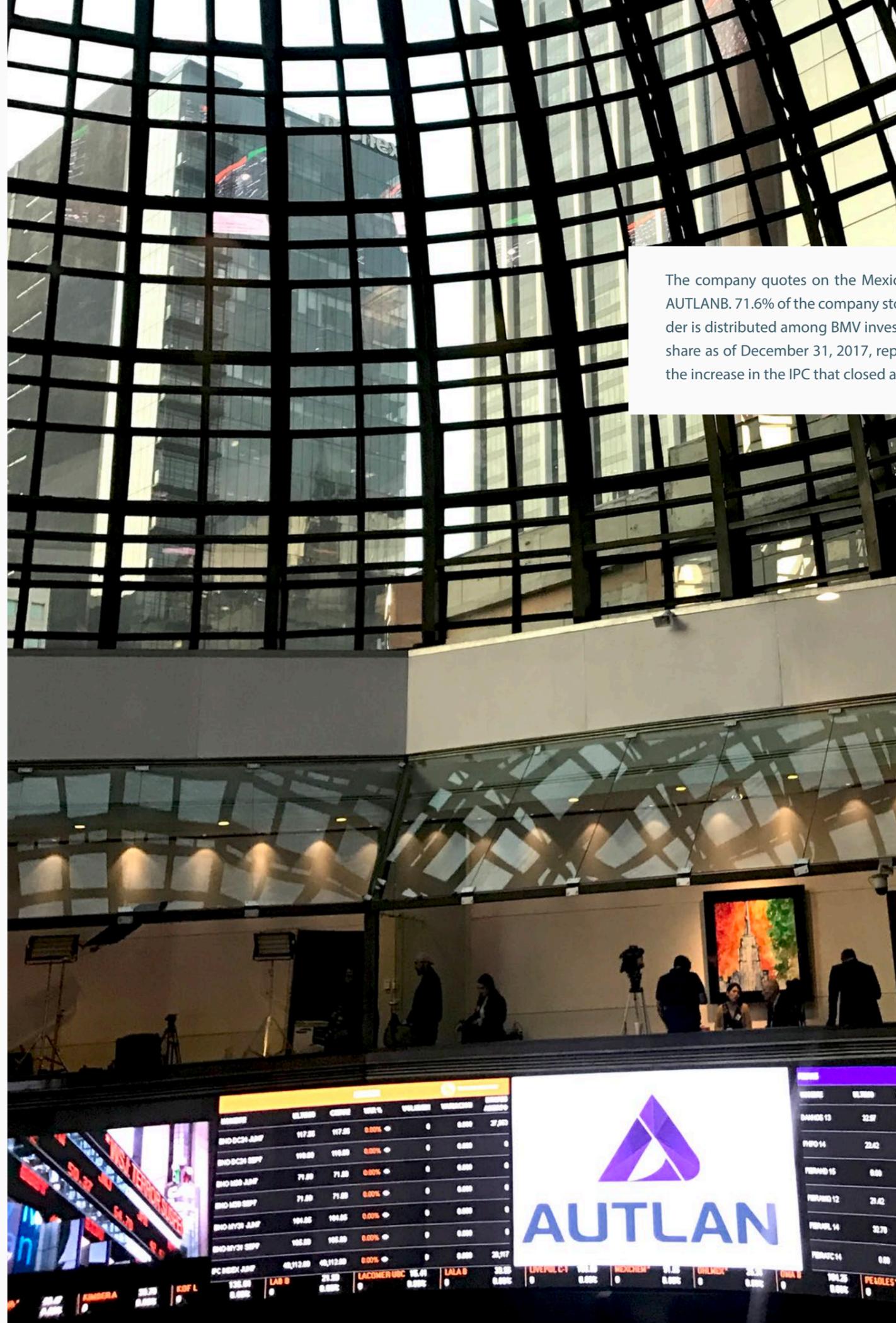
As a result of the company's enhanced production, inventories rose 48% in the year and greater amounts and values of raw materials were required. The company also had increased stocks of finished product to supply customers' growing consumption.

Net fixed assets totaled US\$370.2 million at yearend 2017, 2.0% less than in 2016, mainly because annual depreciation and amortization were not offset by the new investments made during the year.

As of December 2017, total assets grew 17%, which is equivalent to a considerable US\$86.5 million increase, to a total of US\$605.9 million. With regard to the company's liabilities, Autlán focused on improving its capital structure in 2017, lowering its debt by 4% in the year.

This reduction was achieved through the successful offering of collateral trust notes, known as future flow receivables securitization, on the Mexican Stock Exchange for a total of \$1,430 million Mexican pesos with a five-year maturity.

The resources from this securitization of future cash flows, with a ticker symbol of AUTLNCB17, were used to refinance bank debt acquired in 2016. The net debt to EBITDA leverage ratio dropped below 1.0 in 2017, to 0.4 times by yearend. The company's stockholders' equity rose 14% in 2017, reaching a value of US\$298.8 million.



### Autlán Shares

Autlán participates in capital and debt markets in Mexico.

The company quotes on the Mexican Stock Exchange (BMV) under the ticker symbol AUTLANB. 71.6% of the company stock belongs to the controlling group and the remainder is distributed among BMV investors. The value of Autlán stock was \$17.59 pesos per share as of December 31, 2017, representing a 17% yield in the year and far exceeding the increase in the IPC that closed at 8%.

During 2017, Autlán participated for the first time in the long-term debt market in Mexico through the issue of collateral trust notes, future flow receivables securitization, with a ticker symbol AUTLNCB17.

The company also takes part in the short-term debt market, under a dual program of revolving short and long-term bonds for a total authorized amount of up to \$1,500 million Mexican pesos.



# HUMAN CAPITAL OUR PEOPLE, OUR MOST VALUABLE RESOURCE

With regard to safety, in 2017 CAMIMEX awarded the Tamós Plant the Silver Helmet Award for the third time, exemplifying our significant achievements in this critical area.

Additionally, we have set the objective of systematizing the efforts that are being executed with regard to safety. In the very near future, we expect to be ready for an internationally renowned safety certification, which will give the safety of our operations consolidation and permanence.

Additionally, we have intensified our development programs, enhancing training in administrative, interpersonal, technical and operating competencies at the different levels.

We also made significant progress with processes to identify and integrate high-potential personnel.

In industries like ours, we know that combining the enthusiasm and energy of the new generations with the accumulated experience and profound knowledge of those who have been with us for longer is crucial. We also know that the best results are achieved through teamwork and adequate accountability.

All of this inspires us to renew our commitment to continue moving forward with initiatives that benefit the company and the growth of our personnel, thus giving all of those who work at Autlán greater job satisfaction.

We are convinced that, in addition to the favorable environment, the results Autlán obtained in 2017 largely reflect the hard work and capabilities of our people. We know just how rapidly they reacted to take advantage of opportunities during the year.

They coordinated with other areas, made the most of production equipment, set new records and maintained a safe environment, even when operating under pressure. In short, our entire organization has shown that it is capable of adapting quickly to new conditions.

We have continued to implement a culture of continuous improvement and the related processes. In 2017, we launched Basic Managerial Units (BMUs) at the Nonoalco and Gómez Palacio Plants, which translated into a new way of working for our operators.

During the implementation, we enjoyed the complete cooperation and support of our people and the labor union to which they belong. At the same time, we continued to develop the process at the plants in which we are operating with this system, focusing on greater participation, joint responsibility and active proposals for improvements.

# INSTITUTIONAL RELATIONS ACCURATE INFORMATION WITH VALUE



With the support of the Mexican Tax Administration Service and the Ministry of Economy, during 2017 the Institutional Relations Department focused on combating dumping practices.

Together, the authorities and Autlán conducted analyses to avoid predatory pricing, mainly by some countries from Asia and Eastern Europe.



With regard to participation in Chambers and Associations, the company continued to strengthen ties at national and international levels. In this respect, Autlán agreed to chair the Legal Committee of the Mexican Mining Chamber as of 2017, with a renewed work plan.

The company also chaired the Steel-Related ores Producers' Group and continued to head the Foreign Trade and Customs Committee in that organization. In CANACERO, we continued to lead the Statistics Committee, implementing several improvements to data quality.

Beyond our borders, Autlán remained as Chair of the Statistics Committee of the International Manganese Institute, a role taken on in 2016, since then the company has introduced innovations in the generation of reports and strategic analyses.

In the area of marketing, we carried out satisfaction and quality surveys with our customers in domestic and foreign steel markets, as well as with those in the nodule and manganese derivatives markets. Feedback was excellent in every single survey.

In addition, we enhanced Autlán's image with our national and international customers, through the company's participation in diverse activities at the "ALACERO 58 Congress" held in Cancún, Mexico.

In this way, we continued to consolidate our excellent relationship with steel producers across Latin America.

The Communication Department implemented new strategies to optimize the company's internal communication. These included restructuring the Autlán Communication Plan, thus imbuing corporate narrative, the development of protocols, the training of spokespersons and the company's reputation management model with greater clarity.

During the year, Autlán continued to promote the organization's internal communication through the Autlán digital bulletin *Al Día* and resumed the issue of our corporate magazine under the new name *JUNTOS* with an innovative and enriched content.

Improvements were also made to the *CONTIGO* magazine, which is published every two months and, importantly, targets the communities surrounding our mining operations.

Finally, in order to standardize our corporate image across all our operating units and corporate offices, during 2017 the company conducted its very first audit, which served to clarify questions about our institutional branding.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

### BOARD OF DIRECTORS

José Antonio Rivero  
Chairman

Esteban Rivero  
Pedro Rivero  
Dionisio Garza  
Francisco Garza  
Adrián Sada  
Everardo Elizondo  
Fernando Canales  
Antonio Elosúa  
Pedro Reynoso  
Ernesto Ortíz

### ALTERNATE DIRECTORS

José Antonio Rivero Jr.

María Guadalupe González  
María Elena Rivero  
Dionisio Garza Jr.  
Francisco Garza Jr.  
Agustín Torres  
Ricardo Sada  
Francisco Canales  
Patricio Morales  
Pedro Reynoso Jr.  
Ernesto Ortíz Jr.

### AUDIT COMMITTEE

Pedro Reynoso / Chairman  
Ernesto Ortíz / Member  
Ricardo Sada / Member  
Juan Pablo del Río / Secretary (Not Member)

### CORPORATE PRACTICES COMMITTEE

Ernesto Ortíz / Chairman  
Pedro Reynoso / Member  
Ricardo Sada / Member  
Juan Pablo del Río / Secretary (Not Member)

This annual report may contain references to the future performance of Autlán, which should only be considered as estimates made in good faith by the Company. The references reflect management's expectations and are based on the assumptions and information available at a given moment in time, so are subject of future events, risks and unknown factors that may affect the Company's results. Communication Team: Juan Bosco Álvarez, Guillermo Recio, Daniel Zebadúa and Emmanuel Chávez.



## **CORPORATE HEADQUARTERS**

Av. Pedro Ramírez Vázquez 200-10  
San Pedro Garza García, N.L., C.P. 66269  
Tel: 52 (81) 8152-1500  
Fax: 52 (81) 8152-1584  
[ir@autlan.com.mx](mailto:ir@autlan.com.mx)  
[www.autlan.com.mx](http://www.autlan.com.mx)