



**GRUPO CEMENTOS DE CHIHUAHUA, S.A.B. DE C.V.**

**Avenida Vicente Suarez y Sexta s/n  
Zona Industrial Nombre de Dios  
C.P. 31105  
Chihuahua, Chihuahua, México**

**Annual Report submitted as per the general provisions applicable to securities issuers and other market participants for the year ended on December 31, 2019.**

**Outstanding securities as of May 29, 2020:**

**331,194,795** nominative common shares, Class I, Single Series\*

\*Subject to certain exceptions, our bylaws state that prior approval of the Board of Directors will be required (i) to carry out any acquisition, directly or indirectly, of blocks of shares, instruments referred to or representative of shares, instruments convertible into or exchangeable for shares or rights with respect to shares, representing a percentage equal to or greater than 3% (three percent) of our outstanding capital stock, (ii) to enter into agreements, oral or written, as a consequence of which mechanisms or association agreements are formed or adopted for voting, or voting in concert or jointly, with respect to shares, instruments convertible into or exchangeable for shares or rights in respect of shares, for a percentage equal to or greater than 3% (three percent), and (iii) for any of our competitors to acquire, directly or indirectly, blocks of shares, instruments referred to or representative of shares, instruments convertible into or exchangeable for shares or rights in respect of shares.

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The securities issued by Grupo Cementos de Chihuahua, S.A.B. de C.V., ticker GCC\*, are registered in the Securities Section and are traded in the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V.

Registration in the National Registry of Securities (Registro Nacional de Valores) does not imply a certification of the attractiveness or value of the securities; solvency or financial standing of the issuer; or the accuracy or truthfulness of the information contained in the Annual Report. Registration does not authenticate acts, if any, that could have been conducted in breach of the Law.



**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

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## 1) Company information

All the information contained in this report and/or any of its attachments, including the disclosure of Grupo Cementos de Chihuahua's adherence to the Best Corporate Practices Code, may be consulted by investors on the Company's website: [www.gcc.com](http://www.gcc.com) or through the Mexican Stock Exchange (BMV) at its offices or on its website: [www.bmv.com.mx](http://www.bmv.com.mx)

Copies of said documents, as well as the quarterly and annual information delivered to the CNBV and the BMV, may be obtained by any investor upon request by contacting GCC's Finance and Administration Department, at its offices located on Avenida Vicente Suarez y calle Sexta s/n, Colonia Nombre de Dios, C.P. 31105, Chihuahua, Chihuahua, Mexico, or by dialing +52 (614) 442-3217 or +52 (614) 442-3176, attention to Luis Carlos Arias Laso, or by sending an e-mail to [investors@gcc.com](mailto:investors@gcc.com).

### 1.a) Glossary of terms and definitions

"2020 Notes"	means the issuance abroad of 5.25% Senior Notes due 2024 for the amount of US\$ 260 million Dollars with a single principal payment at maturity
"Aggregates"	means sand, gravel, ballast, limestone and crushed base
"Alkalis"	means sodium oxides and potassium oxides that may react in cement when the aggregates contain certain mineral constituents
"BMV"	means the Mexican Stock Exchange ( <i>Bolsa Mexicana de Valores, S.A.B. de C.V.</i> )
"Bolivia"	means Plurinational State of Bolivia (previously known as Republic of Bolivia)
"CAMCEM"	means CAMCEM, S.A. de C.V.
"CANACEM"	means National Chamber of Cement ( <i>Cámara Nacional del Cemento</i> )
"CCS"	means Consorcio Cementero del Sur, S.A.
"CDC"	means Cementos de Chihuahua, S.A. de C.V.
"CEMEX"	means Cemex, S.A.B. de C.V.
"CIMSA"	means Compañía de Inversiones Mercantiles, S.A.
"Clinker"	means an intermediate product used in cement production obtained from the mixture of limestone and clay with iron oxide
"CNBV"	means National Banking and Securities Commission ( <i>Comisión Nacional Bancaria y de Valores</i> )

“Deloitte”	means Deloitte Touche Tohmatsu Limited and/or Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited
“US\$”, “Dollar” or “Dollars”	mean the United States of America currency
“FHWA”	means Federal Highway Administration
“Financial statements”	means the audited consolidated financial statements of financial position as of December 31, 2019, 2018 and 2017, and the income statements, statements of changes in stockholders’ equity and cash flows for the years ended 2019, 2018 and 2017, and the accompanying notes
“Fitch Ratings”	means Fitch Ratings, credit rating agency
“GCC”	means Grupo Cementos de Chihuahua, S.A.B. de C.V. and subsidiaries
“GCCA”	means Global Cement and Concrete Association
“GCC Alliance”	means GCC Alliance Concrete, Inc.
“GCC Latinoamérica”	means GCC Latinoamérica, S.A. de C.V.
“Holcim”	means Holcim México, S.A. de C.V.
“IACAC”	means Inter-American Commercial Arbitration Commission
“IASB”	means International Accounting Standards Board
“IMF”	means International Monetary Fund
“INEGI”	means the National System of Statistical and Geographical Information (Instituto Nacional de Estadística y Geografía)
“INFONAVIT”	means Federal Institute for Workers Housing ( <i>Instituto del Fondo Nacional de la Vivienda para los Trabajadores</i> )
“Installed capacity”	means the theoretical annual production capacity of a plant
“Issuer” or “Company”	means Grupo Cementos de Chihuahua, S.A.B. de C.V. and subsidiaries
“IT”	means information technologies
“LafargeHolcim”	means LafargeHolcim, Ltd.

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“LFT”	means Federal Labor Law ( <i>Ley Federal del Trabajo</i> )
“LGSM”	means General Law of Business Corporations ( <i>Ley General de Sociedades Mercantiles</i> )
“LIBOR”	means London Interbank Offered Rate
“LMV”	means Mexican Securities Market Law ( <i>Ley del Mercado de Valores</i> )
“Mexico”	means the United Mexican States
“MidCo”	means Mid-Continent Concrete Company, Inc.
“Mortar”	means a hydraulic cement used in masonry, consisting of a mixture of clinker and plasticization materials such as: limestone or hydrated or hydraulic lime together with other materials to increase one or more properties such as setting, water retention and durability
“NAFTA”	means North America Free Trade Agreement
“NAPA”	means National Asphalt Pavement Association
“NIIFs” or “IFRS”	means the International Financial Reporting Standards issued by the International Accounting Standards Board
“NRMCA”	means National Ready Mixed Concrete Association
“PCA”	means Portland Cement Association
“Portland”	means the hydraulic cement produced through clinker pulverization consisting essentially of hydraulic calcium silicate, usually containing one or more forms of calcium sulfates as an addition during grinding
“Ps”, “Peso” or “Pesos”	means Mexican currency, in the understanding that all the figures in Pesos herein are stated in nominal pesos
“Ready-mix concrete”	means the mixture of cement, aggregates and water; is prepared and delivered to the final consumer using mixer trucks
“Report”	means this annual report presented for the year ended December 31, 2019
“RNV”	means the National Securities Registry ( <i>Registro Nacional de Valores</i> )
“SEMARNAT”	means the Ministry of the Environment and Natural Resources ( <i>Secretaria de Medio Ambiente y Recursos Naturales</i> )

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“SOBOCE”	means Sociedad Boliviana de Cemento, S.A.
“Standard & Poor’s”	means Standard and Poor’s, credit rating agency
“Subsidiaries”	means all GCC’s subsidiaries in Mexico, the United States and Canada
“TIIE”	means Interbank Equilibrium Interest Rate ( <i>Tasa de Interés Interbancaria de Equilibrio</i> )
“U.S. GAAP”	means United States Generally Accepted Accounting Principles
“U.S.A”, “U.S.” or “United States”	means United States of America
“USGS”	means United States Geological Survey
“USMCA”	means United States-Mexico-Canada Agreement

The tonnes referred to herein are metric tons (1 metric ton = 1,000 kilograms) unless otherwise stated.

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## 1.b) Executive summary

*The following is a summary of information contained in this report.*

### GCC

Grupo Cementos de Chihuahua, S.A.B. de C.V. ("GCC" or the "Company") is a holding company with operations thorough the corridor that extends from the North of Mexico, the United States and Canada. Its subsidiaries are primarily engaged in the production and marketing of gray Portland cement, ready-mix concrete, aggregates and other construction materials.

In the United States, GCC successfully participates in the cement and ready-mix concrete markets. The Company has five cement plants with an annual production capacity of 3.57 million tons, located in Odessa, Texas; Tijeras, New Mexico; Pueblo, Colorado; Rapid City, South Dakota; and Trident, Montana. In addition, GCC has 24 cement distribution terminals and transfer stations located in the states of Texas, New Mexico, Colorado, Utah, Nebraska, Wyoming, Iowa, South Dakota, North Dakota, Minnesota and Montana. Furthermore, GCC is one of the leading producers of ready-mix concrete, supplying regional markets in the states of Texas, New Mexico, Arkansas, Oklahoma, Iowa, South Dakota, Minnesota and North Dakota. Together, these operations have 49 concrete production plants, a fleet of 292 ready-mix trucks and 153 cement and aggregates trucks. In addition, GCC has 2 asphalt plants and 3 aggregates plants in New Mexico and Texas.

In Mexico, GCC operates in the state of Chihuahua with three cement plants and a total annual production capacity of 2.28 million tons, located in the cities of Chihuahua and Juarez, and in the town of Samalayuca. GCC's operations in Mexico include 46 ready-mix concrete plants, 265 mixer trucks, 6 concrete block plants, 4 aggregates plants, 2 precast plants, a transportation fleet that consists of 181 cement and aggregates trucks, and two building materials distribution centers. In the state of Chihuahua, GCC is the leader in each of the markets in which it participates (cement, ready-mix concrete, aggregates, concrete blocks, precast products and mortar). This leadership position is the result of offering high quality products, providing service beyond customers' expectations and having state-of-the-art technology for production and distribution.

GCC's operations are vertically integrated in Mexico and in many of the U.S. markets in which it operates, enabling the Company to manage costs at each stage of the production and marketing of its products. GCC owns several quarries which supply raw materials for cement production, including all limestone supply, as well as all clay and gypsum required for Mexican operations. These materials represent approximately 94% of the total raw materials required for cement production. GCC efficiently supplies, through its distribution network, 100% of the cement required for the production of ready-mix concrete from its cement plants. GCC's distribution network enables the Company to have cement inventories closer to its customers, which reduces delivery times and enables GCC to meet its customers' needs in an optimal way. In addition, GCC has a coal mine in the state of Colorado in the United States, which supplies the coal needed by five of its cement plants.

For the year ended December 31, 2019, GCC consolidated net sales totaled US\$ 934.1 million, of which 73% was generated by its U.S. operations and 27% by its Mexican operations. The Company's total assets stood at US\$ 2,507.6 million.

As of December 31, 2019, GCC had 2,765 employees, including executives, sales and administrative personnel, as well as technical and operational personnel. As of April 30, 2020, GCC had 2,764 employees.



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## **GCC Strategic Plan**

GCC's mission is to be the supplier of choice in cement, concrete and innovative solutions, with a vision focused on being recognized as the best cement company in North America with the proper balance between people, planet and profit. GCC's objective is to strengthen its leadership in the markets in which it participates by enhancing its value proposition for its customers, growing its business sustainably, investing in human capital by seeking to be a great place to work, and maximizing stakeholder value through the implementation of its business strategy.

GCC's business strategy is built on four pillars: customer service, people, innovation and sustainable growth (financial, environmental and community).

### **1. Customer service**

#### *Offer exceptional technical and logistic services to our customers*

GCC aims to strengthen the quality of service offered to its customers and to increase the level of customer satisfaction by offering integrated and innovative solutions, as well as a specialized technical support service. In the United States, GCC constantly works on enhancing its extensive network of strategically located plants and distribution terminals, which ensure proximity to its customers and allows GCC to guarantee the availability of its products. In Mexico, GCC has developed strategic alliances through its "Construred" retail network, which serves customers in the self-construction and contractor segments.

### **2. People**

#### *Develop human capital and invest in the local community*

In order to attract and retain the best qualified human capital available in the market, GCC strives to be recognized as a great place to work. In this regard, it promotes talent development through the rotation and mobility of employees across the company.

The GCC People (*Gente GCC*) model seeks to align and drive the whole organization's efforts to create a culture focused on people, innovation and accountability. As part of the model, GCC implemented the SAP Successfactors Human Resources System, which standardizes processes and transforms the area's function throughout the organization.

Employees are given the best tools to deliver better results by offering them formal training through the GCC University online platform.

Regarding variable compensation and employee benefits, in 2019 the GCC Long Term Incentive Plan was reactivated which is aligned with the Company's long-term success and value creation. The purpose of the plan is to align executive's performance with GCC's strategic objectives, with a five-year vesting period that supports employee retention.

In recognition of these efforts, in March 2020 GCC Mexico Division was recognized as one of the 100 best companies to work for in Mexico and was awarded the "Great Place to Work" certification for the fourth consecutive year, occupying the 14<sup>th</sup> position in the ranking.

Likewise, GCC seeks to invest in the local community through the development of specific projects supported by the GCC Foundation and the joint development of sustainable projects.

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### 3. Innovation

#### Broaden product offerings through innovative solutions

GCC aims to broaden its range of value-added products, services and technologies for its customers and thereby generate better margins by focusing on increasing integrated solutions, expanding its portfolio of precast products, and developing specialty cement products with specific properties for their application, such as quick-setting and high-strength cements.

GCC drives and manages innovation within the organization through its innovation and continuous improvement programs, as well as through a research and development department.

### 4. Sustainable growth (financial, environmental and community)

#### Continuously increase profitability

GCC measures profitability by increasing return on investment (ROIC) and EBITDA margin, always in compliance with debt covenants. To accomplish this, the Company focuses on increasing cost efficiency and implementing a pricing strategy appropriate for the markets in which it operates. Since most of its operations are vertically integrated, the Company obtains materials at competitive costs. In addition, the strategic location of GCC's operating network provides an efficient distribution of its inventory at a lower cost.

To maximize profitability, GCC seeks to optimize pricing, considering the competitive conditions in the markets in which it operates. To achieve this, the Company offers integrated and innovative solutions, ensures timely product delivery, and builds and maintains strong relationships with its customers. In addition, GCC focuses on optimal reductions of working capital and annual asset investment plans (CapEx).

#### Continue operations and geographic footprint expansion

GCC seeks to continue developing and expanding in the markets where it operates through organic growth, by acquiring and integrating new businesses, as well as inorganic growth, by increasing the production and distribution capacity of its operations.

Due to the difficulty of developing "greenfield" projects, the Company regularly evaluates the possibility of acquiring existing cement plants and other complementary assets that can be integrated into GCC's distribution network and thus extract synergies.

GCC actively seeks opportunities to acquire ready-mix and aggregates operations with a strong business foundation that can be integrated to its cement business, complementing its existing operations.

The Company has years of experience in acquisitions and it always ensures the successful integration and extraction of synergies that enhance the Company's profitability in any given transaction.

GCC has taken significant steps upon integrating the acquisition of the cement plant in Odessa, Texas, and the ready-mix concrete, aggregates and building materials operations acquired in El Paso, Texas, and Las Cruces, New Mexico, by the end of 2016.

During 2018, GCC successfully completed the exchange of non-integrated ready-mix operations and transportation assets in Oklahoma and Arkansas, for the Trident cement plant in Three Forks, Montana.

The Rapid City plant's kiln 6 in South Dakota was expanded by 440,000 metric tons, increasing its capacity to 1.1 million metric tons per year.

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These significant increases in the Company's installed capacity are proof of GCC's ability for sustainable growth while extracting every potential synergy.

GCC has taken the plant in Odessa, Texas, close to full capacity and has increased productivity, being able to shift 100% of production to high-value added oil-well cement to serve oil well drilling customers in the Permian Basin in Texas and New Mexico.

Using its logistics network, GCC meets additional demand for construction and oil well cement in the West Texas markets through exports from the plants in Mexico: Samalayuca and Chihuahua, and shipments from the plants in Tijeras, New Mexico, and Pueblo, Colorado. In addition, kiln 2 of the Chihuahua plant was upgraded and a cement distribution terminal was installed in Fort Stockton, Texas, to complement oil-well cement shipments to the Odessa, Texas, region. As a result, GCC has a stronger market position in this new territory, better customer service and higher margins.

The successful integration –not only of production and distribution, but also of human resources and systems– clearly demonstrates GCC's execution capabilities and strategic approach. GCC is building a strongly integrated business in contiguous markets from northern Mexico to the United States-Canada border. GCC is leader in its core markets and no competitor has a similar geographic footprint in this region.

#### Foster sustainable development

GCC is committed to environmental sustainability at all stages of its operations. Under increasingly strict environmental regulations in the United States and Mexico, GCC continuously invests in maintaining its state-of-the-art production facilities and in surpassing the compliance requirements of the National Emission Standards for Hazardous Air Pollutants (NESHAP) and the Clean Air Act in the United States, as well as Mexican environmental standards.

GCC has committed to the principles of the Global Cement and Concrete Association in partnership with the World Business Council for Sustainable Development. The Company has been a member since February 2012. Through this initiative, an environmental management system is employed, which is implemented through continuous monitoring and evaluation of activities (from an environmental point of view), in an effort to minimize the impact that GCC has on the environment. In addition, in January 2020, GCC joined the Science Based Targets initiative (SBTi), committing to setting greenhouse gas reduction targets in line with climate science.

GCC is also focused on the development and use of alternative fuel sources to reduce the use of fossil fuels and decrease CO<sub>2</sub> generation, positively impacting the Company's carbon footprint and margins. In 2018, GCC finalized the implementation of the Energy Efficient Organic Waste Fraction (FROEE) project at the cement plant in Chihuahua, which consists of the co-processing of industrial waste and further uses it as an alternative fuel. During 2019, a substitution of 27% of fossil fuels used was achieved at the Juarez Plant, 27% at the Samalayuca Plant, 17% at the Chihuahua plant and 10% at the Pueblo, Colorado, plant. Likewise, the Company is continuously analyzing different options to increase the use of alternative fuels in the rest of its operations.

In 2019, GCC signed two long-term agreements with renewable energy suppliers, covering approximately 20% and 100% of the electricity consumed by the Mexican operations and the Odessa, Texas plant, respectively. Additionally, in May 2020, the Company signed a long-term agreement with a wind power provider to supply the Rapid City, South Dakota plant, thereby covering approximately 50% of the electricity consumed at the plant. These agreements will result in a reduction of approximately 116,000 metric ton in CO<sub>2</sub>, annually, based on the U.S Environmental Protection Agency estimate. In addition, around 70% of the electricity consumed at the plant in Trident, Montana, comes from alternative sources.

The health and safety of employees is also a top priority for GCC; therefore, the Company actively promotes

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health programs and provides different services and benefits to improve its employees' physical well-being.

*Promote and strengthen health, safety and community projects*

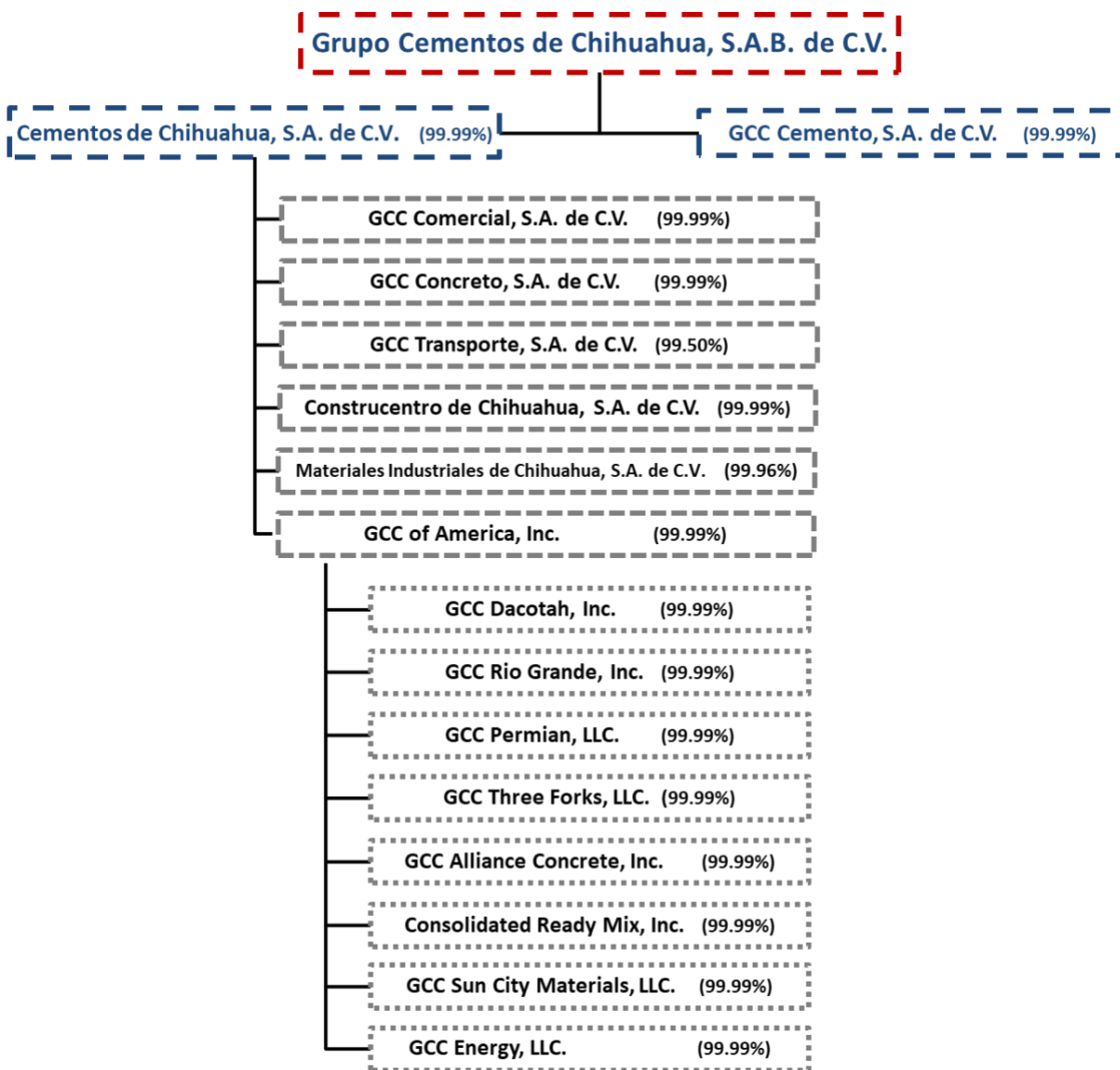
GCC strives to comply with key health and safety performance indicators, therefore it has implemented systems that support to maintain a healthy and safe environment in all its operations, thus the Company seeks to be ranked among the best in terms of safety in compliance with the Global Cement and Concrete Association. Likewise, GCC encourages its employees to participate in its health and wellness programs.

Similarly, GCC promotes the continued growth of the communities where it operates through the development of specific projects supported by the GCC Foundation (Fundación GCC) and the development of sustainable projects. In many of these projects, GCC encourages its employees to volunteer their time to benefit the communities where it operates.

## Corporate structure

GCC is a holding Company that operates through several subsidiaries, with a team that provides administration, engineering, technology management, planning, human resources, finance and information technology services.

The following chart shows the structure of GCC's main subsidiaries and GCC's ownership interest in those subsidiaries as of the date of this report. The chart has been simplified to show the most important subsidiaries.



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**Select Financial Information**

The Company's main figures are shown below:

**Selected financial information for the years 2019, 2018 and 2017**

(million dollars)

<b>Figures from the income statement</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net sales	934,115	883,230	824,104
Mexico sales	252,252	236,058	221,617
USA sales	681,863	647,172	602,487
Operating income Before other expenses, net	183,566	169,836	160,796
EBITDA (Operating income before Other expenses + Depreciation and Amortization)	291,972	256,361	239,940
Net financing expenses	36,294	44,458	55,830
Income before taxes	142,146	121,786	90,818
Income taxes	25,409	16,692	12,072
Consolidated net income	116,737	65,039	83,713

<b>Figures from the statement of financial condition</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total assets	2,057,634	1,902,532	1,907,890
Cash and cash equivalents	350,523	251,818	232,933
Property, machinery and equipment	1,015,909	1,027,760	936,387
Total liabilities	983,097	930,316	978,927
Short-term interest bearing liabilities	25,425	4,400	17,150
Long-term interest bearing liabilities	624,566	645,936	665,751
Total equity	1,074,537	972,216	928,963

### Performance of GCC shares listed on the BMV

As of May 29, 2020, the total number of shares representing the fixed portion of GCC's capital stock is 337,400,000, of which 6,205,205 shares are held in GCC's treasury, leaving a total of 331,194,795 shares outstanding. Of these outstanding shares, 159,536,207 are available in the market and the remaining 171,658,588 shares are owned by CAMCEM. The performance of these shares on the Mexican Stock Exchange is summarized below, in nominal pesos.

#### GCC's share price at the end of the last five fiscal years

(prices in mexican pesos)

Period	Closing price	Trading volume	Maximum price	Minimum price
2015	44.81	5,466,383	47.10	35.00
2016	68.40	16,261,604	68.88	41.50
2017	91.47	61,838,367	97.87	65.25
2018	100.44	113,487,558	134.98	89.46
2019	100.95	103,292,211	113.65	93.12

#### GCC's share price at the quarterly close of the last two fiscal years

(prices in mexican pesos)

Period	Closing price	Trading volume	Maximum price	Minimum price
I – 2018	97.79	13,546,649	110.30	89.46
II – 2018	128.85	31,605,619	130.00	95.98
III – 2018	122.81	38,659,650	134.98	117.20
IV – 2018	100.44	29,675,640	124.00	96.42
I – 2019	107.13	44,383,095	113.65	95.20
II – 2019	105.81	23,251,266	112.66	98.38
III – 2019	105.40	16,458,942	110.00	93.12
IV – 2019	100.95	19,198,908	109.88	97.26

#### GCC's share price at the end of each month for the six months prior to the filing of this report

(prices in mexican pesos)

Period	Closing price	Trading volume	Maximum price	Minimum price
November 2019	102.58	6,347,958	109.50	101.32
December 2019	100.86	6,640,502	104.84	97.26
January 2020	97.92	5,723,703	103.20	95.31
February 2020	97.98	7,999,614	101.50	91.17
March 2020	69.95	11,592,424	102.50	65.01
April 2020	69.96	18,190,318	74.98	60.30

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## 1.c) Risk Factors

*Investors should carefully consider the risks and uncertainties described below. The following risks factors are not the only risks faced by the Company, and any of the risk factors described below could materially and adversely affect GCC's business, results of operations or financial condition. The importance given to the following risk factors may change in the future, and other factors not disclosed below may have an impact on the Company in the future. In such cases, the price or liquidity of GCC's shares could decrease and investors could lose some or all of their investment.*

### 1.c.i) Risk factors related to the countries in which GCC operates

***Global economic conditions and their impact on the United States and Mexican economies may adversely affect GCC's business, results of operations and financial condition.***

Consumption of GCC's main products, cement and ready-mix concrete, as well as other construction materials, is highly dependent on construction expenditures and the construction industry as a whole, which are closely linked to general economic conditions. The Company's business is closely tied to general economic conditions in the United States and Mexico, with 73.0% and 27.0% of its net sales generated in each country, respectively, for the year ended December 31, 2019 and 73.3% and 26.7% of its net sales generated in each country, respectively, for the year ended December 31, 2018. Accordingly, an economic downturn in either country could have a material adverse effect on GCC's business, financial condition and results of operations.

According to the most recently available IMF World Economic Outlook published in October 2019 and updated on January 2020, the real gross domestic product ("GDP") increased 2.3%, 2.9% and 2.2% in the United States and 2.1%, 2.2% and 2.0% in Mexico in 2019, 2018 and 2017, respectively, compared, in each case to the prior year.

During 2019, the United States of America maintained a stable economic performance, achieving in September the lowest level of unemployment since 1969. In addition, the U.S. Federal Reserve System lowered short-term interest rates in August, September and October 2019. A decrease in interest rates could weaken the U.S. dollar against other currencies, supporting U.S. exports and economic growth. Increased economic growth could boost construction spending in the public, residential and non-residential sectors, which would substantially support the consumption of GCC's products.

During 2009, in large part due to the global financial crisis, Mexico suffered one of the sharpest declines in GDP since 1932, declining by 4.7%. Mexican exports fell drastically as a result of a sharp decline in foreign consumer demand and inflation reached 3.6%. Although the Mexican economy has gradually recovered in recent years, it still faces a challenging global environment for emerging markets. For example, recent volatility in global markets has exacerbated the depreciation of the Mexican peso against the U.S. dollar. During 2019, 2018 and 2017 the Mexican Peso appreciated approximately 4.3%, 0.3% and 4.5%, respectively. Exchange rate depreciation and/or volatility in the markets have adversely affected and may continue to affect the Company's results of operations and financial condition. Furthermore, the Mexican government's fiscal accounts have been negatively affected in recent years due to the sharp decline in crude oil prices. Due to the foregoing, the Mexican government has recently implemented some government spending cuts and may implement further cuts in the future, which may impact economic activity in Mexico. As a result of the COVID-19 pandemic, experts predict that the Mexican economy could contract by more than 10%. As a result of these factors, a contraction of Mexican economic activity could negatively affect the construction sector and demand for the Company's products.

Moreover, the Mexican economy is highly correlated to the performance of the U.S. economy. The extent of economic growth in the United States and the participation of Mexico's industrial sector in such growth may negatively affect economic growth in Mexico. Negative economic conditions in the United States have a greater impact on the state of Chihuahua than other Mexican states and regions due to its proximity to the United States. Therefore, any downturn in the economic outlook in the United States may decrease the consumption of the Company's products in both the United States and Mexico.



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More specifically, the correlation between economic conditions in Mexico and the United States has sharpened in recent years because of the North American Free Trade Agreement (“NAFTA”) and increased economic activity between the two countries. On September 30, 2018, the United States, Mexico and Canada agreed to the new terms and conditions of the USMCA and on November 30, 2018, the agreement was signed by the presidents of the aforementioned countries. Unlike NAFTA, the proposed new trade agreement includes a sunset clause that requires the agreement to be renewed and renegotiated every sixteen years, as well as rules to deter currency manipulation to obtain trade advantages, and additional intellectual property protections, among other provisions. The USMCA has been approved by the congress of each country and will enter into force in July 2020. Given the close trade relations between Mexico and the United States, an economic downturn in the United States or other related events, could have a significant adverse effect on the Mexican economy, which, in turn, could affect the Company’s business, results of operations and financial condition. In the past, some of the cement exports from Mexico to the United States were subject to an anti-dumping order imposed by the U.S. Department of Commerce.

Standard & Poor's Financial Services LLP, Fitch Ratings Inc. and Moody's Investors Service, Inc. recently downgraded Mexico's sovereign debt rating to BBB, BBB- and Baa1, respectively, which could adversely impact GCC's rating and the likelihood of obtaining financing in the future or doing so at competitive rates.

The Company’s business, results of operations and financial condition can be significantly and adversely affected by the foregoing factors. GCC cannot assure that general economic conditions or conditions in the cement and ready-mix concrete markets in the United States or Mexico will improve or will not deteriorate, nor can they give any assurances regarding the timing of any such changes. A downturn in global economic conditions that results in a decline in construction expenditures could cause demand for cement and ready-mix concrete to decrease in light of decreased consumer demand or the use of lower-cost substitutes by consumers. In addition, a slowdown of U.S. economic growth could adversely affect U.S. demand for products imported from Mexico, in particular the cement that the Company sends from its Mexican operations for its U.S. operations.

***GCC is vulnerable to the slowdown, distortions and volatility prevailing in global financial markets.***

Global economic conditions deteriorated significantly between 2007 and 2009, and some countries, including the United States, went into recession. While most countries have recovered, this recovery could be unsustainable. Some financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage banks, mortgage guarantors, and insurance companies, experienced, and some continue to experience, significant difficulties.

In addition, there were deposit leaks in financial institutions worldwide, some of which required supplementary capital or were assisted by governments. In addition, a large number of credit institutions and institutional investors reduced or suspended funding to their borrowers (including other financial institutions).

In this context, international oil prices volatility, as well as rating agencies revisions that have resulted in downgrading Mexico’s sovereign debt ratings, and capital outflows as a result of unexpected policy measures, have led the Mexican economy to slowdown in 2019. These continuing conditions, along with a decline in oil drilling in Mexico, as well as any future slowdown in U.S. manufacturing, U.S. administration policies on trade and immigration, and volatility in global financial markets, including the resulting concerns regarding the ability of the Organization of Petroleum Exporting Countries (OPEC) and Russia to reach an agreement regarding the necessity to impose cuts or caps on hydrocarbon production in response to lower global demand, could have a significant negative effect on the Mexican and U.S. economies, and their growth prospects, which could negatively impact GCC by significantly reducing demand for the oil-well cement sold by the Company to new well sites.

Developments in U.S. and international monetary policies, including those in Mexico, could negatively impact the Mexican economy and GCC’s business, result of operations and financial condition.

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***Disruptions in the credit markets may materially and negatively impact GCC's business, results of operations and financial condition, and may affect a portion of its customers.***

In the past, constraints in the credit markets have heightened a number of material risks to the Company's business, results of operations and financial condition. For example, the 2008 global financial crisis adversely affected local credit markets, resulting in an increased cost of capital, which had a negative impact on GCC's ability to meet its financial needs. Weakness in, and uncertainty about, global economic conditions, in particular economic conditions in the United States, could cause businesses to postpone spending or investing in response to tighter credit, negative financial news or declines in income or asset values, which could have a material adverse effect on the demand for goods and international trade which, in turn, could adversely affect the demand for the Company's products.

Many of GCC's customers are reliant on liquidity from global credit markets and, in some cases, require external financing to fund a portion of their operations. Delays or cancellations to construction projects could occur if our customers are unable to obtain financing for such projects or if consumer confidence is eroded by economic uncertainty, which could adversely affect the demand for the Company's products. Limitations on the ability to access credit could also lead to insolvencies of key customers. Finally, if the Company's customers lack liquidity, they may not be able to pay their obligations, which could negatively impact the business, results of operations and financial condition of the Company.

Negative economic conditions and global markets volatility, resulting mainly from fluctuations in raw materials prices, geopolitical conflicts, the economic slowdown in some of the developed and emerging markets, uncertainty about interest rates in the United States and increased risk aversion seen in international financial markets, have resulted in high volatility in domestic and international markets.

As a result, the Mexican peso has suffered significant fluctuations in recent years. At the end of 2014, the peso depreciated to Ps.14.72 per dollar, and in 2015 it depreciated to Ps.17.21 per dollar. At the end of 2016, it depreciated significantly to Ps.20.66 per dollar. However, as of December 2017, the peso appreciated to Ps.19.73 per dollar. As of December 31, 2018, after some episodes of volatility related to domestic and international factors, the peso appreciated to Ps.19.68 per dollar. At the end of December 2019, after fluctuations resulting from the instability in the world's financial markets, the Mexican peso appreciated to Ps.18.85 per dollar, gaining strength and resulting in an annual appreciation of 4.3% against the U.S. dollar. In addition, as a consequence of the COVID-19 pandemic, during March the peso depreciated to historical levels; as of March 31, 2020, the exchange rate was Ps.23.51 per dollar, resulting in a 21.3% depreciation compared to the prior year period.

Uncertainty and volatility in the global markets continue to affect the Mexican peso. The Mexican government has implemented occasional measures from time to time to limit the volatility of the peso, including dollar auctions in the foreign exchange market and hedge regulations for obligations of Mexican banks on foreign currencies. However, GCC cannot assure that such measures will be implemented if, and when, new episodes of volatility materialize or whether they will be effective or sustained, or how measures would impact the Mexican economy.

Continued severe peso devaluation or depreciation could have a negative effect on GCC, for example, by increasing the peso equivalence of obligations denominated in foreign currency. In addition, any severe devaluation could impact negatively GCC's business and results of operations.

A severe peso devaluation or depreciation could also result in government intervention, as has occurred in other countries, or in disruptions in international currency markets. Currently, the Mexican government does not, and has not for several decades, imposed restrictions on Mexicans or foreigners' ability or rights to exchange pesos for dollars, or to transfer other currencies abroad; however, such measures have been enforced in the past and could be implemented in the future. Consequently, the peso fluctuation against the U.S. dollar could have a material adverse effect on GCC.

Fluctuations in exchange rate between the Mexican peso and the U.S. dollar, especially the depreciation of the

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Mexican peso, may adversely impact the U.S. dollar equivalent value of GCC shares denominated in Mexican pesos in the Mexican Stock Exchange. Such depreciation could also affect GCC's dollar denominated revenues and earnings, and the dollar equivalent of any dividends or other peso denominated payments made by the Company.

***Economic and political developments in Mexico could affect Mexican economic policy and adversely affect the Company's business, results of operations and financial condition.***

GCC is a publicly listed variable capital stock corporation organized under the laws of Mexico and a large portion of its operations and assets are located in Mexico. As a result, the Company's business, results of operations and financial condition may be affected by the general performance of the Mexican economy, the devaluation or depreciation of the Mexican Peso as compared to the U.S. Dollar, price instability, inflation, interest rates, regulation, taxation, social stability (including matters related to public safety) and other political, social and economic developments in or affecting Mexico over which GCC has no control.

Mexico has, and is expected to continue to have, high real and nominal interest rates. The annualized interest rates on 28-day Treasury Certificates (Certificados de la Tesorería de la Federación, or "CETES"), averaged approximately 7.8%, 7.6% and 6.7% for 2019, 2018 and 2017, respectively. Accordingly, if the Company incurs debt denominated in Mexican Pesos in the future, it could be at high interest rates. Mexico has also experienced periods of very high inflation. Inflation has led to high interest rates and devaluations of the Mexican Peso. High levels of inflation could adversely affect the Company's business, results of operations and financial condition.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant effect on Mexican private sector entities in general, and on GCC in particular, as well as on market conditions, prices and returns on Mexican securities, including the Company's securities. The Mexican government could implement significant changes in laws, policies and regulations, which could affect the economic and political situation in Mexico. On July 1, 2018, federal, state and municipal elections were held in Mexico, in which Andres Manuel Lopez Obrador of the National Regeneration Movement Party was elected and on December 1, 2018 he took protest as the new president of Mexico. Since December 1, 2018, significant changes have been initiated in public policies, which have modified the political and economic situation in Mexico.

Since taking office, the position of the government of Mr. Andrés Manuel López Obrador regarding macroeconomic policy has been mostly in favor of stability, with an explicit emphasis on the importance of the Bank of Mexico's autonomy and maintaining balanced public finances, as shown by the stable performance of the public debt/GDP ratio. While some measures in certain sectors, such as energy and infrastructure, have generated uncertainty and resulted in private investment and weaker economic growth, the evolution of financial markets has been favorable as shown by a significant reduction in inflation, lower interest rates and the appreciation of the Mexican peso.

However, the management of the fiscal policy by the current administration has been characterized by prudent management of public expenditure and debt. This has contributed to the stability of financial markets. Nevertheless, there is no way to guarantee that the fiscal policy will remain cautious in the future, which could result in financial market instability.

The rating agencies Standard & Poor's Financial Services LLP, Fitch Ratings Inc. and Moody's Investors Service, Inc. recently downgraded Mexico's sovereign debt rating to BBB, BBB- and Baa1, respectively. These events could have an adverse effect on the Mexican economy, and consequently on GCC's business, as well as the results of operations and financial conditions.

There is no assurance that future political or economic developments in Mexico, over which the Company has no control, will not have an adverse effect on the Company's financial position or the results of operations. Specifically, the current government could implement significant changes in laws, public policies or other regulations which could affect the political and economic situation in Mexico, or take actions involving the Company's assets, which could

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have an adverse effect on GCC.

GCC's performance historically has been tied to Mexican public-sector spending on infrastructure facilities and Mexican public-sector spending is, in turn, generally dependent on the political climate in Mexico. More specifically, the Mexican government has recently faced pressure to decrease spending in light of the decline in oil prices, given its reliance on oil exports for a significant portion of its revenues. The Company cannot assure that changes in Mexican government policies will not adversely affect its business, financial condition and results of operations. In particular, the tax legislation in Mexico is subject to constant change and there can be no assurance as to whether the Mexican government may make changes to taxes or any of its existing political, social, economic or other policies, which changes may have a material adverse effect on the Mexican economy and on the Company's business, results of operations, financial condition or prospects or adversely affect its stock price. Furthermore, we cannot provide any assurance that future political developments in Mexico, over which the Company has no control, will not have an unfavorable impact on its financial position or results of operations and impair its ability to make distributions to its stockholders. Any of these events, or other unanticipated economic or political developments in Mexico, could have a material adverse effect on the Company's business, results of operations and financial condition.

Finally, demand for GCC's cement products in Mexico depends, in large part, on residential construction in the northern region of Mexico. In 2019, residential construction accounted for approximately 30% of GCC's cement sales, while public infrastructure and residential housing construction accounted for approximately 4% and 8%, respectively, of its cement sales. Residential construction is highly correlated to prevailing economic conditions.

Before the 2008 global economic recession, the residential segment in the state of Chihuahua had one of the highest growth rates in Mexico. In recent years, the state of Chihuahua has experienced a relative decline in violence, which has resulted in improved economic conditions and increased construction, particularly in the residential segment. Before the COVID-19 pandemic, the construction industry was very dynamic in the state of Chihuahua, unlike the rest of the country which was affected by a slowdown. However, the Company can provide no assurance that this recovery will be sustained, and a deterioration in economic conditions in the northern region of Mexico could have a material adverse effect on its business, the results of its operations and financial condition.

***The Company's business, results of operations and financial condition are subject to political and economic risks for conducting business in corrupt environments.***

A significant portion of GCC's business is conducted in Mexico, which has elevated levels of corruption compared to, and may present greater political, economic and operational risks than in the United States. The Company emphasizes compliance with the law and, although it has established policies, procedures and employee training programs to promote compliance with global ethics and legal requirements such as the General Law of Anti-corruption System (*Ley General del Sistema Nacional Anticorrupción*), the Mexican Federal Law of Anti-corruption in Public Contracting (*Ley Federal Anticorrupción en Contrataciones Públicas*), the Federal Law for the Prevention and Detection of Transactions with Illegal Resources (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*), the U.S. Foreign Corrupt Practices Act (the "FCPA") and the competition and anti-monopoly laws in both countries, its officers, directors, employees, agents or shareholders acting on its behalf, may not adhere to its code of ethics, other policies or rules and regulations.

If the Company fails to enforce its policies and procedures, the procedures to review, identify and correct illegal transactions, or to maintain internal accounting practices to accurately record its transactions, it may be subject to criminal fines and imprisonment, civil penalties, disgorgement of profits, injunctions, in many cases of relevance, barred from government contracts as well as other measures or sanctions. The Company could incur significant costs, including potential harm to its reputation, for investigation, litigation, civil or criminal penalties, fees, settlements or judgments for potential violations of the Federal Law of Anticorruption in Public Contracting, the General Law of the National Anti-Corruption System, or the FCPA or other laws or regulations, which in turn could have a material adverse effect on its business, the results of operations and financial condition.

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To prevent violations of the aforementioned provisions, GCC has taken action on training, monitoring and act against any unlawful actions. GCC cannot guarantee that such actions or the resources allocated to them will be sufficient to avoid liabilities, should unlawful activities be identified.

***The Company's business, results of operations and financial condition may be adversely affected by government contracting risks.***

As a result of GCC's supply of cement and ready-mix concrete for use in public infrastructure projects, the Company is subject to various laws and regulations applicable to parties doing business with the U.S. or the Mexican governments, including the FCPA in the United States, the Federal Anti-Corruption Law in Public Contracting and General Law of the National Anti-Corruption System in Mexico, and other laws and regulations governing performance of U.S. or Mexican government contracts, the use and treatment of U.S. or Mexican government furnished property and the nature of materials used in its products. The company may be unilaterally suspended or barred from conducting business with the U.S. or Mexican government or become subject to fines or other sanctions if it is found to have violated these laws or regulations. As a result of the need to comply with these laws and regulations, GCC is subject to governmental investigations as well as possible civil fraud legal actions and fines, among others.

***Violence in Mexico, including violence associated with Mexican drug cartels, has had an adverse effect on the Mexican economy, which could adversely affect the Company's business, results of operations and financial condition.***

Over the past several years, Mexico has experienced prolonged periods of criminal violence, primarily due to the activities of drug cartels. Although organized criminal activity and related violent incidents has decreased in recent years, they remain prevalent in the northern states of the country that share a border with the United States, including the state of Chihuahua, where GCC conducts most of its Mexican operations. Despite efforts by the Mexican government to increase security measures by strengthening its military and police forces, drug-related violence and crime continue to pose a significant threat to the Mexican economy and are a source of economic and political instability and uncertainty. Systemic criminal activity and isolated criminal acts may disrupt operations, impact the Company's ability to generate profits and dramatically add to its cost of operations. Continued violence could result in the Mexican government taking additional measures, which could include restrictions on cross-border transportation and trade. If the levels of violence in Mexico, over which the Company has no control, remain the same or increase they could have an adverse effect on the Mexican economy and GCC's business, results of operations and financial condition.

***Developments in other countries may have an adverse effect on the Mexican economy and on the Company's business, results of operations, financial condition and stock price.***

The Mexican economy and the market value of securities of Mexican companies may be, to a certain degree, affected by economic and market conditions in other countries, including the United States, China and other Latin American emerging market countries. Although economic conditions in other emerging market countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers, including those issued by GCC. In the past, prices of both Mexican debt and equity securities dropped substantially as a result of developments in Russia, Brazil, Argentina and several Asian countries. In addition, terrorist acts in the United States and elsewhere could depress economic activity in the United States and globally, including in Mexico. This could have a material adverse effect on the Company's business, results of operations and financial condition, which could affect the stock price.

Furthermore, Mexico, as an emerging market economy, is more exposed to unfavorable conditions in the international markets that can have a negative impact on the demand for GCC's products. In the past, the development of adverse economic conditions in other emerging market countries resulted, in general, in capital flight

and, as a consequence, in a decrease in the value of foreign investments in Mexico. In addition, the high level of indebtedness in U.S. Dollars by corporates in emerging markets constitutes an additional source of instability. As a result, any combination of lower consumer confidence, disrupted global capital markets and/or reduced international economic conditions could have a negative impact on the Mexican economy and consequently on the Company's business, results of operations and financial condition.

***The Company's business, results of operations and financial position could be materially adversely affected by the COVID-19 pandemic.***

As a consequence of the pandemic referred to as COVID-19, originated in China, and the spread to the United States and Mexico, the different federal, state and local authorities have mandated the confinement of the population in their homes, the suspension of activities, including in the construction industry, the closing of some borders, which is expected to have an effect on: the gross domestic product in different countries, including the United States and Mexico where GCC operates, on employment and demand (including demand in the construction and housing industries), and on the liquidity of financial institutions, all of which are expected to have a material adverse effect on the Company's sales, operations and the results of operations. Although it is too early to determine the impact on results, the effect is likely to be severe and could materially affect the Company's liquidity, and day-to-day operations. Additionally, the Company does not expect the Mexican government to take any significant measures that could remedy the severity of the situation. At this time, it is unknown how long the population will be required to suspend operations and when operations will resume, and the duration and pace of recovery in both the United States and Mexico.

For now, GCC has created a specialized team, integrated by the Chief Executive Officer and his management team, by those in charge of each business unit and human resources, to evaluate operations and coordinate the efforts of the entire organization to ensure an agile and timely response. GCC has implemented measures, including the development of health and safety protocols for each of its operations, the suspension of business travel, and the implementation of "work from home" protocols for the majority of GCC's employees in the administrative areas and skeleton crews wherever possible, this entails working with the minimum number of personnel required for each operation. Additionally, in order to minimize the financial impact of this crisis, ensure business continuity and preserve cash, GCC has established contingency plans to ensure a safe operation and uninterrupted supply to its customers, as well as identified savings and reduced costs and expenses. Furthermore, GCC seeks to enhance its liquidity position and financial flexibility by reducing the 2020 capital expenditures and net working capital, deferring all non-essential projects, drawing down a revolving credit line, and temporarily suspending the share buyback program. GCC expects that the aforementioned measures will mitigate the damages resulting from the crisis, but cannot assure that these measures will be enough or that they will help maintain the operations and viability of the Company.

**1.c.ii) Risks related to the Company**

***The Company's results of operations and financial condition may be materially adversely affected by a devaluation or depreciation in the value of the Mexican Peso.***

GCC operates in the United States and Mexico, generating approximately 27% and 26.7% of the net sales in Mexico for the years ended on December 31, 2019 and 2018, respectively. The U.S. operations earn revenue and incur expenses primarily in U.S. Dollars, while the Mexican operations earn revenue and incur expenses primarily in Mexican Pesos. EBITDA for the year ended December 31, 2019 was US\$ 292 million, of which 66% was generated by the U.S. operations and 34% by the Mexican operations. For the year ended December 31, 2018, EBITDA was EUA\$ 256.4 million, of which 66% was generated by the U.S. operations and 34% by the Mexican operations.

Changes in the relative value of the Mexican peso, which fluctuates constantly, to the U.S. dollar have an effect on the Company's results of operations and financial condition reported in Mexican pesos. The export sales to the United States and coal from the Colorado coal mine for use in the Mexican plants are denominated in U.S. dollars. Similarly,



a substantial majority of the costs of sales and other selling and administrative expenses are either denominated in or linked to the value of the U.S. dollar, including the purchases of several raw materials and the costs of the operations in the United States. As a result, when the Mexican peso depreciates against the U.S. dollar, the same level of U.S. dollar net sales or expenses in a prior period will result in higher reported net sales or expenses, in Mexican peso terms in the most recent period. Conversely, when the Mexican peso appreciates against the U.S. dollar, the same level of U.S. dollar net sales or expenses in a prior period will result in lower reported net sales or expenses in Mexican peso terms in the most recent period. Any significant devaluation of the Mexican peso also could make it more expensive to convert Mexican pesos into U.S. dollars, which are required to make payments of interest and principal on debt, 100% of which is denominated in U.S. dollars as of December 31, 2019. In 2019, 2018 and 2017, the Mexican peso appreciated around 4.3%, 0.3% and 4.5% against the US dollar, respectively, while as of March 31, 2020, the Mexican peso depreciated around 21.3%.

The Company prepares annual consolidated financial statements in U.S. Dollars. See note 4(t) to the annual consolidated financial statements for the year ended December 31, 2019 for a description of exchange rates used in preparing the financial statements. In the event of a depreciation of the Mexican Peso, the carrying amount of the U.S. Dollar-denominated debt in the annual consolidated financial statements will increase to reflect the additional Mexican Pesos required to fund the liabilities. As of the date of this report, GCC does not hedge against fluctuations in foreign exchange rates, and the business, results of operations and financial condition could be materially and adversely affected by such fluctuations.

Severe devaluation or depreciation of the Mexican Peso could also result in government intervention or disruption of the international foreign exchange markets (including restrictions on currency conversion). While the Mexican government does not currently restrict the ability by Mexican or foreign persons or entities to convert Mexican Pesos into U.S. Dollars or other specified currencies, or to transfer other currencies outside of Mexico, it has done so in the past. The company cannot assure that the Mexican government will not institute a restrictive currency exchange control policy in the future. Any such restrictive foreign currency exchange control policy could prevent or restrict access to U.S. Dollars or other currencies and may limit GCC's ability to transfer or convert Mexican Pesos into U.S. Dollars to service its U.S. Dollar-denominated debt. Moreover, the Mexican Peso could depreciate against the U.S. Dollar, which would have an adverse effect on the business, results of operations and financial condition of the Company.

***The Company has transactions with related parties which may result in conflicts of interest and on terms less favorable for the Company than if it were dealing with an unaffiliated party.***

Historically, GCC has entered into and will continue to enter into transactions with related parties. The company engages in substantial repeated transactions with related parties, including with CEMEX, which owns a portion of GCC's controlling shareholder, as well as Abastecedora de Fierro y Acero, S.A. de C.V. ("Abastecedora de Fierro y Acero"), Inmobiliaria RUBA, S.A. de C.V. ("Inmobiliaria RUBA"), Copachisa, S.A. de C.V. ("Copachisa") and Madata IT, S.A. de C.V., each of which is a GCC affiliate since GCC's significant shareholders also hold significant equity interests in these companies. Although many of these transactions occur in the ordinary course of business, under market conditions, and, if significant, must be submitted to GCC's Audit and Corporate Practices Committee and be approved by the Board, since these transactions may create potential conflicts of interest, which even if they can be resolved, could result in terms less favorable to the Company than if it were dealing with an unaffiliated party.

***GCC's indebtedness could adversely affect its financial condition and its ability to capitalize on business opportunities.***

As of March 31, 2020, GCC has an outstanding debt of EUA\$ 649.0 million, 100% of which is denominated in U.S. dollars; 5.1% is due in the short term and the Company does not have significant maturities in 2020 or 2021. In April 2020, GCC withdrew US\$ 50 million from a revolving credit line to preserve cash, improve its liquidity position and address any consequences related to the COVID-19 pandemic. The Company's ability to make scheduled payments on or to refinance its debt obligations depends on its financial condition and operating performance, which are

subject to existing economic and competitive conditions and to certain financial, business and other factors beyond its control. GCC may not be able to maintain a level of cash flows from operating activities sufficient to permit it to pay the principal, premiums, if any, and interest on its indebtedness. If the Company is not able to generate sufficient cash flow to service its debt obligations, it may need to refinance or restructure its debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. The global equity and credit markets in the last few years have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective and outstanding debt financings to widen considerably. Disruptions in the financial and credit markets may adversely affect the credit rating and the value of GCC's common stock. In addition, conditions in the capital markets have been such that traditional sources of capital, including equity capital, have not been available to the Company on reasonable terms or at all. As a result, GCC cannot guarantee that it will be able to obtain additional financing or equity capital at all or on terms that are favorable to the Company.

GCC's ability to service its debt may also be materially and adversely affected by a devaluation or depreciation of the Mexican peso against the U.S. dollar. Approximately 73.0% and 73.3% of GCC's net sales were generated in the United States for the years ending December 31, 2019 and 2018, respectively. To the extent the amount of net sales generated in U.S. dollars is not sufficient to cover the cost of its indebtedness, GCC must use a portion of the cash derived from its net sales in Mexican pesos to cover its financing costs. If U.S. dollar-denominated sales are insufficient to cover any principal amortization and interest payments with respect to its U.S. dollar-denominated debt, GCC will be adversely affected by any devaluation of the Mexican peso against the U.S. dollar, which could have an adverse effect on its ability to make these payments when due. In addition, a depreciation of the Mexican peso increases the carrying amount of its U.S. dollar-denominated debt in its financial statements to reflect the additional Mexican pesos required to cover for such liabilities.

Moreover, the instruments governing GCC's indebtedness contain certain affirmative and negative covenants that impose significant operating and financial restrictions. These restrictions limit GCC's ability, among other things, to:

- redeem stock or pay subordinated debt;
- sell assets, including capital stock of subsidiaries;
- enter into agreements that restrict dividend payments or other distributions from restricted subsidiaries;
- enter into transactions with affiliates, except for transactions on an arm's length basis;
- create or assume liens;
- engage in mergers or consolidations;
- make prepayments or modifications of indebtedness; and
- enter into a sale of all or substantially all of its assets.

Although the covenants under these instruments are subject to certain limitations and exceptions, these restrictions could limit the Company's ability to seize attractive growth opportunities for its businesses, particularly if GCC is prohibited from obtaining financing, is limited in the amount it can finance or is prohibited from making investments that are necessary to take advantage of such opportunities. These restrictions may also significantly impede GCC's ability, and the ability of its subsidiaries, to develop and implement refinancing plans with respect to its debt or the debt of its subsidiaries.

GCC cannot guarantee that it will be capable of complying with all the obligations and limitations under the instruments governing its indebtedness. The failure to fulfill any such obligations and limitations could result in an event of default, which could adversely and materially affect its business, results of operations and financial condition.



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***GCC's success depends on its ability to retain and attract key executives and technical employees.***

GCC's success depends on its ability to retain certain key executives. In particular, its senior executives have extensive experience in the cement industry and the loss of any of these executives could have an adverse effect on its business, results of operations and financial condition. The maintenance and continuity of its operations is also dependent on maintaining key technical and senior management personnel. If GCC loses key personnel, or if it is not able to attract and retain skilled employees as needed, the business, results of operations and financial condition could suffer.

***Any unauthorized use of GCC's brand names, trademarks and other intellectual property rights may materially adversely affect the business, results of operations and financial condition.***

The majority of GCC's net sales are derived from the sales of products that are sold under the various brands it owns, which include "GCC", "Cemento Chihuahua", "Dacotah Cement", "GCC Dacotah", "GCC Rio Grande", "Yeso Chuvistar", "Mortero Chuvistar", "Megablock" and "Construcentro". GCC's brand names, to which many customers are loyal, are therefore a key asset of its business, and its ability to obtain, maintain and protect its intellectual property rights and proprietary technology is an important component of its ability to effectively compete in its industry. GCC holds patents in the United States and Mexico for its process to achieve particular thermal insulation properties and eco-friendly characteristics in certain of its prefabricated products. Any unauthorized use of GCC's brands, trademarks or other intellectual property rights by third parties could adversely affect the Company's business, reputation and market share. If a competitor were to infringe on GCC's trademarks, enforcing its rights would likely be costly and would divert resources that would otherwise be used to operate and develop its business, as well as distract key executives. Although GCC intends to enforce its intellectual property rights against infringement by third parties, its actions may not be adequate or sufficient to protect its brands, trademarks or other intellectual property rights, which may result in a material adverse effect on its business, results of operations and financial condition.

***Insurance coverage could be insufficient to cover certain losses, which could have a material adverse effect on GCC's business, results of operations and financial condition.***

GCC's industry generally is subject to a number of risks and hazards, including industrial accidents, labor disputes and changes in environmental regulations. Furthermore, there are types of losses, generally of a catastrophic nature, such as losses due to wars, earthquakes, floods, epidemics, fires, hurricanes, pollution or environmental matters that are either uninsurable or not economically insurable, or may be insured subject to limitations, such as caps, large deductibles or co-payments. Insurance risks associated with potential terrorist acts or as a result of violence in Mexico could sharply increase the premiums paid for coverage against property and casualty claims. Although GCC considers its policies adequate and similar to those of its competitors, its insurance only covers part of the losses that it might incur. The occurrence of losses or other liabilities that are not covered by the insurance, that are widespread or that exceed the insurance limits could result in significant unexpected costs that could adversely affect GCC's business, results of operations and financial condition.

***Product liability claims may be brought against GCC and, whether or not successful, could harm the Company's business, results of operations and financial condition.***

GCC is exposed to risks associated with product liability claims arising from property damage or personal injury caused by the use of its products, which are mainly used as construction materials; these types of claims have been subject to class action lawsuits, mainly in markets like the United States, which distract executives and represent high costs. While the Company seeks to conform its products to meet a variety of contractual specifications and regulatory requirements, it cannot assure that product liability claims against it will not arise, whether due to product malfunctions, defects or other causes. GCC has product liability insurance for all of its subsidiaries. If any such claims against it were ultimately successful or were subject to a class action suit, the Company could be required to pay substantial damages, which could materially and adversely affect its business, results of operations and financial condition.

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***Failures or interruptions in the information systems could have an adverse effect on GCC's business, results of operation and financial condition.***

GCC depends on its information technology, or IT, which includes systems to conduct its business activities, such as sales processing, inventory purchasing and management, product distribution and customer service. Although the company has security, built-in redundancies and backups for its IT systems, it may, from time to time, experience failures or delays due to a number of factors beyond its control, such as hacking, computer viruses and other cyber security attacks and electricity outages, as well as outages due to fire, floods, power loss, telecommunications failures and similar events. Recently, a cyber attack occurred, which even if contained, could be repeated, even with greater intensity. Any material failure or disruption of the IT systems could result in a disruption of GCC's operations or the loss or damage of important operating information, which could adversely affect the business, results of operations and financial condition.

***A significant portion of GCC's total assets are intangible assets, including goodwill. An impairment in the carrying value of goodwill or other intangible assets could negatively affect the business, results of operation and financial condition.***

As of December 31, 2019, goodwill constituted approximately 11.7% of GCC's total assets. Goodwill is deemed to have an indefinite life; therefore, it is not amortizable. However, goodwill and other intangible assets with indefinite life are subject to impairment tests on an annual basis or earlier when there are indicators of impairment, pursuant to which the carrying amount thereof, if applicable, would be adjusted for the impairment loss that is determined. To apply impairment tests, goodwill is assigned to cash generating units ("CGU's"), which are defined on the basis of geographic markets, taking into consideration the synergies in business combinations that have been made. If the recoverable amount of the CGU, which is determined based on value in use, is less than the CGU's carrying amount, the impairment loss is first assigned to reduce the carrying amount of the goodwill assigned to the CGU, and then to the other CGU's assets in a proportional manner, taking into account the carrying amount of each asset. The impairment loss of goodwill is recognized in the statement of comprehensive income and is not reversed in subsequent periods.

Economic and competition trends in the markets where GCC operates have a significant impact on the assessment of goodwill impairment and the determination of recovery values of CGUs. Likewise, the discount rates used have a significant effect on impairment evaluations. In the past, GCC readjusted its goodwill impairment tests, and cannot assure that possible downturns in the economies where they operate will not necessitate downward readjustments of its goodwill for impairment in the future. If the value of GCC's intangible assets, including goodwill, becomes impaired, the business, results of operation and financial condition could be materially adversely affected.

***GCC may be required to spend more on capital investments than anticipated, which may have a material adverse effect on the Company's business, results of operations and financial condition.***

For the years ended December 31, 2019, 2018 and 2017, GCC recorded US\$ 59 million, US\$ 192 million and US\$ 77 million, respectively, in capital expenditures. Due to its nature, the Company requires significant capital investments to maintain the necessary efficiency levels for its operations. The Company's capital expenditures may increase substantially if it is required to undertake additional or unexpected actions to comply with new regulatory requirements, including amendments to environmental regulations, or compete with new technologies. It also may be necessary to expand production capacity at a rate greater than GCC's estimates if demand for its products exceeds its estimates. The Company may not have the capital to undertake these capital investments.

If GCC is unable to obtain sufficient capital or obtain it at a reasonable cost, or it is otherwise limited by the capital expenditures cap discussed above, the Company may not be able to expand production sufficiently to take advantage of changes in the marketplace or to maintain the levels of efficiency necessary to stay, which may have a material adverse effect on its business, results of operations and financial condition.

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***GCC is subject to different disclosure and accounting standards than companies in other countries.***

A principal objective of the securities laws of the United States, Mexico, and other countries is to promote full and fair disclosure of all material corporate information, including accounting information and relevant events. However, there may be less or different publicly available information about foreign issuers of securities than is regularly published by or about U.S. issuers of listed securities. GCC is subject to reporting obligations in respect of the shares listed on the Mexican Stock Exchange. The disclosure standards imposed by the Mexican Stock Exchange may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what non-Mexican investors in stocks are accustomed to.

In addition, accounting standards and disclosure requirements in Mexico differ from those of the United States. In particular, GCC's financial statements are prepared in accordance with IFRS as issued by the IASB, which differ from U.S. GAAP. Items on the financial statements of a company prepared in accordance with IFRS as issued by the IASB may not reflect, or may reflect differently, its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP.

***GCC may not have the capacity to complete acquisitions, for various reasons, which is a key element of its growth strategy.***

Given the difficulty of developing greenfield plants and projects, as well as concrete and aggregates operations, the Company is constantly seeking acquisition alternatives in the markets in which it operates or in adjacent markets. Such acquisitions may be limited by the absence of reasonably priced projects or projects that the Company can finance. In addition, antitrust authorities may restrict these acquisitions or impose conditions on them, without considering that the Company has significant presence or power to impose price conditions in the markets in which it operates. Once acquired, these plants and operations may be subject to relevant contingencies, as well as regulatory contingencies (which may require significant amounts of capital investment) that the Company may not be able to identify. Any of the foregoing could result in limitations on the Company's growth or adversely and significantly affect its business, the results of its operations and financial condition.

***GCC may not be able to realize the expected benefits from acquisitions, some of which may have a material adverse effect on the Company's business, results of operations and financial condition.***

GCC's ability to realize the expected benefits from acquisitions depends, in large part, on its ability to integrate acquired operations with its existing operations in a timely and efficient manner. These efforts may not be successful. If it fails to achieve the anticipated cost savings or synergies from any acquisitions, its business, results of operations and financial condition would be materially and adversely affected. The Company may also be unable to successfully carry out asset acquisitions for various reasons that may be outside its control. If GCC cannot successfully carry out asset acquisitions, its business plans may be affected.

***Higher energy and fuel costs may have a material adverse effect on the Company's business, results of operations and financial condition.***

GCC's operations require significant amounts of energy, particularly in the cement production process and, to a lesser extent, in connection with its distribution operations, which rely on the use of gasoline and diesel fuel to deliver its products. The availability of energy and related inputs from utilities could be volatile and could be affected by political, economic and regulatory conditions that are outside its control. Even though energy and fuel prices have recently decreased, in the event that the prices of natural gas, coal or electricity rise, suddenly, as has occurred in the past, the Company's profit margins could decrease as it may not be able to pass through energy cost increases to its customers, which could have a material adverse effect on its business and results of operations. To mitigate its exposure to high energy costs and their volatility, GCC has implemented technical improvements in its cement plants that give it the option to use coal or alternative fuels in its installed capacity for cement production. GCC's cement

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plants can use natural gas for clinker production if natural gas pricing is more favorable, or if coal supply is interrupted or its quality becomes an issue.

In addition, GCC has been operating its Colorado coal mine since 2005, which supplies coal to its cement plants (except the Rapid City, South Dakota plant, for which it uses a coal supplier in Wyoming, the Three Forks, Montana plant, which uses a coal supplier in Montana, and the Odessa, Texas plant, which operates 100% with natural gas). The Company estimates it has sufficient coal reserves to supply its cement plants and sales to third parties until approximately 2048, based on the existing rate of depletion. However, GCC's operations at the Colorado coal mine are subject to a variety of federal, state and local regulations, including those relating to employee health and safety, which may result in the temporary closure of the mine in the event of certain violations. The Company therefore cannot guarantee that the coal reserves from its Colorado coal mine will be available in the future or that GCC will be able to operate the mine in the same manner, which could affect its business, results of operations and financial condition if it cannot obtain alternative energy supply on terms acceptable to the Company.

***The Company's business, results of operations and financial condition could be materially adversely affected by an interruption in supply of raw materials.***

GCC is dependent on a variety of raw materials that support its manufacturing activities, including limestone, clay, gypsum, silica and iron oxides. The Company's ability to meet its customers' needs depends heavily on an uninterrupted supply of these materials, which it sources from owned or leased quarries located near its cement plants or which it purchases from suppliers. However, production problems, lack of capacity, high demand periods, changes in the Company's third-party suppliers' financial or business condition or planned and unplanned shutdowns of their production facilities that affect their ability to supply GCC raw materials that meet its specifications, or at all, could disrupt GCC's ability to supply products to its customers. The Company is also susceptible to the breach or termination of lease agreements for the quarries where it has deposits or the breach or termination of contractual obligations by its third-party suppliers.

For the Rapid City, South Dakota cement plant and for the Trident, Montana plant, GCC has short-term supply agreements with coal suppliers. The Company can give no assurance that the suppliers will not breach or terminate the agreement or will renew the agreement upon expiration, although there are a number of suppliers in the region that GCC believes can supply it with coal for this plant. In addition, interruptions in raw material supply caused by events outside GCC's or its suppliers' control, such as mine and quarry accidents, inclement weather, labor disputes, epidemics or transportation disruptions, also could cause it to miss deliveries and breach its contracts, which could damage the Company's relationships with its customers and subject it to claims for damages under its contracts. If any of these events were to occur for more than a temporary period, GCC may not be able to make arrangements for changing supply, substitute materials or qualified replacement suppliers on terms acceptable to them or at all, which could have a material adverse effect on its business, results of operations and financial condition.

***The increase in the prices of raw materials could materially adversely affect the Company's business, results of operations and financial condition.***

If the prices GCC has to pay for raw materials under its existing supply contracts with independent suppliers or under replacement supply contracts increase, it could face significantly higher production costs. Prices of products, such as diesel fuel, tires, steel and explosives, and other raw materials, such as aggregates and sands, have the most significant impact on the prices of the Company's raw materials. Although GCC believes its independent providers to be a stable, secure and adequate source, increases in raw material prices could adversely affect its ability to renew these contracts on similar terms or at all. Should these suppliers cease operations, eliminate production of these raw materials or substantially increase their prices, the Company's sourcing costs for these materials may increase significantly or it may be required to find alternatives to these materials. Similarly, increases in raw material prices could adversely affect its ability to enter into shorter-term supply agreements at favorable prices. GCC also may not be able to pass through price increases to its customers, which could have a material adverse effect on its business, results of operations and financial condition.

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***GCC faces numerous uncertainties in estimating its recoverable coal reserves and reserves for other raw materials, and inaccuracies in the estimates could result in higher than expected fuel and raw material costs, which could have a material adverse effect on the Company's business, results of operations and financial condition.***

GCC internally sources a significant portion of its fuel requirements through its coal mine in Colorado for its cement operations in Mexico, Pueblo, Colorado and Tijeras, New Mexico, and it sources a significant portion of its other raw materials mainly used in its cement production from quarries and mines that the Company either owns or leases. GCC's reserve estimates are prepared by its own engineers and geologists and are subject to annual review by its corporate staff jointly with its regional technical managers. In certain cases, the Company has used the services of third-party geologists and/or engineers to validate its own estimates. There are numerous uncertainties inherent in estimating quantities, quality and costs to mine recoverable reserves, including many factors beyond its control. Estimates of economically recoverable coal reserves and reserves of certain other raw materials depend upon a number of variable factors and assumptions, such as geological and mining conditions, which may not be fully identified by available exploration data or which may differ from experience in current operations, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning coal prices, operating costs, mining technology improvements, indemnities and special taxes, development costs and remediation costs, all of which may vary considerably from actual results.

Therefore, proven reserve estimates may differ significantly from the recoverable quantities of coal and other raw materials. Any inaccuracy in the Company's estimates related to its reserves could result in higher than expected fuel and raw materials costs, decreased profitability if it must source its energy or raw materials from other suppliers or delays in its production if it cannot obtain alternate sources of fuel or raw materials on acceptable terms, any or all of which could have a material adverse effect on the Company's business, results of operations and financial condition.

***The introduction of cement substitutes into the market and the development of new construction techniques could have a material adverse effect on the Company's business, results of operations and financial condition.***

Materials such as plastic, aluminum, ceramics, glass, wood and steel can be used in construction as a substitute for cement. In addition, other construction techniques, such as the use of plasterboards, could decrease the demand for cement and concrete. Research aimed at developing new construction techniques and modern materials may result in the introduction of new products in the future, reducing the demand for cement and concrete. The use of substitutes for cement could cause a significant reduction in the demand and prices for GCC's products and have a material adverse effect on its business, results of operations and financial condition.

***A disruption or delay in production at one of the GCC's production facilities could have a material adverse effect on the Company's business, results of operations and financial condition.***

If one of GCC's production facilities were to cease production unexpectedly, in whole or in part, its sales and financial results could be materially adversely affected. Such a disruption could be caused by a number of different events, including:

- maintenance outages;
- prolonged power failures;
- equipment failures or malfunctions;
- embargoes on rail freight traffic;
- fires, explosions, floods, tornadoes, earthquakes or other catastrophes or effects of extreme weather;

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- potential unrest or terrorist activity;
  - pandemics;
  - labor difficulties; or
  - other construction, design or operational problems, including those related to the granting, or the timetable for granting, of permits.

Based on GCC's production schedule and cycle times, it determines the amount of inventory needed at each of its locations. If there is an unplanned service interruption at any of its plants, inventory levels may drop to a level where servicing the relevant markets may be compromised. Also, if the Company does not effectively manage its inventory of raw materials to ensure adequate supplies during peak periods and to minimize excessive expenditures during slow periods, its business, results of operations and financial condition could be adversely affected as a result of its inability to meet production orders of cement, ready-mix concrete or other products.

Although GCC attempts to mitigate this risk by keeping inventory at all of its terminals and shipping stations, and in some cases, it can ship products from one plant to another for a short period, the inventory may not be sufficient to cover the increased demand from such market. In addition, this strategy would cause it to incur significant additional transportation costs, which cannot be transferred to customers. For example, in previous years, the Company faced increased freight costs associated with the shipment of cement to its northern markets (North Dakota, Iowa and Minnesota) from its Pueblo, Colorado cement plant to cover sales from its cement plant in Rapid City, South Dakota, which sold cement beyond its capacity. GCC also must effectively manage its inventories of raw materials to ensure adequate supplies during peak periods and to minimize excessive expenditures during slow periods. For example, although GCC's network of ready-mix concrete plants in certain regions provide back up for any plant that might be affected by a disruption, a prolonged shutdown of any of its production facilities could cause it to miss deliveries and breach its contracts, which could damage its relationships with its customers and subject it to claims for damages under its contracts. Any of these events could have a material adverse effect on the Company's business, results of operations and financial condition.

***The company's operations could be adversely affected by weather conditions and natural disasters.***

Construction activity, and therefore the demand for GCC's products, significantly decreases during periods of cold weather, snow and prolonged or intense rain. Consequently, demand for its products is significantly lower during winter and rainy seasons. Winter weather significantly reduces the Company's sales of cement and concrete during the first quarter and, to a lesser extent, during the fourth quarter. However, in the event the weather remains mild through late October into November, it is able to supply cement and ready-mix concrete to projects until the first hard freeze or snow. Sales in markets with harsh winter weather conditions generally improve during the second and third quarters due to an improvement in such conditions. However, high rain levels or other adverse weather could negatively affect its operations during these periods.

In addition, flooding, severe weather or natural disasters not only delay and lead to the cancellation of projects, but also disrupt transportation logistics, particularly by rail, and could also delay the Company's production. For example, production at the Rapid City, South Dakota plant and at the Three Forks, Montana plant are subject to much greater variation in winter conditions than in southern regions. Natural disasters, such as tornadoes, could impede operations, damage GCC's infrastructure or adversely affect its production facilities. Any such weather condition or natural disaster in the areas in which it operates could adversely affect its business, results of operations and financial condition, especially in the event that they occur with unusual intensity, during abnormal periods, for periods lasting longer than usual or during peak periods of construction activity.



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***Disruptions to the Company's distribution network could have a material adverse effect on its business, results of operations and financial condition.***

In Mexico, approximately 28% of the volume of cement that GCC sells is sold in bags and distributed principally through independent distributors within the state of Chihuahua and its distribution subsidiary, Construcentro. In the United States, GCC distributes bulk cement by rail on railcars that it has leased to its cement distribution terminals located throughout the states in which it operates. Damage or disruption to its distribution capability or to that of its third-party distributors due to weather, natural disaster, floods, fire, electricity shortages, terrorism, border closures, other service interruptions, pandemics, labor strikes, and disputes with employees, or the financial stability and/or instability of key distributors and warehousing, could impair the Company's ability to distribute its products. To the extent that it is unable, or it is financially unfeasible, to mitigate disruptions to its distribution chain, there could be adverse effects on GCC's business, results of operations and financial condition, and substantial additional resources could be required to restore its distribution network. In addition, a shortage of inventory at any of its distribution terminals could cause it to miss deliveries and breach its contracts, thereby damaging the relationships with its customers and exposing it to claims for damages.

In Mexico, and to a lesser extent in the United States, GCC also distributes some of its products by truck, using its own fleet. In addition to all of the risks described above, significant capital outlays may be required to repair or replace aging or damaged vehicles. As its vehicle fleet ages, operation and maintenance costs also increase. For example, insurance rates and the costs of compliance with governmental regulations, safety or other equipment standards increase with time. The Company cannot assure that, as its trucks age, market conditions will justify those expenditures or enable it to operate its trucks profitably during the remainder of their useful lives. A shortage of trucks would require it to outsource its distribution operations, resulting in higher costs, which could adversely affect GCC's business, results of operations and financial condition.

GCC's Tijeras, New Mexico plant is not serviced by rail, and all distribution is made by third-party or customer trucks. If any issues, including labor strikes, disputes or truck breakdowns, arise, the Company would be dependent on other third-party trucks for delivery. The Company cannot assure that third-party trucks will be available for product distribution from its Tijeras, New Mexico plant on terms that are acceptable to it, or that higher costs associated with contracting other third-party distributors will not affect its business and results of operations.

***Labor unrest, failure to maintain good relationships with labor unions and labor-related costs may have adverse effects on the Company's business, results of operations and financial condition.***

As of December 31, 2019, GCC had 2,765 employees. Approximately 33% of its employees are unionized. In its Mexican operations, all of its unionized employees are members of the Confederation of Mexican Workers (Confederación de Trabajadores de México). Each of GCC's cement plants, ready-mix concrete plants and transportation operations in Mexico has its own collective bargaining agreement in place with its unionized workers. These agreements are reviewed every two years for certain benefits other than wages, and yearly for wages. Some of GCC's workers in its Rapid City, South Dakota plant are affiliated with the United Steelworkers Union. The labor collective bargaining agreement for this plant includes a no-strike clause. The agreement is renegotiated every five years and was last renewed in the first half of 2016.

The Company believes it maintains a positive and cooperative relationship with its unions and its other employees, and it works towards developing and improving the quality of life of its personnel. Although GCC believes that its relationship with all the labor organizations that represent its workers is satisfactory, labor-related disputes may arise. Labor-related disputes that result in strikes or other disruptions could cause increases in operating costs, which could damage its relationship with its customers and adversely affect its business, results of operations and financial condition. In addition, GCC's business, results of operations and financial condition may be materially and adversely impacted as a result of increases in labor costs, including under its pension and benefits plans. Despite measures to mitigate these and other expenses, the Company may be unable to do so successfully, which could have a material adverse effect on its business, results of operations and financial condition.

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***The loss or consolidation of any one of GCC's top customers or late payments by these or other customers could reduce net sales and have an adverse effect on the Company's business, results of operations and financial condition.***

For the years ended December 31, 2019, 2018 and 2017, GCC's top ten customers accounted for 18.1%, 19.2% and 15.1% of its net sales, respectively. Its top two customers together accounted for approximately 5.7% of its net sales during 2019. The loss or consolidation of one or more of these customers or a significant decrease in business from one or more of these customers could harm the Company's business, results of operations and financial condition. GCC records an allowance for doubtful accounts receivable where collection risks are anticipated, and it requests, when applicable, guarantees and collateral. The Company cannot assure that it will not experience late payments by these or other customers, and any late payments in the future may be relevant, which could have an adverse effect on its business, results of operations and financial condition.

***GCC's industry is highly competitive and if the Company is unable to compete effectively with existing competitors or with new entrants, the Company's business, results of operations and financial condition could be significantly affected.***

GCC competes on a global basis with producers and importers of cement and with local ready-mix concrete producers. Its business faces significant competition from a number of global industry participants and several regional competitors. In the United States, the Company competes with LafargeHolcim Ltd. ("LafargeHolcim"), CEMEX, Eagle Materials Inc. ("Eagle Materials"), Lehigh Cement Company LLC ("Lehigh Cement Company"), Ash Grove Cement Co. ("Ash Grove Cement") and Buzzi Unicem ("Buzzi"), all of which have sales and resources exceeding GCC's, which they may use to develop market share or leverage their distribution networks. In Mexico, GCC competes with CEMEX, Holcim Mexico, S.A. de C.V. ("Holcim"), Corporación Moctezuma, S.A.B. de C.V. ("Moctezuma"), Cooperativa La Cruz Azul, S.C.L. ("Cooperativa La Cruz Azul") and Cementos Fortaleza, S.A. de C.V. ("Cementos Fortaleza") all of which have sufficient sales and resources to develop market share or leverage their distribution networks.

In addition, new competitors and alliances may and do emerge from time to time and may and do take market share away from GCC, which may adversely affect its profit margins and results of operations in regions in which it has excess capacity. Some of these competitors may decide to allocate significant resources to compete in our markets by granting concessions to customers that GCC cannot provide. Even where the ready-mix concrete production capacity is in balance, the oversupply of cement creates excessive price pressure on the ready-mix concrete markets and opportunities for new competitors, which in some cases are financed by cement producers. The Company's competitive position in the markets in which it operates depends upon the relative strength of these competitors in those markets and the resources they devote to competing in those markets, as well as GCC's ability to offer competitive prices, value-added services, specialty products and maintain its relationships with its customers. GCC also faces competition from substitute products, particularly for certain of its prefabricated products. All of these factors could cause the Company to experience sales and loss of market share, which could have a material adverse effect on its business and financial results.

***GCC may not be able to keep up with competitive changes affecting its industry, which could have a material adverse effect on the Company's business, results of operations and financial condition.***

The cement market is characterized by evolving industry and end-market standards, changing regulation, new environmental standards frequent enhancements to existing products, services and technologies, introduction of new products and services and changing customer demand, all of which could result in unpredictable product transitions. The success of GCC's new products and services depends on their initial and continued acceptance by its customers. The Company believes it has a competitive advantage tied to its product innovations. If it is unable to anticipate changes or develop and introduce new and enhanced products, services and innovations that are accepted by its customers on a timely basis, its ability to remain competitive and take advantage of its competitive advantage may be adversely affected. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.



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***A final unfavorable ruling or judgment for GCC in connection with the sale of SOBOCE could have a material adverse effect on the Company's operations, results of operations and financial condition.***

On August 18, 2011, GCC sold its 47.02% interest in the Sociedad Boliviana de Cemento, S.A. ("SOBOCE"), to Consorcio Cementero del Sur ("CCS"), a subsidiary of Grupo Gloria based in Peru. The proceeds from the sale were mainly used to reduce the Company's debt and after the transaction it ceased operations in Bolivia.

Compañía de Inversiones Mercantiles, S.A. ("CIMSA"), SOBOCE's majority shareholder, filed a request for arbitration before the Inter-American Commercial Arbitration Commission ("IACAC"). GCC was notified of this request on November 16, 2011. The request, which it believes to be unfounded, alleges violations of CIMSA's right of first refusal with respect to the purchase of SOBOCE's shares, pursuant to a shareholders' agreement GCC entered into with CIMSA.

In September 2013, an arbitration tribunal issued a liability award against GCC and GCC Latinoamerica, S.A. de C.V. ("GCC Latinoamerica"), finding them both liable for breaching the aforementioned shareholders' agreement.

In December 2014, CIMSA sold its 51.3% interest in SOBOCE to CCS, thereby making CCS the majority and controlling shareholder of SOBOCE with 98.32% of its shares.

On April 15, 2015, as part of the IACAC arbitration initiated by CIMSA against GCC, the final damages award was issued, requiring that GCC and GCC Latinoamerica pay CIMSA US\$ 36.1 million for damages and expenses.

The Company believes that both the responsibility award and the final damages award are contrary to Bolivian and international law, and has sought its annulment, as a result of which both awards have been set aside.

On January 11, 2018, Bolivia's Supreme Court of Justice issued a decree confirming the annulment of the Partial Liability Award dated September 2013 that led to the Damages Award; therefore, since the annulment process for the First Award has finished, the file related to such annulment has been forwarded to the former Chairman of the Arbitration Court in Madrid, Spain.

Under Bolivian law, as a consequence of the annulment of the liability award, the damages award for US\$ 36.1 million against GCC and GCC Latinoamerica has been dismissed. As of the date of this report, GCC is awaiting the confirmation from the corresponding Bolivian authorities on this matter. Additionally, GCC obtained provisional remedies from a Mexican tribunal ordering CIMSA to refrain from enforcing any award issued in the arbitration process until the pending appeals for annulment have been resolved.

On May 31, 2018, CIMSA requested before a judge in Denver, Colorado, that the continuance of the proceeding initiated in September 2015 with the purpose of enforcing the Damages Award, as well as freezing and seizing Grupo Cementos de Chihuahua and GCC Latinoamerica assets in Colorado. This proceeding was originally suspended until the resolution of the annulment proceedings in Bolivia initiated by GCC.

On March 25, 2019, the judge of the U.S. District Court of Colorado ruled on the recognition of the liability award issued by the Arbitration Court on April 15, 2015, which awarded CIMSA US\$36.1 million of damages and expenses plus fees, costs and interests, as a result, the District Judge's ruling considers the Award a valid resolution in the United States. However, this resolution does not affect GCC of America or any of the other U.S. subsidiaries, as the defendants are only Grupo Cementos de Chihuahua and GCC Latinoamerica, which currently do not have any assets in the United States. On June 18, 2019, GCC appealed the resolution to the U.S. District Court of Colorado. The corresponding Colorado Court of Appeals hearing was held on May 5, 2020, pending a final resolution in the second half of 2020.

GCC will exercise its contractual rights to recover, at the time, the damages and expenses that the final judgment of

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the arbitration process could cause the Company. Under Bolivian law, enforceability of the damages award is suspended, until pending annulment appeals are resolved.

While the Company believes that this legal proceeding will be resolved in its favor, the Company's management cannot assure that this legal proceeding will not adversely affect its interests and financial condition.

***Tax regulations and their implementation could be modified, both in their wording and in their interpretation, which could adversely affect the Company's results.***

GCC is subject to tax regulations applicable to the different markets in which it operates, particularly Mexican and U.S. federal laws. These provisions are constantly evolving, both in terms of their implementation and interpretation. Although it is the Company's policy to comply with tax regulations on a conservative basis, these regulations may be subject to interpretation, and no assurance can be given that the tax authorities will agree with GCC's interpretation or will not modify their interpretation in the future, which could have a material adverse effect on the Company's financial position, both with respect to payments made in prior years and to payments that the Company did not expect to pay as a result of the application of the tax regulations.

***Compliance with environmental, health and safety laws and regulations could result in significant costs and liabilities, which could have a material adverse effect on the Company's business, results of operations and financial condition.***

GCC's operations are subject to strict laws and regulations governing environmental protection, health and safety in the United States and Mexico. These environmental, health and safety laws and regulations generally require the Company to obtain and comply with various permits, licenses, registrations and other approvals (including environmental protection standards regarding, among other things, emission of air pollutants, wastewater discharges, use and handling of hazardous materials or waste), as well as incur capital expenditures in connection with its compliance efforts. Even though GCC continuously strives to comply with environmental, health and safety laws and regulations, and related permit and other requirements, there can be no assurance that its operations will at all times be in compliance with them. The enactment of new environmental, health and safety laws and regulations, the more stringent interpretation or enforcement of existing requirements or the imposition of liabilities under such laws and regulations, could force GCC to incur costs for compliance, capital expenditures or liabilities relating to damage claims or limit its current or planned operations, any of which could have a material adverse effect on its business, results of operations and financial condition.

In recent years, GCC's industry has become subject to a series of new and more stringent environmental requirements in the United States. In particular, the U.S. Environmental Protection Agency ("EPA") issued the Portland Cement NESHAP in September 2010, the New Source Performance Standard for Portland Cement Plants ("Portland Cement NSPS") in September 2010, the revised final emissions standards for commercial and industrial solid waste incinerators ("CISWI") in February 2013 and the final rule regulating Coal Combustion Residuals ("CCRs") in December 2014. The EPA has also promoted more stringent Clean Air Act permit requirements and efforts to address climate change through federal and state laws and regulations and regional initiatives in the United States, as well as through international agreements and the laws and regulations of other countries, to reduce the emissions of greenhouse gases ("GHGs"). In addition, cement production requires the combustion of a significant volume of fuel, and the chemical reaction (decarbonation) resulting from this production process generates carbon dioxide ("CO<sub>2</sub>") as a by-product of the calcination process. As a result, efforts to address climate change through federal, state, regional and international laws that require reductions in greenhouse gas emissions may lead to economic risks and uncertainty for the Company's business. Such risks could include costs to process and obtain permits, additional taxes, as well as installation of equipment to reduce emissions to meet new greenhouse gas (GHG) limits or other required technology standards, in addition to a possible reduction in demand for its products, and an increase in production costs. Additionally, the Company is at constant risk of being involved in lawsuits and administrative proceedings, resulting directly or indirectly from the imposition of legislative or regulatory controls, as well as from violations of GHG emission limits. To the extent that financial markets view climate change and GHG emissions as a

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financial risk, this could have a significant adverse effect on the cost and access to capital. Given the uncertain nature of current and future legal and regulatory requirements for GHG emissions at the federal, state, regional, and international levels, it is not possible to predict the impact on operations or financial position, or to make reasonable forecasts of potential costs that may result from such requirements.

Although all of its facilities are in compliance with the aforementioned environmental regulations as of the date of this report, the Company cannot assure that it will have the capacity or resources necessary to continue to comply with these regulations going forward. GCC also cannot predict whether it will be able to comply with new requirements issued in the future. The environmental requirements of the United States and Mexico described above whether already in effect or upon their implementation, individually or in the aggregate, could negatively affect its operations and have a material adverse effect on the Company's business, results of operations and financial condition.

Under certain environmental, health and safety laws and regulations, GCC also could be held responsible for liabilities and obligations arising out of past or future releases of hazardous materials, exposure to these hazardous materials and other environmental damage, in some cases, without regard to fault. As of the date of this report, the Company is not subject to any legal or administrative proceeding under environmental, health or safety laws or regulations that could have an adverse material effect on its business or financial results. A number of its facilities, however, have been in industrial use for many years, including prior to GCC ownership. It is possible that some of these facilities may have contamination. As such, obligations to investigate or remediate contamination or related liabilities may be imposed on the Company in the future, such as in the event of the discovery of contamination at any of its current or former sites or in the event of a change at a facility such as its closure or sale or in the event of an investigation by a regulatory authority. In addition, private parties may have the right to pursue legal action to enforce compliance as well as to seek damages for violations of such laws and regulations or for personal injury or property damage. GCC's insurance may not cover all environmental, health and safety risks and costs or may not provide complete coverage in the event of an environmental, health or safety claim against it. Any such obligations, liabilities or actions could have a material adverse effect on the Company's business, results of operations and financial condition.

In addition to the risks identified above arising from actual or potential regulatory controls, severe weather, rising seas, higher temperatures and other effects that may be attributable to climate change may impact any manufacturing sector in terms of direct costs (e.g., property damage and disruption to operations) and indirect costs (e.g., disruption to customers and suppliers and higher insurance premiums). To the extent that such conditions negatively affect GCC's operations, they could have a material adverse effect on its business, results of operations and financial condition.

***GCC may be assessed environmental fines or penalties, which, if substantial, could have a material adverse effect on the Company's business, results of operations and financial condition.***

In recent years, by means of a Section 114 information request under the Clean Air Act, the EPA imposed multi-million dollar penalties on several companies operating cement plants in the United States. Most of these penalties were for various violations of Prevention of Significant Deterioration ("PSD") permitting requirements, focused on emissions of sulfur dioxide and nitrogen oxides. In addition, the EPA or other environmental regulatory authorities have assessed approximately 9 penalties against GCC since 2015. These assessed penalties were all less than US\$100,000 each. The Company cannot predict if we will be subject to additional fines and, if so, whether such fines will be material.

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### 1.c.iii) Risks related to GCC's shares

***The market price of GCC's shares may be volatile and the investors could lose all or part of their investment.***

The trading price of GCC's shares may fluctuate substantially, depending on many factors, some of which are beyond its control and may not be related to the Company's operating performance. These fluctuations could prevent investors from selling their shares at or above the price paid for them and result in the total or partial loss of the shareholders' investment. The factors that could cause fluctuations include, but are not limited to, the following:

- investors' perceptions of GCC's prospects and the prospects of the lines of business where it operates;
- differences between the Company's actual financial and operating results and those expected by investors;
- actions by GCC's controlling shareholder with respect to the disposition of the shares it beneficially owns or the perception that such actions might occur;
- the decisions made by the Company's controlling shareholder regarding its activities and operations;
- the operating performance of similar companies in Mexico and abroad;
- an increase in competition;
- the market's perception regarding GCC's management's performance;
- announcements by GCC or its competitors of significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments;
- changes to regulations applicable to GCC or new interpretations of current laws and regulations, in particular those applicable to its business or shares;
- general economic conditions in the United States and Mexico;
- the reduction or substantial impairment of the liquidity of GCC's shares;
- political and market conditions in the United States, Mexico and other countries;
- significant volatility in the market price and trading volume of securities of companies in GCC's sector;
- fluctuations in the exchange rate between the Mexican Peso and the U.S. Dollar;
- additions or departures of key management personnel;
- acquisitions completed by the Company and its ability to absorb them;
- fluctuations in GCC's earnings, including quarterly operating results; and
- broad capital market fluctuations.

In addition, in the future, GCC may issue equity securities or its controlling shareholder may dispose of its interest in GCC, either partially or in full. Any such issuances or sales or the prospect of any such issuances or sales could result in a dilution of shareholder's economic and voting rights or a negative perception by the market and a potential decrease in the market price of the shares.

***The market for GCC's share may continue to be inactive or illiquid.***

Although GCC's shares are currently listed and traded on the Mexican Stock Exchange, its shares have historically experienced and may continue to experience low trading volumes and limited liquidity. In addition, the Mexican Stock Exchange is the only trading market in Mexico, and it is substantially smaller, less liquid, more volatile, has a lower institutional investor base, has a lower market depth, and is more concentrated than major international securities

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markets, such as those of the United States. Such market characteristics may substantially limit the capacity of holders of GCC's shares to sell them, or to sell them at such time and price as they deem appropriate, and this may negatively affect the market price and liquidity of its shares.

***GCC is a holding company and therefore its ability to pay dividends depends on its subsidiaries' ability to transfer income and dividends.***

GCC is a holding company with no significant assets other than the stock of its direct and indirect subsidiaries. In general, its ability to pay dividends depends on the continued transfer of dividends and other income from its wholly-owned and non-wholly-owned subsidiaries. The ability of the Company's operating subsidiaries to pay dividends and make other transfers is limited by various regulatory, contractual and legal constraints. For example, GCC's operating subsidiaries in Mexico are subject to Mexican legal requirements, which provide that a corporation may declare and pay dividends only out of the profits reflected in the year-end financial statements that are approved by its stockholders. In addition, this payment can be approved by a subsidiary's stockholders only after the creation of a required legal reserve (equal to one-fifth, or 20%, of the relevant company's capital) and absorbed the losses, if any, incurred by the subsidiary in previous fiscal years. The Company cannot assure that its subsidiaries will generate sufficient income to pay out dividends, and without these dividends, GCC, in turn, may be unable to pay dividends.

***The payment and amount of dividends are determined by the vote of GCC's stockholders and are subject to other limitations.***

The payment of dividends and the amounts of such dividend payments paid by GCC to its shareholders are subject to the recommendation of its Board and approval by its shareholders. As long as the Company's controlling shareholder continues to own the majority of its shares, it will have the ability to appoint the majority of the members of its Board and to determine whether dividends are paid and the amount of such dividends. In addition, the payment of dividends is subject to the existence of profits, the absorption or repayment of past losses and the approval of its financial statements for the corresponding period by the shareholders' meeting. Although GCC has paid dividends in the past, there can be no assurance that it will be able to pay or maintain dividends, nor can it assure that its shareholders will approve a dividend policy proposed by its Board or if its Board will propose one, or what the terms of such dividend policy will be.

In accordance with the General Law of Business Corporations (*Ley General de Sociedades Mercantiles*), 5% of the Company's annual net earnings (if any) must be allocated to a legal reserve fund, until such legal reserve fund is equal to at least one-fifth, or 20%, of its paid-in capital stock. As of the date of this report, GCC's legal reserve fund is equal to 20% of its paid-in capital stock. The legal reserve fund may be capitalized but must not be distributed unless the Company is dissolved and must be reconstituted when the fund decreases for any reason. As of December 31, 2019, this reserve amounted to US\$ 22.7 million and is recorded separately from the Company's retained earnings.

***Dividend distributions to holders of GCC's shares will be made in Mexican Pesos.***

GCC will make dividend distributions to holders of its shares in Mexican Pesos. Any significant fluctuations in the exchange rates between Mexican Pesos and U.S. Dollars or other currencies could have an adverse impact on the U.S. Dollar or other currency to the equivalent amounts of such translation received by the shareholders. In addition, the amount paid by the Company in Mexican Pesos may not be readily convertible into U.S. Dollars or other currencies. While the Mexican government does not currently restrict the ability of Mexican, foreign persons or entities to convert Mexican Pesos into U.S. Dollars or other currencies, the Mexican government could institute restrictive exchange control policies in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican government on the Mexican economy cannot be predicted.

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***If securities or industry analysts do not publish research or reports about GCC's business, or publish negative reports about its business, its share price and trading volume could decline.***

The trading market for GCC's shares depends in part on the research and reports that securities or industry analysts publish about GCC or its business. If any analyst who covers the Company makes public negative information or inaccurate or unfavorable research about its business, GCC's stock price could decline. If any analyst ceases coverage of the Company or fails to publish reports on it regularly, demand for GCC shares could decrease, which might cause the price and trading volume of its shares to decline.

***If the Company issues additional shares in the future, the investors may suffer dilution and the trading prices for GCC's securities may decline.***

GCC may issue additional shares for financing future acquisitions or new projects or for other general corporate purposes. Any such issuance or sale could result in a dilution of the ownership stake of the current shareholders and/or the perception of any such issuances or sales could have an adverse impact on the market price of its shares.

***The ownership and transfer of GCC's shares is subject to certain restrictions under its bylaws.***

Any person or group of persons, that (i) acting individually or jointly, intends in one act or a series of acts, either simultaneous or successive, without time limit among such acts, to acquire, directly or indirectly, in any manner, blocks of shares that represent, with respect to each act or acts, 3% or more of the outstanding shares, (ii) competes, directly or indirectly, with GCC, acting individually or jointly, intends in one act or a series of acts, either simultaneous or successive, without time limit among such acts, to acquire, directly or indirectly, any outstanding shares or (iii) intends to enter into agreements, written or verbal, which notwithstanding their duration result in the formation or adoption of mechanisms or voting association agreements, or of voting in concert or in the aggregate, with respect to shares representing 3% or more of GCC's outstanding shares, will require the approval of GCC's Board, which must be granted prior to the acquisition or execution of the agreement.

The Board will consider several factors and will approve or deny the transaction within 90 days following receipt of the corresponding request, provided that the Board has received all information required to consider and approve a transaction. If such acquisition or voting agreement is approved by GCC's Board and results in the beneficial ownership by a shareholder or group of shareholders of 15% or more of its shares or a change of control in the Company, the person acquiring the shares or executing the respective voting agreement is required to make a tender offer for 100% of our aggregate outstanding shares. The restrictions described in the foregoing paragraphs may prevent a third party that intends to acquire control of GCC from carrying out such transaction, affect the price of its shares and prevent its shares from receiving a premium as a consequence of a tender offer, which would imply a higher price than the market value of its shares.

***Non-compliance with the requirements applicable to a company listed in the BMV may result in the delisting of GCC's shares and the cancellation of its registration with the RNV.***

As a public company, GCC is subject to various compliance requirements such as providing periodic information and maintaining a minimum number of shares owned by the public to maintain its listing on the BMV. In the event that the Company fails to meet these requirements, it may become subject to the cancellation of its RNV registration and delisting of its shares from the BMV, penalties, sanctions and other administrative or regulatory actions. Delisting of GCC's shares could have a material adverse effect on the price and liquidity of its shares.

***Protection for minority shareholders under Mexican law differs from that of other jurisdictions.***

Under Mexican law, members of the board of directors and officers are subject to diligence and loyalty obligations and are protected from third parties for acts performed in good faith and in accordance with applicable law. An action

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against a director or officer of GCC requires the ownership of at least 5% of the outstanding shares, and such action is a derivative action, for the benefit of the Company, but not for the benefit of the plaintiff shareholders. Directors and officers are liable only for direct damages to the Company. These protections may not be comparable to those existing in other markets.

*Information other than the historical data included in this report reflects the Company's opinion on future events and could include information about the financial position and results of operations, economic conditions, trends and uncertain facts. In some cases, forward-looking statements can be identified by terminology such as "believe", "estimate", "expect", "consider", "forecast", "plan", among others. Upon assessing those forecasts or estimates, potential investors should take into account the factors described in this section and other warnings contained in this report. These risk factors and projections describe circumstances that could cause actual results to differ from those expressed herein.*

#### **1.d) Other securities**

As of the date on this report, all of GCC's shares are registered in the Mexican National Securities Registry (*Registro Nacional de Valores*, or "RNV") and GCC has no other securities registered in the RNV. In addition, GCC has senior unsecured notes listed on the Singapore Stock Exchange (SGX-ST).

In the last three fiscal years the Company has punctually observed the delivery of legal, economic, accounting and financial information to the corresponding regulatory authorities, in a complete and timely manner and with the frequency established by the applicable legislation. This information includes the financial information, the CEO's report, material events, annual report, and the operation of the Company's own stock acquisition fund, among others.

#### **1.e) Significant changes to the rights of securities registered in the RNV**

GCC has not made any amendments to the rights granted to holders of shares representing its capital stock.

#### **1.f) Public documents**

All the information contained in this report and/or any exhibits, including the affidavit on adherence to the Best Corporate Practices Code by GCC is available to the investors in the Company's website: [www.gcc.com](http://www.gcc.com) or through the Mexican Stock Exchange (BMV) at their headquarters or on their website: [www.bmv.com.mx](http://www.bmv.com.mx)

Copies of such documents, as well as the quarterly and annual information delivered to the CNBV and the BMV may be obtained upon request by any investor, addressed to GCC's Finance and Administration Department, at the offices located at Avenida Vicente Suarez y calle Sexta s/n, Colonia Nombre de Dios, C.P. 31105, Chihuahua, Chihuahua, Mexico, or at our telephone number +52 (614) 442-3217 or +52 (614) 442-3176, attention to Luis Carlos Arias Laso, or at the email [investors@gcc.com](mailto:investors@gcc.com).



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## 2) The Issuer

### 2.a) History and development of the securities issuer

#### *Company information*

*Corporate name:* Grupo Cementos de Chihuahua, S.A.B. de C.V.

*Corporate history:* GCC is a publicly listed variable stock corporation incorporated in Chihuahua, Chihuahua, Mexico in 1991 in accordance with the applicable provisions of the General Law of Business Corporations (Ley General de Sociedades Mercantiles, or “LGSM”) and the Mexican Securities Market Law (Ley del Mercado de Valores, or “LMV”).

The address and telephone numbers of GCC’s corporate offices are as follows:

Avenida Vicente Suarez y calle Sexta s/n  
Zona Industrial Nombre de Dios  
Chihuahua, Chihuahua, Mexico  
C.P. 31105

Telephone numbers: +52 (614) 442-3100  
+52 (614) 442-3217  
+52 (614) 442-3176

#### *Evolution of the Issuer*

Grupo Cementos de Chihuahua, S.A.B. de C.V. has its origins in 1941 when Cementos de Chihuahua was incorporated. With its plant in the city of Chihuahua, Cementos de Chihuahua had an annual cement production capacity of 60,000 tons. In 1952 and 1967, Cementos de Chihuahua made two expansions to its production capacity.

In 1972, Cementos de Chihuahua began operating a cement plant in the city of Juarez, Chihuahua, and in 1974 the systems for two-phase preheater and dust collection for kilns 2 and 3 of the Chihuahua cement plant were installed, thus increasing the annual production capacity to 560,000 tons.

In 1982, Cementos de Chihuahua added a new cement production line at the Chihuahua cement plant with the most advanced technology available at the time, increasing annual production capacity to 1.1 million tons.

In 1991, GCC was incorporated as a holding company and in 1992, 25.9% of the equity publicly was sold and listed on the Mexican Stock Exchange to partially finance the construction of a cement plant in the town of Samalayuca, Chihuahua, located 35 kilometers south of the city of Juarez.

In 1994, GCC acquired a cement plant with an annual production capacity of 450,000 tons in Tijeras, New Mexico, located 20 miles east of Albuquerque, New Mexico. Later that year, it acquired two cement distribution terminals, one in Albuquerque, New Mexico and the other in El Paso, Texas.

In 1995, it began operations in the Samalayuca cement plant, which had an annual cement production capacity of 900,000 tons, placing GCC at the forefront in the use of technology for the production of cement.

On March 16, 2001, GCC acquired the cement assets and working capital of Dacotah Cement. This cement plant is located in Rapid City, South Dakota, and had an annual production capacity of approximately 1 million tons. With this

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**



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acquisition, total installed capacity of cement production increased, to 3.3 million tons. In 2004, the capacity in the Rapid City, South Dakota cement plant was increased by approximately 10%, increasing annual cement production capacity of 3.4 million tons.

In March 2005, GCC acquired the assets of Gallup Transportation and Transloading Company, LLC and National King Coal, LLC, which included a coal mine located in Durango, Colorado and a loadout facility lease. The coal mine had already been supplying the energy requirements of the cement plants in U.S.A. and in Mexico. National King Coal, LLC changed its name to GCC Energy, LLC ("GCC Energy"), and it is GCC's own source of coal supply which ensures supply and stabilizes the fuel cost for cement production in most of the Company's plants.

In September 2005, GCC acquired a 47.02% stake in SOBOCE, the largest cement company in Bolivia. Through this acquisition, the Company got a diversified source of sales and earnings, along with a platform to expand its presence in South America, as well as establishing itself as the market leader in Bolivia.

In January 2006, GCC acquired four leading ready-mix concrete companies in eastern South Dakota and western Minnesota. The acquired companies are now operating as Consolidated Ready Mix, Inc. (CRM). With these acquisitions, the Company strengthened its leadership position in the ready-mix concrete markets of South Dakota and surrounding regions.

In May 2006, GCC acquired 100% of the stock of The Hardesty Company Inc. and Alliance Transportation Inc. ("Alliance Transportation"), together better known as Mid-Continent Concrete Company ("MidCo"), the largest producer of ready-mix concrete in northeastern Oklahoma and northwestern Arkansas. The MidCo acquisition represented an expansion of our U.S. presence and provided us with a foothold in these markets.

In January 2008, GCC acquired 100% of the assets of Alliance Concrete Inc. ("Alliance Concrete"), based in northwest Iowa, Alliance Concrete was the largest producer of ready-mix concrete in that region and provided access to an established market in a region close to GCC's plants and distribution terminals, thereby furthering its vertical integration. The acquisition of Alliance Concrete represented an important growth platform in the regions of South Dakota, Minnesota, Iowa and Nebraska.

In 2008, GCC acquired four cement distribution terminals in New Mexico, Colorado and North Dakota, and completed the modernization and expansion of the distribution terminals located in Denver, CO and Brookings, SD. These actions brought GCC's products closer to the new regional markets and provided better customer services in the existing markets.

In March 2008, the Company acquired 100% of the assets of The Bosshart Company, Inc, headquartered in Minnesota and one of the leading providers of ready-mix concrete in southwest Minnesota and also participated in northwest Iowa along with Alliance Concrete. The acquisition strengthened GCC's leadership position in these markets, furthered GCC's vertical integration, and improved the efficiency of the operations and customer service while generating shareholder value.

In April 2008, to meet the growing demand for cement in the state of Colorado and the Rocky Mountain region in the United States, GCC completed the construction of a new cement plant in Pueblo, Colorado. This cement plant features state-of-the-art cement production technology and had an annual production capacity of 1.3 million tons, strictly observing the highest quality and environmental protection standards. This plant brought GCC's total annual production capacity to 4.4 million tons

Also, during 2008, additional capital was invested in order to develop and exploit a new deposit in the coal mine of Durango, Colorado with the goal to ensure long term supply of coal while reducing costs of energy sources.

In 2009, GCC completed the construction of new plants for limestone aggregates, prefabricated concrete panels and

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dry blends in Samalayuca, Chihuahua. These plants allow meeting customers' demands for special blends used in several applications. In the same year, it also completed the modernization of Chihuahua's cement plant, strengthening the long-term cement grinding capacity and reducing production costs by increasing operating efficiency.

During 2010 and 2011, GCC opened seven new cement distribution terminals in Hawarden, Iowa; Great Bend, Kansas; Lakeville, Minnesota; Elida, New Mexico; and Woodward, Oklahoma, which, coupled with its mobile ready-mix concrete plants, allows the Company to reach customers in neighboring markets.

In August 2011, GCC sold its 47.02% stake in SOBOCE to CCS, a subsidiary of Grupo Gloria headquartered in Peru. The proceeds from the transaction were mainly used to reduce GCC's outstanding debt, as part of the strategy to improve its financial profile and focus on the core business in Mexico and the United States.

In 2012, two distribution terminals were installed in Amarillo, Texas and Bismarck, North Dakota. These new distribution terminals and the portable ready-mix concrete plants allow the Company to reach a larger range of clients and to increase direct shipments to niche markets, including the oil drilling market in North Dakota. Also, in 2012 the production of ready-mix concrete was expanded and GCC received a modification of the Pueblo, Colorado plant permit, increasing its annual cement production capacity in two phases, with an increase of approximately 1.07 million tons during the first phase and up to 1.18 million tons in the second phase. The first phase of this project was completed in 2012, bringing the annual cement production capacity to 4.5 million tons.

In 2013, two new mobile distribution terminals were added in Fruita, Colorado and Glendive, Montana. Also, the renovation of the cement distribution terminal in Minot, North Dakota was completed, increasing its distribution capacity to 109 thousand tons per year.

In 2014, GCC opened a new portable distribution terminal in Sidney, Nebraska, and converted the distribution terminal in Lakeville, Minnesota from a temporary to a permanent distribution terminal.

In 2015, GCC began operating a new aggregates plant with an annual production capacity of 1.8 million tons in the city of Chihuahua. Also, in 2015 a concrete plant in Wahpeton, North Dakota was acquired, strengthening GCC's presence in the northern central part of the United States.

Additionally, in 2015, GCC's Board approved the expansion of the Rapid City, South Dakota cement plant to increase its annual cement production capacity by 440.0 thousand tons per year. As of December 31, 2018, this project represented an investment of approximately U.S.\$ 100 million and was completed in the winter of 2018.

On August 23, 2016 the Company entered into an agreement to acquire certain assets of Cemex's affiliates in the United States. The consummation of the recent acquisition pursuant to this agreement was subject to certain conditions, including approval by the U.S. Federal Trade Commission and obtaining the required financing. The acquisition included a cement plant in Odessa, Texas with a capacity of 514 thousand tons per year; two cement distribution terminals in Amarillo and El Paso, Texas; the concrete, aggregates and building materials businesses in El Paso, Texas and Las Cruces, New Mexico (which includes ready-mix concrete plants, aggregates quarries, asphalt plants and centers for construction materials); and approximately U.S.\$ 11.0 million in inventories.

In September 2016, GCC's stockholders approved the acquisition, and in November 2016, the transaction was closed with a payment of US\$ 306.0 million. With this acquisition, GCC strengthens its presence in key regional markets, enhances its ability to serve the industry efficiently, expands its presence in the west Texas markets (including the Permian Basin), becomes the leading producer in its key markets and supports its long-term growth strategy in the United States. The acquisition was financed with funds from a U.S.\$ 253.5 million unsecured credit facility, which includes affirmative and negative covenants and events of default.

In September 2016, in order to simplify ownership and control of GCC, making it more transparent to investors, the

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shareholders of the Company also approved the simultaneous merger of GCC, in the role of merger entity and two of the companies that directly and indirectly control GCC, Control Administrativo Mexicano, S.A. de C.V. and Imin de México S.A. de C.V., the latter two in the role of merged companies. This merger came into effect at the end of September 2016. As a result of the merger, CEMEX owned a direct stake in GCC equal to 23% of its share capital and a minority stake in CAMCEM, GCC's controlling shareholder, which holds approximately 51% of GCC's outstanding capital stock.

In February 2017, the price of the secondary offer of 51,750,000 GCC ordinary shares owned by Cemex was set at Ps. 95.00 per share. This included 6,750,000 shares available for 30 days for underwriters of the overallotment offers. In March 2017, it was confirmed that the underwriters did not exercise their overallotment option and as a result Cemex owned a direct stake in GCC equal to 9.47%, representing 31.48 million shares.

In September 2017, CEMEX sold to two financial institutions the full amount of the remaining direct equity interest in GCC, representing 31,483,332 shares and approximately 9.47% of GCC's stock, and entered into 18-month forward contracts on those shares.

In September 2018, CEMEX executed an early partial termination of the forward contracts related to GCC shares. The termination was for approximately 10.6 million GCC shares, representing approximately 34% of the forward contracts, allowing CEMEX to maintain price exposure on approximately 9.5% of GCC's shares.

In 2019, CEMEX executed a partial early termination on approximately 6.9 million shares, holding approximately 13.9 million GCC shares in forward contracts, corresponding to 5.12% of GCC's outstanding capital stock.

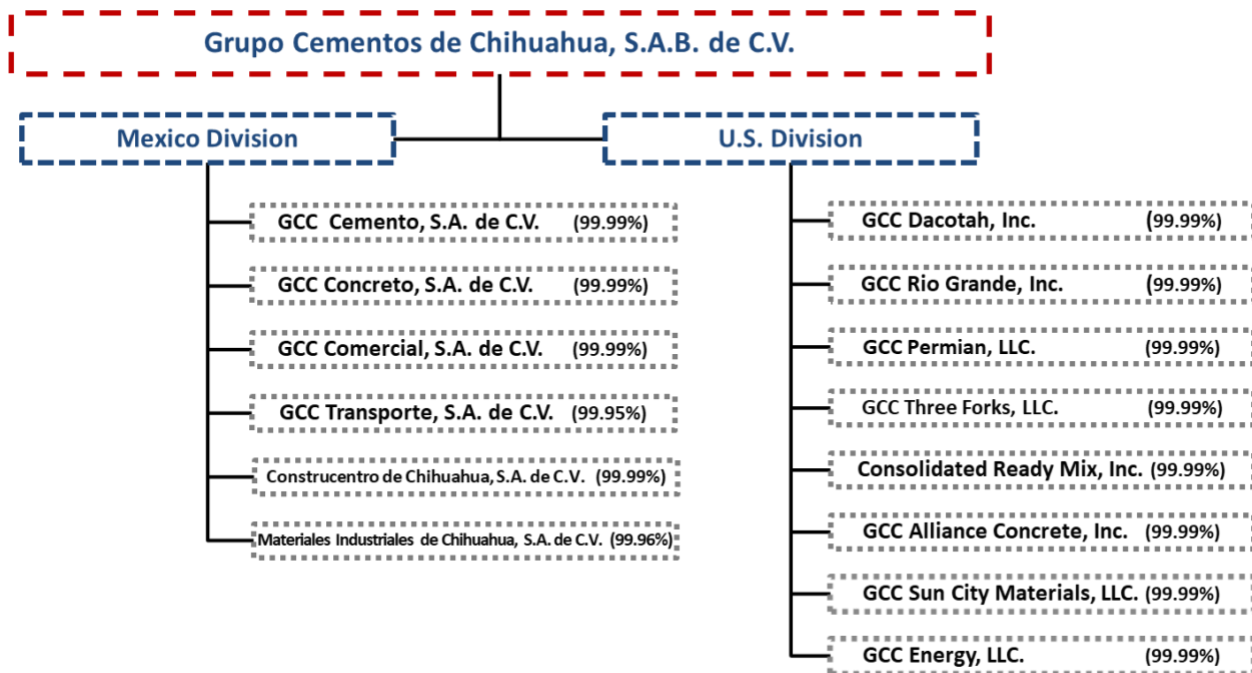
In June 2018, GCC and CRH plc. ("CRH") received regulatory approval by the FTC ("Federal Trade Commission") to conduct purchase-sale transactions for certain U.S. cement and ready-mix operations. By the end of June 2018, the transactions were completed and GCC acquired the Trident cement plant in Three Forks, Montana, with a production capacity of 315,000 metric tons, from CRH for US\$ 107.5 million. Meanwhile, CRH acquired the majority of the ready-mix plants and transportation assets owned by GCC in Oklahoma and northwest Arkansas for US\$ 118.5 million. GCC still owns and operates four ready-mix plants in the Fort Smith, Arkansas area, a main plant site and an office building in Tulsa, Oklahoma, which is leased to CRH. With this transaction GCC strengthens its presence in existing markets and expands its footprint into contiguous areas, including Canada.

In the third quarter of 2018, GCC reactivated two idled kilns in Chihuahua to increase production of both oil well cement and construction cement. The kiln that produces oil well cement remained in the testing and certification process throughout the year and began exporting in February 2019.

In December 2018, the expansion of the Rapid City, South Dakota cement plant commenced, increasing its annual capacity by 440,000 metric tons. The expansion of the cement plant began in 2016, with an investment of approximately US\$ 100 millions. The tie-in of the new facilities was completed in November 2018; During the tie-in process production was suspended and resumed in December, followed by the stabilization process of the new facilities. Production at the Rapid City plant will gradually increase over the 18 to 24 months following the stabilization process and in line with market conditions.

## Corporate Structure

GCC is managed by two divisions, the Mexico Division and the U.S. Division. Set forth below is a diagram of GCC's main subsidiaries that comprise the operations of these divisions. Additionally, a team provides administration, engineering, technology management, planning, human resources, finance and information technology services to both divisions.



The following table shows the Company's main investments:  
(million dollars)

Concept	2019	2018	2017
Coal Mine	2	6	5
Distribution centers	1	2	0
Modernization and automation of cement plants	28	112	20
Expansion of Rapid City, SD cement plant	10	52	31
Aggregates plant	0	1	2
Transportation equipment	12	14	18
Information systems equipment	1	1	1
Property and land	5	4	0
<b>Total</b>	<b>59</b>	<b>192</b>	<b>77</b>

## 2.b) Business description

### 2.b.i) Main activity

The core business of the Company is the production and supply of gray Portland cement, ready-mix concrete, aggregates and other construction-related services.

Cement is a fine material powder with hydraulic, aesthetic and durability properties that are very useful for the construction industry. In addition, cement acts as a binding agent which when mixed with aggregates and water produces ready-mix concrete. Concrete is one of the most attractive construction materials because of its great compressive strength and its shape-ability. Aggregates are geological materials in the form of stone, sand or gravel which are essential for the manufacturing of concrete, mortar and asphalt.

#### *Description of the cement production process*

Cement, commonly known as Portland cement, is produced from clinker, which is created when raw materials such as iron ore, silica, clay and limestone are dried, grounded and mixed into a fine powder. This powder is heated in revolving kilns at a temperature of 1,450°C (2,642°F) in order to trigger the chemical reactions that bind cement. There are two primary processes used to manufacture cement: the "dry process" and the "wet process." These processes differ in the form in which the raw materials are fed into the kiln and the amount of energy consumed. In the dry process, the raw meal is fed into the kiln in the form of a dry powder, whereas in the wet process the raw meal is fed into the kiln in the form of slurry. GCC manufactures cement using the dry process, which is more fuel efficient than the wet process, since the dry process does not require water and consumes less energy per produced ton. According to the PCA, the dry process is the most modern and common way to manufacture cement. 95% of

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GCC's cement production capacity operates with the dry process which consists of five key steps described below:

#### ***Extraction and crushing of raw materials***

Limestone, clay, gypsum and other raw materials, including silica, magnetite, hematite and ignimbrite, are extracted from natural deposits and crushed to reduce their size. GCC's cement plants are located next to the Company's deposits of these materials and it owns all the limestone and most of the clay quarries and leases some of the gypsum quarries that supply the Company's operations. GCC purchases other raw materials from independent suppliers considered to be reliable, and with some of which it has long-term agreements or is in the process of negotiating such agreements. Most suppliers provide materials exclusively to GCC.

#### ***Homogenizing raw materials***

The raw materials are fed and sent through a mill, which dries and grinds them to the required degree of fineness. The resulting product, referred to as raw mix, is stored in a homogenizing silo in order to ensure the uniformity of the mix components and is available to continuously feed the plant kiln.

#### ***Calcination***

In a process referred to as calcination, the raw mix is then heated in revolving kilns at a temperature of around 1,450°C (2,642°F), which leads to the synthesis of a new material with hydraulic properties known as clinker. On leaving the kiln, the clinker is air cooled rapidly down to 150°C (302°F) to stabilize the mineralogical property necessary for transport. In order to take advantage of the heat energy of the gases resulting from the calcination, these gases are conducted to the preheater/kiln system where the raw mix is suspended, carrying out an efficient heat exchange, partially calcinating the material while preparing it for later conversion to clinker in the kiln. Additionally, a part of these gases is used to dry the raw mix in the raw mill.

All of GCC's plants use either coal or natural gas as the main energy source. GCC supplies coal to all of its operations from its mine in Colorado in the U.S., with the exception to the plants located in Rapid City, South Dakota and Trident, Montana, for which there are coal suppliers located in the states of Wyoming and Montana, respectively; and the plant in Odessa, Texas, which is 100% fueled by natural gas.

GCC's cement plants have the flexibility to use different types of energy, thus reducing exposure to fluctuations in fuel prices and increasing the profitability of cement operations. In addition, the 3 plants in Mexico and the plant in Pueblo, CO use alternative fuels from industrial waste co-processing.

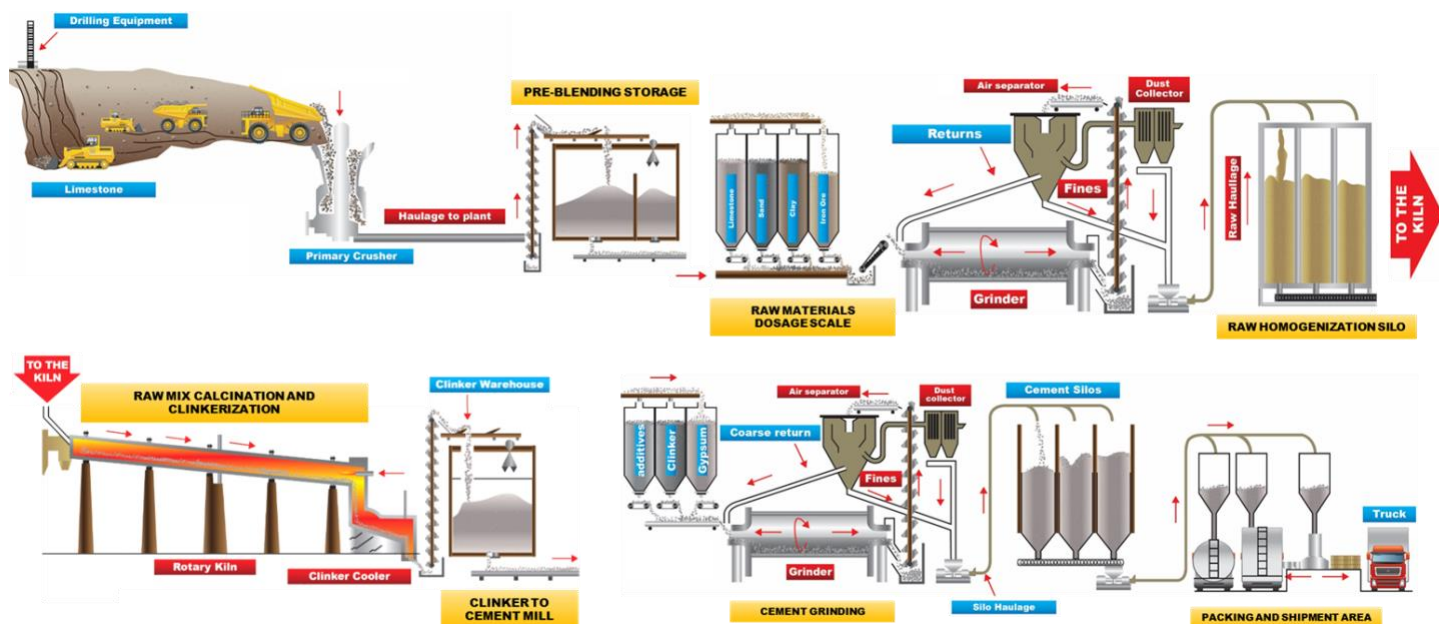
#### ***Milling***

In the cement mills, automatic scales are used to dose clinker and gypsum to control the cement setting time. The grinding is initially done by impact, allowing the material to be crushed and subsequently, friction is used to obtain the required fineness.

#### ***Packaging and shipping***

The different types of cement are then stored in separate silos to prevent mixing. The cement is shipped to the client from the silos, either in bulk by truck or rail or in bags of different sizes. In the United States, GCC maintains cement inventories at plants and distribution terminals, and tends to produce cement in lower selling seasons to build up inventories for the months of higher sales volumes.

The process described can be seen in the following diagram:



### Sales distribution by business line

GCC's sales by business line for the years 2019, 2018 and 2017, expressed in thousands of dollars, were as follows:

Business line	2019		2018		2017	
	Sales	%	Sales	%	Sales	%
Cement and mortar	628,594	67%	591,067	67%	539,485	66%
Concrete	193,339	21%	174,959	20%	167,506	20%
Concrete block	12,047	1%	11,480	1%	11,636	1%
Aggregates	19,403	2%	21,686	2%	26,603	3%
Other	80,732	9%	84,038	10%	78,874	10%
<b>Total</b>	<b>934,115</b>	<b>100%</b>	<b>883,230</b>	<b>100%</b>	<b>824,104</b>	<b>100%</b>

### 2.b.ii) Distribution channels

In Mexico, GCC sells approximately 28% of its cement in bags, its main distribution channel is a network of independent distributors in the state of Chihuahua and the Company's distributor, Construentro, S.A. de C.V., a subsidiary of CDC. Bulk cement is sold by direct distribution to customers, such as producers of ready-mix concrete, block and other products. In this market segment, the mining sector in the State of Chihuahua represents a significant percentage.



In the U.S., bulk cement represents approximately 99% of GCC's total cement sales and is distributed directly to customers through an efficient system of distribution terminals located in the states of Colorado, North Dakota, South Dakota, Iowa, Minnesota, Montana, Nebraska, New Mexico, Texas, Utah and Wyoming. Likewise, bagged cement is mainly sold through independent wholesale distributors.

### **2.b.iii) Patents, licenses, trademarks and other agreements**

GCC owns the trademark rights in Mexico and the U.S. that give it visibility in the markets in which it participates:

- GCC (with logo)
- Cemento Chihuahua
- Dacotah Cement
- GCC Dacotah
- GCC Rio Grande
- Yeso Chuviscar
- Mortero Chuviscar
- Megablock
- Construcentro

The aforementioned brands are the most relevant and are continuously renewed to maintain their validity. GCC holds patents in the United States and Mexico that protect the production process of precast products with certain thermal insulation properties and ecological features.

GCC does not have any material agreements other than those relating to the normal course of business.

### **2.b.iv) Main customers**

The Company has a large customer base in Mexico and the U.S., therefore, GCC's sales are not dependent on a single customer nor are they concentrated in one customer group, furthermore if any business relationship is lost, it will not result in a material adverse effect on GCC's results of operations or financial condition.

In the United States, GCC's main customers purchase cement in bulk mostly for concrete and concrete block production, and contractor enterprises for the road sector as well as for oil wells located in the geographic region that GCC supplies.

<b>U.S. subsegments</b>	<b>%</b>
Concrete	63%
Oil wells	19%
Precast, prestressed and block	5%
Distributors / packers	5%
Government, contractors and other	4%
Paving	3%
Ground stabilization	1%
<b>Total</b>	<b>100%</b>

In Mexico, GCC has a broad customer base in all of its lines of business and has a majority share of the cement market. GCC's main customers in Mexico in this segment are distributors, construction companies, concrete block producers, manufacturers, the state government, municipal governments and the mining industry.



<b>Mexico subsegments</b>	<b>%</b>
Construred / Distributors	30%
Mining	21%
Construction companies	20%
Exports	13%
Housing	8%
Government and infrastructure	4%
Manufacturers	3%
Agriculture	1%
<b>Total</b>	<b>100%</b>

## **2.b.v) Applicable legislation and tax situation**

GCC's operations and business are subject to several laws and regulations, as well as authorizations, concessions and governmental permits. More specifically, GCC, its properties and operations are subject to the following laws and regulations in Mexico:

- Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*) and international treaties involving the Mexican government;
- General Law of Business Corporations (*Ley General de Sociedades Mercantiles*, "LGSM");
- Mexican Securities Market Law (*Ley del Mercado de Valores*, "LMV");
- Federal Law of Economic Competition or Mexican Antitrust Law (*Ley Federal de Competencia Económica*);
- Civil Code of the State of Chihuahua
- General Law of Environmental Balance and Protection and its regulations (*Ley General de Equilibrio Ecológico y Protección del Ambiente y su reglamento*);
- General Law for the Prevention and Integral Management of Waste (*Ley General para La Prevención y Gestión Integral de Residuos*);
- Local and municipal regulations on the environment, land use, zoning and tax legislation and their regulations; and
- Mexican Official Standards ("*Normas Oficiales Mexicanas*", or "NOMs").

Currently, GCC is in compliance with its tax obligations in a timely manner.

## **2.b.vi) Human resources**

As of December 31, 2019, there were 2,765 employees at GCC, which increased to 2,764 as of April 30, 2020.

In the cement, concrete and transportation operations in Mexico there are unions affiliated with the Mexican Workers Confederation, both at local and national levels. Each plant has its own collective bargaining agreement, which is reviewed every two years for benefits and wages, and annually for salaries. Some of the workers at the plant located in Rapid City, South Dakota, are affiliated with the United Steel, Paper & Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Service Workers International Union. The collective bargaining agreement with employees at this plant includes a no-strike clause. The agreement is renegotiated every five years and was last renewed in the first half of 2016.

GCC maintains a positive relationship of collaboration and teamwork with its unions and employees aiming at the development and improvement of the quality of life of its workers through common objectives aligned with the Company's business vision.

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## **2.b.vii) Environmental performance**

GCC seeks the transcendence of the company by maintaining the essential balance between economic, social and environmental objectives. To achieve this, GCC focuses on the implementation of global best practices related to sustainability throughout the organization.

As part of its commitment to contribute to the continuous improvement of communities in which it operates, GCC focuses on identifying, preventing and controlling the environmental effects of its processes through an environmental management system and a disciplined compliance with environmental regulations applicable to the Company's processes.

The strategic plan is focused on the following objectives to ensure the success of the Company's sustainability

### **Climate change and energy**

- Reduction of greenhouse gas (CO<sub>2</sub>) emissions
- Eco-efficiency, lower heat and power consumption
- Blended cement production
- Search and introduction of alternative energy sources
- Adoption of carbon capture technology

### **Circular economy**

- Increase the use of alternative fuels
- Increase the use of alternative materials

### **Environment and nature**

- Reduce other emissions (dust, NO<sub>x</sub>, SO<sub>x</sub>)
- Eco-efficiency, lower water consumption
- Quarry remediation (soil and environmental restoration)
- Reforestation through nurseries
- Development of environmentally friendly products
- Integrated waste management
- Excellence in environmental stewardship

GCC consolidates a sustainable operation in the value chain based on prevention, control and improvement, as well as on minimizing the environmental impact of its processes. In 2018, GCC joined the Global Cement and Concrete Association (GCCA), which collaborates with the World Business Council for Sustainable Development. GCCA's commitments are based on five pillars: health and safety, climate and energy, social responsibility, environment and nature, and circular economy.

As a demonstration of GCC's commitment to the environment, the use of alternative fuels in its cement plants has increased. In 2019, fuel substitution was: 27% in Samalayuca, 27% in Juárez, 17% in Chihuahua and 10% in Pueblo, Colorado.

The substitution rate reached in the Samalayuca plant is the result of the execution of the Organic Fraction of Waste for Energy Efficiency (FROEE) project which consist in the characterization, re-definition and acquisition of industrial, commercial and/or domestic solid waste, and its preparation and processing, to be mixed through an appropriate process. Following best practices, in 2017 the FROEE project was launched in the Chihuahua plant, which is projected to reach a 25% substitution by 2020.

Furthermore, in 2019, GCC signed two long-term agreements with renewable energy suppliers, covering approximately 20% and 100% of the electricity consumed in the Mexican operations and in the Odessa, Texas plant,

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respectively. These agreements translate into an annual reduction of about 66,000 metric tons of CO<sub>2</sub>, according to U.S. Environmental Protection Agency estimates.

In January 2020, GCC joined the Science Based Targets (SBTi) initiative by which it commits to setting targets for reducing greenhouse gas emissions, in line with climate science.

As an example of GCC's efforts in social responsibility and sustainable development to conserve the environment, the following are the recognitions and certifications obtained by its main business units.

#### **GCC Mexico Division**

- Award as a Socially Responsible Company (*Distintivo de Empresa Socialmente Responsable, "ESR"*) granted by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía, CEMEFI*), for the fifteenth year in a row
- Environmental Stewardship Award 2017 (*Premio a la Responsabilidad Medioambiental*)
- National Quality Award 2007 (*Premio Nacional de Calidad*)
- Certified System for Workplace Safety and Health (*Certificación del Sistema de Seguridad y Salud en el Trabajo, SASST*) in accordance with NMX-SAST-001-IMNC-2008, since 2006
- National Technology Award 2004 (*Premio Nacional de Tecnología*)
- Award granted by the Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales, SEMARNAT*) in recognition for the public inventory of greenhouse gas emissions for our operations since 2004
- Award granted in 2012 by SEMARNAT for participation in the program for Environmental Leadership for Competitiveness for companies based in Chihuahua

#### **GCC Cemento - Samalayuca Plant**

- Certificate of verification of GHG calculation 2017 by ANCE
- Environmental Excellence Certification 2005
- Environmental Excellence Certification 2006
- ISO 14001 certified since 2001 until 2016
- National Quality Award 1999
- National Award for Energy Savings 1996

#### **GCC Cemento - Chihuahua Plant**

- Certificate of verification of GHG calculation 2017 by ANCE
- Green Company certified by the Government of the State of Chihuahua, since 2009 to date
- Clean Industry certified from 1999 to 2012, and from 2015 to 2017
- National Award for Energy Savings 2010
- ISO 9001 and ISO 14001 certified since 2001

#### **GCC Concreto**

- Clean Industry certified since 2009 in the Homero and Jarudo plants (in force up to 2017 and 2016, respectively)
- Green Company certified by the Government of the State of Chihuahua, from 2007 to date (2011, 9 plants)

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- NMX-414-ONNCCE-200 certificates for product quality (concrete, block and brick)
  - NMX-CC-9001-IMNC-2008 / ISO 9001:2008 certificate for the Concrete Quality Management System
  - NMX-EC-17025-IMNC-2006 certificates for lab quality granted by the Mexican Accreditation Organization (EMA)
  - A family of products including those with thermal and sustainable features and which support the green mortgage program by INFONAVIT (blocks and bricks manufactured with thermal-pumicite concrete) and LEED certification by the USGBC (reflectance index)

#### **GCC Transporte**

- Award for Clean Transportation certified by SEMARNAT (2011 Juarez and 2012 Chihuahua)
- Award for Clean Transportation certified by SEMARNAT (2016 Juarez and 2016 Chihuahua)
- Award for Clean Transportation certified by SEMARNAT (2017 Juarez among the top 20 throughout Mexico and 2017 Chihuahua)

#### **GCC Rio Grande - Pueblo Plant**

- Award for environmental innovation 2011, second place, awarded by the Portland Cement Association and the Cement Americas magazine
- 2018 Energy Star award from the Environmental Protection Agency

#### **GCC Rio Grande - Tijeras Plant**

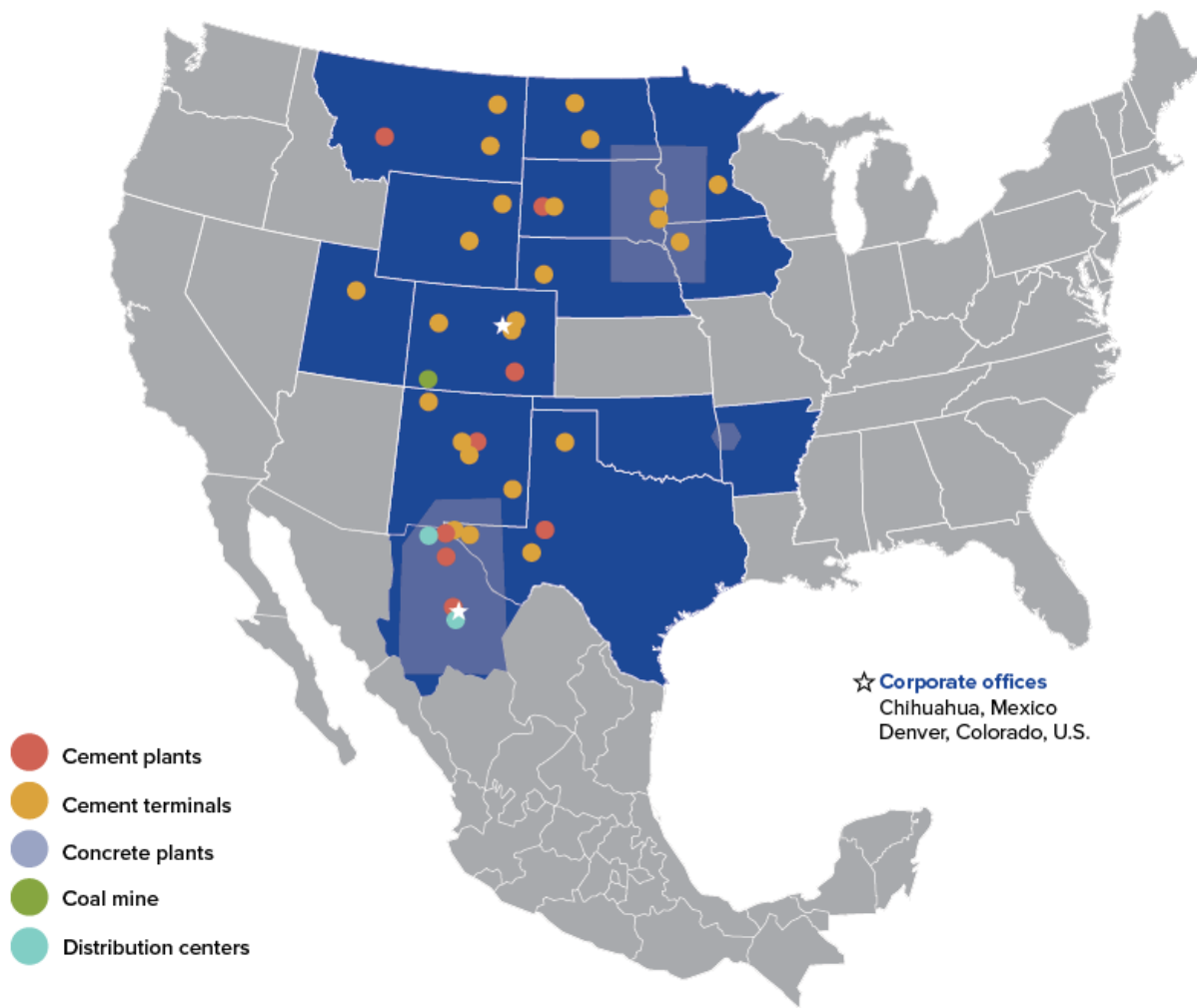
- 2018 Energy Star award from the Environmental Protection Agency

#### **GCC Dacotah - Rapid City Plant**

- Ten-year excellence award (2002-2011) for proper water use compliance
- 2014 Sustainability Award by Rapid City, South Dakota

## 2.b.viii) Market information

The market where GCC participates in Mexico, the United States and Canada is shown in the figure below:



### United States

- Cement: 5 plants
- Concrete: 49 plants
- Coal mine: 1
- Cement terminals: 24
- Asphalt: 2 plants
- Aggregates: 3 plants
- Construction materials: 4

### Mexico

- Cement: 3 plants
- Concrete: 46 plants
- Concrete block: 6 plants
- Prefabricated products: 2 plants
- Aggregates: 4 plants
- Distribution centers: 2

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## ***GCC Operations in the United States***

In the United States, GCC successfully participates in the cement and ready-mix concrete markets. In 2019, 73.3% of the Company's income was generated by sales in the USA. GCC has five cement plants with an annual production capacity of 3.57 million tons located in Odessa, Texas; Tijeras, New Mexico; Pueblo, Colorado; Rapid City, South Dakota; Trident, Montana. In addition, GCC has 24 cement distribution terminals and transfer stations in the states of Colorado, North Dakota, South Dakota, Iowa, Minnesota, Montana, Nebraska, New Mexico, Texas, Utah and Wyoming.

GCC is one of the leading ready-mix concrete producers in the United States, supplying markets in the states of Arkansas, North Dakota, South Dakota, Iowa, Minnesota, Nebraska, New Mexico, Oklahoma and Texas. All together, these operations have 49 concrete production plants and a fleet of 292 ready-mix trucks as well as 153 trucks for cement and aggregates transportation.

GCC participates in the asphalt and aggregates markets in Texas and New Mexico. The Company has two asphalt plants installed in El Paso Texas and one in Vado, New Mexico. Additionally, GCC operates three aggregates plants, with an installed capacity of 1,800 tons per hour.

### ***Cement industry in the U.S.***

The cement industry in the United States consists of multiple producers, and account for 79% of installed capacity for clinker production is concentrated in nine cement groups. According to the United States Geological Survey (USGS), in 2019 total cement consumption was 102 million tons, with an average capacity utilization of 86%. Import volume was 15 million metric tons, 7.1% higher than the previous year and the highest import volume since 2009, when it decreased by 40% as a result of the decline in cement demand in the country.

In accordance with data published by the PCA in 2019, 31% of total cement consumption in the United States was made by residential construction, 18% by non-residential construction, and the remaining 51% by the public sector construction. During the same period, in the states where GCC has its principal operations, including Colorado, North Dakota, South Dakota, Iowa, Minnesota, New Mexico and Wyoming, the residential construction, non-residential and public sector construction segments accounted for 26%, 23% and 51% of total cement consumption, respectively. The oil Permian Basin is one of the pillars of the cement industry in Texas. In 2019, 8% of total cement consumption in Texas originated in the oil wells drilling sector, a 22% increase over the previous year.

### ***Prices***

U.S. cement prices vary within each region due to offer and demand dynamics, as well as distance from the distribution and import ports. Prices are also subject to variations resulting from fluctuations in regional economies as well as the country as a whole.

### ***Market information and competitive advantages***

GCC participates in the U.S. cement markets, primarily in the states of Colorado, North Dakota, South Dakota, Iowa, Kansas, Minnesota, Montana, Nebraska, New Mexico, Texas, Utah, Wisconsin, Wyoming and the province of Alberta in Canada. To maintain GCC's market position it is essential to provide excellent customer service and quality that exceeds the customers' expectations, having distribution centers close to major customers and technical support centers.

In the U.S.A., GCC primarily competes with LafargeHolcim, Inc.; Cemex, Inc.; Lehigh Portland Cement; Eagle Materials, Inc.; CRH, plc; Buzzi Unicem USA, Inc. and Summit Materials, Inc. Potential cement competitors in the U.S. face several market barriers to entry including, among others, land transportation costs, high capital investment required for new plants, difficulties in obtaining construction permits for new plants, stringent environmental regulations and time required to complete plant construction, which is approximately 3 years.

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### ***Ready-mix industry in the U.S.***

Ready-mix concrete's versatility and durability have made it the most widely used material in the construction industry. In the United States, the concrete industry is highly fragmented and has a wide variety of players. According to the National Ready Mixed Concrete Association (NRMCA) figures, there are approximately 5,500 concrete plants and 55,000 ready-mix trucks in the United States.

The concrete industry consumes about 75% of cement in the U.S. and is worth approximately US\$ 35 billion. GCC currently participates in the ready-mix market in the states of Arkansas, North Dakota, South Dakota, Iowa, Minnesota, Nebraska, New Mexico, Oklahoma and Texas.

### ***Asphalt industry in the U.S.***

Asphalt concrete mixtures are used in the construction of roads, avenues, highways, airstrips, parking lots, etc. Based on figures published by the National Asphalt Pavement Association (NAPA), there are around 3,500 asphalt plants operating throughout the United States, producing 350 million tons of asphalt for paving every year.

According to the Federal Highway Administration (FHWA), there are more than 4.1 million miles of public roads in the U.S., of which 1.3 million are unpaved roads. Around 1.9 million miles are roads built and operated by state or municipal agencies, with no follow-up by the Federal Agency. From the remaining 955,000 miles of paved roads, around 810,000 miles are asphalt-paved and 56,000 are concrete-paved. At airports, between 85% and 90% of runways at the 3,330 airports listed in the Federal Aviation Agency (FAA) National Plan of Integrated Airport Systems (NPIAS) have asphalt bearing surfaces.

As for as the origin of resources, 65% of the asphalt pavement comes from government resources, while the remaining 35% is funded by residential and commercial developments. For every billion dollars that the government invests in infrastructure, approximately 4 to 5 million tons of asphalt pavement are used.

### ***Aggregates industry in the U.S.***

Natural aggregates – consisting of crushed materials and construction sand and gravel – are the raw materials most widely used by the construction industry. Despite the low unit value, the aggregates industry is a major contributor to and indicator of the economic wellbeing of the Nation.

According to the USGS, natural aggregates account for 94% of the materials used in the construction of interstate highways, while cement, asphalt and steel contribute with 3%, 2.2% and 0.4%, respectively. In 2019, approximately 2.47 billion metric tons of aggregates were produced in the country, an increase of 5% compared to 2018. This figure is made up of two categories: 960 million metric tons of construction sand and gravel; and 1.51 billion metric tons of crushed materials.

The USGS estimates that around 46% of construction sand and gravel is used to manufacture concrete, 21% for road base and ground stabilization, 12% as asphaltic concrete and other bituminous mixtures and the remaining 21% for several uses such as backfill, block production, filtration, golf course maintenance, gypsum and oil sands, railway ballast, road stabilization, roofing granulate and snow and ice control. Regarding crushed materials, 72% is used by the construction industry, mainly for roads construction and maintenance, 16% for cement production, 8% in lime production and the rest is used by other industries, such as chemical and agriculture.

There are around 10,000 aggregates plants operating in the U.S. The states with the largest production are Texas, California, Florida, Ohio and Pennsylvania.



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### ***GCC's operations in Mexico***

During 2019, GCC's sales in Mexico accounted for 27% of total sales. In Mexico, GCC participates mainly in the cement, mortar, ready-mix concrete, concrete block and aggregates markets in the state of Chihuahua. GCC has three cement plants in the cities of Chihuahua, Juarez and the town of Samalayuca with an annual production capacity of 2.28 million tons; 46 ready-mix concrete plants, 265 ready-mix trucks, six concrete block plants, four limestone aggregates plants in the cities of Chihuahua, Juarez, Samalayuca and Cuauhtemoc, as well as two pre-fabricated products plants in Samalayuca, Chihuahua.

The modernization of the plant in Chihuahua was completed in 2009 and this ensured a long-term capacity for cement grinding while reducing production costs. During the first half of 2009 the plant for prefabricated panels in Samalayuca, Chihuahua started operations, allowing the successful application of cellular concrete technology. Also, it complements the current capabilities of Preforte which include manufacturing of joists and beams for prefabricated roofs without movable formwork as well as hollow slabs, beams and girders for bridges and buildings. Additionally, during the first half of 2009, the dry mix plant located within the Samalayuca plant started operations. This plant has an annual capacity of 79,000 metric tons, equivalent to more than 4,500 bags per shift; it serves to satisfy the increasing demand of customers interested in sophisticated blends with a variety of uses.

### ***Cement Industry in Mexico***

There are six participants in the cement industry in Mexico: Cemex, Holcim Mexico, Cementos Moctezuma, Cemento Cruz Azul, Cementos Fortaleza and GCC. According to the latest figures of the Mexican Chamber of Cement (*Camara Nacional del Cemento*, CANACEM), cement production in 2019 was around 44 million tons. Due to the constant modernization of plants, the Mexican cement industry is one of the most competitive in terms of cost.

In Mexico, a significant percentage of cement sales are made through distributors and hardware stores, which is why it is essential to have an efficient distribution network in order to carry out these sales, destined for the builder and the self-constructing customer.

Cement is sold mainly through distributors while the rest is sold through ready-mix producers, manufacturers of concrete products and construction contractors. Cement sold through distributors is mixed on-site with aggregates and water by the final consumer to make concrete. Ready-mix concrete producers pre-mix concrete ingredients at their ready-mix concrete plants and deliver it to local construction sites through mixer trucks, which transport and pour the concrete directly at the job site. Unlike more developed economies, where cement sales are concentrated in bulk commercial and industrial orders, bagged sales in Mexico represent a large percentage of demand in the private sector. Retail consumers purchasing bags of cement for their homes and other basic construction jobs represent an important component of the Mexican retail sector.

### ***Ready-mix concrete industry in Mexico***

The ready-mix concrete industry in Mexico is in development. In the state of Chihuahua, approximately 29% of the volume of cement is sold as ready-mix concrete. During 2019, the ready-mix concrete market in the state of Chihuahua consumed approximately 1.2 million cubic meters of concrete, with the largest concentrations in the cities of Chihuahua and Juarez. Contrary to what happens in the cement industry, there are no market entry barriers in the ready-mix concrete industry since it is possible to install mobile plants with a relatively low investment.

### ***Aggregates industry in Mexico***

Aggregates are granular materials such as sand, gravel or crushed stone used as a binding agent and composite material to produce concrete, mortar or asphalt. These materials are of great importance both for public and private construction. They have a variety of uses and possess different characteristics, such as chemical composition, calcium carbonate content, grading, gradation by particle size, and color. The latter is a very important element in the processing area for product finishing. The main customers for aggregates are builders, developers, concrete and asphalt producers, and processors.

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### **Prices**

Prices within the industry vary from one region to another. Factors influencing prices include supply and demand, economic activity, plant location, accessibility to raw materials, and the flexibility of the plants in terms of fuel consumption.

### **Market information and competitive advantages**

In Mexico, GCC participates in the cement, concrete and other construction materials markets in the state of Chihuahua.

In Chihuahua, GCC is the leader in all of the businesses which it participates in (cement, mortar, ready-mix concrete, aggregates and concrete block). This leadership position has been achieved by offering quality products and providing customer service that exceeds customers' expectations, as well as by having the highest technology in the production and distribution processes of the products it offers.

In the State of Chihuahua, GCC's main competitor in the cement and concrete markets is Holcim Apasco. GCC's potential competitors in the domestic cement market face several entry barriers, including the need for large capital investments, the time required to build new plants, which is approximately three years, the high ground transportation costs, and the slow and expensive process associated with establishing a distribution network.

Since approximately 28% of the cement in the state of Chihuahua is sold in bags, one of GCC's main competitive advantages is consumer loyalty to the "Cemento Chihuahua" brand, which has strong roots in the community. In addition, the quality of GCC's raw materials allows it to offer a low-alkali cement that avoids alkali reaction when exposed to changes in climate and humidity, and consequently prevents the long-term formation of cracks in concrete.

Unlike cement, there is greater competition in the ready-mix market, and GCC's success factors in market penetration are based on the high quality of its products, the specialized services it provides and its reliability of timely delivery to consumers.

GCC has been successful in the manufacture and marketing of concrete blocks, and its plants are equipped with high technology that has enabled the introduction of new presentations.

### **2.b.ix) Corporate structure**

Refer to "General Information - Executive Summary" in section 1.b. for a full description of the corporate structure of the Company.

As of December 31, 2019, the total number of shares representing GCC's capital stock is 337,400,000 of which 4,786,294 shares are held in GCC's treasury, thus there are 332,613,706 shares outstanding. CAMCEM owns 171,658,588, representing 50.8% of GCC's capital stock. The remaining 160,955,118 shares, equivalent to 47.7% of GCC's capital stock, are distributed among the market.

As of May 29, 2020, GCC has 38 subsidiaries. GCC's significant subsidiaries, for both the Mexico and U.S. divisions, are shown in the chart included in Section 1.b of this report.

## 2.b.x) Main assets

GCC's most important fixed assets are its cement, concrete, concrete block and aggregates production plants, as well as its buildings.

### *Cement manufacturing plants*

Plant	Location	Annual cement production capacity (tons)	Capacity utilization in 2019
<b>U.S.A.</b>			
Tijeras Plant	New Mexico	436,000	78%
Rapid City Plant	South Dakota	1,159,000	66%
Pueblo Plant	Colorado	1,102,000	86%
Odessa Plant	Texas	507,000	80%
Trident Plant	Montana	370,000	79%
<b>Total U.S.A.</b>		<b>3,574,000</b>	
<b>MEXICO</b>			
Chihuahua Plant	Chihuahua	1,113,000	76%
Samalayuca Plant	Chihuahua	1,001,000	95%
Juarez Plant	Chihuahua	168,000	87%
<b>Total Mexico</b>		<b>2,282,000</b>	
<b>Total cement production capacity</b>		<b>5,856,000</b>	

### *Concrete manufacturing plants*

Country	Number of plants
<b>Mexico</b>	46
<b>U.S.A.</b>	49

### *Concrete block manufacturing plants*

Cities	Number of plants
<b>Mexico</b>	
Chihuahua	2
Juarez	4

### *Precast products manufacturing plants*

Cities	Number of plants
<b>Mexico</b>	
Juarez	2

Additionally, GCC has more than 550 mixer trucks and more than 530 trucks in Mexico and the U.S.

### **Insurance**

GCC has insurance policies with a variety of insurance companies for its production plants, including machinery and transport equipment. GCC's insurance policies are in force and the Company considers that the terms and conditions are appropriate and similar to those contracted by other companies in the same or similar industry.

### **Assets granted as collateral**

GCC has no fixed assets granted as collateral.

### **Asset investments**

GCC made capital investments for US\$ 59 million in 2019 and US\$ 192 million in 2018, mainly in the preservation, maintenance and modernization of its cement plants, including the expansion of the South Dakota plant and investments in alternative fuels systems (FROEE II) at the Chihuahua Plant, as well as the acquisition of transportation equipment and trucks for freight and concrete manufacturing and distribution.

### **2.b.xi) Judicial, administrative or arbitration proceedings**

Currently there are no relevant judicial, administrative or arbitration proceedings known to GCC, other than those in the ordinary course of business, which are not expected to have a material adverse effect on the Company's operations, the results of its operations and/or of its financial condition, or those disclosed in section 1.c) regarding risk factors.

As of the date of this report, GCC has not met any of the criteria set forth in Articles 9 or 10 of the Commercial Bankruptcy Law (*Ley de Concursos Mercantiles*), to be declared in bankruptcy.

### **2.b.xii) Shares representing the capital stock**

GCC's capital stock is variable. As of May 29, 2020, the minimum fixed capital without withdrawal right amounts Ps. 134,960,000, which is fully subscribed and paid in, represented by 331,194,795 ordinary, common, nominative shares without par value, Class I, single series; plus 6,205,205 repurchased shares of the same class and series held in the Company's treasury. The variable part of the capital is unlimited and is represented by ordinary, nominative shares with no par value, Class II, single series. Each share has the right to one vote at Shareholders' Meetings and grants equal rights and obligations to its holders. There are no mechanisms by virtue of which corporate rights conferred by the shares representing GCC's capital stock are limited.

As of the date of this report, the capital stock is fully subscribed and paid. The shares representing the capital stock have the following characteristics:

Series	Par value	Current coupon*	Fixed portion	Variable portion	Mexicans	Free subscription	Fixed Capital	Variable Capital
Sole	No par value	16	337,400,000	0	171,658,588	165,741,412	134,960,000	0

\* as of May 29, 2020

As of December 31, 2019, the total number of shares representing GCC's capital stock is 337,400,000 of which 4,786,294 shares are held in GCC's treasury, thus the total number of shares outstanding is 332,613,706. CAMCEM owns 171,658,588 shares, representing 50.8% of the shares representing GCC's capital stock. The remaining 160,955,118 shares, equivalent to 47.7% of GCC's outstanding capital stock, are distributed among the market.

As of December 31, 2019, the number of shares repurchased through the buyback program, increased by 76,667 shares. The Company uses this program with the intention of promoting the liquidity of GCC shares and reducing their price volatility.

In the Annual Shareholder's Meeting held on April 27, 2011, the shareholders agreed to authorize an increase in the variable portion of the capital stock by up to 14,000,000 (fourteen million) ordinary, nominative shares without par value, Class II, single series. To date, these shares have not been issued.

## **2.b.xiii) Dividends**

The distribution of dividends, their amount and the date of payment are determined by a majority vote of the shareholders at the Annual Shareholder's Meeting, with the recommendation of the Board of Directors, and will depend on the results, financial position, projected investments, restrictions on loan agreements and other factors affecting GCC. Due to the aforementioned factors, payment of dividends cannot be guaranteed every year.

Since 1992 to present, GCC has paid dividends every year except in 2009, 2010, 2011 and 2012, when dividend payments were temporarily suspended. At the Annual Shareholder's Meeting held on April 25, 2019, a dividend payment at the rate of Ps. 0.8189 per share was declared and payment was made on August 15, 2019. At the Annual Shareholders' Meeting held on April 30, 2020, a dividend payment of Ps. 0.94 per share was declared.

In recent years dividends have been declared as follows:

<b>Year</b>	<b>Payment year</b>	<b>Pesos per share*</b>	<b>Variation</b>
2019	To be defined	0.9400	14.8%
2018	2019	0.8189	15.0%
2017	2018	0.7121	15.0%
2016	2017	0.6192	20.0%

*\*Figures in nominal pesos at the end of the corresponding period*

### 3) Financial Information

#### 3.a) Select financial information

The Company's financial information set forth below for the years ended December 31, 2019, 2018 and 2017 derives from and should be read in conjunction with, the Company's audited financial statements and notes thereto.

The figures included in this report for the years ended December 31, 2019, 2018 and 2017, are presented in U.S. dollars, except for figures relating financial ratios and operating data. All values have been rounded to thousands, except where noted.

#### Selected financial information for the years 2019, 2018 and 2017

(Thousand dollars)

Income statement figures	2019	2018	2017
Net sales	934,115	883,230	824,104
Mexico sales	252,252	236,058	221,617
USA sales	681,863	647,172	602,487
Operating income before other expenses, net	183,566	169,836	160,796
EBITDA (Operating income before other expenses + depreciation and amortization)	291,972	256,361	239,940
Net financing expenses	36,294	44,458	55,830
Income before taxes	142,146	121,786	90,818
Income taxes	25,409	16,692	12,072
Consolidated net income	116,737	65,039	83,713

Statement of financial condition figures	December 31, 2019	December 31, 2018	December 31, 2017
Total assets	2,057,634	1,902,532	1,907,890
Cash and cash equivalents	350,523	251,818	232,933
Property, machinery and equipment	1,015,909	1,027,760	936,387
Total liabilities	983,097	930,316	978,927
Short-term interest bearing liabilities	25,425	4,400	17,150
Long-term interest bearing liabilities	624,566	645,936	665,751
Total equity	1,074,537	972,216	928,963

GCC's main financing activities are set forth in section 3.c. "Main financing activities". Refer to note 21 of the financial statements.

### 3.b) Financial information classified by business line, geographic region and exports

GCC's main business lines are cement, concrete, concrete block and aggregates. GCC's net sales by business line and geographic zone are presented below in thousands of dollars.

#### *By business line*

Business line	2019		2018		2017	
	Sales	%	Sales	%	Sales	%
Cement and mortar	628,594	67%	591,067	67%	539,485	66%
Concrete	193,339	21%	174,959	20%	167,506	20%
Concrete block	12,047	1%	11,480	1%	11,636	1%
Aggregates	19,403	2%	21,686	2%	26,603	3%
Other	80,732	9%	84,038	10%	78,874	10%
<b>Total</b>	<b>934,115</b>	<b>100%</b>	<b>883,230</b>	<b>100%</b>	<b>824,104</b>	<b>100%</b>

#### *By geographic region*

Geographic region	2019	2018	2017
Mexico	252,252	236,058	221,617
United States	681,863	647,172	602,487

#### *Exports from Mexico to the U.S.*

Export sales	2019	2018	2017
Cement	23,992	21,490	43,289
% of total sales	2.6%	2.4%	5.3%

### 3.c) Relevant financing activities

On June 2017, GCC concluded the issuance of senior unsecured notes for a total amount of US\$ 260 million, at an interest rate of 5.25% per year and has a single principal payment at maturity, due on June 23, 2024. Proceeds from the issuance were used to repay GCC's outstanding 8.125% notes due on February 8, 2020.

On June 13, 2018, the Company entered into a US\$ 400 million five-year unsecured syndicated loan, at an interest rate of LIBOR plus a spread of 1.25% to 2.00% which decreases or increases as the gross leverage ratio does. The resources were used to prepay the guaranteed bank loans contracted in November 2016, which totaled US\$ 433 million at the time of prepayment. The new credit syndication was led by BBVA Bancomer, S.A.; Banco Nacional de México, S.A.; J.P. Morgan Chase Bank, N.A. and Bank of Nova Scotia.

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Loan agreements contain specific clauses that refer to the sale of assets, investments, additional financing and debt payments, as well as the obligation to maintain specific financial ratios (gross and net financial leverage ratio and net interest coverage), which in case of default, the Company may be required to make an early repayment if it fails to comply with the financial ratios and operating and financial restrictions set forth in the loan agreements, including failure to pay principal or interest.

On July 24, 2019, Standard & Poor's reaffirmed GCC's credit and corporate debt rating of 'BB+' with a stable outlook, reflecting the Company's strong operating and financial performance, and an ongoing deleveraging trend, thanks to its operating efficiency, free cash flow generation, a disciplined investment strategy, and prudent financial policy.

On February 6, 2020, Fitch Ratings reaffirmed GCC's credit and corporate debt rating of 'BB+' with a stable outlook, reflecting GCC's strong market position in cement, ready-mix concrete, and aggregates markets in the regions in which it operates, the diversification of its Mexican and U.S. operations into the residential and nonresidential sectors, and positive free cash flow generation throughout the recent industry cycle.

The Company is in compliance with principal and interest payments on all loans and with all operating and financial covenants established therein.

### **3.d) Management's comments and analysis of the operating results and financial position**

#### ***General***

The following commentary should be reviewed along with the Company's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), for the years ended December 31, 2019, 2018 and 2017.

Effective January 1, 2011, the Company adopted the IFRS as the regulatory basis for the preparation and presentation of consolidated financial statements.

The Company's Financial Statements included herein comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, as well as the income statements, statements of changes in stockholders' equity and cash flows.

#### ***Consolidation of operating results***

GCC operates in the United States, Mexico and Canada, and is subject to fluctuations in foreign exchange rates, inflation and interest rates, which historically have been more volatile in Mexico.

All figures included in this report were prepared in accordance with IFRS and are expressed in U.S. dollars, except for figures relating to financial ratios and operating data. All values have been rounded to thousands, except where noted.

The financial statements include the Company's financial statements of and those of the subsidiaries over which it exercises control over management, financial and operating policies. Balances, investments and transactions between GCC and its subsidiaries have been eliminated in the financial statements.

### **3.d.i) Operating results**

#### **Operating results for the year ended December 31, 2019 as compared to the year ended December 31, 2018**

**Consolidated net sales** as of December 31, 2019, increased 5.8%, to US\$ 934.1 million. U.S. sales increased 5.4%, to US\$ 681.9 million and represented 73% of GCC's consolidated net sales. This increase was primarily due to a 5.6% increase in cement volumes, as well as to 2.6% and 5.7% increase in cement and concrete prices, respectively, which



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were partially offset by a 1.8% decrease in concrete volumes. Mexico sales rose 6.9% to US\$ 252.3 million and represented 27% of GCC's consolidated net sales. This was primarily due to a 2.9% and 4.7% increase in cement and concrete volumes, respectively, as well as a 4.7% and 6.1% increase in prices, respectively.

**Cost of sales** was 71.4% of revenues in 2019; a 0.8 percentage-point decrease from the same period in 2018. The full year decrease was primarily due to favorable prices in both divisions, operating leverage and the aforementioned positive accruals, partially offset by higher variable costs, increased freight costs and higher electricity and fuel costs in Mexico.

**Selling, general and administrative expenses** totaled US\$ 83.3 million in 2019. These were equivalent to 8.9% of sales; a 30 basis point increase.

**Operating income before other expenses** increased 8.1%, to US\$ 183.6 million.

**Other expenses** were US\$ 7.3 million, compared to US\$ 8.3 million in the prior year period. This decrease in expenses and commissions was related to assets which had since been divested as well as to acquisitions made in 2018, partially offset by the impairment recorded in 2019.

**EBITDA** increased 13.9% to US\$ 292 million, with a 31.3% margin; 2.3 percentage points above the prior year period; 66% of EBITDA was generated by the Company's U.S. operations and 34% by its Mexico operations.

**Net financial expenses** decreased 18.4%, to US\$ 36.3 million, primarily due to lower interest rates, the absence of commissions and fees paid related to bank debt refinancing, lower debt balance and higher cash balance compared to 2018.

**Income tax** totaled US\$ 25.4 million in 2019; a 52.2% year-on-year increase. The effective tax rate was 17.8% in 2019, compared to 13.7% in 2018.

There were no effects from **discontinued operations** in 2019, as compared to a US\$ 40.1 million loss in the prior year period.

**Consolidated net income** increased 79.5% and totaled US\$ 116.7 million for the full year 2019, compared to US\$ 65 million for the same period of 2018.

**Free cash flow** was US\$ 137 million in 2019; a 28.8% increase compared to US\$ 106.4 million generated in the full year 2018. This was primarily due to higher EBITDA generation after operating leases (IFRS-16), as well as lower interest expenses and maintenance CapEx, which were partially offset by higher working capital requirements and cash taxes.

**Interest bearing debt** as of December 31, 2019 totaled US\$ 657.4 million, 0.7% less than the outstanding amount recorded at year-end 2018. During the year, GCC made capital amortizations of US\$ 4.4 million, and as of December 31, 2019 the net leverage (net debt/EBITDA) was 1.11 times, as compared to 1.55 times at year-end 2018, according to contractual obligations.

**Total assets** as of December 31, 2019 totaled US\$ 2,057.6 million, increasing 8.1% when compared to the amount recorded at year-end 2018, mainly due to the increase in cash balance.

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**Operating results for the year ended December 31, 2018 as compared to the year ended December 31, 2017**

**Net sales** as of December 31, 2018 increased 7.2% compared to the previous year and reached US\$ 883.2 million. In the United States, sales increased 7.4% to US\$ 647.2 million in 2018 and represented 73.3% of GCC's net sales. Contributing factors were a 4.7% increase in cement volumes, a 2.2% increase in cement prices and a 3.6% increase in ready-mix prices. In Mexico, sales increased 6.5%, US\$ 236.1 million and represented 26.7% of GCC's consolidated net sales. The increase was the result of a better cement and ready-mix price scenario, increasing 9.7% and 6.2% respectively, in addition to a 2.5% increase in cement volumes. This partially offset the peso depreciation that reduced Mexico's reported sales by 1.6% or US\$ 3.8 million.

**Cost of sales** in 2018 represented 72.2% of sales, 1.2 percentage points above 2017, mainly due to the one-time increase in logistics and supply costs, as a result of the delay in the interconnection process of the Rapid City plant expansion, to additional expenses related to the incorporation of a new kiln to produce and export oil well cement, and to the increase in freight costs due to volume growth in exports to the West Texas markets as compared to the previous year.

In 2018, **operating expenses** decreased 3.0% as a result of lower administrative and sales expenses related to the integration of acquisitions in 2017. Operating expenses represented 8.6% of net sales, 0.8 percentage points lower compared to 2017.

**Operating income before other expenses** in 2018 increased 5.6% over the previous year and totaled US\$ 169.8 million.

In 2018, **EBITDA** increased 6.8% to US\$ 256.4 million, with a 29.0% margin, 0.1 percentage points below 2017. The EBITDA generated by operations in the United States represented 62% of the total and 38% was generated by operations in Mexico.

**Other expenses** totaled US\$ 8.3 million, compared to US\$ 16.2 million in the prior year.

**Net financial expenses** totaled US\$ 44.5 million in 2018, decreasing 20.4% compared to 2017, as a result of lower interest and fees payments due to the refinancing of the secured notes and the bank debt in June 2017 and June 2018, respectively.

**Income Taxes** in 2018 were US\$ 16.7 million, compared to US\$ 12.1 million in 2017, generated mainly by the effect of the U.S. tax reform in 2017 and a higher pre-tax income. The effective tax rate remained at 13.7% in 2018, compared to 13.3% in 2017.

**Discontinued operations** generated a loss of US\$ 40.1 million, compared to an income of US\$ 5.0 million recorded in the same period of the previous year, mainly derived from the difference between the book value and the selling price of the Arkansas and Oklahoma assets sold in the second quarter of 2018.

**Consolidated net income** in 2018 totaled US\$ 65.1 million, compared to US\$83.7 million generated in 2017. This decrease is the result of the loss from discontinued operations.

**Free cash flow** generated in 2018 was US\$ 107.6 million, a 3.5% lower than the US\$ 111.6 million generated in 2017, mainly as a result of the increase in working capital requirements due to a higher level of inventories, an increase in taxes paid and an increase in maintenance CapEx, which were partially offset by an increase in the generation of EBITDA and lower financial expenses.

**Interest bearing debt** as of December 31, 2018 totaled US\$ 661.8 million, 5.0% less than the outstanding amount

recorded at year-end 2017. During the year, GCC made capital amortizations of US\$ 34.8 million because of the bank refinancing, which allowed to reduce the net leverage at the end of 2018 (measured as Net Debt/EBITDA) from 1.86 times to 1.55 times.

**Total assets** as of December 31, 2018 amounted to US\$ 1,902.5 million, decreasing 0.3% when compared to the amount recorded at year-end 2016, mainly due to the increase in inventories and accounts receivable, offset by the decrease in goodwill as a result of the sale of the Arkansas and Oklahoma assets in the second quarter of 2018.

### **3.d.ii) Financial condition, liquidity and capital resources**

During the years 2019, 2018 and 2017, GCC's subsidiaries generated operating flows for US\$ 291.9, US\$ 256.4 and US\$ 239.9 million, respectively. GCC finances its working capital requirements and capital expenditures from normal operations with internally generated cash flows. GCC uses external sources to finance medium and long-term investment projects.

GCC's net debt at year-end December 31, 2019, 2018 and 2017 was US\$ 306.9, US\$ 410.0 and US\$ 463.8 million, respectively. For more information, please refer to section 3.c) of the relevant credit report.

The subsidiaries GCC Cemento, S.A. de C.V., Cementos de Chihuahua, S.A. de C.V. and GCC of America, Inc., are guarantors of the secured loan and the shares of these companies were pledged.

As of the date of this report, the Company is in compliance with principal and interest payments on all loans and with all operating and financial covenants arising therefrom.

Short-term interest-bearing debt as of March 31, 2020 is US\$ 33.4 million. Long-term debt is US\$ 622 million. The average cost of debt as of March 31, 2020 is 3.99%.

The following is a summary of GCC's debt principal payment schedule.

<b>Maturity profile (million dollars)</b>	
<b>2020*</b>	25.4
<b>2021</b>	92.0
<b>2022</b>	176.0
<b>2023</b>	104.0
<b>2024</b>	260.0
<b>Total</b>	<b>657.4</b>

*\*As of March 31, 2020, GCC has made principal payments for the amount of US\$ 2 million.*

GCC's treasury surplus investment policy is conservative. Investments are made in government instruments, certificates of deposit of financial institutions and commercial paper of corporations with high credit ratings. As of March 31, 2020, 19% of treasury investments were denominated in pesos and 84% in dollars.

Internal capital sources consist of the operating flows from subsidiaries which are used to finance working capital requirements and investment projects, while external sources of capital are short, medium and long-term financing with which investment projects and, eventually, seasonal working capital requirements are financed.

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### **3.d.iii) Internal control**

In order to ensure the efficiency and effectiveness of operations, the reliability of financial information, as well as compliance with general guidelines, criteria and applicable accounting standards, GCC has established an internal control system that includes, among other aspects, business policies, risk management practices, internal controls, reviews of controls effectiveness, internal audits having to do with business processes and implementation of corrective and preventive actions.

GCC has implemented an integrated information system (ERP SAP), which allows it to ensure customer satisfaction and optimize its resources. This integrated information system facilitates the generation of reports that provide timely feedback to business processes about their performance and achievement of objectives, as well as timely decision-making.

### **3.e) Critical accounting estimations, provisions or reserves**

The estimates, provisions or accounting reserves of the Company are disclosed in notes 5 and 20 of the financial statements included in this report. The Company does not believe that there are any critical accounting estimates that would result in significant changes in the financial statements.

## **4) Management**

### **4.a) External auditors**

GCC's external auditors are proposed by the Chairman of the Board of Directors taking into consideration the opinion of the Audit and Corporate Practices Committee and approved by the Board of Directors.

Currently, the firm Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte, Touche, Tohmatsu, Limited, is in charge of providing external audit services to GCC. Its offices are located at Av. Valle Escondido 5500, floor 1, Fraccionamiento Desarrollo El Saucito, Chihuahua, Chihuahua. The firm has been working with GCC since 2013.

Since 2013, Deloitte provides external auditing services for GCC's subsidiaries in both Mexico and the United States.

For the years ended December 31, 2019, 2018 and 2017, the external auditors have not issued any reservations to their opinion, unfavourable opinions, nor have they refrained from issuing opinions on the annual consolidated financial statements included in this report.

### **4.b) Transactions with related parties and conflicts of interest**

Within the ordinary course of business, GCC conducts transactions with related parties, including CEMEX, which has a direct interest in the capital stock of the controlling shareholder and an indirect interest in the Company. In addition, GCC conducts transactions with Abastecedora de Fierro y Acero, S.A. de C.V. and Inmobiliaria Ruba, S.A. de C.V., GCC's affiliates for their significant shareholders' equity held in both companies.

In 2015, a strategic contract was celebrated with Madata IT, S.A. de C.V., in which GCC has an investment in shares in a joint venture for the rendering of information technology services.

Although these transactions are conducted in the ordinary course of business and, if it is in large scale, it must be submitted to GCC's Audit and Corporate Practices Committee and approved by the Board of Directors, these transactions may create potential conflicts of interest, which GCC believes are mitigated by performing a transfer pricing study to determine the value of the services and goods provided.

All related party transactions have been conducted on terms no less favorable to GCC than would have been obtained in an unrelated party transaction and comply with applicable Mexican law.

The following table sets forth the transactions conducted with related parties during the periods ended December 31, 2019, 2018 and 2017.

Related Party	Al 31 de diciembre de			Type of transactions
	2019	2018	2017	
Sales				
Cemex, S.A.B. de C.V.	-	-	347	Sales of cement and building materials
Abastecedora de Fierro y Acero, S.A. de C.V.	2,503	2,202	2,171	Sales of cement and building materials
Inmobiliaria Ruba, S.A. de C.V.	5,342	4,446	4,819	Sales of cement and building materials
Copachisa, S.A. de C.V.	3,662	2,732	5,902	Sales of cement and building materials
Net sales	11,507	9,380	13,239	
Purchases				
CEMEX, S.A.B. de C.V.	3,085	6,623	6,072	Purchase of inventory and other services
Abastecedora de Fierro y Acero, S.A. de C.V.	314	577	348	Purchase of inventory and other services
Madata IT, S.A. de C.V.	5,390	3,627	3,530	IT services
Net purchases	8,789	10,827	9,950	

See note 8 to the audited financial statements for more detail on related party transactions.

Pursuant to the Mexican Securities Market Law and in terms of article 156 of the LGSM, any director or officer who has a conflict of interest in any transaction or decision making must disclose it to the Board of Directors through its Chairman or Secretary, and refrain from any deliberation and resolution.

#### 4.c) Management and shareholders

##### Directors

GCC is managed by a Chief Executive Officer and a Board of Directors. The Board of Directors sets the guidelines and overall strategy for running the business and oversees its implementation.

Pursuant to the Mexican Securities Market Law, the Board of Directors must address the following matters, among other:

- the general business strategies;
- the guidelines for all related parties' use of the Company's assets and those of the companies under GCC's control;
- any transaction with related parties, except under certain limited circumstances;
- unusual or non-recurring transactions, or any transactions involving the acquisition or sale of assets with a value equal to or greater than 5% of the Company's assets, or the provision of collaterals or guarantees, or the acceptance of liabilities with a value equal to or greater than 5% of GCC's assets;
- the appointment, election, removal and compensation of the Chief Executive Officer;
- the policies for the appointment and compensation of key executives;
- GCC's financial statements;

- internal control, accounting and auditing policies and guidelines;
- the recruitment of the company providing the external audit services;
- the opinion to be presented at the General Shareholders' Meeting regarding the CEO's fiscal year-end
- a report detailing the accounting policies and criteria used for the preparation of the Company's financial statements;
- a report detailing the operations and activities in which the Board of Directors was involved during the fiscal year;
- the opinion regarding the tender price of public offers for GCC's shares;
- disclosure policies; and
- determinations concerning actions to be taken in response to irregularities.

The Board meetings will be considered validly installed and held if at least the majority of its members attend. Resolutions shall be valid if approved by the majority of the members present at the Board meeting.

GCC's Board of Directors meetings may be summoned by (i) 25.0% of the members of the Board of Directors, (ii) the Chairman of the Board of Directors, and (iii) the Chairman of the Audit Committee or the Corporate Practices Committee.

The Mexican Securities Market Law also imposes duties of diligence and loyalty on directors.

The duty of diligence generally requires directors to obtain sufficient information and be properly prepared to act in the best interests of GCC. The duty of diligence is fulfilled primarily when a director requests and obtains from GCC all information necessary to make a decision, requiring the presence and information of GCC's officers, as needed, attending board meetings and disclosing relevant information in their possession. Failure to act in compliance with a director's duty of diligence causes the director to be jointly and severally liable, along with other responsible directors, for damages and losses caused to GCC and its subsidiaries.

The duty of loyalty consists mainly of the obligation to maintain the confidentiality of information received concerning the performance of the director's duties, to refrain from discussing or voting on matters where the director has a conflict of interest, and to refrain from taking advantage of corporate opportunities resulting from his actions as a director. In addition, the duty of loyalty is breached if a shareholder or group of shareholders is deliberately favoured. The duty of loyalty is also breached if the director uses corporate assets or approves the use of corporate assets in contravention of GCC's policies, discloses false or misleading information, orders, or causes any transaction to go unrecorded on GCC's last records, which could affect the financial statements, or prevents relevant information from being disclosed or modified. A breach of the duty of loyalty subjects the director to be jointly and severally liable, together with all directors who fail to do so, for damages caused to GCC and its subsidiaries. Liability may also arise if damages and losses are sustained as a result of benefits wrongfully obtained by the directors or third parties as a result of activities carried out by such directors.

Liability for breach of duty of loyalty may not be limited by the Company's bylaws, by resolution of a Shareholders' Meeting or otherwise. The duty of loyalty is also breached if the director uses corporate assets or approves the use of corporate assets, in violation of an issuer's policies, discloses false or misleading information, orders or causes an incorrect entry of any transaction in an issuer's records that could affect its financial statements, or causes material information not to be disclosed or to be modified.

Claims for breach the duty of diligence or the duty of loyalty are for the benefit of GCC only, and may only be filed by GCC or by shareholders or group of shareholders representing at least 5% of the capital stock.

As a disclaimer, the liability discussed above does not arise if the director acted in good faith and (i) complied with applicable law and GCC bylaws, (ii) the decision was made based on information provided by officers, external auditors or third-party experts, whose capacity and credibility are not subject to reasonable doubt, (iii) selected the most appropriate alternative and any negative effect of such decision was not reasonably foreseeable based on the information available. These provisions have not been construed by Mexican courts, and therefore the decision that the competent court may make is uncertain.

Pursuant to article twenty-four of GCC's by-laws, the Board of Directors will consist of an odd number of members, with a maximum of 21 directors appointed by the Ordinary General Shareholder's Meeting, of whom at least 25% must be independent.

As of the date of this report, GCC's Board of Directors consists of 14% women and 86% men. The Company does not have any specific policy or program, in addition to that established in the Code of Ethics, to promote labor inclusion regardless of gender in the composition of its governing bodies and among its employees. The directors mentioned are listed below:

**Chairman of the Board:** Federico Terrazas Becerra

Proprietary Directors		Alternate Directors	
Federico Terrazas Becerra	P	Alberto Terrazas Seyffert	P
María Carolina Mares Terrazas	P	Manuel Antonio Milán Reyes	P
Miguel Márquez Prieto	P	Silvia Márquez Villalobos	P
Enrique G. Terrazas Torres	P	Luis Enrique Terrazas Seyffert	P
Martha Márquez Villalobos	P	Ana Cecilia Márquez Villalobos	P
Luis Márquez Villalobos	P	Héctor Enrique Escalante Ochoa	P
Fernando A. González Olivieri	P	Ricardo Naya Barba	P
José Antonio González Flores	P	Luis Guillermo Franco Carrillo	P
Ramiro Gerardo Villarreal Morales	P	Antonio Díaz García	P
Juan Romero Torres	P	Rafael Garza Lozano	P
Héctor Medina Aguiar	I	Armando J. García Segovia	I
Fernando Ruiz Sahagún	I	José Alberto Araujo Saavedra	I
Luis Raúl Fernández Iturriza	I	Manuel Esparza Zuberza	I
Luis A. Nicolau Gutiérrez	I	Rodrigo Tena Cruz	I

The following are the resumes of the members of GCC's Board:

**FEDERICO TERRAZAS BECERRA.** Mr. Terrazas has been a member of the Board of Directors of GCC since 1991 and was appointed Chairman in 2013. Mr. Terrazas is also Chairman of the Boards of Directors: CAMCEM, S.A. de C.V., IMIN de México S.A. de C.V. and Control Administrativo Mexicano, S.A. de C.V. He also serves in the Board of Directors of Banco BBVA Bancomer, S.A., COPARMEX, Comercial de Fierro y Acero, S.A. de C.V. and Grupo Ruba, S.A. de C.V.

Mr. Terrazas holds a Bachelor's degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey as well as a Master's degree in Business Administration. Additionally, he completed a leadership program for executive officers at Harvard Business School.

Mr. Terrazas is nephew to Enrique Terrazas Torres and Miguel Márquez Prieto; cousin of Luis Márquez Villalobos, Martha Márquez Villalobos, Ana Cecilia Márquez Villalobos, Silvia María Márquez Villalobos, Luis Enrique Terrazas Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**MARÍA CAROLINA MARES TERRAZAS.** Mrs. Mares has been a member of the Board of Directors of GCC since 2019. Mrs. Mares also serves on the Board of Directors of Grupo Cofiasa, S.A. de C.V.

Mrs. Mares holds a Bachelor's degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, she holds a Master's degree in Quality and Productivity Management from Tecmilenio University.

Mrs. Mares is niece to Federico Terrazas Becerra, Alberto Terrazas Seyffert, Luis Enrique Terrazas Seyffert and Enrique



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Terrazas Torres, all members of GCC's Board of Directors.

**MIGUEL MARQUEZ PRIETO.** Mr. Marquez has been a member of the Board of Directors of GCC since 1991. He also serves on the Board of Directors of CAMCEM, S.A. de C.V., IMIN de México S.A de C.V., Control Administrativo Mexicano, S.A. de C.V., Inmobiliaria RUBA, S.A. de C.V., Acciones y Valores del Norte, S.A. de C.V., Promotora de Infraestructura de México, S.A. de C.V., Grupo Cofiasa, S.A. de C.V. and Promotora de Hospitales Mexicanos, S.A. de C.V.

Mr. Márquez holds a Bachelor's degree in Business Administration from Babson College of Business.

Mr. Marquez is father to Luis Márquez Villalobos, Ana Cecilia Márquez Villalobos, Silvia María Márquez Villalobos and Martha Márquez Villalobos, cousin of Enrique Terrazas Torres and uncle of Luis Enrique Terrazas Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**ENRIQUE G. TERRAZAS TORRES.** Enrique Terrazas has been a member of the Board of Directors of GCC since 1991. Additionally, Mr. Terrazas is Chairman of the Board of Directors of Promotora de Hospitales mexicanos, S.A. de C.V. and Sociedad Hospitalaria de México S.A. de C. V. He also serves on the Board of Directors of: Abadan, S.A. de C.V., Aciarium Estructuras, S.A. de C.V., Banamex Consejo Regional del Norte, CAMCEM, S.A. de C.V., Control Administrativo Mexicano, S.A. de C.V., Copachisa, S.A. de C.V., DEMEK, S.A. de C.V., EMYCSA, S.A. de C.V., ESJ, S.A. de C.V., Grupo Punto Alto, S.A.P.I. de C.V., IMIN, S.A. de C.V., Inmobiliaria Punto Alto, S.A. de C.V., and Inmobiliaria Ruba, S.A. de C.V.

Mr. Terrazas holds a degree in Civil Engineering from Cornell University. He also completed IPADE's AD-2 Executive Officers Management Program.

Mr. Terrazas is uncle to Federico Terrazas Becerra, Chairman of the Board of Directors of GCC, cousin to Miguel Márquez Prieto, father to Luis Enrique Terrazas Seyffert and Alberto Terrazas Seyffert, and uncle to Luis Márquez Villalobos, Silvia María Márquez Villalobos, Ana Cecilia Márquez Villalobos, Martha Márquez Villalobos and María Carolina Mares Terrazas, all members of GCC's Board of Directors.

**MARTHA MARQUEZ VILLALOBOS.** Mrs. Marquez has been a member of the Board of Directors of GCC since 1991. Mrs. Márquez also serves on the Board of Directors of: Grupo Cofiasa S.A. de C. V., Inmobiliaria Ruba, S.A. de C. V., and Promotora de Hospitales Mexicanos, S.A. de C.V. She has worked in the accounting department of Comercial de Fierro y Acero, S.A. and in the production and workforce departments of Grupo La Norteña, S.A. de C.V. In addition, she is a volunteer in the following civil associations: Asociación Nacional Pro-Superación Personal (ANSPAC), Casas de Cuidado Diario and Fundación Cima.

Ms. Márquez holds a Bachelor's degree in Financial Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, she completed the D-1 Senior Management program at IPADE.

She is niece to Enrique Terrazas Torres, daughter to Miguel Márquez Prieto, sister to Luis Márquez Villalobos, Silvia María Márquez Villalobos and Ana Cecilia Márquez Villalobos; cousin to Luis Enrique Terrazas Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**LUIS MÁRQUEZ VILLALOBOS.** Mr. Márquez has been a member of the Board of Directors of GCC since 1991. Currently, he is an advisor to the general management of Grupo Cofiasa, S.A. de C.V.

Mr. Marquez is cousin to Federico Terrazas Becerra, Chairman of the Board of Directors of GCC. He is nephew to Enrique Terrazas Torres, son to Miguel Márquez Prieto, brother to Ana Cecilia Márquez Villalobos, Silvia María Márquez Villalobos and Martha Márquez Villalobos, and cousin to Luis Enrique Terrazas Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**FERNANDO ÁNGEL GONZÁLEZ OLIVIERI.** Mr. Gonzalez has been a member of the Board of Directors of GCC since 2010. Mr. Gonzalez was appointed Chief Executive Officer of CEMEX, S.A.B. de C.V. in 2014. Additionally, he also serves in the Board of Directors of: Axtel, S.A.B. de C.V., CEMEX, S.A.B. de C.V. and Universidad TecMilenio.

Mr. González joined CEMEX in 1989 and has held several senior management positions, including Corporate Vice President of Strategic Planning, head of operations of CEMEX Venezuela, President of CEMEX Asia, President of

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**



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CEMEX South America and the Caribbean, President of CEMEX Europe, Middle East, Africa, Asia and Australia, as well as Executive Vice President of Strategic Planning, Finance and Administration.

Mr. González holds a Bachelor's and Master's degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

**JOSÉ ANTONIO GONZÁLEZ FLORES.** Mr. Gonzalez has been a member of the Board of Directors of GCC since 2013. Mr. Gonzalez has been Executive Vice President of Finance and Administration of CEMEX, S.A.B. de C.V. since 2014 and heads the areas of Finance, Legal, Controllershship, Tax, Global Service Organization and Process Assessment. He began his career with the company in 1998, holding various management positions in the areas of Finance, Strategic Planning and Communication and Corporate Affairs.

Mr. González holds a Bachelor's degree in Industrial and Systems Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he holds a Master's degree in Business Administration from Stanford University.

**RAMIRO GERARDO VILLARREAL MORALES.** Mr. Villarreal has been a member of the Board of Directors of GCC since 1991. He also serves on the Board of Directors of: Banco Bancrea, S.A., Institución de Banca Múltiple, CEMEX, S.A.B. de C.V., Vinte Viviendas Integrales, S.A.B. de C.V. and is a member of the advisory board of Arendal, S.A. de C.V.

Mr. Villarreal joined CEMEX, S.A.B. de C.V. in 1987 as General Counsel, and held various positions, including Executive Vice President of Legal, Counsel to the Chairman of the Board of Directors and to the Chief Executive Officer of CEMEX, S.A.B. de C.V. Previously, he was CEO of Banca Regional Banpaís, and Secretary of the Board of Directors of Enseñanza e Investigación Superior, A.C. and CEMEX, S.A.B. de C.V.

Mr. Villarreal holds a Bachelor degree in Law from the Universidad Autónoma de Nuevo León. As well as a Master's degree in Finance from the University of Wisconsin-Madison.

**JUAN ROMERO TORRES.** Mr. Romero has been a member of the Board of Directors of GCC since 2011, previously occupying a seat on the Board between 2002 and 2004. Mr. Romero is the Executive Vice President of Sustainability, Commercial and Operations Development of CEMEX, S.A.B. de C.V. He began his career in the company in 1989, holding various management positions including head of operations in Colombia and Mexico, as well as President of the CEMEX South America and the Caribbean region, President of the CEMEX Europe, Middle East, Africa and Asia region, and as President of CEMEX Mexico.

Mr. Romero has been a member of industry associations and chambers, most notably in the Board of Directors of Cemento Diamante y Samper (Colombia); in the Cámara Nacional de Cemento (Mexico); and in the Instituto Mexicano del Cemento y el Concreto (Mexico).

Mr. Romero holds a Bachelor's degree in Law, Economics and Management from the University of Comillas, Spain.

**HECTOR MEDINA AGUIAR.** Mr. Medina has been a member of the Board of Directors of GCC since 2011, formerly occupying a position on the Board between 1995 and 2009. He is a member of the technical committee of Fibra Inn, Investment Trust. Mr. Medina worked at ALFA, S.A.B. de C.V. and was Executive Vice President of Finance and Legal in CEMEX until his retirement in 2010.

Previously, he was Chairman of the Board of Directors of Universidad Regiomontana, as well as a member of the Supervisory Board of Instituto Tecnológico y de Estudios Superiores de Monterrey, and a member of the Board of Directors of Axtel, S.A.B. de C.V., Banco Ahorro Famsa, S.A., Institución de Banca Múltiple, among other companies.

Mr. Medina holds a degree in Chemical Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds an MBA from Bradford University and a Diploma in Quantitative Management Methods from Escuela de Organización Industrial in Spain.

**FERNANDO RUIZ SAHAGÚN, C.P.A.** Mr. Ruiz has been a member of the Board of Directors of GCC since 2006. He also serves on the Board of Directors of Bolsa Mexicana de Valores, S.A.B. de C.V., Fresnillo PLC, Grupo Creatica, S.A. de C.V., Grupo Financiero Santander, S.A.B. de C.V., Grupo Mexico, S.A.B. de C.V., Grupo Nacional Provincial, S.A.B., Grupo Palacio de Hierro, S.A.B. de C.V., Kimberly Clark de México, S.A.B. de C.V., Orbia Advanced S.A.B. de C.V.,

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

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Rassini, S.A.B. de C.V. and ArcelorMittal de México S.A. de C.V. Previously, he was a member of the board of directors of Grupo Pochteca, S.A.B. de C.V., Mexichem, S.A.B. de C.V. and of S.D. Indeval, S.A. de C.V.

Mr. Ruiz is a founding partner and advisor of the firm Chevez, Ruiz, Zamarripa y Cía., S.C. He has been a member of the Tax Advisory Council of the Mexican Ministry of Finance and Public Credit, as well as of the Honorary and Governing Board of the Colegio de Contadores Públicos de México, A.C. (Association of Public Accountants of Mexico). Additionally, he was President of the Fiscal Commission of the Business Coordinating Council.

Mr. Ruiz holds a degree in Public Accounting from the Universidad Nacional Autónoma de México and was a professor in tax matters at the Universidad Anáhuac.

**LUIS RAÚL FERNÁNDEZ ITURRIZA.** Mr. Fernandez has been a member of the Board of Directors of GCC since 2020. Currently, Mr. Fernández is CEO and Chairman of the Boards of Directors of Frutas Concentradas, S.A.P.I. de C.V., as well as Chairman of the Board of: Axiscom, S.A. de C.V; Materiales de Construcción de Mexicali, S.A.P.I. de C.V; Fevaxis, S.A.P.I. de C.V; Tenedora Fercam, S.A.P.I. de C.V; Industrias Tecnológicas Fercam, S.A.P.I. de C.V; FCEP Holding, S.A.P.I. de C.V; Ferfarms, S.A.P.I. de C.V; Human Tek Soluciones, S.A.P.I. de C.V. and Agua y Puntos de Venta, S.A.P.I. de C.V.

Additionally, Mr. Fernandez serves in the Board of Directors of Transtelco Holding, Inc; Fevisa, S.A. de C.V; Aqua Salus, S. de R.L. de C.V; Sistema Axis, S.A. de C.V; Controladora Kanimi, S.A.P.I. de C.V. and Banco Mercantil del Norte, S.A. Previously, he was Chairman of the Board of Directors of Sistema Axis, S.A. de C.V. and Controladora Kanimi, S.A.P.I. de C.V., as well as a member of the Board of Arca Continental, S.A.B. de C.V. and Embotelladoras Argos, S.A.

Mr. Fernandez holds a degree in Public Accounting from Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he completed IPADE's AD-2 Executive Officers Management Program, as well as programs for family businesses from Wharton Business School, Long lasting companies from Stanford, corporate training from Harvard Business, and business strategy from Chicago Booth.

**LUIS NICOLAU GUTIÉRREZ.** Mr. Nicolau has been a member of the Board of Directors of GCC since 2019. He also serves on the Board of Directors of Coca-Cola FEMSA, S.A.B. de C.V., Gentera, S.A.B. de C.V., Grupo Posadas, S.A. de C.V., Six Sigma Networks, S.A. de C.V., Grupo Coppel, S.A. de C.V., Morgan Stanley Casa de Bolsa, S.A. de C.V., UBS Asesores, S.A. de C.V., and Fondo Ignia. He is also a member of the Executive Committee of Ritch, Mueller, Heather and Nicolau, S.C., and Inversiones de Promotora Social México, A.C.

Previously, Mr. Nicolau was a member of the board of directors of Grupo Modelo, S.A.B. de C.V., Grupo Vitro, S.A.B. de C.V., Grupo MVS Comunicaciones, S.A. de C.V., Grupo Financiero Credit Suisse México, S.A. de C.V., J.P. Morgan Grupo Financiero, S.A. de C.V., Grupo Financiero Santander México, S.A. de C.V. and Papalote Museo del Niño.

Mr. Nicolau holds a law degree from Escuela Libre de Derecho. Additionally, he holds a Master of Laws from Columbia University.

The following are the resumes of the alternate members of GCC's Board:

**ALBERTO TERRAZAS SEYFFERT.** Mr. Terrazas has been a member of the Board of Directors of GCC since 1991. He also serves as Chairman and CEO of Grupo Punto Alto, S.A.P.I. de C.V. and as Chariman of Copachisa, S.A. de C.V; Demek, S.A. de C.V; EMYCSA, S.A. de C.V; ESJ, S.A. de C.V; Premet, S.A. de C.V; Spec Ingeniería, S.A. de C.V; Inmobiliaria Abadan, S.A. de C.V; D-ALTA Instalación y Diseño Eléctrico, S.A. de C.V; Altaser Aerospace S.A. de C.V; Kilgour Altaser Metal Treatments, S.A. de C.V; Equidna Arquitectos S.C. and Grupo Hidroponia El Silencio S.P.R. de R.L. de C.V. In addition, he is a member of the board of Grupo Ruba, S.A. de C.V. and Abastecedora De Fierro Y Acero S.A. de C.V.; Chairman of the Board of Instituto Tecnológico y de Estudios Superiores de Monterrey Campus Chihuahua, Fundación Proempleo Productivo A.C. and Casino de Chihuahua A.C., as well as member of Grupo Avance Empresarial A.C.

Previously, he was President of Desarrollo Económico, A.C. and Cámara Nacional de la Industria de Transformación en Chihuahua (CANACINTRA), and coordinator of Consejo para el Desarrollo Económico del Estado de Chihuahua (CODECH) and of Consejo por el Compromiso Social por la Calidad y la Equidad de la Educación Chihuahua.

Mr. Terrazas holds an Industrial and Systems Engineering degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he completed the Owners Management Program at Harvard Business School.

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

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Mr. Terrazas is son to Enrique Terrazas Torres, nephew to Miguel Márquez Prieto, brother to Luis Enrique Terrazas Seyffert, and cousin to Federico Terrazas Becerra, Luis Márquez Villalobos, Martha Márquez Villalobos, Silvia María Márquez Villalobos and Ana Cecilia Márquez Villalobos, all members of GCC's Board of Directors.

**MANUEL A. MILÁN REYES** Mr. Milán has been a member of the Board of Directors of GCC since 2009. He also serves as member of the board of several companies and institutions, in some of which he serves as Chairman. Currently, he is the President of Centro de Competitividad de Chihuahua.

Previously, he worked at Grupo ICA as Department Manager at ICATEC, S.A. where he joined as Head of Planning for the Industrial Sector of Grupo Chihuahua and later served as Chief Executive Officer of some of the group's subsidiaries.

He joined GCC in 1984 as head of the commercial department and was later appointed Chief Executive Officer of Cementos de Chihuahua, S.A. de C.V., and in 1996 he was appointed Chief Executive Officer of GCC until December 2014.

Mr. Milán holds a Civil Engineering degree with a major in operations research from Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds a Master of Science degree from Stanford University, and completed the AD-2 IPADE Business Management Program.

**SILVIA MARÍA MÁRQUEZ VILLALOBOS.** Mrs. Márquez has been a member of the Board of Directors of GCC since 2017. She is also a member of the board of Inmobiliaria Ruba, S.A. de C. V., Grupo Cofiasa, S. A. de C.V., and of some of GCC's subsidiaries.

Mrs. Márquez has Bachelor's degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, she holds a Master's degree in Financial Law from Universidad Autónoma de Chihuahua.

Mrs. Márquez is niece to Enrique Terrazas Torres, daughter to Miguel Márquez Prieto, sister to Martha Márquez Villalobos, Luis Márquez Villalobos, Ana Cecilia Márquez Villalobos and cousin to Federico Terrazas Becerra, Luis Enrique Terraza Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**LUIS ENRIQUE TERRAZAS SEYFFERT.** Mr. Terrazas has been a member of the Board of Directors of GCC since 1991. Additionally, he is a member of the Board of Grupo Punto Alto and Instituto Tecnológico de Monterrey; Chairman of Grupo Ruba S.A. de C.V., Cubiertas Industriales de México, S.A. de C.V., and former President of the Centro de Liderazgo y Desarrollo Humano, A.C. (CELIDERH) and COPARMEX. He is currently the manager of Rancho Ganadero "San Luis".

Mr. Terrazas holds an Industrial and Systems Engineering degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds a Master's degree in Financial Law from Universidad Autónoma de Chihuahua. In addition, he completed the AD-2 Senior Management program at IPADE and the Owner/President Management (OPM) program at Harvard Business School.

Mr. Terrazas is son to Enrique Terrazas Torres, nephew to Miguel Márquez Prieto, brother to Alberto Terrazas Seyffert and cousin to Federico Terrazas Becerra, Luis Márquez Villalobos, Martha Márquez Villalobos, Silvia María Márquez Villalobos and Ana Cecilia Márquez Villalobos, all members of GCC's Board of Directors.

**ANA CECILIA MÁRQUEZ VILLALOBOS.** Mrs. Márquez has been a member of the Board of Directors of GCC since 2012 and is also a member of the board of some of GCC's subsidiaries.

Ms. Márquez is daughter to Miguel Márquez Prieto, niece of Enrique Terrazas Torres, sister to Martha Márquez Villalobos, Luis Márquez Villalobos, Silvia María Márquez Villalobos and cousin to Federico Terrazas Becerra, Luis Enrique Terraza Seyffert and Alberto Terrazas Seyffert, all members of GCC's Board of Directors.

**HÉCTOR ENRIQUE ESCALANTE OCHOA.** Mr. Escalante joined GCC in 1999 and has held several senior management positions, starting as President of the Mexico Division. In 2014 he was appointed President of the U.S. Division and in 2015 he was promoted to Chief Executive Officer.

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Prior to that, Mr. Escalante held positions in various commercial organizations in Mexico, including positions in the Mexican lumber industry in the departments of finance, planning, sales and marketing. He served as CEO of Plywood Ponderosa de México, S.A. de C.V. and later as President of the Ponderosa Division at Grupo Industrial Durango, S.A. de C.V. Additionally, he has been President of the Portland Cement Association in the United States and is currently a member of the Board of Young Presidents' Organization (YPO) in the Rocky Mountain Chapter in Denver, CO.

Mr. Escalante is a graduate of Industrial and Systems Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds an MBA from Cornell University and has participated in several executive programs, including IPADE's D-1 program and Harvard University's Presidents Seminar.

**RICARDO NAYA BARBA.** Mr. Naya has been a member of the Board of Directors of GCC since 2019. Mr. Naya began his career at CEMEX in 1996, where he has held several executive positions, including Vice President of Strategic Planning for the Central, South America and Caribbean regions; Vice President of Strategic Planning for the Europe, Middle East, Africa and Asia regions; President of CEMEX Poland and Czech Republic; Vice President of Commercial and Marketing in Mexico; Vice President of Commercial and Distribution Segment; and most recently, President of CEMEX Colombia. Currently, he is President of CEMEX Mexico, a position he has held since 2019.

Mr. Naya holds a Bachelor's degree in Economics from Instituto Tecnológico y de Estudios Superiores de Monterrey and an M.B.A. from the Massachusetts Institute of Technology.

**LUIS GUILLERMO FRANCO CARRILLO.** Mr. Franco has been a member of the Board of Directors of GCC since 2017. He began his career at CEMEX in 1999, where he served as President of CEMEX Hungary. Currently, he is Vice President of CEMEX Mexico's Construction Segment.

Mr. Franco holds a Chemical Engineering degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he holds an M.B.A. from Stanford University.

**ANTONIO DIAZ GARCÍA.** Mr. Diaz has been a member of the Board of Directors of GCC since 2017. He is currently, Vice President of Strategic Planning at CEMEX, where he has held several positions, including Head of the Concrete Division, Head of Planning and Business Development, Executive Assistant to the CEO, and Head of Corporate Strategic Planning at Cemex Global.

Mr. Diaz holds a Chemical Engineering degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he holds an M.B.A. from Stanford University.

**RAFAEL GARZA LOZANO.** Mr. Garza has been a member of the Board of Directors of GCC since 2010. He joined CEMEX in 1985 and has served as Senior Vice President of Controlling for the CEMEX Group since 1999.

Mr. Garza holds an Accounting degree and a Masters degree in Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he has completed several executive programs at ITAM, Instituto Panamericano de Alta Dirección de Empresa (IPADE), and Harvard Business School.

**ARMANDO J. GARCÍA SEGOVIA.** Mr. García has been a member of the Board of Directors of GCC since 1991. He is also a member of the board of Cemex, S.A.B. de C.V., Hoteles City Express, S.A.P.I. de C.V. and Innovación y Conveniencia, S.A. de C.V., Universidad de Monterrey, Unidos para la Conservación, Pronatura Noreste, A.C., Consejo Consultivo de Flora y Fauna del Estado de N.L., and Museo de la Fauna. He is Honorary Consul of the Kingdom of Denmark in Monterrey, as well as founder and Chairman of the Council of Comenzar de Nuevo, A.C.

Previously, he was officer at Cemex, S.A.B. de C.V. and Chairman of the board at the following companies: Comisión de Estudios del Sector Privado para el Desarrollo Sustentable (CESPEDES); Gas Industrial de Monterrey, S.A. de C.V.; Coparmex N.L.; Aeropuerto Internacional del Norte, S.C. and Casino de Monterrey, A.C. Mr. García served as member of the Board of Universidad Regiomontana, Executive Committee of Coparmex, The World Environmental Center (WEC), Grupo Aeroportuario Centro Norte, S.A.B. de C.V.; Parques y Vida Silvestre de N.L. and Compañía Industrial de Parras, S.A. de C.V. Additionally, he was Chairman of the Board at the School of Engineering and Information Technology of ITESM.

Mr. García holds a Mechanical Engineering and Management degree from the Instituto Tecnológico y de Estudios

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Superiores de Monterrey. In addition, he holds an M.B.A. from the University of Texas.

**JOSÉ ALBERTO ARAUJO SAAVEDRA.** Mr. Araujo has been a member of the Board of Directors of GCC since 2009. He is also Chairman of Consejo de Ciudadanos por la Educación de Chihuahua A.C. and a member of Consejo de Seguridad Pública del Gobierno del Estado de Chihuahua, Observatorio Ciudadano de Seguridad del Estado de Chihuahua, of the Fundación Ficosec A.C, Nacional Financiera S.N.C., Consejo Estratégico de Servicios y Operaciones Integrales, S.A de C.V., Servicios De Previsión Integral, S.A. De C.V. and Copachisa, S.A. de C.V. He is currently, Chief Executive Officer of Innovak Global S.A. de C.V.

Previously, Mr. Araujo was a board member of several civil associations, among them: Fundación del Empresariado Chihuahuense, A.C; Coparmex, Operadora de Tiendas Futurama, S.A. de C.V. and Promotora Comercial Abadán S.A. de C.V. He has been a advisor to more than 60 companies in the fields of: strategy, planning, innovation, quality and productivity. He has given lectures and courses at Tecnológico de Monterrey and other organizations. He carried out a great number of projects for innovation and entrepreneurship in different cities such as: Tallinn, Bangalore, Beijing, Hong Kong, Toulouse, Montreal, Tel Aviv, Haifa, New Delhi, Bangalore, Silicon Valley, Boston, Santiago de Chile, San José Costa Rica and Tokyo. Dr. Araujo has held various positions such as Dean of the Northern Region of Tecnológico de Monterrey, Head of Master's Programs, Head of the International Competitiveness Center, and Dean of the Tecnológico de Monterrey Campus Cd. Juárez and Campus Chihuahua.

Mr. Araujo holds an Industrial and Systems Engineering degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he holds an M.B.A. with a major in finance and a Master's in science. He has a PhD in Economics from the University of Havana.

**MANUEL ESPARZA ZUBERZA.** Mr. Esparza has been a member of the Board of Directors of GCC since 2014. He is currently an Audit Partner at the Firm GOSSLER, S.C. and manager of the Chihuahua and Delicias offices. In addition, he is an active member of Instituto y Colegio de Contadores Públicos de Chihuahua (ICCPCH) and has held several positions within its Board of Directors, including Treasurer and President. Likewise, he is a member of the Financial Reporting Standards Committee of the ICCPCH, and the Auditing Committee of the Government Sector and Chairman of the Quality Control Committee of the Accounting Firms of ICCPCH and the Board of Honor of the ICCPCH. Additionally, he has participated as a speaker in various forums on topics such as International Financial Reporting Standards, International Standards on Auditing, Quality Control of Accounting Firms, Government Accounting and Auditing and Courses to obtain the Certification as Public Accountants. He is currently a Taxpayer's Syndic through CANACINTRA and Professor of Business Academies of Financial Statement Auditing and Government Accounting. Mr. Esparza began his career at GOSSLER, S.C. in 1982 where he has held various positions, including: auditor, President of the Audit Committee and member of the Audit Board of the Firm. Mr. Esparza became an Audit Partner in this Accounting Firm in 2000, a position he has held to date. Additionally, he was a member at the national level of the Audit Standards and Procedures Commission (currently CONAA).

Mrs. Esparza has bachelor's degree in Accounting from Universidad Autónoma de Chihuahua. Additionally, he holds diplomas in auditing, government accounting, taxes, finance and social security.

**RODRIGO TENA CRUZ.** Mr. Tena has been a member of the Board of Directors of GCC since 2019. Currently he serves as an executive and board member of the following companies: Agropecuaria la Nortehita, S.A. de C.V., Servicios Hospitalarios de México, S.A. de C.V., Promotora Empresarial del Norte, S.A. de C.V., Automotriz Inmobiliaria, S. A. de C.V., Kalisch Fierro y Acero, S.A. de C.V., Biogás de Juárez, S.A. de C.V., Transportes Soto e Hijos, S.A. de C.V., Impulsora Emergente, S.O.F.O.M. and Inmobiliaria RUBA, S.A de C.V.

In addition, he is a member of Asociación Chihuahuense Colegio de Abogados, A.C. and participates in volunteering activities in the following associations: Educación Básica del Norte, A. C., Esnac A.C. (ITESM Chihuahua), Centro María de Caná, A.C., Asilo de Niños y Casa Hogar I.B.P., Fondo Cultural Chihuahua, A.C., Fundación CIMA Chihuahua, A.C., Misiones Coloniales de Chihuahua, FECHAC, FICOSEC.

Mr. Tena holds a Law degree from Universidad Autónoma de Chihuahua and a master's degree in Corporate Law from Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he completed the AD-2 Senior Management program at IPADE. Mr. Tena has also participated in the Management Development Program at Columbia Business School in New York, the Management Program at IESE Business School of the University of Navarra

Spain, New York Campus, and the Senior Management Program for Latin American Leaders (PADLA) at the Universidad Austral in Buenos Aires.

### **Main shareholders**

The following table sets forth information concerning beneficial ownership of GCC's capital stock estimated as of May 29, 2020.

Shareholder name	Shares owned	%
CAMCEM	171,658,588	50.877
Treasury shares	6,205,205 <sup>(1)</sup>	1.839
Public shareholders	159,536,207	47.284
<b>Total</b>	<b>337,400,000</b>	<b>100.0%</b>

<sup>(1)</sup>Resulting from the share repurchase program

The following members of the Terrazas and Márquez families, which indirectly control CAMCEM, serve as proprietary members of GCC's Board of Directors: Federico Terrazas Becerra, Chairman of the Board, Miguel Márquez Prieto, Enrique G. Terrazas Torres, Luis Márquez Villalobos, Martha Márquez Villalobos and María Carolina Mares Terrazas. Additionally, the following are alternate members of the Board of Directors: Alberto Terrazas Seyffert, Luis Enrique Terrazas Seyffert, Ana Cecilia Márquez Villalobos and Silvia María Márquez Villalobos. Therefore, CAMCEM and consequently the Terrazas and Márquez families, through their voting rights at the Shareholders' Meetings, can appoint the majority of the members of the Board of Directors, and therefore maintain significant influence on the Company. Additionally, five of the current members of the Board of Directors and their respective alternates have been appointed by Cemex.

In addition to the persons mentioned above, no other person owns more than 10.0% of the capital stock, has significant influence or exercises control over the Company. GCC is not controlled, directly or indirectly, by any other entity, foreign government or any other person, and is not aware of any arrangements that would result in a change in control.

At the April 25, 2019 Annual Stockholders' Meeting, shareholders authorized the repurchase of shares for up to an aggregate amount of Ps.700 million. As of December 31, 2019, the number of shares repurchased, through a repurchase fund program, was increased by 76,667 shares. The Company uses this program with the intention of promoting the liquidity of GCC shares and reducing price volatility.

### **Senior Management**

Pursuant to the Mexican Securities Market Law and GCC's corporate bylaws, the Chief Executive Officer and Chief Executives must act for the benefit of GCC and not for the benefit of any shareholder or group of shareholders. In addition, GCC's officers must: submit the main business strategies of the Company and those of the companies under the control of GCC to the Board of Directors for approval, propose to the Board of Directors the annual budget, submit proposals for internal control to the Audit Committee, prepare all relevant information related to the activities of GCC and to the activities carried out by companies under GCC's control, disclose all relevant information to the public and maintain adequate accounting, recording systems and internal control mechanisms, prepare and present to the board annual financial statements and implement internal control mechanisms, among other actions.



100% of GCC's senior executives are men, as listed below:

Name	Position	Years of service*
Héctor Enrique Escalante Ochoa	Chief Executive Officer	20
Ronald S. Henley	President of U.S. Division	8
Marcos Ramírez Rivera	President of Mexico Division	29
Jesús Rogelio González Lechuga	Chief Corporate, Technical and Operations Officer	47
Luis Carlos Arias Laso	Chief Financial Officer	23
Luis Jorge Amaya González	Chief Energy Officer	17
Daniel Eduardo Helguera Moreno	Chief Human Resources Officer	5
Sergio Sáenz Gutiérrez	General Counsel	17
Maik Strecker	Chief Planning Officer	0

\*As of May 29, 2020

**HÉCTOR ENRIQUE ESCALANTE OCHOA – Chief Executive Officer.** Enrique Escalante joined GCC in 1999 and has held several senior management positions, starting as President of the Mexico Division. In 2014 he was appointed President of the U.S. Division and in 2015 he was promoted to Chief Executive Officer.

Prior to that, Enrique held positions in various commercial organizations in Mexico, including positions in the Mexican lumber industry in the departments of finance, planning, sales and marketing. He served as CEO of Plywood Ponderosa de México, S.A. de C.V. and later as President of the Ponderosa Division at Grupo Industrial Durango, S.A. de C.V. Additionally, he has been President of the Portland Cement Association in the United States and a member of the Board of Young Presidents' Organization (YPO) in the Rocky Mountain Chapter in Denver, CO.

Enrique is a graduate of Industrial and Systems Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds an MBA from Cornell University and has participated in several executive programs, including IPADE's D-1 program and Harvard University's YPO Presidents Seminar.

**RONALD S. HENLEY – President of the U.S. Division.** Ron Henley joined GCC in 2012 as Vice-president of Logistics, then served as Vice-president of Concrete and in 2015 he was appointed President of the United States Division. Previously, he spent 15 years at Boral Industries, Inc. as Vice President of Growth and Improvement, Managing Director of Boral Construction Materials LLC, as well as Vice President of Operations and Vice President of Finance for Boral Bricks. In addition, he is Vice Chairman of the Portland Cement Association (PCA) and Chairman of PCA's Government Affairs Council.

Ron's expertise extends to various business segments, including operations, project management, asset acquisitions and sales, business integration and expansion, process optimization, financial management, technology transfer and strategic planning.

Ron holds a Bachelor's degree in Finance and Accounting from the University of Missouri. Additionally, he earned the title of Certified Public Accountant (CPA).

**MARCOS RAMÍREZ RIVERA. President of the Mexico Division.** Marcos Ramírez joined GCC in 1990 and has held various positions in the company including Manager of Technical Sales, Government, Infrastructure and Construction segments. In 2018, he was appointed President of the Mexico Division.

Marcos holds a Bachelor's degree in Civil Engineering from the University of the state of Chihuahua. Additionally, he holds a Master's Degree in Construction Administration from the Mexican Chamber of Construction Industry. He has also participated in courses on strategic negotiation, leadership, development for executives, as well as management and administrative strategy programs, and awareness and updating of ISO 12 Standards.

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**JESUS ROGELIO GONZÁLEZ LECHUGA – Corporate Technical and Operations Officer.** Rogelio González joined GCC in 1973 and has held several roles, including: Head of the physicochemical laboratory at the Chihuahua plant, Head of the calcination area, Production Superintendent, Production Manager at the Juarez plant, Manager of Frontier Project Processes at the Samalayuca plant, and Manager of the Juarez and Samalayuca plants. In 2001, he was appointed Mexico Division Director and in 2018 he became the Technical and Operations Officer.

Rogelio holds a degree in Chemical Engineering from the University of the State of Chihuahua. In addition, he holds a Master's Degree in Business Administration from the same university and a Postgraduate Degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

**LUIS CARLOS ARIAS LASO – Chief Financial Officer.** Luis Carlos Arias began his career at GCC in 1996 as a Corporate Planning Analyst, then became Manager of Project Assessment and later took charge of Corporate Treasury and Investor Relations. In 2017 he was appointed Chief Financial Officer.

Luis Carlos holds a Bachelor's degree in Financial Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey, where he has also lectured on mergers and acquisitions. Additionally, he holds an MBA from the same institution in partnership with Midwestern State University. He also completed the D-1 Senior Management program at IPADE.

**LUIS JORGE AMAYA GONZÁLEZ – Chief Energy Officer.** Luis Amaya joined GCC in 2003 as Planning and New Business Manager, later he was appointed Planning Director in 2017 and in April 2020 he became Energy Director. Previously, he held positions in the credit and valuation areas of Citibanamex and Banco Mexicano, later Banco Santander, where he was head of the department.

Luis holds a degree in Industrial Engineering and Systems from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Additionally, he holds a Master degree in Business Administration from the University of Texas in Austin.

**DANIEL EDUARDO HELGUERA MORENO – Chief Human Resources Officer.** Daniel Helguera joined GCC in 2015 as Chief Human Resources Officer. He has 20 years of expertise in the field, having held managerial, strategic and human capital transformation positions. Previously, Daniel led the human resources department in companies in several countries and industries, including: construction, cement, steel, food and technology. Under his guidance, these companies have received Top Companies awards from Grupo Expansión and certifications from the Great Place to Work Institute.

Daniel holds a degree in Public Accounting from the Instituto Tecnológico y de Estudios Superiores de Monterrey. In addition, he holds a Master's degree in Business Administration from the institution's Business School, a Master's degree in Human Resources Management from Instituto de Empresa in Madrid, and several specializations in human resources.

**SERGIO SÁENZ GUTIÉRREZ – General Counsel and Communications Officer.** Sergio Sáenz joined GCC in 2003 as General Counsel and was appointed Communications Officer in 2018. In addition, he is a member of the board of Promotora de la Cultura Mexicana, A.C. which supports Casa Chihuahua, Centro de Patrimonio Cultural. Previously, he served as a legal partner of Despacho Corporativo Empresarial and as Director of Strategic Planning and Political Analysis of the Office of Strategic Planning and Regional Development of the Presidential Office.

Sergio holds a Bachelor's Degree in Law from the Universidad Autónoma de Chihuahua. In addition, he holds a Master's Degree in Economic and Banking Law from the University of Rome "La Sapienza"; a Master's Degree in Corporate Law from the Instituto Tecnológico y de Estudios Superiores de Monterrey; and a Master's Degree in Environment and Natural Resources from the Law School of the University of Denver, Colorado. Sergio also completed the D-1 Management Program at IPADE.

**MAIK STRECKER – Chief Planning Officer.** Maik Strecker joined GCC in 2020 as Chief Planning Officer. He has 20 years of management experience holding different positions, such as Vice President of Business Development, Head of Growth & Innovation of the North America Region, Vice President of Marketing, Ready Mix Product Line General Manager, District Sales Manager and Regional Marketing Director, among other positions at LafargeHolcim, Lafarge North America and Holcim Germany AG.

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**



Maik's expertise extends to commercial, operational, sales & marketing, innovation process management, product-line management, international business development and project leadership within global companies.

Maik holds a Civil Engineering and Business Management Degree from Leipzig University of Applied Sciences, and a Bachelor of Arts in European Business Degree from the University of Lincolnshire & Humberside. Additionally, Maik has completed training programs for marketing, general managers, management through influence, safety conscious leadership and sales model, among others.

In order to promote retention and to align the shareholders' interests with those of the officers and key executives, GCC has a compensation plan aligned with global best practice standards, which is composed of a fixed and a variable portion.

The variable portion represents a larger proportion of the total executive compensation and is linked to the value creation and success of the Company in both short-term and long-term results. The variable portion is determined by indicators based on both short-term and long-term results. The long-term compensation includes a five-period vesting option.

### **Board Committees**

GCC has an Audit and Corporate Practices Committee comprised of independent members appointed by the Board of Directors, except for the Chairman who is elected by the shareholders. The operation of such Committees is subject to the following rules:

- (i) the annual report on the activities corresponding to each Committee will be prepared by the Chairman of the Committee for presentation to the Board of Directors,
- (ii) the Committees will meet as often as necessary, and may be called by the Chairman of the Board, 25% of the directors, the Chief Executive Officer or the Chairman of the Committee,
- (iii) decisions will be taken by a unanimous vote of those present at the meetings,
- (iv) the alternates of the advisors who are members of the Committees shall also be members of the Committee,
- (v) each Committee shall designate at its first meeting a person to act as secretary, who shall not be a member of the Committee, an alternate shall be designated on the same terms, and
- (vi) the Committees shall keep a book of records of their meetings, in which the records of each meeting shall be entered and signed by those who have acted as Chairman and Secretary of the Committee meeting.

During the year ended December 31, 2019, and as of the date of this report, the Audit and Corporate Practices Committee consists of the following persons:

<b>Proprietaries</b>	<b>Alternates</b>
Fernando Ruiz Sahagún - Presidente	José Alberto Araujo Saavedra
Luis Nicolau Gutiérrez	Rodrigo A. Tena Cruz
Héctor Medina Aguiar	Armando J. García Segovia

The Chairman of the Committee, Fernando Ruiz Sahagún, has a degree in Public Accounting from the Universidad Nacional Autónoma de México and is a founding partner and advisor to the firm Chevez, Ruiz, Zamarripa y Cía., S.C. He has been a member of the Tax Advisory Council at the Ministry of Finance and Public Credit, as well as in the Board of Honor and Government of the Colegio de Contadores Públicos de México, A.C. Additionally, he was Chairman of the Fiscal Commission at the Business Coordinating Council.

Among the functions of the Committee in regard to corporate practices field is: to provide its opinion to the Board of Directors on matters of its competence in accordance with the LMV, requesting the opinion of independent experts

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when deemed appropriate for the adequate performance of its functions. In addition, the Committee is responsible for supporting the Board of Directors with the preparation of reports, as well as any activity established by law or provided for in the Company's bylaws, in accordance with the functions assigned to it by the legal system.

Some of the Committees' functions in matters of audits are to provide its opinion to the Board of Directors on the matters within its competence according to the applicable legislation; to evaluate the performance of the legal entity, providing external audit services, as well as analyzing the opinion, reports prepared and signed by the external auditor; to recommend or not to the Board of Directors the approval of the company's financial statements; to report on the situation of the internal control and internal audit system of the Company; to support the Board of Directors in the preparation of reports; to inform the Board of Directors of any irregularities detected in its functions; to ensure that the General Manager complies with the resolutions of the Shareholders' Meetings and the Board of Directors of the Company; and any others established by law or provided for in the Company's bylaws, in accordance with the legally assigned functions.

In order to carry out its functions, the Committee may request the opinion of independent experts in cases where it deems appropriate, request reports from the relevant executives and other collaborators of the Company regarding the preparation of financial information and any other type of information that it considers necessary to carry out its functions, receive observations made by shareholders, directors, relevant executives, collaborators and, in general, any third party, request periodic meetings with the relevant executives, as well as the delivery of any type of information related to the internal control and internal audit of the Company or legal entities that it controls.

#### **4.d) Bylaws and other agreements**

##### **General**

Amendments to GCC's bylaws to comply with the requirements of the LMV were approved in an Extraordinary General Shareholders' Meeting held on December 4, 2006. The bylaws were subsequently amended at the Extraordinary Shareholders' Meeting held on September 12, 2016. A copy of GCC's bylaws, as amended, has been submitted to the CNBV and the BMV and is available for review in the BMV, as well as on its website: [www.bmv.com.mx](http://www.bmv.com.mx). GCC's registered office is located in the city of Chihuahua, Chihuahua and its main offices are located at Av. Vicente Suárez and 6a. s/n, Col. Nombre de Dios, Chihuahua, Chihuahua.

##### **Outstanding Capital Stock**

GCC's capital stock is variable. As of the date of this report, the minimum fixed capital stock without right of withdrawal totals Ps. 134,960,000, which is fully subscribed and paid, and is represented by 337,400,000 ordinary, common, nominative shares, with no par value, Class I, sole series. The variable portion of the capital stock is unlimited and is represented by ordinary, nominative shares with no par value, Class II, single series. Each share is entitled to one vote at Shareholders' Meetings, and all shares confer equal rights and obligations to their holders.

##### **Changes to capital stock**

The fixed portion of the capital stock may be increased or decreased by means of a resolution adopted at an Extraordinary Shareholders' Meeting and upon amendment of GCC's bylaws. The variable portion of the capital stock may be increased or decreased by a resolution adopted at an Ordinary Shareholders' Meeting, without making any amendment to GCC's bylaws. Increases or decreases in the fixed or variable portion of the capital stock must be recorded in the Company's registry of capital variations. New shares cannot be issued unless the previously issued and outstanding shares have been fully paid.

During the last three years and through 2019, there have been no capital increases or share issues.

##### **Registration and Transfer**

The shares are represented by nominative share certificates. GCC's shareholders may hold their shares in the form of physical securities or in electronic records in the books of a financial institution authorized to maintain accounts with Indeval. Indeval will be the registered holder of shares held through electronic records in S.D. Indeval's accounts.

Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and entities authorized to be participants at Indeval. GCC maintains a stock registry and will only recognize the persons registered on such registry as shareholders as long as those persons have nominative share certificates. The Company will also recognize the persons who maintain shares through Indeval accounts as shareholders (presenting Indeval certificates as proof of ownership in addition to certificates issued by depository institutions).

Pursuant to the Securities Market Law, shares transfers must be recorded in the stock registry so that such registry may be correlated with Indeval's records. Physical share certificates may only be transferred by endorsement and delivery, coupled with a notation on the stock registry.

### **Stockholders Meetings and Voting Rights**

General shareholders' meetings may be ordinary or extraordinary. Shareholders may also hold special meetings, if different series of shares exist.

Extraordinary general shareholders' meetings will be those called to resolve matters set forth in Article 182 of the General Law on Corporate Entities and, additionally, to approve the cancellation of the registration of the Company's shares on the Mexican National Securities Registry, as well as the amortization of shares representing GCC's capital stock with distributable profits and the issuance of limited vote shares, preferential shares or any other class of shares other than the common shares, capital stock increases in accordance with Article 53 of the Mexican Securities Market Law, as well as any other matter for which the applicable law or corporate bylaws expressly require a special quorum.

Ordinary general shareholders' meetings are those called to resolve any of the following matters:

- discuss, approve or modify the Chief Executive Officer's report referred to in Article 44, section XI and Article 172 of the Mexican Securities Market Law, except for paragraph b), the Board's opinion related to the Chief Executive Officer's report, the Board's report as set forth in Article 28, section IV, paragraph d) of the Mexican Securities Market Law and Article 172, paragraph b) of the General Law on Corporate Entities, the annual report of the Audit and Corporate Practices Committee referred to in Article 43 of the Mexican Securities Market Law and the report related to the operations and activities of the Board;
- decide the application of the income account;
- appoint the members of the Board, either principal or alternates, and qualify the independence of each member and determine their compensation;
- appoint and/or remove the chairman of the Audit and Corporate Practices Committee;
- increase or reduce the variable portion of the capital stock, except when applicable legal provisions do not require a resolution from a Shareholders' Meeting for purposes of such increase or decrease;
- approve, without exceeding any legal limit, for each fiscal year, the maximum amount of resources to be allocated to share repurchases in terms of Article 6, section VI, paragraph d) of its bylaws;
- approve any transaction that GCC or any other company controlled by it may carry out during one fiscal year, when such transaction represents 20% or more of its consolidated assets, based on the financial information corresponding to the immediately preceding quarter, regardless of the form of their execution, whether simultaneous or successive, but which, due to their characteristics, may be deemed as a single transaction; and
- resolve any other matter under its consideration that is not expressly reserved by any legal provision or its bylaws to an extraordinary general shareholders' meeting.

A special Shareholders' Meeting may be called to resolve any matter set forth in Articles 112 and 195 of the General Law on Corporate Entities.

The attendance quorum for general ordinary shareholders' meetings upon first call will be 51% of the outstanding capital stock, and resolutions may be taken by a majority of the capital stock represented therein. The quorum for extraordinary general shareholders' meetings will be at least 75% of the outstanding capital stock, and resolutions may be taken by the majority of the voting shares of the capital stock, except for resolutions related to any amendment to the provisions of its bylaws related to the cancellation of the registration of the shares at the RNV, which shall require the affirmative vote of at least 95% of the outstanding capital stock. If the aforementioned

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attendance quorum is not met upon first call, the meeting will be repeated and the shareholders will take the decisions corresponding to the matters contained on the agenda, regardless of the number of shares represented, as long as it is an ordinary meeting. In case of a general extraordinary meeting, the affirmative vote of the majority of the shares representing the capital stock will be required in all cases.

In accordance with Mexican law and GCC's bylaws, shareholders' meetings may be called by (i) GCC Board of Directors, (ii) the Chairman of the Board and (iii) the Audit and Corporate Practices Committee. Shareholders representing at least 10% of the outstanding capital stock may request the Chairman of the Board or the Chairman of the Audit and Corporate Practices Committee to call for a meeting. Except as set forth in its bylaws, any shareholder who owns one share shall have equal rights in any of the events referred to in Article 185 of the General Law on Corporate Entities. If the Board or the chairman of the Audit and Corporate Practices Committee fail to call for the meeting within 15 days or 3 days, respectively, following the date of the request, a civil judge or a district judge located at the corporate domicile may call for the meeting if requested by any shareholder, evidencing for such purposes its corresponding participation in the capital stock.

Calls for shareholders' meetings must be published in the official newspaper of GCC's corporate domicile or in a newspaper of general circulation in its corporate domicile and in the electronic system of the Secretaría de Economía (Ministry of Economy), at least 15 days before the scheduled date of the shareholders' meeting, in the case of first and any subsequent calls. Calls shall contain the matters to be discussed at the meeting. From the date on which a call is published until the date of the corresponding meeting, all relevant information must be made available to the shareholders at the Company's corporate offices.

#### **Preemptive Subscription Right**

Under Mexican law and the Company's bylaws, shareholders have preemptive subscription right in respect of all share issuances or capital stock increases, subject to certain exceptions set forth below. If GCC issues additional shares of capital stock, the shareholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Shareholders must exercise their preemptive rights within 15 days following the date of publication of the shareholders' resolution approving the increase of the capital stock on the relevant newspaper of GCC's corporate domicile and in any newspaper of general circulation in its corporate domicile. Under Mexican law, shareholders cannot waive their preemptive rights in advance.

Preemptive rights will not apply to (i) shares issued by GCC in connection with mergers, (ii) the resale of shares held in its treasury or in its balance sheet, as applicable, as a result of repurchases of shares conducted by the Company on the BMV, (iii) in the event that holders of its shares entitled to vote at a general shareholders' meeting, approve the issuance of unsubscribed shares, to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which allows the preemptive subscription right not to apply to public offers carried out by a public traded stock corporation, and (iv) in relation to shares issued in connection with the conversion of convertible securities.

#### **Restrictions on Ownership and Shares Transfers**

Subject to certain exceptions, bylaws require the approval of the Board (i) prior to any acquisition, directly or indirectly, of a block of shares, instruments with reference to or representative of shares, instruments convertible into or exchangeable for shares or rights with respect to shares resulting directly or indirectly in beneficial ownership of shares representing 3% or more of the outstanding shares, (ii) prior to entering into agreements resulting in the formation or adoption of mechanisms or voting association agreements, or of voting in concert or in the aggregate with respect to instruments convertible into or exchangeable for shares or rights with respect to shares representing 3% or more of the outstanding shares (the "Voting Agreement"), and (iii) if any competitor intends to directly or indirectly acquire blocks of shares, instruments with reference to or representative of shares, instruments convertible into or exchangeable for shares or rights with respect to shares. In any case, the approval of the Board must be granted or denied within 90 days following receipt of the corresponding notice, provided that the Board has received all of the information required to consider and approve the transaction, taking into account that, should the Board not come to a resolution in the time period provided for here, the request shall be considered denied.

If such acquisition or Voting Agreement is approved by the Board and results in the beneficial ownership by a shareholder or group of shareholders of 15% or more of GCC's shares or a change of control in the Company, the person acquiring the shares or executing the respective Voting Agreement is required to make a tender offer for 100% minus one of the aggregate outstanding shares at a price equal to the highest of (i) the book value per share of the shares pursuant to the last quarterly financial statements approved by the Board or reported to the CNBV or to the BMV, (ii) the highest closing trading price of the shares on the BMV published within the 365 days prior to the date of request or of the date of the relevant transaction approval by the Board, or (iii) the highest price per any share paid at any time by the person who, individually or in the aggregate, directly or indirectly, has the intention of acquiring the shares or entering into a Voting Agreement that is required to be authorized by the Board, plus, in each case, a 20% premium with respect to the price per share payable; provided, however, that the Board may modify the amount of such premium (upward or downward) considering the opinion of a prestigious investment bank.

In evaluating the authorization requests, the Board shall take into account the factors that it deems relevant, considering the interests of the Company and those of its shareholders, including financial, market and business factors as well as the solvency of the potential acquirers, the origin of the funds to be used by the potential purchaser for the acquisition, potential conflict of interests, protection of GCC's minority shareholders, the expected benefits for its future development, the impact on plans and budgets, the quality, accuracy and veracity of the information submitted by the potential purchaser, the viability of the offer, the price offered, the conditions of the offer, the identity and credibility of the offerors (to the extent it is possible to determine and without any liability whatsoever for the Board members or the shareholders), the reasons for the execution and timing of the Voting Agreement, the sources of financing for the offer and the term for its conclusion, and any other factors that the Board may deem necessary or convenient.

Notwithstanding the foregoing, regardless of the percentage held by the shareholder or holder of the corresponding securities, such authorization will not be required whenever the transfer is made by inheritance. If shares, or rights with respect to such shares, are acquired or Voting Agreements are executed without the required prior written consent of the Board, the alleged shareholder or shareholders, will not be allowed to exercise the rights corresponding to such shares or instruments (including economic rights) and such shares or instruments will not be counted for purposes of determining quorum or required majorities for approving any resolution at shareholders' meetings, and the Company will abstain from registering the aforementioned presumed shareholder or shareholders in the shares registry, and the registration carried out by the applicable institution for depositing securities pursuant to the applicable legislation shall be without effects, and the evidence or listings referred to by Article 290 of the Mexican Securities Market Law will not be acknowledged or given any value, thus they will not show ownership of the shares or evidence the right to attend the shareholders meetings, nor will legitimate the exercise of any actions, including procedural actions. The person, persons or group of persons who acquire shares or other instruments in violation of these provisions shall transfer the shares or instruments to the interested third party that is approved and appointed by the Board of Directors pursuant to article 130 of the LGSM.

### **Change of Control**

Under the Mexican Securities Market Law, any person or group of persons that, directly or indirectly, in a single transaction or in a series of transactions, intends to acquire control of GCC's outstanding shares, should, besides obtaining the approval of the Board, as explained in the paragraph above, undertake a tender offer for 100% of the shares minus one, at a price equal to the greater of (i) the average trading price for the shares during the 30 trading days prior to the offer, or (ii) the last reported book value per share. The Mexican Securities Market Law defines control, for these purposes, as (i) the power to impose decisions, directly or indirectly, at a shareholders' meeting, (ii) the right to vote 50% or more of GCC's shares, or (iii) the ability to cause, directly or indirectly, the management, strategy or policies to be followed in a certain way. This obligation derives from the provisions of the Mexican Securities Market Law and should be read in conjunction with the provisions of the preceding paragraph.

### **Dividends**

The Board of Directors and the Chief Executive Officer must submit for approval of the annual ordinary general Shareholders' Meeting the financial statements of the previous fiscal year. Upon approval of such financial

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statements by the shareholders' meeting, the shareholders will determine the distribution of the net income of the previous fiscal year. Under Mexican law and GCC's bylaws, prior to any payment of dividends, at least 5% of the net earnings must be allocated to a legal reserve fund, until such legal reserve fund is equal to at least 20% of the capital stock. Additional amounts may be allocated to other reserve funds at the discretion of the shareholders, including the amount allocated to a fund for the repurchase of shares. The remaining balance, if any, may be distributed as dividends. Dividends will not be distributed if losses from previous fiscal years have not been absorbed or paid in full.

### **Repurchase of Shares**

In accordance with GCC's bylaws and the Mexican Securities Market Law, the Company may repurchase its own shares, without being applicable the first paragraph of Article 134 of the General Law on Corporate Entities, through the BMV, on the prevailing market price, except for public bids or auctions authorized by CNBV, and as long as such purchase is made against the stockholders' equity, to the extent such shares are owned by the Company, or to the capital stock in the event that those shares are converted into unsubscribed treasury shares, in which case the resolution of the Shareholders' Meeting will not be needed.

### **Dissolution or Liquidation**

Upon the Company's dissolution or liquidation, GCC's shareholders will appoint one or more liquidators at an Extraordinary Shareholders' Meeting. All fully paid and outstanding shares of the capital stock will be entitled to participate equally in any liquidation proceeds.

### **Rights of Minority Stockholders**

Pursuant to the Mexican Securities Market Law, GCC's bylaws include a number of minority shareholder protections. These minority protections include, among others, the following:

- Holders of at least 10% of the Company's outstanding voting shares may:
  - Request a call for a Shareholders' Meeting;
  - Request that resolutions with regarding any matter of which they were not sufficiently informed be postponed; and
  - Appoint one member of the Board and one alternate member of the Board.
- Holders of 20% of the outstanding shares with voting rights may oppose judicially to the resolutions of the Shareholders' Meetings, in which they are entitled to vote, without the percentage referred to in article 201 of the LGSM being applicable; and
- Shareholders representing at least 5% of the capital stock may exercise a remedy for civil liability (for the Company's benefit and not for the benefit of the plaintiff), against all or any of the directors for breach of their duty of care or duty of loyalty in an amount equal to the damages caused to GCC. Actions seeking such remedies will prescribe five years after the event.

### **Other Provisions**

#### *Duration*

GCC's corporate existence under its bylaws is indefinite.

#### *Purchases of Shares by GCC's Subsidiaries*

GCC's subsidiaries or other entities controlled by the Company may not purchase, directly or indirectly, shares representing its capital stock.

#### *Conflicts of Interest*

Any member of the Board who, in a given transaction, has an interest opposed to that of the Company must disclose it and abstain from all deliberation and resolution in this respect. Any director who contravenes this provision shall be liable for any damages caused to the Company, as well as any breach of his duty of care.

In accordance with the Mexican General Law on Corporate Entities, shareholders with a conflict of interest must abstain from any deliberation in connection in the matter. Shareholders violating such provision shall be liable for

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damages caused to the Company if the transaction has not been approved without such shareholder's vote.

*Jurisdiction*

GCC's bylaws provide that any controversy between the shareholders and the Company, or between its shareholders, shall be submitted to the jurisdiction of the courts of the city of Chihuahua, Chihuahua.

*Right to Separation*

In the event that a change in the corporate purpose, nationality or transformation from one corporate form to another is approved by GCC's shareholders, any voting shareholder who has voted against the approval of these matters at the Shareholders' Meeting shall have the right to separate from the company and receive the book value of its shares in accordance with the latest financial statements approved by the shareholders, provided that the shareholder exercises this right within 15 days after the meeting at which the change was approved.

*Cancellation of the Registration in the RNV*

Pursuant to GCC's bylaws and the Mexican Securities Market Law, the Company will be required to make a public tender offer to purchase the shares of the minority shareholders in the event that the listing of GCC's shares on the BMV is cancelled, either by the Company's resolution or by order of the CNBV. The controlling shareholders will be secondarily liable for the fulfillment of these obligations.

***Board of Directors Committees***

Like any other public company, GCC has an Audit and Corporate Practices Committee. The members of the Audit and Corporate Practices Committee must be independent and appointed by the Board of Directors, except for the chairman who is elected by GCC's shareholders. The operation of Board committees is subject to the following rules: (i) the annual report on the activities of each committee shall be prepared by the chairman of the committee for submission to the Board of Directors, (ii) the committees shall meet as often as necessary and may be called by the chairman of the board, 25% of the board members, the chief executive officer, or by the chairman of said committee, (iii) decisions shall be made by unanimous vote of those attending the committee meetings, (iv) the alternates for the board members serving on the committee shall also have that character in relation to the integration of the committee, (v) each committee at its first session will appoint the persons who will serve as secretary and alternate secretary, neither of whom will be member of the committee, and (vi) the committees shall keep a book of minutes for their sessions, in which the minutes of each session shall be recorded, and which will be signed by the persons who acted as chairman and secretary in the Committee session.



## 5) Capital Market

### 5.a) Shareholding structure

Refer to section 2.b.xii

### 5.b) Performance of GCC's shares listed on the Mexican Stock Exchange

As of May 29, 2020, the total number of shares representing the fixed portion of GCC's capital stock is 337,400,000, of which 159,536,207 is available in the market. The performance of these shares on the Mexican Stock Exchange is summarized below, in nominal pesos.

#### GCC's share price at the end of the last five fiscal years

Period	Closing price	Trading volume	Maximum price	Minimum price
2015	44.81	5,466,383	47.10	35.00
2016	68.40	16,261,604	68.88	41.50
2017	91.47	61,838,367	97.87	65.25
2018	100.44	113,487,558	134.98	89.46
2019	100.95	103,292,211	113.65	93.12

#### GCC's share price at the quarterly close of the last two fiscal years

Period	Closing price	Trading volume	Maximum price	Minimum price
I – 2018	97.79	13,546,649	110.30	89.46
II – 2018	128.85	31,605,619	130.00	95.98
III – 2018	122.81	38,659,650	134.98	117.20
IV – 2018	100.44	29,675,640	124.00	96.42
I – 2019	107.13	44,383,095	113.65	95.20
II – 2019	105.81	23,251,266	112.66	98.38
III – 2019	105.40	16,458,942	110.00	93.12
IV – 2019	100.95	19,198,908	109.88	97.26

#### GCC's share price at the end of each month for the six months prior to the filing of this report

Period	Closing price	Trading volume	Maximum price	Minimum price
November 2019	102.58	6,347,958	109.50	101.32
December 2019	100.86	6,640,502	104.84	97.26
January 2020	97.92	5,723,703	103.20	95.31
February 2020	97.98	7,999,614	101.50	91.17
March 2020	69.95	11,592,424	102.50	65.01
April 2020	69.96	18,190,318	74.98	60.30

GCC was included for the first time in the MSCI family of stock indices on June 1, 2018, being part of indices referenced as MSCI Mexico Small Cap, Emerging Markets (EM) Small Cap, EM Latin America IMI Value Weighted, EM Latin



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America ex Brazil Small and Mid Cap Growth, among others. In March 2019, GCC was included in the FTSE Mexico All Cap index and in September 2019 it was included in the FTSE BIVA index. Additionally, GCC was part of the S&P/BMV IPC index of the Mexican Stock Exchange, from September 24, 2018 to April 24, 2020.

#### **5.c) Market maker**

On March 12, 2018, GCC entered into a market maker services agreement with UBS Casa de Bolsa, S.A. de C.V, UBS Grupo Financiero. On that date, UBS Grupo Financiero started trading GCC shares listed in the Mexican Stock Exchange, with an effective date of twelve months, with the option to be cancelled 6 months after the beginning of the contract or to be renewed at the end of the term. The market maker agreement was terminated on September 25, 2018.

The average daily volume of GCC shares between March 12 and September 24, 2018 was 406,536 shares, while the average daily volume of the market maker was 44,800 shares, representing 11.0% of the average daily operations of GCC shares.

During said period, GCC shares closing price had a slight increase of 23.8%, going from Ps. 99.93 to Ps. 123.73.

The Market Maker promotes GCC shares liquidity, sets reference prices and contributes to the stability and continuity of such prices. These tasks are achieved by quoting a minimum amount of \$200,000.00 and bidding with a maximum differential of up to 3%.

During the term of the agreement, the market maker promoted the liquidity of GCC shares, established reference prices and contributed to the stability and continuity of the securities. These functions were performed by operating a minimum bid amount of Ps. 400,000 and establishing bid and ask positions with a maximum spread of up to 3%.

In addition, during that period GCC was included in the MSCI index family and in the S&P/BMV IPC index of the Mexican Stock Exchange, therefore, increases in price and volume of GCC's shares are also attributed to this, as well as to the Company's performance, strong financial results and corporate strategy.

During 2019 and as of the date of this report, GCC does not have a market maker.

6) Legal representatives



**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

Chihuahua, Chihuahua, México a 29 de mayo de 2020

Los suscritos manifestamos bajo protesta de decir verdad que, en el ámbito de nuestras respectivas funciones, preparamos la información relativa a la emisora contenida en el presente reporte anual, la cual, a nuestro leal saber y entender, refleja razonablemente su situación. Asimismo, manifestamos que no tenemos conocimiento de información relevante que haya sido omitida o falseada en este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas.

Atentamente,

A handwritten signature in blue ink, appearing to be 'HEO', written over a horizontal line.

Héctor Enrique Escalante Ochoa  
Director General

A handwritten signature in black ink, appearing to be 'LCA', written over a horizontal line.

Luis Carlos Arias Laso  
Director de Administración y Finanzas

A handwritten signature in blue ink, appearing to be 'S Sáenz', written over a horizontal line.

Sergio Sáenz Gutiérrez  
Director Jurídico

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

Vicente Suárez y 6ª S/N  
Col. Nombre de Dios, 31110  
Chihuahua, Chih., México

Tel. (614) 442 3217  
Fax. (614) 442 3181  
www.gcc.com

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**

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29 de mayo de 2020

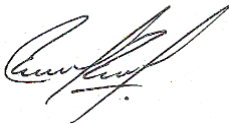
A la Administración de Grupo Cementos de Chihuahua, S.A.B. de C.V.

El suscrito manifiesta, bajo protesta de decir verdad, que los estados financieros consolidados de Grupo Cementos de Chihuahua, S.A.B. de C.V. y Subsidiarias (la "Emisora") al 31 de diciembre de 2019, 2018 y 2017, y por los años que terminaron en esas fechas, contenidos en el Anexo A del presente reporte anual, fueron dictaminados con fecha 11 de abril de 2020, 12 de abril de 2019 y 19 de marzo de 2018, de acuerdo con las Normas Internacionales de Auditoría.

Asimismo, manifiesto que he leído el presente reporte anual y, basado en su lectura y dentro del alcance del trabajo de auditoría realizado, no tengo conocimiento de errores relevantes o inconsistencias en la información que se incluye y cuya fuente provenga de los estados financieros dictaminados, señalados en el párrafo anterior, ni de información que haya sido omitida o falseada en este reporte anual, o que el mismo contenga información que pudiera inducir a error a los inversionistas.

No obstante, el suscrito no fue contratado para realizar, y no realicé, procedimientos adicionales con el objeto de expresar una opinión respecto de la otra información contenida en el reporte anual que no provenga de los estados financieros dictaminados.

Atentamente,



C.P.C. Pedro Rodríguez Estrada  
Apoderado de la persona moral y auditor externo independiente  
Socio de Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Miembro de Deloitte Touche Tohmatsu Limited



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7) Appendix

7.a) Estados Financieros Dictaminados 2019, 2018 y 2017

**GRUPO CEMENTOS DE CHIHUAHUA, S.A.B. DE C.V.  
AND SUBSIDIARIES**

Consolidated Financial Statements for the Years  
Ended December 31, 2019, 2018 and 2017, and  
Independent Auditors' Report Dated April 11, 2020



**Independent Auditors' Report and Consolidated Financial Statements for  
2019, 2018 and 2017**

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Consolidated statements of other comprehensive income	101
Consolidated statements of cash flows	102
Consolidated statements of changes in stockholders' equity	103
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# **Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Cementos de Chihuahua, S. A. B. de C. V.**

(In thousands of U.S. dollars)

## ***Opinion***

We have audited the consolidated financial statements of Grupo Cementos de Chihuahua, S.A.B. de C.V. and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, and the consolidated statements of profit, consolidated statements of other comprehensive income, consolidated statements of cash flows and consolidated statements of changes in stockholders' equity, for the years then ended, including the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS and or IAS), issued by the International Accounting Standards Board (IASB).

## ***Basis for Opinion***

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the "International Ethics Standards Board for Accountants' Code of ethics for Professional Accountants" (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.

### **1. Evaluation of goodwill impairment**

Due to the importance of the goodwill balance and the economic changes to certain markets in which the Company operates, goodwill must be adequately reviewed to identify potential impairment. The conclusion as to whether the book value of goodwill is recoverable requires that the Company's management prepare significant estimates regarding key assumptions to determine future cash flows. The goodwill balance was generated by business acquisitions in the United States of America. In order to evaluate the impairment, the Company has assigned two cash generating units involving the Cement and Concrete Divisions.

**Grupo Cementos de Chihuahua, S.A.B. de C.V.**



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The IAS 36, "Impairment of Assets," requires the performance of an impairment evaluation each year, which calculates future discounted cash flows to ascertain the potential impairment of the book values of the acquired assets. We identified the risk whereby the assumptions utilized by management to calculate the discount rate might not be fair based on current market conditions and those prevailing in the foreseeable future.

As auditors, we have analyzed the key assumptions utilized in the impairment model, specifically including cash flow projections, discount rates, the long-term growth rate and operating margin. Our valuation specialists assisted us to independently evaluate the utilized discount rates and methodology used to prepare the impairment test model. We have also tested the completeness and accuracy of the impairment model.

As discussed in Note 27 to the consolidated financial statements, as of December 31, 2019, 2018 and 2017, the Company recognized an impairment loss on goodwill assigned to the segment of the concrete cash generating unit in the United States of America division in the income for the year of \$ 6,339 \$ 4,151 and \$ 15,400, respectively.

## **2. Deferred income taxes**

Certain entities in Mexico and the United States of America generated tax losses in prior years, which have not yet been applied against tax profits. Accordingly, deferred tax assets have been recognized in the consolidated statements of financial position as of December 31, 2019 for \$ 116,201 from the Mexican entities and \$ 34,452 from the United States of America entities.

According to the IAS 12, "Income Taxes", when determining deferred income taxes, the Company estimates the probability of generating a tax basis in future periods so as to apply the deferred assets generated by tax losses; however, there is a risk that i) the assumptions utilized by management to calculate future cash flows might not be fair based on current conditions and those prevailing in the foreseeable future; ii) assumptions regarding transactions performed outside the normal course of business might be considered; and/or iii) a fair recovery period might not be considered, or iv) there are incorrect calculations.

The audit procedures we applied to cover the risk related to the determination of deferred taxes included verifying the fairness of the assumptions used by management to determine the recoverability of tax losses and tax specialist assisted us in the application of our audit procedures. The result of our audit procedures was satisfactory.

The accounting policy utilized by the Company to recognize deferred taxes, together with details of their disclosure, are included in Notes 4.x and 23, respectively, to the accompanying consolidated financial statements.

## **3. Contingencies**

As a result of its operations, the Company is involved in a series of legal proceedings. Given the incipient nature of most of these proceedings or the inability to determine a provision, reserves have not been created. Furthermore, the specialists contracted by the Company's management consider that the verdicts issued for these proceedings will not significantly affect the Company's consolidated financial position or their consolidated result of operations. A commercial lawsuit has been filed against the Company following the sale of its 47.02% equity in a joint venture; the cancellation of this sale has been requested.



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The lawsuit has evolved through different stages in which both favorable and unfavorable verdicts have been issued to the Company; however, in the opinion of the specialists contracted by Management, the Company has a good chance of obtaining a favorable verdict that will not imply any cost.

Our audit procedures consisted of the following:

- i) Perform inquiries with Company's management regarding the status of this lawsuit.
- ii) Verify the available information published by the media with regard to the lawsuit status.
- iii) Obtain the purchase-sale contract executed to sell the Company's shares in the joint venture.
- iv) Obtain confirmation from the specialists contracted by the Company regarding the status of the lawsuit and their evaluation of confirmed facts.

Based on the application of our audit procedures, we did not identify any facts leading us to believe that the Company should recognize a provision for the commercial lawsuit filed based on the sale of its equity in joint venture.

The accounting policy utilized by the Company for contingencies and details of its disclosure are included in Notes 4.x and 30, respectively, to the accompanying consolidated financial statements.

### ***Information Other than the Consolidated Financial Statements and Auditors' Report Thereon***

Management is responsible for the other information. The other information comprises the information that will be included in the Annual Report that the Company will prepare according to Article 33, Section I, paragraph b) Fourth Title, First Chapter of the "General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico", together with the Instructions Guide accompanying these provisions (the Provisions). The Annual Report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report when it becomes available and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or from our knowledge obtained during the audit, or otherwise appears to be materially misstated. When we read the Annual Report, we will issue a statement in this regard over our reading of the Annual Report, as required by Article 33, Section I, paragraph b), number 1.2 of the Provisions.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the "going concern" basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.





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Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concerns basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We will also provide those charged with governance of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.



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From the matters communicated with those charged with governance of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

C.P.C. Pedro Rodríguez Estrada  
April 11, 2020



## Consolidated statements of financial position

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

			As of December 31,		
	Note	2019	2018	2017	
<b>ASSETS</b>					
CURRENT ASSETS					
Cash and cash equivalents	6	\$ 350,523	\$ 251,818	\$ 232,933	
Accounts receivable:					
Trade accounts receivable, net	7	92,345	78,881	91,338	
Other accounts receivable	7	57,637	59,311	42,945	
Due from related parties	8	2,526	1,417	2,726	
		<b>152,508</b>	<b>139,609</b>	<b>137,009</b>	
Inventories	9	138,288	132,178	113,212	
Prepaid expenses	12	12,399	10,547	12,532	
<b>Total current assets</b>		<b>653,718</b>	<b>534,152</b>	<b>495,686</b>	
NON-CURRENT ASSETS					
Investments in associates, joint venture and other investments	13	18,313	15,548	9,955	
Property, plant and equipment, net	14	1,015,909	1,027,760	936,387	
Right of use asset by lease	10	40,531	-	-	
Goodwill	17	240,545	246,884	387,461	
Intangible assets, net	18	68,508	73,251	60,790	
Other assets	19	20,110	4,937	5,430	
Deferred income tax	23	-	-	12,181	
<b>Total non-current assets</b>		<b>1,403,916</b>	<b>1,368,380</b>	<b>1,412,204</b>	
<b>TOTAL ASSETS</b>					
		<b>\$ 2,057,634</b>	<b>\$ 1,902,532</b>	<b>\$ 1,907,890</b>	

See accompanying notes to consolidated financial statements.



		As of December 31,		
	Note	2019	2018	2017
<b>LIABILITIES AND EQUITY</b>				
SHORT-TERM LIABILITIES				
Current portion of long-term financial debt	21	\$ 25,425	\$ 4,400	\$ 17,150
Trade accounts payable		83,625	83,223	89,232
Due to related parties	8	1,164	1,204	1,435
Short-term employee benefits	20	31,852	27,952	25,427
Accrued expenses and taxes				
other than income taxes	22	41,402	42,267	43,972
Provisions	22	2,651	3,177	5,007
Lease liability	11	20,788	-	-
<b>Total current liabilities</b>		<b>206,907</b>	<b>162,223</b>	<b>182,223</b>
LONG-TERM LIABILITIES				
Long-term financial debt	21	624,566	645,936	665,751
Lease liability	11	20,661	-	-
Employee benefits	20	45,944	35,536	40,072
Provision for environmental restoration	22	22,677	21,969	10,208
Other long-term liabilities		267	1,408	734
Income taxes payable	23	11,132	19,458	29,308
Deferred income tax	23	50,943	43,786	50,631
<b>Total non-current liabilities</b>		<b>776,190</b>	<b>768,093</b>	<b>796,704</b>
<b>Total liabilities</b>		<b>983,097</b>	<b>930,316</b>	<b>978,927</b>
STOCKHOLDERS' EQUITY				
Capital stock	24	32,076	32,068	32,070
Additional paid-in capital		148,365	148,365	148,365
Legal reserve		22,659	22,659	22,659
Retained earnings		1,157,450	1,051,833	1,000,666
Other comprehensive loss		( 286,046)	( 282,741)	( 274,827)
Equity attributable to owners				
of the Company		<b>1,074,504</b>	<b>972,184</b>	<b>928,933</b>
Non-controlling interest		33	32	30
<b>Total stockholders' equity</b>		<b>1,074,537</b>	<b>972,216</b>	<b>928,963</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
		<b>\$ 2,057,634</b>	<b>\$ 1,902,532</b>	<b>\$ 1,907,890</b>



## Consolidated statements of profit

(In thousands of U.S. dollars (\$), except earnings per share)

		For the years ended December 31,		
	Note	2019	2018	2017
Net sales	29	\$ 934,115	\$ 883,230	\$ 824,104
Cost of sales	26	667,201	637,864	585,479
Gross profit		266,914	245,366	238,625
General, administrative and selling expenses	26	83,348	75,530	77,829
<b>Operating income before other expenses</b>		<b>183,566</b>	<b>169,836</b>	<b>160,796</b>
Other expenses	27	7,289	8,341	16,238
<b>Operating income</b>		<b>176,277</b>	<b>161,495</b>	<b>144,558</b>
Financial expenses	28	( 41,002)	( 50,577)	( 57,341)
Financial income – interest income		8,849	6,461	3,530
Exchange loss, net		( 4,141)	( 342)	( 2,019)
Share of profit of associates and joint venture		2,163	4,749	2,090
Profit before income taxes		142,146	121,786	90,818
Income taxes	23	( 25,409)	( 16,692)	( 12,072)
Profit before discontinued operations		116,737	105,094	78,746
(Loss) profit income from discontinued operations	16	-	( 40,055)	4,967
<b>Consolidated net profit income for the year</b>		<b>\$ 116,737</b>	<b>\$ 65,039</b>	<b>\$ 83,713</b>
Consolidated net income for the year attributable to:				
Owners of the Company		116,733	65,037	83,569
Non-controlling interests		4	2	144
<b>Consolidated net income for the year</b>		<b>\$ 116,737</b>	<b>\$ 65,039</b>	<b>\$ 83,713</b>
<b>Basic and diluted earnings per share:</b>				
Weighted average outstanding shares				
(thousands)		332,586	332,269	332,536
Basic and diluted earnings per share of				
controlling interest (in dollars)		\$ 0.35	\$ 0.20	\$ 0.25

See accompanying notes to consolidated financial statements.



**Consolidated statements of other comprehensive income**

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

		For the years ended December 31,		
	Note	2019	2018	2017
<b>Consolidated net income for the year</b>		<b>\$ 116,737</b>	<b>\$ 65,039</b>	<b>\$ 83,713</b>
<b>Other comprehensive income:</b>				
Items that may be reclassified to net income in the future:				
Cumulative translation adjustments - net	24	( 11,934)	( 1,305)	( 19,111)
Items that will not be reclassified to net income in the future:				
Remeasurements of employee benefits	24	12,327	( 9,442)	6,492
Income taxes effect	24	( 3,698)	2,833	( 1,948)
Total comprehensive loss		( 3,305)	( 7,914)	( 14,567)
<b>Consolidated comprehensive income for the year</b>		<b>\$ 113,432</b>	<b>\$ 57,125</b>	<b>\$ 69,146</b>
<b>Consolidated comprehensive income for the year attributable to:</b>				
Owners of the Company		\$ 113,431	\$ 57,123	\$ 69,002
Non-controlling interests		1	2	144
		<b>\$ 113,432</b>	<b>\$ 57,125</b>	<b>\$ 69,146</b>

See accompanying notes to consolidated financial statements.



## Consolidated statements of cash flows

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

	Note	For the years ended December 31,		
		2019	2018	2017
<b>Cash Flows from operating activities</b>				
Consolidated net income for the year		\$ 116,737	\$ 65,039	\$ 83,713
Adjustments for:				
Increase in pensions and seniority premium	20	6,484	5,609	3,913
Share of profit of associates and joint venture		( 2,163)	( 4,749)	( 2,090)
Discontinued operations	16	-	40,055	( 4,967)
Flow of discontinued ordinary operations	16	-	1,694	9,684
Depreciation	14	79,254	79,314	72,086
Depreciation for right of use asset by lease	10	19,141	-	-
Amortization	18	10,011	7,212	7,058
Impairment of non-current assets	27	6,339	4,151	15,400
(Gain) loss on sale of property, plant and equipment		( 1,084)	( 68)	164
Income tax	23	25,409	16,692	12,072
Financial expenses	28	41,002	50,577	57,341
Financial income – interest income		( 8,849)	( 6,461)	( 3,530)
Movements in working capital:				
Trade accounts receivable		( 13,464)	12,457	( 14,637)
Due to related parties		44	1,078	560
Other accounts receivable		481	( 16,366)	( 1,597)
Other assets		( 603)	-	-
Inventories		( 6,110)	( 18,966)	( 1,767)
Prepaid expenses		( 2,698)	1,985	( 849)
Trade accounts payable		127	( 6,009)	15,174
Direct benefits paid to employees	20	( 2,604)	( 2,587)	( 3,247)
Accrued provisions and liabilities		( 23,974)	1,766	21,091
Cash generated from operations		243,480	232,423	265,572
Interest received		8,849	6,461	3,530
Income tax paid		( 22,341)	( 24,533)	( 12,220)
Net cash flows generated by operating activities		229,988	214,351	256,882
<b>Cash flows from investing activities</b>				
Additions of property, plant and equipment and other assets		( 64,700)	( 109,236)	( 75,530)
Proceeds from disposal of property, plant and equipment		2,722	1,031	894
Discontinued operation	16	-	118,470	-
Business combination	15	-	( 107,516)	-
Net cash flows used in investing activities		( 61,978)	( 97,251)	( 74,636)
<b>Cash Flows from financing activities</b>				
Payments of short-term and long-term financing	21	( 4,400)	( 434,863)	( 263,850)
Paid leases	10	( 20,758)	-	-
Proceeds from short and long-term financing	21	-	400,000	260,000
Commission for prepayment of debt		-	( 6,934)	( 12,842)
Interest paid		( 33,449)	( 40,136)	( 51,986)
Dividends paid	24	( 13,886)	( 12,553)	( 10,774)
Net cash flows used in financing activities		( 72,493)	( 94,486)	( 79,452)
Net increase in cash and cash equivalents		95,517	22,614	102,794
Adjustment to cash flows for variations in exchange rates		3,188	( 3,729)	( 33,712)
Cash and cash equivalents at the beginning of the year		251,818	232,933	163,851
<b>Cash and cash equivalents at the end of the year</b>		<b>\$ 350,523</b>	<b>\$ 251,818</b>	<b>\$ 232,933</b>

See accompanying notes to consolidated financial statements.



Grupo Cementos de Chihuahua, S.A.B. de C.V.

## Consolidated statements of changes in stockholders' equity

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

	Capital stock	Additional paid-in capital	Legal reserve	Retained earnings	Other comprehensive income	Equity Attributable to owner	Non-controlling' interest	Total stockholders' equity
<b>Balances as of January 1, 2017</b>	\$ 32,070	\$ 148,365	\$ 22,659	\$ 927,871	\$ (260,260)	\$ 870,705	\$ 307	\$ 871,012
Consolidated net income for the year	-	-	-	83,569	-	83,569	144	83,713
Dividends paid	-	-	-	(10,774)	-	(10,774)	(421)	(11,195)
Other items of comprehensive income	-	-	-	-	(14,567)	(14,567)	-	(14,567)
<b>Balances as of December 31, 2017</b>	\$ 32,070	\$ 148,365	\$ 22,659	\$ 1,000,666	\$ (274,827)	\$ 928,933	\$ 30	\$ 928,963
Consolidated net income for the year	-	-	-	65,037	-	65,037	2	65,039
Dividends paid	-	-	-	(12,553)	-	(12,553)	-	(12,553)
Repurchase of shares	(2)	-	-	(1,317)	-	(1,319)	-	(1,319)
Other items of comprehensive income	-	-	-	-	(7,914)	(7,914)	-	(7,914)
<b>Balances as of December 31, 2018</b>	\$ 32,068	\$ 148,365	\$ 22,659	\$ 1,051,833	\$ (282,741)	\$ 972,184	\$ 32	\$ 972,216
Consolidated net income for the year	-	-	-	116,733	-	116,733	4	116,737
Dividends paid	-	-	-	(14,383)	-	(14,383)	-	(14,383)
Repurchase of shares	8	-	-	3,267	-	3,275	-	3,275
Other items of comprehensive income	-	-	-	-	(3,305)	(3,305)	(3)	(3,308)
<b>Balances as of December 31, 2019</b>	\$ 32,076	\$ 148,365	\$ 22,659	\$ 1,157,450	\$ (286,046)	\$ 1,074,504	\$ 33	\$ 1,074,537

See accompanying notes to consolidated financial statements.





## **Notes to the consolidated financial statements**

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

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### **1. Description of activities**

Grupo Cementos de Chihuahua, S.A.B. de C.V. is a holding company that is organized under the laws of Mexico and whose subsidiaries are principally engaged in the production and sale of hydraulic cement, concrete and aggregates in the markets of Mexico (state of Chihuahua) and the United States of America (in the central corridor from the state of Texas and New Mexico to Montana and North Dakota). Grupo Cementos de Chihuahua, S.A.B. de C.V. is listed on the Mexican Stock Exchange (BMV, by its acronym in Spanish) and is a subsidiary of CAMCEM, S.A. de C.V. (direct holding), an entity that owns 51.621% of its shares and 48.379% is traded on the BMV with the symbol GCC \*.

Hereinafter the terms "GCC" or the "Company" are used to refer to Grupo Cementos de Chihuahua, S.A.B. de C.V. and Subsidiaries.

The corporate offices are located at Avenida Vicente Suarez and calle Sexta s/n, Colonia Nombre de Dios, C.P. 31110, Chihuahua, Chihuahua, Mexico.

### **2. Application of new and revised International Financial Reporting Standards**

#### **a. Application of new and revised International Financial Reporting Standards ("IFRS" or "IAS") that are mandatorily effective for the current year**

In the current year, the Company implemented a series of new and modified IFRS, issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2019.

#### **New and modified IFRS that are effective for the reporting periods and periods beginning on January 1, 2019**

The Company implemented IFRS 16, "Leases" (issued by the IASB in January 2016), which establishes new or modified requirements regarding lease accounting. Introduces significant changes to the lessee's accounting, eliminating the distinction between an operating and financial lease and requiring the recognition of a right-of-use asset and a lease liability on the start date of all leases, except those that are considered short-term or low value assets. In contrast to lessee's accounting, the requirements for the lessor remain without significant changes. Details for the new requirements are described in Note 4. The initial impact of the adoption of IFRS 16 on the Company's consolidated financial statements is described below.

The initial application date of IFRS 16 for the Company was January 1, 2019.

The Company has applied IFRS 16 using the retroactive approach with cumulative effect of the initial application of the Standard recognized on the date of the initial application, according with the paragraphs C7 to C13 of mentioned Standard.

##### **(a) Impact of the new leasing definition**

The Company has determined to apply the practical solution available for the transition to IFRS 16 so as not to reassess whether a contract is or contains a lease. Therefore, the definition of lease according to the previous Lease Standard IAS 17 and IFRIC 4 continues to apply to contracts concluded or modified prior to January 1, 2019.

The change in the definition of a lease mainly refers to the concept of control. IFRS 16 determines whether a contract contains a lease based on whether the client has the right to control the use of an identified asset for a period of time in exchange for a consideration. This contrasts with the "risks and benefits" approach of IAS 17 and IFRIC 4.



## **Notes to the consolidated financial statements**

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

The Company applies the definition of a lease and the related guidelines set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019. For the initial adoption of IFRS 16, the Company has carried out an implementation project, which revealed that the new lease definition under IFRS 16 does not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact of accounting as a lease

(i) Previous operating leases

IFRS 16 changes the way in which the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

When applying IFRS 16, for all leases (except those mentioned below), the Company will:

- (a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the series of future lease payments,
- (b) Recognize depreciation of right-of-use assets and interest generated by lease liabilities in the consolidated statement of profit;
- (c) Separate the total amount of cash paid to capital (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flow.

Lease incentives (for example, rent-free period) they are recognized in the initial measurement of the right-of-use assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers, office furniture and phones), the Company has chosen to recognize a lease expense in the year in which it is incurred as permitted by IFRS 16. This expense is presented in "other expense" in the consolidated statement of profit.

(ii) Previous financial leases

The main differences between IFRS 16 and IAS 17 with respect to contracts classified as finance leases is the measurement of the residual value of the guarantees provided by the lessor to the lessee. IFRS 16 requires that the Company recognizes as part of the lease liability only the amount expected to be paid under a residual value guarantee, rather than the maximum amount of the guaranteed a required by IAS 17. This change did not generate any material impact on the Company's consolidated financial statements.

(c) Impact on Lessor Accounting

IFRS 16 does not contain substantial changes in the way in which a lessor accounts for a lease. Under IFRS 16, a lessor continues classifying leases as either finance leases or operating leases and account for those two types of leases differently.

Under IFRS 16, an intermediate lessor accounts for the main lease and the sublease as two separate contracts. The intermediate lessor must to classify the sublease as a finance lease or operating lease by reference to the right-of-use asset arising from the main lease (and not by reference to the underlying asset as was the case under IAS 17).

Due to this change, the Company has reclassified some sublease contracts as finance leases. As required by IFRS 9, a bad debt accounting is recognized for finance leases receivable.



## Notes to the consolidated financial statements

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

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(d) Initial financial impact of the adoption of IFRS 16

The following shows the adjustment amounts for each account of the consolidated financial statements affected by the application of IFRS 16 for the current period.

The Company as lessee:

- (1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 results in recognition of assets for use rights for \$ 57,315 and lease liabilities for \$ 57,315. It also resulted in a decrease in other expenses for \$ 20,528, an increase in depreciation of \$ 19,141 and increase in interest expense of \$ 2,306.
- (2) At the start of the adoption of IFRS 16, there were no equipment under financial leasing contracts.
- (3) At the beginning of the adoption of IFRS 16, there was no lease liability on leases previously classified as financial leases under IAS 17.
- (4) At the beginning of the adoption of IFRS 16, there was no provision for onerous lease contracts required under IAS 17.
- (5) At the beginning of the adoption of IFRS 16, there was no liability for lease incentives previously recognized for operating leases.

The Company as lessor:

As December 31, 2019, the Company had no effect due to the application of the standard.

**Impact of application of other modifications to IFRS Standards and Interpretations that are effective for periods beginning on or after January 1, 2019.**

In the current year, the Company has adopted a number of amendments to the IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Its adoption has not had any material impact on the disclosures or amounts reported in these consolidated financial statements.

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Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"

The Company adopted the amendments to IFRS 9 for the first time in the current period. The modification clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applicable.

This includes long-term interests that, in substance, form part of the net investment in an associate or joint venture. The Company applies IFRS 9 to such long-term interest to which IAS 28 previously applied. Furthermore, in applying IFRS 9 to long-term interests, the Company does not take into account adjustments to their carrying amount required by IAS 28 (for example, adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).



## Notes to the consolidated financial statements

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IAS 12, “Income Taxes”, IAS 23, “Borrowing Costs”, IFRS 3, “Business Combinations”, and IFRS 11, “Joint Arrangements”.

The Company has adopted the amendments included in the “*Annual improvements to IFRS standards 2015-2017 cycle*” for the first time in the current period. The Annual Improvements include amendments to four Standards.

### IAS 12, “Income Taxes”

The amendments clarify that an entity should recognize the consequences of the income tax on dividends in profit, other comprehensive income or equity according to where the Company originally recognized the transactions that generated the distributable profits. This applies regardless of whether different tax rates apply to distributed and undistributed earnings.

### IAS 23, “Borrowing Costs”

The amendments clarify, that if any specific loan remains outstanding after the related asset is ready for its intended use or sale, the loan is part of the funds borrowed when calculating the capitalization rate on general loans.

### IFRS 3, “Business Combinations”

The amendments clarify that when control of a business that is a joint operation is obtained, the requirements for a business combination in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

### IFRS 11, “Joint Arrangements”

The amendments clarify that when a party that participates in, a joint operation did not have joint control, and obtain joint control, the participation previously held in the joint operative should not be reassessed.

Amendments to IAS 19, “Employee Benefits Plan Amendment, Curtailment or Settlement”.

The amendments clarify that the cost of past service (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset), using current assumptions and comparing the benefits offered and the plan assets before and after the plan amendment (reduction or settlement) of the plan, but ignoring the effect of the asset ceiling (which may arise when the defined benefit plan is in a surplus position). IAS 19 now clarifies that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) of the plan, is determined in a second step and is normally recognized in other comprehensive income.

Paragraphs related to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended, the Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).



## Notes to the consolidated financial statements

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

IFRIC 23, "Uncertainty over Income Tax Treatments"	<p>IFRIC 23 establishes how to determine the accounting tax position when there is uncertainty regarding income tax treatments. The Interpretation requires:</p> <ul style="list-style-type: none"> <li>determine if uncertain tax positions are assessed separately or as a group; and</li> <li>assess whether the tax authority is likely to accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax returns: <ul style="list-style-type: none"> <li>If so, the tax position must be determined consistently with the tax treatment used in income tax returns.</li> <li>If no, the effect of uncertainty on the determination of the accounting tax position should be reflected using the most probable amount of the expected value method.</li> </ul> </li> </ul>
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### New and revised IFRS Standards that are not yet effective

On the date of authorization of these consolidated financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"
Amendments to IFRS 3	"Business Definition"
Amendments to IAS 1 and IAS 8	"Materiality Definition"
Conceptual framework	"IFRS Conceptual framework"

The management do not expect that the adoption of the Standards mentioned above will have a material impact on the consolidated financial statements of the Company in future periods, except as noted below:

### Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments to IFRS 10 and IAS 28 mention situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments establish that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the measure of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value, are recognized in the former parent's profit or loss only to the measure of the unrelated investors' interests in the new associate or "joint venture".

The effective date of the modifications has not yet been set by the IASB; however, early application is permitted.

The Company's management do not anticipate that the application of the amendments in the future will have an impact on the Company's consolidated financial statements.



## **Notes to the consolidated financial statements**

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

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### **Amendments to IFRS 3, "Business Definition"**

The modifications clarify that, while businesses usually have outputs, outputs such are not required for a series of integrated activities and assets to qualify as a business. To be considered as a business, a series of activities and acquire assets should include, at least, an input and a substantial process that together contribute significantly to the ability to generate outputs.

Additional guidance is provided to help determine if a substantial process has been acquired.

The amendments introduced an optional test to identify the fair value concentration, which enable a simplified evaluation of whether a series of activities and acquire assets is not a business if substantially all the fair value of the gross assets acquired is concentrated in a unique identifiable asset or a group of similar assets.

The amendments apply prospectively to all business combinations and asset acquisitions whose acquisition date is on or after the first reporting period beginning on or after January 1, 2020, with early application allowed.

### **Amendments to IAS 1 and IAS 8, "Materiality Definition"**

The modifications are intended to simplify the definition of materiality contained in IAS 1, making it easier to understand and are not intended change the underlying concept of materiality in IFRS Standards. The concept of obscuring material information with immaterial information has been included in the new definition.

The limit for influential materiality for the users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. Further, the IASB amended other standards and the Conceptual Framework that contained a definition of materiality or reference to the term materiality to ensure consistency.

The modification will be applied prospectively for reporting periods beginning on or after January 1, 2020, with early application allowed.

### **Conceptual framework**

Together with the revised Conceptual Framework, which entered effect on its publication on March 29, 2018, the IASB also issued Modifications to References to the Conceptual Framework of IFRS Standards. The document contains modifications for the IFRS 2, 3, 6, 14, IAS 1, 8, 34, 37, 38, IFRIC 12, 19, 20, 22 and SIC 32.

Nevertheless, not all modifications update the pronouncements regarding references to the conceptual framework so that they refer to the Revised Conceptual Framework. Some pronouncements are only updated to indicate which version they refer to (to the IASC Framework adopted by the IASB in 2001, the 2010 IASB Framework or the 2018 Revised Framework) or to indicate that the definitions in the Standard have not been updated with new definitions developed in the revised Conceptual Framework.

The Amendments, that reality are updates, they are effective for annual periods beginning on or after January 1, 2020, with early adoption allowed.



## **Notes to the consolidated financial statements**

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

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### **3. Change of currency report from Mexican pesos to US dollars**

Considering the dispositions of IAS 21, "Effects of Changes in Foreign Currency Exchange Rates", beginning in 2018, the Company changed its reporting currency (presentation of financial statements) from Mexican pesos to US dollars (dollars), consequently, in the future, as well as the previous periods and dates and their corresponding comparatives will be presented in US dollars. The aforementioned is due to the fact that the environment in which the Company operates is mostly in US dollars, so the consolidated financial statements expressed in US dollars reflect the results and the financial situation of the Company more adequately.

The consolidated financial statements are presented in US dollars (\$), all values have been rounded up to thousands (000), except when another situation is mentioned.

### **4. Significant accounting policies**

#### **a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with IFRS released by the IASB.

#### **b) Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and property, plant and equipment that are valued at revalued amounts or at their reasonable values at the end of each period, as explains in the accounting policies included below.

##### Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

##### Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for the transactions of stock-based payments that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 - inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs are unobservable inputs for the asset or liability.

##### Reclassifications

Certain amounts in the consolidated financial statements as of and for the years ended December 31, 2018 and 2017 have been reclassified to conform to the presentation of the 2019 consolidated financial statements.



## **Notes to the consolidated financial statements**

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of U.S. dollars (\$))

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### **c) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Grupo Cementos de Chihuahua, S.A.B. de C.V. and the subsidiaries controlled by the Company. Control is achieved when the GCC:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its return

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.





## Notes to the consolidated financial statements

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### Changes in the Company's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The subsidiaries included in the consolidated financial statements are presented as follows:

Subsidiaries	% Ownership As of December 31,		
	2019	2018	2017
<b>Direct equity interest in Mexican subsidiaries:</b>			
Cementos de Chihuahua, S.A. de C.V.	99.999	99.999	99.999
GCC Cemento, S.A. de C.V.	99.999	99.999	99.999
GCC Corporativo, S.A. de C.V.	99.990	99.990	99.990
<b>Indirect equity interest in Mexican subsidiaries:</b>			
Materiales Industriales de Chihuahua, S.A. de C.V.	99.964	99.964	99.964
GCC Concreto, S.A. de C.V.	99.998	99.998	99.998
Minera Rarámuri, S.A.	99.990	99.990	99.990
Construcentro de Chihuahua, S.A. de C.V.	99.990	99.990	99.990
GCC Edificaciones y Servicios, S.A. de C.V.	99.990	99.990	99.990
GCC Inversiones y Comercialización, S.A. de C.V.	99.319	99.319	99.319
GCC Transporte, S.A. de C.V.	99.950	99.950	99.950
GCC Comercial, S.A. de C.V.	99.990	99.990	99.990
Urbanizaciones Contemporáneas, S.A. de C.V.	99.990	99.990	99.990
GCC Latinoamérica, S.A. de C.V.	99.990	99.990	99.990
GCC Mercantil, S.A. de C.V.	99.990	-	-
<b>Indirect equity interest in foreign subsidiaries (located mainly in the United States of America):</b>			
GCC of America, Inc.	99.999	99.999	99.999
GCC Rio Grande, Inc. (GCCRG)	99.999	99.999	99.999
GCC Dacotah, Inc. (Dacotah)	99.999	99.999	99.999
GCC Ready Mix, LLC. (GCCRM)	99.999	99.999	99.999
Mid Continent Concrete Company, Inc. (Midco)	99.999	99.999	99.999
Alliance Transportation, Inc. (Alliance)	99.999	99.999	99.999
GCC Holding Company, LLC.	99.999	99.999	99.999
American Investments Company, LLC.	99.999	99.999	99.999

(Continue)



## Notes to the consolidated financial statements

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GCC Energy, LLC. (GCCE)	99.999	99.999	99.999
Consolidated Ready Mix, Inc. (CRM)	99.999	99.999	99.999
Materiales (Hungary) Investment Group Financing, Ltd.	99.999	99.999	99.999
GCC Alliance Concrete, Inc. (GCCAC)	99.999	99.999	99.999
Colorado Energy Recyclers, LLC.	99.999	99.999	99.999
GCC Technology and Processes, S.A.	99.999	99.999	99.999
GCC Investment, Ltd.	99.999	99.999	99.999
GCC Premium Transloaders, LLC.	99.999	99.999	99.999
Cross Border Logistics, LLC.	49.999	49.999	49.999
Sunset Properties, LLC.	99.999	99.999	99.999
NM Energy, LLC.	99.999	99.999	99.999
GCC Permian, LLC.	99.999	99.999	99.999
GCC Sun City Materials, LLC.	99.999	99.999	99.999
New Materiales Investment, LLC.	99.999	99.999	99.999
GCC Three Forks, LLC.	99.999	99.999	-
GCC Canadian Holding, Inc.	99.999	-	-
			(Concluded)

The financial statements of the subsidiaries and associates are prepared using the same reporting period as the Company, using consistent accounting policies. Intercompany balances, investments and transactions were eliminated in the consolidated financial statements.

### d) Cash and cash equivalents

Cash and cash equivalents are financial assets. Cash and cash equivalents are readily convertible into a known amount of cash with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and in banks, deposits held on call with banks and other short-term, highly liquid investments, net of outstanding bank overdrafts.

### e) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### f) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

#### Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:



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- 
- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Company may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

### (i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.



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For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item.

### (ii) Equity instruments designated as at FVTOCI

In the initial measurement, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial measurement it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "finance income" line item in profit.

The Company has designated all investments in equity instruments that are not held for trading as at fair value through other comprehensive income on initial application of IFRS 9.

### (iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called "accounting mismatch") that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Company has not designated any debt instruments as at FVTPL.



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### Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the "other gains and losses";
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the "other gains and losses". Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the "other gains and losses" ; and
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

### Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognizes lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, GCC measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime expected credit losses represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit losses represents the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### (i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, GCC considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as



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consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Regardless of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligation.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them accordingly to ensure that the criteria are able to identify a significant increase in credit risk before the amount has been defeated.



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### (ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or;
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, GCC considers that default has occurred when a financial asset is more than 90 days past due unless GCC has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### (iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

### (iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

### (v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.



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For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 "Leases".

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

### Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, GCC recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Upon derecognition of a financial asset measured at amortized cost, the difference between the book value of the asset and the sum of the consideration received and receivable is recognized in profit or loss. In addition, upon derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. In contrast, in the decrease of an investment in a capital instrument that the Company chose in the initial recognition to measure fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve was not reclassified to profit or loss, but is transferred to retained earnings.

### **g) Financial liabilities and equity**

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.





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Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### Composite financial instruments

The components of the convertible loan titles issued by the Company are classified separately as financial liabilities and capital, according to the content of the contractual agreements and the definitions of a financial liability and capital instrument. A conversion option that will be settled by exchanging a fixed number of the Company's own equity instruments is an equity instrument.

At the issuance date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until it is extinguished at the time of the conversion or on the expiration date of the instrument.

The conversion option classified as capital is determined by deducting the amount of the liability component from the fair value of the entire composite financial instrument. This is recognized and included in the net equity, net of income tax effects, and is not measured again later. In addition, the conversion option classified as equity will remain in the equity until the conversion option is exercised, in which case, the balance recognized in the equity will be transferred to another equity. When the conversion option is not exercised on the expiration date of the convertible loan title, the balance recognized in the equity will be transferred to another equity. No gain or loss in profit or loss is recognized after the conversion or expiration of the conversion option.

Transaction costs related to the issuance of convertible loan securities are allocated to the liability and equity components in proportion to the allocation of incomes. Transaction costs related to the equity component are recognized directly in equity. Transaction costs related to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible loan notes using the effective interest method.

### Financial liabilities

The financial liabilities are classified as financial liabilities to fair value through change in profit or as other financial liabilities

### Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if (i) there is currently a legally enforceable right to offset the recognized amounts, and (ii) the intention is to settle on a net basis or to realize the assets and settle the liabilities in a simultaneously amount.

### Long-term financial debt

After initial recognition, long-term financial debt and notes payable are subsequently measured at amortized cost using the effective interest rate. Gains and losses are recognized in the consolidated statement of other comprehensive income



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when the liabilities are derecognized as well as through the amortization process of the effective interest rate.

Amortized cost is calculated taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included under the caption financial expenses in the consolidated statements of profit.

### Exchange gain and loss.

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, gains and losses in foreign currency are determined based on the amortized cost of the instruments. These gains and losses in foreign currency are recognized under the heading "Other gains and losses" in results for financial liabilities that are not part of a designated hedging relationship. For those who are designated as a hedging instrument for a hedge of foreign currency risk, gains and losses in foreign currency are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and converted at the exchange rate at the end of the reporting period. For financial liabilities that are measured at fair value through profit or loss, the foreign currency component is part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

### Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

## **h) Hedge accounting**

### Hedges of net investments in foreign operations

The Company designates the net investment of its foreign operations as a cash flow hedge related to the debt denominated in US dollars, so the exchange rate fluctuations arising from such debt are recognized in the effect of translation of foreign operations in other comprehensive income.

Profit and losses on the hedging instrument accumulated in the foreign currency conversion reserve are reclassified to profit or loss in the disposition or partial disposition of the foreign operation.

## **i) Inventories and cost of sales**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories includes all the purchase and production costs incurred to provide them with their current location and condition, and is valued as follows:

- Raw material: at acquisition cost according to the average cost formula.
- Finished goods and work in process: at cost of materials, direct labor, and indirect production expenses, excluding financial costs.
- Spare parts and supplies: at cost based on the average cost.

Net realizable value is the sale price estimated in the ordinary course of operations, less applicable sale expenses. The inventories line item includes developed lands that are traded as part of the normal operating activities, which are recorded at their acquisition cost, which does not exceed net realizable value.



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### j) Prepaid expenses

Prepayments are recognized for the amount paid, less any subsequent amortization during the period that services or related goods are provided. The Company recognizes advance payments as an asset when it has the right to receive goods or services in the future.

### k) Property, plant and equipment

Property, plant and equipment and their significant components with useful lives different from the other assets that compose a group of fixed assets, are initially recognized at acquisition value and are presented net of the accumulated depreciation and accumulated losses for impairment.

The acquisition value of the property, plant and equipment components include costs initially incurred to be acquired or constructed, and those incurred subsequently to replace them or increase their potential service.

Property, plant and equipment are presented using the cost model as required by IAS 16 "Property, Plant and Equipment". Depreciation is recognized for expensing the cost or valuation of assets (other than land and properties under construction) less their residual value and is calculated using the straight-line method based on the estimated useful life of the assets, which is estimated according to the period in which the benefits derived from their use will be received. The useful life, residual value and depreciation method are reviewed periodically by management of the Company and the effect of any changes in the registered estimate is recognized on a prospective basis.

Depreciation begins when the asset is available for use and is calculated based on the following annual rates, which are allocated according to their estimated useful life:

	Percentage
Buildings	2.00% - 4.00 %
Machinery and equipment	3.33 % - 10.00 %
Vehicles	10.00 % - 25.00 %
Furniture and equipment	10.00 % - 33.33 %

#### Construction in progress

Construction in progress includes the costs associated with the construction of property, plant and equipment. Once construction is complete, these assets are classified as property, plant and equipment and depreciation begins as of the date they are capitalized, which is when their period of use begins.

#### Maintenance and repairs

Major repair and maintenance costs are capitalized and a useful life and depreciation rate are estimated similarly as the other components of the same Company or class, with similar lives, and, lastly, the part of the replaced component is written off.

#### Property, plant and equipment sales and write offs

Property, plant and equipment are written off upon their sale or when future economic benefits are not expected from their use or sale. Any profit or loss upon write off of the asset (calculated as the difference between the net income arising from the sale of the asset and its carrying amount), is included in the consolidated statement of comprehensive income in the period in which it occurs.



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### Restoration provisions

The present value of the initial estimate of the place decommissioning and remediation obligation of the assets subject to this type of legal obligation is included in the Company's property cost. Changes in the measurement of a provision that result from changes in the estimated timing or amount of cash outflows, or a change in the discount rate, are added to, or deducted from, the cost of the related fixed asset.

### **I) Intangible assets**

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The amounts for the mining rights for the extraction of coal used as fuel for cement plants and for sale to third parties are depreciated according to depletion of estimated reserves.

#### Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, an intangible asset that is generated internally is recognized at cost less accumulated amortization and any accumulated impairment losses on the same basis as intangible assets acquired separately.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.



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### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

### **m) Non-current assets classified as held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of the subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

### **n) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or Companies of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **o) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.



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### **p) Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. The Company performs the impairment test considering assets groups that constitute cash generating units (CGU).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit.

### **q) Investments in associates and joint ventures**

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in deciding the financial and operating policies of the Company in which it invests, but does not imply a control or joint control over those policies.

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control in a business, which exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated into the financial statements using the equity method, unless the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, "Assets Non-current Held for Sale and Discontinued Operations". Under the equity method, investments in associates or joint ventures are initially recognized in the consolidated statement of financial position at cost and adjusted for subsequent changes to the acquisition by the Company's participation in the profit or loss and of the associate or joint venture. When the participation of the Company in the losses of an associated entity or joint venture exceeds the participation of the Company in the associate or joint venture, the Company ceases to recognize its share of losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

When the Company carries out transactions with its associate or joint venture, the profit or loss resulting from such transactions with the associate or joint venture are recognized in the consolidated financial statements of the Company only to the extent of participation in the associate or set that is not related to the Company.



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### **r) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, "Income Taxes", and IAS 19, "Employee Benefits", respectively;

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The accounting treatment for changes in the fair value of the contingent consideration that do not qualify as adjustments to the measurement period depends on how the contingent consideration is classified. The contingent consideration that is classified as capital is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within the capital. Other contingent consideration that is classified as an asset or liability is remeasured at fair value on subsequent reporting dates with changes in the fair value recognized in the consolidated statement of profit.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

### **s) Leasing**

Until December 31, 2018, leases were classified as financial when the terms of the lease substantially transferred to the lessees all the risks and benefits inherent to the property. All other leases were classified as operating.



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### The Company as lessee

Assets held under finance leases were recognized as Company assets at fair value, at the beginning of the lease, or if it was minor, at the present value of the minimum lease payments. The lessor's liability was included in the statement of financial position as a finance lease liability.

Lease payments were distributed between financial expenses and the reduction of lease obligations in order to achieve a constant interest rate on the remaining balance of the liability. Financial expenses were charged directly to results, unless they can be directly attributable to qualifying assets, in which case they were capitalized in accordance with the Company's accounting policy for borrowing costs. Contingent rents were recognized as expenses in the periods in which they were incurred.

Payments for operating lease income were charged to income using the straight-line method, during the term corresponding to the lease, unless another systematic apportionment basis is more representative to more adequately reflect the pattern of the benefits of the lease to the user. Contingent rents are recognized as expenses in the periods in which they are incurred.

### As of January 1, 2019, the Company as lessee

The Company evaluates whether a contract contains a lease at its source. The Company recognizes a right-of-use and a corresponding lease liability with respect to all lease agreements in which it is a lessee, except for short-term leases (12 months or less) and low-value assets (such as electronic tablets, personal computers and small office furniture and telephone). For these leases, the Company recognizes rental payments as an operating expense under the straight-line method throughout the term of the lease, unless another method is more representative of the pattern of time in which the economic benefits from the consumption of leased assets.

The lease liability is initially measured at the present value of rent payments that are not paid on the start date, discounted by the rate implied in the contract. If this rate cannot be easily determined, the Company uses incremental rates.

The rent payments included in the measurement of the lease liability consist of:

- Fixed rent payments (including fixed payments in substance), less any lease incentives received;
- Variable income payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of call options, if the lessee is reasonably certain to exercise the options; and
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in the consolidated statement of financial position.

The lease liability is subsequently measured with the increase in carrying amount to reflect the interest accrued on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the rental payments made.

The Company reevaluates the lease liability (and makes the corresponding adjustment to the asset for related use rights) provided that:

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rent payments using an updated discount rate.





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- Rent payments are modified as a result of changes in rates or rates or a change in the expected payment under a guaranteed residual value, in which cases the lease liability is revalued by discounting the updated rent payments using the same discount rate (unless the change in rent payments is due to a change in a variable interest rate, in which case an updated discount rate is used).
- A lease is amended and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is revalued based on the lease term of the modified lease, discounting the updated rent payments using an updated discount rate at the effective date of the modification.

The Company did not realize any of the adjustment mentioned on the periods presented.

Assets for rights of use consist of the initial measurement of the corresponding lease liability, rent payments made on or before the start date, minus any lease incentive received and any initial direct costs. Subsequent valuation is cost less accumulated depreciation and impairment losses.

If the Company incurs an obligation arising from costs of dismantling and removing a leased asset, restore the place in which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37 must be recognized. To the extent that costs are related to an asset for use rights, costs are included in the asset for related use rights, unless such costs are incurred to generate inventories.

The right-of-use assets depreciate over the shortest period between the lease period and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the asset for rights of use reflects that the Company plans to exercise a purchase option, the right-of-use asset will depreciate over the useful life. Depreciation begins on the start date of the lease.

Right-of-use assets are presented as a separate concept in the consolidated statement of financial position.

The Company applies IAS 36 to determine if a right-of-use asset is impaired and accounts for any impairment loss identified as described in the "Property, plant and equipment" policy.

Leases with variable incomes that do not depend on an index or rate, they are not included in the measurement of the lease liability and the right-of-use asset. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and is included in the concept of "Other expenses" in the consolidated statement of profit (see Note 26).

As a practical file, IFRS 16 allows not to separate non-lease components and instead account for any lease and its associated non-lease components as a single agreement, the Company has not used this practical file. For contracts that contain lease components and one or more additional lease or non-lease components, the Company assigns the lease consideration to each lease component under the method of the relative independent sale price of the lease component and relative aggregate independent sale price for all non-lease components.

### **t) Transaction foreign currencies**

In preparing the financial statements of each individual entity, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:



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- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into U.S. dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset; all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

The exchange rates used in the conversion are presented below:

MXN	December 31, 2019	December 31, 2018	December 31, 2017
Closing exchange rate	18.8452	19.6829	19.7867
Average exchange rate	19.2594	19.2368	18.9326

The exchange rate at the date of issuance of the consolidated financial statements is \$ 24.0388 pesos per U.S. dollar.

### v) Short-term and other long-term employee benefits and statutory employee profit sharing "PTU"

#### Employee benefits by pension and retirement

Contributions to the defined benefit retirement benefit plans are recognized as expenses at the time the employees have rendered the services that grant them the right to contributions. Contributions made to the benefit plan of the state pension scheme are accounted for as payments for the contribution plans of the Company's obligations, this under the plans that are equivalent to the contributions of the pension benefit plan

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in other comprehensive income and is not subsequently reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:



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- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
  - Net interest expense or income.
  - Remeasurement.

The Company presents the first two components of defined benefit cost as an expense or income according to the item.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Any indemnity obligation is recognized at the time that the Company can no longer withdraw the compensation offer and/or when the Company recognizes the related restructuring costs. Gains and losses on service reduction are recognized as past service costs. In Mexico, these benefits consist of a single payment equivalent to three months of salary plus 20 days for each year of service, in case of unjustified dismissal.

### **Defined benefits plan and seniority premiums granted to employees of subsidiaries in Mexico**

The Company has a defined benefit pension covering all employees in the Mexican subsidiaries. Pensions are determined based on the compensation of employees in their final year of service, years of service in the Company and the age at retirement. Additionally, it is required to cover the employees with seniority premiums in Mexico, which are determined based on the provisions of the Federal Labor Law. Under Mexican law, the payment is a premium equivalent to twelve days' salary for each year of service, where an employee becomes entitled to benefits after fifteen years of service. The cost of pension and seniority premiums are recognized based on calculations by independent actuaries using the projected unit credit method.

### **Defined benefit plans and seniority premiums granted to employees of subsidiaries in the United States**

The subsidiaries of the Company, GCC Rio Grande, Inc. (GCCRG) and GCC Dacotah (Dacotah), Inc., have established the following pension plans and benefits:

GCCRG and Dacotah, have both established defined benefit plans and supplemental executive retirement plans, determined based on actuarial calculations using the projected unit credit method and nominal financial assumptions. The employees of GCCRG and Dacotah are not beneficiaries of this plan until they have a seniority of five and three years, respectively. When they fulfill such terms, they are 100% beneficiaries of the plan. Additionally, GCCRG, Dacotah, CRM, GCCE, Midco, GCCAC, GCC Three Forks, GCC Permian, GCC Sun City and Alliance have a defined contribution plan, which qualifies as a 401(k) plan and covers substantially all of their employees. The Company matches contributions up to 4.0% of their salary paid. Dacotah also has a sick leave plan as described in Note 20. All gains and losses from remeasurements associated with changes in actuarial assumptions and losses are recognized in other comprehensive income for all defined benefit plans and are not reclassified to earnings in future periods. The financial cost component part of the net periodic cost is presented in financial expenses in the consolidated statements of profit.

### **Short-term and other long-term employee benefits**

A liability is recognized for benefits accruing to employees with respect to wages and salaries, annual leave and sick leave in the period of service in which it is provided for the undiscounted amount for the benefits expected to be paid for that service.

Liabilities recognized for short-term employee benefits are valued at the amount not discounted for the benefits expected to be paid for that service.



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Liabilities recognized for other long-term benefits are valued at the present value of the estimated future cash disbursements that the Company expects to make related to the services provided by the employees at the reporting date.

### Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce the cost of service by paying these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, accounting depends on whether contributions are linked to the service, as follows:

- If contributions are not tied to services (for example, contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), reflected in the new measurement of net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. By the amount of contribution that depends on the number of years of service, the Company reduces the cost of service by attributing contributions to service periods, using the attribution method required by IAS 19 paragraph 70 for gross profit. For the amount of the contribution that is independent of the number of years of service, the Company reduces the cost of service by attributing contributions to employee service periods, in accordance with IAS 19 paragraph 70.

### Statutory employee profit sharing (PTU)

PTU is recorded in the profit (loss) for the year in which it is incurred and presented under operating expenses in the consolidated statements of profit. As a result of the 2014 Income Tax Law, as of December 31, 2019, 2018 and 2017 employee profit sharing is based on the taxable income under Section I of Article 9 of the Law on Income Tax.

## **w) Share-based payments arrangements**

### Share-based payment transactions of the Company

Equity-settled share-based payment to employees are measured at the fair value of the equity instruments at the date they are granted. Details regarding the determination of the fair value of equity-settled share-based transactions are presented in Note 25.

The fair value determined at the date granting the payments based on shares that can be settled through capital instruments is recorded as expenses on a straight-line basis during the award period, based on the Company's estimate of the capital instruments that they will eventually be awarded with a corresponding increase in capital. At the end of each period, the Company reviews its estimates of the number of equity instruments that are expected to be foreclosed. The effect of the revision of the original estimates, if any, is recognized in the results of the period so that the accumulated expense reflects the revised estimate, with the corresponding adjustment to the reserve of benefits to employees that can be settled through capital instruments.

## **x) Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current income tax

Current income tax mainly calculated correspond to income tax (ISR) in Mexico and the United States of America and is recognized in the results of the year in which is incurred.

Current income tax is payable on the taxable base of the year. Taxable income differs from net income as reported in



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profit or loss because it excludes components of income or expenses that are cumulative or deductible in other years and excludes components that have never been cumulative or deductible. The Company's liabilities for the taxes caused are calculated using the tax rates that have been decreed at the end of the reporting period.

A provision is recognized for those reasons where the tax determination is uncertain, but it is considered probable that there is a future outflow of funds for a tax authority. Provisions are valued at the best amount expected to become payable. The evaluation is based on the judgment of tax experts supported by previous experiences of the Company in these types of activities and in some cases based on the consultation of an independent tax specialist.

### Deferred income tax

Deferred income taxes are recognized on temporary differences between the book value of the assets and liabilities included in the financial statements and the corresponding tax bases used to determine the fiscal result, to which the corresponding tax rate is applied. Differences and, if applicable, include the benefits of the tax losses to be amortized and of some tax credits. The deferred income tax asset or liability is generally recognized for all temporary tax differences. A deferred tax asset will be recognized for all deductible temporary differences, to the extent that it is probable that the Company will have future taxable profits against which these deductible temporary differences may apply. These assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (different from the business combination) of other assets and liabilities in an operation that does not affect the fiscal result or the accounting result.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right that allows offsetting current tax assets against current tax liabilities and when they are related to income taxes collected by the same tax authority and the Company has the intention to settle your current tax assets and liabilities on a net basis.

### Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### **y) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event,



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it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an account receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the account receivable can be measured reliably.

### 1. Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

### 2. Restructuring

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Company.

### 3. Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at the Company's management best estimate of the expenditure required to settle the Company's obligation.

### 4. Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized in accordance with IFRS 15, "Revenues".

### 5. Restoration provisions

Provisions for the costs of restoring plant assets leased to their original condition, as stipulated in the terms and conditions of the lease, are recognized when the obligation is incurred, either on the start date of the lease or as a consequence having used the underlying asset during a particular period of the lease for the amount that management reasonably estimates will be required to restore the assets. The estimates are reviewed on a regular basis and are appropriately adjusted to the new circumstances that arise.

## **z) Revenue recognition**

Under IFRS 15, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1: Identify the contract(s) with a customer (agreement that creates enforceable rights



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and obligations); Step 2: Identify the different performance obligations (promises) in the contract and account for those separately; Step 3: Determine the transaction price (amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services); Step 4: Allocate the transaction price to each performance obligation based on the relative stand-alone selling prices of each distinct good or service; and Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation by transferring control of a promised good or service to the customer. A performance obligation may be satisfied at a point in time (typically for the sale of goods) or over time (typically for the sale of services and construction contracts). IFRS 15 also includes disclosure requirements to provide comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 was effective on January 1, 2018, and supersedes all existing guidance on revenue recognition.

After an extensive analysis of its contracts with customers, business practices and operating systems for all the reported periods in the countries in which the Company operates in order to review the different performance obligations and other promises (discounts, loyalty programs, rebates, etc.) included in such contracts, aimed to determine the differences in the accounting recognition of revenue with respect to prior IFRS, GCC adopted IFRS 15 on January 1, 2018, using the retrospective approach, without any significant effects on its operating results, financial situation and changes in equity.

The Company's policies under IFRS 15 are the following:

Revenue is recognized at a point in time or over time in the amount of the price, before tax on sales, expected to be received by the Company's subsidiaries for goods and services supplied as a result of their ordinary activities, as contractual performance obligations are fulfilled, and control of goods and services passes to the customer. Revenues are decreased by any trade discounts or volume rebates granted to customers. Transactions between related parties are eliminated in consolidation.

Variable consideration is recognized when it is highly probable that a significant reversal in the amount of cumulative revenue recognized for the contract will not occur and is measured using the expected value or the most likely amount method, whichever is expected to better predict the amount based on the terms and conditions of the contract.

Revenue and costs from trading activities, in which the Company acquires finished goods from a third party and subsequently sells the goods to another third-party, are recognized on a gross basis, considering that the Company assumes ownership risks on the goods purchased, not acting as agent or broker.

When revenue is earned over time as contractual performance obligations are satisfied, which is the case of construction contracts, the Company applies the stage of completion method to measure revenue, which represents: a) the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs; b) the surveys of work performed; or c) the physical proportion of the contract work completed, whichever better reflects the percentage of completion under the specific circumstances. Revenue and costs related to such construction contracts are recognized in the period in which the work is performed by reference to the contract's stage of completion at the end of the period, considering that the following have been defined: a) each party's enforceable rights regarding the asset under construction; b) the consideration to be exchanged; c) the manner and terms of settlement; d) actual costs incurred and contract costs required to complete the asset are effectively controlled; and e) it is probable that the economic benefits associated with the contract will flow to the Company.

Progress payments and advances received from customers do not reflect the work performed and are recognized as a short-term or longterm advanced payments, as appropriate.

### **aa) Earnings per share**

Net earnings per share result from dividing the consolidated net income attributable to controlling interest for the year by the weighted average of outstanding shares during the year. To determine the weighted average of the outstanding shares, the shares repurchased by the Company are excluded. The Company does not have any instruments with dilutive effects.



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### **ab) Treasury shares**

The Company recognizes a reserve for repurchase of its own shares and it is shown under the retained earnings in the consolidated financial statements. In the event that the sale price is greater than the cost, the difference is recorded as contributed capital under the additional-paid-in capital caption.

### **ac) Presentation of the consolidated statements of profit**

The costs and expenses reflected in the consolidated statements of profit of the Company were classified according to their function, in Note 26, costs and expenses by nature are disclosed. The gross profit is presented because it shows an objective assessment of operating margin, considering the industry in which the Company operates.

### **ad) Segment information**

Operating segments are defined as components of a Company that develop activities and which economic benefits and results obtained are reviewed by management on a regular basis for decision making.

The Company's management analyzes geographical segment information by country and by product. Consequently, management evaluates the performance of its operating results for Mexico and the United States of America for the following products: cement, ready mix concrete and the rest of the segments are grouped in "Other" (see Note 29).

Under the concept "Other" are included products with similar characteristics related to the core business as sale of aggregates, concrete blocks and other building materials.

## **5. Key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in Note 4, the management of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **Discount rate used to determine the carrying amount of the Company's defined benefit obligation**

The Company's defined benefit obligation of the Company is discounted at a rate set at market rates of high quality corporate bonds in the absence of a deep market for high quality corporate bonds, is discounted using government bonds. It is required to use professional judgment to establish the criteria for the existence of a deep market for high quality corporate bonds, therefore, the Company performed its assessment considering different markets to Mexico and the United States of America division.

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Useful lives of property, plant and equipment. - The Company reviews the estimated useful life of property, plant and equipment at the end of each annual period. The degree of uncertainty related to the estimated useful lives is related to the changes in the market and the use of assets for production volumes as well as technological developments.





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b) Impairment of non-financial assets. - When testing assets for impairment, the Company requires estimating the value in use assigned to property, plant and equipment, and cash generating units. The calculations of value in use require the Company to determine future cash flows generated by cash generating units and an appropriate discount rate to calculate the present value thereof. The Company uses cash inflow projections using estimated market conditions, determination of future prices of products and volumes of production and sale. Similarly, for discount rate and perpetuity growth purposes, the Company uses market risk premium indicators and long-term growth expectations of markets where the Company operates.

c) Contingencies. - The Company is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of occurrence probability. The factors considered in these estimates are the current legal situation as of the date of the estimate, and the legal advisors' opinion.

d) Deferred income tax. - Deferred tax assets are recognized for all tax loss carry forwards to the extent that management believes that recovery is probable through the generation of future taxable income, which are estimated using future flows.

e) Tax provision. - The Interpretation establishes the accounting of income taxes when tax treatments imply uncertainty that affects the application of IAS 12, "Income Taxes". It does not apply to taxes or levies that are outside the scope of IAS 12, nor does it specifically include the requirements related to the interests and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- i. If an entity considers the treatment of uncertain tax positions separately.
- ii. The assessment that an entity makes on the assessment of the tax authority of an uncertain tax treatment used, or proposed to be used, by an entity to its tax.
- iii. How an entity determined the tax profit (tax loss), the tax bases, the unused tax losses, the unused tax credits and the tax rates.
- iv. How an entity considers changes in facts and circumstances.

f) Discount rates used to determine the carrying amount of the Company's defined benefit obligations and the right-of-use asset. - The determination of the benefits of borrowed obligations and right-of-use assets depend on some assumptions; they include the selection and calculation of the discount rates:

The discount rate for the benefits of borrowed obligations – is determined by reference to market performance at the end of the period in corporate bonds. Significant assumptions need to be made when setting criteria for the bonds and must be included in the yield curve. The most important criteria to consider for bond selection includes the current size of corporate bonds, the quality and identification of the guidelines that are excluded.

The discount rate for right-of-use assets - is determined by estimating the interest rate that a lessee would have to pay to borrow for a similar term and with a similar guarantee, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

These assumptions are considered as keys to the estimation of uncertainty, as they may have a significant effect on the Entity's Financial Statements for the following year.

g) Lease terms. - The Company has the option to renovate some of the lease agreements, particularly those related to rail cars, since there is a reasonable certainty that those will be renovated, therefore, at least one additional lease period is considered for the contracts included in this assumption. Furthermore, these contracts are historically renovated under market prices at the due date, which implies to predict the prices, so, estimations of the effect produced on the calculation of the initial liabilities and assets must be done.

h) Uncertainty over income tax treatments. - The Company must determine whether to consider each treatment of an uncertain tax position separately or together with one or more treatments of uncertain tax positions. The approach that best predicts the resolution of the uncertainty must be taken, a provision is made for the uncertain tax items that are



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mainly related to the interpretation of the tax legislation regarding the agreements subscribed by the Company. Due to the uncertainty associated with such tax elements, there is a possibility that, at the conclusion of open tax matters at a future date, the final result may differ significantly.

### 6. Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in banks and investment instruments in the money market, as of December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Cash and banks balances	\$ 219,308	\$ 199,950	\$ 82,239
Short term deposits	131,215	51,868	150,694
	<b>\$ 350,523</b>	<b>\$ 251,818</b>	<b>\$ 232,933</b>

### 7. Trade accounts receivable and other accounts receivable

Balances receivable from customers and allowance for doubtful accounts as of December 31, 2019, 2018 and 2017, are as follows:

	2019	2018	2017
Trade accounts receivable	\$ 101,669	\$ 90,427	\$ 104,990
Allowance for doubtful accounts	( 9,324)	( 11,546)	( 13,652)
	<b>\$ 92,345</b>	<b>\$ 78,881</b>	<b>\$ 91,338</b>

Movements in the allowance for doubtful accounts are as follows:

	2019	2018	2017
Beginning balance	\$ ( 11,546)	\$ ( 13,652)	\$ ( 12,169)
Increases during the year	( 7,375)	( 1,930)	( 2,171)
Applications	9,798	4,065	922
Translation effect	( 201)	( 29)	( 234)
	<b>\$ ( 9,324)</b>	<b>\$ ( 11,546)</b>	<b>\$ ( 13,652)</b>

The credit risk in accounts receivable from clients is diversified due to the fact that the Company has a broad client base that is geographically dispersed in both Mexico and the United States of America, reason why the administration of the credit and collection is according to the common commercial practices in each country.

In Mexico, the Commercial Administration is responsible and has the power to establish the processes and procedures for the management and administration of the guarantees that support the current credit lines. Credit is suspended when the customer's account reaches the credit limit granted, present past due balances or there is potential risk of non-collection or some situation. The Administration can authorize payment plans with clients, up to four months and at a competitive rate according to the market, to regularize past due accounts. When the account is overdue for more than 120 days, it will be delivered to the Legal Area to begin the management of extrajudicial or judicial collection.

In the United States of America the average credit term on the sale of goods is 60 days. There is no interest charge on accounts receivable from customers for the first 60 days after billing. After that date, 18% annual interest is charged on the outstanding balance. The Company has recognized an allowance for doubtful accounts for 95% of all accounts receivable that are 120 days old or more, because from experience accounts receivable overdue for more than 120 days are not recovered. For accounts receivable that are between 60 and 120 days old, an allowance for doubtful accounts is recognized based on irrecoverable amounts determined by counterparty default experiences and an analysis of their current financial position.



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There has been no change in the estimation of the techniques or assumptions made during the period.

Before accepting any new client, the Company uses an internal credit rating system to assess the credit quality of the potential client and defines the credit limits per client. The limits and ratings attributed to clients are reviewed once a year or at the end of each project, when this is the case. The 55% of the accounts receivable from customers that are not due or impaired have the best attributable credit rating according to the internal credit rating system used by the Company.

From the balance of accounts receivable from customers at the end year, the customer with the most important balance as of December 31, 2019 owes \$ 7,582 (December 31, 2018 and 2017 owes \$ 6,042 and \$ 6,329, respectively). No other client accounts for more than 7.4% of the total balance of accounts receivable from customers.

The balance of other accounts receivable are as follows:

	2019	2018	2017
Recoverable taxes	\$ 53,929	\$ 44,674	\$ 32,195
Other	3,708	14,637	10,750
	<b>\$ 57,637</b>	<b>\$ 59,311</b>	<b>\$ 42,945</b>

### 8. Balance and transactions with related parties

a) As of December 31, 2019, 2018 and 2017, the accounts receivable from related parties are as follows:

Accounts receivable	2019	2018	2017
Inmobiliaria Ruba, S.A. de C.V.	\$ 1,299	\$ 407	\$ 726
Copachisa, S.A. de C.V.	748	502	1,448
Abastecedora de Fierro y Acero, S.A. de C.V.	345	425	400
Cemex, S.A.B. de C.V.	134	83	152
	<b>\$ 2,526</b>	<b>\$ 1,417</b>	<b>\$ 2,726</b>

Balances due from related parties are considered recoverable. Accordingly, for the years ended December 31, 2019, 2018 and 2017, there was no expense resulting from the uncollectability of balances due from related parties, considering the expected credit loss approach.

b) As of December 31, 2019, 2018 and 2017, the accounts payable to related parties are as follows:

Accounts payable	2019	2018	2017
Madata IT, S.A. de C.V.	\$ 850	\$ 494	\$ 370
Cemex, S.A.B. de C.V.	197	656	913
Abastecedora de Fierro y Acero, S.A. de C.V.	117	54	152
	<b>\$ 1,164</b>	<b>\$ 1,204</b>	<b>\$ 1,435</b>

c) During the years ended December 31, 2019, 2018 and 2017, the Company had transactions with related parties, as follows:

Sales of cement and construction materials	2019	2018	2017
Inmobiliaria Ruba, S.A. de C.V.	\$ 5,342	\$ 4,446	\$ 4,819
Copachisa, S.A. de C.V.	3,662	2,732	5,902
Abastecedora de Fierro y Acero, S.A. de C.V.	2,503	2,202	2,171
Cemex, S.A.B. de C.V.	-	-	347
	<b>\$ 11,507</b>	<b>\$ 9,380</b>	<b>\$ 13,239</b>



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<b>Purchases of inventories and other services</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Madata IT, S.A. de C.V.	\$ 5,390	\$ 3,627	\$ 3,530
Cemex, S.A.B. de C.V.	3,085	6,623	6,072
Abastecedora de Fierro y Acero, S.A. de C.V.	314	577	348
	<b>\$ 8,789</b>	<b>\$ 10,827</b>	<b>\$ 9,950</b>

d) An analysis of employee benefits granted to the Company's directors and senior management for the years ended December 31, 2019, 2018 and 2017, is as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Short-term benefits	\$ 5,087	\$ 4,144	\$ 4,292

### 9. Inventories

An analysis of this line item as of December 31, 2019, 2018 and 2017, is as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Finished goods	\$ 31,358	\$ 31,580	\$ 28,746
Work in process	25,062	20,307	12,005
Raw materials and spare parts	49,173	46,328	38,282
Developed land for sale	32,695	33,963	34,179
	<b>\$ 138,288</b>	<b>\$ 132,178</b>	<b>\$ 113,212</b>

The amount of inventories that was recognized in cost of sales in 2019, 2018 and 2017 amounted to \$ 667,201, \$ 637,864 and \$ 585,479, respectively.

### 10. Right of use asset by lease

#### Initial adoption of IFRS 16

At the initial adoption date of IFRS 16, the Company recognized a right-of-use asset and a lease liability in the amount of \$ 57,315. The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 5.05%.

Set forth below is a reconciliation of total operating lease commitments as of December 31, 2018, and the lease liability as of the initial adoption date:

	<b>2019</b>
Operating lease commitments as of December 31, 2018	\$ 59,296
Amount discounted using the incremental loan rate as of January 1, 2019	(14,681)
Lease liability as of December 31, 2018	44,615
Adjustments for extension of terms and others	12,700
Lease liability as of January 1, 2019	57,315



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The lease liability is analyzed as follows:

	<b>December 31, 2019</b>
Short term	\$ 20,788
Long term	20,661
<b>Total</b>	<b>\$ 41,449</b>

The Company leases various assets, including mainly rail cars, heavy machinery and Vehicles. The average lease term is five years for 2019.

The main contracts entered into by the Company as a lessee do not have the option of buying the leased assets for a nominal amount at the end of the lease period. The obligations of the Company are secured by the title of the lessor to the assets leased in said leases.

Overdue contracts were replaced by new leases with identical underlying assets. This resulted in the addition of assets for use rights for \$ 2,357 in 2019.

The analysis of the maturity of the lease liabilities is presented in Note 11.

<b>Right of use assets</b>	<b>Rail cars</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Property</b>	<b>Total</b>
<b>Cost</b>					
As of January 1, 2019	\$ 43,361	\$ 8,205	\$ 2,721	\$ 3,028	\$ 57,315
<b>Additions</b>					
As of December 31, 2019	\$ 2,357	\$ -	\$ -	\$ -	\$ 2,357
<b>Accumulated amortization</b>					
Period change					
As of December 31, 2019	\$ (11,241)	\$ (4,016)	\$ (1,814)	\$ (2,070)	\$ (19,141)
<b>Book value</b>					
As of December 31, 2019.	\$ 34,477	\$ 4,189	\$ 907	\$ 958	\$ 40,531

<b>Recognized amounts in the consolidated statement of profit</b>	<b>2019</b>
Depreciation expense for right of use assets	\$ 19,141
Financial expense leases liabilities	2,306

Expenses related to short-term leases, as well as those related to low value assets and variable leases are non-significant amount.

Total cash disbursements for leases for 2019 it amounts to \$20,758.



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### 11. Lease liability

<b>Maturity analysis</b>	
2020	19,571
2021	14,477
2022	8,892
2023	2,694
2024	1,970
2025 and later	11,430
	59,034
Non current interest	( 17,585)
<b>\$</b>	<b>41,449</b>

The Company does not face a significant liquidity risk with respect to its lease liabilities. Lease liabilities are monitored through the Company's Treasury department.

### 12. Prepaid expenses

An analysis of this line item as of December 31, 2019, 2018 and 2017, is as follows:

	<b>2019</b>		<b>2018</b>		<b>2017</b>	
Advances to service suppliers	\$	8,208	\$	6,959	\$	8,303
Prepaid insurance expenses		4,191		3,588		4,229
<b>\$</b>	<b>12,399</b>	<b>\$</b>	<b>10,547</b>	<b>\$</b>	<b>12,532</b>	

### 13. Investments in associates, joint venture and other investments

An analysis of this line item as of December 31, 2019, 2018 and 2017, is as follows:

	% Equity Interest	2019	2018	2017
Associates companies:				
Inmobiliaria Médica de México, S.A. de C.V.	17.5	\$ 9,578	\$ 8,530	\$ 7,663
Servicios de Previsión Integral, S.A. de C.V.	33.3	5,050	3,789	699
Total associates		\$ 14,628	\$ 12,319	\$ 8,362
Joint venture:				
Madata IT, S.A. de C.V.	58.0	1,970	1,532	1,390
Desarrolladora de Infraestructura Productiva, S.A. de C.V.	50.0	871	889	100
Total joint ventures		\$ 2,841	\$ 2,421	\$ 1,490
Investment under cost method:				
Other		844	808	103
		\$ 18,313	\$ 15,548	\$ 9,955



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### 14. Property, plant and equipment

An analysis of this line item as of December 31, 2019, is as follows:

	December 31, 2018	Additions	Disposals	Transfers	Depreciation	Translation effect	December 31, 2019
Property	\$ 321,282	\$ 2,754	\$ ( 519)	\$ 1,026	\$ -	\$ 4,921	\$ 329,464
Machinery and equipment	869,688	10,465	( 6,337)	10,665	-	15,527	900,008
Vehicles	97,927	9,242	( 4,465)	1,198	-	2,725	106,627
Furniture and equipment	21,284	1,096	( 894)	831	-	591	22,908
Accumulated depreciation	( 615,570)	-	10,635	-	( 79,254)	( 13,946)	( 698,135)
Net carrying amount	694,611	23,557	( 1,580)	13,720	( 79,254)	9,818	660,872
Lands	187,840	2,422	( 1,242)	( 142)	-	1,665	190,543
Investments projects in process	145,309	32,221	-	( 13,578)	-	542	164,494
	<b>\$ 1,027,760</b>	<b>\$ 58,200</b>	<b>\$ ( 2,822)</b>	<b>\$ -</b>	<b>\$ ( 79,254)</b>	<b>\$ 12,025</b>	<b>\$ 1,015,909</b>

An analysis of this line item as of December 31, 2018, is as follows:

	December 31, 2017	Additions and depreciation	Disposals	Transfers	Business combination	Disposals of assets	Translation effect	December 31, 2018
Property	\$ 322,957	\$ 369	\$ ( 6,533)	\$ 615	\$ 3,582	\$ ( 2,514)	\$ 2,806	\$ 321,282
Machinery and Equipment	854,177	16,219	( 34,905)	12,334	32,356	( 19,144)	8,651	869,688
Vehicles	120,417	11,096	( 3,193)	3,313	-	( 35,236)	1,530	97,927
Furniture and equipment	22,048	771	( 397)	880	-	( 2,344)	326	21,284
Accumulated Depreciation	( 610,922)	( 79,314)	32,890	-	-	46,474	( 4,698)	( 615,570)
Net carrying amount	708,677	( 50,859)	( 12,138)	17,142	35,938	( 12,764)	8,615	694,611
Lands	138,092	13,871	-	401	38,040	( 3,565)	1,001	187,840
Investments projects in process	89,618	75,251	-	( 17,543)	-	( 2,357)	340	145,309
	<b>\$ 936,387</b>	<b>\$ 38,263</b>	<b>\$ ( 12,138)</b>	<b>\$ -</b>	<b>\$ 73,978</b>	<b>\$ ( 18,686)</b>	<b>\$ 9,956</b>	<b>\$ 1,027,760</b>

An analysis of this line item as of December 31, 2017, is as follows:

	December 31, 2016	Additions	Disposals	Transfers	Depreciation	Translation effect	December 31, 2017
Property	\$ 334,212	\$ 199	\$ ( 20)	\$ 1,032	\$ -	\$ ( 12,466)	\$ 322,957
Machinery and equipment	819,481	8,616	( 505)	3,578	-	23,007	854,177
Vehicles	120,605	9,435	( 5,327)	( 235)	-	( 4,061)	120,417
Furniture and equipment	22,476	287	( 969)	-	-	254	22,048
Accumulated Depreciation	( 537,969)	-	5,818	-	( 72,086)	( 6,685)	( 610,922)
Net carrying amount	758,805	18,537	( 1,003)	4,375	( 72,086)	49	708,677
Lands	130,859	56	-	-	-	7,177	138,092
Investments projects in process	35,352	58,509	-	( 4,375)	-	132	89,618
	<b>\$ 925,016</b>	<b>\$ 77,102</b>	<b>\$ ( 1,003)</b>	<b>\$ -</b>	<b>\$ ( 72,086)</b>	<b>\$ 7,358</b>	<b>\$ 936,387</b>

As of December 31, 2019, construction in progress is mainly due to the modification of the "klin 6" in the cement plant of Rapid City, South Dakota for \$ 107,694, to the installation of the system for alternative fuels of the plant in Chihuahua, Chih., and to the crushing system in Cd. Juárez, Chih, for \$ 2,627.



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In Mexico, the Company has capitalized \$ 3,265, corresponding to borrowing costs in the construction of the cement plant in Samalayuca, Chihuahua. At December 31, 2019, 2018 and 2017, the net book value is \$ 321, \$ 440 and \$ 702, respectively.

The capitalized borrowing costs are included in the category of property, plant and equipment and depreciated over the useful life of such assets.

The balances of construction in progress and capitalized financing costs for the years ended December 31, 2019, 2018 and 2017 is as follows:

<b>Cumulative amount of</b>					
	<b>Investment for the adquisition of qualifying assets</b>	<b>Financing cost capitalized</b>	<b>Percentage depreciation</b>	<b>Annualized capitalizaiton rates</b>	
Construction in progress 2019	\$ 32,926	\$ 4,541	3% - 5%	4.52%	
Construction in progress 2018	\$ 91,248	\$ 3,502	3% - 5%	5.05%	
Construction in progress 2017	\$ 44,936	\$ 1,558	3% - 5%	5.51%	

The depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$ 79,254, \$ 79,314 and \$ 72,086, respectively.

Machinery and equipment includes strategic spare parts of \$ 19,089, \$ 17,787 and \$ 15,795 as of December 31, 2019, 2018 and 2017, respectively.

### 15. Business combinations

#### Acquisition of business 2018

- During 2018, a cement plant was acquired in the state of Montana, USA. For this purpose, on June 22, 2018, GCC Three Forks, LLC, was established to operate all of the assets acquired. The main activity of the acquired business is the sale of cement and the consideration transferred was \$ 107,516 US dollars. This subsidiary was established in the United States of America with the purpose of continuing with the activities of expansion and strengthening of the operation in said country. The costs related to the acquisition for \$ 3,276 were excluded from the consideration transferred and were recognized as an expense in the period, under "other expenses" in the consolidated statement of profit.





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b) Assets acquired and liabilities recognized at the date of acquisition:

	<b>Amount</b>
<b>Current assets</b>	
Inventories	\$ 6,565
<b>Non- current assets</b>	
Property, plant and equipment	73,978
Assets for environmental restoration	296
Intangible assets	17,300
Deferred effect of the provision for environmental restoration	62
	91,636
<b>Total assets</b>	<b>98,201</b>
<b>Current liabilities</b>	
Accrued expenses	765
<b>Non- current liabilities</b>	
Provision for environmental restoration	296
<b>Total liabilities</b>	<b>1,061</b>
<b>Net asset by business combination</b>	<b>\$ 97,140</b>

c) Goodwill arising on acquisition:

	<b>Total</b>
Consideration transferred	\$ 107,516
Less: fair value of identifiable net assets acquired	97,140
<b>Goodwill arising on acquisition</b>	<b>\$ 10,376</b>

Goodwill arose in the adquisition of GCC Three Forks, LLC, because the cost of the combination included mainly customer relations and supply agreements.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

d) Measurement period

The initial acquisition accounting is incomplete at the end of this accounting period, so the amounts shown are provisional. During the subsequent periods, these recognized amounts may be retroactively adjusted at the date of acquisition to reflect the new information obtained on facts and circumstances that exist at the date of acquisition and that, if they were known, would have affected the measurement of the amounts recognized on that date.

During the measurement period, the Company will also recognize additional assets or liabilities if it obtains new information about facts and circumstances that existed at the date of acquisition and that, if they were known, would have resulted in the recognition of those assets and liabilities at that date. The measurement period will end as soon as the acquirer receives the information it is looking for about facts and circumstances that existed on the date of acquisition or concludes that no more information can be obtained, not to exceed one year from the date of acquisition.



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### e) Effect of the acquisitions on the results of the Company

The consolidated net profit for 2019 and 2018 includes an amount of \$ 2,890 and \$ 2,090, respectively, attributable to the additional business generated from GCC Three Forks, LLC. Revenues for the years 2019 and 2018 includes \$ 37,674 and \$ 26,129, respectively, of GCC Three Forks, LLC.

## 16. Discontinued operations

### a) Disposal of operations related whit the sale of concrete

On June 23, 2018, the they were sold property, plant and equipment and the inventories, which constituted an important part of the concrete segment in Oklahoma and Arkansas region. The income from the sale price was lower than the book value of the related net assets and consequently a loss on business disposal was recognized. The sale of these operations is consistent with the Company's long-term strategies to focus its activities on the manufacture of cement that can be connected to our logistics network and ready-mix concrete in markets where they can be integrated with the cement network of GCC.

The detail of the assets sold and the disposal is as follows:

	2018
Cost of long-term assets sold	\$ 165,488
Cost of short-term assets sold	4,809
Sale Price	118,470
Loss before tax income benefit	( 51,827)
Income tax benefit	11,875
Loss on business disposal	( 39,952)
Loss of discontinued ordinary operations	( 103)
<b>Loss from discontinued operations</b>	<b>\$ ( 40,055)</b>

### b) Analysis of the results of the year of discontinued operations

The results of the discontinued operations included in the consolidated statement of income are detailed below. Profits and comparative cash flows from discontinued operations have been restated to include operations classified as discontinued in the current period.

Result of the period of discontinued operations	2018	2017
Concrete income	\$ 48,617	\$ 101,193
Cost of sales	44,119	85,724
Gross profit	4,498	15,469
Operating expenses	4,634	8,934
(Loss) income before income tax	( 136)	6,535
Benefit (income tax)	33	( 1,568)
<b>(Loss) income from discontinued ordinary operations</b>	<b>\$ ( 103)</b>	<b>\$ 4,967</b>

Cash flows from discontinued ordinary operations for the period	2018	2017
Net cash flows	\$ 1,694	\$ 9,684



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### 17. Goodwill

As of December 31, 2019, 2018 and 2017, this line item is as follows:

	2019	2018	2017
Beginning balance	\$ 246,884	\$ 387,461	\$ 402,861
Disposals of assets	-	(146,802)	-
Business acquisition	-	10,376	-
Impairment loss	( 6,339)	(4,151)	(15,400)
<b>Ending balance</b>	<b>\$ 240,545</b>	<b>\$ 246,884</b>	<b>\$ 387,461</b>

The main Cash Generating Units (CGU) that generate goodwill and their book values as of December 31, 2019, 2018 and 2017 are described as follows:

	2019	2018	2017
Cement and energy division (EUA)	\$ 136,913	\$ 136,913	\$ 126,537
Concrete división (EUA)	103,632	109,971	260,924
	<b>\$ 240,545</b>	<b>\$ 246,884</b>	<b>\$ 387,461</b>

#### Assessment of goodwill impairment

The behavior of the economic and competition trends in the markets where the Company operates have a significant impact in the assessment of goodwill impairment and the determination of recovery values of its cash generating units. The total goodwill balance arose from business combinations performed in the United States of America.

The following factors are considered to assess the recovery value:

- Market share and expected price levels
- Size of the market where the Company operates for purposes of estimating the recoverable values
- Behavior of main costs of raw materials and inputs, and the expenses necessary to maintain fixed assets in operational conditions
- The specific discount rate of the country where the Company operates, based on the weighted capital cost and variables of market conditions as of the measurement date
- Estimated perpetuity growth rate

Below are the parameters used to measure the recoverable value of the cash generating units to which goodwill is assigned:

- Cash flow projections of the next five years based on the estimates performed during the last quarter of the fiscal year of the assessment date, considering the budget approved by Management as a base, which includes the last trends known
- A discount rate of the country where the Company operates, which considers specific market risks
- Perpetuity growth rate for the business segment and the market where the Company operates

As of December 31, 2019, 2018 and 2017, the Company recognized an impairment loss on goodwill assigned to the Cash Generating Unit of concrete in the United States of America division for an amount recognized in other expenses of \$ 6,339, \$ 4,151 and \$ 15,400, respectively (see Note 27.)



## Notes to the consolidated financial statements

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Below are the discount and perpetuity growth rates corresponding to the United States of America market used for the periods ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Discount rate	7.4%	8.9%	8.7%
Perpetuity growth rate	2.0%	2.3%	2.2%

At December 31, 2019, the Company performed a sensitivity analysis on the impact of a possible increase or decrease of one percentage point in the discount rate and the perpetuity growth rate for the Cash Generating Units and is as follows:

Cash generating unit	Excess recoverable value over carrying amount	Impact on decrease or increase			
		Discount rate		Perpetuity growth rate	
		+ 1%	- 1%	+ 1%	- 1%
Cement and energy division	\$ 1,612	\$ 1,497	\$ 1,755	\$ 1,869	\$ 1,436
Concrete division (USA)	118	60	202	170	82

### 18. Intangible assets

At December 31, 2019, this item is as follows:

	Useful life	December 31, 2018	Investments	Amortization	Translation effect	December 31, 2019
Customer relations	20 and 15	\$ 57,330	\$ -	\$ -	\$ -	\$ 57,330
Non-compete agreements	5	24,673	585	-	70	25,328
Software licenses	5	20,622	2,790	-	61	23,473
Leasehold improvements		5,821	1,107	-	-	6,928
Mining rights		2,909	604	-	13	3,526
Supply agreement		1,600	57	-	1	1,658
Installation expenses		1,629	-	-	-	1,629
Accumulated amortization		( 41,333)	-	( 10,011)	( 20)	( 51,364)
		\$ 73,251	\$ 5,143	\$ ( 10,011)	\$ 125	\$ 68,508

At December 31, 2018, this item is as follows:

	Useful life	December 31, 2017	Investments and amortization	Business acquisition	Translation effect	December 31, 2018
Customer relations	20 and 15	\$ 41,630	\$ -	\$ 15,700	\$ -	\$ 57,330
Non-compete agreements	5	24,670	-	-	3	24,673
Software licenses	5	20,572	3	-	47	20,622
Leasehold improvements		4,052	1,769	-	-	5,821
Mining rights		2,590	315	-	4	2,909
Supply agreement		-	-	1,600	-	1,600
Installation expenses		1,629	-	-	-	1,629
Accumulated amortization		( 34,353)	( 7,212)	-	232	( 41,333)
		\$ 60,790	\$ ( 5,125)	\$ 17,300	\$ 286	\$ 73,251



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For the years ended December 31, 2019, 2018 and 2017  
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At December 31, 2017, this item is as follows:

	Useful life	December 31 2016	Investments and amortization	Business acquisition	Translation effect	December 31, 2017
Customer relations	20	\$ 41,630	\$ -	\$ -	\$ -	\$ 41,630
Non-compete agreements	5	24,845	( 175)	-	-	24,670
Software licenses	5	20,081	62	-	429	20,572
Leasehold improvements		4,052	-	-	-	4,052
Mining rights		1,620	9	-	-	1,629
Installation expenses		2,420	82	-	88	2,590
Accumulated amortization		( 26,289)	-	( 7,058)	( 1,006)	( 34,353)
		<b>\$ 68,359</b>	<b>\$ ( 22)</b>	<b>\$ ( 7,058)</b>	<b>\$ ( 489)</b>	<b>\$ 60,790</b>

### 19. Other assets

As of December 31, 2019, 2018 and 2017, this item consists of the following:

	2019	2018	2017
Long-term accounts and notes receivable	\$ 16,245	\$ 3,236	\$ 3,344
Operation permits and others	2,602	559	560
Guarantee deposits	1,233	1,112	1,496
Restricted cash	30	30	30
	<b>\$ 20,110</b>	<b>\$ 4,937</b>	<b>\$ 5,430</b>

Restricted cash consists of cash deposited in an escrow account required by the State of Colorado's Mined Land Reclamation Board, in the United States of America.

### 20. Employee benefits

#### Short-term benefits

Short-term employee benefits as of December 31, 2019, 2018 and 2017, are as follows:

	2019	2018	2017
Salaries and wages payable	\$ 22,884	\$ 18,791	\$ 17,946
Vacations and vacation bonus	6,142	6,022	5,172
Social security contributions and other taxes	1,009	1,722	1,556
Other benefits	1,817	1,417	753
	<b>\$ 31,852</b>	<b>\$ 27,952</b>	<b>\$ 25,427</b>

#### Post retirement benefit obligation

- Retirement benefits are granted through defined pension plans that cover all workers of the Mexican subsidiaries. Pensions are determined based on employees' salaries in their last year of work, seniority in the Company, and their age upon retirement. Seniority premiums are paid to personnel based on the provisions of the Mexican Labor Law.
- The components of the net cost of the period charged to profit or loss for the years ended December 31, 2019, 2018 and 2017, as well as the employee benefit obligations as of such dates are integrated as follows:



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<b>Net cost of the year</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Mexico	\$ 2,750	\$ 1,798	\$ 1,173
United States of America	3,734	3,811	2,740
	<b>\$ 6,484</b>	<b>\$ 5,609</b>	<b>\$ 3,913</b>

The employee benefit obligation as of December 31, 2019, 2018 and 2017, is as follows:

<b>Defined benefit obligations</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Mexico	\$ 17,353	\$ 12,016	\$ 13,104
United States of America	28,591	23,520	26,968
	<b>\$ 45,944</b>	<b>\$ 35,536</b>	<b>\$ 40,072</b>

Balances as of December 31, 2019, are as follows:

<b>Defined benefit obligations (DBO)</b>	<b>Seniority premium</b>	<b>Pension plan</b>	<b>Total Mexico</b>	<b>Pension plan USA</b>
DBO present value as of January 1, 2019	\$ 880	\$ 11,196	\$ 12,076	\$ 52,333
Service cost	63	844	907	1,594
Interest cost	68	1,082	1,150	2,140
Early reduction or settlement	90	603	693	-
Net cost of the period	\$ 221	\$ 2,529	\$ 2,750	\$ 3,734
Actuarial remeasurement	116	2,937	3,053	9,274
Benefits paid	( 188)	( 895)	( 1,083)	( 1,521)
Translation effect	41	579	620	-
	\$ ( 31)	\$ 2,621	\$ 2,590	\$ 7,753
DBO present value as of December 31, 2019	\$ 1,070	\$ 16,346	\$ 17,416	\$ 63,820
Fair value of plan assets	( 63)	-	( 63)	( 35,229)
<b>Net liability</b>	<b>\$ 1,007</b>	<b>\$ 16,346</b>	<b>\$ 17,353</b>	<b>\$ 28,591</b>

Plan assets (PA) are recognized at fair value; as of December 31, 2018, the changes to these assets are as follows:

<b>2019</b>	<b>México</b>	<b>USA</b>
PA fair value as of January 1, 2019	\$ ( 60)	\$ ( 28,813)
Contributions performed by the Company	-	( 1,612)
Benefits paid	-	1,521
Expected return on assets	( 3)	( 6,325)
<b>PA fair value as of December 31, 2019</b>	<b>\$ ( 63)</b>	<b>\$ ( 35,229)</b>



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Balances as of December 31, 2018, are as follows:

Defined benefit obligations (DBO)	Seniority premium	Pension plan	Total Mexico	Pension plan USA
DBO present value as of January 1, 2018	\$ 937	\$ 12,223	\$ 13,160	\$ 57,574
Service cost	94	704	798	1,866
Interest cost	71	929	1,000	1,945
Net cost of the period	\$ 165	\$ 1,633	\$ 1,798	\$ 3,811
Actuarial remeasurement	( 165)	( 1,584)	( 1,749)	( 7,693)
Benefits paid	( 63)	( 1,165)	( 1,228)	( 1,359)
Translation effect	6	89	95	-
	\$ ( 222)	\$ ( 2,660)	\$ ( 2,882)	\$ ( 9,052)
DBO present value as of December 31, 2018	\$ 880	\$ 11,196	\$ 12,076	\$ 52,333
Fair value of plan assets	( 60)	-	( 60)	( 28,813)
<b>Net liability</b>	<b>\$ 820</b>	<b>\$ 11,196</b>	<b>\$ 12,016</b>	<b>\$ 23,520</b>

Plan assets (PA) are recognized at fair value; as of December 31, 2018, the changes to these assets are as follows:

2018	México	USA
PA fair value as of January 1, 2018	\$ ( 56)	\$ ( 30,606)
Contributions performed by the Company	-	( 1,733)
Benefits paid	-	1,359
Expected return on assets	( 4)	2,167
<b>PA fair value as of December 31, 2018</b>	<b>\$ ( 60)</b>	<b>\$ ( 28,813)</b>

Balances as of December 31, 2017, are as follows:

Defined benefit obligations (DBO)	Seniority premium	Pension plan	Total Mexico	Pension Plan USA
DBO present value as of January 1, 2017	\$ 909	\$ 11,607	\$ 12,516	\$ 50,467
Service cost	93	71	164	1,791
Interest cost	73	936	1,009	949
Net cost of the period	\$ 166	\$ 1,007	\$ 1,173	\$ 2,740
Actuarial remeasurement	( 36)	645	609	5,883
Benefits paid	( 144)	( 1,587)	( 1,731)	( 1,516)
Translation effect	42	551	593	-
	\$ ( 138)	\$ ( 391)	\$ ( 529)	\$ 4,367
DBO present value as of December 31, 2017	\$ 937	\$ 12,223	\$ 13,160	\$ 57,574
Fair value of plan assets	( 56)	-	( 56)	( 30,606)
<b>Net liability in balance</b>	<b>\$ 881</b>	<b>\$ 12,223</b>	<b>\$ 13,104</b>	<b>\$ 26,968</b>



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Plan assets (PA) are recognized at fair value; as of December 31, 2017, the changes to these assets are as follows:

	2017	México	USA
PA fair value as of January 1, 2017	\$ (	50)	\$ ( 25,743)
Contributions performed by the Company		-	( 2,819)
Benefits paid		-	1,516
Expected return on assets	(	4)	( 3,560)
Translation effect	(	2)	-
<b>PA fair value as of December 31, 2017</b>	<b>\$ (</b>	<b>56)</b>	<b>\$ ( 30,606)</b>

The fair value of pension plan assets of the Company in its division in USA as of December 31, 2019, 2018 and 2017, is as follows:

	2019	2018	2017
Cash equivalents	\$ 912	\$ 1,468	\$ 3,414
Listed Shares:			
USA companies	16,978	13,055	11,199
International companies	8,358	6,235	5,912
Fixed income exchange traded funds:			
Corporate bonds	5,719	5,251	8,532
USA government bonds	352	332	880
Other exchange traded funds	2,910	2,472	669
Common shares:			
USA companies	-	-	-
International companies	-	-	-
<b>Total</b>	<b>\$ 35,229</b>	<b>\$ 28,813</b>	<b>\$ 30,606</b>

Level 1.- Quoted prices in active markets for identical assets

Fixed income consists of corporate bonds, government securities, and fixed income share funds. Government securities are measured by third party pricing sources. Corporate bonds are measured using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such credit and liquidity risks. Fixed income share funds are measured at the net asset value per share multiplied by the number of shares held as of the measurement date. Hedge funds are investments structures that contain an array of investments strategies with a wide range of different securities, including derivatives instruments.

The most significant assumptions selected in the determination of the Company's labor obligations are as follows:

Actual rates	2019	2018	2017
<b>Mexico</b>			
Discount rates	8.00%	9.25%	7.50%
Salary increase rate	5.00%	4.50%	4.25%
<b>United States of America</b>			
Discount rates	3.10%	4.14%	3.90%
Salary increase rate	4.88%	4.74%	5.63%

The liability for employee benefits is sensitive to the movements of the interest rates used to discount the obligations, below, a sensitivity analysis is presented with scenarios of an increase and a decrease of 1% in the discount rate and salary increases, assuming that all other actuarial assumptions remain unchanged:





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<b>Sensitivity Analysis</b>		<b>Mexico</b>		<b>USA</b>
DBO present value	\$	16,575	\$	63,820
+ 1 % Discount rate		17,432		64,209
- 1 % Discount rate		14,929		54,752

### Plan assets in the United States of America:

The Company's investment policy for its pension plan is to balance the risk and return using a diversified portfolio consisting primarily of high-quality equity and fixed-income securities. Plan assets are managed by outside investment managers. Dacotah's Employee Pension Plan Committee provides oversight of the investments and the performance of the investment managers.

Equity securities consist of publicly traded U.S. companies and international companies. Publicly traded securities are valued at the closing prices reported in the active market in which the individual securities are traded.

These investments are made through funds-of-funds (commingled, multi manager fund structures) and through direct investments in individual hedge funds. Hedge funds are primarily valued by each administrator based upon the valuation of the underlying securities and instruments and mainly by applying a market or income valuation methodology as appropriate depending on the specific type of security or instrument held. "Funds-of-funds" are valued based upon the net asset values of the underlying investments in hedge funds.

The Company's funding policy in the United States of America, is as follows:

The Company funds its pension plan and no contributions are made by employees. The Company funds the plan annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the Company's actuary. However, the Company also may fund the plan in excess of the minimum required amount. Cash contributions in subsequent years will depend on a number of factors including the performance of plan assets.

### 401 (K) Plans

GCCRG, GCC Dacotah, CRM, GCCE, Midco, GCCAC, GCC Permian, GCC Sun City, GCC Three Forks and Alliance, have defined contribution benefit plans (the Plans), which qualify as 401 (K) plans and are based on the tax laws of the United States of America. The plans are available to substantially all employees. The Company matches contributions up to 4.0% of their salary paid. The Company's contributions to the plans recorded in the consolidated statements of profit for the years ended of December 31, 2019, 2018 and 2017, amounted to \$ 2,326, \$ 2,456 and \$ 2,256, respectively.

### Incentive Bonus Plan

The Company has an incentive bonus plan. At December 31, 2019, 2018 and 2017, the Company has accrued \$ 5,326, \$ 5,348 and \$ 4,616, to this effect, respectively.

### Sickness Disability Plan

GCC Dacotah has a sickness disability leave plan, which pays employees 25% of their unused sick leave at their current pay rate, not to exceed 550 hours in total, per employee.

## **21. Financial instruments**

### **Capital management**

The objectives of the Company's capital management are primarily focused on ensuring that the financial requirements are met to continue as a going concern and to meet its growth objectives in order to maximize profits for shareholders, provide benefits for other stakeholders and to maintain an optimal capital structure. The Company manages the capital



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structure and makes adjustments considering the changes in economic conditions, its business, investment and growth plans and risk characteristics of the underlying assets.

The Company's management reviews monthly the ratios of financial debt and interest expense against the operating cash flow (EBITDA, which equals the to operating income before other expenses plus depreciation and amortization) for the purposes of complying with contract requirements and to maintain the net debt and interest rate hedging ratios. The Company's overall strategy remains unchanged compared to 2018 and 2017.

### Debt ratio

The debt ratio for the reporting period is as follows:

	2019	2018	2017
Financial debt (i)	\$ 649,991	\$ 650,336	\$ 682,901
Cash and Banks	350,523	251,818	232,933
Net debt	\$ 299,468	\$ 398,518	\$ 449,968
Stockholders' equity (ii)	\$ 1,074,537	\$ 972,216	\$ 928,963
<b>Net debt to equity ratio</b>	<b>28%</b>	<b>41%</b>	<b>48%</b>

- (i) Debt is defined as long and short term loans, as describe in Notes 4.g and 21.b.
- (ii) Stockholders' equity includes all reserves and capital stock of the Company that are managed as capital.

The Company's management considers that the debt ratio will not have an impact in its operation, since it came from the Business Acquisition in 2018 (See Note 15) which will generate increases in its net operations and cash flows. Additionally, the indebtedness ratio has decreased significantly due to the significant amounts of cash and cash equivalents that the Company has.

### Financial instruments category

	2019	2018	2017
<b>Financial assets:</b>			
Cash and investments held to maturity			
investments	\$ 350,523	\$ 251,818	\$ 232,933
Loans and accounts receivable	92,345	78,881	91,338
<b>Financial liabilities at amortized cost:</b>			
Payables and financial debt	\$ 649,991	\$ 650,336	\$ 682,901

### Financial risk management objectives

The Company's Corporate Treasury function provides services to businesses, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports, which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk, liquidity risk and risk of interest rate of the cash flow.

The Corporate Treasury function applies the policies authorized by the Board of Directors to mitigate risk exposures.



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The main risks associated with the financial instruments of the Company are:

- Market risks
- Credit Risk
- Liquidity Risk

The Board of Directors, upon recommendation from the Audit and Corporate Practices Committee, reviews and approves the risk management policies of the Company. For the years ended December 31, 2019, 2018 and 2017, the Company has not contracted any derivative financial instrument.

i) Market Risk: interest rate

GCC is exposed to market risk primarily related to fluctuations in the exchange rate and interest rates. Considering that the Company's total financial debt is denominated in US dollars and 60% is subject to variable interest rates, the volatility of interest rates in the markets of the United States of America and Mexico may adversely affect the results of the Company, increasing its financial expenses, and impacting the liquidity and capacity of the Company to meet its principal and interest payment obligations.

Exposure to interest rate risk lies mainly in variations that may arise in the interest rate of reference, LIBOR (London Interbank Offered Rate).

Sensitivity analysis regarding the risk of increases on interest rates

GCC analyzes the sensitivity to the exposure of volatility of interest rates in relation to financial liabilities contracted at variable interest rates at end of period. The Company considers that a change of one percentage point is a reasonable assumption to measure the possible effect in its results. As of December 31, 2018, a change of  $\pm 1$  percentage point in interest rates. Assuming that the other assumptions remain constant, it would result in an increase or decrease of financial expenses before taxes by approximately US\$ 4.05 million.

ii) Market Risk: Foreign currency

The Company's exposure to the volatility of the Mexican peso exchange rate against the U.S. dollar is shown as follows as of December 31, 2019, 2018 and 2017:

	2019	2018	2017
Financial assets	\$ 22,123	\$ 19,081	\$ 17,053
Financial liabilities	( 678,983)	( 683,910)	( 720,361)
<b>Net liability position</b>	<b>\$ ( 656,860)</b>	<b>\$ ( 664,829)</b>	<b>\$ ( 703,308)</b>

As mentioned in Note 4.h, the Company designates net investment in a foreign operation as cash flow hedges, whereby the exchange fluctuations arising from financial debt denominated in U.S. dollars, associated to acquisition of subsidiaries in the United States of America, is recognized in other comprehensive income.

The following table shows an analysis of sensitivity of the financial assets and liabilities at a possible fluctuation of the Mexican peso compared to the U.S. dollar, showing the effects in the consolidated statements of profit and the consolidated statements of stockholders' equity as of December 31, 2019, 2018 and 2017:



## Notes to the consolidated financial statements

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<b>Sensitivity analysis:</b>	<b>Results</b>	<b>Equity (1)</b>
<b>2019</b>		
Mexican peso appreciation 10%	\$ 9,061	\$ 64,999
Mexican peso depreciation 10%	( 9,061)	( 64,999)
<b>2018</b>		
Mexican peso appreciation 10%	\$ 19,968	\$ 65,033
Mexican peso depreciation 10%	( 19,968)	( 65,033)
<b>2017</b>		
Mexican peso appreciation 10%	\$ 28,265	\$ 65,178
Mexican peso depreciation 10%	( 28,265)	( 65,178)

- (1) The effect of the resulting devaluation of financial long-term debt will be offset by the effect of the revaluation or appreciation of foreign investment since the investment is considered as a hedge of cash flows.

The Company assumes that a 10% change in the exchange rate is reasonably possible for purposes of performing the sensitivity analysis.

### iii) Credit risk

Credit risk represents the potential loss due to the failure of the counterparty to meet all its payment obligations.

Financial instruments which could potentially bind the Company to significant credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents of the Company are held in various financial institutions with high credit quality. The Company's policy is designed to limit its exposure to any single financial institution or counterparty.

The credit risk on accounts receivable is diversified because the Company has a broad customer base that is geographically dispersed in both Mexico and the United States. At December 31, 2019, 2018 and 2017, no individual customer represents a significant amount of reported net sales or accounts receivable balance.

The Company periodically evaluates the creditworthiness of its customers and, if necessary, guarantees are required from them to ensure the recovery of receivables.

The carrying amount of financial assets represents the maximum credit exposure, at December 31, 2019, 2018 and 2017, is as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 350,523	\$ 251,818	\$ 232,933
Accounts receivable	92,345	78,881	91,338
Other receivables	57,637	59,311	42,945



## Notes to the consolidated financial statements

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### Cash and cash equivalents

An analysis of the credit ratings of financial institutions where the Company maintains cash and cash equivalents at the close of each period is as follows:

	2019	As of December 31 2018	2017
BBB+ rating institutions	\$ 185,294	\$ -	\$ -
A rating institutions	42,131	42,679	60,375
MXAAA rating institutions	31,035	3,448	12,764
AA rating institutions	27,486	147,316	-
MXAA+ rating institutions	21,448	4,347	3,553
AA- rating institutions	16,680	1,136	2,670
A- rating institutions	9,661	-	115,347
MXAA rating institutions	8,011	18,383	29,152
MXA rating institutions	5,421	5,312	-
MXAA- rating institutions	1,220	-	-
MXBBB rating institutions	-	25,906	5,061
MXA+ rating institutions	-	1,223	1,331
A+ rating institutions	-	-	1,744
Not applicable	2,136	2,068	936
	<b>\$ 350,523</b>	<b>\$ 251,818</b>	<b>\$ 232,933</b>

### Trade accounts receivable

Below is an analysis of the aging of trade accounts receivable as of December 31, 2019, 2018 and 2017:

Year	Unmatured	Maturities:					Total
		1-30 days	31- 60 days	61- 90 days	91- 120 days	Over 121 days	
2019	\$ 65,483	\$ 9,252	\$ 12,826	\$ 2,988	\$ 2,430	\$ 8,690	\$ 101,669
2018	\$ 50,115	\$ 13,082	\$ 9,831	\$ 3,208	\$ 2,096	\$ 12,095	\$ 90,427
2017	\$ 60,158	\$ 20,824	\$ 10,836	\$ 3,761	\$ 2,365	\$ 7,046	\$ 104,990

### i) Liquidity risk

Cash generated from operations is used to make debt payments and capital expenditures. The management of the Company administers liquidity and establishes adequate working capital policies to manage the short, medium and long-term financing. The Company handles liquidity risk by maintaining adequate reserves, banking facilities and authorized credit lines to obtain credits through continuous monitoring of actual and projected cash flows, and reconciling the maturity profiles of financial assets and liabilities. The contractual maturities of financial debt instruments as of December 31, 2019, are shown in the following table:

Line item	Contractual maturities:				Total
	1-3 months	3-6 months	6 months-1 year	1-5 years	
Financial debt	\$ 2,000	\$ 3,425	\$ 20,000	\$ 632,000	\$ 657,425
Leases	\$ 4,893	\$ 4,893	\$ 24,262	\$ 24,986	\$ 59,034
Interest	\$ 3,566	\$ 10,258	\$ 13,342	\$ 67,236	\$ 94,402

As of December 31, 2019, 2018 and 2017, the Company had access to financing in process of formalization, up to an amount of \$ 78,266, \$ 80,242 and \$ 15,000, respectively, which were undrawn at the end of these years. Additionally,



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as of December 31, 2019, 2018 and 2017, the Company had contracted letters of credit for \$ 11,251 \$ 11,016 and \$ 9,310, respectively, which are primarily used to ensure the payment of deductibles in connection to insurance programs of the Company in the United States and as collateral for bonds issued in the United States and Natural gas supply as well.

### a) Fair value of financial instruments

Except as for the detail in the following table, management believes that the carrying amounts of assets and liabilities recognized at amortized cost in the financial statements, approximates their fair value given their short-term maturities.

The fair value of financial instruments presented below has been determined by the Company using available market information or other valuation techniques that require judgment in developing and interpreting the estimates of fair values, and also uses assumptions based on market conditions existing at each of the dates in the consolidated statements of financial position.

The fair value of the Company's debt financial instruments included in the disclosure presented in the following table is determined per unit of account; for the international bond, the fair value was determined considering the market price of the instrument prevailing at the date of the consolidated statements of financial position, while borrowings with banks was estimated using the present value of discounted cash flows at market rates as of December 31 of each year, which is located in level 2 of the fair value hierarchy.

Their book values and their fair values as of December 31, 2019, 2018 and 2017, are as follows:

Payables and financial liabilities recognized at amortized cost:

	Carrying amount	Fair value
December 31, 2019	\$ 657,425	\$ 682,380
December 31, 2018	\$ 661,825	\$ 657,628
December 31, 2017	\$ 696,688	\$ 710,748

### b) Payables and financial debt

(i) As of December 31, 2019, 2018 and 2017, the financial debt is as follows:

As of December 31, 2019				Maturities		
Loans	Currencies	Interest rates	Amounts	Current portion of the long term debt	Long-term debt	
International bond						
7 years	U.S. Dollars	5.250%	\$ 260,000	\$ -	\$	260,000
Syndicated loan						
5 years	U.S. Dollars	LIBOR + 1.75% (margin range: 2.00% - 1.25%)	396,000	24,000		372,000
Others						
Others	U.S. Dollars	5.00%	1,425	1,425		-
Issuance costs			( 7,434)	-	(	7,434)
			\$ 649,991	\$ 25,425	\$	624,566



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As of December 31, 2018				Maturities		
Loans	Currencies	Interest rates	Amounts	Current portion of the long term debt	Long-term debt	
International bond						
7 years	U.S. Dollars	5.250%	\$ 260,000	\$ -	\$	260,000
Syndicated loan						
5 years	U.S. Dollars	LIBOR + 1.75% (margin range: 2.00% - 1.25%)	400,000	4,000		396,000
Others						
Others	U.S. Dollars	5.00%	1,825	400		1,425
Issuance costs			( 11,489)	-	(	11,489)
			\$ 650,336	\$ 4,400	\$	645,936
As of December 31, 2017				Maturities		
Loans	Currencies	Interest rates	Amounts	Current portion of the long-term debt	Long term debt	
International bond						
7 years	U.S. Dollar	5.250%	\$ 260,000	\$ -	\$	260,000
Unsecured Credit						
Tranche "A" 7 years	U.S. Dollar	LIBOR + 4.75%	171,750	-		171,750
Tranche "B" 5 years	U.S. Dollar	LIBOR + 2.50% (margin rate: 3.75% - 2.00%)	77,900	16,800		61,100
Guaranteed Credit						
Tranche "A" 7 years	U.S. Dollar	LIBOR + 4.75%	127,124	-		127,124
Tranche "B" 5 years	U.S. Dollar	LIBOR + 2.50% (margin rate: 3.75% - 2.00%)	57,739	-		57,739
Other						
Other	U.S. Dollar	5.00%	2,175	350		1,825
Issuance costs			( 13,787)	-	(	13,787)
			\$ 682,901	\$ 17,150	\$	665,751

(ii) On June 13, 2018, the Company prepaid \$ 249,650 and \$ 184,863 of the unsecured and guaranteed loans, respectively, contracted in November 2016. The prepayment was made mainly with the proceeds from a new syndicated loan not Guaranteed for \$ 400,000 with maturity of five years, at an interest rate of LIBOR plus a margin with a range of 1.25% to 2.00% that is reduced or increased according to the decrease or increase of the gross leverage ratio. The credit syndication was led by BBVA Bancomer, S.A., National Bank of Mexico, S.A., J.P. Morgan Chase Bank, N.A. and The Bank of Nova Scotia.

(iii) In June 2017, the Company concluded the issue of Senior Unsecured Notes for a total amount of US\$ 260,000, at an interest rate of 5.250% per annum and with an expiration date on June 23, 2024. The resources obtained from the issuance of the unsecured preferential notes were used to settle the notes that the Company had in effect with a coupon of 8.125% and a maturity on February 8, 2020.

(iv) In February 2017, the holder of the unsecured and guaranteed credits ceded the rights and obligations of the creditor in respect of the tranche "B" by US\$ 57,739 of the guaranteed credit and the tranche "B" by US\$ 81,400 of the unsecured



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credit. This assignment was distributed among five financial institutions. With this assignment, the Company reduced the applicable interest rate, as the additional margin on the benchmark interest rate for both tranches changed from a fixed margin of 4.50% per annum, to a margin ranging from 3.75% to 2.00% per annum and which is reduced or increased according to the decrease or increase of the Net Leverage Ratio, respectively.

(v) Loan agreements establish specific clauses relating to the sale of assets, investments, additional financing and debt payments, as well as the obligation to maintain certain specific financial ratios (net financial leverage ratio and net interest), which in case of non-compliance, would lead to a breach of contract allowing the creditor to require the advance payment of the corresponding loan. As of December 31, 2019, the Company has complied with these conditions. The financial reasons required and / or permitted by the contracts for the period ended December 31, 2019 are as follows:

	2019	Required / Permitted
Net leverage (1)	1.11	3.25
Interest coverage (2)	12.07	3.50

(1) Net leverage - means the number of times net debt (debt with cost) less cash on EBITDA.

(2) Interest coverage - means the number of times EBITDA on financial expenses.

For the year ended December 31, 2019, the weighted average interest rate of the international bonds was 5.25% and the weighted average interest rate of bank loans was 4.21%.

For the year ended December 31, 2018, the weighted average interest rate of the international bonds was 5.25% and the weighted average interest rate of bank loans was 4.94%.

For the year ended December 31, 2017, the weighted average interest rate of the international bonds was 6.64% and the weighted average interest rate of bank loans was 5.39%.

The Company's subsidiaries, GCC Cemento, S.A. de C.V., Cementos de Chihuahua, S.A. de C.V. and GCC of America, Inc., are guarantors for the syndicated credit.

C) Conciliation of obligations derived from financing activities:

	January 1, 2019	Disposals	Accrued interest	Payments made	December 31, 2019
International bond 2017	\$ 260,000	\$ -	\$ 265	\$ -	\$ 260,265
Syndicated loan	400,000	-	687	( 4,000)	396,687
Others					
Others	1,825	-	48	( 400)	1,473
	<b>\$ 661,825</b>	<b>\$ -</b>	<b>\$ 1,000</b>	<b>\$ ( 4,400)</b>	<b>\$ 658,425</b>

	January 1, 2018	Disposals	Accrued interest	Payments made	December 31, 2018
International bond 2017	\$ 260,000	\$ -	\$ 287	\$ -	\$ 260,287
Unsecured Credit					
Tranche "A" 7 years	171,750	-	-	( 171,750)	-
Tranche "B" 5 years	77,900	-	-	( 77,900)	-

(Continue)





## Notes to the consolidated financial statements

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<u>Guaranteed Credit</u>					
Tranche "A"					
7 years	127,124	-	-	( 127,124)	-
Tranche "B"					
5 years	57,739	-	-	( 57,739)	-
Syndicated loan	-	400,000	767	-	400,767
Others					
Others	2,175	-	61	( 350)	1,886
	<b>\$ 696,688</b>	<b>\$ 400,000</b>	<b>\$ 1,115</b>	<b>\$ ( 434,863)</b>	<b>\$ 662,940</b>

	January 1, 2017	Disposals	Accrued Interest	Payments made	December 31, 2017
International bond 2013	\$ 260,000	\$ -	\$	\$ ( 260,000)	\$ -
International bond 2017		260,000	395	-	260,395
Unsecured Credit					
Tranche "A"					
7 years	171,750		501		172,251
Tranche "B"					
5 years	81,400	-	154	( 3,500)	78,054
Guaranteed Credit					
Tranche "A"					
7 years	127,124	-	-	368	127,492
Tranche "B"					
5 years	57,739	-	-	189	57,928
Others					
Others	2,525	-	72	( 350)	2,247
	<b>\$ 700,538</b>	<b>\$ 260,000</b>	<b>\$ 1,679</b>	<b>\$ (263,850)</b>	<b>\$ 698,367</b>

Accrued interest payable derived from the financial debt is presented in accrued expenses and taxes other than income taxes in the consolidated statement of financial position for 2019, 2018 and 2017, amounting to \$ 1,000, \$ 1,115 and \$ 1,679, respectively.

### 22. Accrued expenses and taxes other than income taxes and provisions

#### a) Accrued expenses and taxes other than income taxes

Accrued expenses and taxes other than income taxes as of December 31, 2019, 2018 and 2017, are as follows:

	2019	2018	2017
Taxes payable	\$ 35,016	\$ 33,463	\$ 35,699
Other accounts payable	5,386	7,689	6,594
Interest payable	1,000	1,115	1,679
	<b>\$ 41,402</b>	<b>\$ 42,267</b>	<b>\$ 43,972</b>



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### b) Provisions

	2019	2018	2017
Beginning balance	\$ 3,177	\$ 5,007	\$ 5,151
Increase during the year	7,107	10,108	7,518
Payments made	( 7,720)	( 12,003)	( 7,877)
Translation effect	87	65	215
<b>Ending balance</b>	<b>\$ 2,651</b>	<b>\$ 3,177</b>	<b>\$ 5,007</b>

### c) Provision for environment restoration

The Mining Law of the State of New Mexico in the USA requires the Company to incur costs to restore operations affected by raw material extraction where the plant is located at the end of operations in the same area. Measures have been planned for the incremental and simultaneous implementation of the plan over a period of forty years, with more than half of the surface disturbed, the same being recovered during the operational life of the plan area. The Company has recognized a long-term provision for the estimated costs to be incurred in restoring the site incur for site restoration at present value, using appropriate discount rates.

Additionally, for the Mexican division there is an obligation under the General Law of Ecological Equilibrium and Environmental Protection, which states that whoever carries out activities that affect the environment is required to prevent, minimize or repair the damage involved. The Act establishes the obligation to perform an environmental impact assessment. As of December 31, 2019, 2018 and 2017, the Mexican division has recognized a provision of \$ 1,448, \$ 1,171 and \$ 991, respectively, for such restoration activities.

Movements in the provision for restoration are as follows:

	Balances as of January 1 2019	Increases during the year	Interest cost	Balances as of December 31, 2019
Restoration provision	\$ 21,969	\$ 647	\$ 61	\$ 22,677

	Balances as of January 1 2018	Arising (decreases) during the year	Interest cost	Business acquisition	Balances as of December 31, 2018
Restoration provision	\$ 10,208	\$ 10,022	\$ 1,443	\$ 296	\$ 21,969

	Balances as of January 1, 2017	Arising (decreases) during the year	Interest cost	Business acquisition	Balances as of December 31, 2017
Restoration provision	\$ 9,509	\$ 661	\$ 38	\$ -	\$ 10,208

### 23. Income taxes

The Company in Mexico is subject to ISR whose rate for 2019, 2018 and 2017 was 30% and will continue at 30% for subsequent years. The Company caused ISR on a consolidated basis until 2013 with its Mexican subsidiaries. Due to the fact that the ISR Law in force until December 31, 2013 was repealed, the tax consolidation regime was eliminated, therefore, the Company and its subsidiaries have the obligation to pay the deferred tax determined at that date during the following ten exercises from 2014, as shown below. Income taxes of the subsidiaries in the United States of America are determined on the basis of consolidation with its direct holding company GCC of America, Inc.

While the 2014 Tax Law repealed the tax consolidation regime, an option was established to calculate the ISR together in groups of companies (under the tax integration regimen). The new system allows for the case of consolidated companies owned directly or indirectly in more than 80% by for an inclusive society, have certain benefits in the tax



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payment (when within the group of companies there are companies with profits or losses in the same year), which may be deferred for three years and reported, as an updated from, at the filing date of the tax declaration corresponding to the tax year following the completion of the aforementioned three-year period.

The Company and its Mexican subsidiaries opted to join the new scheme, so income tax for the year 2019, 2018 and 2017 was determined together.

Pursuant to Transitory Article 9, section XV, subsection d) of the 2014 Tax Law, and given that as of December 31, 2013, the Company was considered to be a holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the ISR law of 2013 which was repealed, it must continue to pay the tax that it was deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded. The following are the tax rates on taxable income in countries where the Company mainly operates:

Country	2019	2018	2017
México	30%	30%	30%
United States of America	24%	24%	38%

On December 22, 2017, the government of the United States of America enacted substantial changes to its existing tax law ("H.R. 1", originally known as the "Tax and Employment Reduction Act," or the "Act"). Although most of the provisions of the Law, including the reduction of the corporate tax rate to 21% take effect as of January 1, 2018, IFRS require entities to recognize the effect of changes in tax legislation in the promulgation period.

a) For the years ended December 31, 2019, 2018 and 2017, income tax charged to results is as follows:

	2019	2018	2017
Current income tax	\$ ( 15,339)	\$ ( 13,387)	\$ ( 9,462)
Deferred tax adjustments attributable to changes in tax rates and laws in the USA	-	-	12,066
Deferred income tax	( 10,070)	( 3,305)	( 14,676)
<b>Total income taxes</b>	<b>\$ ( 25,409)</b>	<b>\$ ( 16,692)</b>	<b>\$ ( 12,072)</b>

b) Deferred taxes in the consolidated statements of financial position

The main items composing the deferred income taxes are:

Mexico	December 31, 2019	December 31, 2018	December 31, 2017
Deferred tax assets:			
Provisions and allowances	\$ 8,938	\$ 9,514	\$ 10,139
Customer advances and other	837	2,485	269
Tax loss carry forwards	116,201	104,552	99,564
	125,976	116,551	109,972
Deferred tax liabilities:			
Property, plant and equipment	( 119,744)	( 110,650)	( 88,413)
Inventories	( 657)	( 1,057)	( 1,153)
Prepaid expenses and other	( 6,669)	( 6,992)	( 8,225)
	( 127,070)	( 118,699)	( 97,791)
<b>Deferred income tax (liability) asset</b>	<b>\$ ( 1,094)</b>	<b>\$ ( 2,148)</b>	<b>\$ 12,181</b>



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USA	December 31, 2019	December 31, 2018	December 31, 2017
Deferred tax asset:			
Provisions and allowances	\$ 34,010	\$ 28,881	\$ 23,224
Tax loss carry forwards	34,452	37,081	42,983
	68,462	65,962	66,207
Deferred tax liability:			
Property plant and equipment	( 108,951)	( 100,811)	( 111,841)
Prepaid expenses	( 3,404)	( 3,881)	( 2,306)
	( 112,354)	( 104,692)	( 114,147)
<b>Deferred income tax liability</b>	<b>\$ ( 43,892)</b>	<b>\$ ( 38,730)</b>	<b>\$ ( 47,940)</b>

Switzerland	December 31, 2019	December 31, 2018	December 31, 2017
Deferred tax liability:			
Accounts receivable	( 5,957)	( 2,908)	( 2,691)
<b>Deferred income tax liability</b>	<b>( 5,957)</b>	<b>( 2,908)</b>	<b>( 2,691)</b>

<b>Total deferred income tax liability (for 2019 and 2018, including the Mexican division)</b>	<b>\$ ( 50,943)</b>	<b>\$ ( 43,786)</b>	<b>\$ ( 50,631)</b>
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c) The main items for which the sum of the current income tax and deferred income tax for the period differs from the statutory rate are as follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Income before income tax	\$ 142,146	\$ 121,786	\$ 90,818
Statutory rate	30%	30%	30%
Statutory income taxes	( 42,644)	( 36,536)	( 27,245)
Other items:			
Non-deductible expenses	( 1,720)	( 1,437)	( 1,172)
Adjustment for inflation	( 5,522)	( 2,439)	( 4,260)
Increase (reduction) of deferred tax assets	15,707	9,786	( 18,705)
Effect of deferred tax balance due to change in the income tax rate from 35% to 21% (effective as of January 1, 2018) in the U.S.A	-	-	21,827
Effects of updating income tax and other items	1,409	3,829	9,698
Effect of different tax rates in effect in foreign entities	7,361	10,105	7,785
Tax benefit	17,235	19,844	15,173
<b>Income taxes</b>	<b>\$ ( 25,409)</b>	<b>\$ ( 16,692)</b>	<b>\$ ( 12,072)</b>



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d) As of December 31, 2019, the Company's tax loss carryforwards, are as follows:

Year of loss	México		United States of America	
	Amounts restated as of December 31, 2019	Effect on deferred income tax	Amounts as of December 31, 2019	Effect on deferred income tax
2020	\$ 53,322	\$ 15,997	\$ 5,921	\$ 1,243
2021	28,031	8,409	51,746	10,867
2022	1,180	354	64,192	13,480
2023	31,804	9,541	44,885	9,426
2024	86,819	26,046	1,970	414
2025	194,398	58,319	-	-
2026	19,198	5,760	-	-
2027	14,113	4,234	9,701	2,037
2028	20,097	6,029	-	-
2029	13,135	3,941	-	-
	\$ 462,097	\$ 138,630	\$ 178,415	\$ 37,467
USA state tax loss	-	-	-	4,574
Unrecognized deferred taxes	( 74,762)	( 22,429)	( 36,138)	( 7,589)
Deferred tax assets for tax loss	\$ 387,335	\$ 116,201	\$ 142,277	\$ 34,452

e) Tax consolidation

The income tax liability as of December 31, 2019, related to the effects of benefits and tax deconsolidation will be paid in the following years:

Year	Amount
2020	\$ ( 7,866)
2021	( 6,578)
2022	( 3,865)
2023	( 689)
	\$ ( 18,998)

The balance of accrued expenses and taxes other than income taxes as of December 31, 2019, as shown in the consolidated statements of financial position include \$ 7,866 corresponding to the liability of income tax to be paid during 2020. The remaining amount of \$ 11,132 is presented in long-term liabilities in the consolidated statement of financial position.

### 24. Stockholders' equity

a) As of December 31, 2019, 2018 and 2017, common stock is variable and its fixed minimum amount with no right to withdrawal is \$ 10,921, represented by 337,400,000 registered shares with no par value and is summarized as follows:

	Shares	Amount
Authorized and issued capital	337,400,000	10,921
Shares repurchased	( 4,786,294)	( 39)
	<b>332,613,706</b>	<b>10,882</b>



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b) According to the General Law of Mercantile Companies, at least 5% of the net income for the year must be separated to increase the legal reserve until it reaches 20% of share capital

c) If the Company pays dividends that come from the Net Tax Profit Account (CUFIN, by its acronym in Spanish), the Company shall not be liable to pay income tax. However, this balance can be applied only once the balance of the Net Reinvested Tax Profit Account (CUFINRE, by its acronym in Spanish) has been exhausted.

When the dividends arise from CUFINRE, 5% will be paid for those decreed from earnings in years 2001 and 2000, and 3% for earnings in 1999. The amount distributed as dividends that exceeds the CUFIN will be subjected to the payment of corporate income tax, charged to the Company at the current tax rate at that time.

d) In the ordinary general meeting of the shareholders held on April 25, 2019, a payment of dividends was declared for \$ 14,383 (\$0.043 dollars per share) and a repurchase fund for treasury shares for \$ 36,629 (equivalent to \$ 700,000 thousand Mexican pesos) was approved. As of December 31, 2019, there are 4,786,294 shares repurchased shares in the treasury with an average cost of \$ 13,188, and a being available a repurchase fund of \$ 23,438 is available.

e) In the ordinary general meeting of the shareholders held on April 26, 2018, a payment of dividends was declared for \$ 12,553 (\$0.038 dollars per share).

f) In the ordinary general meeting of the shareholders held on April 28, 2017, a payment of dividends was declared for \$ 10,774 (\$0.032 dollars per share).

g) The balance of the cumulative translation adjustment of foreign subsidiaries as of December 31, 2019, 2018 and 2017, is as follows:

	2019	2018	2017
Initial balance	\$ ( 281,760)	\$ ( 280,455)	\$ ( 261,344)
Translation effect of the year	( 8,228)	( 4,709)	( 4,542)
Net investment coverage in foreign operations	( 5,294)	4,863	( 20,813)
Income taxes	1,588	( 1,459)	6,244
Ending balance with translation effect in foreign operations	\$ ( 293,694)	\$ ( 281,760)	\$ ( 280,455)

h) The balance of remeasurements of actuarial liabilities associated with the Company's defined benefit plans and the related tax effect as of December 31, 2019, 2018 and 2017, is as follows:

	2019	2018	2017
Beginning balance of losses and gains by remeasurement	\$ ( 981)	\$ 5,628	\$ 1,084
Actuarial remeasurement for employee benefits	12,327	( 9,442)	6,492
Income tax	( 3,698)	2,833	( 1,948)
Ending balance of actuarial gains and losses	\$ 7,648	\$ ( 981)	\$ 5,628
<b>Total cumulative amount of other items of comprehensive income (g) + (h)</b>	<b>\$ ( 286,046)</b>	<b>\$ ( 282,741)</b>	<b>\$ ( 274,827)</b>



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### 25. Share-based payments

#### Long-term employee incentive plan

The long-term incentive plan (PILP, by its acronym in Spanish) was established and developed through an external specialist with extensive global experience in executive level compensation systems. This plan was performed in order to place eligible executives within a level of competitiveness that ensures talent retention and is in line with market practices for executives of that level, likewise, in order to achieve the strategic objectives of GCC that improve the value of the Company over time and, at the same time, ensure the sustainability of GCC. According to the terms of the plan, this scheme is for key executives and employees.

The number of shares granted is calculated according to the formula based on the number of months of salary corresponding to the executive and the performance approved by the Chairman of the Board previously. The number of months is in accordance with the individual compensation and the organizational level of the executive. The formula rewards executives and key personnel based on previously established achievements, judged with both quantitative and qualitative criteria.

Considering the premises and objectives described above, in GCC there are two types of long-term incentive plans, this in order to direct the objectives, results, retain talent and desired culture, towards the same direction, which are described below:

**Real stock plan (Performance Shares)**, linked with a criterion of number of months of salary of the executive and a minimum of performance that will direct the efforts to achieve the expected results, this plan is of annual concession, the adjudication period is four years and five awards for which the executive must have a current relationship with the Company and / or its subsidiaries to receive them. The performance indicator is designated annually by the Chairman of the Board of Directors, with indicators related to the creation of value and growth of the Company. For 2018 and 2019, the "Return on Capital Investment" (ROIC) was established for this purpose, this indicator may change annually and considers quantitative or qualitative criteria. The total number of shares assigned to this plan was 470,627.

**Additional option plan called "Matching"**, linked to the investment of its short-term incentive plan in Company shares (not mandatory) is a concession by the Company of bonus shares. The purchase of shares, by the eligible, will be given through the use of part or the full total of the liquid value of the Short-Term Incentive, with a three-year sale restriction period, this plan is also granted annually according to the following mechanics:

The Company will grant shares equivalent to the investment of the short-term bonus of the executives and employees according to the following criteria:

- i. Until 50% - Matching of 100%
- ii. From 50.1% to 75% - Matching of 125%
- iii. More of 75% - Matching of 150%

For the matching, the stock will be exercised at a price equal to the quoted market price on the date of granting. For the 2019 period, the matching will be effective in 2022. The total number of shares acquired the first year by the employees in this plan was of 112,486, for which the Company is obliged to grant 158,998 additional shares.

For the real stock plan awarded in 2019 the price of the determined share was \$ 5.38 per share.



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### 26. Cost of sales and operating expenses by nature

#### a) Cost of sales

The breakdown of cost of sales for the years ended December 31, 2019, 2018 and 2017, is integrated as follows:

	2019	2018	2017
Employee benefits	\$ 135,335	\$ 124,959	\$ 112,164
Raw materials cost	112,215	109,761	113,246
Energy cost	121,545	111,147	108,727
Depreciation and amortization	72,682	71,662	61,440
Depreciation for right of use asset by lease	18,718	-	-
Maintenance expenses	54,190	52,424	49,470
Distribution expenses	80,883	92,211	73,832
Other expenses	71,633	75,700	66,600
	<b>\$ 667,201</b>	<b>\$ 637,864</b>	<b>\$ 585,479</b>

#### b) General, administrative and selling expenses

The breakdown of operating expenses for the years ended December 31, 2019, 2018 and 2017 is integrated as follows:

	2019	2018	2017
Employee benefits	\$ 35,145	\$ 29,706	\$ 27,595
Depreciation and amortization	16,583	14,864	17,704
Depreciation for right of use asset by lease	423	-	-
Professional services	8,923	9,674	6,323
Other expenses	22,274	21,286	26,207
	<b>\$ 83,348</b>	<b>\$ 75,530</b>	<b>\$ 77,829</b>

#### c) Employee benefit expenses

The employee benefit expenses for the years ended December 31, 2019, 2018 and 2017, are integrated as follows:

	2019	2018	2017
Salaries and wages	\$ 125,698	\$ 112,237	\$ 91,533
Employee benefits from retirement	5,333	6,070	6,260
Social security contributions	15,506	13,164	13,740
Social welfare	12,112	11,817	15,605
Other salaries and benefits	11,831	11,377	12,621
	<b>\$ 170,480</b>	<b>\$ 154,665</b>	<b>\$ 139,759</b>





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### 27. Other expenses

Other operating expenses for the years ended December 31, 2019, 2018 and 2017, are integrated as follows:

	2019	2018	2017
Impairment loss on goodwill (Note 17)	\$ 6,339	4,151	15,400
Business acquisitions	-	\$ 3,276	\$ 100
Charitable contributions	950	914	738
	<b>\$ 7,289</b>	<b>\$ 8,341</b>	<b>\$ 16,238</b>

On June 23, 2018, the Company acquired certain assets located in the United States of America and disposed of certain assets also in the United States of America for which the Company incurred in various expenses in order to realize the mentioned transactions, which amounted to \$ 3,276.

As of December 31, 2019, 2018 and 2017, the Company recognized an impairment loss on goodwill assigned to the concrete group of the cash generating unit in the United States of America division for an amount of \$ 6,339, \$ 4,151 and \$ 15,400, respectively.

### 28. Financial expenses

The financial expenses for the years ended December 31, 2019, 2018 and 2017, are integrated as follows:

	2019	2018	2017
Interest expenses	\$ 32,643	\$ 37,145	\$ 44,187
Cancellation and amortization of debt issuance costs	4,501	6,070	11,613
Other financial expenses	1,552	7,362	1,541
Financial expenses under lease liabilities	2,306	-	-
	<b>\$ 41,002</b>	<b>\$ 50,577</b>	<b>\$ 57,341</b>



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### 29. Segment information

The Company is a Mexican entity that manufactures and sells hydraulic cement, ready-mix concrete and aggregates. The Company's operations in the United States of America are mainly performed by three subsidiaries with an ownership interest of 99.99%.

Inter-segment revenues are eliminated upon consolidation and reflected in the "eliminations and other adjustments" column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

In the following information, the column representing Mexico includes all domestic transactions. Information for the years ended December 31, 2019, 2018 and 2017, is as follows:

2019					
	Mexico	United States of America	Eliminations and other adjustments		Consolidated
Net sales:					
External customers	\$ 252,252	\$ 681,863	\$ -	\$	934,115
Intercompany sales	56,925	20,078	( 77,003)		-
	309,177	701,941	( 77,003)		934,115
Operating income before other expenses	74,563	109,003	-		183,566
Income before income taxes	61,088	81,058	-		142,146
Depreciation and amortization	19,897	88,509	-		108,406
Financial income	4,798	4,051	-		8,849
Financial expenses	1,976	39,026	-		41,002
Exchange income, net	( 3,605)	( 536)	-		( 4,141)
Goodwill	-	240,545	-		240,545
Property, plant and equipment, net	232,596	783,313	-		1,015,909
<b>Total assets</b>	<b>\$ 685,745</b>	<b>\$ 1,371,973</b>	<b>\$ -</b>	<b>\$</b>	<b>2,057,718</b>
<b>Total liabilities</b>	<b>\$ 218,084</b>	<b>\$ 765,097</b>	<b>\$ -</b>	<b>\$</b>	<b>983,181</b>
<b>Non cash expenditures</b>	<b>\$ 2,675</b>	<b>\$ 7,328</b>	<b>\$ -</b>	<b>\$</b>	<b>10,003</b>

2018					
	Mexico	United States of America	Eliminations and other adjustments		Consolidated
Net sales:					
External customers	\$ 236,058	\$ 647,172	\$ -	\$	883,230
Intercompany sales	59,071	14,777	( 73,848)		-
	295,129	661,949	( 73,848)		883,230
Operating income before other expenses	80,352	89,484	-		169,836
Income before income taxes	94,713	27,073	-		121,786
Depreciation and amortization	20,484	66,042	-		86,526
Financial income	3,338	3,123	-		6,461
Financial expenses	1,534	49,043	-		50,577
Exchange income, net	( 283)	( 59)	-		( 342)
Goodwill	-	246,884	-		246,884
Property, plant and equipment, net	226,617	801,143	-		1,027,760
<b>Total assets</b>	<b>\$ 1,054,171</b>	<b>\$ 848,361</b>	<b>\$ -</b>	<b>\$</b>	<b>1,902,532</b>
<b>Total liabilities</b>	<b>\$ 117,779</b>	<b>\$ 812,537</b>	<b>\$ -</b>	<b>\$</b>	<b>930,316</b>
<b>Non cash expenditures</b>	<b>\$ 2,724</b>	<b>\$ 15,899</b>	<b>\$ -</b>	<b>\$</b>	<b>18,623</b>



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2017				
	México	United States of America	Eliminations and other adjustments	Consolidated
Net sales:				
External customers	\$ 221,617	\$ 602,487	\$ -	\$ 824,104
Intercompany sales	43,301	14,568	( 57,869)	-
	264,918	617,055	( 57,869)	824,104
Operating income before other expenses	64,199	96,597	-	160,796
Income before income taxes	34,607	56,211	-	90,818
Depreciation and amortization	18,442	60,702	-	79,144
Financial income	2,394	1,136	-	3,530
Financial expenses	1,421	55,920	-	57,341
Exchange income, net	( 1,654)	( 365)	-	( 2,019)
Goodwill	-	387,461	-	387,461
Property, plant and equipment, net	224,636	711,751	-	936,387
<b>Total assets</b>	<b>\$ 937,888</b>	<b>\$ 970,002</b>	<b>\$ -</b>	<b>\$ 1,907,890</b>
<b>Total liabilities</b>	<b>\$ 137,374</b>	<b>\$ 841,553</b>	<b>\$ -</b>	<b>\$ 978,927</b>
<b>Non cash expenditures</b>	<b>\$ 2,464</b>	<b>\$ 9,003</b>	<b>\$ -</b>	<b>\$ 11,467</b>

Net sales information by country and by product for the years ended as of December 31, 2019, 2018 and 2017, is presented in the following table:

2019						
Country	Cement	Concrete	Other	Eliminations	Consolidated	
Mexico	\$ 182,406	\$ 80,187	\$ 11,552	\$ ( 21,893)	\$ 252,252	
United States of America	615,446	121,455	69,337	( 124,375)	681,863	
	<b>\$ 797,852</b>	<b>\$ 201,642</b>	<b>\$ 80,889</b>	<b>\$ ( 146,268)</b>	<b>\$ 934,115</b>	

2018						
Country	Cement	Concrete	Other	Eliminations	Consolidated	
Mexico	\$ 171,524	\$ 71,226	\$ 4,892	\$ ( 11,584)	\$ 236,058	
United States of America	581,869	113,329	81,126	( 129,152)	647,172	
	<b>\$ 753,393</b>	<b>\$ 184,555</b>	<b>\$ 86,018</b>	<b>\$ ( 140,736)</b>	<b>\$ 883,230</b>	

2017						
Country	Cement	Concrete	Other	Eliminations	Consolidated	
Mexico	\$ 158,153	\$ 71,912	\$ 14,038	\$ ( 22,486)	\$ 221,617	
United States of America	503,591	104,231	86,889	( 92,224)	602,487	
	<b>\$ 661,744</b>	<b>\$ 176,143</b>	<b>\$ 100,927</b>	<b>\$ ( 114,710)</b>	<b>\$ 824,104</b>	

The column "Other" includes mainly aggregates, concrete blocks, prefabricated products, developed land, coal and other materials for construction.

### 30. Commitments and contingencies

a) Provision for environmental restoration. -The subsidiaries of the Company called GCCR and GCCE presented plans to the corresponding state agencies through which the use is proposed according to where the plants are located and any land remediation at the end of operations. These plans provide for the incremental implementation of remediation measures over a period of 65 and 17 years, respectively, since more than half of the land will be remedied during the



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time that each installation is operating. The estimated remediation costs of these plans are \$ 29,340 for such societies. As of December 31, 2019 and 2018, the Company has recorded a liability for these obligations of \$ 12,006 and \$ 11,608, respectively, which corresponds to the present value of future obligations.

Additionally, the society called, GCCTF is required to comply with the Montana State recovery requirements for all its quarries. The Company estimated incremental remediation measures for each quarry that ranged from a period of three years to a period of 100 years. The estimated remediation costs are \$ 1,983. As of December 31, 2019 and 2018, the Company has recorded a liability for these obligations of \$ 413 and \$ 314, respectively, corresponding to the present value of future obligations.

The Company recorded remediation liabilities related to a closing and post-closure plan submitted to the Texas Commission on Environmental Quality for a permit to operate a disposal site and related to the estimated remediation costs of a quarry operating permit, aggregate leased for a period of 15 years and a period of nine years, respectively. The estimated remediation costs of these plans are \$ 13,478. As of December 31, 2019 and 2018, the Company has recorded a liability for these obligations of \$ 8,358 and \$ 8,773, respectively, corresponding to the present value of future obligations.

These amounts are included in the consolidated statements of financial position as other long-term liabilities. The adjustments to the liability are included in the cost of the related asset and the accrual expenses associated with the reversal of the effects of the discount are recognized as interest expenses in the corresponding period.

GCC has guaranteed \$ 6,994 in case GCCRG does not successfully comply with the claim obligations. In addition, GCCRG, GCCE and GCCTF have various bonds to meet regulatory requirements. Below are the bonuses by society and government entity to which it is in favor.

<b>Company</b>	<b>Government agency</b>	
GCCRG	United States Department of Agriculture, Forest Service	\$ 70
GCCRG	State of Colorado	70
GCCRG	State of Colorado, Division of Reclamation and Mining	1,885
GCCRG	State of New Mexico	2,321
GCCE	Colorado Dept of Reclamation, Mining and Safety	13
GCCE	United Department of the Interior	22
GCCE	State of Colorado and US Office of SMRE	908
GCCTF	State of Montana Dept of Enviromental Quality	4,780
		<b>\$ 10,069</b>

b) On August 18, 2011, GCC sold its 47.02% share of the stock of the Company Sociedad Boliviana de Cemento, S.A. (SOBOCE) in favor of Consorcio Cementero del Sur, S.A. (CCS), a subsidiary of Grupo Gloria, based in Peru. The resources obtained from the transaction were mainly aimed to reduce the Company's debt. After selling the stock, the Company did not participate in Bolivia's cement industry anymore.

SOBOCE's majority stockholder, Compañía de Inversiones Mercantiles, S.A. (CIMSA), filed an international arbitration request with the Inter-American Commercial Arbitration Commission, which was notified to GCC on November 16, 2011. The request claims, with no grounds, breach to the right of first refusal to purchase the stock subject of the above-mentioned sale, based on the Stockholders Agreement entered by and between GCC and CIMSA.

In September 2013, the Arbitration Court issued the Liability Award declaring GCC and GCC Latinoamerica liable for the breach of the stockholders' agreement.

In December 2014, CIMSA sold its 51.3% share of SOBOCE stock to CCS for an approximate price of US\$300 million, turning CCS into SOBOCE'S major stockholder and controlling parent company, holding 98.32% of the stock

On April 15, 2015, within the international arbitration filed by CIMSA against GCC before the IACAC, the Damages Final Award was issued stating a payment by GCC and its subsidiary GCC Latinoamerica in the amount of US\$36.1 million as damages and expenses in favor of CIMSA.



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GCC considers that the award is contrary to the Bolivian Law and the International Law, and has therefore filed an annulment resource against the Award, procedure under which the Damages Final Award has been left without any effects.

On January 11, 2018, the Supreme Court of Justice of Bolivia issued a decree ratifying the annulment of the Responsibility Award dated September 2013; therefore, once the cancellation procedure of the first award has been completed, the annulment file has been sent to the former president of the Arbitral Tribunal in Madrid, Spain.

In accordance with Bolivian law, as a result of the cancellation of the liability award, the \$ 36.1 million award of damages against GCC and GCC Latinoamerica has ceased to have effect and is not enforceable, we are currently waiting for the confirmation of the corresponding authorities in Bolivia in this regard. Additionally, GCC obtained a resolution of precautionary measures before the Mexican courts for the purpose of CIMSA refraining from executing any award issued in the arbitration until the pending annulment remedies are resolved.

On May 31, 2018, CIMSA requested before a Judge in Denver the continuation of the proceeding initiated in September 2015 with the purpose of executing the Damages Award, as well as freezing and seizing assets of Grupo Cementos de Chihuahua and GCC Latinoamerica, S.A. de C.V. in Colorado, Together, this procedure was originally suspended pending the resolution of the annulment proceedings in Bolivia promoted by GCC.

On March 25, 2019, the Denver Judge confirmed the Award of Responsibility issued by the Arbitral Tribunal on April 15, 2015, which granted CIMSA damages in the amount of \$ 36.1 million dollars, plus fees, costs and interest. The decision confirms the Accountability Award as a binding judgment in the United States. Either way, this resolution does not affect GCC of America or any other subsidiaries based on United States, since the defendants are only Grupo Cementos de Chihuahua and GCC Latinoamerica, S.A. de C.V. that today have no assets in the United States. The Company appealed the decision of the Colorado District Court on June 18, 2019, the corresponding hearing is scheduled for May 2020 and the specific date is still pending.

GCC will exercise the contractual rights it has to recover at the time the damages and expenses that the final resolution of the arbitration could cause. Pursuant to Bolivian law, the execution of the final award is suspended until the pending annulment remedies are resolved.

GCC is confident on a favorable resolution; however, we cannot assure that this legal procedure will not have a negative effect on the Company's interests.

As of the date of this report, the procedure is underway and there are no set dates for new written hearings or a resolution.

c) On October 8, 2015, the Company signed a strategic agreement for three years with Madata It, S.A. de C.V. ("MADATA") (related party-joint venture), whereby MADATA provides business process and information technology services ("IT"). The contract life is for three years and forced renewed every year until the Company decides not to renew and is expected to generate savings to GCC, during this period. The contract includes data processing services and infrastructure services, support and maintenance of IT applications in different localities of the Company. The amount of the services paid recognized in the consolidated statement of income as of December 31, 2019, 2018 and 2017, are presented in Note 8.



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### 31. Operations that do not generate cash flows

During the years ended December 31, 2019, 2018 and 2017, the Company conducted operations that did not generate cash flows from investing activities and therefore are not reflected in the consolidated statements of cash flows:

	2019	2018	2017
Acquisition of property, plant and equipment	\$ 10,003	\$ 18,623	\$ 11,467

### 32. Subsequent events

The appearance of the Coronavirus COVID-19 in China in January 2020 and its recent worldwide expansion in a large number of countries, has motivated the viral outbreak to be classified as a pandemic by the World Health Organization since March 11, 2020.

Considering the complexity of the markets due to their globalization and the absence, for the moment, of an effective medical treatment against the virus, the consequences for the Company's operations are not quantifiable, although given the current conditions of the Company, it is hoped they will not be significant; however, this may change and will depend to a great extent on the evolution and extension of the pandemic in the coming months, as well as the reaction capacity and adaptation of all the economic agents impacted.

Until today, construction and construction related companies have been considered "Essential" in the United States; therefore the Company continues to produce and deliver products to its customers, in a modified format.

As preventive measures, the Company has implemented remote work where possible and a series of measures so that employees and contractors in all its operations comply with the healthy distance guidelines. It has also requested all its collaborators to focus their efforts on the critical task of fulfilling orders, producing, sending and collecting, this, minimizing personal contact and eliminating any other non-critical or essential activity or project, for the time being.

For all these reasons, at the time of writing this report, it is premature to carry out a detailed assessment or quantification of the possible impacts that COVID-19 will have on the Company, due to the uncertainty about its consequences, in the short, medium and long term.

However, as of the date of this report, the Company's activity has continued as planned, with no shutdowns or potential shut downs in the foreseeable future.

However, the Management and Board of Directors have made a preliminary assessment of the current situation based on the best information available. Due to those mentioned above, said information may be incomplete. From the results of this evaluation, the following aspects stand out:

- i. **Liquidity risk:** it is foreseeable that the general situation of the markets could lead to a general increase in liquidity tensions in the economy, as well as a contraction in the credit market. In this sense, the Company has a considerable amount of cash and cash equivalents, a record amount in the last 15 years, unused but available credit lines (Note 21), which, together with the launch of specific plans for improvement and efficient liquidity management, will allow to face these tensions.
- ii. **Operations risk:** the changing and unpredictable situation of events could imply the appearance of a risk of temporary interruption of production / sales or, where appropriate, a punctual breakdown of the supply chain. For this reason, the Company has established specific working groups and procedures required to monitor and manage the evolution of its operations at all times, in order to minimize its impact on them.
- iii. **Risk of variation of certain financial figures:** the factors mentioned above, together with other factors, may cause a decrease in the next financial statements in the amounts relevant to the Company such as "Marginal Profit", "Operating profit" or "Earnings before / after taxes", or key indicators thereof such as profit before interest, taxes,



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depreciation and amortization (EBITDA). For the moment, it is not possible to reliably quantify its impact, having taken into account the conditions and restrictions already indicated.

- iv. Balance sheet asset and liability valuation risk: a change in future estimates of sales, production costs, financial costs, customer collectability, etc. of the Company could have an impact on the book value of certain assets (Goodwill, non-current assets, tax credits, customers, etc.) as well as the need to record certain provisions or other types of liabilities. As soon as sufficient and reliable information is available, the appropriate analyzes and calculations will be carried out to allow, where appropriate, the reevaluation of the value of said assets and liabilities. In this regard, Notes 17, 20 and 21 include a sensitivity analysis (before the appearance of COVID-19) on the possible impacts of mainly in the impairment tests, in the event of changes in some of the basic hypotheses of the models used to make them.
- v. Continuity risk: taking into account all the aforementioned factors, the administrators consider that the conclusion detailed in Note 21 on the application of the going concern principle remains valid.

Lastly, it should be noted that Management and the Board of Directors are constantly monitoring the evolution of the situation, in order to successfully face any possible impacts, both financial and non-financial, that may occur.

### 33. Authorization to issue the consolidated financial statements

On April 11, 2020, the accompanying consolidated financial statements were authorized for their issuance by Luis Carlos Arias Laso, Chief Financial Officer; consequently, they do not reflect events occurred after that date and are subject to the approval of the Company's ordinary shareholders' meeting where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

The consolidated financial statements as December 31, 2018 were approved by the general meeting of shareholders held on April 25, 2019.



## **INFORME DEL COMITÉ DE AUDITORIA Y PRÁCTICAS SOCIETARIAS**

### **H. CONSEJO DE ADMINISTRACIÓN Y ASAMBLEA GENERAL ORDINARIA DE ACCIONISTAS DE GRUPO CEMENTOS DE CHIHUAHUA, S.A.B. DE C.V.**

#### **Estimados Consejeros y Accionistas:**

En cumplimiento a lo dispuesto por los Artículos 42 y 43 de la Ley del Mercado de Valores, sometemos a la consideración del Consejo de Administración y Asamblea de Accionistas, el siguiente informe de actividades correspondiente al ejercicio terminado el 31 de diciembre de 2019.

A partir de la Asamblea de Accionistas celebrada el día 25 de abril de 2019 en la que fui designado; los miembros del Comité celebramos 5 reuniones.

En dichas reuniones se trataron los temas siguientes:

#### **I. Con respecto a lo establecido en el Art. 42 de la Ley del Mercado de Valores, lo siguiente:**

##### **En materia de prácticas societarias:**

- a)** La presentación de los integrantes del Comité de Auditoría y Prácticas Societarias para el ejercicio 2019 - 2020.
- b)** La presentación del plan anual de auditoria interna para el ejercicio de 2019.
- c)** Se presentaron para su revisión y opinión favorable y recomendación al Consejo, la aprobación de los estados financieros internos de la Sociedad de cada trimestre de 2019 y el primero de 2020 para su posterior envío a la Bolsa Mexicana de Valores.
- d)** Se presentó al Consejo de Administración para su opinión favorable y recomendación, los estados financieros anuales no auditados de la sociedad por el ejercicio de 2019 para su posterior envío a la Bolsa Mexicana de Valores.

##### **Los aspectos más relevantes fueron:**



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1. Presentación del Presupuesto y el Plan de Inversión para el ejercicio de 2020.
  2. Presentación del estatus de las auditorías en los procesos de mantenimiento y metodologías que se tienen establecidas y que se utilizan por parte de la sociedad para mantener los riesgos actualizados.
  3. Se aprobaron los avances del plan de trabajo para el ejercicio de 2020 y la remediación de las observaciones sobre el ejercicio de 2019.
  4. Presentación de las operaciones inter compañías que se tienen actualmente por parte de la sociedad.
  5. Presentación del tema de Ciberseguridad y resultados de la auditoría a los sistemas tecnológicos de la sociedad de cómo está blindada la compañía y su sistema de monitoreo continuo.
  6. Presentación sobre el Plan de Recuperación de los impuestos de la Sociedad.

**En materia de auditoría:**

- a) Presentación del Programa de Auditoría 2019 con el Despacho Auditor Externo Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.).
- b) Presentación del plan de soporte y control de cumplimiento a la Circular Única de Auditores Externos para la evaluación del Comité de Auditoría y Prácticas Societarias.
- c) Se apoyó al Consejo de Administración en la elaboración de los informes a que se refiere el Art. 28, fracción IV, incisos d) y e) de la Ley del Mercado de Valores.
- d) Presentación por parte de los Auditores de Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.) de las observaciones a la auditoría del ejercicio fiscal 2019.

En términos del artículo 34 de las disposiciones de carácter general aplicables a las entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores, este Comité cumplió con las obligaciones siguientes:

- e) Se evaluaron los servicios distintos al de la auditoría externa de Estados Financieros Básicos y complementarios que en su caso, proporciona el Despacho encargado de realizar la auditoría externa Galaz, Yamazaki, Ruiz, Urquiza, S.C., (Deloitte Touche Tohmatsu Limited).
- f) Se aprobaron los resultados de la evaluación del desempeño del Auditor Externo Independiente, así como de la calidad del Informe de Auditoría

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Externa, los comunicados y opiniones, elaborados en cumplimiento a lo dispuesto en la fracción I anterior del artículo 34 citado.

- g) No hubo denuncias realizadas por accionistas, consejeros, directivos relevantes, empleados y en general, de cualquier tercero sobre temas relacionados con la auditoría externa.

**II. Se cumplió con lo señalado en el Artículo 43 de la Ley del Mercado de Valores tratándose los siguientes temas:**

- a) La ratificación y aprobación del pago de honorarios a los Auditores Externos para el ejercicio de 2019 de la firma Galaz, Yamazaki, Ruiz, Urquiza, S.C., (Deloitte Touche Tohmatsu Limited).
- b) El Comité se cercioró que la Firma de Auditores Externos de Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.) cumpliera con los criterios de independencia que establece la normativa aplicable y revisó el presupuesto de honorarios por los servicios de auditoría externa.
- c) Se revisaron los Estados Financieros de Grupo Cementos de Chihuahua, S.A.B. de C.V., y empresas subsidiarias, dictaminados por el ejercicio de 2019, autorizándose junto con el correspondiente Dictamen, a efecto de que una vez aprobados por el Consejo de Administración, sean sometidos a la Asamblea General Ordinaria de Accionistas y sean presentados a la Bolsa Mexicana de Valores.
- d) Se presentó el informe del Director General de la Sociedad para su aprobación y posterior presentación al Consejo de Administración y a la Asamblea General Ordinaria de Accionistas.
- e) El Director General presentó el informe sobre el cumplimiento de las operaciones de GCC con partes relacionadas, las cuales fueron aprobados para su presentación al Consejo de Administración
- f) Se presentó por parte de Auditoría Interna las observaciones y recomendaciones del ejercicio 2019.
- g) Se aprobó el cumplimiento a las políticas sobre la retribución para el Director General y los Directivos relevantes, haciéndose la propuesta al Consejo de Administración para su aprobación.
- h) Se presentó por parte del equipo auditor la información a presentar a la CNBV y a la BMV en relación al cumplimiento a la Nueva Circular de Auditores Externos para la evaluación del Comité de Auditoría y Prácticas Societarias.
- i) El Comité se aseguró que la Administración diese adecuado seguimiento a las recomendaciones y acciones correctivas sugeridas por los Auditores externos de Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.), sin que se

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presentaran irregularidades o fallas, emitiendo su opinión en los distintos asuntos de su competencia.

- j) Se aprobaron los avances en control interno y normatividad contable para el ejercicio de 2019.
- k) No se presentó dispensa alguna para aprovechar oportunidades de negocio por parte de algún Consejero, Directivo Relevante o persona con poder de mando.

Chihuahua, Chih., a 27 de marzo de 2020

**Atentamente**



Fernando Ruiz Sahagún  
Presidente del Comité de  
Auditoría y Prácticas Societarias



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FERNANDO RUIZ SAHAGÚN

*Contador Público*

## INFORME DEL COMITÉ DE AUDITORIA Y PRÁCTICAS SOCIETARIAS

Ciudad de México  
Corporativo Pirámide  
Vasco de Quiroga 2121  
4º Piso, Peña Blanca Santa Fe  
C.P. 01210

### H. CONSEJO DE ADMINISTRACIÓN Y ASAMBLEA GENERAL ORDINARIA DE ACCIONISTAS DE GRUPO CEMENTOS DE CHIHUAHUA, S.A.B. DE C.V.

#### Estimados Consejeros y Accionistas:

En cumplimiento a lo dispuesto por los Artículos 42 y 43 de la Ley del Mercado de Valores, sometemos a la consideración del Consejo de Administración y Asamblea de Accionistas, el siguiente informe de actividades correspondiente al ejercicio terminado el 31 de diciembre de 2018.

A partir de la Asamblea de Accionistas celebrada el día 26 de abril de 2018 en la que fui designado; los miembros del Comité celebramos 6 reuniones.

En dichas reuniones se trataron los temas siguientes:

#### I. Con respecto a lo establecido en el Art. 42 de la Ley del Mercado de Valores, lo siguiente:

##### En materia de prácticas societarias:

- a) La presentación de los integrantes del Comité de Auditoría y Prácticas Societarias para el ejercicio 2018 - 2019.
- b) La presentación para su aprobación del plan anual de auditoría interna para el ejercicio de 2018.
- c) Se presentaron para su revisión y opinión favorable y recomendación al Consejo, la aprobación de los estados financieros internos de la Sociedad de cada trimestre de 2018 y el primero de 2019 para su posterior envío a la Bolsa Mexicana de Valores.
- d) Se presentó al Consejo de Administración para su opinión favorable y recomendación, los estados financieros anuales no auditados de la sociedad por el ejercicio de 2018 para su posterior envío a la Bolsa Mexicana de Valores.

##### Los aspectos más relevantes fueron:

- Presentación por parte del Director de Recursos Humanos de la sociedad de la actuación del Comité de Ética y su competencia.

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- Presentación de la terminación del refinanciamiento de la sociedad respecto al crédito actual.
  - Se llevó a cabo la presentación sobre la conclusión de los proyectos Ozark y Trout.
  - Se presentó la Actualización del presupuesto de la sociedad del ejercicio incluyendo el refinanciamiento y los proyectos Ozark y Trout.
  - Presentación del estatus de las auditorías en los procesos de mantenimiento y sus riesgos.
  - Se aprobó la actualización del Reglamento del Comité de Auditoría y Prácticas Societarias.
  - Se aprobó la implementación del control interno en la nueva adquisición de la Planta Trident en el Estado de Montana.
  - Se aprobó la propuesta de remuneración a largo plazo a ciertos ejecutivos de la Sociedad a partir del ejercicio de 2018.
  - Se aprobaron los avances del plan de trabajo para el ejercicio de 2019 y la remediación de las observaciones sobre el ejercicio de 2018.

**En materia de auditoría:**

- a) Presentación del plan de soporte y control de cumplimiento a la Nueva Circular de Auditores Externos para la evaluación el Comité de Auditoría y Prácticas Societarias.
- b) Se apoyó al Consejo de Administración en la elaboración de los informes a que se refiere el Art. 28, fracción IV, incisos d) y e).
- c) Presentación por parte de los Auditores de Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.) de las observaciones a la auditoría del ejercicio fiscal 2018.

**II. Se cumplió con lo señalado en el Artículo 43 de la Ley del Mercado de Valores tratándose los siguientes temas:**

- a) La ratificación y aprobación del pago de honorarios y rotación de Socios Auditores Externos para el ejercicio de 2018, de la firma Galaz, Yamazaki, Ruiz, Urquiza, S.C., (Deloitte Touche Tohmatsu Limited).
- b) El Comité se cercioró que la Firma de Auditores Externos de Deloitte cumpliera con los criterios de independencia que establece la normativa aplicable y revisó el presupuesto de honorarios por los servicios de auditoría externa.
- c) Se revisaron los Estados Financieros de Grupo Cementos de Chihuahua, S.A.B. de C.V., y empresas subsidiarias, dictaminados por el ejercicio de 2018, autorizándose junto con el correspondiente Dictamen, a efecto de que una vez aprobados por el Consejo de Administración, sean sometidos a la



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Asamblea General Ordinaria de Accionistas y sean presentados a la Bolsa Mexicana de Valores.

- d) Se presentó el informe del Director General de la Sociedad para su aprobación y posterior presentación al Consejo de Administración y a la Asamblea General Ordinaria de Accionistas.
- e) El Director General presentó el informe sobre el cumplimiento de las operaciones de GCC con partes relacionadas, las cuales fueron aprobados para su presentación al Consejo de Administración
- f) Se presentó por parte de Auditoria Interna las observaciones y recomendaciones del ejercicio 2018.
- g) Se aprobó el cumplimiento a las políticas sobre la retribución para el Director General y los Directivos relevantes, haciéndose la propuesta al Consejo de Administración para su aprobación.
- h) Se presentó por parte del equipo auditor la información a presentar a la CNBV y a la BMV en relación al cumplimiento a la Nueva Circular de Auditores Externos para la evaluación del Comité de Auditoria y Prácticas Societarias.
- i) El Comité se aseguró que la Administración diese adecuado seguimiento a las recomendaciones y acciones correctivas sugeridas por los Auditores externos, sin que se presentaran irregularidades o fallas, emitiendo su opinión en los distintos asuntos de su competencia.
- j) Se aprobaron los avances en control interno y normatividad contable para el ejercicio de 2019.
- k) No se presentó dispensa alguna para aprovechar oportunidades de negocio por parte de algún Consejero, Directivo Relevante o persona con poder de mando.

Chihuahua, Chih., a 12 de abril de 2019

**Atentamente**



Fernando Ruiz Sahagún  
Presidente del Comité de  
Auditoria y Prácticas Societarias

FRS

FERNANDO RUIZ SAHAGÚN

Contador Público

## INFORME DEL COMITÉ DE AUDITORIA Y PRÁCTICAS SOCIETARIAS

Ciudad de México  
Corporativo Peñón de  
Vasco de Quiroga 2121  
4º Piso, Peña Blanca Santa Fe  
C.R. 01210

### H. CONSEJO DE ADMINISTRACIÓN Y ASAMBLEA GENERAL ORDINARIA DE ACCIONISTAS DE GRUPO CEMENTOS DE CHIHUAHUA, S.A.B. DE C.V.

#### Estimados Consejeros y Accionistas:

En cumplimiento a lo dispuesto por los Artículos 42 y 43 de la Ley del Mercado de Valores, sometemos a la consideración del Consejo de Administración y Asamblea de Accionistas, el siguiente informe de actividades correspondiente al ejercicio terminado el 31 de diciembre de 2017.

A partir de la Asamblea de Accionistas celebrada el día 27 de abril de 2017 en la que fui designado, los miembros del Comité celebramos 4 reuniones.

En dichas reuniones se trataron los temas siguientes:

- I. Con respecto a lo establecido en el Art. 42 de la Ley del Mercado de Valores, lo siguiente:
  1. Discusión y análisis de las bases utilizadas para la elaboración de los Estados Financieros Trimestrales correspondientes y anual por el ejercicio 2017 de la Sociedad.
  2. La presentación del avance al plan anual de auditoria interna y resultado final del ejercicio 2017.
  3. Presentación al Consejo de la opinión del Informe del Director General, incluyendo los Estados Financieros Dictaminados por el ejercicio 2017.
  4. Se apoyó al Consejo de Administración en la elaboración de los informes a que se refiere el Art. 28, fracción IV, incisos d) y e).
  5. Presentación por parte de los Auditores de Deloitte (Galaz, Yamazaki, Ruiz Urquiza, S.C.) de las observaciones a la auditoría del ejercicio fiscal 2017.

Los aspectos más relevantes fueron:

- a. La presentación de los integrantes del Comité de Auditoría y de Prácticas Societarias para el ejercicio 2017 - 2018.



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- b. Presentación sobre el financiamiento de la Sociedad de las Notas Senior del 2020.
  - c. Se presentó la revisión de las licencias de software de la Sociedad.
  - d. Se llevó a cabo la presentación sobre la compensación de los empleados de la Sociedad.
  - e. Se autorizó a Cemex, S.A.B. de C.V., realizar operaciones del más del 3% de acciones de la Sociedad con Banco Santander (México) S.A., Institución de Banca Múltiple, Grupo Financiero Santander México y Banco Nacional de México, S.A., integrante de Grupo Financiero Banamex.
  - f. Presentación sobre los activos que se han dado de baja en el ejercicio de 2017.
  - g. Presentación e informe sobre la seguridad cibernética en GCC.
  - h. Se autorizó participar a la Sociedad en los proyectos Trout y Ozar respecto a compra y venta de activos en los Estados Unidos de Norteamérica.
- II. Se cumplió con lo señalado en el Artículo 43 de la Ley del Mercado de Valores tratándose los siguientes temas:
- 1. La aprobación de la contratación de la firma de Auditores Externos Galaz, Yamazaki, Ruiz, Urquiza, S.C., (Deloitte Touche Tohmatsu Limited) para el ejercicio 2017, y el Plan de Auditoría.
  - 2. El Comité se cercioró que la Firma de Auditores Externos de Deloitte cumpliera con los criterios de independencia que establece la normativa aplicable y revisó el presupuesto de honorarios por los servicios de auditoría externa.
  - 3. Se revisaron los Estados Financieros de Grupo Cementos de Chihuahua, S.A.B. de C.V., y empresas subsidiarias, dictaminados por el ejercicio de 2017, autorizándose junto con el correspondiente Dictamen.
  - 4. Se presentó el informe del Director General de la Sociedad para su aprobación y posterior presentación al Consejo de Administración y a la Asamblea General Ordinaria de Accionistas.
  - 5. El Director General presentó el informe sobre el cumplimiento de las operaciones de GCC con partes relacionadas, las cuales fueron aprobados para su presentación al Consejo de Administración.
  - 6. Presentación por parte de Auditoría Interna de las observaciones y recomendaciones del ejercicio 2017.
  - 7. Se aprobó el cumplimiento a las políticas de designación y retribución para el Director General y los Directivos relevantes y su compensación.

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8. El Comité se aseguró que la Administración diese adecuado seguimiento a las recomendaciones y acciones correctivas sugeridas por los Auditores externos, sin que se presentaran irregularidades o fallas, emitiendo su opinión en los distintos asuntos de su competencia que fueron sometidos al Consejo de Administración.
  9. No se presentó dispensa alguna para aprovechar oportunidades de negocio por parte de algún Consejero, Directivo Relevante o persona con poder de mando.

Chihuahua, Chih., a 20 de marzo de 2018

**Atentamente**



Fernando Ruiz Salagón  
Presidente del Comité de  
Auditoría y Prácticas Societarias

FRS