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Cecilia Jimenez, Santander

Chelsea Colón, Aegon

Mauricio Serna, UBS

Ramon Alberto, Scotiabank

Froylan Mendez, JP Morgan

PRESENTATION

Operator

Good morning and welcome to the GCC first Quarter 2019 Earnings Call. Before we begin, I would like to remind you that this call is being recorded and all participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Information discussed today may include forward-looking statements regarding the company's financial and operating performance. All projections are subject to risks and uncertainties, and actual results may differ materially. Please refer to the detailed note in the company's earnings report regarding forward-looking statements.

At this time, I would like to turn the call over to Mr. Enrique Escalante, Chief Executive Officer. Please go ahead.

Enrique Escalante

Thank you, operator, and good morning everyone. Joining me today is Luis Carlos Arias, our CFO and Ricardo Martinez, Head of Investor Relations.

As you can all appreciate, this has been an extraordinary winter season, adversely impacting most markets in the U.S. and every market in which we operate in the country. Coupled with a mild first half twenty eighteen winter and the benefit we saw related to the unique and accelerated construction cement demand in early twenty eighteen to build more than fifteen frac sand facilities in West Texas, representing around thirty

thousand metric tons, the comps this quarter are tough. Having said that, the overall underlying trends of our business remain strong in each of our markets. We continue to see solid demand with customer backlog expanding in both the U.S. and Mexico. And while the growth outlook for Mexico has weakened, that is not the case for the Chihuahua region where we operate. In fact, Chihuahua is outperforming the country as a whole, driven primarily by robust mining shipments, industrial maquiladora plants and warehouse construction and middle-income housing starts at the northern cities.

Let me now turn to the key performance drivers in the U.S., starting in the South and moving North, and then let's review GCC's operations in Mexico. Luis Carlos will follow with a discussion of GCC's financial results and we will then turn the call over to your questions.

Overall, we are seeing strong performance in the El Paso, Texas and New Mexico areas, with a significant amount of work being quoted, including military base runway reconstruction and roads projects that have already been approved and awarded. Also projects for twenty nineteen and twenty twenty resulting from last year´s school district bonds issued in El Paso.

We also expect to see a pick-up in cement consumption demand related to new rig construction supported by oil prices increasing and by the opening of new pipelines from the Permian Basin oilfields in West Texas to East Texas, which was a constraint last year. There were several pipelines already under construction, and we expect a couple more to be commissioned in the near term. To supplement the increasing demand, kiln two at our Chihuahua plant is now producing and exporting oil well cement, and we are in the process to open a new cement terminal in Fort Stockton, Texas.

It's important to note that this is an area where we had very strong comps in 2018, driven by the extraordinary consumption to build the frac sand facilities to which I've referred. As these projects were completed last year, this cement demand has not been replicated this quarter.

In terms of pricing, on April first the additional eight US dollar per metric ton price increase came into effect across all of our markets, excluding oil well cement. However, with added pressure from the Street on oil companies' profitability and cash generation, we have been experiencing some pushback on pricing increases within this segment. Given the high utilization rates in West Texas, and if the oil price continues its favorable trend, we could expect an oil well cement price increase in the Fall.

In Colorado, we continue to see a very dynamic economy, and expect growth momentum to remain solid for the next few years, underpinned by public infrastructure projects including at the Denver airport.

Turning to the northern Midwest and Plains states, in Montana we continue to derive important synergies from the Trident plant acquisition made last year, as we have begun to consolidate and sell directly to GCC's Canadian customers. At this time, we are working on setting up a new terminal in Canada. In the Dakotas and Iowa, demand is mainly driven by the continued windfarm construction activity. Although agricultural products demand is always present in the region, wind energy has become a key segment for our company. With benefit of several years' experience in advancing these types of projects, GCC has built a strong reputation with key wind farm developers. We are therefore optimistic that this is a segment which will continue to strengthen for our Company, as there is a solid windfarm backlog.

Let me now provide a brief update on GCC's Rapid City Plant. The operational ramp up is proceeding at a slower pace than anticipated, affecting the plant´s variable cost structure. The issues we have been experiencing are fairly simple in nature, and are related to certain auxiliary equipment, such as a crushed rock conveyor belt and a coal mill alleviator. However, the equipment provider has already stated that replacements are on their way. We are closely modeling the situation related to the stabilization process and are analyzing further courses of action to mitigate these issues within our network. It's important to note that all major equipment at the facility is running well, and as of today we have spare capacity and inventory.

Turning to our Mexico operations, we are very pleased with the results achieved in in this geography, where GCC has performed well above our initial expectations, in terms of both volumes and prices, on strong economics within the Chihuahua region. Mexico's mining sector continues to be one of the key drivers of sales growth, as was evidenced by the record high shipment we had in March of this year. Industrial facility construction has also boosted GCC's volumes. In Juarez, the middle-income housing segment also showed strong demand. Additionally, scarcity of labor has driven homebuilders to switch to GCC´s concrete block from other more labor-intensive construction materials such as bricks.

While we were able to achieve strong results for this first quarter of 2019, we nevertheless remain cautious in our optimism for the remainder of the year while the new administration moves forward with its proposed initiatives.

In line with the strong opportunities we envision for GCC's long-term future, we have created a new Corporate Technical and Operations Office to further drive our growth strategy by streamlining operations and facilitating GCC's ongoing progress.

The key objectives include:

- First and more importantly, improve our safety process companywide to guarantee we are an industry benchmark in health and safety
- Second, to standardize and implement operational best practices throughout our organization;
- Third, define and implement our knowledge management process to better achieve GCC's organizational objectives by making the best use of our corporate knowledge;
- Fourth, strengthen the performance of all GCC operations to higher standards;
- Fifth, define and implement state of the art technologies at all GCC projects, and
- Sixth, facilitate and implement cross-training programs, including related goals and guidelines.

Let me now turn the call over to Luis Carlos to review the quarter's financial results and I'll return for some closing comments.

Luis Carlos Arias

Thank you, Enrique, and good morning to everyone. Let me begin by reminding you that results for the Trident plant in Montana were consolidated effective July first, twenty eighteen. Our results also reflect the

reclassification of the Oklahoma and Arkansas ready-mix assets sold in June as discontinued operations. Prior period results have been restated in accordance with IFRS-five, including sales, costs, expenses and volumes. Additionally, with the implementation of IFRS sixteen, the way in which GCC accounts for operating lease, which were off-balance sheet, will change.

GCC will recognize a right-of-use asset of around fifty seven million dollars on both the asset and liability side of the balance sheet and the impact in this year's income statement is to decrease costs and operational expenses by around twenty million dollars, to increase depreciation and amortization by approximately eighteen million dollars and to increase interest expense by around two million dollars, the foregoing without any effect in Free Cash Flow, Net income or total interest bearing debt.

Consolidated net sales for the first quarter decreased by one point nine percent mainly driven by the six point nine percent decline in U.S. sales.

The decline in sales volumes in the U.S. reflect the unusual inclement weather conditions in every market in which we operate in, coupled with the difficult comparison from a record-high first quarter in twenty eighteen. Pricing dynamics continued to be favorable.

Mexico performed above our expectations, with sales growing eight point one percent year on year supported by growth in volumes and higher prices. This is on top of the eighteen percent growth achieved last year.
Cost of sales as a percentage of revenues increased seven point one percentage points compared to the prior year quarter mainly reflecting a six point seven million dollars' increase in operating expenses from a major planned preventative maintenance shutdown at our Odessa, and Trident plants, increased variable costs at our Rapid City Plant related to the operational ramp up process challenges that Enrique described and higher power costs in Mexico.

In addition to the negative operating leverage impact of lower shipment levels, higher depreciation levels from the new facilities also affected our margins.

As I had commented in the past, we continue to see an increase in electricity costs in Mexico, but expect this trend to revert in twenty twenty as we are working on two initiatives which we expect will drive significant future cost savings. First, on the back of Mexico's ongoing energy reform, we are in the final stage of selecting a new long-term electricity generator and expect to see related savings beginning next year. We are also in the process of reviewing alternatives in the form of renewable energy, either through third parties or on-site, to reduce our energy costs while maintaining our important focus on remaining environmentally conscious. We have the space, and conditions are certainly amenable for both sun and wind alternatives. We therefore are actively evaluating those projects which will make the most sense from both a cost and operational standpoint. We will be sure to provide relevant updates as they unfold.

Operating expenses as a percentage of sales, increased one point seven percentage points in the quarter, mainly due to the restructuring of several functions and the creation of the Corporate Technical and Operations

Office. While these expenses were previously recorded under cost of sales, most have now been reclassified to the operating expenses line.

EBITDA decreased sixteen percent in the first quarter, with the margin contracting four percentage points to twenty thee point four percent.

As I had mentioned at the beginning of my remarks, EBITDA in this quarter and hereafter will benefit from the implementation of IFRS sixteen due to the fact that the majority of the former rental expense from operating leases is now reflected in amortization, with neither impact in net income nor free cash flow.

Net financial expenses fell twenty-three percent in the quarter due to a decline in interest expense and lower debt balance as a result of the successful refinancing of all of our debt.

As a result of these factors, net income from continuing operations fell to three point nine million dollars in the first quarter of twenty nineteen, from eleven point eight million dollars in twenty eighteen.

Due to the seasonal nature of our business, as we normally see in the first quarter of the year, free cash flow remained negative, at twenty-two point four million compared to ten point six million dollars last year mainly reflecting lower EBITDA generation and an increase in other expenses and provisions. Lower interest expenses and cash taxes, as well as reduced working capital needs and maintenance capex partially offset this increase. Moving to our balance sheet, the net debt to EBITDA leverage ratio decreased to one point seventy-four five times in March twenty nineteen, compared to one point eighty-three times as of March thirty-one, twenty eighteen

As we mentioned during our fourth quarter 2019 conference call remarks, in February, Fitch Ratings raised the Company's local and foreign currency Issuer Default Ratings to 'BB+' from 'BB' and also upgraded our two hundred and sixty million dollar senior notes due twenty twenty-four to 'BB+' from ‘BB’.

We have a very healthy and efficient capital structure that will enable us to continue to invest strategically in our business. Further, we remain confident in the outlook we provided during last quarter’s call given the dynamics we foresee in both the U.S. and Mexico for the balance of the year. As a reminder, it’s important to note that historically GCC’s first quarter represents between twelve to fifteen percent of total annual sales. It therefore is not a strong indicator of the Company’s full year performance. If we compare for the last couple of years the average third quarter volumes to the first quarter volumes, in the case of concrete there is three to one ratio, while in cement, third quarter volumes normally double the first quarter performance.

I will now return the call over to Enrique for his closing remarks.

Enrique Escalante

Thank you, Luis Carlos. I’d like to take this opportunity to reiterate the fact that the underlying trends of GCC’s business remain solid. We therefore maintain our twenty nineteen guidance based on our confidence that pent-up demand in the U.S. will be recovered with improving weather during the remainder of the year. As I’ve

stated, we remain cautiously optimistic on the economy in Chihuahua and expect performance in this state to continue to surpass Mexico´s overall performance.

Absent of twenty nineteen early winter resulting in a shorter than usual construction season, we should be on pace the next months to deliver on our guidance

Now, before opening the call for questions, I would like to briefly comment about the resolution recently issued by the US district court of Colorado regarding the Damages award related to our past investments in Bolivia. As we stated in our press release on April first, we continue to refute that resolution, as the resolution does not recognize the previous determinations of the Bolivian courts that considers the Liability Award null and in favor of GCC. Furthermore, because it overlooks the fact that there are ongoing damage award annulment proceedings in Bolivia.

Today, we are filing our appeal to the Colorado district court resolution in the US 10th circuit court of appeals and we will be sure to provide relevant updates as soon as they are available

We currently have no accounting accrual in place as there is no reason or need to create one on this claim, the foregoing has been approved and validated by our auditors every year since the case was initiated.

Furthermore, we are entitled to reimbursement for any judgment, award, expense or damage that could arise from this proceeding but since we are bound by a confidentiality duty we cannot comment further at this time. As is our practice, we will be sure to keep the financial community updated whenever possible.

With that, this concludes our prepared remarks and we're now we're ready to take your questions. Operator, please go ahead.

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star, one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions.

Our first question comes from Dan McGoey from Citigroup. Please go ahead sir.

Daniel McGoey:

Hi, good morning, gentlemen, and thanks for the call. Two questions, if you may—or if I may. First, on Mexico, could you discuss a little bit the drop—the year-on-year drop in the EBITDA margin in Mexico? I know you cited higher electricity and fuel costs and maintenance at Samalayuca, but could you put some numbers on that in terms of how much was related to each, because it was quite a sharp drop year-on-year margin, and also your outlook for recovery or where we should expect margins for the remainder of the year in Mexico? Then, secondly, on Rapid City, you mentioned the slow ramp-up and difficulties—I think it was conveyor belt and a crusher—can you discuss where you are at the moment with that? Is the plant now operating to your satisfaction or what is the timeline for getting there?

Thanks.

Enrique Escalante:

Good morning, Dan. This is Enrique. I'm going to address your second question first, while Luis Carlos gets some of the more granular numbers that you need for the first question. In Rapid City, as I mentioned, the problems we are having are with auxiliary equipment. It's basically one conveyor belt that needs to be redesigned, because the slope was too steep and we're having problems maintaining an adequate flow of limestone into the raw mill. So, that's been addressed by the supplier, and we're in this process of redesigning that conveyor belt and setting up the order for new installation. The only problem with the coal mill, which has a small elevator, this is just kind of a pressure relief valve that needs to be also larger, and that order has been put in place for the acquisition—for the purchasing of a larger piece of equipment. This is costing us and we cannot operate the plant at full capacity, which fortunately we don't need at this time. As I mentioned, we have enough inventory and capacity for the forecast—of demand that we have for the next couple of years in that area. This situation will be fixed in the next months, probably will take four, five, six months, depending on the delivery of that equipment, but as I mentioned, it should have no impact on the availability of cement. It does have some impact on the variable costs, of course, because we cannot run at the expected efficiency that we initially estimated. The good news, I can tell you, is that the major pieces of equipment are working well, and we just achieved the guarantee test on the raw mill through passing the numbers that the original equipment manufacturer guaranteed to us, so all the rest of the major equipment is running well.

Luis Carlos Arias:

On your first question, as you can recall, or maybe remember that during last year in the first couple of months there was a steep decrease in the power cost in Mexico, we saw record-low cost per kilowatt hour, and then during the following months last year, there was a steep increase, so this first quarter of '19, we're comparing high rates against record-low rates during the first quarter of 2018. Again, it's a very hard comparison against the first quarter of '18. As I explained in my remarks, that's why we're very focused on price for energy. We are progressing very fast on this. As I said, once we have more definite information, we, of course, will then comment on that in the future call.

Daniel McGoey:

Okay, thanks, Luis Carlos, but in terms of—I mean, even if electricity prices were up 15% or 20%, it doesn't seem to explain the magnitude of the year-on-year decline in EBITDA margin. Are there some other contributing factors? I know you mentioned the costs of Samalayuca, which presumably didn't occur in first quarter of '18.

Enrique Escalante:

Yes, Dan, this is Enrique, let me address the issue on fuel. On the fuel side, we also had an impact on the cost of the plant, and all of the plants in the Company, because we have been going through a very difficult geology in the mine, and so we have been producing coal with a lot of what's called ash, which is basically rock that is in the middle of the coal seam. So, that rock, obviously, called ash, again, lowers the efficiency of the coal at the plant, and the plants have been—obviously, having stability problems with that coal. That's basically resolved already, because we changed to another part of the mine where the geology is better and we're just basically out of that area. However, in order to improve—I mean, the condition of the plant by burning that lower-grade coal, we had to do two things. One, to purchase some outside coal, because also the production

rate at the mine was lower with that, while we were mining in that area, so we had to purchase outside coal, which of course comes at the full price as a cost item to our cement and that also has an impact on the cost side—on the variable cost side of the cement plant, and to maintain a better plant stability, we supplemented with natural gas at a higher price than our cost of coal. So, those two factors of course are also impacting the fuel cost at all the GCC plants that consume coal from the mine. Again, we're already finishing to solve that issue and we should go back to previous coal or fuel cost in all our plants.

Daniel McGoey:

Thank you, gentlemen.

Luis Carlos Arias:

Thanks Dan.

Operator:

The next question comes from Carlos Peyrelongue from Bank of America. Please go ahead.

Carlos Peyrelongue:

Thank you. Thank you, Enrique and Luis Carlos, for the call. My questions are also related to margins. I believe you mentioned about five things that affected margins over the quarter. I wanted to go over them to see if some of these are recurrent going forward or which of those are not? The first one was related to the maintenance in Trident and Odessa, and I believe also Samalayuca. These maintenance shut- downs, are they over, and therefore starting in second quarter we should not see those additional costs, or can you comment on the timing of the periods of maintenance? Second is related to Rapid City. I believe there, you sort of answered already that it will take another four to six months before the problem is fully solved. I just wanted to confirm that. Then electricity costs in Mexico, it seems that they will remain at current levels for the rest of the year, so that impact should be maintained. Fourth, I guess volumes and the U.S. weather—no need to answer that—obviously we expect weather to improve as we get out of the winter. Then, the last one is on fuel cost that you just mentioned. Is that something that has been solved or we should still expect during the second quarter an impact? Sorry for all the questions, but if you could address those, it would be very helpful. Thank you.

Enrique Escalante:

Thank you, Carlos. On your number one question on maintenance in Trident and Odessa, that's behind. Those were related to the major outages, maintenance outages for the year, and what we found is that in Odessa we ended up doing a little bit more work than what we budgeted for originally, and that has resulted, I can tell you, in that the plant is running much, much better. Actually, in March, we probably had the best month in that plant since we bought the plant. So, that's behind us and we expect the payoffs to continue going forward. That's the same case for Trident, Trident is just coming out of an outage, and of course we didn't have that maintenance charge last year at this time, so that's also why it's increasing, that one time, the cost of the (inaudible).

In terms of Rapid City, yes, I said four to six months, and depending when the new conveyor can be installed, that may take us—in order to install that conveyor, all the way to the end of the year, depending on the delivery time, which we don't know yet. However, having said that, I can tell you that the efficiencies are improving a lot faster and we don't need to wait until we have that conveyor to achieve the expected efficiencies. We're working at the speeds that we plan to work at during the year. This is because we have some workarounds, I mean, in order to achieve the required production, like crushing rock, a little smaller size, which will resolve temporarily the problem of that conveyor until we have the new one. So, we should be in pace to recover those efficiencies during the next four to six months, as I said originally.

In terms of the electricity cost, yes, we believe we are at the top level at the moment and from now on everything should be either the same level or lower levels.

In terms of the volumes in the U.S., I think (inaudible), and in terms of fuel cost, fuel cost it's almost—just to reconfirm, it's almost over in terms of the quality of the coal. We may still need to purchase one or two trains of coal to supplement the system just because we are a little bit behind in production at the mining inventory, but that should be over, again, in the next couple of months.

Carlos Peyrelongue:

Got it, perfect. Thank you.

Luis Carlos Arias:

Thanks, Carlos.

Operator:

The next question comes from Cecilia Jimenez from Santander. Please go ahead.

Cecilia Jimenez:

Hi, guys, good morning, and thanks for taking my questions. Most of them have been already answered, but basically there's one remaining one. You mentioned there's a plan to improve the electricity costs and savings in terms of energy in Mexico, so could you let—share with us when that plan is being implemented and when will we see the results from that? That's number one question. Number two is regarding the underlying trends in volumes in the U.S. I understand, Enrique, you mentioned during the highlights that you continue to see strong underlying trends. We have had two quarters, consecutive quarters with close to double-digit declining volumes. So, I just wanted to make sure the overall outlook for the U.S. in terms of volume remains solid enough to be confident on that part. That is it from my side. Thank you.

Enrique Escalante:

Thank you, Cecilia. First, on the power cost in Mexico, we are finalizing the agreement with the power generator that we selected during a very long and thorough process to select between different offers in the power market in Mexico, so we're in this phase now. The savings will not take place until next year, which is when the power will be readily available, and I want to say also that this power coming from a renewable source, it's going to be mainly from a generator that has capacity in a solar farm, which again will give us the benefit of the clean energy certificate that we will be needing here in Mexico, too. So, it's a very, very good project. We expect that

power to cost us—I mean, to deliver savings in the double-digit reduction of power cost in Mexico starting in 2020. For the rest of the year, as I mentioned before in the previous question, we are very confident that it will be constant at the current levels.

In terms of volume trends in the U.S., as you all can imagine, we keep reviewing and reviewing in detail the backlog and it's very solid, I can tell you that it's very solid, and it's going to be more a matter of two things that we can deliver backlog, and I already mentioned one, which is, of course, weather. Depending on what happens, whether we have a very wet season or not during the summer, or an early winter, which of course we cannot control, but absence of that we should be in pace to deliver on solid backlog. The other factor, limiting factor that could be on the way, and we have repeated this for years already, is the scarcity of labor. So, again, depending on how fast the contractors can put down the work, it could be affected by if they have enough labor. Outside of those two factors, I can tell you that the demand, the underlying demand in projects and backlog is strong. For example, infrastructure work, in several of the states where we are, we're still currently—there are still projects being bid at the moment, which is unusual for this time of the year. Usually, all the projects bid in the previous year or very early in the year and today we still have a considerable number of projects bidding for work this year. So, we're confident that the work is there and it's solid.

Cecilia Jimenez:

Okay, perfect, that's very clear, thank you, Enrique, and thanks again for taking my questions.

Operator:

The next question comes from Chelsea Colón from Aegon. Please go ahead.

Chelsea Colón:

Hi, and thank you for the call. First, just like a housekeeping item. Can you clarify the numbers that you stated at the beginning with regard to the impact of IFRS? Then, secondly, regarding the renewables project, can you quantify how much that could potentially cost in terms of investment. Then, finally, when you think about growth going forward, I'm just kind of wondering where you stand in your strategic priorities with regard to either brownfield acquisitions or greenfield projects.

Enrique Escalante:

Thank you, Chelsea. I'll ask Luis Carlos to answer the first question and I will tackle to the second one.

Luis Carlos Arias:

Hi, Chelsea. Yes, we are recognizing around $57 million in both assets and liabilities, that's the present value of our lease agreements that we have—our operating lease agreements, and so that's on the balance sheet. In terms of the P&L, we're going to have a reclassification from cost of sales and operating expenses to amortization and financial expenses of around $20 million. Presumably, $18 million is going to be in amortization and $2 million in interest expense.

Enrique Escalante:

I will continue with the second question on renewables, and I think that the question was about the cost or investment. The first phase of this project, Chelsea, it's just entering into a long-term supply agreement, which obviously has no investment cost, it's just committing to the long-term supply, and that's the one that I mentioned is well advanced, and probably in the next call we will be able to give you more details. There is a second phase that we're evaluating concurrently, but it will be a longer term project, which is moving from that supply agreement into our own solar farm at one of our plants. That's a project that we don't have yet a specific number for the investment, but will be kind of a phase two, to improve on the benefit of the first long-term supply agreement. So, again, probably in the next call we can give you more specific numbers as we proceed with the evaluation of that project, but it seems very promising. We have been already doing a lot of work in terms of making sure we have the right space and the right number of sun hours that we need for the investment to be a very effective one.

In terms of growth, we continue looking for opportunities according to our strategy, mostly to expand our footprint in the U.S. as opportunities come in front of us. We've seen with the balance sheet, it's ready for us to take on opportunities and it's just a matter of continuing to see if something develops. We are actively and constantly talking to people to make sure that we are aware if there is a possibility of doing something.

In terms of brownfields, we have commented in previous calls that we have been in the process of electing where the next brownfield project should be for GCC and it's in the state of Chihuahua. We have a project ready and we are just cautiously waiting to see how things continue to develop in Mexico, in terms of the outlook, and the demand, of course, resulting from that outlook, but the project is basically ready conceptually, in discussions with equipment providers, and we're ready to move forward as we see fit according to the demand forecast.

Chelsea Colón:

Okay, thank you.

Operator:

The next question comes from Mauricio Serna from UBS. Please go ahead.

Mauricio Serna:

Hi, good morning, and thanks for taking my questions. First, on Mexico, I just wanted to go back and see how should we think about margins throughout the next year. This was a particularly tough comp in terms of energy costs, but, as you mentioned, it should be either in line for the next months, or even lower, so just thinking about maybe the rest of the year margins should be—could be pretty much in line with what we had last year. Second, on the second of the Rapid City plant, you were mentioning that it would take four to six months before the ramp-up stage is finalized, so should we be thinking about the benefits from the expansion actually to come more in, I guess, the end of third quarter of this year and for the next 12 months, rather than really something that's going to materialize this year? Finally, if you also could comment more about the U.S. prices. You did mention something about the oil well cement, some pushback because of the need for higher profitability of the oil industry, but what about the rest of the territories, how—or the rest of the markets, how is the pricing doing there? Thank you.

Enrique Escalante:

Thank you, Mauricio. First, on the margins in Mexico, yes, we think that we will start climbing back to usual margins, similar to last year, within the next few months, so we don't see a big issue there. Probably not to the top numbers of last year, because, as I mentioned, electricity cost is going to remain constant at the current level, but definitely climbing back towards those levels.

In terms of Rapid City, the benefits of the expansion, I think it's safe to assume that they are going to be there in the third quarter. Actually, we're reviewing that with Operations and they are very optimistic that as we continue to overcome the initial phase of the ramp-up, and with weather changing, which of course weather is a big factor in that plant, we are confident that we can achieve the expected variable costs for the plan in the next month. So, third quarter will be a safe assumption.

In terms of prices in the U.S., yes, we mentioned there is some pushback in oil well practice because of the pressure from the street to the oil service companies and we expect to be back there talking about a price increase with these customers in the fall. The rest of the market, price is going mostly well everywhere. We have, of course, as is customary, some pushback here, some pushback there, but small, and some small negotiations that end up in some price increase and not at the full level with some specific customers and some specific regions, but nothing out of the ordinary. So, we're confident that the price will be taken basically as we have forecasted for the year.

Mauricio Serna:

Okay, and just remind me—remind us—what were the price increases that you were pushing for at the end of last year in terms of dollar per ton?

Enrique Escalante:

Eight dollars, it's $8 per metric ton starting April 1.

Mauricio Serna:

Okay. Okay, thank you. Thanks a lot for the answers.

Operator:

The next question comes from Ramon Alberto (phon) from Scotiabank.

Ramon Alberto:

Hi, good morning, Enrique, Luis Carlos. Thank you for the call. I just have one question. Could you give us some color on the magnitude of the synergies you are achieving with the Trident plant and when do you expect these synergies to be fully implemented? Thank you.

Enrique Escalante:

Ramon, thanks for the question. What we have informed to the investors about the synergies is that it's in the range of $3 million. It's, of course, starting to take place, and we expect those to be completed basically by

mid-year of this year—well, let's say the third quarter, to be on the very safe side, because of the installation of that terminal that we mentioned in Canada that is taking place next month.

Ramon Alberto:

Okay, perfect. Thank you.

Operator:

As a final reminder, it's star, one to ask a question. The next question comes from Froylan Mendez from JP Morgan.

Froylan Mendez:

Hello, guys. Thank you very much for taking my question. It seems that 2018 EBITDA margins for Mexico were actually extraordinarily high, and if you expect electricity prices to actually remain flat throughout the year, should we see more—2019 margins more on similar levels to 2017? That's my first question. The second one is regarding M&A, especially in the U.S., and how are you looking at the environment for M&A, and have you looked at possibly going into the aggregates business. That's my second question. Thirdly, what is the amount of the investment that you expect on this brownfield in Chihuahua and what type of cement would this be focused on? Thank you.

Luis Carlos Arias:

Thank you, Froylan. Well, as Enrique explained, yes, definitely, going forward, we will see better margins in Mexico. Because of the increase in the electricity cost, it may be a bit lower than last year's. On the other side, pricing in Mexico has been good. So, yes, margins are getting better during the rest of the year. In 2018, yes, we had a very good year in terms of margins for Mexico, so again it's a tough comparable.

Enrique Escalante:

In terms of the M&A, we don't have any specific knowledge of opportunities out there. Of course, we hear in the market rumors, as everyone else, but we are not—let me put it this way—I think there could be opportunities definitely before the end of the cycle with some companies that may want to take advantage of selling some of their assets before the cycle ends, and of course the trick there, as you know, and we're very conscious of value; is not to overpay for an investment in this part of the cycle. So, we are being very cautious, but also very active in being close to the players in the industry.

In terms of the project for the Chihuahua plant, we're thinking of an investment very similar to what we did in Rapid City, that could be around $100 million, but let me reiterate that's not happening this year on the cash flow side, because even if we decided to go forward, and depending on what I said about the forecast and the situation in Mexico, it takes time to finish, obviously, the engineering work and the design work, until you have to really start investing actual dollars in the project. So, the investment will not fall in 2019, but it's around the same investment that we are seeing for Rapid City.

In terms of the cement, it's ordinary Portland cement what we will producing; it's (inaudible) cement.

Froylan Mendez:

Would that be mostly for export or do you see enough space for local demand to satisfy this, or how do you plan to move your capacity?

Enrique Escalante:

Mostly for domestic sales, as we have disclosed before. The plants have been running most at full capacity here in the south part of the system, and so that will be the place where we need to expand, but always with the capability of laddering up shipments from south to north if the demand surfaces in other geographies north of Chihuahua. So, it's again in Chihuahua, but it can be shipped up north. As we displace more cement from Samalayuca into the export market, Chihuahua could be also shipping up north (inaudible).

Froylan Mendez:

Perfect. Thank you so much guys.

Operator:

That concludes today's question and answer session. Mr. Escalante, at this time I will turn the conference back to you for any additional or closing remarks.

Enrique Escalante:

Thank you for joining us today, we appreciate your interest in our company. We look forward to meeting more of you over the coming months and providing relevant updates. In the meantime, our team remains available to answer any questions that you may have. Thank you and enjoy the rest of your day.

Operator:

Ladies and gentlemen, this concludes today's call. Thank you very much for your participation. You may now disconnect.