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### INQUIRERS

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Francisco Suárez, Scotiabank

Laisha Zaack, GBM

Nikolaj Lippmann, Morgan Stanley

Vanessa Quiroga, Credit Suisse

### PRESENTATION

**Operator**

Good morning and welcome to GCC's Second Quarter 2022 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. Please also note a slide presentation accompanies today's webcast. The link is available on the company's IR website at [gcc.com](http://gcc.com).

At this time, I would like to turn the call over to Sahory Ogushi, Head of investor Relations. Please go ahead.

**Sahory Ogushi**

Good morning, everyone. Welcome to our second quarter earnings call, we appreciate your interest in GCC. Joining me today are Mr. Enrique Escalante, our Chief Executive Officer; and Luis Carlos Arias, Chief Financial Officer.

I encourage you to read our cautionary statement, which is described here on slide 2. Please also note that all materials from today's call are also posted on GCC's website.

Now, I'll turn the call over to Enrique.

**Enrique Escalante**

Thank you, Sahory, and good morning, everyone.

GCC achieved another outstanding quarter, concluding a solid first half of 2022 and strong start to the U.S. construction season. The Fed tightening which began in March has been accompanied by increasing talk of a recession. And while it's certainly true that the US economy faces a number of headwinds, none of these have been enough to stall US recovery to date- particularly the positive momentum in our industry.

We saw unprecedented customer demand in both Mexico and the US continue in the second quarter. GCC's consolidated net sales increased by 12% reflecting increased US cement volumes and Mexico ready-mix volumes in a uniquely favorable price environment for both markets.

Today, availability outweighs price and oversupply is simply not possible. We have maintained our approach of focusing on our loyal customers to ensure uninterrupted supply and have been extending ourselves throughout our organization to service our customers in today's exceedingly tight market. And we again helped new customers when our peers ran short of supply once ensuring our own clients' supply was guaranteed.

GCC's primary focus- and also challenge- therefore is to address this extraordinary demand for our product while moving our backlog despite today's substantial obstacles. Some construction projects have been slightly delayed due to the increasing cost of raw materials, labor shortages and supply chain and logistics bottlenecks we have cited previously, particularly in railroad transport. This of course limits the speed at which we can move our backlog.

These are industry wide challenges, and GCC's vertical integration of raw materials and coal continues to be an important competitive advantage to lower our costs and mitigate fuel price volatility.

However, during the second quarter we too were struggling with fuel costs that pressure margins. During 2022 we have been switching to a new reserve at our coal mine which, as a result, decreased coal production during the first half of 2022. We've therefore been unable to ship our own coal to GCC's Mexico plants. Therefore, we will continue burning purchased third party coal in Chihuahua and Samalayuca through October 2022, when both Samalayuca and Chihuahua will be converted back to GCC coal. Third quarter 2022 results will still reflect purchased coal for fuel at these plants, with cost going down during Q3 as we switch back to GCC coal.

Moreover, our natural gas hedge fully covers our Odessa plant's consumption through 2022, and one of the steps we've taken to mitigate inflationary impacts and cost increases on our fuel. Monthly prices have previously been negotiated, all of which are below market price. Note that the Odessa plant is the only GCC plant that runs 100% on natural gas.

Planned maintenance outages at plants should also improve efficiency and help to further reduce fuel costs, gas consumption and related purchasing.

It's important for me to comment here that while the use of coal provides an important advantage in the current environment, we're fully committed to our vision of mining our coal reserves to depletion by 2035.

We have increased our focus on implementing a flexible fuel approach throughout all of GCC's kiln systems to maximize biomass, natural gas, and transformational fuels such as hydrogen as they become available. GCC is working with local and regional companies, regulators and state agencies to ensure our flexible fuel mix is available now and in the future.

To share some examples of our innovation in this regard: in Pueblo we burn tires as a low carbon fuel, which produces the same amount of energy as oil and 25% more energy than coal; and railroad ties as biomass. Our Rapid City plant is pilot testing the use of replacement materials derived from tires and using railroad ties and even corn as biomass. All of these examples are an alternative to consuming coal for future energy, underscoring our progress in moving away from fossil fuels to biomass. We remain fully aligned with our ESG commitments and are tracking on our stated goals.

Turning to a brief discussion on costs and pricing: we've announced that GCC introduced second price increase of US\$8 per ton on construction cement starting July 1. This was one month earlier than our second price increase in 2021, as we're responding to current cost inflation pressures and market conditions. We saw no pushback from customers who, again, are more focused on ensuring uninterrupted supply as a priority. Further, a US\$15 per ton price increase for oil well customers begins on August 1.

We remain vigilant of nuances and changes in the economic and market environment with continuous and direct dialogue with our customers on the cost inflation challenges, and will implement further increases whenever necessary to preserve and improve our margins.

And regarding wages: GCC had 2 union contracts to negotiate this year. Rapid City negotiations concluded resulting in reasonable terms. Negotiations at Trident are still ongoing but also under terms which we view to be fair: all non-economic clauses have concluded, and economic terms are the only pending items. My team and I are expecting these to be in line with inflation levels and nothing out of the ordinary.

Also related to labor, while the number of Americans filing new claims for unemployment benefits continues to fluctuate, today GCC is currently fully staffed in ready-mix transportation with pending positions largely only for certain specialized positions, particularly environmental engineers.

Let me turn to a brief review on our markets, starting on slide 9 with our US operations:

U.S. sales represented 74% of GCC's Q2 2022 consolidated net sales, increasing by nearly 13%. We again saw high demand for our products and strong trends in industrial real estate construction and oil well drilling in

response to current fuel volatility. Every GCC kiln remains up and running to produce cement and our operations teams are focused on maintaining operations and increasing terminal throughput.

According with the latest PCA forecast released in May, US residential construction will grow almost 2% in 2022, compared to a 12% increase in 2021, beyond the short term, fundamentals for housing demand appear relatively soft. We are beginning to see a few signs of residential construction slowing down. However, we expect that the residential slow down would be offset by the increase of projects resulting from the infrastructure bill. GCC continues to maintain our historically prudent approach and remain vigilant of opportunities and changes in US market and economy.

Regarding our Odessa plant: oil well cement demand in the Permian Basin was again very strong during the quarter, with oil price increases, strong drilling activity, and the surge of demand which further boosted this segment in Q2. Odessa is still running at full capacity with supplemental cement from the Chihuahua plant.

Briefly touching upon the Infrastructure Investment and Jobs Act: there are no recent relevant updates to share. States and DOTs are preparing for funding, and projects are therefore running at a steady but lower pace than the past year. As we've noted, this represents substantial cement demand which will start to resonate in late 2023. As a comment, potentially cooling housing demand would enable GCC and the industry to prepare ahead of the massive infrastructure related demand we foresee in the future ahead related to the coming infrastructure bill. As a small example, we just learned that the Denver airport will receive an additional \$60 million investment coming from this bill.

Turning to GCC's Mexico operations: we saw continued strong performance in this market. Mexico sales represented 26% of GCC's consolidated net sales, reflecting a more than 8% increase in the second quarter 2022. Our Mexico cement business was adversely affected by a difficult comparison to the Q2 of last year when bagged cement sales increased due to COVID-related quarantine and work-from-home. However, we saw strong Q2 2022 demand for construction cement related to industrial real estate driven by nearshoring. I would like to point out that Mexico operation's close proximity to the U.S. markets means that every cement ton not sold in Mexico is being exported to the states, leveraging GCC's advantaged distribution network.

Turning to slide 13, we share some details on our work related to blended cement to reduce our clinker factor and expand the range of our products as part of GCC's sustainability tool kit. Samalayuca is now producing and exporting Portland Limestone Cement to the U.S. as part of our plan to expand our PLC shipments. Additionally, Rapid City began shipping PLC to the Minnesota market on July 1.

As a reminder, the Montana cement plant was fully converted to produce only Portland Limestone Cement this year.

Our blended cement enables us to increase our product offering to meet anticipated customer demand. The increased production of blended cement will reduce our clinker content from its current 88% to a minimum of 80% by 2030.

We are very pleased with GCC's Q2 results for 2022 and are focused on producing, optimizing our operations, and moving our backlog to supply today's overwhelming demand.

As Luis Carlos will review in detail momentarily, despite our planned strategic CapEx investments, GCC maintains considerable balance sheet strength that has enabled us to capture the right opportunities in today's unprecedented market conditions.

With that, let me now turn the call over to Luis Carlos to review the quarter's financial results and I will return for some brief closing comments.

**Luis Carlos Arias**

Thank you, Enrique, and good morning, everyone.

Turning to slide 15, consolidated net sales for the second quarter increased by 12%. This was mainly driven by the increase in cement volumes in the U.S and ready- mix volumes in Mexico along with better prices in both markets. This was partially offset by lower ready- mix volumes in the U.S and lower cement volumes in Mexico reflecting reduced demand of bagged cement.

Moving on to slide 16, cost of sales as a percentage of revenues increased 2 percentage points to 69% in the quarter, mainly reflecting unfavorable cost of production and production expenses, increased fuel price in Mexico, as well as higher freight costs and increased supplementary oil well cement shipments from Chihuahua to the Odessa plant, which have a lower margin than the rest of cement sales.

SG&A expenses as a percentage of sales increased 10 basis points in the quarter to 7.3%.

As a result, as you can see on slide 17, EBITDA increased 3% year on year while the margin contracted 280 basis points.

Turning to slide 18, net financial expenses decreased almost US\$6 million to US\$4 million in the quarter due to higher financial income and a decrease in the effective interest rate, as well as a lower debt balance and a positive foreign exchange effect on GCC's cash position.

Moving to our bottom line, consolidated net income increased 11% while earnings per share increased 12% in the second quarter.

Turning to our cash generation on slide 19, free cash flow increased 58% to US\$65 million in Q2. This was mainly driven by lower maintenance CapEx, interest expenses and working capital requirements as well as higher EBITDA generation and lower cash taxes.

I would like to note GCC's improvement in controlling payables, receivables, and inventories based on the last twelve months of sales, we reduced days in net working capital from 58 to 47 – an 11 day total decrease.

Turning to our balance sheet on slide 20, we ended the quarter with US\$645 million in cash and equivalents. Our net debt to EBITDA ratio remained in -0.4 times at the end of June reflecting once again our very solid financial position with leverage ratios significantly below the industry's average.

Turning to our organic growth projects on slide 21

We continue to make incremental progress on our Samalayuca debottlenecking project which is under construction and are on track to meet the deadline of 200,000 metric tons by mid-2023. This incremental demand will provide a short-term relief for our cement network.

I am also pleased to announce that we are underway on an expansion at the Odessa plant that will increase capacity by over 1 million tons and lower our greenhouse gas intensity by 13%. For the past year, we have been assessing the West Texas cement market to define the optimized scope of equipment and technology, and working with the original equipment manufacturer, construction suppliers.

We decided to execute the project at the Odessa plant since the market is developing faster in the U.S. and represents large freight savings. This expansion will optimize the cost structure and GCC's cement network by relocating cement shipped today to this region from Samalayuca, Chihuahua and Pueblo plants to other markets we serve with optimized freight cost.

We have been negotiating with our vendors and we're progressing on the project. However, due to the current market conditions, supply chain constraints, inflation and the project scope, we now expect to invest US\$750 million, and to meet our milestone by mid-2025. The project has a double digit investment return and represents a strong value creation compared to our much lower WACC. We will send a press release in the following days with more detail.

Finally, in line with our commitment to continue increasing shareholders' return, \$1.1 Mexican pesos per share dividend payment was declared at our Annual Shareholder meeting in April and was paid on May 17<sup>th</sup>. This represents a 15% increase compared to last year's dividend payment.

Along these lines, as we announced last quarter, in April we reactivated the company's share buyback program. Under this program we can buy back up to US\$50 million of outstanding shares. In the second quarter, we repurchased 2.6 million shares equivalent to US\$17 million.

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

**Enrique Escalante**

Thank you, Luis Carlos.

Turning to slide 24, I would like to take this opportunity to reiterate the fact that for the second half of the year, our cement business looks promising across the board. Our system is sold out, supported by a considerable backlog. And, as I've discussed, GCC maintains the prudent approach for which we are now while we remain

vigilant of market and industry trends, as well as potential opportunities. The near term remains very strong for GCC.

We're expecting the strong shipments that we saw in the first half to continue, as the underlying trends of GCC's business remain favorable. Therefore, we are revising our guidance for the full year.

We now expect US cement sales volumes to increase mid-single digit and concrete sales volumes low to mid-single digits year-over-year. In light of the announcements we've already made, coupled with tight supply and demand dynamics, we anticipate a double-digit price increase in cement, while we expect concrete prices to increase single digit.

In Mexico, cement sales are being adversely affected by a difficult comparison in bagged cement sales. Thus, we expect cement sales volumes to remain flat. In the concrete business we anticipate a high-single to double digit volume increase year-over-year. We anticipate another year of price increases in the mid to high single digit range for cement and concrete in Mexico.

Regarding profitability, we expect 2022 EBITDA to increase high-single to double digit against 2021 levels. This implies a range of US\$365 and US\$371 million.

We revise our capital expenditures at US\$140 million including:

- US\$60 million allocated to the relevant strategic and growth projects already described
- US\$65 million related to maintenance expenses and
- US\$15 million carried over from last year to the current year

As a result, Free Cash Flow conversion rate is going to reach above 60%, and a net debt to EBITDA ratio which would remain negative.

With that, this concludes our prepared remarks. Let's now turn to your questions. Operator, please go ahead.

**Operator**

Our first question comes from the line of Adrián Huerta with JP Morgan. You may proceed with your question.

**Adrián Huerta**

Thank you. Hi, Enrique and Luis Carlos. Thank you for taking my question. My question has to do with the Odessa plant expansion. Number one is what was the rationale for going for Odessa instead of an expansion in Mexico?

The second question is can you send construction cement elsewhere from Odessa in the case that demand for oil-well cement comes down when you have this plant ready?

The last question regarding this plant expansion is if you had this expansion ready today, what would be the difference on your cost per ton versus the existing capacity that you have in Odessa?

**Enrique Escalante**

Adrián, good morning. I will look through the three questions in the order you asked them. First, Odessa expansion, of course, in light of everything that Luis Carlos discussed of the current economic cost, inflation, etc., we revised again why Odessa would be a better value creating option than other GCC plants in Mexico. The answer is that we confirmed that basically because of the freight cost involved to move cement to the markets that are really growing in Texas, it's much more convenient to build the plant in Texas, in Odessa in this case. The plant, of course, will be prepared and it's flexible enough to produce either oil-well cement or construction cement.

All of the first years are more focused on oil-well cement because we still see a growing demand in the Permian Basin. Again, given all the energy crisis everywhere, it is expected that the Permian Basin will remain the most competitive oil producing region in the U.S. for many years. So initially, it's going to be mostly oil-well cement, but of course, as you know, this is a very cyclical industry and, in any day, we can go through a cycle in which we would be required to switch to construction cement with no problem at all.

Your third question, if we have the plant built today, our expectation is that variable costs would be in the neighborhood of—depending on the classes of oil-well cement that we would be producing—from \$8 to \$9 below our current costs, with maintenance savings of around \$10 million for the year. There is a little bit of increasing fixed costs with some additional people in the quarry side, but that's of course easily absorbed by the leverage of the additional production of the plant. So very good perspectives for us in terms of a much lower cost plant than what we have today in the region.

**Adrián Huerta**

Excellent. Thank you.

**Luis Carlos Arias**

Hi, Adrián.

**Adrián Huerta**

Hi, Luis Carlos.

**Luis Carlos Arias**

Just to complement what Enrique is explaining, there's a huge impact of operating leverage on this project because we currently have this plant with a low production capacity at around 400,000 - 500,000 tons, but

we have almost full maintenance expenses. So, with this increased capacity, we're going to take advantage of the operating leverage of running this plant but with a much larger production capacity.

So, it's the combination of what Enrique is explaining about less variable cost, reduced freight, and as I explained in my remarks, we will substitute cement that is going from other plants to this region. We will free up that cement to go to markets that are closer to those plants. It's a combination of several factors that gives us a very good return on this project.

**Adrián Huerta**

Just one other quick question. When you say over a million tons, could it be 1.2, something like that, and is this just cement or is this clinker capacity?

**Enrique Escalante**

The new capacity of the new kiln is 1.1 million tons. That's the plant's new capacity, the capacity for the new kiln. In the process, we have to shutdown kiln number one today because that's the basis for getting the emissions permit, to shutdown the less efficient smaller kiln and allocate those emissions to the new kiln. So, the total incremental cement capacity for the unit, considering the new kiln and the existing kiln number two is going to be around 1.1 million tons to 1.2 million tons.

**Adrián Huerta**

Excellent. Thank you, Enrique and Luis Carlos.

**Luis Carlos Arias**

Thank you, Adrián.

**Operator**

Our next question comes from the line of Nikolaj Lippmann with Morgan Stanley. You may proceed with your question.

**Nikolaj Lippmann**

Thank you for taking my questions and congrats on both the results and the permitting for this exciting new project. A couple of questions, if I may. First, on the expansion, can you talk a little bit about any sort of additional investments that you would have just in terms of your carbon footprint? Will there be any sort of optionality for carbon storage, or is it simply just a more efficient plan?

Also, can you talk about whether you have the contracts in place with some of the key components such as the kiln, and the milling, and just the construction of that, just to have a sense of the timeframe?

Finally, I was just intrigued there if you would be able to take that old kiln? Is that even possible? Maybe move it to Montana at one stage?

Then on operations—just to wrap this up, sorry—can you give a little bit more color on the market dynamics down in Mexico? It looks like you're taking guidance down slightly, increasing slightly in the U.S., but can you talk a little bit about what's going on in Mexico and if you are seeing a little bit of weakness in any spots there? Thank you very much.

**Enrique Escalante**

Good morning. We'll start off just again on the same order that you update your questions. There is no investment today in this new line in respect to carbon capture. We are not sure yet what's going to be the most efficient carbon capture technology for this plant in the future yet. So, what we're doing is that we are leaving enough spaces in the plant design so we can accommodate either technology that will be again the winner in the future as the best or more optimal solution for capture technology in the plant. We're just preparing for that, but we're not including any specific dollar investment at this day in this regard.

In terms of the contracts, Luis Carlos explained we've been negotiating contracts with OEMs and contractors. We have not a definitive contract yet, which we're doing on purpose because we believe that some of the more important inputs for a project like this, let's say steel, for example, are now trending down in price. We are of course going to take advantage of those trends to of course optimize the total investment of the project, but we expect to shortly have the definitive contracts in the next few months.

I must say that we started some construction regarding to the project to make sure that our permit in the area was completely secure, and so we have started moving some earth and doing some foundational work. So, we're moving well ahead on our schedule. However, with the delays caused by the supply change, inflation, and other factors, we are now targeting the second quarter of 2025 as a startup date for the new line.

In terms of the old kiln, number one, that is going to be shutdown. We don't think it's a realistic expectation today to move that kiln somewhere else. Of course, we will be vigilant to opportunities like that, at least for some of the equipment related to that line in the future.

Let me now turn to your question on Mexico dynamics, and when I say Mexico, for us, it's Chihuahua state. It's still very strong and it responds mainly to the level of activity in the United States. As long as the economy in the U.S. continues to run strong, Chihuahua will follow the same pattern.

We do have today a slowdown on bagged cement, as we said, because we have a difficult comparison due to COVID, and of course inflation in this year. So bagged cement, it's below last year, and we're having the mining sector, a slowdown in two mines that changed the process in which they are utilizing cement. But now we're looking at a second half that is going to be again more consistent in growing going forward in this segment. So, we see this as temporary effects that will keep us flat for the rest of the year.

However, relating to what I was saying about the tight market in cement between Chihuahua state and U.S. economy, we've run a correlation of our last year's cement demand in Chihuahua state compared to our cement demand in our U.S. markets, and it's very high. It's around 0.8 correlation there.

So that's why, even though Mexico as a country can be behaving in a different way, we think Chihuahua cement demand will still be strong long term, especially for all of the additional investment that will continue to come to the border states because of the new shoring and the trade agreements that have been and continue to fuel investment on both sides of the border.

So that's how we see Mexico. I hope I answered your question. Let me know if...

**Nikolaj Lippmann**

You did. Thank you very much.

**Operator**

Our next question comes from the line of Vanessa Quiroga with Credit Suisse. You may proceed with your question.

**Vanessa Quiroga**

Hi. Thank you for taking my question. The first one is on PLC. If you can tell us at this point what percentage of your total capacity you think can be PLC? What's feasible both technically but also commercially?

The other question is another follow-up on the Odessa project. Will you have to shutdown the old kiln while you're working on the expansion, or will you be able to continue operating the old kiln while the project is ongoing? Thanks.

**Enrique Escalante**

Vanessa, good morning. How are you? I'm going to answer your question on Odessa first, just to link it with the previous comments and then I will address the first question. No, we're not going to shutdown absolutely anything of the green capacity of the plant until we start up with the new kiln. So, both kilns will continue running at full speed during construction. We have enough space in the plant and we've planned the project that way so we don't lose of course any market during construction.

So, PLC, the Montana plant is fully converted to PLC. That was done during last year and this year in July. Now, we're running 100% in PLC. Rapid City plant started with conversion this summer. In July, we started shipping all the cement that we ship to Minnesota, more specifically the Minneapolis, St. Paul market that as you know, it's going to be the largest market for this plant in the future. So, that has been fully converted this month. We're in that process of customers—of course, I'm not aware and expecting only PLC cement from us in this market going forward.

The Pueblo plant, in Pueblo I think we addressed in past conferences in the Q&A process that we were repairing a silo in the plant. That was done. The silo was commissioned back to operations in June of this year, so we will start converting Pueblo in the fourth quarter of this year. Samalayuca, as I also mentioned, all the exports cement, was fully converted also in July of 2022.

The only plant that has not converted to PLC yet is the Tijeras in Mexico plant, and this is because we are producing already some pozzolanic blended cement in that plant, and we will first increase the capacity of production of that type of cement, which in our opinion, is a better solution for that market, given the high alkali reactivity in aggregate in that market. We're trying to serve and optimize each market as best as we can. In summary, next year, we should have all GCC plants converted to PLC.

**Vanessa Quiroga**

All right. Thank you. Does that mean that all customers have accepted this product instead of the traditional one, or will you still be making a mix of both?

**Enrique Escalante**

We are transitioning in different plants and different markets but once we start shipping to a specific region, we fully convert because it's difficult because of silo capacity both at our end and at the customers' end to maintain two products. This has been discussed with customers and the best way to do it, but once it's converted, it goes and, in our opinion, there's no way back.

**Vanessa Quiroga**

Okay. No, that's very helpful. Thank you, Enrique.

**Enrique Escalante**

Thank you, Vanessa.

**Operator**

Our next question comes from line up Francisco Suárez with Scotiabank. You may proceed with your question.

**Francisco Suárez**

Thanks so much. Good morning, gents. Thanks for the call. The questions that I have is what is your assumption on clinker factors for the new capacity in your expansion in Odessa? Is that link more related to oil-well cement clinker factors, or what do you expect on that?

Also, a second question on my end is have you seen on your own operations, on the operations of your clients, any disruption related with the water-related events and the huge scarcity of water in the Midwest and Northern Mexico? Thank you.

**Enrique Escalante**

Hi, Francisco. On the Odessa project, clinker factor today, we've been conservative in the way that we planned this project. We're not including blended materials in this case because we don't have today the experience in the oil-well cement with the lower clinker factor. We are kind of on the conservative side, and of course, we're going to explore with customers. We've been doing some research with some customers in light of the need to lower the clinker factor in the plant.

However, I would say that of course just because of the changing technology with a much more modern line, we are to be, decreasing more than 110 kilograms of CO<sub>2</sub> per ton with the combination of the new kiln three and the current kiln two in the plant, so there are definitely benefits there in terms of lowering our carbon footprint and moving in the right direction, but the blended cement and lowering the clinker factor are still pending for us to understand better.

In terms of water, I have not heard of any significant issues related to water in our operations in Mexico.

**Francisco Suárez**

Thanks so much.

**Operator**

Our next question comes from the line of Laisha Zaack with GBM. You may proceed with your question.

**Laisha Zaack**

Hi, good morning. Thanks for taking my question. I have two questions that I would like to ask. One is related to Capex. Just wondering if you could give us more color on why the strong decrease? Is it because of the negative outlook or, I don't know, does it have to do with unfavorable pricing, or maybe just like the supply chain or labor related issues? That will be my first question.

The second question is related to the expansion. You mentioned you will not shutdown any capacity at the moment or during the construction of the kiln, but you mentioned that you will be shutting down capacity. Once that the new line is up and running, you will be shutting down some capacity to (inaudible) optimization. Can you clarify that, please? Thanks.

**Enrique Escalante**

Hi, Laisha. Good morning. No, there's nothing negative related to our decrease in Capex for the year. It's only this project in Odessa that, as Luis Carlos explained, has been delayed because of, of course, the negotiations and the plant design that we've been going through and what I mentioned about now taking advantage of lower materials costs going forward.

So, it's just that we've been not expending as (audio interference) in the Odessa project yet as we originally expected. In past conference calls, we said that we were going to try to start up this new line in the second half of 2024. Now, we're looking at the second quarter of 2025, and so that push in time is what has basically decreased our need for Capex this year.

In terms of the capacity after the expansion, yes, let me reiterate, as I said, we have two kilns currently in the Odessa plant, kiln number one and kiln number two. Both of them will run continuously at full capacity all the way until we start up the new kiln number three. At that moment is when we will shutdown kiln (audio interference) which is the oldest technology kiln that we have in the plant.

**Laisha Zaack**

Okay, thank you very much. So, it's kiln number one, the one that you will be shutting down. Correct?

**Enrique Escalante**

Correct, Laisha.

**Laisha Zaack**

Okay, thank you very much and congratulations on your results.

**Operator**

Our next question comes from line of Alberto Valerio with UBS. You may proceed with your question.

**Alberto Valerio**

Hi. Good morning, everyone. Thanks for taking my question, Enrique and Luis. I have two points here. First, just to give a little bit more detail so as to make sure—the Samalayuca plant that we have learned of the expansion of 1 million tons, this will be postponed and it will be just the 200,000 tons for the moment into 2025.

For the demands, my second question, regarding the demand for the next 12 months, should we receive some debt on demand between—we see the housing decreasing, construction of new homes in the U.S. for the new infrastructure plan to really start that you guys said before that is the end of 2023? Thank you very much, and congrats for the results.

**Enrique Escalante**

Albert, good morning. First, on Samalayuca. The Samalayuca project is currently in progress, going well. No changes whatsoever in what we designed in that project and for that plant. So, it's an expansion of the

200,000 tons that we announced earlier. It's going well. It should be up and running by the second quarter of next year, about a year from now at the most. All those tons, we, according to our model, are completely absorbed already by the demand that we have in our markets. That's looking very well, and we're running a little bit delayed, a couple of months of delay and with a very close Capex to what we designed the project. So, everything's well in that regard.

In terms of demand for the next 12 months, we don't have our detailed numbers yet, but in my opinion, I think that we're going to still be looking at the full capacity for the GCC plants. We have, as I mentioned, a lot of a backlog that runs all the way up to year-end and beyond with some projects. My expectation is that any slowdown in the residential sector will be offset by a slow increase in the infrastructure sector, with new projects starting to come online from the Infra Bill. We don't have the full month to month detailed forecast but we should be mostly at full speed in the next 12 months.

**Alberto Valerio**

I thought that was to 1 million from capacity expansion one in Samalayuca and another one in Odessa. I might be wrong. So, okay, do you stick with the original plan in Samalayuca not to reduce this capacity, right?

**Enrique Escalante**

I'm not sure that I heard you well, Alberto, but if you were referring to the additional capacity of Samalayuca, I mean as—can you repeat the question, please?

**Luis Carlos Arias**

I can cover that, Enrique. Yes, Alberto, I think that you have the numbers wrong. The original project as Enrique described was the 200,000 debottlenecking in Samalayuca. We never considered or announced a project for 1 million in Samalayuca. So, it's the original project and it's on track as Enrique described.

**Alberto Valerio**

Fantastic. Very clear. Thank you very much, both.

**Luis Carlos Arias**

Thank you.

**Enrique Escalante**

Thank you, Luis Carlos.

**Operator**

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Miss Sahory Ogushi with closing remarks.

**Sahory Ogushi**

Once again, thank you to everyone for your interest in GCC and for joining us today. As always, we appreciate the opportunity to discuss your questions and look forward to talking with you again in the months ahead. This concludes our conference call, but we are, of course, available for any follow-up conversations. Goodbye for now.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.

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