



CORPORATE PARTICIPANTS

Enrique Escalante, Chief Executive Officer & Alternate Director

Luis Carlos Arias, Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Daniel McGoey, Citigroup

Adrian Huerta, JPMorgan Chase & Co.

Cecilia Jimenez, Santander Investment Securities

Francisco Suarez, Scotiabank

Mauricio Vega, UBS Investment Bank

Chelsea Colón, Aegon Asset Management

Carlos Garcia, Signum Research

PRESENTATION

Operator

Good morning, and welcome to the GCC Fourth Quarter and Year-End 2018 Earnings Call. Before we begin, I would like to remind you that this call is being recorded and all participants will be in a 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 notes 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 are Luis Carlos Arias, our CFO; and Ricardo Martinez, Head of Investor Relations.

2018 was a dynamic and challenging year for GCC. Our team achieved our ambitious operational goals of increasing our network and production capacity while further strengthening our balance sheet, despite a difficult macroeconomic environment and political uncertainty in Mexico and the U.S. Against this backdrop, we

delivered very solid full year operational results and made important strides towards our long-term business objectives. The significant milestones we accomplished throughout the year provide our Company with the additional capacity to take advantage of exciting opportunities, expand our client base and reduce costs to deliver long term sustainable growth without the need for significant capex investments.

I'll begin by discussing these accomplishments and will then review the key drivers of our performance in the U.S. and Mexico. Luis Carlos will follow with a discussion of GCC's financial results, and I'll close our prepared remarks with our outlook for the year. We'll then turn the call over to your questions.

We ended 2018 with our successful expansion of GCC's Rapid City cement plant, which increases GCC's production capacity by 440,000 metric tons and is expected to drive additional operational efficiencies with enhanced service to our customers. While a disappointing and unexpected 33-day tie-in delay halted production and adversely impacted our fourth quarter results, placed excessive stress on our distribution network and forced us to ship more cement from our plants to northern markets, and to buy cement from third parties. It's important to note that these one-time issues were resolved with the operational ramp up ongoing. We also do not expect this to impact materially GCC's first quarter volumes.

Reflecting our commitment to increase return on capital and to improve our asset portfolio, in June we completed a purchase-sale transaction to acquire the Trident cement plant in Three Forks, Montana, adding 315,000 metric tons of capacity, in exchange for most of our ready-mix plants and transportation assets in Oklahoma and northwest Arkansas which were of limited strategic value to GCC, as these assets were not integrated with our cement network. This new Trident plant is now fully integrated, with the onboarding process proceeding as planned and we have already identified and are now realizing valuable synergies. We continue to own and operate four ready-mix plants in the Fort Smith, Arkansas area. Subsequent to this transaction, almost 100% of our ready-mix business is now integrated and more than 70% of US revenues now are derived from cement and mortar.

We were also pleased to note that our successful debt refinancing which began in 2017, refinancing GCC's bond and in mid-2018 all of our bank debt and continued efforts to reduce GCC's leverage ratio, combined with our Company's strong operating track record, as was evidenced in our improved S&P credit rating to BB+ in 2018 and the upgrade by Fitch Ratings we announced this week. Additionally, contributing to raising our profile and liquidity, in September we announced that our shares were included in the benchmark S&P/BMV IPC index of Mexican stocks.

Turning to our key performance drivers, as discussed, GCC's fourth quarter 2018 results were adversely impacted by both external and internal factors, with difficult comparison with the year ago quarter when our Company benefitted from particularly favorable weather conditions and record high figures. Despite these effects, I would like to highlight GCC's strong performance in the Permian Basin oilfields in West Texas, where we have proven to be in the right market at precisely the right time. In addition to robust oil well cement demand, the discovery of natural sand reserves in the area drove construction of several frac sand plants to reduce variable cost of the drillers, strengthened our construction cement sales exported during the first quarter 2018 from GCC's Samalayuca plant, which was reflected in a twenty percent volume increase for that quarter. The industry has seen a relatively mild plateau in the Permian in Q4 due to midstream bottlenecks which will be resolved with the new oil pipelines set to open in 2019 and 2020 as well as companies reaching the end of

their capital budgets. However, at our current production levels we have been unable to keep up with current demand, with new customers waiting to purchase. We also have some customers expanding in Q1 or Q2 2019 with new prospects bringing additional demand on stream. We therefore expect continued strong performance in the year ahead in this area which will be supplemented by the Tijeras, New Mexico plant and extra capacity of kiln 2 at our Chihuahua plant.

Turning to the northern Midwest and Plains states, we saw favorable demand from the residential segment as well as from wind farms and poultry and pork processing plant developments, with slower than expected growth in our remaining segments. While GCC experienced an overall decline in U.S. cement and concrete volumes, these were offset by favorable pricing dynamics with price increases in line with our revised guidance. I would also like to remind you that in September we advised our customers of a USD \$8 per metric ton price increase which will take effect on April 1, 2019.

We are very pleased with the results achieved in Mexico, which exceeded expectations despite a similarly challenging year on year comparison as GCC benefited from uniquely strong demand resulting from the final stages of several important industrial projects in 2017. Our 2018 results reflect robust demand and acceptance of our price increases by our customers across the board. Therefore, while peso depreciation impacted our reported fourth quarter 2018 sales, GCC benefitted from a favorable pricing environment, with price increases in local currency well above inflation. For 2019, we do not expect significant increases in energy costs for our Mexico operations compared to the increases we faced in 2018. GCC is also in the process of reviewing alternatives in the form of renewable energy, either through third parties or on-site, to offset our energy costs while maintaining our important focus on remaining environmentally conscious.

Along these lines, as part of our sustainability efforts, GCC has been involved in the Cement Sustainability Initiative (CSI) transfer to the Global Cement and Concrete Association (GCCA) which has a strategic partnership with the World Business Council for Sustainable Development (WBCSD). As part of our involvement, we remain focused on achieving the important Sustainable Development Goals (SDGs) established by the United Nations Global Compact through the following five pillars: safety & health, climate change & energy, social responsibility, environment & nature, and circular economy. GCC is an active and enthusiastic participant in the GCCA's work, to facilitate sustainable development of the cement and concrete sectors and their value chains.

Mexico's mining sector performed particularly well in 2018, in terms of volumes and margins, with growth rates above other segments in the region. Mexico's building and industrial segment also showed strong demand, with potential opportunities from government initiatives in 2019, such as tax reductions on Mexico's northern border.

We expect performance at our Mexico operations to stabilize in 2019 and we remain cautiously optimistic while the new administration finalizes its policies.

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 and a discussion of the year ahead.

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 1, 2018. 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-5, including sales, costs, expenses and volumes.

Consolidated net sales for the fourth quarter decreased by 3.9% mainly driven by the 5.6% decline in US sales. While net sales in Mexico remained relatively flat in US dollars, when measured in local currency, sales increased by 5%. For the full year, net sales increased 7.2% driven by growth in both markets.

Cost of sales as a percentage of revenues increased 8.6% points compared to the prior year quarter mainly reflecting the impact of the delay in the Rapid city expansion tie-in process which Enrique had described, which caused some temporary increases in freight costs and supply costs, as a portion of cement was purchased from third-parties and at spot prices to meet customer commitments. In addition to higher electricity costs in Mexico and higher freight costs due to increased exports compared to the same period of last year, and an increase in depreciations from the new facilities, we recorded a one-time write off from an asset demolition and retirement related to the Rapid City plant expansion. For the full year, cost of sales as a percentage of revenues increased 120 basis points.

Operating expenses as a percentage of sales remained relatively flat in the quarter and decreased 230 basis point for the full year period, as expenses from the integration of the Trident plant were almost offset by lower SG&A expenses.

EBITDA decreased almost 17% in the fourth quarter and grew 6.7% in full year 2018, with the margin contracting 4.3% and 10 basis points respectively. In addition to the factors mentioned above, the peso depreciation also impacted our reported EBITDA

As I had discussed previously, 2017 figures were restated to reflect the discontinuation of our ready-mix plants and transportation assets in Oklahoma and Arkansas, both which represented a low-margin operation for the company. Therefore, our strategy to continue to invest in high-margin assets was not fully reflected in our year on year EBITDA margin comparison. However, if we review 2018 full year results since the period ended in 2016, we achieved an EBITDA margin expansion of more than 350 basis points over the last two years.

We are very pleased to note that we are getting closer to reaching our long-term goals, in the past five years of operational and financial transformation we have already delivered 860 basis points of EBITDA margin expansion.

Net financial expenses fell 10.5% in the quarter and 20.4% in the full year as a result of the successful refinancing of all of our debt.

As a result of these factors, net income from continuing operations fell 23.5% in Q4 and increased by 32.7% for the full year 2018.

Free cash flow for the fourth quarter of 2018 was \$45.3 million compared to \$66.7 million last year. In addition to lower EBITDA generation and an increase in cash taxes, we experienced a temporary increase in working capital needs which normally takes place when preparing for maintenance season, but we reduced this year's

average by 3 days when compared to 2017. Lower interest expenses and maintenance capex partially offset this increase. For the full year 2018, free cash flow generation was 3.5% lower than the prior year.

The EBITDA to free cash flow conversion rate was 79% in the quarter and 42% for the full year 2018. The net debt to EBITDA leverage ratio decreased to 1.59 in December 2018, compared to 1.86 as of December 31, 2017.

As a result of our debt refinancing, strategic asset swap transactions and our strong cash flow generation we have a more efficient capital structure and the balance sheet capacity to continue investing in our business.

I will now return the call over to Enrique.

Enrique Escalante

Thank you, Luis Carlos. I'd like to take this opportunity to discuss our outlook for 2019. We continue to expect strong performance in 2019, both in volumes and with benefit of a favorable pricing landscape, specifically an increase of US \$8 per ton of cement which will take effect in April, as well as our ability to address the significant untapped demand in many of the markets in which we are present and are now able to reconfigure our logistics system to ensure it is operating at optimal levels. Today the U.S. economy remains strong; in 2018 we saw a 4.2 percent year on year increase in second quarter GDP and a 3.4 percent in the third quarter 2018, with no real indications of a deceleration at this time. We also note solid basic economic fundamentals of low unemployment, low interest rates, higher wages, GDP growth remaining favorable and support GCC's outlook. Against this backdrop, we expect GCC's cement sales volumes in the US to increase 4 to 6% year-over-year and concrete volumes to grow 2 to 3%. On a like to like basis we expect a 2 to 3% growth in cement sales volumes. We anticipate another year of price increases in the 4 to 5% range for cement and 2 to 4% for concrete.

While economic activity in Mexico remained resilient despite political and economic uncertainty in 2018, as I had commented, we remain cautiously optimistic while the new government confirms its policies; with growth projected by the OECD to pick up between 2 to 2.75 per cent by 2020 and more conservative estimates closer to 1 percent. Investment, which has been persistently low, is also expected to strengthen on the back of announced public investment plans and increased confidence associated with the US-Mexico-Canada trade agreement. For 2019, we expect GCC's cement and concrete sales volumes to be flat with price increases in the 3 to 5% range in local currency.

Among the various reasons GCC is particularly well positioned to weather an economic downturn, it's important to note that at the lowest point of the cycle GCC generated EBITDA USD \$105 million (USD \$53 million in the U.S.), comparing it with less EBITDA generation or even negative EBITDA of some of our peers, with considerably more capital invested. We expect 2019 EBITDA to increase 20 to 23%, or 12 to 15% on an adjusted basis, excluding the accounting impact of IFRS 16 implementation.

In terms of capex, last year we completed the expansion of our Rapid City plant, so we are not expecting major investments in growth capex. Of GCC's 70-million-dollar total capex budget for 2019, 60 million will be allocated to maintenance expenses. On the back of a strong EBITDA generation, a slight decrease in working capital

needs, and lower growth capex, we expect to end the year with a stronger balance sheet, with a FCF conversion rate above 50% and a net debt to EBITDA ratio below 1x, which is significantly below industry's average.

Now, before opening the call for questions, I would like to briefly thank our employees for their effort and dedication during this challenging year. We have accomplished significant milestones throughout the year that strengthen our business, reflected in improved free cash flow, strengthened EBITDA and reduced interest expenses. Today, GCC is one of the best positioned cement producers in the industry, also with the dry-powder balance sheet capacity to take advantage of potential strategic acquisitions of integrated assets which also fit our exacting criteria.

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

Operator

Thank you. 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, press star, one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for question. Again, press star, one to ask a question.

We'll go first to Dan McGoey with Citi.

Daniel McGoey:

Thanks, gentlemen, for the call. Question on the U.S. volumes. You mentioned the like-for-like volumes in the fourth quarter were down 15%. I know they were impacted by both weather, record volumes in the year-ago period, and also the tie-in difficulties. I'm wondering if you can give a sense, though, for what your markets collectively as a whole were down? I guess, for instance, what I'm wondering is how much you may have had a weaker volume result because of the lack of production and higher freight costs, so you—you were proactively looking to diminish volume for the quarter. If you could give an idea of your markets collectively as a comparison? Then the outlook for 2019, the like-for-like again, around 2% to 3% which seems reasonable. I'm surprised that your volume outlook for your businesses were not a bit higher given the increase in capacity at Rapid City and some of the additional volumes from the Trident plant. Wondering if you can give an indication of why there's not a greater differential between total volume and the like-for-like amount? Thanks.

Enrique Escalante:

I'm going to address first your second question about the 2019 outlook. Yes, the 2%, 3% like-to-like, doesn't include the addition of volume that we're going to ship from the Trident plant that we didn't have during the first part of the year. That part will be part of what makes a difference from 2%, 3%, to 4%, to 6% total potential increase there. In respect of—and that includes also a little bit of an increased market share, derived from the Rapid City expansion. However, we have to remind them and everybody on the call that the Rapid City expansion was not predicated on a volume increase for the first couple of years because we obviously understand we need to do this in line with the market growth, but was mainly predicated for the first couple of

years on freight savings, other parts of the cost reduction and margin improvement that we have, I mean, I included in this year. That's in terms of 2019 outlook. I'd like to go back to your first—yes, yes, Dan?

Daniel McGoey:

Sorry, just a follow-up on that, though. Can you give me an idea of what kind of utilization rate, then, does that put Rapid City at for average 2019 given it sounds like you're modulating the volume production based on the market growth? What kind of utilization does that put you at?

Enrique Escalante:

We're still finalizing those in the model here, Dan, but I can tell you today prematurely that it could be around 70%.

Daniel McGoey:

Okay, understood, thank you. Sorry to interrupt.

Enrique Escalante:

No worries. I'm not quite sure I completely understood your first question on the markets.

Daniel McGoey:

Volumes in the fourth quarter in the U.S. were down 15%. I'm wondering if you looked at your markets collectively, what would have been the volume performance? I'm guessing that that 15% was worse than the market because you were short of supply and there's no—there's no reason to have pushed on volume growth? Or volume sales?

Enrique Escalante:

Okay. What I can tell you, Dan, is that we basically left on the table around 100,000 tons of cement sales in the quarter because of all the problems with the delay that is due to the tie-in of the plant. I mean, the rest was the weather and under difficult comparison to the last quarter of 2017.

Daniel McGoey:

Perfect, so about 100,000 tons is what would have been the sort of underperformance versus the market?

Enrique Escalante:

Correct.

Daniel McGoey:

Got it. Okay. That answers my question. Thank you very much.

Enrique Escalante:

Thank you.

Operator:

Again, press star, one to ask a question.

We'll go next to Adrian Huerta with JPMorgan.

Adrian Huerta:

Hi. Thank you. Good morning, everyone. Two questions, one is on the expected cement price increase for this year of 4% to 5%. Can you break it down by which regions will be above and which regions above this average increase, meaning oil well cement, construction in Texas, Colorado and the rest? My second question was, given the strong free cash generation that you have and the strong leverage, could we—what are the chances to see a higher dividend? I mean, I think it might be a moment to increase the dividend a bit. Also, how active are you planning on being on buyback for the year? Basically for the full year, how much could you invest on dividends and buyback of the free cash flow generation that you could have for this year? Thanks.

Enrique Escalante:

Okay, Adrian. I'm going to address your first question, then let Luis Carlos address them in the question on dividends, which is probably a recurring question that we have. The price increase that we're sending is basically \$8 in every market where we participate. We may have a slightly lower increase in some parts of West Texas, just because of the higher increases that we made there last year. But overall, it's \$8 across the board, including in oil well cement. That is also announced.

Luis Carlos Arias:

In terms of your second question, Adrian, we don't plan to issue or declare a special dividend. The story that we have is we're going to continue to accommodate in cash, deleveraging, in order to be ready for an opportunity to enhance our marketing and the position in the market, in the U.S. as a priority. We don't plan to have a special dividend. In terms of buybacks, yes, we began to use the buyback for—yes, the buyback program at the end of last year. We don't plan to, even though we have, in a pool of MXN 700 million by the shareholders, in the last shareholders meeting, we don't plan to invest all of there. Again, we want to commit cash and de-lever and be ready for the next one.

Adrian Huerta:

Thank you. One more question if I may add, on the price increases, can you also tell us, Enrique, your views on Colorado? Colorado was relatively weak, I think, in the fourth quarter given what we saw from other players. But it seems like you should be recovering this year. What are your views on Colorado, which I think there's room for you to gain market share potentially there, both on volumes and on prices?

Enrique Escalante:

Well, Colorado, I mean, we expect it to continue to be strong, next year—this year, 2019, Adrian. We just attended several economic conferences in the area, and it seems like they are in line with our expectations. So, \$8 price increase in Colorado shouldn't be a problem. We're not having really any pushback there in terms of pricing. Naturally, as you're saying, there should be an opportunity to gain a little bit of market share. There has been, just recently, some M&A activity in the area that it's going to shift some volumes. I mean, I think favorably to us. Yes, there may be an opportunity for us to increase slightly our market share there. But again,

we're very careful not to overdo it and have a negative reaction that in the end is worse. But we're cautiously optimistic that we can increase our market share there.

Adrian Huerta:

Perfect. Thank you.

Enrique Escalante:

Thank you, Adrian.

Operator:

We'll go next to Cecilia Jimenez with Santander.

Cecilia Jimenez:

Hi, guys. Good morning. Sorry, I was on mute. Just to follow up on the cash generation and the potential allocation as far as resources, could you give us a little bit of color on the M&A opportunities within the U.S. that you have, I guess, seen recently? How has the market evolved during this year and whether the prices you're seeing in the market are more reasonable than the ones you were looking maybe 12 or 18 months ago? That's my question number one. The second question is, regarding EBITDA and free cash flow conversion, which is—which has been quite strong, what are your expectations for 2019, 2020 on which could be the—let's say the most, the lowest level of leverage we could see for GCC where it doesn't become inefficient to be under-levered, to put it that way? That's it for my side, thanks.

Enrique Escalante:

Thank you, Cecilia. Inclusive cash flow allocation in specifically M&A in the U.S., we haven't seen values decrease yet. We are actively looking at opportunities in every market where we are, and anything that makes sense to our growth strategy, and we have been again actively talking to potential prospects in the area and have a strategic plan with actions in motion to be there for the opportunity that can develop. But talking about prices, prices are on the high side, and so we have to be very careful and we have been. We have passed already on a couple of growth opportunities because we don't think that fits our strategy in terms of values and leverage. We'll continue to be very careful on that end. I will pass the question on free cash flow conversion to Luis Carlos now.

Luis Carlos Arias:

Yes, as you were saying, for 2019 the free cash flow conversion rate is going to be around 50%. Obviously in 2020 if things continue to go well and we don't have any expansion cap ex of other cement plants in our system, we will have a—we expect to have a greater conversion rate. We are very aware that eventually we'll have very low leverage, and this may be inefficient. So that's why we are, as Enrique was explaining, we are continuously looking for opportunities to increase the return on capital for investors. We are very aware of that. That's why it is a constant effort to look for opportunity.

Enrique Escalante:

Let me reiterate, the word you used, Cecilia, was efficient, efficient use of the capital. That's why, even though we are very dynamic and very active in looking for opportunities, we're also very keen on not over-extending and going there on the high side of values when the cycle can turn the corner in a couple of years.

Cecilia Jimenez:

That's exactly what my question was; going forward, if the prices have not come down to let's say go farther on M&A and let's say they continue at this level and you continue generating a lot on deleveraging, eventually, I don't know, which could be the next step on cash allocation that could make you feel comfortable and could create in your view value for your investors?

Enrique Escalante:

Well, yes, you're totally right. Again, we'll continue very close to opportunities and the key for us will be to find an opportunity in which we specifically can trade synergies around our system and that will give us the ability to pay a price on the high side without compromising them in our budget because of those additional synergies that we can. That's mainly what we're coming after here. Absent of any opportunity that puts some in an asset risk in terms of our leverage, I think that we will pay down debt as a next step.

Cecilia Jimenez:

Okay. Thank you. Thanks, Enrique. Thanks, Luis Carlos.

Operator:

We'll go next to Francisco Suarez with Scotiabank.

Francisco Suarez:

Hi. Thank you for the call. My question relates with Trident. Can you elaborate a bit on the specific synergies that you expect on that, from that plant and if possible if I understand correctly, you are currently leasing some of the terminals on the other side of the border. My question relates to, one, if you will be seeking for to buy actually terminals in Canada, or also what older logistic assets might actually bode well for this particular plant, to make the best of it? Thank you.

Enrique Escalante:

You're absolutely right and your two questions really relate to each other in terms of the theories we're trying to realize there. The synergies are mainly in converting customers that we acquired during the acquisition to a direct shipment from GCC. There is an additional margin there that we're capturing. Of course, this is a free-for-all market and we have to compete for those customers, but there is margin potential for us between what we have today, the billing price we have today in that market compared to the market price. There is room there in terms of synergies. For that, of course, we need long-term and long-term solutions on the logistics side, and we are at the moment actually—I mean, looking at where to establish, I mean, one or two GCC terminals. We have already located them in some sites and we are in the process of advancing projects there to realize those synergies this year. It is to the establishment of terminals and converting customers from the contract that we had with the seller to direct shipment from GCC.

Francisco Suarez:

Got it. Another follow-up question, if I may, precisely on Trident. Currently, the kiln over there is relatively small. Any plans to add a new line over there?

Enrique Escalante:

No, not short-term. Definitely, I mean, the market is well-served by the two plants in the state. Now that we have additional capacity from Rapid City plant and with the optimization of our system, we are finding that we can also ship part of that incremental volume from Rapid City west into Montana and then allocate some additional volume from Trident plant to other markets. We're still (technical difficulty) there. Long-term of course, I mean, I have to say the plant has very solid reserves, and of course, with the process plant there is always the potential to increase capacity while at the same time reducing emissions, which is a very favorable position in the market.

Francisco Suarez:

Got it. Thank you so much.

Operator:

We'll go next to Mauricio Serna with UBS.

Mauricio Vega:

Hi. Good morning. Thanks for taking my questions. A couple of things in the U.S. Sorry, I just joined the call recently. I just want to know, so far in this first quarter of the year if there have been any disruptions to the operations due to weather? I recall also last year you had a pretty strong first quarter with 20% volume, so I mean, thinking also the weather there was also much more favorable. I just want to get a sense if there was anything happening so far as you can tell us about weather? Second, for U.S. this year, do you have any particular concerns regarding costs now that energy prices relatively are more moderated. Anything that you would consider could affect the operations there? Then finally, just to make sure you were mentioning that you're still looking for opportunities in the U.S. We could rule out anything related to, like, any special cap ex on an expansion of a plant or a brown field rather than as you would probably will be continued focused on acquisitions? Thanks.

Enrique Escalante:

Yes, on the first question, we definitely have some bad weather in the fourth quarter of this year, and a very bad or challenging comparison with the fourth quarter of 2017. We explained earlier on that we had about 100,000 tons loss in the fourth quarter due to having problems with the Rapid City plant. The rest of the effect quarter-to-quarter is the effect of weather.

Mauricio Vega:

I was talking about this quarter, if the first quarter of this year have you experienced any issues because of weather?

Enrique Escalante:

Oh, I'm sorry, I completely thought about last quarter of last year. Yes, of course. I mean, January and parts of February have been extremely cold, with really severe weather. As you know, I mean, there have been record low temperatures in some of the Midwest part of the U.S. We're not in all that area, but we specifically had very, very cold and bad weather in Colorado, the Dakotas, Iowa during this year. We're a little bit behind in terms of shipment, which is not rare. I mean, in terms of the seasonality that we have in this market, we're not concerned because of that because the backlog of orders is out there. The problem is usually now at the beginning of the year but towards the end of the year when we realized that we had enough good weather days to ship out the whole volume for the year. Today we're fine in that respect.

In terms of cost synergy, we don't have any concerns in terms of increases for this year in the U.S. As you know, we have this control and hedge of our fuel costs with our coal mine so we're okay there, and in terms of power and all the increases are coming more or less online with what we expected but nothing out of the ordinary. In terms of growth in the U.S., we're actively looking for expansion through M&A and that doesn't necessarily rule out completely that we could not expand to special cap ex. That's something that it's in the works, we have a project that it's ready to present for approval in terms of the investment, the design in the plants in Mexico. However, as we said, we're very cautiously optimistic and waiting to see where the new government policies goes. We're not going to pull the trigger there until we have more clarity on where the economy will go the next years here in Mexico. That's in Mexico but as you know, all our system is interconnected. Additional capacities here in Mexico will give us also the capacity to export more to the other markets in the U.S. It's inter-related. We have also said that the Odessa cement plant in West Texas also has an almost-ready permit to be expanded. That's another opportunity that we're always carefully looking at in terms of comparing a potential expansion of that plant with another M&A opportunity, so not ruling out any options.

Mauricio Vega:

Thank you very much, very clear. Just very briefly, I don't know if you've commented about the total, I guess, accretion that you could expect from the Rapid City. I remember you mentioned a lower variable cost per ton, but also I guess there's some savings there on the logistics so it would just—I was wondering if you'd provide a little bit more guidance on the full contribution to margin expansion now that the expansion is completed?

Enrique Escalante:

We'll do a breakdown of that and send it to you, Mauricio. We don't have it here now at this moment.

Mauricio Vega:

Thank you.

Operator:

We'll go next to Chelsea Colon with Aegon.

Chelsea Colón:

Hi. Thank you for the call. Just a couple of questions. First of all, on your U.S. volume expectations for next year, I'm wondering, does this include the Mexico kiln reactivation that was destined—supposed to be destined

for the U.S.? Also related to that, have you received the certifications that you needed to export oil well cement to the U.S.?

Enrique Escalante:

Okay. Thank you for the questions, Chelsea. On the first question, the answer is yes. That's the shipments from kiln two in Chihuahua are part of the growth that we've seen in the U.S. It's a small volume, it's a small kiln, so it's not really very much a part of the increased number there. But it is included. In terms of certifications, we don't need any special regulatory certifications to ship oil well cement from Mexico to the U.S. What we do need is obviously approval from the individual customers, which we already got. Samples were produced and sent, and were tested at labs in Houston and then it was also tested at the labs of the companies, and they gave us the go-ahead to start shipping.

Chelsea Colón:

Okay, thank you. Also with regard to margin in 2019, what are you expecting in terms of potential increase in margin? Because as you've mentioned before, the expansion project in Rapid City should help on the margin side, but then also it seems that your capacity utilization at your existing plants will be lower given the increase in overall volumes that you're expecting. How should we think about margins in 2019?

Enrique Escalante:

Margins in 2019 should increase at least 100 basis points EBITDA margin, those were—we have said in previous calls that we're targeting 150 basis points, but at least 100 should be realizable.

Chelsea Colón:

Okay. Thank you.

Enrique Escalante:

Thank you, Chelsea.

Operator:

As a final reminder, that is star, one to ask a question.

We'll go next to Carlos Garcia with Signum Research.

Carlos Garcia:

Hello, everyone. Thank you for the call. I only have a question regarding the partial shutdown of the U.S. Government. I would like to know if this made GCC have some effect in your sales for the first quarter, and if this effect is considered in the guidelines for the year?

Enrique Escalante:

Thank you, Juan Carlos. Very popular theme at the moment. Fortunately, so far it has not affected any of GCC's prospects for the year. However, we have to be attentive to—there is an echo here, I don't know if you didn't hear me. But we have to be attentive to what happens with the vote in Congress today and if President Trump

is going to approve or not this compromised position that is coming before Congress. There have been, in the past during the shutdown, some comments that in several states projects have—paving projects have been delayed because of a concern of the states of getting the matching funds from the federal government for those projects, in which they wouldn't like to cut or stop in the middle of the project because of lack of funds. Obviously the DOTs in different states that do want to have the certainty, but that's not going to happen. It has not happened in our—in any of the states in where we operate, but of course it's something that we're going to be attentive, as I mentioned, depending on what happens, if there is a second partial shutdown.

Operator:

At this time, I'd like to hand the call back over to Enrique Escalante for any additional closing comments.

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:

That does conclude today's conference. We thank you for your participation.