ELEMENTIA 4Q16 CONFERENCE CALL

TRANSCRIPT

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Operator: This is a recording for the Melanie Carpenter teleconference with I-Advize, Elementia, Thursday, February 23, 2017, scheduled for 10:00AM Central Time. Good morning, my name is Chantel, and I will be your conference operator. At this time, I would like to welcome everyone to the Elementia earnings conference all. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers opening remarks, and instructions will be given at that time. Thank you. I will now turn the conference over to Patricia Cruz of I-Advize. Please, go ahead.

Patricia Cruz: Thank you Chantel. Good day everyone, and welcome to Elementia's fourth quarter and year end 2016 earnings conference call. This call is for investors and analysts only. Joining us today from Mexico City are Mr. Fernando Ruiz Jacques, Chief Executive Officer, Mr. Juan Francisco Sanchez Kramer, Chief Financial Officer and Interim Investor Relations Officer, and Mrs. Laura Cañez Olvera, Head of Strategic Planning. They will be discussing the company's recent transaction in performance as per the earnings released issued yesterday after the close. If you did not receive the report, and you need a copy of the release, please contact I-Advize in New York at 212-406-3692, and we will email you immediately. Or go to Elementia's website at www.elementia.com under the Investor Relations section. Let me remind you that forward looking statements may be made during this conference call, and they are based on information that is currently available. Please defer to the earnings release for a more detail and full disclaimer. Also, all figures discussed are in Mexican pesos unless otherwise stated. It is now my pleasure to turn the call over to Mr. Fernando Ruiz Jacques, Chief Executive Officer of Elementia to begin with the main highlights and a strategic overview. Fernando, please go ahead sir.

Fernando Ruiz Jacques: Thank you, Patricia, and welcome everyone. Thank you for being with us to discuss Elementia's results for the year as well as the progress achieved in our recent acquisition of Giants 55 percent stake and our expectations for 2017.

For Elementia, 2016 has certainly been a year of many achievements. Not only in financial terms, but also in the implementation of the overall strategy which we call the Power of Oneness. We started off the year with a commitment to further integrate our three divisions, Cement, Metal Products, and Building Systems, as a unique building materials platform with a comprehensive product portfolio, leading brands, and an extensive distribution network aiming to be the preferred supplier for the construction industry that satisfies the needs of all of the main construction stages.

Although Elementia has assembled its portfolio of businesses over time, we are now equipped to be as one, the market's supplier of choice in all stages of the building materials industry. A big transformational concept has been understanding that first and foremost anyone along the value chain can be an Elementia customer. After a yearlong project, in which we actually met face to face with nearly all of our customers to learn what they needed from us as a partner, in order to be successful, we obtained a clear roadmap for what we needed to do in terms of product innovation and relationship management to further Elementia's competitive advantages. As a result, we are now truly a customer oriented company with the knowledge and ability to supply innovative products, offer better service, and improve commercialization strategies. It gives me great satisfaction that in 2016, we established these communication bridges that have allowed us to be closer than ever to all of our clients and customers.

The figures that we will discuss today reflect the alignment of all efforts to the one strategy, focusing on bringing together all of the acquisitions, all the geographies, and all three divisions into one culture and one common goal, supported by centralized back office services with strong financial discipline, and a focus on profitability.

In the fourth quarter 2016, Elementia maintained its growth trend, posting double digit growth in both EBITDA and operating lines. These results were driven by the performance of the Cement and Metal Products Divisions. Nevertheless, it pleases me to say, that in the fourth quarter 2016, we began to see an upturn in the Building Systems Division.

Going further in depth on each division's performance and main highlights for the quarter, I would like to start with the Cement Division. In the Mexican operations, we had another consecutive quarter of strong results. Revenues and EBITDA both rose by 29 percent, mainly due to a higher average sales price, the optimization of operating costs, and a sustained target installed capacity utilization rate. Furthermore, these results include Giants operations as of November 2016.

We believe this price trend may continue as demand remains strong, and although, there have been government budget cuts, there are still some potential drivers that can drive demand like the new airport project this year, the elections processes to be held in the second half of 2017 and in July 2018, and we still have the great demographic bonus and focus in the self-construction segment which has proven to be more resilient.

Regarding the Tula project in Hidalgo, it remains on track both in budget and schedule. We expect that operation to start up by mid 2017, according to the original plan. So far, there have been no delays or incidents that would hamper the successful progress of this capacity expansion. As we mentioned in the past, following the completion of a project in 2017, we would have a total capacity of 3.5 million tons. In order to capture marketing advance, we have already started grinding clinker, so that by the time the new line is ready, the facility will be partially allocated.

Going to the recently acquired business, in the USA last November, Giant became the U.S. operations for Elementia's Cement Division. We took a major step in the next phase of growth for Elementia by entering the U.S. cement market with this acquisition which positioned Elementia as the fourth largest cement player in the East Coast in terms of installed capacity. Upon successful completion of our capital raising and acquisition, we moved on to the next phase. We began the integration and implementation of the highly detail value generating roadmap that we obtained from the full potential analysis developed along with Bain & Company. The first critical step was to reinitiate Giant's maintenance program which has been put on hold for financial constraints and bring the facilities back up to par. Currently, Giant is operating independently with the support of Elementia in some key areas where it needs it. At the same time, we are developing synergy opportunities with Allura, in terms of commercialization, logistics and back office. First, we will open the portfolio product offered to our Allura clients by incorporating other quality products like the ones Giant has to offer. Second, we will take advantage of Giant's already full warehouses to create new distribution channels, and therefore, reach new markets. Third, a potential vertical integration with our systems operations in the U.S. by supplying cement. We will start to see the beneficial effects of these initiatives around mid 2017 with the full effects coming online next year.

We have received several questions on Giant's acquisition, so I would like to expand on the transaction and its rationale. Regarding the transaction, Giant had a heavy rate financial burden due to a credit facility which was a convert. This means that the lender had Giant's shares as a guarantee. In order to execute this transaction, this facility had to be terminated. According the shareholder's agreement, the way this facility was fully prepaid was:

- Elementia, using its committed credit lines gave Giant a loan for $305 million which was used to execute the first prepayment of the convert.
- Elementia paid $22 million for the 55 percent and control of Giant which was used to complete the payment of the convert. Once the Convert was paid, the acquisition of Giant was executed, and this loan became an intercompany loan.

About the rational of the acquisition, I would like to emphasize that first, since our IPO, Elementia's focus of growth is in the Cement Division. It is where we have the most success in recent years, and we want to capitalize on the momentum we generated. We have also indicated that we want to grow in the countries, in which we are already present, particularly in the U.S. Second, this acquisition gives us entry and a starting point into one of the largest markets in the world through a large enough scale. Third, this acquisition comes in perfect timing given the market expectations for the U.S., and we are already there. Fourth, in terms of required capital, the acquisition represents a very attractive opportunity in terms of dollar per ton. The transaction is valued at $250 per ton while our greenfield is closer to $400 per ton. Fifth, because the financial burden that Giant had, there were cashflow constraints that limited Giant's operations, causing reliability and quality issues. Because of this, the capacity utilization rate and pricing was lower than the industries average. Along with the due diligence, we executed a full potential project to helped us define a very detailed roadmap that will enable us to increase both capacity utilization rate as well as pricing where we're lower than the industries average. Finally, Elementia has a track record of integrating and turning around constrained companies.

Moving on, the Metal Product Division was registered a 39 percent increase in EBITDA per ton, and revenues were up 5 percent, thanks to our strategic focus on higher value added products and cost cutting initiatives that helped improve metal yields. We continue our copper hedging strategy of 2,000 tons per month which has helped mitigate copper price fluctuations. Our strategy for this division in 2017 is to innovate with new value added products while expanding volumes on fittings and air conditioning. Second, taking advantage of our strong brand and distribution channels, refocus on commercializing products under the Nacobre brand, increasing the product portfolio with minimal investment required, and last, implement additional cost reduction initiatives to further improve our EBITDA per ton ratio.

Turning finally to the BuildingSystem Division, I am very pleased to report that for the first time in recent quarters, we reported double digit growth in both EBITDA and sales. In the fourth quarter 2016, we registered a 24 percent increase in revenues and a 19 percent increase EBITDA driven largely by strong performance in the U.S. There were several initiatives on the way to further drive this turnaround. For starters, we have set a special focus on innovation which is leading the launch of new products with new technologies that has already shown good acceptance from our customers given that it has advantages and several characteristics like handling, appearance, and design. In the U.S., which is a priority market for us, we have entered new segments such as repair and remodeling and modular building. Likewise, we have been very successful in the implementation of the go to market strategy developed along with BTG last year. In particular, capturing big builders as new customers, and now, a capacity utilization rate is at the point that we wanted it in order to start the process of reopening our Indiana facility. For this, we have set the first quarter 2018 as our target. In order to achieve this goal, we have already released the required CAPEX for the startup and started the implementation of the strategy to penetrate the market. In Mexico, we have implemented the go to market strategy also developed along with BTG, and that is focused on strategic distributors that will give us wider geographic coverage in both roofing and in water solutions. Last but not least, the performance of both Central America and Andean region operations was according to our expectations showing year of year growth, mainly driven by the results of the automatization process and other investments we have recently concluded.

At a corporate level, we continue outlining the organization, according to our long term vision, and we have focused in three main venues, innovation, corporate governance, and capital allocation. Let me elaborate on each one of them.

Innovation, following our mission of making the difference in the construction world, we are already thinking and working on how this industry will look like in the future. We are convinced that there is a lot to be done. As many of you probably know, the construction industry is plagued with waste and inefficiency. While innovation drives everything nowadays, the construction industry is actually technology adverse. We want to take all of the learning we've developed from sectors such as manufacturing which are driven by a culture of innovation and bring them in to adapt the construction space, and by doing so, we also aim to revolutionize the supply building industry in Latin America. To this end, we have created an innovation department and hired a new head to focus on formalizing a culture of innovation who will guide the efforts to implement into our services and products. Without a doubt, this department will be a key driver for Elementia to understand our customer needs and become the leaders in solution for the construction industry. This year, we will invest more than 1 percent of our net revenues for this purpose. We're working on a strategic alliances republic and private research organizations such as 3M and other in order to improve our innovation ecosystem. For 2018, we expect to improve the portion of our sales coming from new solutions and products.

Regarding corporate governance, we are evolving in terms of internal controls. During the fourth quarter of 2016, we started a project that will enable the company to have a faster and broader visibility in all transactions. We will go live with this project by the end of first quarter 2017. We are diligently working in what we call Elementia 2.0., aiming to become a company that at the same time continues its growth strategy while remaining agile in terms of decision making and easily adapting to change since our environment is constantly evolving. Also, we have consolidated the management team by including Laura Cañez Olvera as the Head of Strategic Planning and Laura Puig Grajales as the Head of Innovation.

We are also working on developing the corporate culture which summarizes in making things happen. The main drivers of this culture of change are accountability for performance, collaboration, growth mindset, high sense of purpose, and employee engagement. At Elementia, we are convinced that culture drives results.

Last but not least, capital allocation, where we will focus on all business decisions, but most of all, in new CAPEX requirements. Every new CAPEX has to comply with two main drivers, a strategic fit and financial fit. For the financial fit, every project has to have a positive NPV, a reasonable IRR, and a ROIC above the company's WACC. Some examples of this capital allocation focus are the expansion we have been doing in the BuildingSystems Divisions such as: we have doubled our rotating molding operations in Colombia with a CAPEX of US$2.4 million and started operations in Central America, investing US$1.5. All these projects have amazing ROIC's. It's noteworthy that the ramp up processes have exceeded our expectations. All these operations are already getting close to the full capacity utilization.

Another example could be the plastic roofing operations in Colombia which required a US$4 million investment, and we are about to conclude the expansion project in Peru for what we invested US$19 million. These projects also have very attractive ROIC's. The demand for these product is very strong and have the benefit of running fully in recycled materials. Both projects have been supported by the brand recognition and distribution channels that we have developed through time in all the countries where we operate.

Turning now to the outlook for 2017, although, there has been a lost of noise post November, U.S. presidential elections, we remain optimistic on the significance and strength of the sectors we serve. Moreover, our presence in the U.S. will serve as a buffer for changes in policy and balance our geographic risks. We will continue deploying our Giant integration plan to strengthen benefits of this important transaction.

Our M&A strategy going forward will focus on strengthening market position across all our business divisions giving preference to the countries where we already have operations. Finally, we will continue to take the steps necessary to fully execute our Power of Oneness strategy.

I will turn now the call over to Juan Francisco Sanchez Kramer for a further detail of our financial. Juan Francisco, please go ahead.

Juan Francisco Kramer: Thank you Fernando, and thank you also for being here with us today.

Now, I would like to give a brief summary of the profit and loss statement. Please note that all the figures I will give today are in Mexican pesos unless I indicate otherwise.

In the fourth quarter 2016, Elementia's consolidated revenues reached 36 percent year over year increase, reaching 5.45 billion and increased 12 percent to reach 19.09 billion for twelve months 2016, reflecting the sales price increase in all divisions and the addition of Giant's revenues as of November 2016. excluding Cement USA which reported 717 million, this line item grew by 18 percent in the fourth quarter and 8 percent during the 12 months of 2016.

Consolidated revenues are broken down by region as follows: 48 percent for Mexico, 29 percent in the U.S., 16 percent in South America, 5 percent in Central America, and the remaining 2 percent in other countries.

The balance has begun to change and considering the Giant acquisition in the U.S. and the selling capacity expansion in Mexico, it will incline to the U.S. and Mexico in the following quarters. Accumulated EBITDA rose 20 percent reaching 3.59 billion in 2016. With an EBITDA margin of 18 percent, up by 1 percent point when compared to 2015. For the fourth quarter 2016, EBITDA increased 48 percent year over year reaching 986 million. In terms of divisions for the full year, 2016, cement represent 41 percent of EBTIDA, Metal Products 33 percent, and BuildingSystems 27 percent.

Again, given the ongoing projects in the Cement Division for both Mexico and the U.S., it will become more relevant in the near future.

In addition, operating income 75 percent in the fourth quarter 2016 and 27 percent for the twelve months of the year. Excluding Cement USA, this line item grew by 57 percent in the fourth quarter and 24 percent in the full year.

Let me go into further detail in the performance of each division.

The Mexican operations for the Cement Division reported revenues of 845 million for the quarter, 29 percent above the same period of 2015, and 3.08 billion for the twelve months of 2016 or 30 percent higher than 2015. This is in line with expectations. The divisions revenues benefited from higher average sales price, a greater utilization of its full capacity, and operating efficiencies which offset the increase in energy costs for both electricity and fuels. Additionally, EBITDA for the fourth quarter 2016 was 331 million, up 29 percent year over year. For the twelve months of 2016, EBITDA reached 1.3 billion which is 39 percent higher than the same period of 2015. Last quarter margins showed a lower level in conversion with the third quarter, mainly due to energy costs and expenses related to Giant acquisition. Moreover, we are closely monitoring fuel prices as they have an important influence on energy costs.

Now, for the U.S. operations of the Cement Division as we informed, on November 16th, we successful completed the acquisition of the 55 percent stake and full control of Giant. That is why as of that date, we started to include Giant's results into Elementia's operating results. In the fourth quarter 2016, this was segment reported net sales of 717 million and EBITDA of 169 million.

On a pro forma basis, and excluding nonrecurring items corresponding to our recorded insurance policy, recorded in December 2015, the results of the U.S. operations for November and December reported 4 percent growth in sales and 83 percent of EBITDA, mainly due to higher sales volume because of the better weather conditions.

Onto the next division, the management focus for the Metal Products Division as we have mentioned before is the generation of EBITDA per ton as revenue prices are affected by the international reference prices. The international reference pricing of copper increased 11 percent quarter over quarter which helped offset the decreasing export volumes and generate growth. Net sales, however were 5 percent lower than the fourth quarter 2015 reaching 1.69 billion in the fourth quarter 2016. It is important to highlight that this divisions reported galvanized steel sheets revenues in 2015 which involved a lot of volume but lower margin given that this is a distribution operation. However in 2016, these sales were reported under the BuildingSystems Division. Therefore, excluding this fact, volume decrease was 5 percent less for the full year 2016 when compared to 2015. Moreover, this division also reported EBITDA growth 39 percent quarterly and 20 percent for the twelve months of 2016 reaching 263 million and 1.16 billion respectively, mainly driven by various cost cutting initiatives in place.

The BuildingSystems Division reported revenues of 3.08 billion in the fourth quarter of 2016 which represented an increase of 24 percent year over year, and 7.7 billion or 12 percent increase for the twelve months of 2016. This addition upturn was due to the extraordinary performance of the year where weather conditions were favorable. That in addition to the good performance in Central America due to the automatization project and the good performance in the Andean region helped offset the low performance in Mexico.

In terms of EBITDA, this division registered 221 million or 19 percent higher than the fourth quarter 2015. It is important to highlight that results for this division are strongly related to higher volumes sold with better pricing as well as the right sizing efforts and the strategic refocus of the operations in Mexico, as well as the continuity of the strategy driven from the full potential project in the U.S.

In summary, the fourth quarter 2016 is the beginning of the recovery of the division. We see a positive trend from now on. Between the fourth quarter 2016 and first quarter 2017, several projects are being completed, and they have all complied with the capital allocation focus we've implemented. Those projects have already been described by Fernando along with the development and launching of new fiber cement products for the operations in more regions.

Moving on to cost and expenses, consolidated cost of goods sold for fourth quarter 2016 increased 30 percent to 3.81 billion while revenues increased 36 percent. The cost optimization was mainly due operating an energy efficiencies initiative as well as higher sales volume which delivered cost reduction, mainly in Cement and Metal Divisions.

The 40 percent increase in SG&A resulted mainly from expenses related to the acquisition of Giant, including due diligence and full potential roadmap and expenses related to the capital increase. It is also important to mention that as stated in our IPO prospectus, 2016 figures were reduced from the bargain price gain from the acquisition of the fiber cement assets in the U.S.

In addition, SG&A for the BuildingSystems is higher than the other two divisions in terms of percentage of revenues, and revenues for the division grew 12 percent in 2016. In terms of consolidated EBITDA, the company reached 986 million in the fourth quarter, up 48 percent compared to the 665 million reported in the same period of 2015. In terms of EBITDA by division, the balance continued its trend to a higher Cement Division contribution which represented 42 percent, Metal Products 33 percent, and Building System 26 percent.

Lastly, Elementia reported a net income of 686 million for twelve months 2016, an increase of 674 million compared to the last year, 12 million. This growth was mainly due to improvements in operating income and reduction on the financial costs derived from the adopted hedging strategy.

Turning now to the balance sheet. During the quarter Elementia's balance sheet showed significant changes, increasing 70 percent the value of total assets, resulting from Giant acquisition. Its full consolidation generated a good will of close to 220 million, which confirms that the acquisition was made at a fair market value since it represents less than 2 percent of Giant asset value.

The main effect of Giant consolidation are reflected in working capital, property, plant, and equipment, intangible assets, and shareholder's equity. To that end, cash on cash equivalents reached 3.91 billion, an increase of 26 percent compared to 2015, mainly due to a higher EBITDA generation, working capital improvements, and credit lines that were used during the year.

Elementia's debt position which totaled 17.08 billion increased mainly due to the impact of the Mexico peso versus the U.S. exchange under dollar denominated debt. Secondly, the usage of Elementia's committed credit lines to grant Giant a loans, so it would prepay its previous debt, and third from the usage of most of ECA's credit line to fund expansion of the cement capacity.

In line with the company's strategy of keeping a solid and flexible balance sheet, net debt to EBITDA ratio was 3.17x times, and interest coverage was 4.37x times both in lines with the covenant set by the financial institutions.

In terms of our CAPEX for the period, we spent 3.97 billion the twelve months of 2016, excluding Giant's acquisition. For the full year 2016, total CAPEX is broken down as follows: 4.18 billion pesos or 51 percent for the acquisition with Giant, 2.61 billion or 32 percent for the cement expansion, and 1.36 billion or 17 percent for maintenance and bolt expansions.

Before I conclude by remarks, I would like to highlight a couple of key measures that went on during the quarter that helped strengthen the company's financial position and discipline.

First in preparation for the capital increase, the company updated the theoretical value of the shares to $6.3553 pesos per share, corresponding to the nominal value of the capital stock. Considering that at the time of the IPO the shares' final value was unknown, the update to the theoretical value was done at the Shareholders' Meeting held on October 17, 2016.
Second, Elementia, used part of its committed credit line totaling 5.6 million which included a revolving portion of 2.96 billion and another 10.64 billion with a maturity profile of 25 percent in 2018, 35 percent in 2019, and the remaining 40 percent in 2020.

Third, considering that Giant's loan was granted in dollars, and due to the fact that in early November 2016, it was expected that the peso will strengthen against the dollar, the company hedged the credit facility in order to swap them into dollars and thus, ensuring the dollars received from Giant as payment would be enough to pay off the debt with the banks.

We believe that 2017 comes along with a great growth opportunities, and we will do our best to successfully execute the company's capital allocation strategy. In addition, this year we want to carry out our planning divestment of vital assets with still great expenses control and optimize the company's portfolio strength and improve the value chain process and thus working capital.

With this, I conclude my presentation. Thank you for your attention, and I'm going to turn the call back to the Operator for Q&A. Thank you.

Operator: Thank you very much. Ladies and gentlemen, at this time, we would like to open the floor for questions. If you would like to ask a question, you may press star one on your touchtone phone now. Our first question will come from Juan Tavarez, Citi.

Juan Tavarez: Hi, thank you. Good morning everyone. My first question is about your U.S. Cement business, could you give us an update there on what are your utilization rates today, and you mentioned that when you first got the asset, the pricing was below the industry's average. Where do you stand on pricing now on that asset, and maybe, some context of the potential maintenance CAPEX cycle and restructuring cost still to happen at Giant Cement. Maybe connected to your total 2017 CAPEX outlook of how much of your 2017 CAPEX expectations will be dedicated towards Giant Cement? Thanks.

Fernando Ruiz Jacques: Okay, thank you Juan for your question. Regarding the utilization rate, I can tell you more than 10 percent lower than the average industry in the U.S. Likewise, I can say price wise, we are more or less the same -10 percent down the average of the industry. Last, but not least, regarding the CAPEX, we will need to invest in the next three years more or less US$90 million. For this year, for the first stage that is basically bringing the asset back to today's standard, the required CAPEX is around $30 million, and we think we are already spending that amount. And for the following two years or two stages, the required CAPEX would be less than $60 million. I don't know if I've answered your questions.

Juan Tavarez: Is that for the total Elementia or just for Giant Cement?

Juan Francisco Sanchez Kramer: Just for Giant Cement. On top of that Juan, we will remain with let's say organic CAPEX for the company which has been around 60 million. It might go up some 60 million which is just mainly maintenance and bolt on expansion. And we will have some 30 million pending from the capacity expansion in Mexico.

Juan Tavarez: Okay, alright. Great, thank you.

Juan Francisco Sanchez Kramer: Thank you, Juan.

Operator: Thank you. Our next question will come from Hernan Kisluk, MetLife.

Hernan Kisluk: Hello. Thank you for taking my questions, and congratulations on the excellent results. My question is regarding the loan that you provided to Giant. In the report, you said that Uniland has provided a guarantee for the loan with a place of its shares. I wonder here what are your expectations now about this loan? If you think that it's going to be repaid in one year or maybe extend it or maybe execute the guarantee? Just wondering what are you thinking about it today?

Juan Francisco Sanchez Kramer: Sure, thank you Hernan for your question. Let me go probably a step back. As you probably known, Giant has a convert that has to be terminated in order to complete the transaction. As we mentioned that we terminated that loan was through: First, a loan to buy the 55 percent shares of Giant. So, this loan was given to Giant from Elementia, and it became an intercompany loan. Since Elementia has 55 percent of Giant, and Uniland has the remaining 45 percent both are committed to this credit line, but there is no specific guarantee given by Uniland. Did that answer your question?

Hernan Kisluk: I thought there was a guarantee. Maybe, I misunderstood what was written in that report, saying that there was a pledge of Uniland's shares in Giant, but maybe, I got it wrong.

Juan Francisco Sanchez Kramer: I mean the guarantee is the one that both shareholders, Elementia and Uniland are giving for this loan, but there is no shares involved whatsoever.

Hernan Kisluk: Okay, perfect. Thank you very much for the clarification.

Juan Francisco Sanchez Kramer: Thanks, Hernan.

Operator: Thank you. Our next question will come from Cecilia Jimenez, Santander.

Cecilia Jimenez: Yes, hi guys. Good morning. Thanks for taking my questions. I have a few questions actually on the U.S. operations. If you could give us some color regarding you already mentioned prices, so volumes. The average cement volumes for the state of Giant where they have footprint was 22 percent on December, so if you can give us some color what you have seen so far and what you are expecting for this year. Thanks.

Juan Francisco Sanchez Kramer: Sure, thank you Ceci. I mean it will be very naive to say that we have already done significant changes in the Giant operation. We have already begun to implement what call the 100 Days Integration Plan, so it is ongoing, and it is performing according to our expectations. We are happy about that. Now, in terms of the operations, as Fernando mentioned, we have begun to deploy the CAPEX required to bring the assets back to par, and thus be able to recapture lost market share and lost pricing power. But that is only the beginning. There was an important benefit that we had in this fourth quarter 2016, and it is that the weather has been very mild. It has allowed us to fully operate the facilities and during January, it was the same case. The expectation is that we will capture the expected value, additional value from Giant during 2017, 2018 mainly.

Cecilia Jimenez: Okay, but maybe, if you can be more specific regarding volume perspective. For instance, we have the PCA with a 3 percent forecast for the entire country for this year, and Cemex guided on the U.S. side, a volume growth from 0 percent to 3 percent. My question is do you expect to be around that neighborhood, or do expect to be targeting a mid to high single digit in volume growth this year? And also, since you mentioned the good figure for the report, if we can stabilization margin on the EBITDA side. Should we expect mid teens, low teens in terms of EBITDA margin for the entire year once you take out seasonality? Thanks.

Juan Francisco Sanchez Kramer: Thank you. Regarding your first part of the question, the expected demand for the East Coast, in general, is around 4 percent to 5 percent for this year and the following four years. We are aiming around that. On top of that, the market share that these operations have is around 9 percent, but it used to have about 12 percent in the region. So, we are aiming to regain that 12 percent in the short term. This will move along as we complete the maintenance projects, etcetera, that will take some time. At least the first six months of 2017 will be the execution of the project, and we will have additional capacity or the standard capacity available for the second half of the year. We are aiming to grow along with the market trend for the first half, and starting in the second half, we aim to grow faster.

Cecilia Jimenez: Maybe, a last question, if I may, regarding the BuildingSystems Division. You posted very good year on year results, but you are coming from a pretty weak base. I think it's good, but it looks better than it actually could be, because on a quarter on quarter basis, you are posting a 1 percent EBITDA drop. My question is what's the target or the forecast for 2017, particularly regarding Mexico operations and its turnaround. I'm not sure if the turnaround only comes from the U.S. side but also in the Mexican side, particularly on the volumes if you can give us some color there. Thanks.

Juan Francisco Sanchez Kramer: Sure. First of all, we believe that third quarter was the bottom for the division in terms of EBITDA generation. The fourth quarter already shows an improvement, as you mentioned, small but improving. The expectation for 2017 is very positive, since as we mentioned, we completed the project for expanding capacity in rotating molding or water tanks in Central America, the Andean region, and also, plastic roofing operations for the Andean regions. On top of that, we are ongoing the execution of the full potential, or go to market study that we did for the Mexican operation. We are very positive on the potential that we see also, and in the U.S., again, the expectation is a growing market. We have already capacity utilization that enables us to begin the reopening of the idle facility in Indiana which we are targeting for early next year. So, the CAPEX and the cashflow has already begun. Engineering is completed, and it is ongoing. So, we are very positive on the outlook for the BuildingSystems Division along 2017, we are beginning to harvest the investment that we did during 2016, and we will continue to have those in 2018.

Cecilia Jimenez: Okay, thanks. I just have one last question. I promise this is the last one, and it's regarding cement in Mexico. Pricing, particularly. So, you will have the ramp up of expansion plans during this year. My question is regarding pricing, do you think it's reasonable to expect somewhere let's say 7 percent to 10 percent price increase, considering the new capacity coming to the market, or do you think that's too optimistic? And this is coming from a year where we have plus 18 percent for the market. Do you see that as possible, as feasible, or you're expecting somewhere a lower pricing due to the incoming capacity? Thanks.

Fernando Ruiz Jacques: Thank you Ceci for your question. It's a tough question. What I can tell you, I mean we see it reachable. You have to bear in mind that many of the investments in this industry are dollar based. So in order to fund the, I mean, prices have to increase. Likewise, costs have increased in the recent months in the pet cokes, in energy, son on and so forth. So I truly believe that price trends might continue. Likewise, the demand, I think it will remain strong. The drivers that we mentioned a minute ago, regarding the lack of government projects that we mitigated by the new airport and the election process, and the most important of all is the great demographic bonus that we still have in Mexico. Likewise, you have to bear in mind that we are focused on the do it yourself construction, and we believe that this channel will continue growing, so I think to answer your question that your forecast is accurate.

Cecilia Jimenez: Perfect very clear. Thanks. Sorry.

Juan Francisco Kramer: You have to bear in mind also that considering the additional capacity that is put on the market or that will be put on the market. Nobody is thinking on allocating all the volume from day one. It means that it will have a ramp up timeframe, and thus, it is even though it might sound like a lot, it is not as disruptive as it sounds.

Cecilia Jimenez: Thank you.

Operator: Thank you. Our next question will come from Pablo Ricalde, Merrill Lynch.

Pablo Ricalde: Hi. Good morning everyone. I have two questions. I was wondering if you could provide a breakdown between market share gains and category growth related to the performance of the U.S. in the BuildingSystems Division. My second question is regarding potential synergies between Allura and Giant Cement. I don't know if you could provide a guidance on how much are you expecting to achieve and when?

Juan Francisco Sanchez Kramer: Hello, Pablo. Thank you for your question. On your first question, what I can tell you is we are growing faster than the market, and because of that, we have already reached very high capacity utilization rate. And because of that, we have already begun with the project for reopening the Indiana facility. The pricing trend is also positive in the U.S., so it is a combination of volume pricing and gain from businesses market share. Can you repeat your second question, please?

Pablo Ricalde: Yes, my second question is on potential synergies between Allura and Gian Cement. I don't know if you have already assessed how much it could reach in terms of potential synergies, and when do you expect to achieve them?

Fernando Ruiz Jacques: Well, Pablo, I mean we just closed the acquisition a couple of months ago, so we are still learning a lot about this operation. What I can tell you is that we have found that there are many potential synergies, but I don't want to misguide you or give you a figure that we are still evaluating. What I can tell you, there's a lot of synergies, and that's very good.

Pablo Ricalde: Okay, and one last question, if I may. Regarding working capital, we saw a positive contribution on 2016. I don't know if you're expecting something similar for 2017 or what we expect in terms of working capital?

Juan Francisco Kramer: Sure, there was a positive change in working capital, as you mentioned in 2016. We have already set some very specific outlines, in that regard, for the full company. But, also, you have to bear in mind that we are increasing volumes. We are increasing revenues, so we are more focused on a per day analysis than value analysis that will result on cashflow generation from working capital. In summary, yes, you can expect the same trend in 2017, excluding the additional volume and additional revenues.

Pablo Ricalde: Okay, perfect. Thanks a lot.

Fernando Ruiz Jacques: Pablo, maybe, expanding on your previous question, regarding the synergies, I can also tell you about the synergies not only with Allura, but also synergies with Elementia, and all the synergies we saw before making this acquisition. So, first it further helps us balance our currency profile is shifting into a more dollar denominated one, so that's one that we like a lot. Also, this will be a vertical integration between this new acquisition and our Allura operation. That's regarding the cement consumption. Likewise, there's some interesting cost cutting initiatives that can be done in Mexico by implementing the knowhow and the use of alternative fuels where we are very strongly in Giant. Those are also other synergies that we saw when we were making this due diligence.

Pablo Ricalde: Okay, perfect. Thanks.

Operator: Thank you. Our next question will come from Nikolaj Lippman, Morgan Stanley.

Nikolaj Lippman: Good morning, and thank your for the call and for taking my question. Congrats on the numbers. Just a couple of very quick question. Sorry, if they were already addressed. I just started the call a bit late. In terms of the margin differential on the cement in Mexico from the third to the fourth quarter, can you talk a little bit about what's going on there? Your margin was fantastic in the third quarter, and it sort of normalizes here, if you could address that. Second, on distribution, as you open up new capacity in Mexico, should we think about this it will continue with the back strategy, or will you be looking more towards what's selling in bulk and maybe growing that together with a ready-mix business. And finally, sorry for all these questions. Similar questions for the U.S., how should we think about ready-mix for that business going forward. Thank you very much.

Juan Francisco Kramer: Thank you Nikolaj. Let me talk to all the question, so first of margin for the fourth quarter in the Mexican operations. The margin was mainly effected, or as you mentioned, the third quarter margin was spectacular. In the fourth quarter, the margin was reduced mainly, because of energy cost, both in electricity and pet coke, and also to expenses related to the acquisitions of Giant that we built due diligence, the full potential, also the capital expenses, etcetera. So, we have several non-recurrent expenses in the fourth quarter. Going into 2017, as we mentioned and as you well put it, we are ramping up, or we will be ramping up, the new capacity by mid 2017, but in order to prepare the market, we are beginning the grinding of clinker since the first quarter, and these operations have lesser margins. This question's answer will be that our margins for 2017 will be lower than what it was in the third quarter 2016. Probably, going down another 5 percent, 4 percent or percentage points as we get closer to the start of the clinker production. That is maybe due to a portion of fixed costs. To the next question, as you mentioned, we are mainly focused on bags. More than 70 percent of the volume sold in 2016 was in bags. Moving on to the capacity expansion. It is likely that this balance changed a little. We might have more bulk in 2017, in order to allocate faster, the volume. That also has to do with the third part of your question that is ready mix. We are increasing the operation of ready mix in Mexico. We currently have a couple of plans for ready mix, and we will add some three to four more during 2017. On the same trend for the U.S., the margin in the U.S., for the first quarter is usually the worst because of winter, so we are moving along with that seasonality. In the U.S., the balance between bulk and bags is quite different. Usually, it's about 5 percent in bags, and elementia ELEMENT

the rest is in bulk. About ready mix operations, the operations in the U.S. don't have ready mix. Our main customers are ready mix producers, and that is one of the advantages in terms of the relationship with our customers. So, we plan to keep it that way at least for the short to medium term.

Nikolaj Lippman: Thank you. This was helpful. A follow up, if I may. In terms of the due diligence merger related or transaction related costs, could you quantify that just, so we don't confuse it with an increase in the cash cost?

Juan Francisco Sanchez kramer: If I understand correctly, you are asking the amount of the due diligence and the full potential analysis?

Nikolaj Lippman: If you would be able to share that, so we don't make it into perpetuity. Don't worry about it.

Juan Francisco Kramer: Thank you.

Nikolaj Lippman: Thank you very much.

Fernando Ruiz Jacques: Thanks you.

Juan Francisco Kramer: Thank you, Nikolaj.

Operator: Thank you. Our next question will come from Francisco Suarez, Scotia Bank.

Francisco Suarez: Hi. Thank you for the call. Congrats on the numbers. My question is related to the Cement Division. It seems that the overall potential on your EBITDA margin is considerable and not only, because of the one offs that you mentioned, but also, because of the limited integration that you have considering that your Tula plant is basically sold out at the moment. My question here is related with once the new line is in operation, and you are able to integrate your operations with your old clinker production on that line; and whenever that, the ramp up phase ends, I guess that it is fair to assume that this plant, the overall margins in Mexico, considering also the pricing, could be heading north of 45 percent or something like that, once you reach the decent utilization rates on Tula?

Juan Francisco Kramer: Yes, I mean yes, our margins have come down from very attractive close to 50 percent in the third quarter. As I mentioned, they will remain in current levels or a little bit lower than that as we get closer, or we start the ramp up of the clinker production. But, once that operation is in a steady level, and we reach let's say reasonable capacity utilization, we expect to go back to north 40 percent. Again, once the capacity utilization rate is back in order.

Francisco Suarez: Understood. Just to be perfectly clear, on your pricing strategy, I guess, because of what you mentioned, because of the increased costs, energy inputs, and of course, that are U.S. dollar denominated, I think it is fair to say that if it takes longer to take this ramp up, I mean that would be the reasonable thing to do, isn't it? In other words, would you be racking more or lending more towards trying to get to the most, to the least discounts possible, compared to the prices of the leaders of your market? It's going to be pricing, the priority, or volume, in other words?

Juan Francisco Kramer: Yes, certainly. I would like to make a step back on the strategy for pricing. As you remember, we positioned, the brand, the product as premium quality, and therefore, we are in terms of pricing the highest quartile in all regions that we play, so the strategy remains the same. We will compete in the top quartile of pricing. Also, you have to bear in mind that given our capacity or market share, we do not set the pricing. We certainly follow price increase. We believe that the market needs to recover value that was lost from 2010 through 2013, and given the currency fluctuations that we have seen, the pricing in Mexico is one of the lowest in all the Americans. It all indicates that pricing should continue its trend, and we are happy to do that. We will continue with the same strategy.

Francisco Suarez: Ok. Lastly, on your BuildingSystems Division, to make sure that I understood correctly, Do you think that you may be able to open the Indiana plant by the beginning of next year? Is that correct?

Fernando Ruiz Jacques: That is correct. That's our plan. We are already making the necessary investments in order to comply that date. We feel pretty confident. Our U.S. based plants are already running at a very attractive capacity, so we feel confident that we will reopen this plant in the timeframe that we mentioned.

Francisco Suarez: Great. Thank you and congrats again.

Fernando Ruiz Jacques: Thank you.

Juan Francisco Sanchez Kramer: Thank you, Francisco.

Operator: Thank you. Our next question will come from Luis De La Torre, Morgan Stanley.

Luis De La Torre: Hi, Fernando and Juan Francisco. Congratulations on the results. I just have a couple of questions regarding the fiber cement business. In the U.S., it's very encouraging to see that you're taking market share. I was thinking if you could explain a little bit about the strategy here and what kind of client you're approaching. Is it repair and remodel, or is it the new home builders. In LatAm, if I look at the aggregate of the LatAm fiber cement business and plastics, it doesn't look like it grew a lot in 2016. I was wondering if you could speak about the strategy here, and if you plan to invest more capital into these businesses? Is it a priority for you? Thank you.

Laura Cañez Olvera: In the U.S., as Fernando mentioned, we did a full potential study, we are targeting big builders and getting some share from these big builders, as well as entering in new cement like repair and remodeling. So, those are our main targets in the U.S.

Fernando Ruiz Jacques: Let me expand on that. The good news here is that I mean we've been able to enter with the big builders which no one wanted to be the guinea pig. We've been able already to convert some of them, and I think we are on the right track. We are starting to see what we planted in the past few months, so we are harvesting that. Regarding LatAm, we are heavily working in the light weight building systems. As I mentioned before, the construction, the way it's being done in Latin America, we are still building as Egyptians did, 2,000 or 5,000 years ago, so there's a lot to be done. We are working on solutions and very interesting solutions for the near future, so that's where we're targeting in our innovation department. We hope we are coming with very interesting solutions in the next coming months. And also we see a tremendous opportunity there.

Luis De La Torre: Thank you.

Fernando Ruiz Jacques: I hope that we answered your question Luis.

Luis De La Torre: Yes, it does. Thank you very much.

Fernando Ruiz Jacques: Thank you.

Operator: Thank you very much. At this time, we have no further questions. I would now like to turn the call back over to Mr. Fernando Ruiz for closing remarks.

Fernando Ruiz Jacques: Thank you operator, and looking ahead in 2017, we continue to see exciting opportunities to invest for the future and to do even more for customers and shareholders to our continued support of the essential components of the construction value chain. For that, we will remain committed to our vision, our markets, and our clients by fulfilling our promises in a systematic way. We will always be innovative and one step ahead in terms of offering unique products, improved services, and better commercialization strategies. We will continue to play a key role in times of change, by not only rapidly adapting in a fast evolving environment, but also by being a leader that promotes change. So, once again, thank you all for your interest in Elementia, and have a nice rest of the day. Bye-bye.

Juan Francisco Kramer: Thank you.

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