ELEMENTIA 1Q17

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Operator: This is a recording for the Melanie Carpenter teleconference with I-Advize, Thursday April 27, 2017 scheduled for 12:00 PM 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 call. 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 introductions will be given at that time. I will now turn the conference over to Patricia Cruz with I-Advize. Please go ahead.

Patricia Cruz: Thank you, Chantel. Good day everyone, and welcome to Elementia's first quarter 2017 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 and Mr. Juan Francisco Sanchez Kramer, Chief Financial Officer and Interim Investor Relations Officer. They will be discussing the company's recent transactions and performance as per the earnings release issued yesterday after the close. If you did not receive the report or you need a copy of the release, please contact I-Advize in New York at 212-406-3694, and we will email you immediately, or go to Elementia's website, 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 refer 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 Patty, and welcome everyone. Thank you for being with us today to discuss Elementia's first quarter 2017 results and our expectations for 2017.

Before jumping into the first quarter operating results, I would like to talk about three very important steps we took at Elementia. Every year, we have to be a different, better-positioned, and increasingly agile organization in order to have a stronger relationship with our customers and build value-creating opportunities for our shareholders. Under those terms and trying to be the catalyst of the change modernization in construction, we decided as a first step to open an innovation department. We want to change the way people build, especially in Latin America to a more practical, more industrial, and automated way. For instance, in the BuildingSystems Division, our innovative product lines now offer prefabricated building materials which are more flexible and show less breakage. We've been moving from corrugated sheets to flat panels for lightweight building systems where we clearly see that the industry is moving to. I am happy to report that there has been a higher level of acceptance from our customers and final users.

We are confident that these value added products will give us a competitive advantage the company needs to take the lead in the geographies where we had presence as we transition from a traditional oriented construction industry into new lightweight construction systems.

Let me point out that innovation has always been part of our strategy and culture. We are the largest fiber cement producer in Latin America, and we are one out of the three companies worldwide that runs on three technology platforms. We've been able to offer innovative products to one of the largest construction markets which is the U.S.

The second step that we're taking is that in March we launched an internal control project which focuses on strengthening Elementia's corporate governance and ensuring that our processes and decisions are in accordance with the company's prefactibility parameters. The benefits that come along are significant as this will enable us to have a timely and broader visibility in all transactions and remain agile in terms of decision making while easily adapting in a constantly evolving environment.

The third step would be what we call Elementia 2.0 which is a transitional stage to become a multiproduct company leveraging our geographical coverage and commercial capabilities, capturing value from innovation and digitalization trends.

So now, moving along to the results of the period, the first quarter was a very successful quarter for the company as our growth level compared to 2016 was significant, and the integration of Giant into Elementia is evolving as planned.

Once again, Elementia posted double digit growth in both EBITDA and the operating line. These results were driven by the performance of the Cement and Metal Product Divisions, however it pleases me to say that the BuildingSystems Division continued its upturn which began in the fourth quarter 2016.

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 increased by 44 percent while EBITDA rose by 26 percent compared to first quarter 2016. These results were achieved despite an increase in the company's costs, mainly derived from higher electricity. The kilowatt rate in March 2017 was 24 percent higher than December 2016 and 65 percent higher than in March 2016. The strong EBITDA generation was once again mainly due to higher average sales price.

We believe this price trend may continue as demand remains strong, and the industry hasn't recovered its lost value since 2013. Bear in mind that Mexico remains one of the lowest pricing in all the Americas. We remain focused on 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 operations to start up by third quarter 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. In fact, during the quarter, we started the grinding operations, so when the clinker production would begin with the plant, we will be partially set. This is one of the reasons for the EBITDA margin will decline during the quarter as expected.

Moving now to the U.S. Cement Operations, as expected and as part of the plan, Giant reported a roughly breakeven EBITDA due to seasonality. Nevertheless, I would like to stress that thanks to our effective management of operations since the acquisitions, we were able to significantly reduce the losses that Giant has been reporting in previous years. From first to first quarter 2016 which reported a loss of $36 million in EBITDA, the first quarter 2017 reports a loss of only $7 million.

Some of the operating strategies and factors that contributed to these results were: First we continue with the price increase strategy. Second, we began to recover some of our lost clients. Third, we began to implement and make use of the maintenance CAPEX aimed to bring back the assets to the industry standards and most importantly, there has been no need to increase a CAPEX set since the beginning. Last but not least, we are being extremely careful in terms of operating efficiency. Therefore, all maintenance shutdowns were programmed in advance.

The PMI is going according to plan. As a result, we are already showing positive results, and as we have mentioned before, we expect to continue showing improvements throughout the year.

Moving on to the Metal Product Division, it registered a 27 percent increase in EBITDA, and revenues were up 28 percent, thanks to our strategic focus on higher value added products and cost cutting initiatives that helped improve metal yields which offset the increase in electricity and natural gas prices.

This year, we will continue to focus on innovation, aiming new value added products while expanding volumes on fittings and air conditioning, take advantage of our strong brands and distribution channels, and implement additional cost reduction initiatives to further improve our EBITDA per ton ratio.

Finally, turning to the BuildingSystems Division, it pleases me to say that we continue to slowly but steady experience the 180 degree change that we've been working towards. As we've said before, in third quarter 2016, we hit the bottom in this division. In the fourth quarter 2016, we began to see an upturn by reporting double digit growth, and 2017 will continue to show positive results. First quarter 2017, we had an increase of 30 percent in revenues and 9 percent in EBITDA, mainly driven largely by the strong performance in the U.S. operations.

Going further in depth by region, in the U.S. and taking advantage of the market performance, we have already begun the plan in CAPEX to reopen the idle Indiana facility. We started to ship already products from the other two facilities to the Indiana region, so when the facility starts back up operations, it will be partially allocated. As planned, this has affected our operating margins. Nevertheless, the benefits obtained in the medium term overrate the downside as it enables us to have a solid client base in Indiana already built by the time the plant reopens in first quarter 2018.

In Mexico, we've been able to successfully implement the restructuring plan developed along with BCG, the Boston Consulting Group which is focused on a go-to-market strategy and widening the division's geographic coverage in roofing and water solutions.

In Central America, we've been taking advantage of our expanded production capacity derived from the divisions restructuring and automatization process implemented last year by exporting to the U.S.

In the Andean region, we faced a few challenges. In Peru, despite we were having strong growth, it was set back due to the floods presented in March. Moreover, Bolivia's political instability and Ecuador's lack of construction projects and Colombia's economic slowdown due to an increase to 19 percent from 16 percent in VAT affected the demands in all of these countries.

Nevertheless, there are several initiatives that helped offset these challenges such: as launching new products with new technologies that have already show good acceptance from our customers, doubled our water tank operations, and started plastic roofing operations in Colombia, and the startup of the water tanks operation in Central America. All of them showed better than expected starts.

We are very optimistic for the BuildingSystems in 2017. The implementation of the overall strategy developed along with BCG and the structural changes with the company has allowed us to have a clear vision of the future. Now more than ever, we know where we want to go, our focus, and how we will get there.

With the help of our corporate strategy, The Power of Oneness, we will move towards excellence and become an important instrument of change in the communities we serve. The figures discussed today reflect an alignment of our efforts to one strategy focusing on bringing together all the acquisitions, all 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. We will continue to take the steps necessary to fully execute our Power of Oneness strategy.

Looking into 2017, we continue to see exciting opportunities to invest for the future and to do even more for our customers and shareholders as well as continue to support the essential components of the construction value chain.

Our M&A strategy going forward will continue to focus on strengthening market positions across all our business divisions, giving preference to countries where we already have operations and that will comply with the company's strategic and financial parameters. For the time being, we will concentrate on digesting Giant's acquisition and the startup of the cement capacity expansion in Mexico.

I believe Elementia has the right team, culture, technology, and competitive advantages to once again excel in the construction business.

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

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

Let me start with the profit and loss statement.

In the first quarter 2017, Elementia consolidated revenues increased 52 percent year over year reaching $6.5 billion, supported by growth in all three divisions: 160 percent in the Cement Division, 30 percent in the Metal Product division, and 28 percent in BuildingSystem Division.

On a pro forma basis, this is including U.S. cement, revenue grew by 24 percent during the quarter.

In terms of revenues by destiny, the breakdown is as follows: 44 percent in Mexico, 36 percent in the U.S., 13 percent in South America, 5 percent in Central America, and the remaining 2 percent in other countries.

Despite the challenges presented during the quarter, such as: high economic volatility and politician tension, Elementia continued its EBITDA growth trend, reporting an increase of 22 percent year over year reaching 952 million in the first quarter. This result is mainly due to management's ability to properly execute each division's strategy and the corporate strategy that unites them. Supported by the strong brand decisioning, cross selling efforts, innovation and M&A activity.

On a pro forma basis, again including the U.S. Cement, EBITDA grew 28 percent during the quarter.

Now, let me go into further detail on the performance of each division. The Mexican operations for the Cement Division reported revenues of 908 million for the quarter which is 33 percent above the same quarter last year. The division's revenues benefitted from higher than average sales price, an incremental volume coming from the startup of grinding operations as part of the ramp up of the expansion project.

Additionally, EBITDA for the first quarter was 335 million, up 26 percent year over year. On the other hand, EBITDA margin for the quarter was 37 percent thanks to the efficiencies which partially offset the increase in electricity and fuel cost which were 24 percent and 18 percent higher than December 2016, respectively; and the effect of the startup of the aforementioned grinding which had an impact on margins give that we are using clinker from third parties.

Now, for the U.S. operation on the Cement Division, on a pro forma basis, the division's results for the first quarter reported a 10 percent decrease in sales, mainly because of the management efforts that we have already started which turned in less volume available and less alternative fuel operations, accordingly. We reported a $7 million loss in EBITDA compared with a $36 million loss in the same period last year. The first quarter is always the lowest for this operation showing seasonality impact through the year.

As you can see, there is no doubt that our efforts to implement the highly detailed, value generating roadmap developed along with Bain & Company has been the right approach. Benefits from Giant's turnaround which continues to be seen throughout 2017 and the following years.

On to Metal Products, this division reached $2.3 billion revenues, up 28 percent compared to the first quarter 2016. Moreover, it also reported a double digit growth in EBITDA of 27 percent reaching $355 million, driven by improvements in conversion costs coming from investments made, a strict control of operating expenses and focus on higher value products.

As we have mentioned before, this division focuses on the generation of EBITDA per ton, since revenue prices are new to international refence pricing of copper. This international reference price increased 26 percent quarter over quarter from $2.11 per pound in the first quarter of 2016 to $2.65 per pound in this quarter.

Finally, the BuildingSystems Division reported revenues of $2.34 billion in the first quarter which represents an increase of 30 percent year over year. The division's upturn was due to the extraordinary performance in the U.S. where demand continues to be strong, and our strategy is taking root. That, in addition to the good performance in the Central America region, mainly from exports in the U.S. offset the low performance in the Andean region which was impacted by a 3 percent increase in VAT in Colombia which created a temporary consumption reduction in the country. We expect this impact will begin to ease during the third quarter of the year.

In terms of EBITDA, this division is registered at 254 million, 9 percent higher than in the first quarter 2016. While EBITDA margin was affected by the increase in emerging cost across the nine countries and the different margins from each of the regions.

I would like to add that the U.S. fiber cement market continues to report positive performance coming from the multifamily segment in the south and southeast regions, which indicates an increased demand for the lightweight construction systems.

I am also glad to report that the investment made for water tanks and plastic roofing in the Andean region and Central America show a better than expected start.

Moving on to cost, consolidated cost of goods sold for the first quarter increased 61 percent to $5.03 billion. This was mainly due to the effect of Giant. Excluding Giant's effect, the increase was 31 percent mainly due to an increase of electricity and natural gas cost.

In terms of consolidated EBITDA, the company reached 952 million in the first quarter, up 22 percent compared to the 778 million of the first quarter 2016. On a pro forma basis, including Giant's figures in the first quarter 2016, EBITDA grew 35 percent.

Cement Division represented 34 percent, the Metal Products Division represented 36 percent, and the Building System Division represented 30 percent. We expect that the cement division will become more relevant as the year goes by, and we reflect figures from both capacity increase in Mexico and Giant's integration.

Lastly, Elementia reported a net loss of 50 million for the first quarter 2017, a decrease of $166 million compared to the last year $151 million. This decline was mainly due to the positive foreign exchange effect in financial cost and the related effect in tax.

Turning now to the balance sheet, cash and cash equivalents reached $3.45 billion, a decrease of $462 million compared to the yearend 2016, mainly due to the investment totaling $658 million out of which $346 million was the cement installed capacity expansion in Mexico and $312 million for organic CAPEX that includes maintenance and bolt-on expansions in the quarter.

By the way, the cement capacity expansion in Mexico is performing according to plan in both budget and schedule, and as Fernando mentioned, we expect the startup to be done during the third quarter of this year. It is also important to highlight that maintenance already includes the CAPEX planned for Giant to bring back the assets to industry standards.

Elementia's debt position which totaled $16.17 billion increased mainly due to: a provision of the ECA facility for US$8.96 million to reach a total of US$81.7 million to fund the cement capacity expansion in Mexico. A provision as a domestic revolving credit line for US$1.8 million, mainly for working capital in the U.S. cement and the partial payment of US$2.9 million to the ECA facility that we have with HSBC.

However, I would like to mention that in the first quarter 2017, we reported a foreign exchange gain partially coming from the impact of Mexican pesos versus the U.S. dollar exchange rate fluctuation on our dollar denominated portion of the debt.

As we mentioned, since we completed the acquisition of Giant, we used committed credit lines at Elementia level as a bridge, but we have the clear vision to change that to a long term financial position. This is in line with our financial discipline and strong balance sheet aiming for an investment grade from rating agencies. We have been analyzing options, and we believe that within the following months, we will accept a new credit facility which main use of proceeds will be to prepay this bridge. The main idea is to improve the maturity profile, continue with the currency equilibrium while keeping the competitive rate.

In line with the company's strategy of keeping solid and flexible balance sheet, net debt to last 12 month EBITDA ratio, including Giant pro forma, was 2.94x times, and interest coverage was 4.17x times, both in line with the covenants set by the financial institutions.

December 2016 represented a peak in terms of net debt to EBITDA and as you can see this has been able to significantly decrease in the first quarter of this year. This impact is due to good operating results but also to the recovery in working capital mainly coming from inventory and the impact of the foreign exchange rate on our dollar denominated portion of the debt.

Although there is an increase in the absolute value by the inclusion of Giant when compared to September 2016, inventories have been reduced in 228 million since December 2016 by the discipline throughout all divisions. We will continue these efforts until reaching optimal levels. It is worth mentioning that in the Metal Product Division where raw material increased 24 percent year over year, we managed to reduce inventory, volume, and value. The same consideration applies to BuildingSystems despite the start of roto-molding plastic roofing operations in Colombia, Peru, El Salvador, and Costa Rica, we managed to reduce inventories.

Lastly, in terms of cash flow, free cash flow before CAPEX totaled $861 million for the first quart 2017 which is equivalent to 90 percent of the EBITDA generation. Again, this was possible through cash flow generation through working capital which roughly compensated interest and tax payments. According to this performance, we will continue with our deleveraging objective aiming to get back to 2x times net debt to EBITDA ratio.

With this, I conclude my presentation. Thank you for your attention, and I am now going to turn the call back to the operator for Q & A. Please, operator.

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

Mauricio Serna: Hi. Good afternoon. Thanks for taking my questions, and congratulations on the results. Just a couple of things. Maybe, if you could provide a little bit of color on the pricing that you took or that you saw in local currency both in Mexico and U.S. cement operations. Also, if you could provide, it seems like we're already seeing improvements in Giant operations given the EBITDA figure that you provided. Just wanted to get a little bit more color on what are the targets for this year regarding how much like maybe the yearly EBITDA margin that you want to achieve and if you still keep this guidance for the year. Thank you.

Juan Francisco Kramer: Thank you Mauricio. Let me start with Mexico. As we mentioned, for the quarter we saw another price increase. We believe that this trend might continue given several factors. For one, demand continues to be strong. For second, the pricing in Mexico remains one of the lowest in all of Latin America and all the Americas in fact. Third, there has been investments done not only by us but other players that have a big impact of dollars. So, the industry is aiming to recover value. As we mentioned also, the startup of the capacity expansion is planned for the third quarter this year. We are already preparing the markets to allocate this volume with the startup of the grinding opeartions. Again, according to our expectations, margins are decreasing, because of this grinding operation. It is likely that they will go a little bit further down and the back up, aiming to go back to the levels of the previous year. Moving on to the U.S., Giant's integration is going according to plan. We are pleased with the progress that we have done. The first quarter is an example. We improved by more than 30 million pesos. It's EBITDA generation. It is a very seasonally affected operation. Mainly, on the northern operation, and again we are moving on with the CAPEX and the plan that we set to bring back the assets to industry standard. We are pleased with the way it is going. Our expectations for the rest of the year is demand will continue growing as it has in the previous years as well as pricing. I don't know if this completes your question.

Mauricio Serna: It's very helpful. I mean I just wanted to confirm and with regards to the pricing that we've seen in both markets. From what I've been hearing about the industry, it seems like Mexico is first quarter on a yearly basis, the prices were up high teens. I just want to know if this was also the case with you, and in the U.S. more in the mid-single digits. Also, maybe if you could comment a little bit on how is the utilization, capacity utilization evolving in Giant. I know one of the targets was to bring that to the levels of the industry.

Juan Francisco Kramer: Sure. Regarding prices in Mexico, yes, the analysis was in the high teens. As you know, not all the impact is reflected from day one, and also, it is important to mention the way that we add the price increase to the market is waiting for the price to be accepted, and then, we launch it with no withdrawals. For us, in the quarter, it was lesser than that, but it will depreciate in the following quarter. In the U.S., the pricing is moving in a lesser way. But we consider that the expectations for that 3% to 4% increase during the year is still there. Regarding capacity utilization, there has been no relevant changes in the U.S. operations given that we had already begin with the maintenance outages that has to be done to bring back the assets to par. During the first quarter, we even showed lesser volumes in the U.S. because of this.

Mauricio Serna: Okay, it makes sense. Thanks a lot for the call, and congratulations again on the results.

Fernando Ruiz Jacques: Thank you.

Juan Francisco Kramer: Thank you.

Operator: Thank you. Our next question will come from Juan Tavarez, Citi.

Juan Tavarez: Hi. Thank you. Good morning everyone. So, I guess maybe just to touch on the U.S. cement division again. Just to understand what drove your breaking even in EBITDA? Were there any other nonrecurring costs embedded in this quarter on that asset? If maybe, you could also give us a view of how to expect seasonality in the coming quarters. I know you mentioned the first quarter is the worst quarter, but I'm curious if some of this maintenance downtime extends into the second quarter and how we should think about the upcoming quarters on seasonality. Then last on Mexico, if you can just give us an update assuming the startup of that expansion project in the third quarter of this year, how much incremental volume should we expect this year from that operation? Thank you.

Juan Francisco Kramer: Thank you Juan. I'm not sure I understood your first question, so I will address the second and the third. Then, I will ask you to please rephrase your first question. So, regarding seasonality in the U.S., the first quarter is always the lowest in terms of volume, mainly effected by winter and snow. This year, we had a mild winter, so it is not one of the main reasons for lower volumes. The main reason for lower volumes, as I mentioned, is the outage. Then, the highest month or quarter in terms of demand, are third and the second and the fourth is the second worst. So, we will be showing this performance during the year. Again, the peak will be the third quarter. Going to the Mexican capacity increase, as you know, it is 1.5 million tons of capacity that we are adding. Of course, we are not planning to allocate the full volume within this year. But what we are already doing is bringing clinker from third parties, so when the plant starts operation, the clinker product starts, it will be partially allocated. I mean I'm not trying to give you specific numbers. You can expect that some similar trends what we did in the Palmar facility back in 2013. It is what you can expect that we will be doing this time. Also, it is important to mention that we will keep on with our strategy that is roughly quality, premium brand, and higher quartile of price.

Juan Tavarez: Okay, thanks. Just to follow up and rephrasing that first question. My question was more on when I compare to this last quarter in terms of what you generated out of the U.S. cement division, revenues were higher this time around, but you were breakeven on the EBITDA, and instead of actually generating EBITDA. I was curious on what was embedded there in costs. Were there nonrecurring factors or anything else that even though the revenues were higher, you had a negative EBITDA.

Juan Francisco Kramer: The main reason is the allocation of maintenance cost again, because of the outages. Electricity increased. That is partially affected our operations in the U.S., but the main reason is the cost of the outage.

Juan Tavarez: Okay, great. Thank you.

Juan Francisco Kramer: Thank you, Juan.

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

Cecilia Jimenez: Hi. Good morning. Thanks for taking my question. It's mainly a follow-up on the U.S. side. Could you give us a little more color regarding the EBITDA contraction and the operation in general in the U.S. If I take a look at your footprint according to the installed capacity, I believe you should have let's say a small gross of 3.5% for this quarter. I'm not sure where the EBITDA contractionis coming. Due to pricing or due margin contraction, if you can give us some color there. Also, when do you expect to see a turnaround point in the EBITDA operation in order to achieve the guidance you have given for this year? That will be it. Thanks.

Juan Francisco Kramer: Thank you Cecilia. In the U.S. for the BuildingSystems operation, the main change on the margin that we are showing is, because we are preparing again the market for the start of the idle facility in Indiana. As we mentioned, we have already reached capacity utilization levels that have accelerated the plan to reopen this facility. What we are doing in order to prepare the market is send product from the other two facilities to the Indiana region which implies higher logistics costs. Also, since we already begun with a CAPEX required for the reopening of the facility, we are already also beginning with the pre-operating expenses. Those are the main reasons.

Cecilia Jimenez: To make sure I said this correctly, I was particularly mentioning the U.S. cement division on the volumes. I was referring to the U.S. Cement rather than the BuildingSystem just to have it clear.

Juan Francisco Kramer: Thank you, Cecilia, for the clarification.

Cecilia Jimenez: Sorry, I should have started saying that.

Juan Francisco Kramer: So, I was talking about BuildingSystems. Going to cement, as we mentioned, we show lesser volume than the previous year because of the outages. Also, the operating cost in the U.S. was effected by these same outages. Now, in terms of demand and resource is the Portland Cement Association, the expectation is that demand will continue to grow at about 4% to 5% per year from 2017 all the way to 2022. That is CAGR, so it might be different in a yearly basis, but that is what we are seeing and expecting. The evolution on regaining customers is going very good. We are pleased with the progress, so everything is going I would say according to plan.

Cecilia Jimenez: Thank you. Is it reasonable to expect an EBITDA margin in the U.S. mid teens for this year as a whole after what you have seen so far?

Juan Francisco Kramer: I mean it will all depend on the evolution and the risk – I mean the successful benefit from the outages that we are doing. I mean the expectation might be a little bit higher than that, but I would say on a reasonable basis, high teens would be reasonable.

Cecilia Jimenez: Perfect, thanks.

Operator: Thank you very much. Our next question will come from Hernand Kisluck, MetLife.

Hernand Kisluck: Hello. Thank you for taking my questions. I have actually two questions, both regarding the leverage level. The first one will be where do you expect the level of debt and leverage to be by year-end, and how would you reach that number? Also, regarding the target of 2x times net debt to EBITDA, I would like to know if you expect to reach that through reduction of debt or an improvement in EBITDA or a mix of both?

Juan Francisco Kramer: Sure. Thank you for your question Hernan. On the leverage position, as you've seen we have already decreased from the last quarter last year. This mainly due from EBITDA generation, cash flow from working capital, mainly inventory and of course, there is the positive valuation in terms of currency exchange. For year-end, the expectation is varied. It will continue going down, and in the worst case scenario, it will take us about two years to get back to the 2.0 or below that. Again, that is the worst case scenario. The way that we will do it is operating results. We are, as I mentioned, what we are planning to do is to replace the short-term debt that we have now with a longer term, but there is no plan so far to pre-pay other portions of the debt.

Hernand Kisluck: Okay, thank you. And connected to that, and also connected to your plans for M&A that you mentioned during the remarks would you like to see a leverage ratio reaching 2x times. For example, your goal for again looking for growth opportunities, or it will depend on finding the right opportunity regardless of the level of leverage.

Juan Francisco Kramer: I mean that will be the ideal world, but our general M&A opportunities are for sure not in the best timing zone. So, as Fernando mentioned, for the time being, we are focused on digesting the Giant acquisition and the allocation of Tula expansion in cement in Mexico. There is no M&A or relevant M&A in the short term that we are foreseeing, but if a good opportunity shows, we certainly will move on. Again, without overleveraging, so the most likely scenario is that we do a combination of leverage and equity and use of cash.

Hernand Kisluck: Okay, thank you very much.

Juan Francisco Kramer: Thank you, Hernan.

Operator: Thank you. Our next question will come from Vanessa Quiroga from Credit Suisse.

Vanessa Quiroga: Yes, thank you. Hi. Good morning. My question is regarding Mexico cement. I'm not sure if missed this, because you maybe mentioned in the first part of the call. I was wondering if you can give us some details on what were the trends in volumes and prices for cement on Mexico in the first quarter. Thank you.

Juan Francisco Kramer: Hi Vanessa. Thank you for your question. Sure. Volume wise we are already showing volume increase because of the startup off the grinding operations in order to prepare the market. In a nutshell, what we are doing is buying clinker from third parties, grinding it, and selling it with our brand, of course, so when start the clinker operation from the capacity expansion that we are doing, this facility will be partially allocated since the beginning. That is the main idea. In terms of pricing, we are already also showing price increase probably in the lower level than the rest of the industry, because the way that we do price increases is wait for the price increase to be set in the market, and then move on. We will be seeing part of this price increase during the second quarter.

Vanessa Quiroga: Okay, that's very useful Juan. Also, regarding the work that you are doing to restart the operations in the facility of Allura that was closed. Can you tell what was the utilization that you had as of the fourth quarter or during 2016 of the other facilities.

Juan Francisco Kramer: Sure. Probably just another word on cement in Mexico. It is important to mention that this grinding operation is lowering the EBITDA margin. Moving on to the idle Indiana facility in the U.S. or BuildingSystems, the capacity utilization on the other facilities where it was already higher than 80%. It has already reached the level that we wanted to see in order to reopen Indiana. In this first quarter, it is already higher than that, because of a combination of this preparation of the market, but also from incremental volumes from local or the regions that these facilities cover in a normal way. It is important also to mention that as you know, we also send product from Central America to the U.S. market. This volume has also been increasing, so we are very happy with U.S. performance.

Vanessa Quiroga: That sounds great. Can you tell us when you expect that facility to start operations, and how long could the ramp up be for you to get to its potential in terms of margins?

Juan Francisco Kramer: Sure. The expectation is that this facility will open or will start commercial operations within the first quarter 2018. Then, the expectation is it will take about wo years, probably a little bit less than that with about three years to complete the ramp up.

Vanessa Quiroga: Okay, that's great. Thank you, Juan.

Juan Francisco Kramer: Thank you Vanessa.

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

Pablo Ricalde: Hi. I was wondering if you can assure us how are you seeing the competitive landscape in the U.S. BuildingSystem division, especially from James Hardie. It seems that he won market share, so I just want to check how are you seeing the competitive landscape there?

Juan Francisco Kramer: Thank you, Pablo for your question. What I can tell you regarding our operations is we have been expanding the volume that we sold, so in our perception yes, we have gained market share. The way that we have been doing this by following the detailed planning strategy that is based on the contract that is called go-to-market. In the third quarter last year, we took the steps that was planned for that timeframe, and we began sending to large builders. It is this piece of the strategy is taking root, and it is proving to be the right approach. We are moving on again with the planned strategy, and once we reach the milestones we have set, we will take the following steps.

Pablo Ricalde: Okay, perfect. Another question on pricing in U.S. cement. It seems that the industry grew around 2.2 percent sequentially. I'm just wondering if you grow on the same magnitude like that?

Juan Francisco Kramer: I mean as you know, there is several regions within the U.S. Not all operations perform in the same way. There is very different dynamics in the coasts, both East and West than in the Central region. So, probably the figures that you are seeing are the average of the country. For the East Coast, that is the region we are focused, there was a variation in pricing that is a little bit below that. The expectation will continue to move during the year. You have to also bear in mind that our plan includes bringing our prices to the industry levels, so that might play in additional pricing for ourselves.

Pablo Ricalde: Okay, perfect. Thanks.

Juan Francisco Kramer: Thank you, Pablo.

Operator: Thank you. Our next question will come from Pablo Carrillo, BBVA.

Pablo Carrillo: Thank you. I would just like to ask if you could offer a little bit more color on what your targets for the end of the year in net debt levels are and if you could also provide a little bit more information. I know that's asking a lot. But with the prices in Cemento Fortaleza as well as the volume increase that you have for the quarter, and how you see it for the rest of the year. Thank you.

Juan Francisco Kramer: Thank you. Let me go for the first question. That is if we have a specific target for net debt to EBITDA. I mean the trick answer is there is no specific figure, but certainly, the target is to continue lowering and getting closer to the 2x times that is our final target or below that. For this year, certainly we see around 2.5, but again, it is not a set target. In terms of the cement capacity expansion in Mexico, as we mentioned we registered the grinding operation, so when the facility starts up, it is partially allocated. The last time that we did a Greenfield, that is the Palmar facility, it took us a little bit less than two years to complete the ramp up to 100 percent capacity utilization. For this time, we are aiming for some two to two and a half years, so you can look back on volume for 2013, and you will have a very clear picture of what we are trying to do.

Pablo Carrillo: Thank you very much.

Juan Francisco Kramer: Thank you.

Operator: Thank you. Our next question will come from Luis Delatorre, Morgan Stanley.

Luis Delatorre: Hi everyone. Thanks for taking my question. I think you already answered most of my questions. I just want to make sure I understood something correctly. I think you said the 9 percent increase in EBITDA in the BuildingSystem division was mostly attributed to the U.S. So, if you could just confirm that I heard that correctly. Thank you.

Juan Francisco Kramer Thank you, Luis. Yes, in absolute figures, yes, it is mainly driven by the performance of the fleet. Also, it is important to highlight that Central America and the Mexican operations are also performing very good, and the region that was effected in a negative way was the Andean region, and this was mainly because of the tax increase in the VAT for all populations, so it kind of created a constraint on purchasing power that is being reflected on demand.

Luis Delatorre: Okay, great. Thank you very much.

Juan Francisco Kramer: Thank you, Luis.

Operator: Thank you. Our next question will come from Aaron Holsberg, Santander.

Aaron Holsberg: Yes, good afternoon. The question about your – hello?

Juan Francisco Kramer: Hello, Aaron. Yes, we hear you.

Aaron Holsberg: Great. Just a question about your debt. I noticed in dollars both your growth and your net debt were up about $40 million. I'm trying to figuring out why. If I look at your peso debt and appreciating 11 percent, that explains about $15 million of it. Is there cash outflow I'm ont seeing.

Juan Francisco Kramer: I mean let me walk you through. The debt valuation was mainly, because we took or reduced part of the ECA facility that we do with Santander. We took it from that $8.9 million. Then, we also recognized almost $2 million debt from a domestic facility in the U.S, or working capital of Giant. Also, we paid almost $2 million on the ECA factility that we have with HSBC.

Aaron Holsberg: Okay. But again, your debt in dollars went up from $821 million to $864 million.

Juan Francisco Kramer: Probably, you are comparing with September, or you are comparing with December.

Aaron Holsberg: December.

Juan Francisco Kramer: No, the rest of the valuation comes from currency fluctuation. There is nothing more.

Aaron Holsberg: Okay. I would like to discuss this offline later.

Juan Francisco Kramer: Sure.

Aaron Holsberg: Thank you.

Juan Francisco Kramer: Thank you Aaron.

Operator: Thank you. At this time, we have no further questions in the queue, so I would like to turn this conference back to Mr. Ruiz Jacques for closing remarks.

Fernando Ruiz Jacques: Than you operator. I would like to conclude by highlighting the fact that our efforts of strengthening our corporate governance and our focus on value creation has enable Elementia to become a more institutional, organized and even more structural entity. I see a great future for Elementia, and I can assure you that the Power of Oneness strategy will continue to deliver our steadfast and desired performance. Once again, thank you for all your interest in Elementia and have a nice rest of the day. Thank you.

Operator: Thank you very much. Ladies and gentlemen, at this time, this conference is now concluded. You may disconnect your phone lines and have a great rest of the week. Thank you.

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