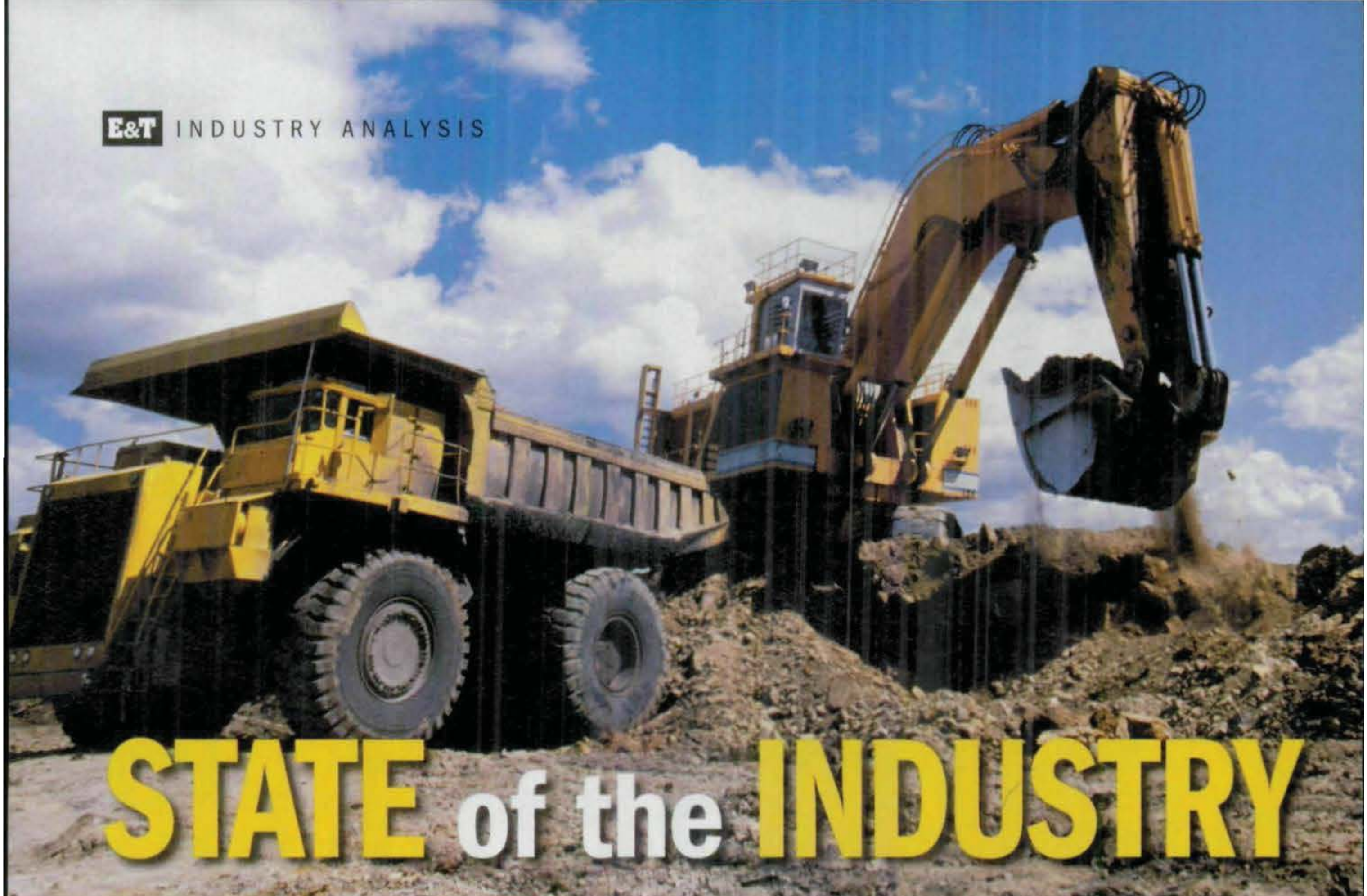


STATE of the INDUSTRY

The economy is sending mixed messages, but the overall outlook for the aggregates industry in 2008 is mostly positive.

BY DARREN CONSTANTINO

Much of the economic focus in 2007 was on the residential-housing market. There is no question that the slump in housing had a negative effect on many aggregates producers, and the residential sector is not expected to bounce back soon. That slump is partly responsible for the decrease in aggregates production in the first half of 2007. Producers report that shipments of crushed stone, sand and gravel dropped about 17 percent in the first half of the year compared with the first half of 2006.

All is not gloom and doom, however.

The top aggregates producers continue to announce record earnings, and federal funding for transportation infrastructure continues to be strong through SAFETEA-LU. A bridge collapse in Minneapolis has focused increased attention on the nation's need for infrastructure improvements, freeing moneys for projects in certain states and locales.

Another boost for industry economics is the appearance of two large industry trade shows in 2008. ConExpo-Con/Agg, held once every three years, is the largest trade show in the Western Hemisphere in terms of exhibit space. The event attracts thousands to Las Vegas, and the 2008 event has already broken records for size.

MINExpo also takes place in 2008. This show, held once every four years, is another industry gathering in Las Vegas, and brings with it some of the largest mobile equipment in the world.

The two shows have many equipment manufacturers planning big things for 2008, and global sales are expected to be strong for those companies next year.

Aggregates production

An estimated 389 million metric tons (Mt) of crushed stone were produced and shipped for consumption in the United States in the second quarter of 2007, a decrease of 14.9 percent compared with that of the same period of 2006. The estimated output of crushed stone produced for consumption in the first six months of 2007 was 643 Mt, a 17.8 percent decrease compared with that of the same period of 2006.

The estimated U.S. output of construction sand and gravel produced and shipped for consumption in the second quarter of 2007 was 292 Mt, a decrease of 14.0 percent compared with that of the same period of 2006. The estimated output of construction sand and gravel produced for consumption in the first six months of 2007 was 471 Mt, a 15.9 percent decrease compared with that of the same period of 2006.

An estimated 681 Mt of total aggregates were produced and shipped for consumption in the United States in the second quarter of 2007, a decrease of 14.2 percent compared with that of the same period of 2006. The estimated output of aggregates produced for consumption in the first six months of 2007 was 1.11 billion metric tons, a 16.9 percent decrease compared with that of the same period of 2006.

By regions

The estimated crushed stone sold or used in the United States in the second quarter of 2007 decreased in eight of the nine geographic divisions. The largest decreases were recorded in the West South Central (24.8 percent), South Atlantic (24.2 percent), and West North Central (20.4 percent) divisions. The only increase in the production of crushed stone was recorded in the Mountain (5.1 percent) division.

The leading geographic divisions in the production of crushed stone sold or used in the second quarter of 2007 were the South Atlantic with 91.3 Mt, or 23.5 percent of the U.S. total, followed by the East North Central with 72.4 Mt, or 18.6 percent, and the Middle Atlantic with 50.6 Mt, or 13.0 percent.

The estimated construction sand and gravel sold or used in the United States in the second quarter of 2007 decreased in eight of nine geographic divisions. The largest decreases were recorded in West North Central (24.3 percent), the South Atlantic (21.3 percent), and the East North Central (19.5 percent) divisions. The only increase in the production of construction sand and gravel was recorded in the New England (7.8 percent) division.

The leading geographic divisions for the total amount of construction sand and gravel sold or used in the second quarter of 2007 were the Mountain with 74.1 Mt, or 25.4 percent of the U.S. total, followed by the Pacific with 53.0 Mt, or 18.2 percent, and the East North Central with 50.3 Mt, or 17.2 percent.

The estimated U.S. output of aggregates sold or used in the second quarter of 2007 decreased in all of the nine geographic 2 divisions. The largest decreases were recorded in the South Atlantic (24.0 percent), the West South Central (23.3 percent), and the West North Central (21.7 percent) divisions.

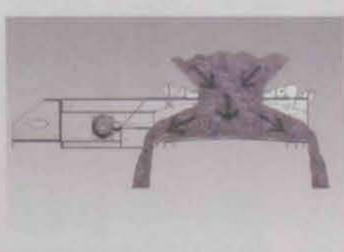
The leading geographic divisions for the total amount of aggregates sold or used in the second quarter of 2007 were the East North Central with 124 Mt, or 18.2 percent of the U.S. total, followed by the South Atlantic with 111 Mt or 16.3 percent, and the Mountain with 92.5 Mt, or 13.6 percent of the U.S. total.

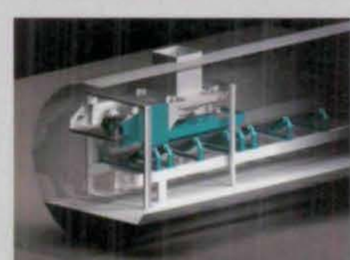
The estimated totals by quarters for the geographic divisions do not include Alaska and Hawaii.

By states

The estimated production-for-consumption of crushed stone in the second quarter of 2007 decreased in 38 of the 47 states that were estimated, with the largest percentage decreases occurring in South Dakota (55.1 percent), Wyoming (42.0 percent), Nebraska (40.5 percent), South Carolina (32.4 percent), and North Carolina (31.9 percent). The five leading states, in descending order of production, in the production-for-consumption of crushed stone in the second quarter of 2007 were Pennsylvania, Texas, Florida, Georgia, and Illinois. Their combined total production-for-consumption represented 30.5 percent of the U.S. total.

The production-for-consumption of construction sand and gravel decreased in 35 of the 46 states that were estimated, with the largest decreases occurring in





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Arkansas (68.7 percent), Nevada (47.6 percent), Minnesota (38.4 percent), Florida (33.9 percent), and South Dakota (33.2 percent). The five leading states, in descending order of production, in the production-for-consumption of construction sand and gravel in the second quarter of 2007 were California, Arizona, Texas, Michigan, and Washington. Their combined total production-for-consumption represented 34.6 percent of the U.S. total.

The production-for-consumption of total aggregates in the second quarter of 2007 decreased in 40 of the 46 states that were estimated, with the largest decreases occurring in South Dakota (49.6 percent), Nebraska (38.5 percent), Wyoming (35.6 percent), Nevada (33.0 percent), and North Carolina (30.8 percent). The five leading states, in descending order of production, in the production-for-consumption of aggregates in the second quarter of 2007 were California, Texas, Pennsylvania, Florida, and Ohio. Their combined total production-for-consumption represented 26.9 percent of the U.S. total.

Vulcan Materials

Vulcan Materials Co. announced record third quarter earnings from continuing operations of $144 million, or $1.47 per diluted share. Earnings from continuing operations in the third quarter of 2007 include expenses of $3 million, or $0.02 per diluted share, related to the pending acquisition of Florida Rock Industries. Earnings from continuing operations in the third quarter of 2006 were $1.44 per diluted share and included a gain of $0.03 per share resulting from an increase in the carrying value of the ECU earn-out. Net earnings, including a $0.09 per diluted share loss referable to discontinued operations, were $1.38 per diluted share compared to $1.39 per diluted share in the prior year's third quarter.

Don James, Vulcan's chairman and CEO, said, "Our aggregates-focused business demonstrated remarkable resiliency in the face of a sharp downturn in residential construction. We achieved record earnings from continuing operations for the third quarter and for the year-to-date, and we are on track to report record earnings for the full year 2007. Our cash generation continues to be strong with record cash flows from operations up 16 percent year-to-date.

"The attractive long-term attributes of the aggregates business have added value for our shareholders through different economic cycles. Our strategic geographic footprint and diverse end-use markets, in conjunction with the recognition of the increasing value of permitted reserves in fast-growing metropolitan markets, have enabled us to grow earnings even as aggregates volumes have declined due to reduced levels of residential construction activity."

Operating results

Gross profit and operating earnings increased from the prior year owing to higher earnings from aggregates and asphalt. Gross profit as a percentage of net sales increased to 33 percent from 32 percent in the prior year despite lower shipments and production levels in all major product lines. Third quarter net sales approximated the prior year's third quarter net sales as higher aggregates and asphalt sales were offset by lower concrete sales.

Aggregates revenues and earnings increased from the prior year's levels due to higher pricing. Aggregates prices increased 12 percent from the prior year's third quarter, more than offsetting the earnings effects of an 8 percent decline in aggregates shipments. In response to lower demand, inventory levels in the third quarter were reduced from the previous quarter by lowering production levels. Costs of sales during the quarter were higher due mostly to the effects of lower production levels and increased costs for energy, parts and supplies.

The quarter's results include ap-

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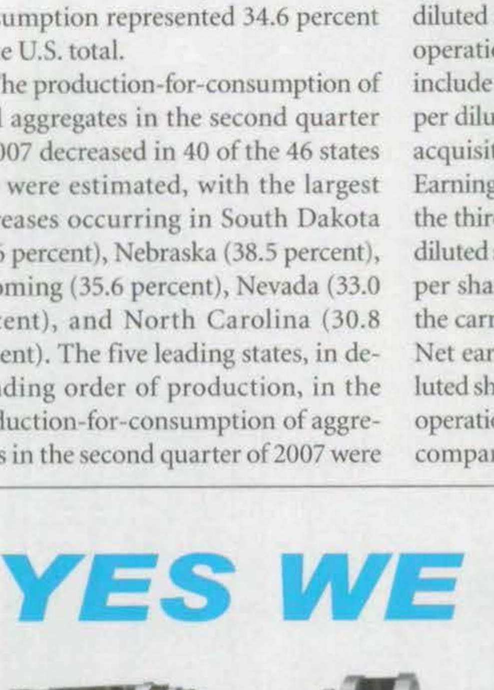

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proximately \$0.03 per diluted share in charges associated with the closure of two former production sites and provisions for outstanding legal matters at two facilities.

Discontinued operations posted a loss of \$9 million, or \$0.09 per diluted share in the third quarter, related to the settlement of claims against the company's former chloralkali chemicals business unit which was divested in June 2005. Discontinued operations in the prior year's third quarter recorded a loss of \$5 million, or \$0.05 per diluted share. During the third quarter of 2007, the company received the final payment under the ECU earn-out of \$22 million, bringing the cumulative cash receipts to the \$150 million cap.

Net cash provided by operating activities increased \$58 million to \$421 million during the nine months ended September 30, 2007. All results are unaudited.

Outlook

Commenting on the outlook for the remainder of 2007, James said, "We now expect to close the pending merger with Florida Rock Industries during the fourth quarter of 2007. With respect to Vulcan's legacy business, pricing for our products remains strong. We expect aggregates prices will increase 12 to 13 percent for the full year. Spending for private nonresidential and public infrastructure construction continues to grow, somewhat mitigating the steep decline in residential construction. Predicting the timing of a stable level for residential construction activity continues to be a challenge. We believe aggregates volumes in the fourth quarter of 2007 will continue to be hampered by weak residential construction activity resulting in a full year decline of approximately 9 to 10 percent as compared with shipments in 2006.

"Our projected record earnings from continuing operations in 2007 will cap a remarkable year for Vulcan and our shareholders, and the pending acquisition of Florida Rock Industries makes us even more optimistic about the future of our business. Although the weakness in residential construction will continue to affect shipments into that end use market, we believe that price trends in aggregates will continue to be favorable. Moreover, the broad use of aggregates throughout the nation's economy should continue to contribute to relatively stable growth in demand over the long term.

"We expect our fourth quarter financial results to include Florida Rock for the post-closing portion of the quarter. However, to date, access to Florida Rock's financial and operational information has been limited and we are unable to project the financial results from Florida Rock for this stub period. Accordingly, we are not issuing specific earnings guidance for the remainder of

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the year. We expect to provide annual earnings guidance for 2008 for Vulcan, including Florida Rock, when we issue fourth quarter 2007 earnings in February 2008."

Martin Marietta Materials

Martin Marietta Materials Inc. announced record net sales, net earnings and earnings per share for the third quarter and nine months ended September 30, 2007.

Stephen P. Zelnak Jr., chairman and CEO of Martin Marietta Materials, said, "We are extremely pleased with our record third quarter results, particularly given the current economic environment. Heritage aggregates pricing increased 8.6 percent, contributing to a 200-basis-point increase in our heritage aggregates product line gross margin excluding freight and delivery revenues and a 290-basis-point improvement in consolidated operating margin excluding freight and delivery revenues. Our record results were achieved despite a greater than 4 percent decline in aggregates volume and an increase in production costs resulting from operating leverage and inventory control.

"Pricing improvements continued to hold in the aggregates business. As expected, the rate of growth in aggregates pricing slowed during the quarter in response to the effect of more limited 2007 mid-year price increases, which reflects reduced demand over the past six quarters. However, even with weaker demand, the rate of pricing improvement continues to be well above historic norms for the business, which reflects the intrinsic value of well-located, zoned and permitted aggregates reserves.

"While weather continued to affect performance in the West Group during the quarter, the group finished the quarter with volumes up over 2 percent and showed significant earnings improvement over the prior-year period. July 2007 was the third wettest July in recorded weather history in Texas and the historic rainfall affected both shipments and operations. However, as dry, hot days began to outnumber wet days in mid-August and September, volume for commercial and infrastructure projects began to return to normal levels.

"The Raleigh-Durham and Greensboro, N.C. areas, as well as Virginia, had positive volume growth for the quarter. Volumes declined in most other regions of the country, reflecting the continued diminishment of residential construction coupled with a slowing in the rate of growth of commercial construction, notably office and retail space.

"Our profits also reflected strict adherence to our disciplined control of costs. For the quarter ended September 30, 2007, selling, general and administrative expenses was $36.4 million versus $35.3 million in the 2006 period and, as a percentage of net sales, declined slightly to 6.6 percent.

Outlook

Zelnak said, "Based upon our strong year-to-date performance, we continue to have a positive outlook for the remainder of the year. Aggregates product line pricing is expected to increase 10 percent to 11 percent for the year; however, aggregates shipments are becoming more difficult to estimate. We currently expect aggregates volume to decrease 6 percent to 8 percent for the year with the degree of decline predicated on continued correction in the residential construction market, in addition to slower growth in commercial construction.

"We believe certain commercial construction, notably office and retail space, is exhibiting a cautionary pause in activity in some areas as developers digest the impact of the current credit markets on construction and development plans. Capacity-related, industrial and distribution-related construction remains in a solid growth pattern. Infrastructure spending is expected to remain positive, although rising construction and materials prices have made projects more costly.

"Against this backdrop, we currently expect net earnings per diluted share for the fourth quarter to range from $1.37 to $1.72 and our range for the year is $6.10 to $6.45."

The 2007 estimated earnings range includes management's assessment of the likelihood of certain risk factors that will affect performance within the range. The level of aggregates demand in the corporation's end-use markets and the management of production costs will affect profitability in the aggregates business.

Risks to the earnings range are primarily volume-related and include a greater-than-expected drop in demand during the fourth quarter as a result of the continued decline in residential construction, a pause in commercial construction as developers digest the impact of the current credit markets on construction and development plans, delays in infrastructure projects, or some combination thereof.

Financial highlights

Net sales for the quarter were $548.9 million, a 4 percent increase over the $527.4 million recorded in the third quarter of 2006. Earnings from operations for the third quarter of 2007 were $136.9 million compared with $116.0 million in 2006. Net earnings of $90.3 million, or $2.12 per diluted share, represented a quarterly record and increased 19 percent versus 2006 third-quarter net earnings of $76.2 million, or $1.65 per diluted share.

Net sales for the first nine months of 2007 were $1.497 billion compared with $1.467 billion for the year-earlier period. Year-to-date earnings from operations increased 15 percent to $331.5 million in 2007 versus $288.4 million in 2006. The corporation posted an after-tax gain on discontinued operations of $1.0 million in 2007 and an after-tax loss of $0.2 million in 2006. For the nine-month period ended September 30, net earnings were $206.2 million, or $4.73 per diluted

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share, in 2007 compared with net earnings of $183.0 million, or $3.93 per diluted share, in 2006.

Net sales for the aggregates business for the third quarter were $509.7 million, a 4 percent increase over 2006 third-quarter sales of $491.5 million. Aggregates pricing at heritage locations was up 8.6 percent while volume decreased 4.1 percent. Including acquisitions and divestitures, aggregates pricing increased 8.5 percent and aggregates volume declined 4.3 percent.

Earnings from operations for the quarter were $134.2 million in 2007 versus $121.0 million in the year-earlier period. Year-to-date net sales for the aggregates business were $1.380 billion versus $1.353 billion in 2006. Earnings from operations on a year-to-date basis were $333.6 million in 2007 compared with $291.8 million in 2006. For the nine-month period ended September 30, 2007, heritage aggregates pricing increased 12.1 percent, while volume was down 8.8 percent. Including acquisitions and divestitures, aggregates average selling price increased 12.0 percent while volume declined 9.0 percent.

Construction to weaken, equipment sales to rise

McGraw-Hill Construction, part of The McGraw-Hill Companies, released its 2008 Construction Outlook, which forecasts a drop in overall U.S. construction spending for next year, fueled by tighter lending conditions and weaker job growth. Against this backdrop, the level of construction starts is expected to decline 2 percent, to $614 billion, following an 8 percent decline predicted for 2007.

"The credit crunch that emerged at mid-2007 continues to be a major concern for construction and the overall economy," said Robert A. Murray, vice president, economic affairs, McGraw-Hill Construction. "As a result, we're now predicting downturns in the previously resilient multifamily and commercial segments, as well as continued weakness in single-family home construction."

There are some positives for the market in 2008, Murray noted. Transportation projects should continue to see moderate growth amid a renewed emphasis on infrastructure maintenance and upgrades, particularly in the aftermath of the I-35W bridge collapse in Minneapolis. Financing from public sources will stay generally supportive, and the growth of public-private partnerships also offers the potential for greater funding. Finally, growth in "green" construction practices means that the demand for sustainable building design and materials will continue to rise.

Highlights of the 2008 Construction Outlook include:

- Single-family housing will weaken further, given the large inventory of unsold homes and diminished loan availability to homebuyers. A 3 percent drop in dollar volume is expected, corresponding to another 6 percent decline in the number of units.
- Multifamily housing will slide 8 percent in dollars and 11 percent in units, following steeper declines in 2007. Condominium development is being dampened by greater scrutiny from lenders as well as reduced homebuyer demand.
- Commercial buildings will slip 6 percent in dollar volume and 11 percent in square feet. Tighter lending standards and the slower absorption of space will contribute to a measured downturn for stores, warehouses, offices, and hotels.
- Institutional buildings will rise 4 percent in dollar volume, while square footage edges up 1 percent. School construction is expected to strengthen again after its 2007 pause, and transportation terminals are also expected to grow. The other institutional structure types, including healthcare facilities, will see a modest loss of momentum.
- Manufacturing buildings will retreat 11 percent in dollar volume, after a 40 percent surge in 2007 that featured the start of several unusually costly projects plus a large number of ethanol

plants. Square footage for manufacturing buildings in 2008 is expected to advance 5 percent.

■ Public works construction will move up 3 percent, following the 5 percent gain in 2007. Highways and bridges are likely to receive greater funding when fiscal 2008 appropriations are approved. The environmental project types should be up slightly next year, but site work connected to single-family development will settle back.

■ Electric utilities will see another modest decline in percentage terms, but essentially this project type is holding at the enhanced level achieved in 2006.

Growth led by global sales

The construction equipment manufacturing industry expects overall U.S. and Canadian business to remain flat through the end of 2007 but rebound in 2008, while sales to worldwide markets should continue strong through 2007 and into the next year, according to the annual forecast of the Association of Equipment Manufacturers (AEM).

Each year, AEM surveys its construction equipment manufacturer members about expected sales of the machines that build, repair and maintain America's and the world's roads, bridges, dams, houses, offices, schools and other public and private infrastructure.

In the latest AEM Outlook survey, overall construction equipment demand by year-end 2007 is predicted to decline 1.9 percent in the United States and remain flat in Canada at minus 0.1 percent, while worldwide business is anticipated to increase 9.9 percent.

In 2008, growth is expected in the United States, Canada and worldwide, with the biggest gains in global markets – an increase of 2.8 percent for the United States and 2.9 percent for Canada, and growth in worldwide markets of 8.0 percent.

Commentary on survey

The AEM Outlook survey asked respondents to rank the influence of several factors on future construction equipment sales. As expected, the impact of the housing slump was a key factor, as well as the state of the general economy, including interest rates and credit availability. Adequate transportation funding will also have a major impact on the business of many, according to the survey, as will rental company demand. Construction machinery manufacturing is export intensive, and the strength of the dollar against other currencies is also expected to affect business growth. Machinery makers also cited commodity shortages and prices, including steel and energy.

Information for this article courtesy of U.S. Geological Survey, McGraw-Hill Construction, Association of Equipment Manufacturers, Vulcan Materials and Martin Marietta Materials.

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