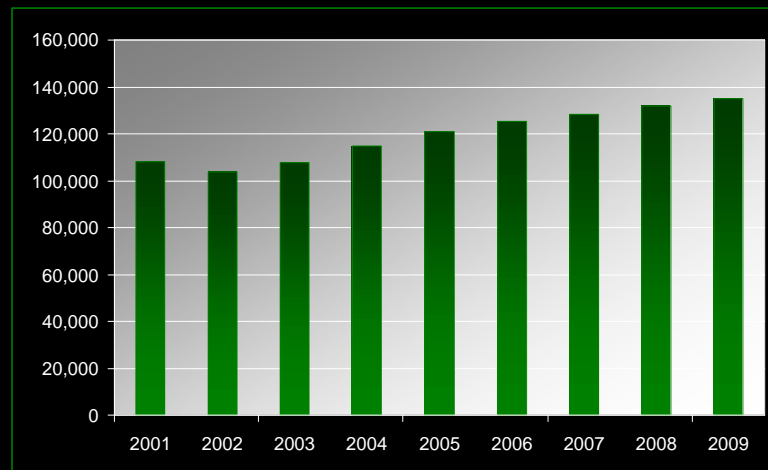


Overview

The near-term outlook for cement market remains positive. While mortgage rates are expected to rise, the decline in residential consumption is expected to be modest although the downside risks are mounting. Keep in mind that the expected declines will be coming off record 2005 residential cement consumption of 38.5 million metric tons (mmt). Furthermore, gains in nonresidential and public cement consumption are expected to more than offset the marginal declines in residential. Finally, PCA expects the rebuilding of New Orleans will begin in earnest during the second half of 2006 – adding further strength to the near-term outlook. Cement consumption is expected to reach 120 mmt in 2005 and 125 mmt in 2006, reflecting growth of 5.2% in 2005 and 3.6% in 2006.

Fall 2005 Forecast: Total Cement Consumption

(000) metric tons

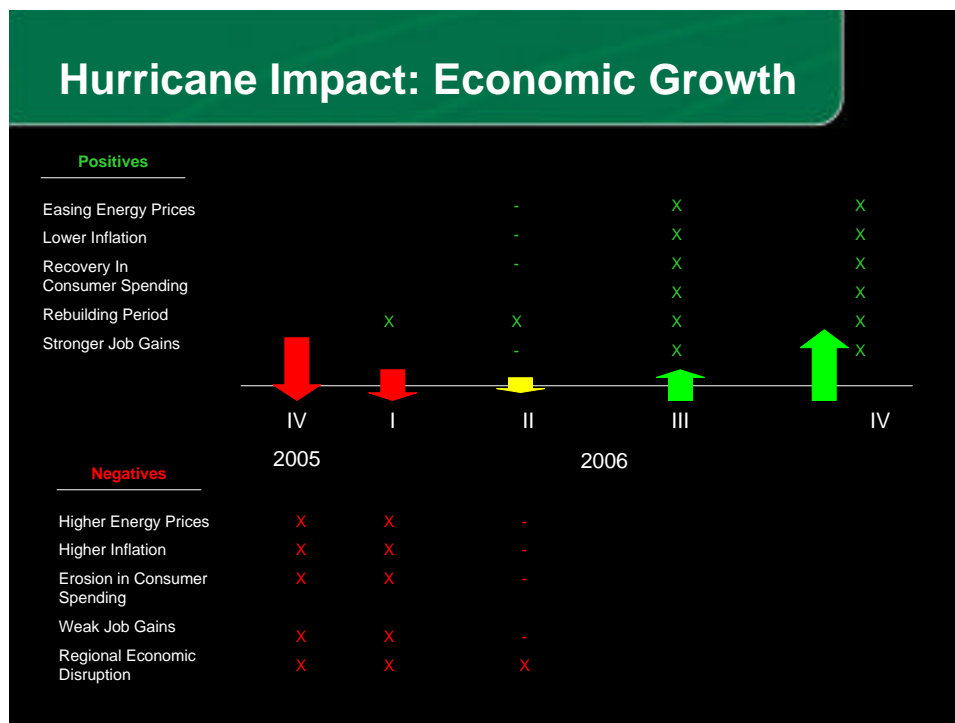


Beyond 2006, cement consumption is expected to grow from roughly 125 mmt in 2006 to more than 140 mmt in 2009 – an addition of 15 million metric tons and reflecting an average annual growth rate of 2.5% during 2007-2009. This growth is expected to be achieved despite an economic scenario that is slightly more hostile than our previous forecast. PCA believes that the recent hurricanes may have served as a trigger point to unleash a scenario that contains higher oil prices, rising inflation, and rising interest rates. While the magnitude of these changes is relatively modest, overall economic growth rates during the 2007-2009 period are roughly 30 to 50 basis points lower than previously projected.

Outlook: 2006

In the wake of the hurricanes, the economic forecasting community scrambled to adjust projections. The consensus of economic forecasters suggest that economic activity will be depressed during the fourth quarter of 2005 as higher energy prices, the cessation of building activity, and job loss in hurricane-affected areas adversely affect economic growth. Most forecasters project a 50 to 80 basis point decline in current quarter GDP growth compared to previous estimates. Most macroeconomic forecasts suggest that the rebuilding of hurricane-affected areas will begin in earnest during the first quarter of 2006. Additionally, the consensus of forecasts suggests the hurricane induced boost to energy prices will dissipate rather quickly – setting the stage for more robust economic growth conditions during the second half of 2006. The stimulatory impact on national GDP arising from rebuilding activity is largely depleted by the end of 2006. On average, post hurricane estimates of real 2006 GDP growth appear to have been adjusted upward by roughly 40 to 60 basis points. No longer term economic impacts appear to be incorporated into projections.

While PCA agrees with certain aspects of this scenario, our outlook is substantially different – both in the near and longer term. First, while rebuilding activity in Florida, Alabama, as well as parts of Mississippi and Louisiana will begin in the first quarter, these areas will have a relatively modest impact on national GDP. PCA does not expect the rebuilding of New Orleans to begin in earnest until the second half of 2006. Even then, the rebuilding process will not be completed in a short time period. PCA expects a five year rebuilding process. This assumption spreads out and diminishes the near-term positive impacts associated with rebuilding New Orleans.

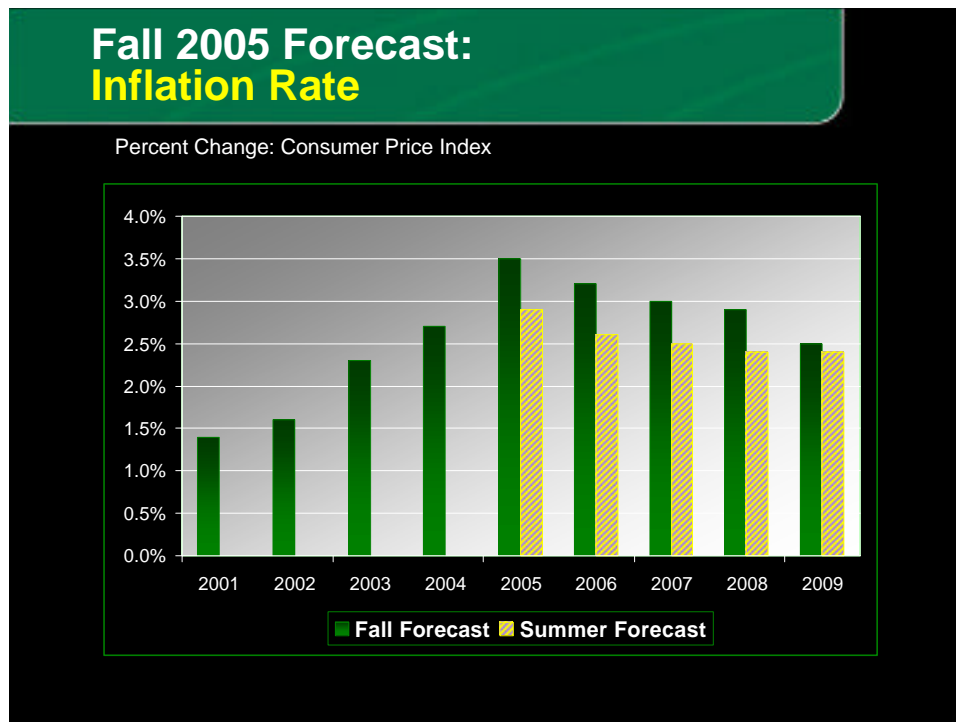


In addition, PCA expects the adverse energy conditions created by the hurricanes will not dissipate quickly. According to government estimates, home heating fuel prices are expected to increase 30% to 50% over year earlier levels – levels which were already rather high. Home heating in the northern areas of the United States are not distributed evenly by month. Roughly 48% of annual home heating bills materialize in the first quarter winter months. This, combined with the large price increases expected for home heating, imply that a significant adverse impact on non-energy household will materialize in the first quarter. This implies a rather large adverse impact on consumer spending growth during the first quarter may materialize.

The combination of a later start in New Orleans' rebuilding construction and the slow dissipation in high energy prices in the context of winter weather conditions suggests that economic growth will be depressed during the first quarter of 2006 – in contrast to the consensus of forecasters' expectation of accelerated first quarter growth.

Outlook: 2007-2009

In contrast to the consensus of forecasters PCA believes that longer term adverse impacts will weigh on economic growth rates – particularly during the 2007-2009 period. These adverse impacts have arisen from the hurricanes as well as other trends that were in place prior to the storms.



Stronger Inflation Outlook

PCA expects inflation will run stronger throughout the forecast horizon than previously expected. Higher inflation estimates are based upon:

- ✓ A higher oil price scenario,
- ✓ The ramping up of labor costs
- ✓ Higher inflationary expectations
- ✓ A weak dollar
- ✓ Rising transportation costs
- ✓ Tight market conditions among selected commodities and skilled labor sectors.

The following explains PCA's inflation assessment.

Higher Oil Price Outlook: Clearly oil and natural gas supply disruptions caused by the hurricanes caused a run-up in energy prices – adding roughly \$10 per barrel over pre-hurricane levels. These adverse impacts are expected to be temporary and completely dissipated by early-to-mid 2006.

It is important to recognize, however, that significant structural global factors were at work to push up energy prices before the hurricanes. Through July 2005 (pre-hurricane), the price of West Texas intermediate oil stood 71.5% higher than January 2004 levels. The increases reflect sporadic supply disruptions, OPEC policy as well as tremendous growth in demand arising from China (now accounting for roughly 10% of world oil demand). These structural global conditions are expected to continue into the future – softening the expected decline in oil prices.

Furthermore, during the past year OPEC has increased oil supply to help soften the adverse impact on world economic growth. To a certain extent, therefore, OPEC had a certain ability to constrain the rise in oil prices. According to various reports, the ability of OPEC to increase supply further is nearly non-existent. This implies that going forward world energy demand arising from economic growth cannot be met with substantial increases in OPEC supply. The ability of OPEC to moderate rising world oil prices in the near term is likely to be reduced.

These factors have led PCA to raise its oil price projections. Oil prices are expected to run roughly \$3 per barrel higher than in our summer forecast projections. The higher oil price scenario will add to projected inflationary conditions in the United States.

While the level of oil prices has been raised throughout the forecast horizon, PCA expects oil prices will recede throughout the forecast horizon. Slower world economic growth will result from higher oil prices, which in turn will lead to a moderation in world demand. At the same time conservation efforts will intensify and new sources of supply will come into play prompting an overall decline in prices.

Weaker Dollar Outlook: Since mid-2002 the U.S. dollar has incurred uninterrupted declines averaging roughly a 4% per year decline on a composite trade weighted basis. The near-term outlook for the U.S. dollar reversing its trend is not good. The U.S. trade deficit currently stands at a record high of \$732 billion annual rate. Despite rather strong increases in U.S. export activity, imports are recording even stronger gains. Higher oil prices, now incorporated into PCA's forecast, will act as an additional depressant to the dollar's outlook. A weaker dollar makes imported goods more expensive – adding to inflationary pressures in the United States

Rising Labor Costs: From April 2000 through August 2003 the United States shed 2.7 million jobs. At the same time, the workforce continued to grow creating labor market conditions which could best be termed an “employer's” market. Under such conditions, workers realized rather meager pay increases. Average wage and salary increases declined from an annual average of 4% in 2000 to roughly 2% in 2004. Sustained economic growth has led to a turnaround in hiring, with more than 4.2 million new jobs created during the past two years. Not only has all job losses incurred during the recession been recouped, but a significant absorption on new entrees has materialized.

The labor markets have tightened considerably. With the prospects of continued economic growth and further job creation, PCA expects the labor markets will continue to tighten. This implies that the labor market is gradually turning from an “employer's” market to an “employee's” market. Under such conditions, wages are expected to accelerate (even in the absence of inflation). The tightening of labor market conditions coincide with a run-up in inflation – potentially adding to expected worker wage gains. Recent statistics point to a marked increase in wage and salary gains rising from an annual increase of 2% in 2004 to 3.3% in October 2005. PCA expects this increasing trend will continue throughout the forecast horizon. Accelerated wage gains are expected to coincide with a slowdown in productivity gains that have been realized during the last several years – providing diminished relief rising labor costs.

Stronger Interest Rate Outlook

PCA expects interest rates will run higher throughout the forecast horizon than previously expected. Higher interest rate estimates are based upon;

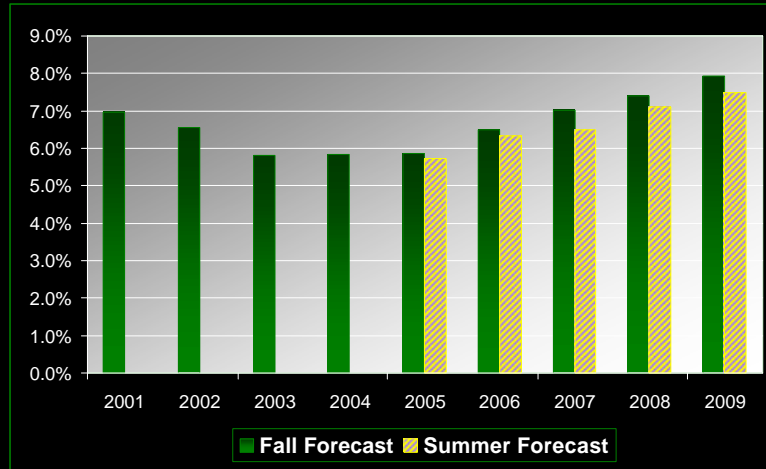
- ✓ A higher inflation scenario
- ✓ Tighter monetary policy
- ✓ Larger federal deficits
- ✓ A slowdown in growth of foreign purchases of United States' financial instruments.

The following explains PCA's interest rate assessment.

Higher Inflation Premiums: Interest rates typically carry an inflation premium to insure the lender a rate of return net of inflation. Usually the longer the maturity of a financial instrument, the higher the inflation premium. According to PCA's foregoing assessment of

Fall 2005 Forecast: Mortgage Rate

30 Year Fixed (%)



inflation, the inflation premium attached to interest rates is expected to be higher. This is particularly true for financial instruments with longer maturities such as mortgage rates.

Tighter Monetary Policy: The number one goal of the Federal Reserve is to ensure price stability. Higher inflation rates will prompt the Federal Reserve to pursue a more aggressive tightening of monetary policy compared to our summer forecast. This conclusion is even more likely when one considers that the new incoming Federal Reserve Chairman Bernanke is a supporter of implementing inflation targets as a guide to monetary policy actions. If imposed, the inflation targets will presumably be set near 2%, well below the expected inflation during the 2007-2009 period. A tightening in monetary policy implies a higher interest rate structure – particularly on the short end of the maturity spectrum.

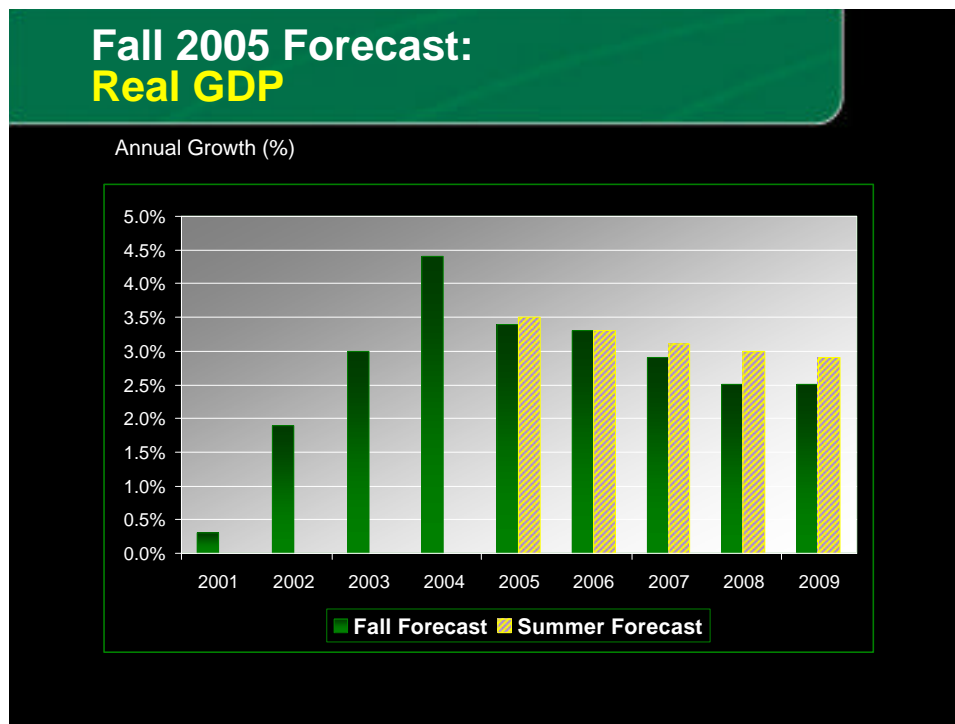
Larger Federal Deficits: Just prior to the hurricanes the deficit was set at \$330 billion. Sustained economic growth and continued strong job creation led to the prospects that government tax revenues would accelerate and the deficit would begin improving in 2006, reducing the deficit to \$200 billion by 2008. Massive federal support in rebuilding New Orleans has changed all that and will prompt an increase in the deficit. In addition, it is likely that higher expected interest rates will slow overall economic growth and job creation. This will moderate the expected acceleration in government tax revenues – again worsening the picture for an improvement in the budget deficit. Since government debt generated by the deficits competes in the capital markets with private and corporate borrowers, larger budget deficits imply higher demand for capital and hence higher interest rates.

Slowdown in Foreign Supply to U.S. Capital Markets: A large portion of total U.S. public debt is owned by foreigners. Growth in foreign capital inflows over the past several years has been an important factor in keeping the lid on long-term interest rates, such as mortgages. Declines in the value of the U.S. dollar against foreign currencies over the past

few years, however, have reduced the return on U.S. denominated financial assets held by foreigners. While PCA expects the inflow of foreign capital into U.S. capital markets will continue to grow, the rate of growth is expected to slow under the weight of reduced returns on investment generated by a weaker dollar. The slowdown in foreign capital inflows into the U.S. is expected to coincide with larger federal deficits and expanding private borrowing. The reduction in foreign capital inflows is likely to be enough to keep overall supply from keeping up with growing demand.

Slower Economic Growth: 2007-2009

Combining PCA's two scenarios of higher inflation and higher interest rates leads to a conclusion of slower overall economic growth. Keep in mind that compared to our summer forecast the differences in PCA's latest inflation and interest rate scenarios are relatively modest. In the latest forecast, inflation and interest rates run roughly 30 to 50 basis points higher than the summer forecast. As a result, the dampening impact on GDP growth during 2007-2009 is expected to be relatively modest.



According to the latest economic scenario, higher inflation reduces consumer spending. Higher interest rates reduce capital investment and accelerate the decline in single family starts.

Conclusions

The adverse impacts of higher inflation, interest rates, and oil prices will exert as modest depressants on construction activity during the 2007-2009 period. Residential construction is now expected to decline at slightly more accelerated rates, albeit from a stronger 2005

starting point. Slower consumer spending activity and job creation reduces the expected improvement in vacancy and utilization rates and hence the expected return on investment – softening the expected growth in nonresidential construction. Finally, slower growth in job creation implies that growth in state revenue collections will also slow. Slightly slower revenue growth implies that public spending growth may be tempered. In sum, the new economic scenario is slightly more hostile toward construction spending than PCA’s previous summer forecast.

As a result, slightly slower growth rates in construction activity will translate directly into slightly slower growth in cement consumption during 2007-2009. Keep in mind, these estimates are partial since they include only the national macroeconomic impact of the hurricanes on the economy. Reconstruction activity in New Orleans will add to the national outlook for cement consumption.

Hurricane Katrina Impacts on Cement Consumption

Overview of Damage

Within Louisiana, 68% of the state’s cement market was affected by Katrina. While wind and tidal surges contributed to the destructive nature of Katrina in many affected areas in Florida, Mississippi, and Alabama, **water damage** resulting from two breaches of its levee system is responsible for most of the damage that will materialize in greater New Orleans. Water and high wind damage impacted 41% of the state’s cement market.

In contrast to wind which damages property from the top down, water damages property from the ground up. Since usage of concrete in construction is more common at foundations and lower levels of building, it is likely that the cement intensity associated with per dollar of property damage to greater New Orleans will be extremely high in comparison to other hurricanes.

Compounding the issue of wind versus water damage, seldom has the full force of hurricanes destructive force had a direct hit on a major city. Katrina’s strike on New Orleans alters not only the volume of buildings damaged but also the mix of structures affected. Compared to other hurricanes the mix will weigh more heavily on nonresidential structures which tend to have considerably higher cement intensities.

Clean-Up Period Assumptions and Impacts

Construction activity and cement consumption will be depressed during post-hurricane clean up. Only after clean-up is complete will rebuilding activity begin. The average clean-up period for a Category 4 storm is roughly 4 months. This reflects conditions where flooding conditions are short lived. The persistence of standing flood waters in New Orleans extended the required clean-up period. Furthermore, one to two additional months is probably required to clean up water damaged property compared to wind damages associated with previous hurricanes. Taking these factors into consideration, the clean-up period for New Orleans could run from six to nine months. For the purposes of this report, PCA assumes a seven-month clean-up period reflecting the average of the high and low estimates.

Clean-up & Recovery Periods

	Clean-up	Recovery
Flooding (New Orleans)	7 Months	5 Years
High Wind & Water	4 Months	5 Months
High Wind Damage	3 Months	4 Months
Other Wind	2.5 Months	2.5 Months
Unaffected	0 Months	0 Months

Prior to Katrina, the hurricane-affected areas of Louisiana were running at a seasonally adjusted annual rate of 1.2 million metric tons annually (SAAR). Slightly more than half of this demand originated from areas breached by the levees (610,000 SAAR). If these rates were sustained, depressed cement consumption associated with this area is expected to total 325,000 metric tons during 2005 and another 100,000 metric tons in the first quarter of 2006 – totaling 425,000 metric tons.

The remaining areas in Louisiana affected by the storm are expected to experience clean-up periods associated with typical hurricane conditions depending upon the type of damage incurred. These areas will reduce cement consumption by another 12,000 metric tons during 2005. All totaled, depressed consumption accounts for 16% of Louisiana's annual consumption and 65% of the state's consumption during the final four months of 2005.

Rebuilding Assessments and Cement Consumption

Given the magnitude of and type of damages (water/flooding) encountered by greater New Orleans, there is little doubt that a huge amount of cement will be required during the rebuilding stage of the city. Estimates of the accelerated cement consumption in the post-clean up period are dependent upon assumptions made regarding the extent of the damage and the nature of rebuilding that materializes in greater New Orleans. PCA assumes a complete restoration of the building stock within greater New Orleans. The potential for building code changes in the aftermath of Katrina could boost the required cement requirements. Code changes have not been incorporated into PCA estimates.

Information regarding the type and nature of damage to properties in flood areas is based on estimates provided by relief and insurance groups. PCA believes this data contains the potential for large error and revision.

Residential: The Red Cross estimates that Katrina destroyed 200,000 homes in Louisiana, with the highest concentration of destruction in greater New Orleans. The terminology “destroyed homes” used by the Red Cross implies that all of these homes must be rebuilt. PCA market research estimates that roughly 21 tons of cement is used per single family home in Louisiana. If Red Cross estimates are accurate, this implies 4.2 million tons of cement is required to rebuild residential structures. This serves as the basis for PCA’s high cement consumption estimate. During 2004, Louisiana consumed 456,000 tons of cement for single family construction. The hurricane impact has the potential of increasing residential cement consumption by more than nine fold.

The housing stock for the state of Louisiana is estimated at 1.9 million homes. Red Cross estimates imply that more than 10% of all homes in the state of Louisiana were destroyed by the storm. In the greater New Orleans metropolitan area, the Red Cross estimate implies roughly 36% of all homes in greater New Orleans.

PCA believes that initial Red Cross estimates may contain significant downside risk regarding the amount of cement required to restore New Orleans’ housing stock. At question is to the proportion of damaged homes that must be torn down and rebuilt versus those which will require decontamination and repair.

In the past, Red Cross estimates of destroyed housing resulting from a hurricane were based on wind and tidal surge damage. This type of damage is easily visible, and reliable estimates of “destroyed” homes can be undertaken. There is significant and widespread damage to New Orleans’ housing stock from the city’s flooding, unlike past hurricanes. What damage exists may not be visible. Many of the homes that the Red Cross has identified as “destroyed” may only require decontamination and repair – requiring significantly less cement to restore damaged housing. Assuming half of the homes identified by the Red Cross can be repaired, the additional cement required to restore New Orleans’ damaged housing stock is reduced to 2.2 million tons. This serves as the basis for PCA’s low estimate.

Nonresidential: Other nonresidential construction and repair activity will add to the cement requirements in rebuilding New Orleans. Unfortunately, credible information regarding the magnitude of damage on these types of structures is lacking. Various damage estimates put property damage at \$125 to \$200 billion dollars. This forms the basis of the following PCA high-low estimates regarding incremental cement requirement in rebuilding New Orleans. According to insurance analysts, roughly half of this damage is attributed to flooding in New Orleans, or \$63 to \$100 billion.

The same analysts put infrastructure damage at \$10 to \$15 billion. Applying a general public infrastructure cement intensity to this damage estimate yields an increase in cement demand of 2.1 to 3.4 million tons.

Nonresidential building damage is estimated at \$12 to \$32 billion. Of this, a substantial portion may require repair rather than rebuilding. PCA has applied cement intensities to each damage estimate. According to these calculations, nonresidential rebuilding could add between 450,000 tons and 1.9 million tons.

Reconstruction Assumptions

The rebuilding of New Orleans will require design and planning. Public infrastructure projects and residential construction will probably lead the construction recovery. Nonresidential construction will lag as firms wait until signs of recovery to the regional economy. In addition, labor and equipment constraints will force the rebuilding activity to be stretched over a period of years. PCA has assumed a five year rebuilding effort.

Total Requirements: Total Rebuild		
	Low	High
Total	4,800,000	9,500,000
Residential	2,250,000	4,200,000
Nonresidential	450,000	1,900,000
Public	2,100,000	3,400,000

Rebuilding takes place over five year period: Implies roughly 1 million to 2 million additional tons per year

The total incremental increase in cement consumption arising from the **complete** rebuilding of New Orleans could add between 4.7 and 9.3 million metric tons to demand. Based on an assumption of a five year rebuilding program, the incremental increase in annual cement consumption will average 950,000 to 1.8 million metric tons per year.

A complete rebuilding of New Orleans is unlikely. Prior to the hurricane, New Orleans population was estimated at 484,000 persons and 220,000 households. At its peak, 270,000 persons evacuated New Orleans. Currently, 200,000 New Orleans residents remain displaced. This translates into roughly 129,000 households. A recent survey of evacuees concluded that 39% did not plan to return to the city. That implies that among the 200,000 evacuees, 78,000 will permanently settle elsewhere. According to these estimates, total households living in New Orleans drops from 220,000 prior to the storm to 185,000 afterwards. This reduces the number of homes that must be rebuilt by roughly 35,000 translating into 750,000 fewer tons of cement. Similar analysis has been performed for nonresidential and infrastructure rebuilding. These estimates suggest that partial rebuilding

efforts would require roughly 1.4 fewer million metric tons compared to the total rebuild estimates – or 280,000 fewer tons per year.

Total Requirements: Partial Rebuild		
	Low	High
Total	3,355,000	8,166,000
Residential	1,300,000	3,500,000
Nonresidential	255,000	1,566,000
Public	1,800,000	3,100,000

Rebuilding takes place over five year period: Implies roughly 650,000 to 1.6 million additional tons per year

Summary

PCA expects 2006 cement consumption will reach 125 million metric tons, representing growth of 3.6%. The forecast estimates a one million ton reduction in residential cement consumption, offset by a one million ton increase in nonresidential cement consumption.

Public construction provides the rationale for net gain, which is expected to grow by four million tons. Three factors color the public sector side. First, revenue conditions facing state governments continue to improve and is expected to provide the impetus for renewed construction spending. At clear risk to our estimates is the potential adverse impact of growing entitlement needs at the state level in the wake of recent reductions in federal support of these programs. The potential remains that funds intended for construction and infrastructure building activity may be diverted to a greater extent than anticipated. As a result, there is an element of downside risk to this estimate. Second, passage of the new highway bill is expected to add strength to state highway projects. Third, the rebuilding of New Orleans is expected to begin in the second half of 2006 – adding further to public cement consumption during 2005.

Beyond 2006, a slightly more adverse economic environment is envisioned. PCA has incorporated higher oil prices, higher inflation, and higher interest rates into the 2007-2009 period. Compared to our summer forecast estimates, these changes are relatively modest. Nevertheless, these adverse impacts will exert as modest depressants on construction activity during the 2007-2009 period. Residential construction is now expected to decline at

slightly more accelerated rates, albeit from a stronger 2005 starting point. Slower consumer spending activity and job creation reduces the expected improvement in vacancy and utilization rates and hence the expected return on investment – softening the expected growth in nonresidential construction. Finally, slower growth in job creation implies that growth in state revenue collections will also slow. Slightly slower revenue growth implies that public spending growth may be tempered. In sum, the new economic scenario is slightly more hostile toward construction spending than PCA's previous summer forecast.

The slightly more adverse economic environment acts to neutralize the additional cement consumption anticipated from the rebuilding efforts of New Orleans. While the current forecast estimates differ only slightly from PCA's summer estimates, the story regarding how those numbers are achieved has changed. PCA believes that the risks attached to the latest forecast, particularly during the 2007-2009 period, now lay on the downside.