

# MAKING OUR MARK FOR A BETTER FUTURE

2011 Sustainability Report





*At Eagle Materials, our products, cement and gypsum wallboard, are necessities not luxuries. These products enable society to prosper through growth, renovation and renewal.*

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Portland cement is the critical ingredient that binds gravel, sand and water to create the strong, durable and versatile solid mass we know as concrete.



Gypsum wallboard panels are widely used in the construction of walls and ceilings due to their fire resistance, sound attenuation, ease of installation and cost effectiveness.





Eagle Materials' products, cement and gypsum wallboard, are essential in construction that meets basic human needs for housing, roads, bridges and public buildings like schools.



## CEO LETTER

# DEAR SHAREHOLDERS



*Our low-cost producer operating strategy is fully aligned with our commitment to sustainability.*

At Eagle Materials our products, cement and gypsum wallboard, are necessities not luxuries. These products are essential in meeting basic human needs for housing, roads, bridges, public buildings, as well as other newer-generation structures like wind farms. And they are fundamental to construction projects that enable society to prosper through growth, renovation and renewal.

Our operating strategy is to be the lowest-cost producer of each and every product we make, and this strategy is fully aligned with our commitment to sustainability. In fact our strategy and our sustainability intentions are, arguably, coincident.

We are intent on maximizing the societal benefits of the products we make while minimizing the size of the environmental footprint that is required to do so. In simplest terms, we achieve our status as the lowest-cost producer by innovating to use fewer resources than others to make the same commodities, specifically, less energy, less paper, less gypsum and less waste than other producers. And through relentless and continuous improvement we use fewer resources today than we did just a few years ago. We are proving it is possible to prudently meet the needs of the present through the more sustainable

use of natural resources and to do so in ways that will create demonstrable future benefits.

Our low-cost producer strategy allows us to serve markets more competitively and to remain profitable even in the worst construction markets, even the ones we have most recently experienced. This is appreciated by our shareholders who look to Eagle as an investment, by our lenders who seek evidence of our creditworthiness, by communities that look to us to be reliable citizens, and by our employees who are reassured that Eagle is a great place to work and to build a career.

This economic cycle has taken a heavy toll on our industry. It has tested the best and crippled the rest. I want to personally assure you that these extreme market conditions have done nothing to lessen, and have done much to reinforce, our commitment to sustainability, sustainability as is the centerpiece of our strategy for resilience.

Sincerely,

**Steve Rowley**

*President and CEO, Eagle Materials Inc.*




*We achieve our status as the lowest-cost producer by innovating to use fewer resources than others to make the same commodities, specifically, less energy, less paper, less gypsum and less waste than other producers.*




 Texas Lehigh's Award  
Texas Lehigh operations in Buda were recognized as a 2010 Texas Environmental Excellence Awards winner (see story on page 19).



 At Eagle Materials, it is careful attention to each and every facet of our operations that makes the difference.



 Every employee is engaged in continuously improving execution.



# CEMENT BUSINESS OVERVIEW



It has been observed that concrete is the most commonly used material on the planet other than water.

Eagle Materials has four geographically diversified Portland cement plants in the United States. These four are Illinois Cement in LaSalle, Illinois; Mountain Cement in Laramie, Wyoming; Nevada Cement in Fernley, Nevada; and Texas Lehigh Cement in Buda, Texas (Texas Lehigh Cement is a 50% joint venture). These cement plants operate as four distinct, decentralized operations due to the regional nature of the business.

Together these plants represent approximately three million tons of capacity and each are known for exceptional quality, high efficiency and superior customer service.

Portland cement, the essential binding ingredient in concrete, is produced and sold from each location. Concrete is used primarily in commercial, residential and public construction in foundations and structures. In addition to road building and repair, Eagle's key market segments are in energy production, which include oil well cement. Eagle's cement meets the superior performance specifications for this demanding application, as well as those for wind-farm construction.

Production and sale of aggregates is another aspect of the business. Aggregates are crushed limestone and stones from alluvial deposits that are extracted from quarries; aggregates are used as raw material in concrete and



Eagle's cement's superior performance characteristics make it suitable for oil well applications as well as wind-farm construction.



as the base material for roads and buildings. The business operates from two processing locations and has significant aggregates reserves in Northern California (over one billion tons).

In addition we make readymix concrete at nine batch plant locations, where cement, sand, aggregates and water are mixed to produce concrete to specification. Total production capacity is in excess of 850,000 cubic yards. Participation in the readymix business is focused in those markets where vertical integration is beneficial to our cement operations. Mathews Readymix and Western Aggregates operate out of Northern California and Centex Materials operates in Central Texas.

There are relatively high barriers to entry in the cement business due to resource availability, permitting and construction capital requirements. Eagle Materials operations are focused exclusively in the United States. In contrast, most competitor operations in the United States are divisions of multi-national companies.

Energy (fuel and electricity) represents about a 40% of cement costs of goods sold and responsibly managing energy use has long been a key focus area for Eagle.

## 3 million tons of capacity

Together, Eagle Materials' four Portland cement plants in the United States represent approximately 3 million tons of capacity. Each are known for exceptional quality, high efficiency and superior customer service.

## 1 billion tons of reserves

Eagle Materials operates from two processing locations and has over 1 billion tons of aggregates reserves in Northern California.



# GYPSUM WALLBOARD BUSINESS OVERVIEW

American Gypsum is the trade name of Eagle’s gypsum wallboard business. The business serves residential, commercial and repair and remodel applications nationally from plants located in New Mexico, Colorado, Oklahoma and South Carolina.

Together these plants represent approximately five billion square feet of capacity. American Gypsum is a top five U.S. producer and has a roughly 10% share of the U.S. market.

The worldwide gypsum wallboard industry is concentrated in North America where the tradition of wood frame construction is commonplace. The top five companies in the gypsum wallboard industry supply two-thirds of the global market. Demand in the United States is primarily driven by new residential construction and residential-related repair and remodel activity, and as such the industry is highly cyclical. Today U.S. capacity is roughly double U.S. demand, which is suppressing prices and margins. While much of the industry is operating at near cash break-even, Eagle remains profitable due to the low-cost producer position the company enjoys.

Paper is the largest single element of production variable cost, followed by energy. Freight is also one of the important cost factors to manage given that gypsum wallboard is priced and sold inclusive of freight. Minimization of paper, energy and freight costs are key priorities, and are aligned closely with Eagle’s sustainability goals.

All of our western plants use natural gypsum from nearby owned quarries. Our eastern plant in Georgetown uses synthetic gypsum and its supply is assured through a long-term contract.

American Gypsum is advantaged by Eagle’s ownership of Republic Paperboard. The paperboard operations in Lawton, Oklahoma, provide the paper used on both sides of the gypsum board. The paper produced at Lawton is lighter weight than is typical for the industry and this provides material cost advantages as well as superior wallboard conversion characteristics. The unique technology employed at Lawton minimizes waste and produces paper with uniform cross directional strength, weight and moisture profiles.

Capacity that is not utilized by American Gypsum is sold elsewhere under long-term contract or used to make other products which are in high demand due to the 100% recycled content of the paper that is produced.

## 4 billion sq ft capacity

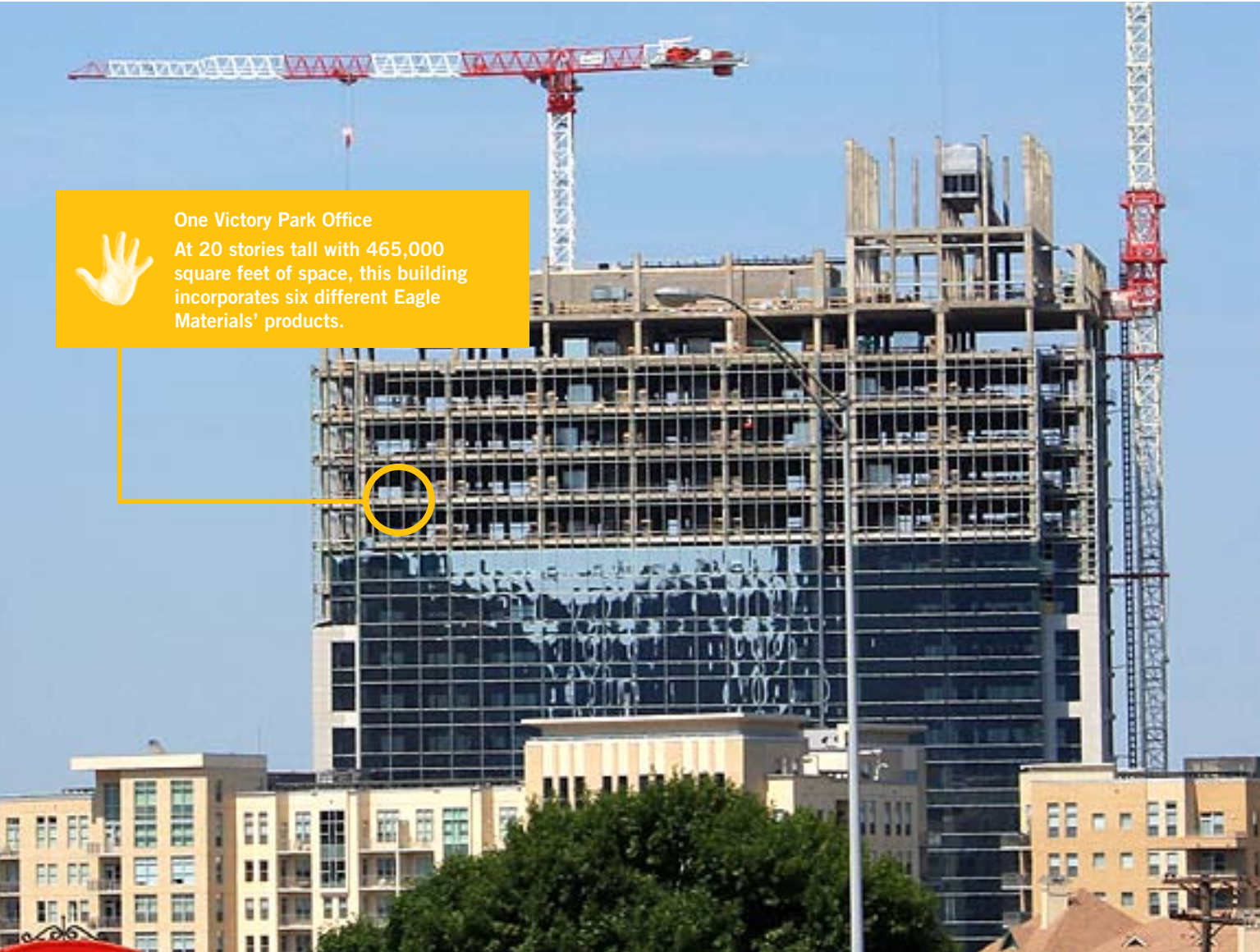
Together, Eagle Materials’ gypsum wallboard plants in the United States represent approximately four billion square feet of capacity and are known for exceptional quality, high efficiency and superior customer service.

## U.S. top 5 producer

Eagle Materials is one of the top five companies in the U.S. gypsum wallboard industry and the United States represents two thirds of the global market.

## 100% recycled

American Gypsum wallboard paper has 100% recycled content.



One Victory Park Office  
At 20 stories tall with 465,000 square feet of space, this building incorporates six different Eagle Materials’ products.



All American Gypsum wallboard is manufactured in the United States for the U.S. market.



EAGLE MATERIALS PROFILE

# STRATEGY AND SUSTAINABILITY

The most reliable route to business success in a commodity industry is to be the low-cost producer.

Being the low-cost producer is not the only key to success — products and markets need to be well targeted and service quality needs to be consistently high in meeting specifications and expectations. But at Eagle we believe being the low-cost producer is a necessary condition for lasting success in our industry.

Relentless and disciplined continuous improvement of our cost position is a companion imperative for us.

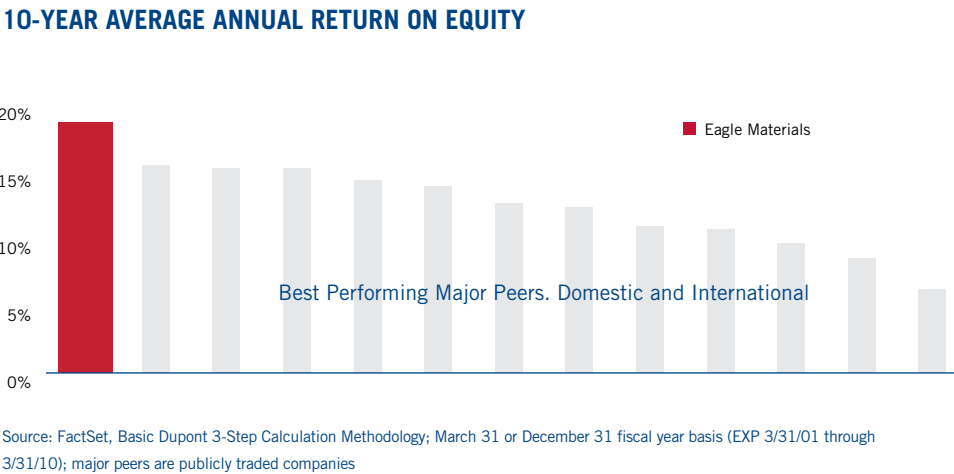
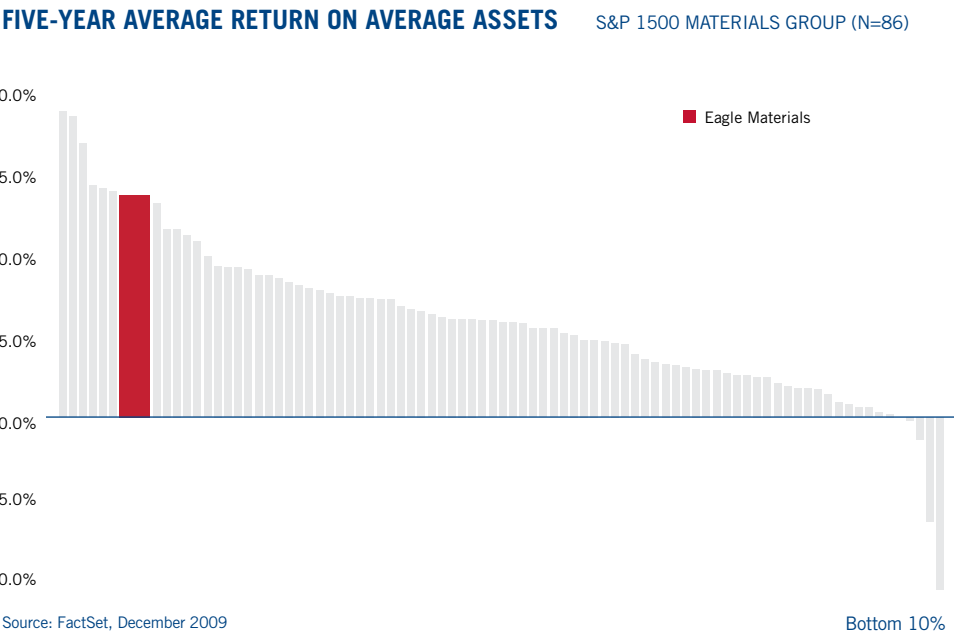
Eagle’s lowest-cost producer position cannot be attributed to just one thing. Certainly technology plays a role as do resource positions, but these are not the singular drivers. At Eagle it is careful attention to each and every facet of the business system that makes the difference.

Eagle’s success is driven by superior execution of all aspects of the business that matter — and minimization of attention to those aspects that do not. This includes investing wisely in improvement and growth initiatives.

Eagle’s innovation focus is on ways to continue to improve execution. This innovation focus is in the DNA of Eagle employees and is a unifying commitment in the company culture. Eagle’s superior results over cycles is a testament to this commitment.

Strategy and sustainability. Set side-by-side we see no daylight between strategy and sustainability. They are two sides of

Low-cost Producer Strategy + Sustainability Intentions = Superior Results



Eagle’s innovation focus is on continuous improvement. This innovation focus is in the DNA of Eagle employees and is a unifying commitment in our company culture.

the same coin at Eagle. We are focused on maximizing the societal benefits of the products we make while minimizing the size of the environmental footprint that is required to do so.

In simplest terms, we achieve our status as the lowest-cost producer by innovating to use fewer resources than others to make the same commodities, specifically, less energy, less paper, less gypsum and less waste than other producers. We are committed to meeting the needs of the present through the more sustainable use of natural resources and to doing so in ways that will create demonstrable future benefits.

Our low-cost producer strategy is perfectly aligned with our sustainability intentions.

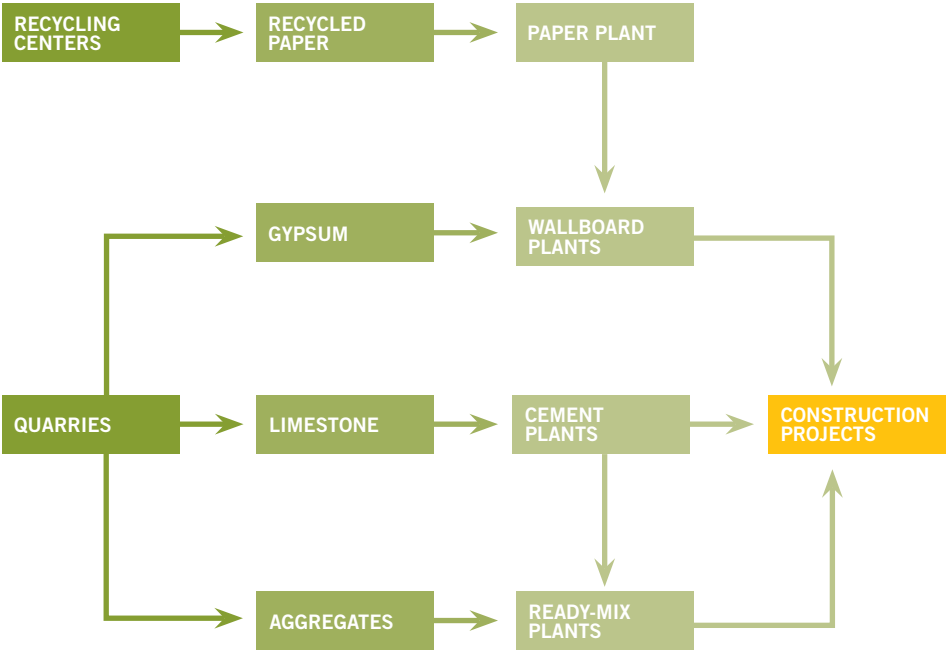
**COMPANY HISTORY**

Originally part of Centex Corporation, Eagle Materials became a fully independent company through a spin-off transaction in January 2004. Company independence allows greater flexibility to invest in growth opportunities and to make disciplined investment decisions that are focused

on increasing shareholder value. Over the years, we have increased our market share and profitability through acquisitions, internal expansions and facility upgrades to take advantage of the growing demand for the products that we make.

PER UNIT PRODUCED	STRATEGY OBJECTIVE	SUSTAINABILITY RESULT
LESS WASTE	REDUCED COST	RESPONSIBLE USE OF RESOURCES
LESS ENERGY USED	REDUCED COST	SMALLER ENVIRONMENTAL FOOTPRINT
LESS MINERAL RESOURCE USED	REDUCED COST	GREATER CONSERVATION
LESS WATER USED	REDUCED COST	LOWER ENERGY REQUIREMENTS
MORE RECYCLED RESOURCE USE	REDUCED COST	BENEFICIAL USE OF EXTERNAL WASTE STREAMS

MATERIAL FLOWS



In December 2006, we completed the modernization and expansion of our Illinois Cement plant. This project increased Company annual cement production capacity by 430,000 tons to 3.1 million tons. In December 2007, we completed construction on a green-field wallboard plant in Georgetown, South Carolina, with an annual capacity of 750 million square feet. These and other investments in high return projects will continue to reinforce Eagle Materials’ low-cost producer position in building materials and construction products.

ORGANIZATIONAL APPROACH

We embrace a decentralized profit center model in our operations. Superior execution is our strategy and this strategy is embodied by our operating units and by our operating unit leadership. We have two primary lines of business, cement and gypsum wallboard. Concrete and aggregates play an important downstream integration role with cement, and paperboard plays an important upstream integration role with gypsum wallboard. The corporate role is to define long-term strategy, ensure strong and deep operating leadership, instill and maintain a cohesive performance culture and selectively provide shared services where company-wide leverage is available.

SHAREHOLDERS

Eagle Materials is listed on the NYSE (symbol is EXP). The company has roughly 44 million shares outstanding and enjoys a broad base of institutional shareholder ownership. Roughly 80% of Eagle shares are held by institutions, with the top ten institutions generally holding about half of the institutional shares and the top 25 holding about 75%. Shareholders tend to be geographically concentrated in the United States, most notably in New York and Boston. Insider ownership is generally over 5% — the company Chairman alone owns 3.5%. A representative investor style mix is about a third “growth at a reasonable price” or GARP, 20% growth, 20% value, 15% index and 10% hedge fund. Twelve firms currently have research coverage on the company.

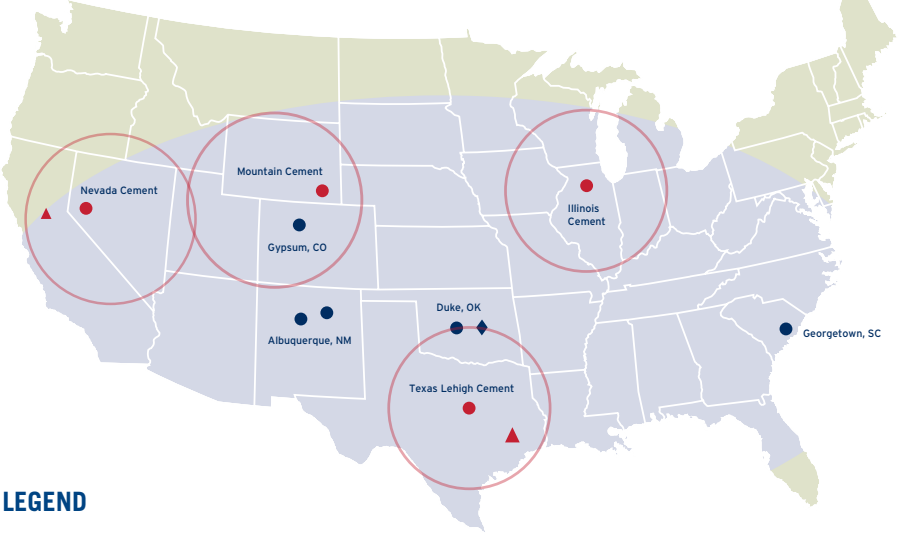
BOARD OF DIRECTORS

Eagle benefits from a strong and experienced Board of Directors. Three Board Committees support the work of the Board collectively; these three committees are Audit, Compensation, and Governance and Nominating, and each is entirely composed of Independent Directors.

The Board’s key responsibilities include:

- Selection, compensation and evaluation of the Chief Executive Officer and oversight of succession planning
- Oversight of processes in place or to be implemented to promote compliance with law and high standards of business ethics
- Oversight of Eagle’s strategic planning
- Approval of all material transactions and financings
- Using its experience to advise management on major issues facing Eagle

OPERATIONS MAP



LEGEND

- Gypsum Wallboard (National-Scope)
- Cement (Four Key U.S. Regions)
- ◆ Paper
- ▲ Aggregates and Concrete

BUSINESS CONDUCT

Employees are guided by an important document which is the touchstone of our business conduct processes: “Eagle Ethics — A Guide to Decision-Making on Business Conduct Issues.” The document is available for review and downloadable from the company website, eaglematerials.com. It details the responsibilities of all employees and the special obligations of all company leaders.

As importantly, it is a guide in navigating the gray areas of business life, beyond just the black and white aspects of policy and conduct.

The “What to Do if Issues Arise” section clearly outlines the issue escalation processes, including confidential hot-line options in the event of a process break-down.



Scan this QR code with any smart phone to view “Eagle Ethics — A Guide to Decision-Making on Business Conduct Issues.”





Eagle produces specialty cement that is used to construct oil wells and wind farms.



Eagle is one of the few suppliers of cement for especially demanding oil and gas industry applications.



Eagle also makes readymix concrete at nine batch plant locations, where cement, sand, aggregates and water are mixed to produce the concrete to specification.



*Eagle Materials operations are focused exclusively in the United States, whereas many competitor operations are U.S. divisions of multi-national companies.*





## CEMENT

It has been said that concrete is the most commonly used material on the planet other than water. Portland cement is the critical ingredient that binds the gravel, sand and water together to create the strong, durable and versatile material we know as concrete.

Concrete has superior life-cycle advantages over asphalt and many other road-building materials due to its superior durability. Performance-based specifications being adopted by state departments of transportation recognize these advantages. These advantages are in turn magnified by the need for lower resources needed for on-going maintenance and reconstruction. Moreover, concrete also can be crushed and reused at the end of its initial

service life, extending its environmental benefits even further.

Studies have shown that concrete produces lower emissions and has lower embodied energy than many construction materials. In fact concrete is reported to have lower embodied energy per square foot of office floor area than steel.

### ENERGY

The high temperature required to manufacture cement inherently makes the process energy-intensive. At Eagle, energy efficiency, energy cost reduction, and energy management have been top priorities for many years. The basics include keeping plants well-maintained and in like new condition, but also

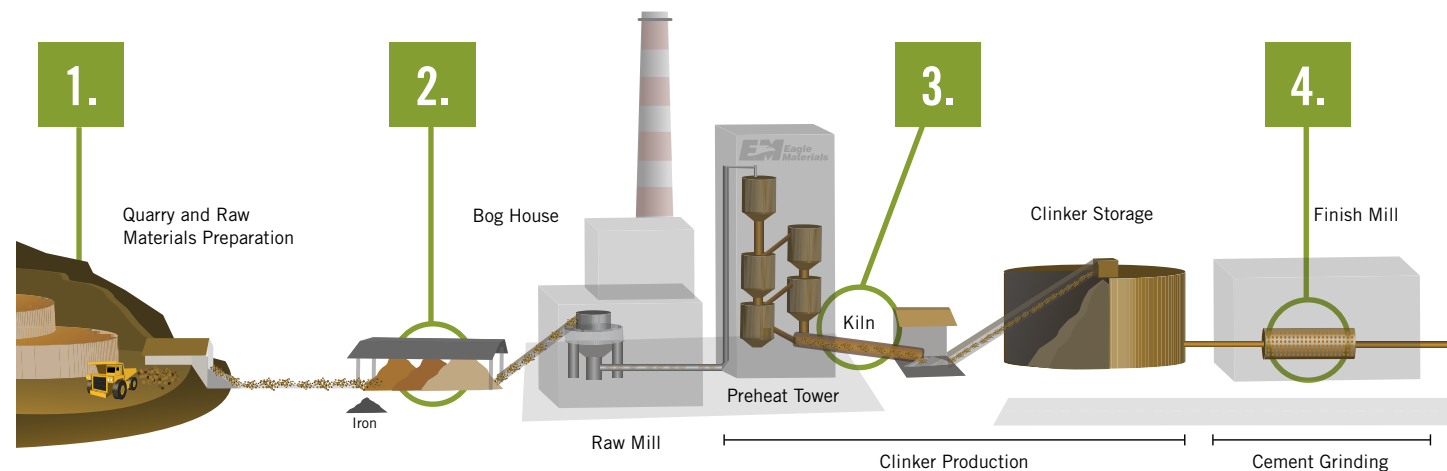
entail application of heat recovery and transfer technology, all aimed at achieving the highest energy efficiency in the industry.

Performance at these plants provides a firm foundation for continuous improvement. Eagle fully endorses the Environmental Performance Measures of the Cement Manufacturing Sustainability Program advanced by the Portland Cement Association.

With respect to energy efficiency, the 2020 target is a 20% improvement from 1990 base lines as measured by total BTU-equivalent per unit of cementitious product. Eagle intends to exceed this goal, notwithstanding the company's already enviable efficiency position.



### PORTLAND CEMENT MANUFACTURING FOUR-STEP PROCESS



1. Limestone and small amount of sand and clay are mined from quarries usually very near the cement plant.

2. These materials are carefully analyzed, combined and blended for proper performance.

3. The materials are then heated in a large rotating kiln that reaches temperatures in excess of 2,600° F, transforming the materials into a marble-to-baseball sized substance called clinker.

4. The clinker is then cooled and ground with a small amount of gypsum to produce a fine powder called portland cement.

### WASTE STREAMS UTILIZATION

Cement uses four elements in its manufacture, namely calcium, alumina, iron and silica. A wide variety of raw materials can be drawn upon as inputs for cement manufacturing, including industrial by-products, which are especially attractive from a sustainability standpoint.

By-products from coal-fired power plants such as fly ash can be used in the manufacture of cement and are by-products that otherwise would be discarded in containment areas. Eagle utilizes fly ash in most cases where operations are economically proximate to fly ash sources. Blast furnace slag from steel plants is another by-product that can be utilized in cement manufacturing.

### CEMENT KILN DUST

Eagle processes ensure full utilization of raw materials which is a key in eliminating fugitive kiln dust. Eagle supports and encourages the cement kiln

dust (CKD) Environmental Performance Measures of the Cement Manufacturing Sustainability Program, as advanced by the Portland Cement Association, which currently target a 60% reduction in the amount of kiln dust land-filled per ton of clinker produced, from 1990 base lines.

Captured kiln dust can be recycled and has a number of market applications as well. Eagle, for example, sells captured kiln dust to companies involved in mining remediation and reclamation projects.

### CARBON DIOXIDE

Eagle has an enviable track record in controlling air pollutants. Eagle continues to work closely with the Environmental Protection Agency and local and state environmental authorities in monitoring, reporting and managing air emissions at the company's cement plants. Because of Eagle Materials' leadership in cement manufacturing process improvement, the company is among those at the forefront in addressing climate change.

Carbon dioxide (CO<sub>2</sub>) is a principle emission associated with cement manufacturing and one of several gasses having a relationship to climate change. This is an important topic since it is estimated that cement accounts for 3% of U.S. industrial carbon dioxide emissions. Although this figure is significant it is also worth recognizing that this is a fraction of that of other industries, such as petroleum and chemicals, which each account for about 22% of emissions, and iron and steel which accounts for 9%.

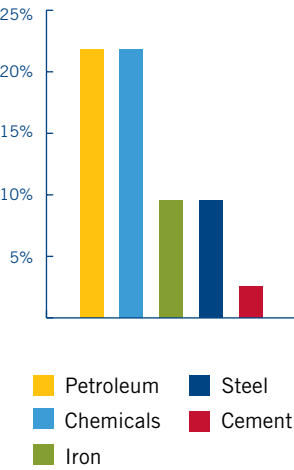
A key to success in minimizing CO<sub>2</sub> emissions at Eagle is through the greater use of ground limestone as a component in the finished cement, which reduces the CO<sub>2</sub> that is produced through calcination (calcination is the conversion of carbonates in the raw material into the various compounds that create the desired cement properties).



Eagle Materials applauds the work of Climate Vision which is assisting industry efforts to apply advanced processes that are capable of reducing, capturing or sequestering greenhouse gas emissions.

Eagle is working on many fronts to address this issue. One of the most far-ranging in its implications is the company's exclusive work in partnership with a technology start-up company to explore breakthrough methods for cement production that could virtually eliminate greenhouse gas emissions from the cement manufacturing process. This effort is only in the research and testing stage now, but affords tantalizing possibilities for the future. And our Mountain Cement team is working with the University of Wyoming on carbon dioxide sequestration technology, aimed at developing new techniques for effective capture, storage and conversion of this pollutant.

CO<sub>2</sub> EMISSIONS PER INDUSTRY



MERCURY

Some cement production in the United States relies on raw materials that have a relatively high content of mercury. When the mercury is vaporized in the cement production process it enters the outside air through the kiln's smokestacks.

Eagle Materials believes the best answer is to not use raw materials containing these relatively higher levels of mercury and to avoid the need for remediation altogether. Independent studies have demonstrated Eagle's commitment here; Eagle's performance is among the best in the industry.

SUPPLEMENTARY CEMENTITIOUS MATERIALS

The benefits of using supplementary raw materials are now well accepted, whether they are by-products of other manufacturing processes, such as fly ash produced by coal-fired power plants, or slag from steel production, or natural materials, such as pozzolan. Both performance and cost advantages are among the original drivers for the use of these materials and these materials are being specified in many construction jobs today, ranging from roads to elementary schools. And the opportunity to make use of materials that otherwise would end up in land-fills or require special storage is also highly consistent with Eagle's sustainability objectives.

Eagle is at the forefront of finding and developing supplementary cementitious materials. Today the company is introducing significant new sources of natural pozzolanic materials to the California and Nevada markets.

ALTERNATIVE FUELS

Eagle plants are pioneering the testing of alternative fuels to heat cement kilns. Success depends upon sourcing partnerships to gain access to alternative waste streams and put them to more sustainable use. Texas Lehigh's operation in Buda, Texas, near Austin, is at the forefront of these efforts. The alternative fuel mix being tested there now is about three parts untreated lumber recycled from Austin's Green Building program and one part used tires from stockpiles in San Antonio. These underutilized waste resources can be used to offset reliance on coal and petroleum coke and reduce carbon emissions.

This effort has been enabled by a number of constructive partnerships with recycling companies, such as Texas Disposal Services, as well as non-governmental organizations and interested citizens.

The experimentation and testing of alternative fuels at Buda has also benefited from the help of a Dallas area group, Downwinders at Risk, as well as the Environmental Defense Fund and the Sierra Club — all working to help assure the best possible outcomes and to make all parts of the process transparent in the community as the testing proceeds.

Progress on this front has led to Texas Lehigh at Buda being recognized as a 2010 Texas Environmental Excellence Award winner. Under the Waste Reduction Policy Act of 1991, the Texas Commission on Environmental Quality initiated these prestigious awards which honor the spirit of environmental stewardship in conserving, persevering and protecting the environment.

Our Mountain Cement team is working with the University of Wyoming on carbon dioxide sequestration technology, aimed at developing new techniques for effective capture, storage and conversion of this pollutant.

The criteria for selection has six important parts.

- **Innovative** — Does the project contribute new information on how to improve the environment? Is it a new concept or process? Has it ever been executed successfully before? Is this the first time a project like this is being used in Texas? Is it a creative solution to a problem?
- **Beneficial** — Does it make a significant contribution to improving the environment? Does it reduce health risk or conserve resources? Does it reduce a large volume or significant percentage of air contaminants, hazardous/toxic contaminants, solid waste, and energy or water resources? Is it beneficial to the economy, the environment, or local community? Is it cost effective? Are people participating? Does it tackle a difficult task? Is it effective?
- **Measurable** — Can we measure its contribution to environmental quality? Is the measurement specific?
- **Educational** — Does the project promote public awareness or education? Does it include employee training or technology transfer? Does it include "how to" guidelines/ brochures/videos? Does it encourage other environmental efforts? Are employees involved in development and implementation? Does it serve as a model for other efforts?

- **Cooperative Effort** — Does this project involve a cooperative effort between multiple entities or organizations (city/state government, industries, civic groups, schools, citizens, associations)?
- **Exceptional** — Is the project self-sustaining or ongoing? Does it go significantly beyond legal requirements? Does it address other social needs, such as environmental equity? Does it solve a serious environmental problem or result in a significant positive impact on the environment? Does your project take place in a critical region, such as the Rio Grande border area or a National Ambient Air Quality Standards nonattainment or near nonattainment area?

Certainly Bob Kidnew, and his team are well deserving of this recognition. Other efforts in the company are less publicly recognized, but are just as important, such as Mountain Cement's testing of biomass as alternative fuel in Wyoming. This is an area of active, on-going exploration for Eagle, recognizing that as a policy matter we are not exploring use of any hazardous wastes as fuel options.

According to a Massachusetts Institute of Technology study, there are potentially significant fuel efficiency savings for vehicles on concrete pavements over asphalt. These savings could lead to substantially lower life-cycle CO<sub>2</sub> emissions.



COUNTY COMMISSIONERS HONOR TEXAS LEHIGH

The Hays County Commissioners Court recently adopted a proclamation recognizing Texas Lehigh

Cement Company's achievements in environmentally beneficial industry practices. Texas Lehigh President Bob Kidnew accepted the proclamation on behalf of the company.

In 2009, Texas Lehigh worked with the Capital Area Council of Governments (CAPCOG) to voluntarily reduce the amount of ozone precursors (nitrogen oxide) at its Buda, Texas, plant during Ozone Action Days. The company also worked with Austin-based Carbon Shrinks, LLC, to create a community advisory group and a voluntary testing protocol to help prove that emissions from alternate fuels are safe.

The plant is partially powered by alternative fuels, such as used tires and untreated wood waste from regional collection, rather than relying entirely on fossil fuels.



*Eagle Materials does not import or sell wallboard from offshore resources or from other offshore manufacturers and can thereby assure the consistent quality that consumers require.*



 Westin Riverfront Resort and Spa  
American Gypsum produced 1.7 million square feet of wallboard used to construct the Westin Riverfront Resort and Spa.







Materials that might otherwise be hauled to landfills are used to make gypsum paperboard.

Gypsum wallboard panels are widely used in the construction of walls and ceilings in homes, apartments and commercial buildings, especially in North America, and for good reason: these panels are known for their fire resistance, sound attenuation, ease of installation and cost-effectiveness.

Eagle Materials wallboard is sold under the brand name American Gypsum. This is an appropriate brand name as all American Gypsum wallboard is manufactured in the United States for the U.S. market. American Gypsum does not import or sell wallboard from offshore sources or from other manufacturers and can thereby assure the consistent quality that homebuilders, commercial contractors, installers and do-it-yourself consumers require.

#### NATURAL AND SYNTHETIC GYPSUM

“Natural” gypsum is a benign rock formed millions of years ago as calcium sulfate was precipitated in vast inland seas throughout the world. American Gypsum’s western plants are situated near plentiful deposits of gypsum and use unique technology to extract the gypsum efficiently and responsibly.

Small things can make a big difference and thoughtful planning and engineering of plants in relation to resources can pay dividends. An simple example would be the construction of gypsum plants at lower elevations than the quarries. Full trucks travel downhill and empty ones return up-hill. Common sense, uncommonly practiced, provides material fuel savings.



American Gypsum’s western plants are situated near plentiful deposits of gypsum and use unique technology to extract the gypsum efficiently and responsibly.

American Gypsum’s eastern plant at Georgetown, South Carolina, uses “synthetic” gypsum which is a byproduct created through the desulfurization of flue gasses at the power plant which is literally “next door.” The synthetic gypsum is supplied directly by conveyor, eliminating the need for transportation and handling. The synthetic gypsum has an identical chemical composition to the natural gypsum used in the western operations. Both types of gypsum are certified as low volatile organic compound by the GREENGUARD Environmental Institute.

The gypsum panel manufacturing industry consumes approximately two-thirds of all the flue gas desulfurization gypsum created in the United States. In 2007, more than 8 million tons of material that might otherwise be hauled to landfills was used to make gypsum panels and other gypsum products.

#### PAPER

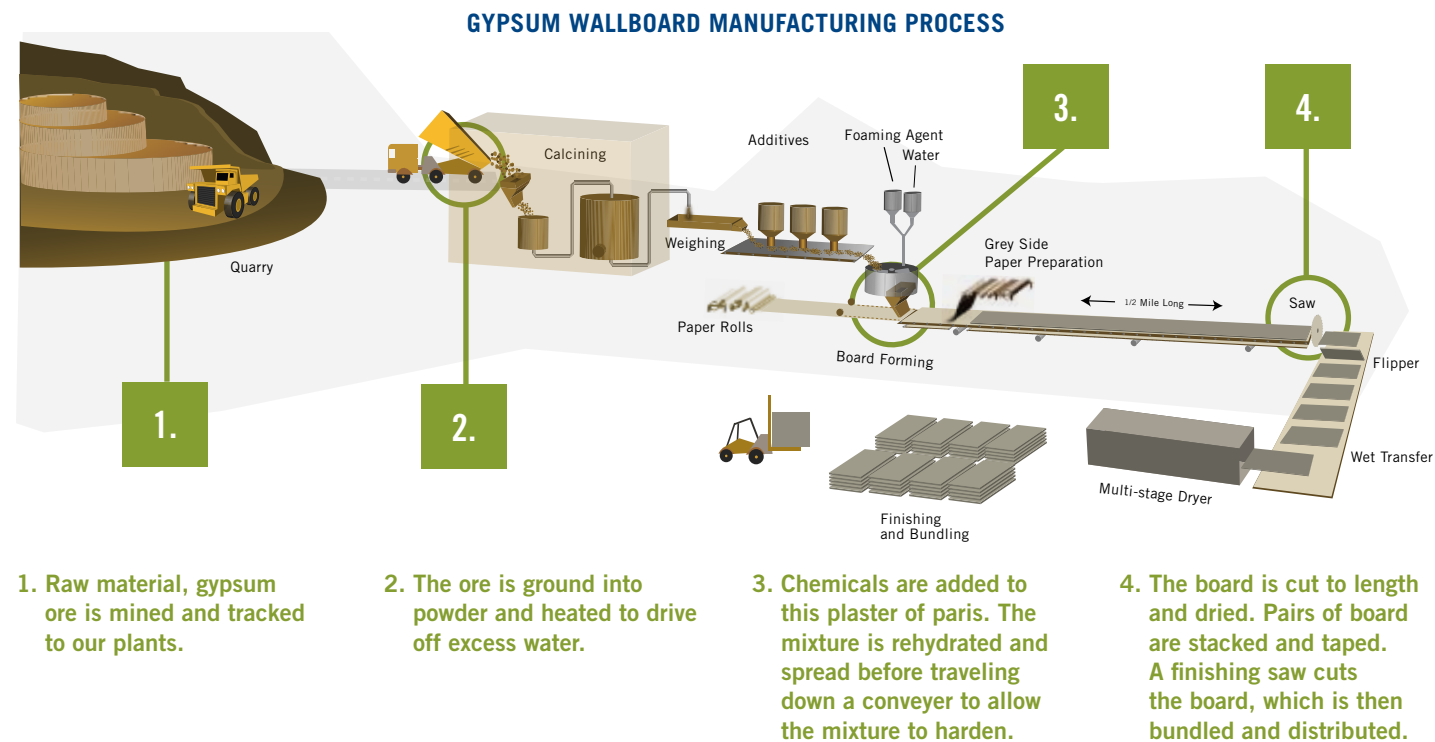
Paper faces the front and back of gypsum wallboard panels. Eagle manufactures the paper for American Gypsum panels at the Republic Paperboard plant in Lawton, Oklahoma. Republic’s production process relies 100% on recycled/post-consumer fiber collected from recycling centers across the region.

The entire paper production process occurs at one of the most modern and efficient mills in North America and the output is superior performing wallboard paper. The Republic paper is lightweight, about 15% lighter than the gypsum industry average, and with superior conversion characteristics due to its cross-directional strength and moisture profile.

Why does lighter weight paper matter? This is a good example of how a single innovation provides multiple benefits both in terms of sustainability gains and cost savings all along the value chain.

- **Fiber** — First, lighter weight paper means less recycled fiber is used to make the same surface area of paper, conserving the resource and reducing the fuel required to transport the same volume of recycled fiber to the paper mill.
- **Fuel** — The lower weight paper that is produced at the paper mill translates into more transportation and fuel efficiency when the paper is delivered to the wallboard plant.
- **Energy** — The lighter paper carries less moisture and so the drying energy to remove the moisture is reduced as well.





Management of paper, energy and freight costs are high priorities, and are aligned closely with our sustainability goals.

#### WALLBOARD OPERATIONS

The focus on innovation at Eagle Materials is on process improvement and this is no more apparent anywhere at Eagle than at American Gypsum plants. There are a number of factors that set these plants apart from a cost and sustainability standpoint.

#### SLURRY

American Gypsum has pioneered technologies for slurry formulation that create consistent quality and higher strength while reducing board weight. Lower board weight means less resource is required to produce the same volume.

#### TRANSPORT

Low gypsum board weight at comparable strength means less transportation and fuel costs per delivered panel to the distributor.

#### NATURAL GAS

Modern dryers and plants maintained in like new condition are among the keys to American Gypsum's low consumption of natural gas.



#### TRANSPORTATION

American Gypsum is a certified member of the SmartWay™ Transport Partnership, which means the company is committed to making all logistical resources more efficient and more sustainable.

To help us track our progress, we continuously analyze our environmental impact using the Freight Logistics Environmental and Economic Tracking (FLEET) Performance Model. This model allows us to calculate how much freight we can ship with SmartWay Transport Carriers, estimate the emissions and carbon impact of the goods we're shipping, and select carriers that can help us reduce the impact our transportation needs place on the environment.

Participating in the SmartWay Transport Partnership means we commit to

shipping at least 50% of our products with SmartWay Transport Carriers. That translates into more products shipped per truck and more efficient delivery with less wasted fuel and less money wasted.

Currently, we ship 65% of our products using SmartWay Transport Carriers. Our ultimate goal is to ship every single product using SmartWay carriers.

#### PACKAGING

Every product that is shipped from American Gypsum is packaged with a special bundling tape that goes the extra mile to be environmentally friendly, and is produced by suppliers who share our same sustainable manufacturing goals.

The manufacturer of the binding paper, uses only fibers sourced from certified 100% sustainable forests. They also produce their own electricity with their bio-fuel boilers (fueled by bark and waste wood) and as a result, do not burn any fossil fuels.

Their effluent and air emission treatment systems are 100% in compliance with Ministry of Environment standards in Canada. The pull tab paper is comprised of 95% recycled Kraft paper. The water-based inks that we use to print on this paper are certified low volatile organic compound (VOC) products.

#### INDOOR AIR QUALITY

A majority of people's time is spent indoors, whether it be in office buildings, shopping centers or schools. Indoor air quality becomes an important consideration with so much time spent inside, which is why using GREENGUARD® certified building materials is so important in reducing airborne pollutants.

To attain GREENGUARD Indoor Air Quality Certified® status, American Gypsum's wallboard products passes thorough sample testing and reviews of our manufacturing processes.

#### How Does Our Georgetown Facility Create Better Energy Efficiency?

- We use high-efficiency burners
- Heat exchangers are used on dryer exhaust stack to preheat combustion air to burners
- We capture gases from hotter dryer zones and circulate them back into the dryer into lower temperature zones to utilize all of the heat possible
- Heat exhaust from cooling down our gypsum stucco is reused to provide preheated combustion air for the synthetic gypsum drying process







Our packaging supplier uses only fibers sourced from certified 100% sustainable forests. They also produce their own electricity with their bio-fuel boilers and as a result, do not burn fossil fuels.



To qualify for the GREENGUARD Children & Schools<sup>SM</sup> status, the panels, including our family of M-Bloc<sup>®</sup> Mold and Moisture Resistant products, met even more rigorous emissions limits that take into account the added sensitivity of children and adults with compromised immune systems.

#### LEED RATINGS SUPPORT

As part of American Gypsum's commitment to green building practices we participate in the LEED program as promoted by the U.S. Green Building Council. A wealth of information related to the LEED program is available at [www.usgbc.org](http://www.usgbc.org).

American Gypsum products can contribute to builders achieving a number of credits within the Materials and Resources (MR) category, including those in Construction Waste Management, Recycled Content, Regional Materials and Low-Emitting Materials — Ceiling and Wall Systems in Schools.



American Gypsum products contribute to builders achieving a number of credits within the Materials and Resources category.

#### WATER CONSERVATION

With plant locations in the desert southwest, the Colorado mountains and the coast of South Carolina, we deal with a limited water supply when we produce our wallboard products. Our water usage is closely monitored to ensure we get the most out of every drop of water we use.

One of the keys to our water reduction efforts are our special raw material additives. These additives allow us to reduce to amount of water needed to formulate our wallboard. Additionally, we supplement our water supply again and again by recycling process water



American Gypsum product lines, which are GREENGUARD Children & Schools certified, provide a healthy environment and more efficient facilities.

These steps ensure American Gypsum wallboard meets the exacting indoor air pollution standards set by the GREENGUARD Environmental Institute (GEI), an internationally renowned leader in indoor air quality. Then, to qualify for the GREENGUARD Children & Schools<sup>SM</sup> status, the panels, including our family of M-Bloc<sup>®</sup> Mold and Moisture Resistant products, meet even more rigorous emissions limits that take into account the added sensitivity of children and adults with compromised immune systems.

The Collaboration for High Performance Schools (CHPS), a national non-profit organization dedicated to creating well-designed facilities to enhance student performance and make education a more enjoyable and rewarding experience, has officially recognized the GREENGUARD Children & Schools certification in their best practices guidelines.

That means American Gypsum product lines, which are GREENGUARD Children & Schools certified, can be utilized in CHPS design and building processes. This helps reduce operating costs, protects the environment, provides a healthier, more efficient facility and enhances the overall teaching and learning experience.

GEI was founded in June of 2001 to establish a true third-party product certification program based on proven emissions standards and to provide specifying and procurement professionals with a resource for identifying low-emitting products. The first GREENGUARD Certification was awarded in the fall of 2002. In 2005, GEI announced the GREENGUARD Children & Schools standard. This standard takes into consideration the sensitive nature of school populations and the unique building characteristics found in schools to present the most rigorous product emissions criteria to date.

and pumping it back into a holding tank to be used in the wallboard mixers. Finally, steam from our stacks is condensed as it is processed through heat exchangers so that not only do we squeeze every bit of energy from the heat in the stack we also squeeze every bit of water vapor possible to then be reused in our process.

#### AIRBORNE EMISSIONS

Airborne emission standards in the United States are closely regulated, with strict standards for ozone and carbon monoxide emissions based on the type and amount of fuel used. Since all of our American Gypsum plants use natural gas, the cleanest burning fuel, we comply 100% with the government standards.

We also have fuel efficiency programs that have helped reduce our emissions over the past few years. Our EPA approved Compliance Assurance Monitoring plans guarantee that all of

our facilities are as clean as possible based on the current technology available. We achieve this with daily visual and equipment inspections.

With our fuel efficiency and compliance monitoring programs, we've been able to produce airborne emissions that are 99.9% water vapor. And American Gypsum is committed to continue making all products as environmentally friendly as possible.



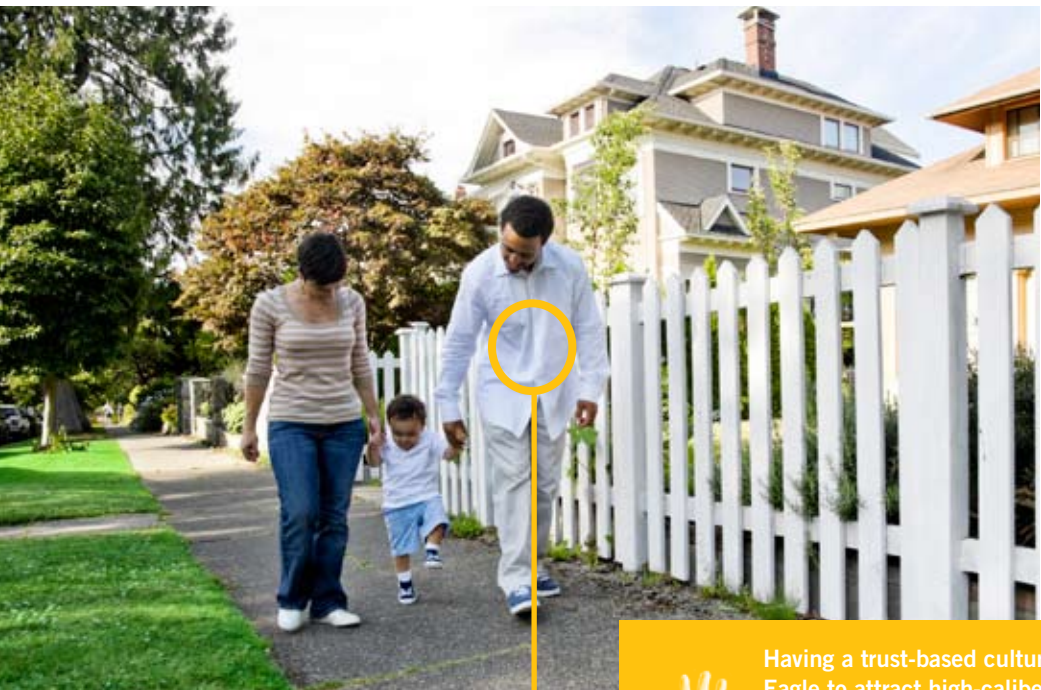
Eagle is committed to providing a work environment where every employee is empowered and engaged to do their best.



Keeping plants maintained in like-new condition is a priority at Eagle.



Employees go about their work based on a clear understanding of expectations and without excess layers of supervision. Our people make faster and better decisions because they have no doubts about the “right thing to do,” and this is a distinct source of advantage for us.



Having a trust-based culture allows Eagle to attract high-caliber, talented people who want to work in organizations where the highest ethical standards are upheld.





**EAGLE CULTURE**

Eagle is committed to providing a work environment where every employee is empowered and engaged to do their best. This means supporting employees with the resources they need to be productive and safe, and then allowing employees to go about their work based on a clear understanding of expectations and without excess layers of supervision.

We believe that good people make great companies. We don't publish detailed rules about how to behave. Instead, we set the framework of vital few policies and appropriate behavior. In short, we are a trust-based company.

Having a trust-based culture allows Eagle to attract the high-caliber people who want to work in organizations where the highest ethical standards are upheld. In addition, we know a business recognized for its principled conduct develops better and more profitable relationships with customers, suppliers and community leaders.

Our people also can make faster and better decisions because they have no doubts about the "right thing to do," and this is a distinct source of advantage for us.

**WORKFORCE PROFILE**

We have about 1,400 employees at Eagle. Our employee population is long-tenured; more than 40% of our employees have more than 10 years of service and about 20% of our employees have more than 20 years of service.

**SAFETY**

Safety is an important priority at Eagle. Our continued progress in reducing accidents and keeping people safe is a track-record of which we are proud and one we intend to continue to improve upon.

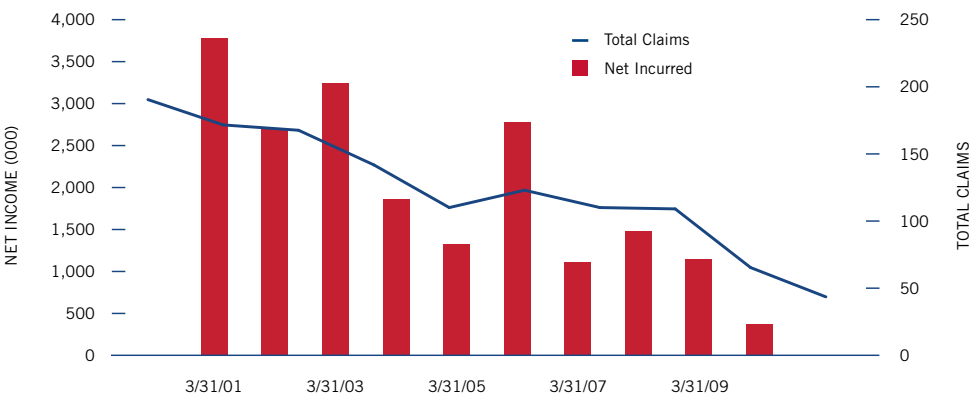
**WELLNESS**

At Eagle we do more than provide comprehensive health care coverage, we promote wellness. From on-site blood pressure screening to contests for achieving healthy habits objectives, each business unit is proactive designing programs that reinforce the fact that we are a family that cares and looks out after one another.

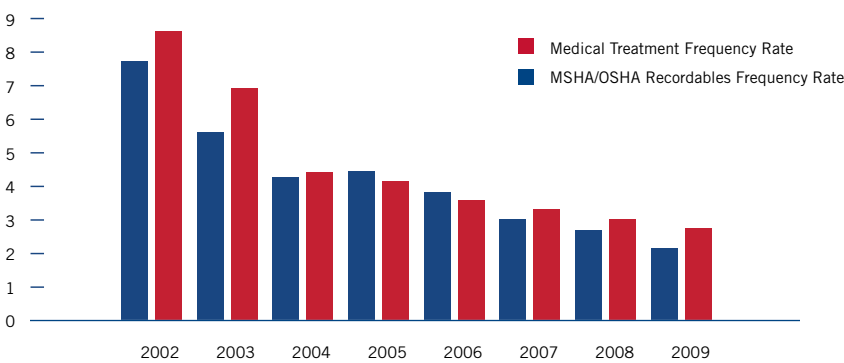


From on-site blood pressure screening to contests to achieve healthy habits objectives, at Eagle we do more than provide comprehensive health care coverage, we promote wellness.

**WORKER'S COMPENSATION OVERVIEW**



**CONTINUOUS IMPROVEMENT IN SAFETY**



**BERNALILLO OPERATIONS SPOTLIGHT**

This year we had to curtail production at our Bernalillo, New Mexico, gypsum wallboard plant, a decision we would have rather not made, but one that was necessary due to dramatically reduced demand levels.

The way this was accomplished is a good illustration of Eagle's commitment to supporting employees. In this case we were able to place all but 11 employees in other Eagle operations, some at nearby Albuquerque, but others as far as Fernley, Nevada. We look forward to improved market conditions and to the day the Bernalillo plant can reopen.



# ABOUT THIS REPORT

This is the first Sustainability Report for Eagle Materials, but it will not be our last. We are proud of our sustainability accomplishments, and consistent with our culture of continuous improvement we intend to report on our future progress and build on this initial report.

We intend to make use of this report in our communication with external constituencies but also as we engage our employees in these important issues.

We are grateful to the Global Reporting Initiative and others for their frameworks and guidelines which were helpful in preparing this first report.

We welcome comments and feedback as we continue to make progress. Feel free to contact us as follows:

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