

SHAREHOLDERS LETTER

Dear Fellow Shareholders:

In fiscal 2016, Headwaters posted its 21st consecutive quarter of year-over-year growth in revenue and Adjusted EBITDA. We reported revenue of \$975 million, an increase of 9% over fiscal 2015. Gross profit increased 7% to \$288 million, Adjusted EBITDA increased 14% to \$190 million, and adjusted earnings per share increased by 38% to \$0.99 per share.

Headwaters' Building Products segment ended fiscal 2016 with revenues of \$594 million, reflecting 13% growth over prior year. Adjusted EBITDA improved 17% to \$119 million, and Adjusted EBITDA margins expanded to 20.1%. We should soon surpass our all-time building products record of \$124 million Adjusted EBITDA, which was achieved with housing starts above 2 million, compared to roughly 1.2 million today. The improvement and growth in our business is quite remarkable.

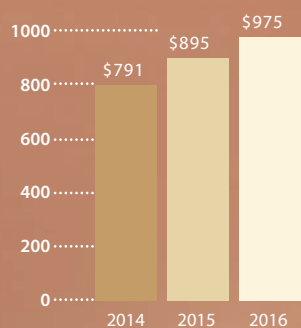
In August 2016, Headwaters acquired the assets of Krestmark™, a manufacturer of vinyl windows that is focused on providing outstanding customer service. 2017 revenue is predicted to be in the range of \$125 million, and Adjusted EBITDA margins should be accretive to Headwaters' 2016 consolidated Adjusted EBITDA margin of 19.5%. Krestmark promises to make 2017 an exceptional year of revenue growth and margin expansion for Headwaters.

Headwaters' Construction Materials segment posted record revenue and Adjusted EBITDA in fiscal 2017. Revenues increased 5% to \$370 million and Adjusted EBITDA increased 15% to \$92 million, with Adjusted EBITDA margins of 24.9%. When we acquired the fly ash business in 2002, Adjusted EBITDA margins were 14% - since then we've almost doubled our margins, and tripled total Adjusted EBITDA.

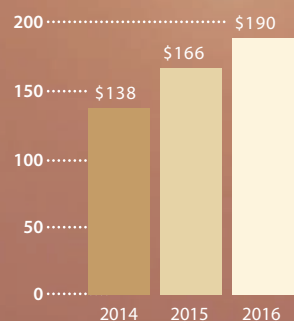
We anticipate continued growth in fly ash far beyond 2016. We've forecasted 2017 fly ash volume sales at between 6.1 and 6.5 million tons, a 14% to 22% increase over fiscal 2016. We have already taken steps towards achieving this goal by expanding storage and blending capabilities, reclaiming landfilled ash, and enhancing utilization. Reclamation of fly ash alone has the potential of resetting our entire business, providing growth opportunities for decades to come.

We're excited about the promise of 2017, and look forward to another great year.

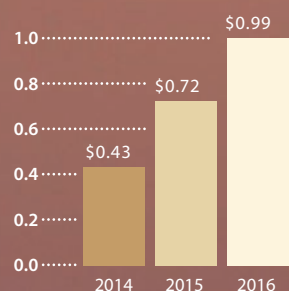
Sincerely,



Revenue
(dollars in millions)



Adjusted EBITDA
(dollars in millions)



Adjusted EPS