

**GRANITE**

1999  
SUMMARY  
ANNUAL  
REPORT

“BEST OF CLASS,”  
INDUSTRY OBSERVERS CALL US.  
WHAT IS THERE ABOUT GRANITE  
THAT MAKES US MORE SUCCESSFUL  
THAN OTHERS IN THIS BUSINESS?

BEST OF CLASS

Through its subsidiary companies, Granite Construction Incorporated builds roads, dams, bridges and other infrastructure-related projects throughout the United States. Granite is also a major producer of sand, gravel, asphalt, concrete and other road building and construction materials.

## FINANCIAL HIGHLIGHTS

(In Thousands, Except Per Share Data)

Years ended December 31,	1999	1998	Percent Change
<b>Operations</b>			
Revenue	\$1,328,774	\$1,226,100	8.4
Gross profit	\$179,201	\$153,092	17.1
As a percent of revenue	13.5	12.5	-
Net income	\$52,916	\$46,507	13.8
As a percent of revenue	4.0	3.8	-
As a percent of total assets	7.8	7.4	-
Depreciation, depletion and amortization	\$42,363	\$38,124	11.1
Additions to property and equipment	\$83,735	\$52,462	59.6
Cash provided by operations	\$99,987	\$96,030	4.1
<b>Financial Position</b>			
Total assets	\$679,572	\$626,571	8.5
Working capital	\$143,657	\$142,448	0.8
Current ratio	1.56	1.62	(3.7)
Property and equipment	\$242,913	\$205,737	18.1
Long-term debt	\$64,853	\$69,137	(6.2)
Stockholders' equity	\$327,732	\$301,282	8.8
Backlog	\$793,256	\$901,592	(12.0)
Net income per diluted share	\$1.96	\$1.70	15.3
Dividends per common share	\$0.40	\$0.30	33.3
Book value per common share	\$12.14	\$10.90	11.4

John Drever, who retired ten years ago as a Granite plant manager, recalls that "The same values and culture that distinguish Granite today had already been firmly in place for decades when I started my career at Granite 45 years ago."



**WE ARE DRIVEN BY A CULTURE THAT IS STEEPED IN A TRADITION OF HARD WORK AND FAIR PLAY.**

Doing things right and doing the right thing. Simply put, this is our standard of behavior. It's how we deal with each other and how we treat everyone with whom we interact on a daily basis. Vigorously sustained from generation to generation, our reputation for integrity has proven to be one of our most significant assets, and made us one of the most valued companies in our industry.

**FAIR PLAY**

## WE LOVE THE BUSINESS.

The whole notion of bringing smart people and huge machines together in an intelligent, intricate manner to create quality projects of lasting value makes for a satisfying way to make a living.

What we enjoy creating also improves the quality of people's lives. Roadway improvements, for example, that save lives and shorten commutes. New runways that enhance safety and timeliness of flights. Light rail routes that unlock gridlock. Massive dams that conserve valuable water. Attractive new sites for homes and recreation.

It's a great, down-to-earth business. And not one where a new technology or new-age entity can suddenly render us obsolete.

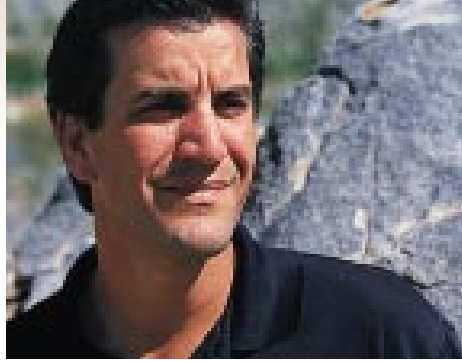


"It was the unique culture" that attracted Ross Kashiwagi, a 1996 Cal Poly graduate, to Granite. Ross has rapidly advanced to a position of responsibility as Branch Division Plants Engineer.



Our fine work on the attractive Polk County Parkway in Florida was completed during 1999. The Sunshine State, a top-five recipient of federal TEA-21 transportation funds, has quickly developed into a major market for us.

LASTING VALUE



John Beerling, one of the Stone Canyon visionaries, tells us that "Granite's financial strength and productivity is enabling us to realize our vision much sooner than we had anticipated."

**WE ARE ENERGIZED BY THE SATISFACTION WE GET FROM HELPING OTHERS REALIZE THEIR VISIONS.**



The entrepreneurs behind the new Stone Canyon undertaking in Arizona envisioned a remote stretch of hilly desert becoming one of the world's most beautiful and environmentally-friendly golfing resorts and communities.

The idea captured our imagination, too, and we are applying the full force of our expertise, resources and financial strength to bring the vision to swift fruition.

Natural terrain and desert vegetation is preserved at the new Stone Canyon golfing resort and community near Tucson.



TEAM PLAYER

**WE'VE UNIQUELY ORGANIZED THE BUSINESS TO ENABLE US TO PROFITABLY BUILD BOTH LARGE AND SMALL PROJECTS, FROM DRIVEWAYS TO INTERSTATE HIGHWAYS.**



Carl I. Holmes, Jr., a recent graduate of the University of California at Berkeley, joined Granite as a project engineer because he "didn't want to be trapped in an office working on the same project for years," and because "there is a level of class and sophistication at Granite that you don't often find at construction companies."



There is probably not another company of our size in this business that thrives on small projects as well as large ones. Where others may speak of several dozen projects in a given year, we build thousands. In fact, in 1999 we worked on over 4,000 jobs! Having a wide diversity of projects makes our work more interesting, spreads risk, opens doors to greater opportunities, and establishes us as a vibrant member of the local communities in which we operate.

We have the unique flexibility to repave a private driveway (as here at left, in Monterey, California) or create massive, public infrastructure such as the new President George Bush Turnpike now under construction in Dallas, Texas.

ANY SIZE JOB



"Our alliance with Granite greatly expands career opportunities for me," believes Sonia Axter, a project engineer with Wilder Construction Company in the Seattle area.



**WE ARE COMMITTED TO GROWING THE COMPANY IN A CONTROLLED, PROFITABLE MANNER.**

We are raising the bar, setting our sights on an average 15 percent bottom line growth over the next three to five years. How will we achieve this? We'll start by doing more of the same in more areas. Design-build projects are expected to ramp up, and we should see increased revenues and earnings. You can also expect us to use our balance sheet more to facilitate projects. And we will be more aggressive in pursuing acquisition opportunities that strategically fit our long-term objectives.

Granite began establishing a presence in the Northwest by investing in 2000 in Wilder Construction Company, one of the largest contractors in Washington and Alaska. A Wilder crew is seen here in February 2000 working on a Seattle harbor dredging project.



In the citation for the Arizona Department of Transportation's 1999 Partners in Success Award, our assistant branch manager Rene Redondo is described as having a "... passion about what he does ... He truly cares about people who are willing to perform and trying to improve."

**WE'VE BROKEN THE BUSINESS DOWN INTO INDEPENDENT PROFIT CENTERS LED BY MANAGERS WHO ARE PAID ON THE BASIS OF HOW WELL THEIR BUSINESSES CONTRIBUTE TO CORPORATE OBJECTIVES.**

All individuals in positions of responsibility at Granite are given strong incentives to plan and run their operations smoothly and efficiently, manage their people well, and to exceed customers' expectations. With compensation heavily performance based, Granite managers are typically among the industry's best paid, a heritage that rewards us well in attracting and keeping good people.

The recently completed Hitchcock Highway in the hills behind Tucson is among the award-winning Granite-built work in Arizona. We have won more state and national awards than any other contractor in Arizona.





Granite Regional Park in Sacramento is a former Granite quarry that has been converted into a revenue-producing office park as well as a public park in a creative partnership between Granite, the City of Sacramento, and a developer.



Granite's Scott Wolcott, Corporate Real Estate Manager, at left, and developer Dain Domich, partner, Separovich Domich, at right, update Sacramento City Councilman Dave Jones on progress of Granite Regional Park.

**OUR FINANCIAL STRENGTH  
OPENS DOORS BEYOND LOW-BID  
CONTRACTING TO CREATE  
INNOVATIVE VENTURES.**

Our strong balance sheet enables us to apply capital to our arsenal of competitive advantages while also enhancing profits. On the Stone Canyon project (see pages 4-5), for example, we are using our financial wherewithal to push the project well ahead of schedule. Another example: We have created a unique public/private partnership that has converted a spent quarry into an office and recreation park, providing us with a long-term revenue stream.





Branch office engineer Diana Navarro, a 1998 graduate of California State University, Fresno, left her first employer to join Granite in 2000 because "I believe there's a lot more opportunity for advancement at Granite."



We strive to maintain 20-year mining reserve levels in or near communities served by our branch operations, such as here in Palm Springs, California.

**OUR EXTENSIVE MATERIALS  
MINING RESERVES EXTEND A  
COMPETITIVE ADVANTAGE  
WELL INTO THE FUTURE.**

Our strategy to mine and produce our own aggregate materials, now and for decades ahead, is one of the key fundamentals that increasingly sharpens our competitive edge. The vertical integration of materials has a long-proven record of reducing costs and assuring quality and supply. Our materials producing operations also represent, in themselves, a respectable size business that sells product to others. We constantly seek and acquire additional properties to add to our reserves and to what is now 41 active aggregate mining sites, many of which supply our 14 concrete and 36 asphalt plants.



Garry Higdem, vice president and assistant manager of our Heavy Construction Division, believes that “We are at a point in time where word of the early, great successes of design-build projects is combining with the largest outpouring of transportation funds in history to create abundant opportunities for Granite.”

**WE HAVE THE WHEREWITHAL TO CONTINUE AT THE FOREFRONT OF THE DESIGN-BUILD EVOLUTION.**

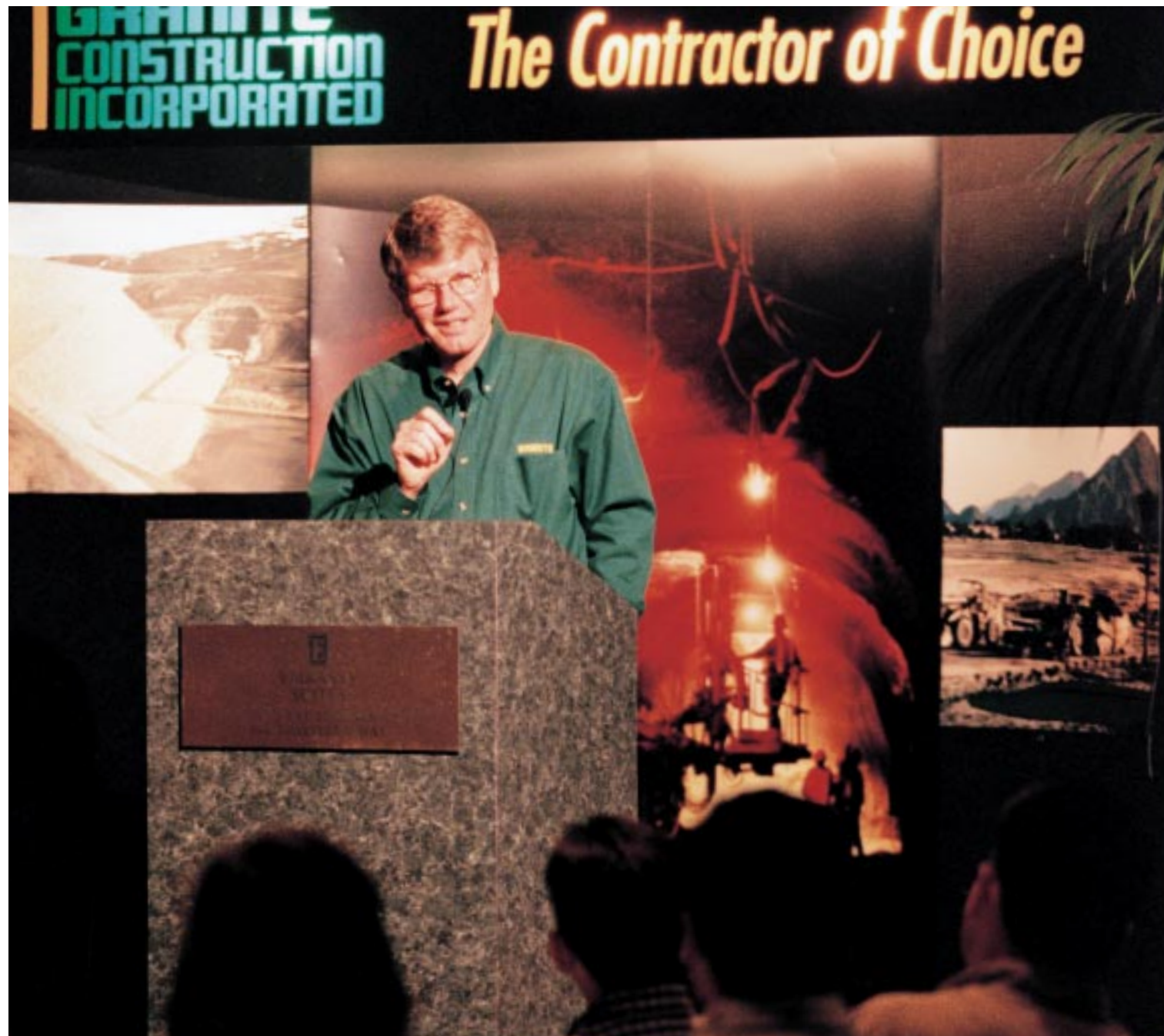
The design-build approach, wherein the company that is to build a major project is involved in its planning and design, has won credibility and is gaining popularity nationally. For good reason: With design-build, everyone wins. The customer gets a better quality product that is built more efficiently and completed sooner. And we have the opportunity to enhance our productivity and margins. Granite is well-positioned with our expertise, critical mass and financial strength to continue to lead the trend.

Our portion of the work continues on the design-build I-15 reconstruction project in Salt Lake City, the nation's largest highway project as well as the largest design-build project awarded to date.



LEADERSHIP

OUR CAPACITY FOR GROWTH AND UNDERTAKING  
HUGE PROJECTS IS LEVERAGED BY OUR REPUTATION.



"I believe I would have gotten to positions of responsibility a lot sooner if I had begun my career with Granite." Jim Rose is running Granite's first project in North Carolina.



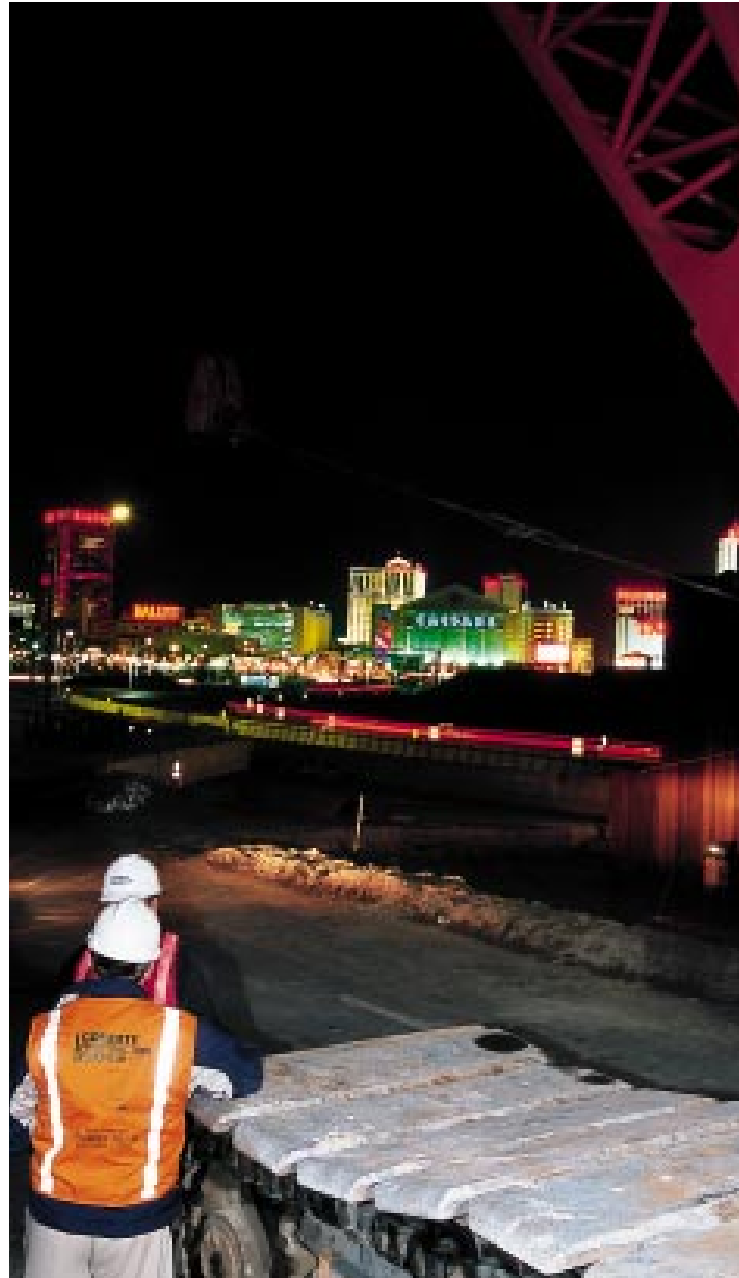
Granite enjoys a national reputation in both public and private markets as a quality company that produces quality work. Our reputation is paramount to attracting the quality people and partners that are key to our ability to capture the vast opportunities that are unfolding. In recognition of our integrity, in 2000 we were named one of the top 100 U.S. corporate citizens by *Business Ethics* magazine that ranks companies by their excellence in customer, employee and community relationships.

Bill Dorey, our executive vice president and chief operating officer, addresses recently hired engineers in March 2000. We are expanding our pool of talent through aggressive recruitment and acquisition activities.

QUALITY REPUTATION

"BEST PURE PLAY," INDUSTRY OBSERVERS CALL US. WHAT THEY MEAN:

ALL OF THOSE THINGS THAT SET US APART, AS WELL AS BEING IN THE RIGHT PLACES, GIVE US THE BEST PURE PLAY NATIONALLY ON THE BIG WAVE OF TRANSPORTATION INFRASTRUCTURE BUILDING THAT IS JUST NOW BEGINNING TO ROLL IN.



Work got underway (above) in 1997 on a major highway to improve access to Atlantic City, New Jersey, while another major project, to add runways at Dallas-Fort Worth International Airport (right), was completed during 1999.



Mark Leintz, named in 1999 to open our new office in Austin, Texas, sees "... a wealth of opportunities for Granite in this part of Texas." Much of Granite's work in Texas, a major recipient of TEA-21 funding, has been in the Dallas area where Mark was a project manager.

The many billions of dollars of dramatically increased federal funds available through the TEA-21 spending bill for transportation infrastructure are beginning to enter the bidding pipeline. We have a strong presence in four of the top six states targeted by TEA-21, where funding has been increased 58% to \$39 billion.



Following our own long footsteps of 1998, when we recorded a 67% increase in earnings from the prior year, growth in earnings for 1999 seemed to be a tall order. Therefore it is especially gratifying that we performed so well during 1999 as to chalk up another record year. What made the year's results even more satisfying is that our earnings of \$52.9 million were driven mostly by margin. While revenue was up 8.4% to \$1.3 billion, it was a full percentage point increase in gross margin that made the year: Net income was up 13.8%. It is a key part of our strategy to increase our earnings by bringing more profit out of our jobs and materials sales, without the tremendous effort it takes to produce earnings growth by increased revenue. My hat is off to the men and women in the field who made 1999 such a success.

We have targeted to grow our earnings by an average of 15% over the next 3-5 years. Why have we ratcheted up our goals from past years? Granite has grown its earnings at a compounded rate of 12.2% since we went public in 1990. That period included a complete business cycle – from the great years at the turn of the decade to the bottom of the worst recession in California (in 1992 and 1993) since the Great Depression, to the return to the very vibrant economy we are enjoying today. Over the next few years we see external factors, that are major drivers of our business, to be very positive. Certainly public-sector funding of the transportation infrastructure should be at all time highs. The federal TEA-21 monies, bolstered by state gas tax revenues, are anticipated to

produce lots of opportunities to bid. We also share the optimism of most economic forecasters about the economy in general – it should continue to produce jobs and demand for goods and services, particularly residential and commercial land development.

We are also optimistic about the future because of the internal initiatives we have undertaken. As the market has trended to the use of design-build as a desirable form of project delivery, Granite has established itself as a leader in this area that has the advantages of offering higher profit opportunity and faster project delivery to our clients. Secondly, Granite has expanded its role in bringing financing alternatives to its clients – either by arranging third party financing or by investing seed equity or debt, or both, in our clients' projects. This role serves as an entry to negotiate the construction of our clients' projects as well as providing an acceptable return on the investment. Lastly, we have embarked on a strategic planning effort the likes of which we have never undertaken before. Each profit center is doing a bottom-up strategic business plan whose major thrust is to produce growth at a higher rate.

Looking out even further, Granite is moving toward an employee development effort that is also unprecedented. We have acknowledged to ourselves that to fuel the growth we have targeted, we need to have effective leadership dispersed throughout the company and the finest team of people available. We are setting

out on a journey to advance the culture of Granite – to a learning culture in which sharing knowledge becomes a way of life. We also know we have to recruit the best at every job level, help each employee to develop to their full potential, provide strong performance-based incentives, and challenge them with outstanding job growth opportunities.

These are exciting times for our industry. We have a talented and enthusiastic team willing to power the company to unprecedented success. I would like to conclude by thanking each one of our hard-working, committed employees for the role they played in producing another year of record earnings. You are Granite and Granite is you. I am proud to be a part of such an extraordinary group.



A handwritten signature in dark ink, appearing to read "David H. Watts". The signature is fluid and cursive, written over a light-colored background.

David H. Watts  
Chairman,  
President and Chief Executive Officer

### Report of Independent Accountants

To the Board of Directors and Stockholders  
of Granite Construction Incorporated:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Granite Construction and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 1999 (not presented herein); and in our report dated February 11, 2000, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying consolidated balance sheets and consolidated statements of income are fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP". The signature is written in a cursive style, with the letters "P" and "C" being particularly prominent.

PricewaterhouseCoopers LLP  
February 11, 2000

## CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)

December 31,	1999	1998
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 61,832	\$ 62,470
Short-term investments	46,245	58,954
Accounts receivable	211,609	174,748
Costs and estimated earnings in excess of billings	14,105	14,677
Inventories	12,823	12,773
Deferred income taxes	14,885	15,397
Equity in construction joint ventures	30,611	20,020
Other current assets	10,211	11,769
Total current assets	402,321	370,808
Property and equipment	242,913	205,737
Other assets	34,338	50,026
	\$ 679,572	\$ 626,571
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Current maturities of long-term debt	\$ 5,985	\$ 10,787
Accounts payable	95,662	88,194
Billings in excess of costs and estimated earnings	66,342	50,619
Accrued expenses and other current liabilities	90,675	78,760
Total current liabilities	258,664	228,360
Long-term debt	64,853	69,137
Deferred income taxes	28,323	27,792
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, \$0.01 par value, authorized 3,000,000 shares, none outstanding	-	-
Common stock, \$0.01 par value, authorized 50,000,000 shares; issued and outstanding 26,995,506 shares in 1999 and 27,648,961 in 1998	270	277
Additional paid-in capital	49,817	45,080
Retained earnings	285,832	262,517
	335,919	307,874
Unearned compensation	(8,187)	(6,592)
	327,732	301,282
	\$ 679,572	\$ 626,571

Refer to the Granite 1999 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statement.

## CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data)

Years Ended December 31,	1999	1998	1997
Revenue:			
Construction	\$ 1,169,755	\$ 1,084,433	\$ 901,136
Material sales	159,019	141,667	127,069
Total revenue	1,328,774	1,226,100	1,028,205
Cost of revenue:			
Construction	1,015,041	955,213	806,280
Material sales	134,532	117,795	110,195
Total cost of revenue	1,149,573	1,073,008	916,475
<b>Gross profit</b>	179,201	153,092	111,730
General and administrative expenses	94,939	83,834	73,593
<b>Operating income</b>	84,262	69,258	38,137
Other income (expense)			
Interest income	8,682	9,856	7,941
Interest expense	(8,791)	(9,551)	(7,515)
Gain on sales of property and equipment	4,544	1,819	2,463
Other, net	(2,654)	3,629	3,152
	1,781	5,753	6,041
<b>Income before provision for income taxes</b>	86,043	75,011	44,178
Provision for income taxes	33,127	28,504	16,346
<b>Net income</b>	\$ 52,916	\$ 46,507	\$ 27,832
Net income per share			
Basic	\$ 2.03	\$ 1.75	\$ 1.05
Diluted	\$ 1.96	\$ 1.70	\$ 1.03
Weighted average shares of common and common stock equivalents outstanding			
Basic	26,058	26,559	26,397
Diluted	26,963	27,339	26,942
Dividends per share	\$ 0.40	\$ 0.30	\$ 0.24

Refer to the Granite 1999 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statement.

**Officers**

David H. Watts  
*Chairman, President and  
Chief Executive Officer*

William G. Dorey  
*Executive Vice President and  
Chief Operating Officer*

Patrick M. Costanzo  
*Senior Vice President and Manager,  
Heavy Construction Division*

Mark E. Boitano  
*Senior Vice President and Manager,  
Branch Division*

William E. Barton  
*Senior Vice President and  
Chief Financial Officer*

Roxane C. Allbritton  
*Vice President and Treasurer*

Garry M. Higdem  
*Vice President and Assistant Manager,  
Heavy Construction Division*

James H. Roberts  
*Vice President and Assistant Manager,  
Branch Division*

Michael L. Thomas  
*Vice President and Director of Human  
Resources*

Michael Futch  
*Vice President, General Counsel and  
Secretary*

David R. Grazian  
*Director of Corporate Taxation  
and Assistant Secretary*

Mary McCann-Jenni  
*Controller and Assistant Secretary*

**Board of Directors**

David H. Watts  
*Chairman of the Board,  
President and Chief Executive Officer*

Joseph J. Barclay  
*Former Chairman,  
President and Chief Executive Officer,  
Cascade Corporation*

Richard M. Brooks  
*Financial Consultant*

Linda Griego  
*President and Chief Executive Officer,  
Griego Enterprises, Inc.*

Brian C. Kelly  
*Construction Consultant*

Rebecca A. McDonald  
*Chairman and Chief Executive Officer,  
Enron Asia Pacific,  
Africa & China*

Raymond E. Miles  
*Trefethan Professor emeritus and  
Dean emeritus,  
Walter A. Haas School of Business,  
University of California, Berkeley*

J. Fernando Niebla  
*President,  
International Technology Partners*

George B. Searle  
*President of Searle Associates, Inc.*

**Annual Stockholders' Meeting**

Annual report and proxy statements are mailed about April 26, 2000. Granite's annual meeting of stockholders will be held at 10:30 a.m. on May 22, 2000 at the Embassy Suites, 1441 Canyon Del Rey, Seaside, CA.

**Common Stock Information**

At March 20, 2000 there were 27.0 million shares of outstanding and approximately 367 stockholders of record of Granite's common stock. On March 20, 2000, the last reported sale of common stock was \$26.06.

**Dividend Policy**

The Company expects to pay a quarterly cash dividend of \$0.10 and a special dividend of \$0.06 per share of common stock payable on April 14, 2000 to stockholders of record March 31, 2000. Declaration and payments of dividends is within the sole discretion of the Company's Board of Directors, subject to limitations imposed by Delaware law, and will depend on the Company's earnings, capital requirements, and financial condition and other such factors as the Board deems relevant.

**Company Contacts**

Stockholder information:  
Michael Lawson  
Director of Corporate Communications  
831/761-4717

Jacqueline Underdown  
Investor Relations Manager  
831/761-4741

**Registrar and Transfer Agent**

ChaseMellon  
Dwayne Knutson, Shareholder Services,  
235 Montgomery Street, 23rd Floor,  
San Francisco, CA 94104 800/356-2017

**Form 10-K**

A copy of the form 10-K, which is filed with the Securities and Exchange Commission, is available upon request. Write to Investor Relations, Granite Construction Incorporated, Box 50085, Watsonville, CA 95077-5085. Financial and other information is also available on the Internet at [www.graniteconstruction.com](http://www.graniteconstruction.com).

**Independent Accountants**

PricewaterhouseCoopers LLP  
Ten Almaden Blvd., Suite 1600  
San Jose, CA 95113

**Heavy Construction Division**

525 West Beach Street  
Watsonville, CA 95076  
831/761-7500

**Branch Division Offices**

*Arizona*  
4115 E. Illinois Street  
Tucson, AZ 85714  
520/748-8000

*Bakersfield*  
3000 James Road  
Bakersfield, CA 93308  
661/399-3361

*Central Valley*  
11280 Avenue 10 1/2  
Hanford, CA 93230  
559/584-2989

*Monterey Bay*  
580 W. Beach Street  
Watsonville, CA 95076  
831/763-6100

*Nevada*  
1900 Glendale Avenue  
Sparks, NV 89431  
775/358-8792

*Sacramento*  
4001 Bradshaw Road  
Sacramento, CA 95827  
916/855-4400

*San Jose*  
120 Granite Rock Way  
San Jose, CA 95136  
408/224-4124

*Santa Barbara*  
5335 Debbie Lane  
Santa Barbara, CA 93111  
805/964-9951

*Southern California Region*  
38000 Monroe Street  
Indio, CA 92203  
760/775-7500

*Stockton*  
10500 S. Harlan Road  
French Camp, CA 95231  
209/982-4750

*Utah*  
1000 N. Warm Springs Road  
Salt Lake City, UT 84116  
801/526-6000

**Forward Looking Disclosure**

This report contains forward-looking statements; such as statements related to public sector funding levels, growth expectations, the economy in general, design-build opportunities and external drivers of our business going forward. All such forward-looking statements are subject to risks and uncertainties that could cause actual results of operations and financial condition and other events to differ materially from those expressed or implied in such forward-looking statements. Specific risk factors include, without limitation, changes in the composition of applicable federal and state legislation appropriation committees; federal and state appropriation changes for infrastructure spending; the general state of the economy; weather conditions; competition and pricing pressures; and state referendums and initiatives. For additional information, please see Granite 1999 Annual Report on Form 10-K.