



Grayway

FULL SPEED AHEAD

Automotive plants are gearing up.

01
FULL SPEED AHEAD

The auto industry was down but now it's back

03
BMW

It's the entire package

04
JOINT VENTURE BLENDS
CHANGE AND TRADITION

On a fast track in San Antonio

05
GRAY MATTER

Many stories, one constant:
change

06
SHADES OF GRAY

Adapt and renovate



Few industries have felt the impact of global economic woes like the automotive industry.

A year ago there was ample reason for gloom as major automakers struggled and individual consumers wondered if their jobs were secure enough to invest in a new car. Even those who answered “yes,” often found it hard to get a loan.

Today things look much better. This GrayWay confirms that the auto industry does, indeed, still have a pulse.

There's been plenty of pain but new plants are still under construction and old ones are being retooled. Consumers are again gaining access to credit.

The crisis, though, reinforced some critical lessons. No matter the industry, to survive and thrive we all have to maintain an unrelenting focus on delivering quality, safety, durability and value to our customers.

That's been Gray's mission for 50 years. We feel the optimism, too, but won't forget the lessons.

A handwritten signature in black ink that reads 'Chris Allen'.

Chris Allen
Executive Vice President
Automotive Market
callen@gray.com

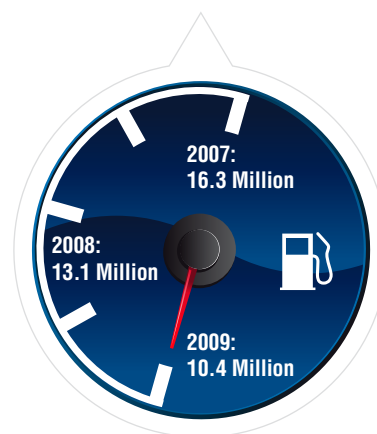
FULL SPEED AHEAD



FULL SPEED AHEAD

The auto industry

A chart of U.S. auto sales the last three years looks painfully like a gas gauge plummeting toward empty...



David Cole

Each year the pulse got weaker and by 2009 the auto industry was having what David Cole, Chairman of the Center for Automotive Research, calls “a near death experience.”

The results played out in newspaper headlines and breaking stories crawling across TV screens: Closing dealerships, layoffs, congressional hearings, bailouts, bankruptcies, inventory stranded on lots because customers couldn't get loans.

Was automageddon at hand?

No and yes.

No: The auto industry did not die. It has a pulse that, while not robust, is showing signs of strength.

Yes: It will never be the same again.





GM is one of many evolving to survive. Cutting production cost is just one strategy the automaker is using to get through its problems.

GM Headquarters, Detroit, Michigan

“The optimism is real; they will see some very profitable years ahead.”

David Cole

Chairman of the Center for Automotive Research

“Cultural changes have come with the near death experience. An impending hanging tends to focus one’s attention on becoming far more competitive very quickly,” Cole said.

“A massive structural change” accompanied the cultural transformation. Cole calculates that General Motors, for example, has lowered the cost of production per vehicle by \$5,000 to \$6,000 in the restructuring that came with its 2009 bankruptcy. Ford avoided bankruptcy but has also made “dramatic” improvements in its cost structure.

Those lower costs put longtime U.S. automakers on a competitive footing with their international counterparts. In the past, the U.S. Big Three were at a cost disadvantage of \$2,000 or more a vehicle, Cole said. No longer. “Rather than having a cost disadvantage they could end up with a several thousand dollar cost advantage.”

Improvements in the credit markets and in the credit-worthiness of auto buyers have also added to the sense that the market is on an upswing. Securities backed by auto loans are again selling, making money available. Would-be auto buyers are more credit worthy, coming into dealerships with smaller credit card debt and larger down payments, Automotive News reported. “The worst of the crisis in retail automotive financing has passed,” the publication declared on February 22, 2010.

That’s not a signal that U.S. sales will reach 16 million this year, or next or in 2012. By Cole’s analysis that’s OK because “the break even point has been lowered to 10 million sales, about 5 million below the historical level.” As a result, when sales begin to revive, “this industry is going to be profitable fairly quickly.”

So a word no one dared breathe a year ago is creeping back into the auto industry: Optimism.

“The optimism is real; they will see some very profitable years ahead,” observed Cole.

“It really feels good here at Ford now,” Ford Motor Co. executive chairman Bill Ford (and great-grandson of the founder) told the McKinsey Quarterly. But, he added, “We’re not out of the woods yet.”

The restructuring is about more than cost-cutting, it’s about fundamental change. “For 100 years pretty much all we had was the internal-combustion engine,” Ford said. It evolved, “but you didn’t have revolutions; you had evolutions.” Now, “we stand at the threshold of some real technological revolutions.”

For those who want to remain standing the key is being open to change. “We need to be nimble,” Ford told McKinsey. Martin Schuebel, BMW North American Vice President for Procurement, described the need to remain flexible as the biggest challenge in 2010. That means the flexibility to make technical changes in the vehicles and to adjust production to meet demand, as well as to adapt the product to please the customer.

Optimism about the future of automobiles cuts both ways for established automakers like BMW, Ford and GM. It can mean there’s more demand for their products but it’s also attracting new players like the entrepreneurs into the industry. There will be no resting on past achievements.

“It’s a totally different industry,” Cole said. “There’s still a great deal to do, it’s full speed ahead.”

BMW

It's the entire package

Martin Schuebel, BMW's Vice President of Procurement for North America, describes the strategy the automaker used to survive 2009 and carry it to a stronger 2010 in one word: Flexibility.



Martin Schuebel

"BMW has the flexibility to ramp up and down as the market demands," he said. For example, BMW has expanded to meet the demands of Chinese customers, who now buy about 20 percent of the company's North American production. "China is an important market for BMW and there is considerable working time each week dedicated to meeting the needs of Chinese customers."

The \$750 million expansion to BMW's Spartanburg County, South Carolina campus that Gray Construction completed in 2009 is helping meet that demand. Schuebel said the additional 1.2 million square feet provide more capacity and the ability to produce the new lines BMW is bringing to the market.

"Each crisis has a beginning and an end. We are seeing signs of improvement so 2010 may be the beginning of a recovery, and we will have fresh products to sell," he said.

Flexibility, again, is critical. BMW's challenge is to produce a vehicle "that really makes sense for a variety of customers."

"They want performance, fuel economy, value for a long time and joy. That's what makes a premium vehicle... Creating something that balances out all of those factors."



Ron Funderburk

Schuebel said it was a similar balance that led BMW to choose Gray for the expansion. "There were a lot of good single items about Gray but it was the entire picture, the entire package that was impressive." BMW Manager for Construction Projects Ron Funderburk said that with other builders senior management is often only involved in financial issues but not at Gray. Senior Vice President Anthony Roy "was involved throughout," which made it easier to address issues as they arose. "With Gray we were able to discuss things, get them out in the open and fix them," Schuebel agreed.

The expansion will increase capacity to more than 200,000 vehicles by 2012.

That's a clear bet on a better market. "We are quite optimistic," Schuebel said.

Optimism and flexibility promise a better future but no one's taking that for granted, he said.

"Companies are fighting hard for better times."

BMW Manufacturing, which celebrated its 15th production anniversary last year, builds the X5 Sports Activity Vehicle and the X6 Sports Activity Coupe for more than 120 worldwide markets and has created more than 5,000 jobs.

BMW MANUFACTURING CO: Facts and Figures

- Plant announced on June 22, 1992.
- 1,150-acre site off Interstate 85.
- Officially opened in 1994 as a 1.2 million square foot facility. Plant has grown to 4 million square feet.
- BMW has invested \$4.4 billion in its South Carolina operations.
- More than 5,000 jobs have been created.
- Produces 600 vehicles per day.
- X5 Sports Activity Vehicle and X6 Sports Activity Coupe (including their variants) are manufactured exclusively at BMW Manufacturing and distributed to more than 120 worldwide markets.
- Supplier network in North America has grown from 20 in 1992 when BMW announced it would build a U.S. plant, to about 170 suppliers today.
- About 40 suppliers are located in South Carolina.



BMW Manufacturing Co., 1,150-acre campus in Greer, S.C.

GRAY... WE'RE BUILDING

POSCO America Alabama Processing Center LLC McCalla, Ala.

When POSCO, the world's second-largest steel producer, wanted to be closer to its automotive customers in the United States it chose to locate near Birmingham, Alabama. And it chose Gray Construction to manage building the facility.

The groundbreaking was in late January for POSCO America Alabama Processing Center. The facility, which will employ 60 people, is scheduled to open in late summer.

That fast pace matches the Korean company's rapid international expansion program. The Alabama plant, which will process rolled steel from POSCO operations in Mexico and Korea, will be added to expansions POSCO is carrying out in Mexico, Vietnam, India and Thailand.

The Alabama processing center will process 120,000 metric tons of steel a year and supply U.S. factories of Korean automakers such as Hyundai Motor Co. and Kia Motors Corp. POSCO said the plant will also support sales efforts in the region with Japanese and European automakers and "lay a firm foundation for the company's North American business."



In-hwan Oh, Senior Vice President of POSCO-AAPC, giving remarks at the groundbreaking ceremony.

POSCO America Alabama Processing Center LLC, McCalla, Ala.



JOINT VENTURE BLENDS CHANGE AND TRADITION

A new joint venture is on a fast track to supply interior and silencer components for Toyota as it gears up to produce the next generation Tundra and Tacoma at its San Antonio, Texas campus.

The partners in the joint venture reflect the dynamic of change and tradition that marks the international automotive manufacturing industry.

Fernando Reyes is a Texas native who served as the president of San Antonio's Hispanic Chamber of Commerce. His company, which has over a quarter century of experience manufacturing equipment for its military customers, is now teaming up with AMTEX.

The on-site plant will make floor carpet for Tundra, Toyota's full-size pick-up, and Tacoma. Last year Toyota consolidated all Tundra assembly at the \$1.3 billion San Antonio facility, where it began production in 2006. The 2,000-acre site allows room for suppliers to be close by. For Reyes and AMTEX, being on the Toyota campus means parts can be manufactured within minutes of when they're needed on the assembly line. In addition, it virtually eliminates transportation and packaging costs as well as the environmental costs associated with each.

RAA chose Gray Construction to provide architectural and engineering services for the project as well as manage the construction. The timeline for the entire project is six months. The 78,786 square foot facility is slated for completion only four months after construction commences in order for Reyes to meet Toyota's production schedule.

Pushing the Envelope

In 1929 a loom maker sent his son to Europe and the United States to learn how automobiles were made. The following year Toyota Automatic Loom Works began researching engines powered by gasoline and, in 1935, produced its first car. The Toyota Group, as it's known today, still makes looms but in 2008 became the world's largest automaker. Of course, we all know that Toyota's culture of continuous improvement is working overtime today to address their safety issues. It's a unique challenge but one they're up to.

BMW started as a maker of aircraft engines in 1916 in a factory near Munich, shifted to motorcycles the following decade and later added automobiles. In each of its product lines BMW has pushed the engineering envelope to make technical breakthroughs.

No great fortune or emblematic company was ever built by being satisfied with the status quo.

Even though we live in times of incredible change, we aren't the first generation to face a world that's moving fast in new and unknowable directions. Change is not only constant and unstoppable, it's essential to progress.

At Gray we've been working with automakers for over two decades and have seen the landscape change almost beyond recognition.

These are challenging and exciting-and yes, even disorienting- times for the auto industry. Last year we were proud to lead the effort to expand BMW's plant in South Carolina, which will ship thousands of autos weekly to China, just as we have been proud to build facilities for Toyota and its subsidiaries. Two different companies with different histories and distinct challenges today, but each a symbol of the brave new world of auto manufacturing.

These are exciting times and we're glad to be building them along with the companies who will be creating the next wave of automotive history.



Jim Gray
Chairman and
Chief Executive Officer



Stephen Gray
President and
Chief Operating Officer



Reyes Amtex Automotive
San Antonio, Texas

AT A GLANCE: Reyes Amtex Automotive (RAA)

- A joint venture between Reyes Industries Inc. and AMTEX a wholly owned subsidiary of Hayashi Telemu in Japan.
- San Antonio-based Reyes Industries has over 27 years of manufacturing experience supplying support systems for the U.S. military.
- AMTEX, a subsidiary of Hayashi Telemu, evolved from its founding as a textile trader 60 years ago into producing automotive interiors.



Jim Gray and Stephen Gray

ADAPT AND RENOVATE

Through the two decades I've been involved in construction in Southern California trends have shifted in the auto manufacturing landscape.



Bob Moore
President
Gray-I.C.E. Builders

In the early days, auto manufacturers who had built plants here after World War II were beginning to leave the state, leaving large facilities vacant. One of the first projects I worked on involved converting a former General Motors plant in San Jose into a huge outlet mall. Some auto and aerospace plants were redeveloped into mixed use residential and business centers, and some were torn down.

In California we built a lot of malls and housing but forgot that people need jobs to buy those things. That's changing now. The development trend is shifting back toward re-using manufacturing facilities for manufacturing. A lot of newer, upstart companies are taking over existing space.

Areas with idle plants have moved aggressively to attract these new companies. Two Southern California cities, eager to create jobs, have offered large incentive packages to firms we've worked with, including vacant plants for almost nothing.

In this environment, being able to adapt and renovate is a key skill and certainly a strategic focus of any contractor that wants to successfully serve these new, technologically advanced automakers.

Another trend we've observed is that automakers want to locate design studios in Southern California to capitalize on the workforce here. They need educated, innovative, very creative people to be part of their design teams. Last year Gray-I.C.E. completed design for a new 172,000 square foot building to house every aspect of Kia's design work in the United States (GrayWay October, 2009.)

Whether in new construction or renovation, the trend going forward is on containing costs and being environmentally sensitive. The name of the game is going to be simple, inexpensive and green.

MAINTENANCE TIPS

At Gray, we don't just hand you your building keys and walk away; we're here during the warranty period and into the future. The best way to avoid expense and headaches is regular maintenance. Steve Higgins, Gray's Service Team Manager, offers these tips as winter gives way to spring.

- **Check paving for damage caused by snow removal and to see if it's time to apply new sealer to prevent water infiltration.**
- **Perform a general review of your roof. Check to assure gutters and drains are clean and draining properly. Make sure snow and ice buildup hasn't damaged flashing, and repair any loose flashing ahead of springtime storms and wind.**



Steve Higgins
Service Team Manager
Gray Construction

“At Gray, we don't just hand you your building keys and walk away; we're here during the warranty period and into the future.”



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