



NEWS RELEASE

HEADWATERS INCORPORATED ADVANCES ALTERNATIVE FUELS FOCUS WITH COAL-TO-LIQUIDS AGREEMENTS

SOUTH JORDAN, UTAH, AUGUST 9, 2005 – HEADWATERS INCORPORATED (NYSE: HW) announced today that it has completed two non-binding Memoranda of Understanding (“MOUs”) linked to potential coal-to-liquid fuels projects in Arizona and North Dakota.

Parties to the Arizona project include Headwaters and the Hopi Tribe. Parties to the North Dakota project include Headwaters, Great River Energy, North American Coal Corporation and Falkirk Mining Company.

Each MOU anticipates Headwaters acting as developer of an indirect coal liquefaction plant producing 10,000 barrels per day of ultra clean diesel and other liquid fuels, as well as electricity from an IGCC power station. The plant would be expandable to up to 50,000 barrels per day of liquids fuels production. The other parties to the MOUs would participate as equity partners in the project development and would contribute coal resources sufficient to serve the lives of the respective plants.

Completion of either project will be subject to negotiation of definitive agreements, board of directors approvals, project financing and other conditions. Headwaters estimates that design and construction of a facility will take between five and seven years.

“We are excited to make progress on this ambitious initiative,” said Kirk Benson, Headwaters chairman and CEO. “In a world of rising oil prices and ever increasing environmental concerns, coal-to-liquids technologies provide an attractive option for meeting our growing transportation fuel needs. Headwaters is uniquely positioned to lead the deployment of these technologies in the United States.”

From a technology perspective, Headwaters has deep roots in coal-to-liquids processes. The company’s proprietary Fischer-Tropsch catalyst can be used in an indirect coal liquefaction plant to convert coal-derived syngas into ultra clean diesel and other fuels. The company is also the owner of direct coal liquefaction technology that is currently being deployed or studied for deployment in China, India and the Philippines. Headwaters is also active in the traditional refining industry as it deploys its proprietary heavy oil upgrading technology.

From a business development perspective, Headwaters is a leader in creating value for energy industries through innovative advancements in the utilization of natural resources. The company has established market leading positions in providing pre-combustion and post-combustion services to the coal-fueled electric utility industry. For instance:

- Headwaters Energy Services is the largest supplier of technology and reagents to the coal-based synfuel industry and is currently deploying new pre-combustion clean coal technologies, including dry coal cleaning and (in cooperation with Great River Energy) lignite fuel enhancement.
- Headwaters Resources is the largest manager and marketer of coal combustion products, including fly ash, that are created by coal-fueled power plants.
- Headwaters Construction Materials enjoys leading market positions in several building materials sectors. Coal combustion products are utilized in many of these products.

“The emerging alternative fuels market presents Headwaters an excellent opportunity to continue to fulfill our company mission,” said Benson. “We have the opportunity to take an under-utilized resource – America’s abundant supply of coal – and use it in an environmentally responsible manner for the domestic production of vital transportation fuels.”

Headwaters previously announced that its initial project as an alternative fuels production facility developer would be a 50 million gallon per year ethanol production facility in North Dakota. Development of that state-of-the-art facility, to be located on land adjacent to Great River Energy’s Coal Creek power plant, is continuing in partnership with GRE.

“Ethanol production offers attractive synergies for our energy business,” said Benson. “Headwaters is already a leading supplier of pre-combustion and post-combustion services to coal-based electric utilities nationwide. Advantages related to co-locating ethanol production with power plants could be substantial. Furthermore, as we move our coal-to-liquids program forward in the United States, access to alternative fuels markets will be important. A position in the existing ethanol industry will help us build our alternative fuels capabilities.”

About Headwaters Incorporated

Headwaters Incorporated is a world leader in creating value through innovative advancements in the utilization of natural resources. Headwaters is a diversified growth company providing products, technologies and services to the energy, construction and home improvement industries. Through its alternative energy, coal combustion products, and building products businesses, the Company earns a growing revenue stream that provides the capital needed to expand and acquire synergistic new business opportunities.