MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to this Martin Marietta Materials Incorporated Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the President and Chief Executive Officer, Mr. Stephen Zelnak. Please go ahead, sir.

Stephen P. Zelnak, Jr., Chairman, President, and Chief Executive Officer

Thanks for joining us today. I have with me Anne Lloyd, our Chief Financial Officer. We had an outstanding fourth quarter, despite significantly lower shipments and earnings in North Carolina, and most of the Southeast, due to wet weather. Earnings per diluted share of $1.02 compared very favorably with the prior year record of $0.77. Earnings per share increased 32% versus a 15% increase in net sales. In the fourth quarter, we repurchased 1,020,000 shares of our common stock for a total of 2,658,000 shares repurchased for the year. The buyback expenditure of $176 million would rank our investment in Martin Marietta as our fourth largest acquisition.

In our Aggregates business, we had excellent pricing in all areas. Shipments were particularly strong in the Southwest and South Central areas. We benefited from the strong economy in South Texas and from rebuilding activity in Louisiana and along the Gulf Coast. Shipments in North Carolina were down 13% from prior year, while the South Atlantic area was down 5%. Extremely wet weather caused the shortfall. The general economy in both those areas continues to be robust. The Midwest farm belt states had an early winter, which caused operations to shutdown prematurely in those areas.

Operating margin in our Aggregates business expanded by 70 basis points, 10th consecutive quarterly increase when compared with the prior year period. This was despite a $2.7 million decrease in other operating income from the prior year period. For the year, operating margin in Aggregates increased 260 basis points to 18.4%. Quarry level operating margin, which is derived by adding back the freight and distribution related margin decrement of 420 basis points, was a record 22.6% for the year. Earnings from operations in Aggregates increased 34% on a 15% increase in net sales.

Our Magnesia Specialties business had another excellent quarter, with earnings from operations of $5.7 million, up 40% on a 23% increase in net sales. The rapid escalation of natural gas and other energy costs negatively impacted earnings by about $2 million. For the year operating margin improved 280 basis points to 19.4%, while earnings from operations of $23.9 million increased 36% on a 16% increase in net sales. Both the lime and magnesia chemicals product lines performed well.

Our Structural Composites business picked up an additional $6 million in follow on orders for ballistic panels from the military. This added to the initial $3 million order announced last quarter. During the fourth quarter, our loss of $2.9 million, included $1.1 million of write-downs on inventory related primarily to the trailer product line. The interest in our products by the military continues to grow. The pace of military orders will be the key factor in determining whether or not we can generate the estimated 35 million in annual revenue needed to reach breakeven in this business in 2006.

Looking ahead at 2006, we expect another excellent year, based on current forecast of construction activity. In our areas, we expect commercial construction, which is 26% of our business, to be up 5 to 7% for the year, while housing construction, which is 20% of our business, is expected to decline 3 to 5%. Infrastructure, which is 45% of our business, should increase 3 to 5%. We expect shipments in our Aggregates business to increase 2 to 4%, while pricing is expected to be up 9 to

11%. Our Magnesia Specialties business should have another positive year with earnings from operations of 26 to $28 million. In Structural Composites, our target is breakeven performance, although a small loss is more probable.

In 2006, we will begin to recognize the expense related to stock options, as required by the new accounting rules for share-based payments. In 2005, we changed our stock-based compensation program to better align shareholders' interests with those of our employees. This change resulted in an increase in the number of restricted stock awards and a decrease in the number of stock option awards. As a result, total stock-based compensation expense should range from $0.11 to $0.15 in 2006, as compared to the $0.03 expense in 2005. For the full year of 2006, we currently expect earnings per diluted share to be $4.90 to $5.25, inclusive of stock-based compensation expense. This compares to $3.85 in 2005 after adjusting for the one-time favorable tax items of $0.15 per share and the 2005 pro forma effect of expensing stock options. For the first quarter 2006, we expect earnings to range from $0.30 to $0.45 per diluted share.

At this time, I would be pleased to take any questions that you may have.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question comes from Arnie Ursaner with CJS Securities.

<Q – Arnold Ursaner>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hi, Arnie.

<Q – Arnold Ursaner>: Steve, can you give us an update on your capital spending? I know, you've had a pretty significant capital improvement plan in place that we were hoping to see the impact in April. Given the positive weather, can you update us on if that timetable is still in place, and what your total levels of capital expenditure are expected to be this year?

<A – Stephen Zelnak, Jr.>: The incremental capital expenditure that we announced in the middle of last year is basically on target. I think, the timeframes there are going to hold to what the schedule indicated. Most of that will be completed and in place for the beginning of the season. With respect to total CapEx for 2006, we should be somewhere in the neighborhood of $225 million, and that compares to total for 2005 of about 220; it's 221. That's inclusive of joint venture expenditures, too, for Hunt Midwest, which was about 9 million of that.

<Q – Arnold Ursaner>: A bookkeeping question. It looks like you bought quite a bit of your stock at an average price of around 75. I'm kind of wondering, if you participated in or were involved in the 4 million share trade. But the specific question I have is, your end of quarter share account assuming you bought it towards the very end of the quarter in December.

<A – Stephen Zelnak, Jr.>: End of quarter share count was 45.7 million shares. And you calculated in the right range for fourth quarter. For the year, repurchase price was $66.5 and we think that was pretty good investment.

<Q – Arnold Ursaner>: Okay. My final question, if I can. We, as you know, have been have pretty aggressive towards your shares, and we are looking at 50% earnings growth this year with quite a bit of raw material cost as a headwind, and one of the questions I have been asked by several people is my view of how conservative you are being in your guidance for the upcoming year since it's well above everyone's expectations. I've always found you to be pretty conservative. So can you perhaps expand a little bit more on your guidance for the upcoming year?

<A – Stephen Zelnak, Jr.>: Well what we try to do is to provide good guidance based on what we see at this time. We got a pretty significant rate of price increase in there, certainly relative to what I have seen from other companies. Probably worthwhile talking about that because as you look at it, you need to understand that our business mix is different than other companies. We have got much more of our mix oriented toward the long haul transportation. And in fact in '05 that was about 26% of our business. The rates of cost increase there for the transport component of that business are up sharply and by sharply, I mean anywhere from high teens up into the low to mid 30% range. So the rate of pricing increase there is in part a response to higher distribution costs. At the same time, I will tell you that we expect to increase margins, even after all of that, probably roughly 200 basis points. And I'd say, there might be a little more upside than downside on that. Performance at the quarry level – the rate of escalation in costs will be well below the pricing level, but we've also got to allow for the transportation component that's almost uniquely Martin Marietta

<Q – Arnold Ursaner>: Okay. Again I have a lot of other – one more follow-up question. You have some language, I've never seen before in your press release about volume growth in other uses of aggregates, including chemical grade stone used in electric power plant emissions and railroad ballast. I know you pick your words carefully. Could you expand on that new language?

<A – Stephen Zelnak, Jr.>: Typically, we don't comment on those categories, because they are less than 10% of our business. In this particular case, we think those categories of business are going to be quite good for us in '06. Railroads, as you know are very, very busy. They are doing a lot of maintenance and yard enlargement. They are also doing track expansion. So we think our railroad ballast business, of which we are the largest supplier in the country, will be quite good. And with the Clean Air Act changes coming on, there is a lot of activity in the power generation business to scrub flue gases. And we will be a participant in that business.

<Q – Arnold Ursaner>: Congratulations.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: And our next question comes from David MacGregor with Longbow Research.

<Q – David MacGregor>: Hi Steve, nice quarter.

<A – Stephen Zelnak, Jr.>: Thank you.

<Q – David MacGregor>: You talked about some of the weather disruptions in your business. I guess for my first question, I would like to know just what you could have shipped, above and beyond what you did ship, had you had more hospitable weather conditions?

<A – Stephen Zelnak, Jr.>: Just looking at the economy in the impacted areas, I'm going to leave out the Midwest, and just kind of put it aside, not because we don't like it, but it's not as robust a market in the fourth quarter anyway. But where we do expect to ship material at very high levels in the fourth quarter is in North Carolina, and down the South Atlantic Coast. I'm going to give it to you a different way, because, for competitive reasons, I'd just as soon not give you the volumes. But one of the things we did go through is just asked the question, if we had shipped at levels that were reasonable based on the economic expectations, what impact would have that – would that have had to earnings? And $0.07 to $0.10 a share would be a very reasonable estimate, if we had shipped at normal levels. When you start taking business out of North Carolina and the South Atlantic, you're taking it out of the best margin areas we have. And, I think most people know that. We've said it before.

<Q – David MacGregor>: Yeah.

<A – Stephen Zelnak, Jr.>: So, it was high impact.

<Q – David MacGregor>: Okay. On the pricing side, well, just while we are on volume, stay on that for a moment. I guess, you talked about 2 to 4% increase in volume for 2006 in your guidance. How much more could you ship, if market conditions were to warrant?

<A – Stephen Zelnak, Jr.>: That all depends upon exactly where the business is, because it truly is a quarry-by-quarry issue. We are very busy in the Southeast. We are very busy in North Carolina. The areas where we have some capacity available would be the lower growth areas of the country, in the Midwest area, and the North Central. But, at the same time, we are ramping up. And, we will take actions out of the ordinary, if the business demand is there. And, by out of the ordinary, I mean, we will purchase portable plants. We will do projects at an accelerated pace. So, I would have to look at that site specific. I can't give you a good general answer.

<Q – David MacGregor>: Is it fair to say, though, that with contract pressures and whatever other sort of temporary measures you could make that volume could be up into the high single digits?

<A – Stephen Zelnak, Jr.>: No, I personally don't see that. I don't think, we are sitting with a very robust construction economy right now. I think, infrastructure is going to be good. Actually, I think infrastructure, based on what's going on at the state level, is building toward, very good times in '07 and beyond. But, we won't get the full impact of the federal highway bill or state initiatives in '06. So, that's going to temper what is potentially possible in that sector. We, even though home-building is modest for us, only 20% of our business, in our areas it is going to go down, we think less than the country as a whole, because we are in non-speculative areas. The markets are not overheated. But, I don't see the high single-digit growth. I'd love to see it. If that happened, there would be some eye-popping numbers to go with it. But I don't think it's likely.

<Q – David MacGregor>: Yeah. I mean I guess the question was, if they were, and I guess we're discussing hypothetical here. But would you be able to meet that level of demand, or are you capacity constrained?

<A – Stephen Zelnak, Jr.>: It's, again, back to the individual location. We've got places where we can double-shift; go to 20 hour a day, run times, 6 days a week. There are all kinds of things you can do, and we've done them.

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak, Jr.>: If the business is there, we will do that. In addition, we're not at all reluctant to employ capital to ramp the business up quickly. So it's back to what locations we demand it.

<Q – David MacGregor>: Okay. You had talked last quarter about being the only company that was able to meet a reconstruction project, I guess, request for proposal from FEMA. And I was just wondering, you had mentioned in your prepared remarks that there was a little more Gulf Coast in your business this quarter. I was just wondering if you could talk a little bit about that and give us some thoughts on the magnitude and the sustainability of that demand.

<A – Stephen Zelnak, Jr.>: Magnitude is up sharply. The sustainability, we think there's going to be rebuilding going on in that area for a good 3 years or more; most of it in Louisiana, down to Mississippi Coast, and the areas that were heavily impacted by Katrina and Rita. The job you mentioned was one that was the first FEMA highway job that was build, on Highway 98 down around Lake Charles, Louisiana. We were the only company that could quote the whole job. We did not choose to supply the whole job. We are supplying the majority of it. And there is considerably more of that work coming, plus just general rebuilding and repositioning of the population. One of the things that is going on is that New Orleans is going to be a much smaller city no matter what happens here. Baton Rouge and other areas of Louisiana are going to be beneficiaries. So you're going to have boom times in some of those other areas where people are literally moving to higher ground. So we are pretty excited about it. Plus, keep in mind, we've got our new major capital project coming on in the third quarter of this year which is up near Paducah, Kentucky, our Three Rivers Quarry. That's a $46 million project. And we'll take the potential of that operation from 5.5 million tons to north of 8 million tons. We are permitted for 12 million tons there.

<Q – David MacGregor>: I guess the last question is just what do you perceive right now as being the greatest risk to pricing?

<A – Stephen Zelnak, Jr.>: Well, the greatest risk to pricing is a significant downdraft in demand. And right now, I think that's the only way that happens in '06 in the foreseeable future is that we have some external event that's beyond our control.

<Q – David MacGregor>: Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Our next question comes from Jack Kasprzak with BB&T Capital Markets.

<Q – John Kasprzak, Jr.>: Thanks. Good afternoon, Steve.

<A – Stephen Zelnak, Jr.>: Hi, Jack.

<Q – John Kasprzak, Jr.>: Congratulations on a great year.

<A – Stephen Zelnak, Jr.>: Thank you.

<Q – John Kasprzak, Jr.>: My first question just has to do with the issue of residential construction and your down 3 to 5% forecast. Is that something that you are already seeing or seeing the – seeing take place in order rates for backlog, or is it more just a forecast that goes along with what seems to be more or less the consensus right now?

<A – Stephen Zelnak, Jr.>: The consensus for the country is – there are a couple of forecasts out there. And I'm not sure what the true consensus is, but they range from down 5 to 7%. It seems to be that 6% is a typical number. In our areas, we are not – we are not seeing the 3 to 5% down right now. What we're anticipating is that the Fed will continue to increase the interest rates, and that's going to have some more impact. We're seeing just very modest pullback. And in some of the markets, we're seeing acceleration. San Antonio would be notable there; that's a very strong market. Raleigh/Durham area in North Carolina is very strong. Charlotte is going quite well. These are markets, from a price standpoint, that have not had the appreciation that you've seen at the national level, particularly in the overheated speculative markets in the West and up in the mid-Atlantic and Northeast. So, we actually feel pretty good about it. We think we are going to be down, but certainly less than the national economy.

<Q – John Kasprzak, Jr.>: Okay. And the – with regard to your '06 guidance, do you – is there an assumption for further share repurchase activity in that guidance, or is it based on 45.7 million shares outstanding?

<A – Stephen Zelnak, Jr.>: We did not make an assumption of significant share repurchase.

<Q – John Kasprzak, Jr.>: Okay. And my last question is with regard to the pricing guidance of 9 to 11%, is that something that's more or less baked in the cake already based on price increases from last year rolling forward and price increases implemented at the beginning of this year, or do we need further price increases in the spring or summer to achieve that?

<A – Stephen Zelnak, Jr.>: I think we've given you a number that reflects where we think we are. It's not a speculative number. I think it's a pretty solid number. And what you should expect is that in the first half of the year, you are going to see double-digit rates of increase. In the second half of the year, I don't believe that we will have as much mid-year increase as we had last year, either the number of quarries, sizes or the magnitude. And if you look at the month by month, which we can and you can't, but you can look at the quarters, for 2005 you will see that there's an acceleration in rate of price increase. So we'll be comparing against a tougher standard in the second half. So I think the expectation would be that in the second half that you're going to see the rate of price increase be quite good, but it will moderate from the first half.

<Q – John Kasprzak, Jr.>: Okay. Great. Thanks.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And our next question comes from Thomas Russo with Gardner Russo Gardner.

<Q – Thomas Russo>: Wow, Steve, some terrific numbers and a great year.

<A – Stephen Zelnak, Jr.>: Thank you, Tom, appreciate it.

<Q – Thomas Russo>: Yeah. Congratulations. As I look at the housing forecast, on the forecasted decline, can you just recount what your markets have looked like over the past three or four years in terms of volumes to the housing market?

<A – Stephen Zelnak, Jr.>: We have – the Company as a whole, we have ranged up to about 22% of our business going to housing. In '05 that was 20% versus a peak of 22%. And that wasn't a decline in housing demand; that was just more growth in the business in other areas. This time around, we actually expect to see a modest decline while the total business grows. So the percentage of housing based on that would go down a percentage point or two in '06 if our forecast is accurate.

<Q – Thomas Russo>: Good, good. And the cited move towards servicing the utility company needs, does that suggest that you have specific quarries with Thiosorbic lime or specific utility-grade lime coming out of a couple of dedicated quarries? Or what are you looking at there?

<A – Stephen Zelnak, Jr.>: Well, we have a number of quarries that have high-calcium limestone that is suitable for use for utility scrubbing. The Thiosorbic, you mentioned, is an old Dravo product formulation that they have put together in the lime industry and…

<Q – Thomas Russo>: Yeah.

<A – Stephen Zelnak, Jr.>: That's got a certain percentage of dolomitic material in it. But what the utilities are typically wanting from people like us is high-calcium limestone. So yes, it is specific to certain locations; it has to be limestone locations. The Granite Belt doesn't participate in that. So you are talking about quarries in the Southwest, in the Midwest/North Central area. And the Bahamas has a material that would meet those specifications.

<Q – Thomas Russo>: Thank you, Steve. And then last question is about the shipping components pass through your higher pricing and just to put the shipping in perspective to talk for a moment if you would about the implementation further of your waterborne to rail sort of global network. How is it working, and how has that possibly protected you against the full pressure that might have been felt if you were more exposed to just trucks, for instance, given that you are bringing stone in with some less costly transportation built in?

<A – Stephen Zelnak, Jr.>: Well, in most of the markets where we are engaged in the movement by rail and water, trucks are really not a viable option for a long time relative to what the prices are today. Rail and water are going to be by far the most viable options. But one of the things we have been able to do really relates to our long-term strategy that we've worked on for over 10 years. We have built the volume for our rail movements, and we have built the volume for our waterborne movements, both large and deepwater ship. And because of that we are able to get contractual rates, which are very attractive relative to the marketplace. An example would be that if you were trying to secure a deepwater ship to haul material from, let's say Nova Scotia or somewhere in that vicinity of Canada down to the Southeast, if you were out on the spot market right now, your spot market rate would be 2 to 3 times our rate. So we've got some nice contractual agreements locked in that are satisfactory to the shippers and ourselves, and it just all comes back to high levels of volume we have been able to create over time. So we will continue to lever off of that, and also by the fact that our distribution yards have increasing volume throughput. The handling cost per ton has gone down pretty sharply in the major yards, and that's a continuing opportunity also.

<Q – Thomas Russo>: Thank you. And my last question, Three Rivers would suggest that the 12 million capacity facility will be waterborne, I suspect. Then also, how does that size compare to your other major quarries? It seems like it must be pushing up against the largest that you've got.

<A – Stephen Zelnak, Jr.>: Three Rivers is predominantly a barge quarry, and in fact, we barge material to 14 states out of that quarry. It's an excellent material. And the plant we are building will give us a lot more flexibility and significantly reduce cost in meeting demands. The 14 states, that means you have 14 different sets of specifications because in the world of government no two can ever agree on anything. You mentioned 12 million tons, and let me clarify, we'll be plus 8 million tons coming out of the chute. We are permitted for 12 million tons. With some incremental capital expenditure, we can do that. We'll see what the market will demand, but we set ourselves up for some significant growth opportunity there. Our largest quarry is in San Antonio, the Beckmann Quarry that we bought as part of the Redland-Texas acquisition back in 1998. And that quarry would typically be in the 9 to 10 million ton range. So this is big for us.

<Q – Thomas Russo>: Thank you very much. Good quarter.

<A – Stephen Zelnak, Jr.>: Sure. Thank you.

Operator: Our next question comes from Leo Larkin with Standard & Poor's.

<Q – Leo Larkin>: Good afternoon. Could you give us guidance for the tax rate and DD&A for 2006?

<A – Stephen Zelnak, Jr.>: Sure. DD&A 2006 ought to be around 145 million versus 138 in 2005, and the tax rate for 2006 right around 30%.

<Q – Leo Larkin>: 30%. And interest expense? What guidance would you give there?

<A – Anne Lloyd>: About 45 million.

<A – Stephen Zelnak, Jr.>: Yes. About the same.

<Q – Leo Larkin>: Thank you.

Operator: And our next question comes from John Carnegie with ABN Amro.

<Q – John Carnegie>: Thank you. If I could ask one question, you mentioned in your statement that there was going to be supply constraints in many of your Southeast and Southwest markets. Perhaps you could expand on that a little bit?

<A – Stephen Zelnak, Jr.>: Sure. You have got two factors that are operating that cause the supply constraints. And obviously, you have to start with the high-level demand. When you get beyond that, you've got to look at the capacity of the quarries to serve the areas. And coupled with that you've got to look at transportation capacity because many of the markets that are short on supply or have an imbalance at times are located in the coastal markets, which are high-growth markets. So as you look at it, first of all, quarry supply is pretty significantly tested. Does it mean that if you have the reserves, which we do, other players would have to speak theirs, there is an opportunity to expand the capacity of the quarries, either short-term or longer-term. But beyond that, you get into the issue of how much can a railroad move and how much can a waterborne carrier move? And the bigger constraint in many cases is the transportation. If you look at the Southeast in particular, where you've got CSX and Norfolk Southern, you start looking at a lot of trackage that runs North-South, and that trackage, much of it is single mainline as opposed to dual. It's very tough for them to expand the amount of trackage they have, because of all the small towns that have sprung up, difficult to find a place to put the track at any reasonable cost where there is any political will to do that. The same thing with big, large-scale rail distribution yards, transfer points. So you've got logistical constraints, which are a key part of this equation. And frankly, as we looked at this thing for the long term, our expectation was that we needed long time ago to get a distribution network set up, because when the market got truly high, that was going to be difficult to do, and that's exactly where we are. We've got a great network and we're still dependent on the railroads and our water carriers to move the material, but we are bringing on more capacity, particularly on water. We've got two new dedicated ships that are going to be employed in the long-haul business, primarily out of Nova Scotia, that are coming on the first part of this year. So we're continuing to ramp up, but I think it's going to be constrained. Even if you can get the quarry capacity up on a timely basis, you're going to have the transportation constraint.

<Q – John Carnegie>: And can I ask two follow-ups on that?

<A – Stephen Zelnak, Jr.>: Sure.

<Q – John Carnegie>: I think you mentioned earlier 26% of your volumes were shipped long distance. I'm guessing you are meaning that 26% were shipped either in ships or on railroads. Do I understand that correctly?

<A – Stephen Zelnak, Jr.>: Yeah, rail, ships or barges. So it's rail and water.

<Q – John Carnegie>: And the second follow up is which particular markets in the Southeast and Southwest are you referring to? Where are these problems most acute?

<A – Stephen Zelnak, Jr.>: If you start in North Carolina and take every major city all the way around to the Mexican border, with the exception well, we don't service Miami to any degree. Miami is a hot market, too. I think you can actually look at every one of those metro markets as being a market that has more demand than typically they have supply. It is a universal problem along the Southeast and Gulf Coast. And based on the constraints I have mentioned, I'm not sure that it's a problem that's going to go away anytime soon.

<Q – John Carnegie>: Okay. Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Our next question comes from Mike Betts with JP Morgan

<Q – Michael Betts>: Yeah, hi Steve.

<A – Stephen Zelnak, Jr.>: Hi Mike.

<Q – Michael Betts>: Hi, I've got a number of questions, if I could. Could I just start on the price increase one, and just if I could understand, again, just how you the price increase number that you report, because I know one of your competitors actually takes the transport costs out and then quotes what the net price is and that has done after deducting transport. You are not doing that; you are including the transport, so it's an all-in price change that you are quoting, is it?

<A – Stephen Zelnak, Jr.>: We include in there materials that we distribute where we have the responsibility for that material. The other side of that is that we make a profit on that, not on the transportation pass-through but when we get it to the distribution yards increasingly. Those are becoming profitable operations for us and quite attractive. So we have got a different construct than our competitors. We own and operate those distribution yards, virtually all of them. Our competition tends not to do that tendency to go through distributors. So it's a totally different construct, you are looking at different things.

<Q – Michael Betts>: Okay and when I look at your biggest competitor and yourself, you both reported very similar price increases for 2005 around about 8%, and yet there is this gap opening up in 2006 and I am kind of wondering why a lot of the cost increases you mentioned I would thought they also occurred in 2005, obviously I am wrong, but was that because you had contracts or something to stop those prices or those cost increases impacting 2005?

<A – Stephen Zelnak, Jr.>: You have got a lot of field escalation, if you look at what happened in the back half of the Katrina disruption. Your price – energy went up pretty sharply and that gets reflected in transportation cost, but you will have to speak to our competitors about their pricing and cost structure. We're just going to focus on ours, and [inaudible].

<Q – Michael Betts>: That's fine. My final – two more questions if I may, what are you assuming in terms of the diesel cost hit in 2006 in your guidance, is it similar to the 2005 number?

<A – Stephen Zelnak, Jr.>: We think diesel cost is likely to be in the same area as what we experienced in 2005. So we are looking – we've budgeted actually up slightly on diesel.

<Q – Michael Betts>: Up slightly in terms of total cost of diesel or up slightly --?

<A – Stephen Zelnak, Jr.>: Yes.

<Q – Michael Betts>: That's okay. Okay thank you. And then the final question, obviously you mentioned you were buying shares at $66 in 2005, share prices are lot high than that, should we assume that's going to be the major use of the cash flow in 2006 or even acquisitions are a possibility again, I am just wondering what's happening on that side?

<A – Stephen Zelnak, Jr.>: Okay, let's go back and let me make sure I am clear on the diesel question, the answer I gave you relates to the per gallon cost of diesel, okay.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak, Jr.>: With respect to share buyback use of free cash flow, we look at opportunities as they pop up. I mean we have obviously had a very active acquisition program over time. We haven't seen anything likely that's been exciting to us, not nearly as exciting as we are to us and also the opportunity to invest capital in our system which we are investing at pretty average return. So first thing we are going to do is we are going to fund the expansion opportunities. I gave you the basic capital budget. If we see other opportunities that give us high rates of return, we will employ the capital in the business. So that option is there. In fact, we have employed incremental capital to the tune of about $32 million in 2005 that we didn't budget earlier. I don't think we are going to see those kinds of opportunities, nothing of that magnitude in '06. But if we do, we will fund them, because the returns are pretty terrific. Beyond that, we have increased dividends every year as a public company. We will review that again. It would be unlikely that we would not be interested in doing something. And then that leaves share buyback as probably the major use of cash. And I have said before, and I will reiterate: Number one, we have no plans to delever, number two, we have no intentions of parking cash on the balance sheet. We're going to put that to work in the best interests of the shareholder. If we were to do anything of magnitude, we're going to have to go to the debt and equity markets in a major way anyway. It just doesn't seem prudent to me to just stack cash up, so we're going to use it.

The follow-on question to that that somebody is probably going to ask, so I'll go ahead and answer it, is at what point are you not a buyer of your stock? And the answer to that is we're nowhere close not to being a buyer of our stock. We've got a 5-year forecast for our company. We look at that, we bring it back to present value, and we've got our own internal view of what fair value is. Someday, the market will catch up with that, but like I say, we are a buyer for the foreseeable future.

<Q – Michael Betts>: Okay. And then the final question, if I could and it's more trying to look further out. I mean you indicated you didn't expect the price increases in the midyear to be at the same level as we saw in 2005. Should we therefore assume that the price increases will slow in '07 from this level or was that really just a comment on the potential for July or was it a comment, really, on what we should look forward to as we try to do our forecast for '07?

<A – Stephen Zelnak, Jr.>: That's an '06 comment. It's much too early to even speculate on '07. As we go forward, you are going to have to take a look and see what the cost pressures are. If the cost pressures moderate, my expectation is the rate of price increase will moderate. My other expectation is that we will continue to be able to improve our margins.

<Q – Michael Betts>: Okay, by prices over costs?

<A – Stephen Zelnak, Jr.>: Yes.

<Q – Michael Betts>: I mean, is there a lot more potential to take costs out of the business, because clearly you have done a good job on that in 2005 or is the kind of catch up, if I can describe it, probably unfairly, has that happened or is there more potential there?

<A – Stephen Zelnak, Jr.>: Well, we clearly see more potential, and a lot of it relates to upsizing plants, increasing automation, a lot of what we have done and frankly, what the industry has done is done incremental add-ons to plants to try to get capacity up in the short-term. As those markets solidify and you know the volume is there, it gives you the opportunity to come back and rebuild your plants and make them much, much more efficient. So that's the course we're on. Those are very good investment returns for us. We come back and do that. You are looking typically at 25 to 35% internal rates of return without significant risk. It's stuff we punch out routinely. So, we think that opportunity is there, and I'd say, for the next 5 years, we're going to be punching out a lot of new plants where we're going to take old hardware out. We're going to bring up new plants, significant increases in capacity at the same location. What we have been doing typically is anywhere from 50 to 100% capacity expansion. And typically, with that, you are not increasing the headcounts. So, you are getting a huge benefit in terms of tons per paid man-hour.

<Q – Michael Betts>: And you have the reserves to allow you to do that?

<A – Stephen Zelnak, Jr.>: Yes, in fact, our reserve base went up pretty sharply in 2005 as we continued to add reserves to our system. We have been very aggressive in that. We had significant land expenditures throughout the year, particularly in the fourth quarter, as we continued to buy reserves.

<Q – Michael Betts>: That's great. Good job, and thanks very much.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: Our next question comes from Bryan Verona.

<Q – Bryan Verona>: My question was answered, thanks.

Operator: We'll go next to John Fox with Fenimore Asset Management.

<Q – John Fox>: Yeah, hi good afternoon.

<A – Stephen Zelnak, Jr.>: Hi, John.

<Q – John Fox>: Hi Steve. Could you just clarify, this goes all the way back to the first question, which was Arnie Ursaner's question about transportation. You mentioned how the costs were up, teens to low 30%. And, I thought I heard you say something about you still had opportunity to expand margin 2%. Can you just clarify the point you were making there?

<A – Stephen Zelnak, Jr.>: The point is exactly what I made. You have got – you have different components of cost, and what I was trying to do was to give you a conceptual break on where the cost pressures are coming from. At the plant level, the cost pressures on a percentage basis are much lower than that 9 to 11% price range that we put out. When you get to the transportation component, it's much higher. But when you sum it all up, which is what you do at the end of the day, the 9 to 11% rate of price increase ought to net back to 200 basis points or so of margin improvement. And I think I indicated that I feel there is more upside than downside to that based on what I know today.

<Q – John Fox>: Okay, so that's 200 basis points gross margin potential?

<A – Stephen Zelnak, Jr.>: No, operating margin.

<Q – John Fox>: Operating, okay.

<A – Stephen Zelnak, Jr.>: Gross margin you're going to have to subtract out the SG&A, a point to keep in mind.

<Q – John Fox>: Okay. Thank you.

Operator: Our next question comes from Alan Mitrani with Sylvan Lake Asset Management.

<Q – Alan Mitrani>: Hi, on cement prices do you have a sense as to how many price increases you are expecting this year and sort of where they top out, not just the price increases this year, but I am talking about prices where they start to stabilize over the next couple of years?

<A – Stephen Zelnak, Jr.>: We are not a large purchaser of cement; we only have a very modest presence in the ready mix concrete business. So we are not a good gauge of that; we do less than 600,000 tons of ready mix or cubic yards of ready mix a year. So we are a minuscule player in that business. You'd need to ask somebody else that one.

<Q – Alan Mitrani>: Okay, thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: Our next question comes from Jeff Cutshall.

<Q>: Hi guys. Nice quarter.

<A – Stephen Zelnak, Jr.>: Thank you.

<Q>: My question, most of my questions have been answered. I just wanted to follow up on the guidance topic here. Now that we are almost 50% of the way through Q1, you gave kind of a wide range of 30 to $0.45. I'm just curious what gets us to the top or the bottom, yes, top or the bottom end of that range? Is it weather-dependent or what is it, and how are you tracking so far?

<A – Stephen Zelnak, Jr.>: It really is weather-dependent. The key month of the quarter is March. And if you have an open March with respectable weather, then the Marches are quite good. If you get bad weather in March, it can really hurt you. So March will be the pivotal month. Yes, we are sort of midway through, we've been through January, we're into February, much too early to be able to tell.

<Q>: Okay, and then if I just kind of extend that to the full year, if I plug in the numbers you're talking about as far as volume and pricing increases, that 200 basis points of margin expansion, which I think you're suggesting is going to be conservative, 30% tax rate, I mean that pretty much gets us to 5.25. And just, I'm wondering, to get the 490, are you just assuming again kind of catastrophic weather fourth quarter or what does that – what needs to happen?

<A – Stephen Zelnak, Jr.>: Well, you are running your numbers. So I'm not looking at what you are running. But what we've tried to do is bracket what we think is a reasonable outcome. And yes, the big wildcard is weather. You have seen that with us based on hurricane activity and other unusual things. So we try to make sure that we are giving you a reasonable assessment based on historic weather patterns.

<Q>: Okay, great. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: [Operator Instructions]. And I will go back to David MacGregor with Longbow Research for a follow-up question.

<Q – David MacGregor>: Steve, you talked about the 410 basis points of decrement associated with your distribution operations. I'm just wondering how leverageable that might be and how does that number change over the next 2 years?

<A – Stephen Zelnak, Jr.>: Hard to say how it changes over the next 2 years. I mean that would be speculative. The good thing is that we are running a lot more volume through the distribution side of the equation, so on the other end when we get it there. We're seeing better pricing and we're also seeing a unit decline in costs going through the distribution yards. So, I think it sort of leans the meter in a positive direction. One of the components though will be how much growth do we get in that piece of the business, which is high growth for us. We've gone from 7% of the business in '94 when we went public to 26% and wouldn't be surprising to me over the next several years that we edge up toward 30. So it will be a confluence of factors that take you in both directions. But certainly, it's a real positive for us, because the markets that are served there are very high growth markets, very robust on the demand side with some limitations on supply back to transport and quarry. So it's an awfully good place to be, and I wouldn't trade it right now.

<Q – David MacGregor>: So maybe just to ask with respect to your guidance of the 490-525, how does that 410 number change?

<A – Stephen Zelnak, Jr.>: I won't be able to tell you that until we get to the end of '06. We are not speculating on any particular change. It's ranged, as we've built this volume up, it's ranged from about 390 up to over 500.

<A – Anne Lloyd>: 500…

<Q – David MacGregor>: Great. Thanks very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And next from Arnie Ursaner with CJS Securities.

<Q – Arnold Ursaner>: Steve, you mentioned towards the end of your call that your reserve base had gone up quite significantly in Q4, due to land purchases. Can you expand on that a little bit in a couple of ways? One give us a better sense of how many things you may have bought? Two, sort of number of greenfield opportunities in the pipeline today? And third is an issue I know you have spoken a great length about the permitting process today versus perhaps five years ago, meaning once you buy reserves or the opportunity to buy reserves today how long it takes to get the permitting to develop them?

<A – Stephen Zelnak, Jr.>: Okay, with respect to purchases of land or in some cases lease arrangements, which we do both, most of the activity, Arnie, is at existing quarries. And what we are doing is focusing on broadening our reserve base at existing locations first and foremost, because that is the cheapest way to expand if in fact you have markets you can get to. And it ties back to the long-haul distribution strategy, because those are high-growth markets. And to the extent that we have significant long-term reserves, we can up the capacities, and then tie transportation to it, so a lot of activity there at key quarries. With respect to, and that's going on in the high-growth areas. I think it would probably be easy to intuit, but if the action is in the Southeast and Southwest, that's where most of the land and reserve activity is.

<Q – Arnold Ursaner>: Okay.

<A – Stephen Zelnak, Jr.>: With respect to greenfields, a little bit of difference in that answer, because some of the interesting opportunities that we have with respect to greenfields are actually not in the Southeast and Southwest. They're underground mining opportunities in the North Central area and the Midwest area. And we in fact, we're already the largest underground miner of aggregate; that's been a high-growth area for us for the last 10 years. We think it's going to grow – continue to grow at a very rapid pace. So we have been tying down reserves that would support underground mine expansions. And you're likely to see us active on that front for the foreseeable future. We have several projects that are in various stages, permitting stages, land acquisition stages where we are assembling an entire footprint. So we are very active there. We do have some green sites in the Southeast, and those I won't talk about, because I'm not sure that our competition knows about all of them and I'd just as soon wait until we open them up.

<Q – Arnold Ursaner>: And the permitting process today versus 3 to 5 years ago?

<A – Stephen Zelnak, Jr.>: Incredibly difficult. It's going to be a long-term process anywhere you go. It's typically, these days, 3 to 5 years from the time you start working on permitting a new site to actually breaking ground, getting underway. I don't think that's going to go down; I think it probably goes up. You are seeing more zoning constraints. And even where you have the ability to operate at existing locations or new locations, you are seeing more constraints on what you can do, i.e. operating hours constraints, air modeling tonnage constraints, all kinds of things that we did not have to contend with in earlier times. So it puts more pressure on the operator to do the job well, invest more capital. And frankly, it plays to the hand of the larger players, because they have the capital and the sophistication in engineering, permitting all the activities to be able to get that done.

<Q – Arnold Ursaner>: Okay. Going back to your volume growth assumption for the upcoming year the 2 to 4% seems a little low to me. You've consistently said you typically will grow at GDP plus perhaps 1%, maybe a little more because of your geographic location. I'm assuming you're not talking about a GDP of 2 to 3% next year or. So, again is this just being a little bit conservative?

<A – Stephen Zelnak, Jr.>: I've said on average, during a cycle that we would expect to grow probably based on our markets at GDP plus 1, plus some pickup in those high growth areas, where we gain market share because in many cases we're the only supplemental supplier available. So, maybe the number is 1, 1.5. That's not year-by-year. So I am trying to give you our most realistic forecast, based on what we see right now. GDP estimate, as I've seen it is 3%.

<Q – Arnold Ursaner>: Okay. And one question that people sometimes grapple with is to the extend you continue to raise prices pretty aggressively for several years to come, people begin to think about either recycled material or some other forms of competing products. What is your view on both of those over the next few years?

<A – Stephen Zelnak, Jr.>: Certainly with recycling, you are seeing more of it if. People are looking at that option. But there is a limited amount of recycled material available. You are not going to tear up highways just to recycle the concrete. It has to come in its own time, same thing for milling of asphalt. So, that business has been growing at a rate well above the virgin aggregates business for probably last 20 years or better. And I think that's going to continue. We in fact have some recycling interest; we participate in that business in a small way and perhaps larger way as we go forward. With respect substitute products, there is not much out there that can be substituted in any kind of reasonably economic manner for basic aggregates. And in fact if you look at the alternatives that are sometimes touted in industry press, that people talk about it would probably take something on the order of $50 a ton plus FOB for those products to be produced and marketed, and the aggregate business is a long – the virgin aggregate business even in the areas where you are distributing long-haul, is a long way from that.

<Q – Arnold Ursaner>: Okay. Thank you.

<A – Stephen Zelnak, Jr.>: Just to give you a metric on some of the long-haul markets. People today could be paying 20, even up to $25 a ton. So if you had a plant located very close to the market, you still got another 25 or $30 a ton before you become competitor.

<Q – Arnold Ursaner>: Okay. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We will go next to Leo Larkin with Standard & Poor's.

<Q – Leo Larkin>: Just a question how much did Structural Composites lose this year?

<A – Stephen Zelnak, Jr.>: It lost a little over $14 million. Of that, about 5.7 of it was write-downs for deferral of activity in the truck trailer business. As we go forward, I mentioned that Structural Composites had picked up $3 million worth of ballistic panel orders in the fourth quarter of last year, another 6 million of follow-on orders. We think that business is clearly going to improve, but military is the key to it. We are not interested in losing money; if we didn't see an opportunity there, we would not continue to pursue it. But at this point, we like the opportunity. So we expect, certainly, the losses to go down. And the target is to break it even, but I think I said in my remarks that more probable outcome is a small loss.

<Q – Leo Larkin>: Okay. If it wasn't a small loss, would you start to reconsider that business?

<A – Stephen Zelnak, Jr.>: If we have the kinds of losses that we have incurred in the last 2 years, the answer is yes. We would have to.

<Q – Leo Larkin>: All right. Thank you.

Operator: [Operator Instructions]. We will go next to John Carnegie with ABN Amro.

<Q – John Carnegie>: Thank you. If I could just ask 3 short follow-ups, I think you mentioned the increase in transport costs that you expect this year. Can you just repeat those numbers to me, so that I can check that I got it correctly?

<A – Stephen Zelnak, Jr.>: Yeah transportation costs, we are seeing ramp up anywhere from mid high teens up to low to mid 30% range, depending upon the particular movement and the particular type of transportation.

<Q – John Carnegie>: Thank you. Secondly, in terms of midyear price rises, have you gotten things planned at present? And is that reflected in your price forecast for this year?

<A – Stephen Zelnak, Jr.>: We tried to take into account what we reasonably expect to do in midyear as we look at the rate of price increase. And again, we think that's going to be lower; it's going to be fewer markets, fewer sizes and a lesser rate of increase, unless something happens on the cost side that we don't currently foresee.

<Q – John Carnegie>: Can I ask, at this stage, if you got no more price rises, what would your price rise be for the year versus the 9 to 11 you are forecasting? Would it be significantly less, or still a strong single-digit number?

<A – Stephen Zelnak, Jr.>: It's not going to be significantly less; it's going to be a very strong number.

<Q – John Carnegie>: Thank you. And then, lastly, you mentioned some underground mining opportunities that you have. Can you just give us an idea of what the kind of, say the cash cost of production is for those opportunities versus your untraditional quarries?

<A – Stephen Zelnak, Jr.>: Yeah, they are more expensive to operate. No question about that. What you are looking at is proximity to market reducing transportation costs, and being able to get a higher price for the material. It would not be unusual in an underground mine to have costs that are $1.50, $2.00 a ton higher than your cost of a surface mine.

<Q – John Carnegie>: Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And we will go to next to Mike Betts with JP Morgan.

<Q – Michael Betts>: Yes, just one follow-up, if I could Steve. I'm struggling in my own mind to understand why the price increase would be less in the midyear. I mean what's leading you to that expectation; I mean basically, there still seems to be the scarcity of reserves. it's a pretty good demand increase. Did I miss something? Why are you more cautious about that midyear price increase?

<A – Stephen Zelnak, Jr.>: Well, I'm more cautious because I'm not totally sure what the demand is going to be by market. If you look at what we were able to do in '05, we just had very robust demand pretty much across the board. I think we're going to have good demand, but when you start looking at 2 to 4% increase versus north of 5% in 2005, there will be some markets were you may not have robustness. The market may flatten out a little bit. And given that, you will not necessarily be able to get the same rate of increase, or you may not be able to implement a midyear increase. So, we are trying to look at it on a by-market basis Mike, as well as on a – from a general standpoint.

<Q – Michael Betts>: That's understood. Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And at this time we have no further questions. I would like to turn it back to Mr. Zelnak for closing remarks.

Stephen P. Zelnak, Jr., Chairman, President, and Chief Executive Officer

Okay. Thanks for joining us today. Obviously, good times in the aggregate business and certainly very good times for Martin Marietta. We appreciate your interest and look forward to getting with you after the end of the first quarter to talk about what we achieved against our targets. Thank you

Operator: This does conclude today's conference call. We thank you for your participation. And you may disconnect at this time.