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 the President and Chief Executive Officer, Mr. Stephen Zelnak. Please go ahead sir.

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

Thanks for joining us today. I have with me Anne Lloyd, our CFO, and Janice Henry, Senior Vice President and Treasurer.

We had an outstanding second quarter with earnings of $1.30 per diluted share, up 41% from $0.92 in the prior year period. Net sales from continuing operations of $479 million was up 18%, while net earnings of $62 million increased 38%. Strong volume, positive pricing, and good cost control in our Aggregates business along with continued good results in our Magnesia Specialties unit were the key elements leading to record earnings for any quarter. SG&A cost was also a positive as it dropped $1 million or 3% in the quarter compared to prior year. As a percent of sales, SG&A was 6.7% compared to 8% in the prior year.

Quarterly results benefited by $1.2 million from changes in tax law in Ohio, which was more than offset by a $1.4 million write-down associated with the closure of an Aggregates plant and a $2 million charge related to the write-down of certain composites inventory. Year-to-date sales from continuing operations of $819 million was up 16%, while net earnings of $68.5 million was up 80% over prior year. In Aggregates, revenue of $448 million was up 18%, while earnings from operations of $96 million increased 34%. Total Aggregates shipment volume increased 9.2% for the quarter as compared to the prior-year period, while pricing increased 8.2%.

Volume and pricing were particularly strong in the Southeast and Southwest. Year-to-date, Aggregates revenue of $758 million was up 17%, while earnings from operations of $113 million was up 51%. Our operating margin for the quarter was up 250 basis points as compared to the prior year. As noted earlier, we took a charge of $1.4 million for the shutdown of an Aggregates plant in Ohio. This location is being replaced by a new location which is well located in proximity to market growth and which is expected to have a much lower operating cost.

In our Structural Composites business, we made the decision to defer further activity in the waste trailer area, refocusing our resources on flat panel products, rail products, and selected trailer products where we believe the opportunity is greater in the short, intermediate term. In concert with this decision, we wrote down $2 million in the inventory value associated with the manufacturing of waste trailers.

Our activity level in Composites products is very high, particularly with military applications. We are awaiting a number of decisions regarding down-selects and purchases. During the quarter, we decided to increase our capital spending by $32 million as compared to the original plan of $195 million. $6 million will be used for the purchases of key mineral reserve properties, while the remaining $26 million will be employed in a significant number of small and medium-size capacity expansion, efficiency improvement projects. These projects have a combined expected internal rate of return of over 30%. We expect a significant majority of these projects to be in place by April 1, 2006, the startup during the beginning of the 2006 spring construction season.

We continue to be committed using our strong positive cash flow in a disciplined manner to the benefit of our shareholders. The high return projects just noted are one example of deploying cash to create higher value. During the quarter, we repurchased 599,000 shares of our common stock for $37 million. Year-to-date, we have repurchased one million three hundred and forty-nine thousand shares for $78 million. We also plan to review our dividend this year.

Based on current assessments of our business, we continue to have a positive outlook for 2005. In Aggregates, we expect volume growth of 4 to 6% for the year while pricing is expected to be at 5.5 to 7%. In our Magnesia Specialties business, we continue to expect pre-tax earnings of 19 to $22 million with a pre-tax loss of 10 to $12 million in our Structural Composites business inclusive of the $2 million inventory write-down. For the year, we expect earnings per diluted share to fall in the range of $3.35 to $3.55 with the third quarter ranging from $1.20 to $1.35.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. And we will take our first question from Jack Kelly at Goldman Sachs.

<Q – Jack Kelly>: Good afternoon Steve.

<A – Stephen Zelnak>: Hey Jack.

<Q – Jack Kelly>: On the Composites side, you entered that business, in a pretty conservative fashion in terms of the plant, et cetera. The losses are kind of getting up there, you pulled back a bit on them, on the trailer side. Can you give us, looking out over the next 12 months, what has to happen to get that to breakeven? And then maybe secondly of the 10 to $12 million loss that you've talked about for this year, we know 2 odd million is from the inventory write-off. How much would you associate with the trailer activity or can't you do that? In other words, what's the run rate loss on everything but the trailers and how quickly can that get to breakeven?

<A – Stephen Zelnak>: Okay, fair question, breakeven as we've indicated before, we need 25 to $30 million of revenue in that business to break it even. We think. it depends upon particular products that go out the gate. We've indicated that the expectation is that by the time we get to the end of the year, we need to have some backlog building for this business. We need to have some real business float. If we don't see that, then obviously we are going to have to look at it in a different way.

I've referenced the military side of the equation which is in fact the most interesting part of it right now, although, we've got some good commercial applications that are benefiting too. It is frustrating to us right now, because we really thought that we would have some fairly significant orders on the books, and moving forward at this point. We continue to be delayed by additional rounds of testing where people in some cases just don't believe what they're seeing with the product. Which is very positive. They just want to make sure it's going to continue to perform.

With respect to the trailer component we're talking about, we had put a lot of activity towards the waste trailer side. We took that on, it's the toughest application that we could dream up or find and we took it on with the expectation that we were going to be able to do something with it pretty early. What we have found is that even though the finite element analysis is very positive, when we get the products out there, we had people who find ways of doing some kind of damage. And we may be an iteration or two away from having a product that is fully effective, but we've just decided that there is too much opportunity in the other things that we're doing to continue to put resources into waste trailers right now. We're not going to increase the total resources that we're putting in, we are reallocating. I think that's important for you to know.

I can't really break out that piece of it because the processes are so integrated that it's very difficult to do. So, I think the best way to look at it is it's reallocation of resources. We're going to put them all into things where we think we've got opportunity to move it forward. And if we don't see something that is positive in that regard, we'll reassess this business at the end of the year.

<Q – Jack Kelly>: And then just secondly, in terms of the, your expectation for down volume in the second half, that's solely because of the strong, strong comparisons last year, Steve? I'm saying, you've mentioned 4 to 6, volume growth for the year and for the first 6 months, you guys are up – where are we, Heritage was up 7.6?

<A – Stephen Zelnak>: Yeah not down volume, a lesser rate of growth. You had me confused there for a moment. If you look at the comparison in the second half, Jack, they're tougher, particularly the fourth quarter compare. But let me tell you how we've come at approaching the range forecast and you can – you and others can draw your conclusions as to how you want to look at it. There clearly are two strong positives going into the back half of the year. Demand is strong. There is no question about that. And certainly the passage of the Highway Bill is going to give that little bit more positive momentum as we get towards the end of the year but particularly as we go into next year.

Pricing is very positive. We've just gone through the largest round of mid-year price increases that we've ever done. That will set the stage more for '06 than it does in terms of its impact on '05. And the reason for that is it gives us an opportunity to bid project work at the new prices and that project work won't come in until late in the year but most of it will be next year based on normal lead times. We will be able to flush out some of the protection that we have for individual customers and get that covered this year. So it really sets the stage for '06 more so than adds a lot to 2005, but clearly it's a positive move.

The downside of the equation, certainly we're seeing more cost pressure. We've done an awfully good job of managing our cost over the last four quarters. We'll continue to do that well I think relative to everybody else out there, I expect a good performance. But we are seeing a lot more increases in terms of parts and supplies, the consumables that we use in our business and obviously, you know about diesel fuel.

The wild card here that we've tried to build into our forecasts to what we think is a reasonable degree is really the weather factor. The predications are for a very robust hurricane season. We saw that get cranked off in the middle of June. We've seen activity in early July and the expectation in our forecast is we're going to have some heavy activity in that regard. If in fact weather does not play out that way, that would be a positive. And I would tell you the overall forecast I think there is more upside opportunity than downside risk. So you take it from there.

<Q – Jack Kelly>: Thanks.

<A – Stephen Zelnak>: Sure.

Operator: We'll go next to Jack Kasprzak at BB&T Capital Markets.

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

<A – Stephen Zelnak>: Hi Jack.

<Q – John Kasprzak>: Can you quantify the impact of energy in the quarter, or I guess just particularly diesel year-over-year change?

<A – Stephen Zelnak>: Hold on just a second, we'll give that to you. Roughly, our Aggregates business, roughly $7 million.

<Q – John Kasprzak>: 7 million.

<A – Stephen Zelnak>: Yeah, a big number almost not quite double the impact of the first quarter, but the number certainly grew.

<Q – John Kasprzak>: And the issue in the press release that you mentioned the $6 million investment for key mineral reserve properties. I was just wondering if you could give us a little more color on what that is, are those greenfield properties or expansions of existing contiguous quarries?

<A – Stephen Zelnak>: About half of it is going to a new location which we will have up and running early next year. And the other half of it goes toward expansion of reserves at existing locations; some key pieces of property that we have been interested in taking down for a while and you never know when property owners are going to be ready.

<Q – John Kasprzak>: Okay. And the tax rate for the second half of the year, do we still think a normal tax rate is around 31%, is that still a good number?

<A – **Anne Lloyd>:** Jack, it'll be more like 30 for the balance of the year, excluding any discrete events.

<Q – John Kasprzak>: 30, okay. Great, thanks guys.

<A – Stephen Zelnak>: Sure.

Operator: [Operator Instructions]. We'll go next to David MacGregor of Longbow Research.

<Q – David MacGregor>: Yes, good afternoon.

<A – Stephen Zelnak>: Hi David.

<Q – David MacGregor>: A couple of questions, first of all on the cost side, and you may have addressed this, I got on the call a little bit late, I'm sorry, but I heard you talk about 7 million in incremental diesel expense, and I guess the question was just if you could break out cost inflation versus the other costs associated with the volume increase?

<A – Stephen Zelnak>: I'd really, prefer not to do that. It's not a piece of information that we normally furnish. What I would say to you is that obviously we managed our costs well, well below the rate of price increase, which we expected to do. I will also tell you that the, we were able in the fourth quarter and the first quarter to actually hold production costs level, in what was a very tough environment with respect to cost increases on the things we consume.

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak>: We did have some cost increases in the second quarter, and we're beginning to see more impact from that. And I think that will carry through in the back half, but rate of price increase obviously, will continue to go forward, too.

<Q – David MacGregor>: You had mentioned that the real benefit from the mid-year price increases would be in 2006 as opposed to the second half of '05. What percentage of your second half '05 business will you get a price increase on?

<A – Stephen Zelnak>: I think it will be a modest percentage; it might be somewhere in the neighborhood of 20% or so, 20 to 25.

<Q – David MacGregor>: Okay.

<A – Stephen Zelnak>: The real impact will come in '06 from this mid-year ramp.

<Q – David MacGregor>: Okay, regarding the Composites business, and you may have addressed this in your prepared remarks which I missed, I apologize, but was there anything in the Highway Bill that would support your Composites business, and if so how quickly would that come on?

<A – Stephen Zelnak>: There is in fact opportunity that comes out of the Highway Bill. We had a number of bridge projects that were funded from the Transportation Act the last time around, and in fact part of the drought in revenue in Composites right now is because we have not had a Bill.

There is money in there for innovative transportation; there is innovative transportation funding and that is utilized for things like composite bridge decks; so we would expect to see, coming fairly quickly, composite bridge deck activity that's just been in a lull, basically deferred and that would be a plus for us.

<Q – David MacGregor>: Would that be affecting the second half or is it – should we be thinking more about 2006 for that?

<A – Stephen Zelnak>: 2006 is when I think we will see it back on its strength.

<Q – David MacGregor>: Okay. In the press release, you'd mentioned that you've been active in share repurchase activity during the quarter. Can you say whether you were a buyer right through the end of the quarter or how linear was that activity?

<A – Stephen Zelnak>: I think the question you're asking is, are we a buyer at the kind of prices that we've seen in the last month or today. And the answer to that is based on looking at alternative uses of funds, looking at what we think we are going to do, the answer is, yes, we find it attractive, if we didn't, I would tell you that.

<Q – David MacGregor>: Okay and final question is, you were just talking about being cautious with respect to third quarter expectations and the weather and the fact that it's typically a hurricane season for you. Just looking back on your third quarter last year and you had a lot of hurricane activity and there were number of disruptions, I think your Bahamas operation went five weeks without electricity, and there were just a number of different disruptions. So I guess the point I am making here is that it ought to be a relatively easy comp on that dimension. Am I missing something?

<A – Stephen Zelnak>: Yeah, you're missing where the hurricanes hit. And that really makes a big difference. Bahamas was the place where we really get pounded and, actually we had very little impact in other parts of our system. The question is with the predicted extent of activity, do we get hit hard throughout the coastal Southeast, other parts of Southeast, it's no surprise that we have very good profit structure in Southeast and our profit structure in Southwest has improved markedly. So it will be a question of the extent of hurricane activity and where it hits.

<Q – David MacGregor>: Okay, thank you very much.

<A – Stephen Zelnak>: Sure. I'll give you one other comparative, just to give you an idea of how we're going at this. If you take our quarter and you take the write downs we took and you take the positive on the tax, as opposed to $1.30 would have been $1.33 if we didn't have those things. We've got a range of 120 to 135 for the third quarter and as I've said we factored in the forecast that is out there which is for very robust weather activity. Let's hope it doesn't hit, if it doesn't that could be a plus.

<Q – David MacGregor>: Right, okay got it, thanks very much.

Operator: [Operator Instructions]. We'll go next to Arnold Ursaner at CJS Securities.

<Q – Arnold Ursaner>: Hi Stephen, how are you?

<A – Stephen Zelnak>: Just fine Arnie.

<Q – Arnold Ursaner>: Couple of questions going back to your incremental capital expenditures. Can you give us a feel for the potential volumes that you think you can add by putting in these properties? And also perhaps something on the cost saving side you might be able to accomplish?

<A – Stephen Zelnak>: I would rather not give you the cost or the volume side of it. I would just rather refer you to the 30% plus internal rate of return. And I think you can go from there. This is a cash flow business. So it gives you a pretty good idea of the magnitude.

In terms of how it impacts our business, a lot of difference between where we do these projects, each specific one. But when you sum them up you are looking at plus 30% IRRs and that's a high confidence number because these are not complex projects and they are in places where we know what kind of returns we should get, can get, have gotten in the past and feel pretty good about that.

<Q – Arnold Ursaner>: Perhaps asking the question in a slightly different way, you showed 250 basis points improvement in aggregate operating margin this year, what do you think with these projects you can show next year, what types of improvements might be achievable?

<A – Stephen Zelnak>: It's too early to say but clearly we expect to continue to improve our margins, we've said that. And I would reiterate that that's a major point of focus for our company. We are pretty pleased with what we have been able to do in the last 8 quarters or so. And the expectation is that we are going to continue to get margin improvement. And this will add to it. No question.

<Q – Arnold Ursaner>: On Magnesia, you had been at least thinking about a new facility or expansion but didn't announce anything today. Can you give us a feel for the issues or thought process there?

<A – Stephen Zelnak>: Yeah, we continue to work the permitting and some preliminary engineering on a possible kiln expansion, at our Woodville lime facility. We had indicated before that in order for us to proceed on that, we would have to have very, very strong backing contractually from the steel industry. And we would have to have a very strong conviction that we are going to have significant expansion in our chemicals business, because we can transfer our lime to chemical business.

Where we are right now is steel industry has clearly pulled back, it's in a lull, which we expect it to come out of some time in the third quarter. Even though it's in a lull we are still doing quite well there. But our view is that we want to make sure that if we are going to put money in that there is very little risk to the investor with respect to that money. And frankly, I weigh it off against share repurchase. And right now, I'm not prepared to make that commitment on the kiln, I like the shares better.

<Q – Arnold Ursaner>: Okay thank you very much.

Operator: And our next question comes from Mike Betts of J.P. Morgan.

<Q – Michael Betts>: Yes, hi, I have a couple of questions if I could. The first one was just in terms of the price increases, a second round of price increases. You indicate that they would benefit sort of 25% of the operations in the second half, but these were not across the whole of the regions. In terms of '06 or in terms of what proportion of the total business is impacted, could you give some indication of that, and also maybe some indication of the magnitude of these price increases, and then I had a second question after that please?

<A – Stephen Zelnak>: Okay magnitude, I'm not going to talk about it. I will tell you that I will give you something, an indicator on a cents per ton basis but I'm not going to try to translate that to a percentage. Price increases that were put into effect range anywhere from $0.25 a ton to in excess of $1 a ton depending upon the market and you can probably intuit that the hotter the market the greater the demand supply imbalance the higher the rate of increase.

With respect to increases carrying over to '06, it will really greatly depend upon project work bid and the timing of when that project work hits. Because what it gives us the opportunity to do is to bid project work at higher prices, we don't bid above list prices. There are some companies that will do that. VOTs typically frown on that, customers typically frown on it. So we want to make sure we get our list prices up to what we think is the highest level that we can legitimately bid at. So as we go forward and that translates, it's going to impact maybe double that amount of tonnage as opposed to the 20 to 25%, it'll be pretty robust.

<Q – Michael Betts>: Okay, thank you for that. My second question was you referred to the Southeast and the Southwest being much stronger markets. I mean obviously they were very good numbers anyway for volume and pricing. Could I ask how much they were above the average? And also on the counter side, which were the regions that maybe, were below the average in the second quarter?

<A – Stephen Zelnak>: I'll give it to you with respect to the volume. If you take the areas that were the hottest, I mentioned the Southeast; the shipments in the southeast were up about 8%. Certainly very strong. Shipments in the Southwest, were incredibly strong, up 21%.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak>: The areas that were softer as you might expect out in the Midwest, that actually was reasonably robust, it's close to 6%. The area that was weaker was in the eastern side of the country that ranged from North Carolina through Ohio, Indiana, with Ohio and Indiana being somewhat soft and that was on the order of 2%.

<Q – Michael Betts>: Okay thank you for that. My final question, I think you, and correct me if I was wrong, you talked about, really looking at the dividend and I suppose, maybe my question without pushing you specifically on that is, the view at the moment in terms of whether you invest the additional leverage in terms of the share buybacks, acquisitions, dividends, where does that sit and particularly in terms of what sort of potential there is for acquisitions if any at the moment?

<A – Stephen Zelnak>: We just don't see much in the acquisition market that is attractive to us. We always have some things we are working on. But we haven't made an acquisition in 2.5 years, after having done over 60 since we became a public company. And the reason for that is very simple, a lot of things that are attractive to us, that fit with our strategy, we have already taken out. We weigh off the relative return between investing our capital in beefing up existing operations versus trying to make an acquisition and pretty clearly the returns on investment in the existing locations is far higher with much less risk. We're not particularly enamored with the acquisition prices we see. So, we'll continue to look at it, but it's certainly not first priority for us. We've got a lot of good internal opportunities which is what we're focused on and taking advantage of. With respect to share buyback, and dividend, we actually went out a while back and talked to our top 15 shareholders and asked them what they wanted to see out of us. And some of them were very strong on the share buyback side, some very strong on the dividend side, most of them said do both…

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak>: We like it all. So what we tried to do is to balance it out in a way that we think is prudent. If you're going to raise dividends clearly you don't want to raise them unless they are sustainable. So we are looking at that. We are looking at the level of pay out and with respect to share buyback that's more opportunistic and we will continue to look at it that way, so that's where we are on those.

<Q – Michael Betts>: Thank you very much indeed.

<A – Stephen Zelnak>: Sure.

Operator: We will go next to Thomas Russo of Gardner Russo & Gardner.

<Q – Thomas Russo>: Hi Steve great, great numbers.

<A – Stephen Zelnak.>: Thanks Tom.

<Q – Thomas Russo>: One question on the opposite side of the robust market, are there any properties that you would consider selling, that may not have scale, and may fit better to others who may pay over the returns that you need to justify holding properties?

<A – Stephen Zelnak>: We at this point, probably we have looked at our entire system that was, I think it's a very good question. And we have reviewed all of our properties in that regard. We have taken a good careful look at where we want to be. Do we have individual locations even in places where our markets are pretty robust and where we have a strong position where we might exit in a way that's very attractive? Do we have some marginal operations that would be better off in someone else's hands? The fact is that we have done most of that over the last 2 years. We have a few remaining properties that, we may consider doing something with but they would not be of great consequence. Talking about a value that would be less than $50 million, so there is not a lot there, we think what we have is very, very sound and we would expect to build off of it.

<Q – Thomas Russo>: Thank you and then following up on the question earlier about where price is being taken in the most confident fashion and the answer was as much as a dollar and typically in your hot markets. The Southeast and the Southwest are enormously large markets for you, and those are also happen at the moment your hottest markets, so how do we square the possibility of price increases as large as you indicated fit for the hottest markets with the fact that at the moment some of your hottest markets are also large volume markets?

<A – Stephen Zelnak>: We are also; I didn't catch the last part about volume.

<Q – Thomas Russo>: The hottest markets are also some of your largest volume market, so if you are on the high end of that $0.25 to $1 depending on heat of market, it turns out that 2 of your hottest regions are also large volume regions?

<A – Stephen Zelnak>: Well if you take the hottest regions, clearly Florida is very, very strong. You are seeing robust price increases by the Florida producers, and obviously, we have implemented similar strong price increases in Florida. Florida is a growing market for us but it certainly is not anywhere close to our largest market presence. About 5% of our revenue last year came out of Florida. The other area that's been incredibly strong has been South Texas, Houston area. In that area we are the leading aggregate provider in the area but again that's a relatively modest presence when you sum the two up. When I said $0.25 to – and actually I said more than a dollar in a few cases, don't derive any weightings out of that.

But, clearly what we are trying to do – we've had the question as I have been out talking to investors, do you think the price increases are more driven by cost or are they more driven by supply demand. And, certainly there is a cost component that is a driver underlying all of this but the real key is that there is a lot of supply demand imbalance in the southern tier markets, Southeast, Southwest. And if you begin to look at long-term aggregate supply which is really what our strategy is hinged on, we think that that's going to continue. We think that there has probably been a step function change in terms of the underlying value of mineral reserves in those markets, reserves that have proximity to market. And, by proximity I don't mean mileage; I mean transportation cost proximity. So, our view is that this opportunity is probably going to be there if there is a reasonable level of demand because I think you are going to have difficulty supplying when you start looking at alternative supply. So, we view it as a very good situation in the Southeast and Southwest.

<Q – Thomas Russo>: Thank you Steve.

<A – Stephen Zelnak>: Sure.

Operator: And we will take a follow-up from Jack Kelly at Goldman Sachs.

<Q – Jack Kelly>: Yeah, Steve, just on the share repurchase. Just focusing on that, you did – what – 79 million or so in the quarter you did 81 for the six months so obviously something happened that made you a lot more favorable on that. I mean was it the price of the stock, was it cash availability and given the answer to that, can you look ahead for six months and maybe give us some sense of what you might do?

<A – Stephen Zelnak>: It is opportunistic, Jack, in terms of cash availability at this point. It's certainly not constrained by share price and our view of that as I've indicated very forthrightly. We came into the year with considerably more cash than we had anticipated. And, when you go back to the end of last year, we had expected to end the year with something on the order of 125 million in cash and we actually ended with 163. So, therefore, in the first quarter we were in a position where we had the ability to go out and be very aggressive in terms of share repurchase. We were pretty aggressive in the second quarter, but we wanted to make sure that we manage our cash flow properly and carefully. We knew that we were going to consider some additional capital projects, and I had mentioned the fact that we are kicking up capital spend of 32 million. So, we wanted to make sure that we had room for that.

And the other thing that will impact in the second half is that our profitability has gone up so sharply that we are actually going to be a cash payer of taxes to the U.S. Government and that cash tax bill is going to be significantly greater than anything we've seen in a long time. So, we are just trying to make sure that we manage the cash flow appropriately. And to the extent that the cash is there for share repurchase it is an option way up the top of our list.

<Q – Jack Kelly>: Thanks.

<A – Stephen Zelnak>: Sure.

Operator: And Mr. Zelnak there are no further questions. I will turn the conference back over to you.

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

Okay. We appreciate you tuning in. Obviously, we were quite pleased with the results. We feel very good about the continuation of 2005, and as I mentioned on the pricing side, certainly we have got something that bodes well for 2006. We will talk to you more about that when we get to the end of the year. We look forward to talking to you at the end of the third quarter and hope to report more good results. Thanks.

Operator: And that does conclude today's conference. Again, thank you for your participation.