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

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

Thanks for joining us this today. I have with me Anne Lloyd, our Chief Financial Officer; and Howard Nye, President and Chief Operating Officer. We were very pleased with our results for the quarter and for the year.

In the fourth quarter, earnings per diluted share of $1.36 increased 33% over the prior year period on an 8% increase in net sales.

During the quarter, we took charge of $0.05 per share related to exiting a significant part of our composites product line. Adjusting for this item, earnings per share was up $1.41, a 38% increase. Both our Aggregates and Magnesia Specialties businesses performed well.

In Aggregates, volume decline of 5% was more than offset by pricing improvement of 15%. Aggregates product line gross margin increased 470 basis points. Volume increased in the Carolinas and other parts of the Southeast, along with the positive volume comparison in the Midwest.

Other areas were weak, primarily reflecting the significant decline in home-building demand. Our Magnesia Specialties business had its best quarter ever with earnings from operations of $10 million, up 74% from prior year or a 4% increase in net sales.

Reduced natural gas costs coupled with operating efficiencies were the primary drivers augmented by favorable inventory changes during the quarter. Operating margin was a record 29.3%.

In structural composites, we took a $3.8 million charge as we exited our composite truck trailer activity. We will continue with limited activity in composites, but we will benchmark this business quarterly to determine its viability.

For the full year, earnings per share of $5.29 increased 30% from $4.08 in 2005, this compares to an increase in net sales of 11%. In our Aggregates business, we more than offset a 2% volume decline with a 13.5% improvement in pricing and continued good costs management.

Our operating margin increased to a record 20% after absorbing a 470 basis point decrement related to our long-haul distribution network. As we indicated previously, we believe we have the opportunity to expand our operating margin to the 30% level over the next five years, based on our excellent positioning relative to high growth markets and our strong focus on automation and cost management.

For example, over the past five years, we have reduced headcount 21% or 1,460 people while growing net sales 47%. These headcount reductions have resulted in an increase of average net sales per employee 71%, and an increase in average earnings per employee 171%. Labor cost which is our single largest category in producing Aggregates has increased 2.3% per ton produced since 2002, versus the rate of compensation increase, it is approximately 25%, the difference is productivity improvement.

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In our Magnesia Specialties business, we continue to grow both the dolomitic lime and magnesia chemicals product lines. We had record lime production in 2006 with about 70% being shipped to the steel mills and the remainder to our Manistee, Michigan plant for use in making chemical products.

In the magnesia chemicals area, we continued to see growth in our water treatment products, our CellGuard product for the paper industry and our magnesium hydroxide powder products used in additives and as a flame retardant. To support growth in the additive and flame-retardant areas, we have a project underway to nearly double capacity by the third quarter of 2007.

Looking ahead, we expect to have a strong year in 2007. In our Aggregates business, we expect pricing improvement of 9 to 11% with flat volume. Pricing should be up double digits in the first half of 2007 tapering to a single digit rate of increase in the second half of the year. Volume in the first half is expected to be down based on the reduction in home-building activity in a tough comparison with prior year. Our outlook also reflects our view that energy costs will moderate from the 2006 levels which would create less cost pressure on our operations in 2007.

In our Specialty Products segment, we should benefit from a solid outlook for our dolomitic lime and magnesia chemicals product lines coupled with the exit of the composite trailer effort. We currently expect operating earnings of 33 to $36 million for this segment versus 22 million in 2006.

For the company, we currently anticipate earnings per diluted share in the range of $5.95 to $6.50 for 2007. This is based on growth in infrastructure and commercial construction demand on Aggregates coupled with an expected bottoming of the housing decline mid year.

For the first quarter, we expect earnings per share of $0.36 to $0.52 versus $0.66 per share in the first quarter of 2006. Prior year first quarter benefited from exceptionally mild weather with very robust home-building demand neither of which is likely this year.

In our press release, we indicated we have been reviewing the leverage on our balance sheet since the second quarter of 2006. We believe it is the appropriate time for such a review given the performance metrics of our business coupled with a positive outlook. Our Board of Directors and several outside advisors have been active in this review.

Accordingly, we are focused on establishing prudent leverage targets that provide for further opportunities to enhance shareholder value by utilizing our strong balance sheet and excellent operational performance, coupled with what we believe are very positive future prospects for our businesses. In setting these targets, we plan to provide for continuing investment in internal growth opportunities, financial flexibility to support opportunistic and strategic acquisitions as well as returning cash to shareholders through sustainable dividends and share repurchase programs while maintaining our investment grade credit ratings. We expect to provide definitive information on our capital structure and leverage targets. We'll report first quarter earnings in May.

The earnings per share guidance provided earlier is based on our current capital structure and the existing share repurchase program. We currently have existing Board authorization to repurchase up to 4.2 million shares. We will review the repurchase authorization with our Board as appropriate.

At this time, I will take any questions that you may have.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. We will go first to Jack Kelly with Goldman Sachs.

<Q – Jack Kelly>: Good afternoon Steve.

<A – Stephen Zelnak, Jr.>: Hey Jack.

<Q – Jack Kelly>: On the price increase of 9 to 11, to the extent that you can and I know that geographically maybe by group, give us some sense of what areas are going up more strongly than 9 to 11 over the course of the year and what might be lagging a bit?

<A – Stephen Zelnak, Jr.>: Sure, we've already publicly stated that North Carolina pricing will be up 15% for the year. So, obviously that's a very strong area for us. Other parts of the Southeast you're going to see some increases that are in the mid-teens. The Southeastern market continues to be very strong and certainly, those areas where we are in the distribution business are the strongest. When you – it really follows a logical economic pattern. When you get out to the Mid-West, you go up to the North Central area, you're going to see lesser rates of price increase. Texas will be somewhere in between.

<Q – Jack Kelly>: So, will Texas be double-digits Steve?

<A – Stephen Zelnak, Jr.>: Texas will probably be somewhere right around the average number that we've given you.

<Q – Jack Kelly>: Okay.

<A – Stephen Zelnak, Jr.>: So, hopefully that is helpful Jack?

<Q – Jack Kelly>: Yeah and then also, just kind of looking beyond maybe this year, what seems to have happened last couple of years is that various cities, regions have gotten more consolidated and then that has triggered a better pricing for you. As you kind of think about it, what areas appear ripe in that regard. It sounds like the Midwest, North Central was more a function. The low pricing there isn't a function so much of maybe a lot of competition. It's just that activity levels are low. So, I don't if that would be an area but just in general looking out next year or two?

<A – Stephen Zelnak, Jr.>: Well, if you look at those areas that you just cited, lesser pricing opportunity is a function of available capacity and with that a higher level of competition. We get asked a question sometimes, how much available capacity do you have and my answer is it's irrelevant because it's all in wrong places. The fact of the matter is that capacity utilization appears to be remaining tight. We expect it to remain tight in high gross other tier markets. So, that's where the opportunity is and there is no real mystery in this. It's supply demand.

<Q – Jack Kelly>: Okay. And just a question about your capital structure comments. It appears given the fact that you said you were going – you wanted to retain your investment grade rating, that really the options we are talking about is – would be the two options would be just a bigger stock buyback and/or a special dividend. I mean, I am not asking to comment which one of those it is, but is there anything beyond that that would – could be under consideration here?

<A – Stephen Zelnak, Jr.>: The answer is no, and I'll go ahead and comment. Special dividend is not in our – on our consideration list. We are really focused on share buyback and our view of that is that we think our business model is very strong for now and for the foreseeable future. So, as we look at where we can use our balance sheet in the best interest of our shareholders and particularly our long-term shareholders, we see share repurchase as a very attractive place to get. And if you

look at what's happened over the last three years with the share repurchase program, it's been an incredible return.

<Q – Jack Kelly>: Okay. So share repurchase consistent with an investment grade rating, so that kind of rules out any kind of leverage recap?

<A – Stephen Zelnak, Jr.>: I think, we've defined what it is we are focused on very clearly.

<Q – Jack Kelly>: Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Arnold Ursaner with CJS Securities.

<Q – Arnold Ursaner>: Hi. Good afternoon.

<A – Stephen Zelnak, Jr.>: Hey Arnold.

<Q – Arnold Ursaner>: To follow up on the point you just made. In terms of attempting to keep an investment grade rating, would you define that as something approaching let's say a three times leverage ratio which would imply comfortably another billion dollars of incremental debt?

<A – Stephen Zelnak, Jr.>: First of all, we will not be attempting to keep an investment grade rating. We will be investment grade, that's one of the bookends. Secondly, it's premature to comment on where we are going to wind up. We will do that with the May release, first quarter release. What I would tell you is that we sit today at 1.3 times debt to EBITDA. If you've taken – that's on 2006 EBITDA. If you take mid point range of our estimate that we've given out and to it DD&A of about 148 million, you are going to drop that ratio more. So, that's much, much too low and pretty clearly we're going to change that metric. We wouldn't be talking about it if we weren't going to move the meter.

<Q – Arnold Ursaner>: Okay.

<A – Stephen Zelnak, Jr.>: So, there should be an expectation that we're going to do something of consequence, but we are not going to come close to taking ourselves out of the investment grade category because we don't think that's in the interest of anyone.

<Q – Arnold Ursaner>: Again, as a follow up to that I know there is an investor you and I have kidded about quite a bit about who has been after you aggressively for two to three years to be more aggressive on share buyback and using more leverage, why now?

<A – Stephen Zelnak, Jr.>: Well I think, what's happened – in our business given this cyclical nature of the business and obviously haven't been around for a while I've been through more of these cycles than I care to remember. You always have the concern about what's going to happen on the downside and at the same time we're looking at what we have said is a just a fundamental change in this business. So, what's happened in 2006 is that we have had an opportunity to truly validate what happens to you with a down volume recession scenario because volume has been down the last three quarters. By definition that's a recession at least in our sector. So, we've been through that now. We have turned in what I think is a pretty impressive earnings performance. We look ahead and we think we likewise are going to turn in another great good year in 2007. And that just says convincingly that we're at a point where we are comfortable taking on more leverage. That's the bottom line on it.

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<Q – Arnold Ursaner>: Great, thank you. I have a real quick final question if I may on Magnesia Specialties, your Q4 revenue growth was a lot slower than we've seen for quite a while. Is there any specific thing that occurred there?

<A – Stephen Zelnak, Jr.>: Just a general slowing of the economy and some slowing of the steel mills in particular in the dolomitic lime side.

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

<A – Stephen Zelnak, Jr.>: Sure.

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

<Q – John Fox>: Hi Steve, hi Anne.

<A – Stephen Zelnak, Jr.>: Hi John.

<A – Anne Lloyd>: Hi John.

<Q – John Fox>: Question for each of you. Steve could you talk about housing, I picked up from your comments, you kind of feel that that's going to bottoming in the second half, is that just based on easy comparisons or are you seeing signs or what do you see on residential at this point?

<A – Stephen Zelnak, Jr.>: Our view is that that's more statistical than anything that you or I are going to get excited about. If you look at when home-building began to go down last year, the second half it began to be reflected in the numbers.

<Q – John Fox>: Right.

<A – Stephen Zelnak, Jr.>: So, my view is that the first opportunity for a favorable comparison is the third quarter. And my view is that from an inventory standpoint, the major homebuilders are all faced with challenges on their balance sheets. They're out there trying to push inventory, which means that they're not building at any pace that would excite us, not developing subdivisions.

<Q – John Fox>: Right.

<A – Stephen Zelnak, Jr.>: So, I think the first opportunity for them to really get back into the building business is mid-yearish, third quarter. Is it going to be some significant rise? I don't think so. I think it will be gradual but at least there is an opportunity to start the trend line back up.

<Q – John Fox>: Okay and then this year with pricing, of course, there is price carryover from 2006. And then did you raise prices on January 1st in some markets?

<A – Stephen Zelnak, Jr.>: We raised prices January 1st everywhere….

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: ….to varying degrees.

<Q – John Fox>: All right, great. And then for Anne, I guess Steve you gave us a D&A earlier, do you have an estimate for CapEx for this year?

<A – Anne Lloyd>: Yeah, we're in the 235 level.

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<Q – John Fox>: Okay. And on the other segment which you gave guidance of 33 to 36, what's the break out for composites in that guidance?

<A – Stephen Zelnak, Jr.>: Well, we're not going to break it from here on out because composites is basically going to be just a very minor piece of our activity. Unless there is something to talk about, and if it's minor and not getting there real quick it's not going to be a part of the company. So, we've got some short-term benchmarks. But we think, we're going to have a reasonable year in magnesia, but we also believe that the lime component, which has been a good business for us, is probably going to be down a little bit. So, that will be the driver on the negative side that will hold that business back. We think the magnesia chemicals side of it will be a plus and if you look at the rest of the change, it's really the losses in composites going away.

<Q – John Fox>: Okay, thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Mike Betts with JPMorgan.

<Q – Michael Betts>: Yes, good afternoon Steve. I've got a number of questions if I could. The first one may be just on pricing, I think you referred to double-digit price increases in H1 returning to single-digits in H2. Is that just the assumption that you're assuming no July price increase in 2007 and what do you think the prospects are for July price increases, my first question?

<A – Stephen Zelnak, Jr.>: Well, the assumption is that we will have some, but there are certainly not going to be the of magnitude, nor the geographic coverage of mid-year price increases that we had in '05 and '06. And I think that's – that's just a function of the markets, but yes we will have some.

<Q – Michael Betts>: I need your pricing guidance, is there any assumption for that?

<A – Stephen Zelnak, Jr.>: Very modest, so to the extent that we get something that is more than modest, then there is some possible upside there. The real driver is that prices really ramped up sharply in the last half of '06. So, when you begin to do just the statistical comparison, those are going to be tough comparison. They will tend to drag the numbers down.

<Q – Michael Betts>: Okay, thanks for that. And then, also thank you, you've given some regional information, split between the three regions, I think for the first time – well, first time I've seen it, so thank you for that. It does raise the question though obviously, the Mideast region margins are basically double what they are in the other regions. In terms of getting to this 30% margin target in five years' time, would you expect those are the regions to play a catch-up here or it's obviously a lot of – it's your historic cheaper assets that are there in the Mideast region?

<A – Stephen Zelnak, Jr.>: I think they are all going to move Mike. You have to understand that there is a disparity in margins between the three, but that's driven by some specific things. If you look at that decrement that we have in our distribution component, virtually all of that decrement is concentrated outside of Mideast in the other two regions. And also if you look at the Western Group, the Western Group also contains our vertical integration. So it has some construction in it which is very low margin. It has asphalt. It has ready-mix concrete which are lower margins than our aggregate business. So once you adjust out for all of that stuff, the margins are actually a lot closer than they would appear. If you go to the Southeast Group, it contains all of our waterborne. You say Southeast, you wouldn't think of Canada but most of that material goes to the Southeast. So they control that source as well as Bahamas and as well as the river operations we have up on the Ohio River system. So it's little bit deceiving in just looking at it without understanding the adjustments that would need to be made. But bottom line is we would expect to see improvement in all three segments as we go forward.

<A – Anne Lloyd>: And Mike as we file our annual report, you'll see some good discussion on just what Steve has indicated there as to what's in each region and what comprises it that should help add some color to your modeling process.

<Q – Michael Betts>: Yes, that'll be useful, thanks for that. You also mentioned Steve the Ohio River, we had the issue with the barge – barge problem in Q3, is that issue solved now did it have any impact on Q4?

<A – Stephen Zelnak, Jr.>: It did not have any impact on Q4. The issue is not solved. The current timeframe is third quarter of next year. They will go back, they have repaired one of the locks they have a second lock to repair. We ought to be in a lot better shape for that because if you recall, in the third quarter we were transitioning to our brand new plant. We had a shortage of inventory downriver. So, we really were forced into a position where we had to try to move as much as we could even though it was very costly and we had backups and delays. So by the time we get to the next round, I would expect that we would be able to back off a bit and have yard inventory downriver as part of our planning process.

<Q – Michael Betts>: Okay and the final question if I could please. Just you know, in your, your risks piece that you have to put there in your forward-looking statements, you referred particularly to spending in North Carolina and South Carolina, could you just update me on what the budgetary situation is now in North Carolina and I have to admit I didn't really realize and may be there isn't an issue in South Carolina, but is there also an issue with the state budget there?

<A – Stephen Zelnak, Jr.>: I'll start with South Carolina. South Carolina has some real organizational issues as well as budgetary issues, and they are in the throws of trying to figure out how they are going to organize their DOT and how they are going to run it going-forward. That's probably going cause them to not let projects to any great degree in the short-term as they figure that out. In North Carolina, we have talked about the fact that the state had an accounting year, a modest $600 million and in order to make up for that shortfall in cash flow they slowed down the letting phase pretty sharply. The other side of that equation is they do have $900 million in GARVEE bond authority, which we thought they would begin to use in Q4. They have not yet begun to use that. So, the expectation is that at some time in '07 that North Carolina's program will begin to move back up somewhat. There is also toll road initiatives in North Carolina that are currently being reviewed. I think you're going to see that become a component of the mix in this state. And the reality in all the high growth states is that the local initiatives are rapidly gaining round in terms of how much value is at the local level in terms of funding versus state and federal money. That's where the real growth is going to be.

<Q – Michael Betts>: Understood. And just back on South Carolina briefly, you don't expect to be let any projects in the short term, I mean is this going to run all the way through '07 or you know, when – what sort of time scale could we expect them to get themselves organized again?

<A – Stephen Zelnak, Jr.>: Having lived in South Carolina, graduated from high school there, which was a great event. I will tell you, I don't have a clue, and they have a long way to go to figure this out. So, we're just going to have to wait. They're in disarray.

<A – Anne Lloyd>: And it's not new, I mean.

<A – Stephen Zelnak, Jr.>: No.

<A – Anne Lloyd>: That is not a new issue this year. It's been around for a couple of years.

<A – Stephen Zelnak, Jr.>: But it's come to a head. They need revenue, but given the organizational and political issues that they have, they're going to have to get themselves reorganized before they can go forward with anything that will enhance revenue.

<Q – Michael Betts>: Okay.

<A – Stephen Zelnak, Jr.>: I am not even going to guess on that one.

<Q – Michael Betts>: Okay. That's great. Well, thanks for your answers anyway.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next to Tom Brinkman with Davenport.

<Q>: Good afternoon.

<A – Stephen Zelnak, Jr.>: Hi, there.

<Q – Tom Brinkman>: Yeah, I just want to know, last several years I mean you have had the position that acquisition prospects are not so great because of the valuation multiples out there. I'm wondering what's changed and, you know, one of your major competitors is obviously doing some acquisitions in the small size in United States and just seeing a better environment due to the – they are saying – the homebuilding downturn and the fact they can get some reasonable valuations now.

<A – Stephen Zelnak, Jr.>: Acquisitions are all in the eye of the beholder. And I don't think that'll ever be different. We have – we certainly have things that we continue to look at and don't be surprised, if we don't do a few small acquisitions this year. We may pop out with a couple of modest size. We are seeing some things that where the value correlates better to what we think is acceptable value. At the same time, we still see a lot of things that even with what we think is good forward-looking business opportunity are just too rich. So we have to compare that or do compare it in our world versus taking same amount of money and buying back Martin Marietta stock which is lot less risky and has turned out to be great value. So, we just continue to weigh that off where we have opportunities to grow the business in a way that we think is prudent and adds value we will do it. But, we are not going to charge out there just to grow for growth's sake. We think we already have lot of growth baked in organic growth into the system that we have created.

<Q – Tom Brinkman>: Okay. Also, I notice that in 2006, you spent a little bit less cash repurchasing shares than 2005, in spite of the downturn in the stock price in late summer. I wondered about, are there any existing debt covenants that are holding you back or what was it that gave you some pause there?

<A – Stephen Zelnak, Jr.>: Well, actually we spent only $3 million less. It was 176 million in '05 and 173 million in '06 so it was very consistent. What we have done in the past and we altered that a little bit in '06 is that we basically have used available cash to repurchase shares. We have not generally incurred additional debt. We did incur some additional or short-term debt in the second quarter of '06 because the price went down. We were a buyer when the price was 113. We certainly were a buyer at 76 or 78. So, we actually stretched out a little bit and that was because we had heavy CapEx in the first half and just looking at cash flow for the year, we felt totally justified in that. The other part of it was we had a very big record CapEx program in '06, $266 million. So, we wanted to make sure that we funded that adequately. And where we sit today is that, you know, we've indicated that our estimates assume that we are going to continue along with a repurchase program that is similar to where we've been the last couple of years and to the extent that we add leverage, we would be in a position to step up repurchase. And we liked our shares at

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113, we like them at 120ish or whatever it's trading at today and I suspect we are going to like him for a good while.

<Q – Tom Brinkman>: Okay. Last question, would you consider any acquisitions in non-aggregate type construction materials or would you expect to remain solely in the aggregates side?

<A – Stephen Zelnak, Jr.>: Well, we are not solely in the aggregates side; we are modestly in the ready mix business in a couple of markets. We are likewise modestly in the asphalt business and just a little bit of construction activity. It's not what we seek necessarily but where we can do an acquisition that we think will really add some value, get some cost synergy opportunities, you know, by buying something and adding to something else we've already have in the ancillary product lines, we are willing to do that. But, first and foremost, we are an aggregates producer and that's what we would seek. We likewise look in the Magnesia Specialties realm too because that business has done exceedingly well and we had a number of things we've looked at, nothing that we have moved on, but we continue to look there. So there is always possibility we might find something attractive that we ought do in that segment.

<Q – Tom Brinkman>: Okay. Congratulations on a great quarter.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: We will go next to Clyde Lewis with Citigroup.

<Q – Clyde Lewis>: Hello, good afternoon everybody. A couple of questions if I may, one on volumes and one on costs, I mean given that you've obviously got some new quarries that are going to be up and running this year. Hopefully, you don't have the problem with the Ohio River again and hopefully the transportation issues in Texas don't repeat, but were it not for South Carolina and North Carolina would you have expected volumes to be up this year and it's really just those two states that are holding things back or is the weakness of housing really being the major drag on volumes this year?

<A – Stephen Zelnak, Jr.>: Well, the weakness of housing is a pretty significant drag. Would it be up a little bit if we had highway programs that were normal in the two Carolinas? Yes, I think it would be in fairness. So those are definitely a drag on us.

<Q – Clyde Lewis>: Okay. Okay. And then in terms of costs, one sort of specific item I mean there was a large jump in your corporate costs that you've shown your results. I think it was sort of 16.7 up to 34.8 for the full year and within the fourth quarter there was obviously a meaningful move as well. I'm just wondering whether you can explain what was going on there. Is that sort of stock cost or was it sort of a central charge for getting rid of the composites part of the – trailer part of composites business? And then, sort of a generic question on costs in terms of what you would expect to see for non-diesel, non-fuel costs in 2007 and what are you doing to sort of if you like minimize the impact there?

<A – Stephen Zelnak, Jr.>: Okay, several questions together, let me start with SG&A. If you take the SG&A increase for the year and you strip out the expensing of stock options and strip out the increased incentives that we paid out which are performance-based, the rise in overhead was less than 3%.

<Q – Clyde Lewis>: Okay.

<A – Stephen Zelnak, Jr.>: Which I think was awfully good performance. So, we are actually pretty pleased with the way we have managed that. There is no composites embedded in that, we've broken that out for you. It is what it is and we have elaborated on it. If you look at production costs, the assumption that we have with respect to diesel is that, diesel environment is going to be

basically flat. Hopefully, it's going to be down a little bit but we've started with an assumption that it's flat. And if you buy that assumption and you carry that forward to production cost at the quarry, then the target would be to keep production cost at the quarry to less than a 3% increase in 2007. The more difficult piece to manage which is now 27% of our business is the cost component that relates to long-haul transportation. If you look at long-haul transportation just like we are getting some, you know, nice price increases in areas where there is shortage of supply that also happens to be where the long-haul network is, where there is shortage of supply on transportation, so that gets priced accordingly. So, a bit of a wildcard there in terms of what the rate of increase is going to be on that component. It's certainly not going to be down near 3%, it's going to be much higher.

<Q – Clyde Lewis>: Okay. Can you maybe give some sort of indication as to how much that went up last year as a percentage increase for long-haul freight?

<A – Stephen Zelnak, Jr.>: Yeah, it was up about 24%.
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<Q – Clyde Lewis>: Okay. Thank you. Thank you very much.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We go next to Thomas Russo of Gardner, Russo, Gardner.

<Q – **Thomas Russo>:** Hi Steve and Anne.

<A – Stephen Zelnak, Jr.>: Hi Tom.

<A – Anne Lloyd>: Hi Tom.

<Q – **Thomas Russo>:** Hi. A question about the potential for share buyback and I guess to the question asked earlier about acquisitions. Implicit in the stepped up buyback is a belief that the market just misses what's transformed in your business, and I wondered to what extent you have equally applied that transformed valuation multiple to the acquisitions that you do look at?

If in fact we're in a whole new world, are you willing to step up that purchase price of existing capacity to reflect that same view?

<A – Stephen Zelnak, Jr.>: Well, if we were looking at something that had the same kinds of positions that we had then, it's very easy to step it up and we've talked about what our view of future is. We think it's quite good and we've talked about the fact that we have got a margin target that's in the 30% range five years out which – which we believe is achievable.

<Q – **Thomas Russo>:** Uh huh.

<A – Stephen Zelnak, Jr.>: So, that's based on positions that have been built over a long period of time that frankly most people don't have, so when you are looking at each acquisition opportunity, you have to look at the particulars of that opportunity, and then you're going to model it accordingly and as you look at these things and what you can do with them, they are going come out with different EBITDA multiples based on that positioning.

What I would suggest to you is that we're undergoing a transition, when I say we, I am looking at the aggregates business in total, the companies that participate in it. There clearly is a step function change. Ourselves and all the other companies have amassed reserves in some cases very significant mineral reserves that just aren't readily replacable.

<Q – **Thomas Russo>:** Uh huh.

<A – Stephen Zelnak, Jr>: And it becomes more difficult by the hour to come up with something that would be replaceable. Therefore, the value of those reserves has gone up and the earning power of those reserves has gone up. And our view is that the market does not reflect that yet, certainly in our share price, let other companies comment on their own, but I'll comment on ours. If you make some modest assumptions about the next five years with respect to pricing and the difference between price cost and getting to a 30% margin, you don't come up with present day stock price that's significantly above where we are right now.

So, I would expect that the marketplace will watch us, put up numbers as we go, draw their own conclusions and as we put up numbers particularly as we get into the next upturn, I would expect that they'll value accordingly. I think you are going to ultimately see a business that's valued differently on an EBITDA basis from historic norms, because there is more built in long-term profitability and cash flow in this business than there has ever been before.

<Q – Thomas Russo>: Yeah, yeah thank you – thank you Steve. The comments you made about the shift towards local funding in lieu of state and regional or federal, what's the vehicle through which those local projects are funded and what do they tend to be?

<A – Stephen Zelnak, Jr.>: Different vehicles. In some cases the local areas are issuing bonds. They could issue bonds and do issue bonds for schools. An example is that the county that we live in here in Raleigh, North Carolina – Lake County, which has a population approaching 700,000 people, just approved a $970 million school bond issue and that will probably keep the schools in a position where they're building and chasing the needs for another three years or so. They are going to be back for another issue that's probably $1 billion or so, three-four years out.

<A – Anne Lloyd>: They're even talking about accelerating it to this year, if possible.

<A – Stephen Zelnak, Jr.>: So, all these areas in the south where you have these influx of people, particularly young people with children, tremendous pressure on the school system, and that's the only way you meet it. We're seeing bond issues for road improvements at the local level. Quite a few bond issues related to parks, that's a big one.

<Q – Thomas Russo>: Yeah.

<A – Stephen Zelnak, Jr.>: If you look at the other thing that's going on local option sales taxes to fund transportation and other needs, Charleston, South Carolina would be an example, where they implemented a local option sales tax with that money dedicated to roads. You've had Charlotte which is funding part of their transit system with local option money. So, you've got just an array of things that are going on. We think that's where the action is, that and toll roads you're going to see a tremendous ramp up, because the money is not there otherwise.

<Q – Thomas Russo>: Yeah and then last Steve, you mentioned the doubling of capacity for the mag hydroxide flow-retardant business and other ways that you'll expand your, especially, specialty chemical area. Are there any changes going on in your competitor set or that has made this business evolve or has it really been your own share of the market plus your cost structure is improving with scale?

<A – Stephen Zelnak, Jr.>: We have really worked hard to improve our cost structure, and that has worked extremely well. What we do in that business a lot of what we're doing where we're getting growth is the work that we do internally to customize products to meet specific needs of customers. And by producing a synthetic mag hydroxide as opposed to processing natural magneside say from China or Australia. We have the ability to customize the product. So therefore, we can carve out market niches that other people can't necessarily compete in, because they can't make the product. So, that's a lot of what we are doing that's adding value. The flame-retardant business, which has grown significantly for us the biggest consumer of that is synthetic

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roofing shingles and we just happen to be able to make a product that suits the needs of that marketplace very, very well. Another piece of this business will go toward additives for motor oils, about a third of the shipments for the mag hydroxide powder are for motor oil additives and that's another highly customized product.

<Q – Thomas Russo>: Okay. Thank you, Steve, congratulations on a great year.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: We'll go next to Stuart Powers with TCI.

<Q – Stuart Powers>: Actually my questions have been answered. Thank you.

<A – Stephen Zelnak, Jr.>: Sure.

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

<Q – Garik Shmois>: Hi good afternoon, this is Garik Shmois filling in for David. Just first off a quick housekeeping question, what tax rate shall we be using for '07?

<A – Anne Lloyd>: It will vary throughout the quarters but we are planning a 30% effective tax rate for 2007.

<Q – Garik Shmois>: Okay and just lastly what are you seeing in Texas right now? Is residential construction slowed down more than you had anticipated and has infrastructure continued to remain strong and also has there been any delays in the fourth quarter with regards to rail tie-ups sending material down there and any expectation for that going-forward here in '07?

<A – Stephen Zelnak, Jr.>: With respect to home building in Texas, you know clearly you are getting a pull back there just as you are in other parts of the county late to come to Texas but definitely happening. A little bit difficult to read right now, because weather in Texas starting out the year has been pretty ugly, particularly for Houston which is normally an open weather type market at this time of year. So, we are going to reserve judgment on that but there is no question that it's pulling back, and I don't know of any markets in the U.S. right now of any consequence that haven't pulled back.

With respect to rail, actually in the fourth quarter the rail movements that we're tied to in our markets performed reasonably well, the major railroads had a little less pressure on them. Their business has backed up as the economy has pulled back a little bit. So, we saw better movements, more availability of cars, probably the best we saw all year. In fact I won't say probably – it was the best that we saw all year. As we go into '07, the availability of rail always depends upon things that are outside the aggregate domain because the aggregate business does not drive the railroads. They've got a lot of other businesses that are much, much larger for them. So, we don't know the answer to that. It will depend upon other types of shipments but I certainly would anticipate overall that it would be a bit better than it was in '06 in terms of supply, but probably still constrained at different times throughout the year.

<Q – Garik Shmois>: Okay, thank you. And just also with regards to the weather, does it look like bulk of the work that was scheduled for the first quarter here in Texas is going to get pushed out into the spring or might you be able to recover some of that here in the back half of the quarter?

<A – Stephen Zelnak, Jr.>: Yeah, its – you know it's only early in February and I'm not very good at forecasting the weather, so I just – I don't know.

<Q – Garik Shmois>: Okay.

<A – Stephen Zelnak, Jr.>: There's work there. Certainly Texas has a very, very large infrastructure program. So, we'll just have to see how the weather treats everyone.

<Q – Garik Shmois>: Okay, thanks a lot.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll go next go John Kasprzak with BB&T Capital Markets.

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

<A – Stephen Zelnak, Jr.>: Hi, Jack.

<Q – John Kasprzak>: You guys have touched on a lot of issues, but I wanted to ask – you reference to the next cycle and obviously we've had three down quarters for volume and of course the issues in North Carolina and South Carolina. So, if it does pan out late '07 into '08, that housing stabilizes, may be it begins on a upward trend again, however modest; some of these individual states get their acts together, maybe North Carolina, for example, important to you guys, and you start to see more average GDP type volume growth in your business. Does that – what implications does that have for pricing, if pricing can remain around double digits in a "downturn" in that scenario, and upturn scenario, would you expect to see a much better pricing situation or is that I guess too much to ask?

<A – Stephen Zelnak, Jr.>: Well keep in mind that the pricing that you're seeing right now does not just relate to what we're doing right now. It also relates to price increases put in when the demand was more robust because you've got lag factor in our business, typical highway project that's being done right now, you know on average we quoted that job 18, 24 months ago and did not necessarily have escalators in it. So, you get that work out there, you just begin to roll in on the existing prices, you get a nice lift. So, we'll have that, that's a piece of the driver. You just have to keep that in mind there is a lag factor here. If you think about what I've already said about mid-year price increases and the fact that there will be a much lesser environment for implementing those this year than the last two years, that's an indicator that the economy is slow. So, as you go forward, you probably have a period where you will have a lesser rate of price increase given that we are not going to have the big mid-year pops that we had the last two years and then as the economy begins to pick up, if you follow the scenario you outlined in 2008, then you're going to be back to very tight supply in the markets that matter. And we're going to gauge that accordingly and if product is short, then we have more opportunity than we have today.

<Q – John Kasprzak>: Perfect, that's great. Thanks Steve and congratulations on another great year. I've been following you guys for a long time and just another superb job, so well done.

<A – Stephen Zelnak, Jr.>: Thank you.

Operator: [Operator Instructions]. We'll take a next question from John Fox with Fenimore Asset Management.

<Q – John Fox>: Yeah, hi I had another question; later in '06 there was an issue with liquid asphalt prices were elevated and some highway work being deferred as a result. Can you talk about where asphalt prices are today and do you see any of that work coming back online in '07?

<A – Stephen Zelnak, Jr.>: We have an expectation that there would be more physical work done because if you look at what happens to states and even individual developers, school systems or whatever, they're trying to stretch their budget dollars and at one point in '06 you had liquid asphalt up to $400 plus a ton and it had gone from something in the mid 250s up to that 400 plus very, very

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quick. If you look at the trend line now I think the expectation is that liquid asphalt is likely to be in more in the $300 range 300 – 325 for the year.

<Q – John Fox>: Okay.

<A – Stephen Zelnak, Jr.>: If that's the fact then, yes there have been deferrals and you would expect that the people who've deferred, both states and private developers, are going to move ahead on that work unless they've got some view that prices are going to come down even more. My guess is they will take advantage of this respite and go ahead and do some work that they didn't do. We have no way of cataloging how much that is. It's just a general expectation that we're going to see – we know some work was deferred. We're going to see the benefits of that in '07.

<Q – John Fox>: Okay thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: We'll take a follow-up from Arnie Ursaner, CJS Securities.

<Q – Arnold Ursaner>: Hi, two quick follow-ups. On the railcars, have you gotten those delivered at this point and they part – are they part of your fleet, are you using them at this stage?

<A – Stephen Zelnak, Jr.>: All deliveries of railcars were made last year, 780 new cars. They are in use and at this point they are meeting the performance characteristics and the cost saving characteristics that we've laid out in our pro forma.

<Q – Arnold Ursaner>: And you had thought when you did get these deposits, by you are having the ability to do full carload trains and you might be able to get a pretty good costs saving from the railroads, are you seeing that?

<A – Stephen Zelnak, Jr.>: Well fact is we were – we were doing that before in terms of using unit trains but we had difficulty securing as many cars as we wanted at certain points and also keep in mind that we just brought on this new rail capacity up in southern Oklahoma at North Troy and we needed to make sure that we had car supply to adequately take care of that new 5 million tons of capacity because virtually everything out of there is by rail. The local market is probably less than a quarter of a million tons, so we had to plan for that. So we are getting very good use out of them. I am just quite pleased with that right now.

<Q – Arnold Ursaner>: And two more quick questions if I can. Your billing, you obviously have had a major capital expenditure at Paducah one of your largest plants to come onstream. When you think about your '07 margin views, can you give us a sense of what sort of startup expenses you are incurring or likely to incur and if you don't get the volume pick up that – again with volumes declining and increasing capacity, wouldn't this have some margin impact on you in the upcoming year?

<A – Stephen Zelnak, Jr.>: Now, are you talking specifically about that plant or just the array of capital projects that we did last year?

<Q – Arnold Ursaner>: More the overall array and start up expenses related to those.

<A – Stephen Zelnak, Jr.>: Well there were some startup expenses related to the two big projects. Any time you bring on a large capital project in the aggregates business, the fine tuning, you know it's going to take you at least a quarter, more typically two quarters to really get it running away up to design capability. So, we did go through that. There was some startup cost incurred. The reality with a reduced capital budget in 2007 is that we won't have as much startup cost in our capital

projects but money is not going to move the meter enough when you're plus $6 a share whatever the number may be in that range, there is not going to be enough difference in the startup cost to make any significant change in our earnings in my view.

<Q – Arnold Ursaner>: Okay and my final question. I thought you had locked in very attractive long term contracts on the boats or ships from Nova Scotia and added two last year. Can you comment again or remind us of how these contracts are structured and I'm a little surprised when you mentioned you have a 24% increase all of last year, can you give us a sense of how these contracts work, how it might impact the upcoming year?

<A – Stephen Zelnak, Jr.>: When you're dealing with big ships, we do have long-term contracts that stretch out as much as 15 years. If you think about the shippers' economics what they want to do is assure capacity utilization because with the ship it's all about fixed costs, so we will have a basic rate and then we will have fuel adjustment clauses related to that which take care of the fuel changes. The place where we really got the big pops were not on the big ships, we got it on the barging side of the equation and that related to short supply and you don't have contracts that stretch out for long-term with the barging side and also the fuel adjustment clauses there. You run in 65 or 100 horsepower diesel engines on those towboats and it's just a giant sucking sound as they consume fuel.

So, we saw a very significant ramp up in barging cost. In fact, the number was 40% or so as opposed to the 24% average for long-haul, just to give you a feel for that. And then we saw a significant increase in quite a few of our rail movements where we do have some contracts which are longer term in nature. But they also have fuel adjustment clauses and beyond that, with rail supply type, we also had some new contracts and those were priced at much higher levels. Railroad is in a good position. They are long on demand and short on supply and they price accordingly.

<Q – Arnold Ursaner>: Okay, thank you.

<A – Stephen Zelnak, Jr.>: Sure.

Operator: And at this time we have no further questions. I'd like to turn the call back over to Stephen Zelnak for any additional or closing remarks.

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

Well, we had a great year. We were really, really pleased with what we were able to accomplish. Expectations are high for '07. The risk is in the volume and I think you ought to be aware of that – that that's really where we think the risk is. We think we performed well on our pricing metric and we think we're doing a very good job of managing our cost. We look forward to talking to you at the end of the first quarter to see where we are and take this business forward. Thank you.

Operator: That does conclude today's conference call. Thank you for your participation. You may disconnect at this time.

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