# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**
**[ X ]** ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2002**

OR

**[ ]** TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number **1-12744**

# MARTIN MARIETTA MATERIALS, INC.

(Exact name of registrant as specified in its charter)

| **North Carolina** | **56-1848578** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification no.) |
| **2710 Wycliff Road, Raleigh, North Carolina** | **27607-3033** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(919) 781-4550**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock (par value $.01 per share) (including rights attached thereto)** | **New York Stock Exchange** |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [**X**] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [**X**] No[ ]

The aggregate market value of voting stock (based on the closing price on the New York Stock Exchange on June 28, 2002 as published in the Wall Street Journal) held by non-affiliates of the Company was $1,296,118,512. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's classes of common stock on March 20, 2003 was as follows:

| **Common Stock (par value $.01 per share)** | **48,847,975 shares** |
|---|---|

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Martin Marietta Materials, Inc. 2003 Proxy Statement are incorporated by reference into Part III.

Portions of the Martin Marietta Materials, Inc. 2002 Annual Report to Shareholders are incorporated by reference into Parts I, II and III.

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## PART I

### ITEM 1. BUSINESS

***General***

Martin Marietta Materials, Inc. (the "Company") is the United States' second largest producer of aggregates for the construction industry, including highways, infrastructure, commercial, and residential. The Company also manufactures and markets magnesia-based chemical products used in industrial, agricultural, and environmental applications, and dolomitic lime sold primarily to the steel industry. In 2002, the Company's aggregates segment accounted for 95% of the Company's total net sales, and the Company's magnesia-based products segment accounted for 5% of the Company's total net sales.

The Company was formed in November 1993 as a North Carolina corporation to be the successor to substantially all of the assets and liabilities of the materials group of Martin Marietta Corporation and its subsidiaries. An initial public offering of a portion of the common stock of the Company (the "Common Stock") was completed in February 1994 whereby 8,797,500 shares of Common Stock (representing approximately 19% of the shares outstanding) were sold at an initial public offering price of $23 per share. Lockheed Martin Corporation, which was formed as the result of a business combination between Martin Marietta Corporation and Lockheed Corporation in March 1995, owned approximately 81% of the Common Stock directly and through its wholly-owned subsidiary, Martin Marietta Investments Inc., until October 1996.

In October 1996, the outstanding Common Stock of Martin Marietta Materials that was held by Lockheed Martin Corporation became available to the public market when Lockheed Martin disposed of its 81% ownership interest. This transaction was completed by means of a tax-free exchange offer pursuant to which Lockheed Martin stockholders were given the opportunity to exchange shares of Lockheed Martin common stock for shares of the Company's Common Stock, which resulted in 100% of the outstanding shares of Common Stock being publicly traded.

As of May 28, 1997, the Company purchased all of the outstanding common stock of American Aggregates Corporation ("American Aggregates") along with certain other assets from American Aggregates' former parent, CSR America, Inc., for an acquisition price of approximately $242 million in cash plus certain assumed liabilities (the "American Aggregates Acquisition"). The American Aggregates Acquisition included the Ohio and Indiana operations of American Aggregates with 29 production facilities and increased the Company's annual production capacity by more than 25.0 million tons — in addition to adding over 1.0 billion tons of mineral reserves, of which approximately 700.0 million were zoned for production, and 11,000 acres of property. American Aggregates was a leading supplier of aggregates products in Indianapolis, Cincinnati, Dayton, and Columbus.

As of December 4, 1998, the Company acquired the common stock of Redland Stone Products Company ("Redland Stone") from an affiliate of Lafarge SA for $272 million in cash plus normal balance sheet liabilities and approximately $8 million estimated for certain other assumed liabilities and transaction costs (the "Redland Stone Acquisition"). The Company did not assume any long-term

debt of Redland Stone. Redland Stone was a leading producer of aggregates and asphaltic concrete in the State of Texas and had mineral reserves which exceeded 1.0 billion tons. The Redland Stone Acquisition expanded the Aggregates division's business by adding operating facilities in the southwest United States, expanding the Company's presence in the asphalt production business, adding significant long-term mineral reserve capacity, and increasing and diversifying the Company's access to rail transportation.

As of October 31, 1998, the Company purchased an initial 14% interest in the business of Meridian Aggregates Company ("Meridian"). As of April 3, 2001, the Company completed the purchase of all of the remaining interests of Meridian under the purchase option terms of the original investment agreement. The purchase consideration consisted of $238 million, including the original October 1998 investment of $42 million, the retirement of debt, the forgiveness of related party obligations, and estimated amounts for certain other assumed liabilities and transaction costs, plus the assumption of normal balance sheet liabilities (the "Meridian Acquisition"). At the time of the Meridian transaction, Meridian operated 25 aggregates production facilities and seven rail-served distribution yards in 11 states in the southwestern and western United States and sold aggregates to customers in 14 states, including six states in which the Company had not previously conducted any business. The Meridian Acquisition added more than 1.6 billion tons of aggregates reserves, expanded the Company's presence in the southwest and western states, and increased its ability to use rail as a mode of transportation.

As of May 1, 2001, the Company, through its wholly owned subsidiary, Martin Marietta Magnesia Specialties, sold certain assets related to its refractories business to a subsidiary of Minerals Technologies Inc. for $34 million. The Company retained certain current assets (including accounts receivable) and certain liabilities relating to the refractories business. In an accompanying manufacturing agreement, Magnesia Specialties agreed to supply the subsidiary of Minerals Technologies with certain refractories products principally from the Company's Manistee, Michigan plant for a period of time following the sale. This agreement ended in 2002. The sale of Magnesia Specialties' refractories products business lessened the Magnesia Specialties division's dependence on the steel industry.

In 2001, the Company transferred the operating responsibility for its Woodville, Ohio dolomitic lime operation to the MidAmerica Division of the Aggregates division. The Woodville, Ohio operation produces and sells dolomitic lime to the steel industry and produces and sells approximately 1.0 million tons per year of aggregates to construction businesses. However, the Woodville, Ohio operation will continue to be reported by the Company within the Magnesia Specialties segment.

In 2002 the Company completed a number of sales of nonstrategic operations, including the sale of facilities in Illinois, Iowa, Ohio, Oklahoma, Tennessee, and Virginia. The Company will continue to evaluate opportunities to divest nonstrategic assets during 2003 in an effort to redeploy capital for other opportunities.

The Company announced in February 1997 that it had entered into agreements giving the Company rights to commercialize certain proprietary technologies related to the Company's business. One of the agreements gives the Company the opportunity to pursue the use of certain fiber-reinforced polymer composites technology for products where corrosion resistance and high strength-to-weight ratios are important factors, such as bridge decks, marine applications, and other structures and

applications. The Company continued its research and development activities during 2002 on these structural composites technologies and continued manufacturing (in 2002, through a contractor) and marketing certain of the products. The Company recently entered into an agreement to lease a 185,000 square foot facility in Sparta, North Carolina, which will serve as the Company's assembly and manufacturing hub for its structural composites business. Manufacturing at this facility is anticipated to commence in the second half of 2003, with potential expansion in 2004. The Company is targeting several industries for its fiber-reinforced polymer composite materials: infrastructure, which includes pedestrian and vehicular bridge decks; transportation, which includes specialty truck trailers and chassis, railcar components, and trailer dump beds; and construction, which includes wall panels, parking decks, and heavy equipment components. In 2002 the Company announced the installation of bridge decks in two states, bringing its total to 18 bridge deck installations in 11 states utilizing the Company's composite materials technologies. The Company continued to explore opportunities to introduce its composite bridge installations to foreign markets. The Company entered into a licensing agreement in 2001 whereby it will manufacture and market commercial specialty truck trailers in North America, utilizing fiber-reinforced composite materials. Late in 2002 the Company also signed a licensing agreement relating to a proprietary composite sandwich technology, which the Company expects will play an important role in the product line related to flat panel applications. The Company expects to ramp up its composites business during 2003, with 2004 expected to be the first full year of business. The Company will continue to evaluate a variety of construction-related and commercial uses for composite materials, in addition to its use in bridge decks and truck trailers. These composite materials technologies, if fully developed by the Company, would complement and expand the Company's business. While the Company expects to increase its revenues related to its composite materials over the next five years, there can be no assurance that these technologies will become profitable.

The Company continued in 2002 to explore the viability of certain technology related to microbial products for enhanced plant growth. As expected, the Company had limited revenue and no profits from these technologies in 2002, and has since abandoned these products. Also, in 1999 and 2000 the Company made investments in a start-up company that has proprietary microwave technology for use in applications related to industrial heating and drying, food processing, and aseptic packaging. The Company had no revenue in 2002 from this investment, which was reserved in 2002.

The Company is replacing its existing information systems with an enterprise-wide information solution supplied primarily through J. D. Edwards & Company. The capital requirements for this multi-year project, excluding system replacements for acquired operations not currently using the Company's Raleigh-based systems (principally the Redland and Meridian Acquisitions), are expected to be $27.8 million, with $9.5 million, $13.0 million, and $4.0 million expended in 2002, 2001, and 2000, respectively. The timeframe for completion of the various components of this project has not yet been determined. The Company believes it has deployed sufficient personnel and capital to complete this project successfully.

***Business Segment Information***

The Company in 2002 operated in two reportable business segments: Aggregates and Magnesia Specialties. Information concerning the Company's net sales, operating profit, assets employed, and certain additional information attributable to each reportable industry segment for each year in the three-year period ended December 31, 2002 is included in "Management's Discussion and

Analysis of Financial Condition and Results of Operations” on pages 26 through 51 of the Company’s 2002 Annual Report to Shareholders (the “2002 Annual Report”), which information is incorporated herein by reference.

***Aggregates***

The Company’s Aggregates division processes and sells granite, limestone, sand, gravel, and other aggregates products for use in all sectors of the public infrastructure, commercial, and residential construction industries. The Aggregates division also includes the operation of its other construction materials businesses. These businesses, acquired through continued selective vertical integration by the Company, includes primarily asphalt, ready mix concrete, and road paving operations.

The Company is the United States’ second largest producer of aggregates. In 2002, the Company shipped approximately 189 million tons of aggregates primarily to customers in 32 states, in addition to Canada and the Bahamas, generating net sales and earnings from operations of $1.4 billion and $170 million, respectively.

The Aggregates division markets its products primarily to the construction industry, with approximately 46% of its shipments made to contractors in connection with highway and other public infrastructure projects and the balance of its shipments made primarily to contractors in connection with commercial and residential construction projects. As a result of dependence upon the construction industry, the profitability of aggregates producers is sensitive to national, regional, and local economic conditions, and particularly to cyclical swings in construction spending, which is affected by fluctuations in interest rates, and demographic and population shifts and to changes in the level of infrastructure spending funded by the public sector. The Company’s aggregates business covers a wide geographic area. The Company’s aggregates and asphalt products and ready mixed concrete are sold and shipped from a network of approximately 360 quarries, distribution facilities, and plants in 28 states, as well as the Bahamas and Canada, although the Company’s five largest revenue-generating states (Texas, North Carolina, Georgia, Iowa, and Arkansas) account for approximately 54% of total net sales by state of destination. The Company’s business is accordingly affected by the economies in these regions and has been adversely affected by the continuing recession and weaknesses in these economies.

The Company’s aggregates business is also highly seasonal, due primarily to the effect of weather conditions on construction activity within its markets. As a result of the Meridian Acquisition, the American Aggregates Acquisition, and several other smaller acquisitions in the western and upper midwestern regions of the United States, more of the Company’s aggregates operations have exposure to weather-related risk during the winter months. The division’s operations that are concentrated principally in the northern region of the country generally experience more severe winter weather conditions than the division’s operations in the Southeast and Southwest. Due to these factors, the Company’s second and third quarters are generally the strongest, with the first quarter generally reflecting the weakest results. Results in any quarter are not necessarily indicative of the Company’s annual results. Similarly, the division’s operations near the Atlantic and Gulf Coasts are at risk for hurricane activity and have experienced weather-related losses in recent years, which have had a significant adverse impact on the financial performance of the Company. In 2002, 12 hurricanes or tropical storms negatively affected the Company’s operations by reducing shipments and operating efficiencies and increasing certain operating costs.

Aggregates can be found in abundant quantities throughout the United States, and there are many producers nationwide. However, as a general rule, shipments from an individual quarry are limited because the cost of transporting processed aggregates to customers is high in relation to the value of the product itself. As a result, proximity of quarry facilities to customers is the most important factor in competition for aggregates business and helps explain the highly fragmented nature of the aggregates industry. As described below, the Company's distribution system mainly uses trucks, but also has access to a lower-cost river barge and ocean vessel network. In addition, the Redland Stone Acquisition, the Meridian Acquisition, and other recent acquisitions have enabled the Company to extend its reach through increased access to rail transportation.

A growing percentage of the Company's aggregates shipments are being moved by rail or water through a distribution yard network. In 1994, 93% of the Company's aggregates shipments were moved by truck, while the balance of 7% was moved by rail. In contrast, the Company's aggregates shipments were moved 77% by truck, 14% by rail, and 9% by water in 2002**.** The Company has an extensive network of aggregates quarries and distribution centers along the Mississippi River system throughout the central and southern United States and in the Bahamas, as well as distribution centers along the Gulf of Mexico and Atlantic coasts. The Gulf and Atlantic coastal areas are being supplied in part from the Bahamas location, two large quarries on the Ohio River system, and a Canadian quarry on the Strait of Canso in Nova Scotia. In addition, the Company's acquisitions, especially the Redland Stone and Meridian Acquisitions, have expanded its ability to ship by rail. Accordingly, in addition to increasing the Company's geographic presence through acquisitions, the Company has also enhanced its reach through its ability to provide cost-effective coverage of certain coastal markets on the east and gulf coasts, and to ship products in and to Canada, the Caribbean, and parts of South America, as well as to additional geographic areas which can be accessed economically by its expanded distribution system. The Company recently completed a major project to modernize and expand the plant capacity at its Bahamas location, which provides the opportunity for the Company to capture future potential market growth and reduce costs (although there can be no assurance of such growth and cost reductions).

As the Company continues to move more aggregates by rail and water, embedded freight costs have consequently reduced gross margins. This typically occurs where the Company transports aggregates from a production location to a distribution location by rail or water, and the customer pays a selling price that includes a freight component. Margins are negatively affected because the customer typically does not pay the Company a profit associated with the transportation component of the selling price. Moreover, the Meridian Acquisition and its rail-based distribution network, coupled with the extensive use of rail service in the Southwest, increases the Company's dependence on and exposure to railroad performance, including track congestion, crew availability, and power failures, and the ability to renegotiate favorable railroad shipping contracts. The waterborne distribution network increases the Company's exposure to certain risks, including the ability to negotiate favorable shipping contracts, demurrage costs, fuel costs, barge or ship availability, and weather disruptions.

The Company's management believes the overall long-term trend for the construction aggregates industry continues to be one of consolidation, although the consolidation trend is slowing as the number of suitable acquisition targets shrinks. The Company's Board of Directors and management continue to review and monitor the Company's strategic long-term plans, which include assessing business combinations and arrangements with other companies engaged in similar

businesses, increased market share in the Company's core businesses, and pursuing new technological opportunities related to the company's existing markets.

Prior to 1998, the Company had historically focused on the production of aggregates and had not integrated vertically in a substantial manner into other construction materials businesses. The Company became significantly more vertically integrated with the Redland Stone Acquisition in 1998 and subsequent acquisitions, particularly in the southwest, pursuant to which the Company has acquired asphaltic concrete, ready mixed concrete, paving construction, trucking, and other businesses, which establish vertical integration that complement the Company's aggregates business. These vertically integrated operations accounted for about 15% of net sales in 2002, with no single operation contributing more than 10% of total net sales. As the Company continues its expansion strategy westward, where vertically integrated operations are the norm, profit margins are generally adversely affected. Generally these operations have lower gross margins than aggregates products, and are affected by volatile factors, including fuel costs, operating efficiencies, and weather, to an even greater extent than the Company's aggregates operations. In particular, the road paving and trucking businesses have been acquired as supplemental operations that were part of larger acquisitions. As such they do not represent core businesses of the Company. These operations have typically resulted in losses that are insignificant to the Company as a whole. The Company continues to review carefully these operations.

Environmental and zoning regulations have made it increasingly difficult for the aggregates industry to expand existing quarries and to develop new quarry operations. Although it cannot be predicted what policies will be adopted in the future by federal, state, and local governmental bodies regarding these matters, the Company anticipates that future restrictions will likely make zoning and permitting more difficult thereby potentially enhancing the value of the Company's existing mineral reserves.

Management believes the Aggregates division's raw materials, or mineral reserves, are sufficient to permit production at present operational levels for the foreseeable future. The Company does not anticipate any material difficulty in obtaining the raw materials that it uses for production in its aggregates segment. The Company's aggregates reserves on the average exceed 60 years of production, based on current levels of activity. However, certain locations may be subject to more limited reserves and may not be able to expand.

The Company generally delivers products in its aggregates segment upon receipt of orders or requests from customers. Accordingly, there is no significant backlog information. Inventory of aggregates is generally maintained in sufficient quantities to meet rapid delivery requirements of customers. The Company has provided extended payment terms to certain customers, depending on the particular facts and circumstances surrounding the customer.

Less than 1% of the Aggregates division's sales are made in foreign jurisdictions, principally in Canada and the Bahamas.

***Magnesia Specialties***

The Company in 2002 also manufactured and marketed dolomitic lime and magnesia-based chemicals products for industrial, agricultural, and environmental uses. As of May 1, 2001, the

Company sold certain assets relating to its magnesia-based heat-resistant refractories business of its Magnesia Specialties segment to a subsidiary of Minerals Technologies Inc. but continued to manufacture and sell certain refractories products to the subsidiary of Minerals Technologies pursuant to a related manufacturing agreement. This manufacturing agreement ended in 2002, and the Magnesia Specialties division has stopped production and sale of these magnesia-based refractory products previously sold directly to the steel industry.

Given the high fixed costs associated with the operations of this division, excess capacity negatively affects its results of operations. In addition, Magnesia Specialties' dolomitic lime products are (and its refractory products were) sold primarily to the steel industry. Accordingly, the division's profitability has historically depended on the production of steel and the related marketplace, and a portion of the division's product pricing structure has historically been affected by current business economic conditions within the steel industry. While the sale of Magnesia Specialties' refractories business in 2001 lessened the Magnesia Specialties division's dependence on the steel industry, Magnesia Specialties' products used in the steel industry still accounted for approximately 52% of the division's net sales in 2002, attributable primarily to the sale of dolomitic lime products. The Magnesia Specialties division has also experienced losses in accounts receivable due to customer bankruptcies and is further exposed to additional potential losses in customer accounts receivable if the steel industry continues to deteriorate.

Competitive pricing pressures in the Magnesia Specialties' division also continued throughout 2002. The division's chemicals group continued to diversify in chemicals used as flame retardants, in wastewater treatment, in pulp and paper production, and to reduce stack pollution, and is not as dependent on the steel industry as is the dolomitic lime business.

The principal raw materials used in the Company's Magnesia Specialties division's products are dolomitic limestone, brine, and imported magnesia. Management believes that its reserves of dolomitic limestone and brine are sufficient to permit production at the required operational levels for the foreseeable future.

Once the Magnesia Specialties division's reserves of brine are used in the production process, the division must dispose of the processed brine. Typically the division does this by reinjecting the processed brine back into its underground brine reserve network around its facility in Manistee, Michigan. The division has also sold a portion of this processed brine to third parties. The Magnesia Specialties division recently entered into a long-term processed brine supply agreement with The Dow Chemical Company ("Dow") pursuant to which Dow will purchase processed brine from the Magnesia Specialties division for use in Dow's production of calcium chloride products. The Magnesia Specialties division also entered into a venture with Dow to construct, own, and operate a processed brine supply pipeline between the Magnesia Specialties division's facility in Manistee, Michigan, and Dow's facility in Ludington, Michigan.

The supply of natural and synthetic magnesia is abundant worldwide. In 2002, the Company purchased some of its magnesia requirements from various sources located in China. While the Company does not expect an interruption in the supply of magnesia from these sources, various factors associated with economic and political uncertainty in China could result in future supply interruptions. If such an interruption were to occur, the Company believes it could obtain alternate supplies worldwide, although there could be no assurance that the Company could do so at current prices.

Alternatively, the Company believes it could adjust its mix of products and/or increase production at its Manistee, Michigan plant.

The Company generally delivers its Magnesia Specialties division's products upon receipt of orders or requests from customers. Accordingly, there is no significant backlog information. Inventory for the Magnesia Specialties division's products is generally maintained in sufficient quantities to meet rapid delivery requirements of customers. The Company has provided extended payment terms to certain international customers.

Approximately 12% of the Magnesia Specialties division's products are sold in foreign jurisdictions, principally in Canada, Mexico, Europe, South America, and the Pacific Rim, but no single country accounts for 10% or more of the division's sales. As a result of these foreign sales, the division's financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets. To mitigate the short-term effects of changes in currency exchange rates, the division principally uses the U.S. dollar as the functional currency in foreign transactions.

***Patents and Trademarks***

As of March 20, 2003, the Company owns, has the right to use, or has pending applications for approximately 65 patents pending or granted by the United States and various countries and approximately 46 trademarks related to business. The Company believes that its rights under its existing patents, patent applications, and trademarks are of value to its operations, but no one patent or trademark or group of patents or trademarks is material to the conduct of the Company's business as a whole.

***Customers***

No material part of the business of either segment of the Company is dependent upon a single customer or upon a few customers, the loss of any one of which would have a material adverse effect on the segment. The Company's products are sold principally to commercial customers in private industry. Although large amounts of construction materials are used in public works projects, relatively insignificant sales are made directly to federal, state, county, or municipal governments, or agencies thereof.

***Competition***

Because of the impact of transportation costs on the aggregates business, competition tends to be limited to producers in proximity to the Company's individual production facilities. Although all of the Company's locations experience competition, the Company believes that it is generally a leading producer in the areas it serves. Competition is based primarily on quarry location and price, but quality of aggregates and level of customer service are also factors.

The Company is the second largest producer of aggregates in the United States based on tons shipped. There are over 4,000 companies in the United States that produce aggregates. The largest five producers account for approximately 25% of the total market. The Company competes with a number of other large and small producers. The Company believes that its ability to transport

materials by ocean vessels and river barges and its increased access to rail transportation as a result of the Redland Stone and Meridian Acquisitions, and other transactions, have enhanced the Company's ability to compete in certain extended areas. Certain of the Company's competitors in the aggregates industry have greater financial resources than the Company.

The Magnesia Specialties division of the Company competes with various companies in different geographic and product areas principally on the basis of quality, price, and technical support for its products. The Magnesia Specialties division also competes for sales to customers located outside the United States with sales to such customers accounting for approximately $8.9 million in net sales in 2002 (representing approximately 12% of net sales of the Magnesia Specialties segment) principally in Canada, Mexico, Europe, South America, and the Pacific Rim. The sale of the refractories business in 2001 has reduced division sales to foreign customers. The Magnesia Specialties division's sales to foreign customers were $11.8 million in 2001 and $20.4 million in 2000.

***Research and Development***

The Company conducts research and development activities for its Magnesia Specialties segment at its plant in Manistee, Michigan, and at various locations for the new proprietary technologies. In general, the Company's research and development efforts in 2002 were directed to applied technological development for the use of its chemicals products and for its proprietary technologies, including composite materials. The Company spent approximately $0.4 million in 2002, $0.6 million in 2001, and $2.3 million in 2000 on research and development activities.

***Environmental and Governmental Regulations***

The Company's operations are subject to and affected by federal, state, and local laws and regulations relating to the environment, health and safety, and other regulatory matters. Certain of the Company's operations may from time to time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Environmental operating permits are, or may be, required for certain of the Company's operations and such permits are subject to modification, renewal, and revocation. The Company regularly monitors and reviews its operations, procedures, and policies for compliance with these laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of the Company's businesses, as it is with other companies engaged in similar businesses, and there can be no assurance that environmental liabilities will not have a material adverse effect on the Company in the future. In accordance with the Company's accounting policy for environmental costs prior to January 1, 2003, amounts were not accrued and included in the Company's financial statements until it was probable that a liability had been incurred and such amounts could be estimated reasonably. The environmental accruals were estimated based on internal studies of the required remediation costs and generally not discounted to their present value or offset for potential insurance or other claims. Costs incurred by the Company in connection with environmental matters in the preceding two fiscal years were not material to the Company's operations or financial condition. Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*. See "Note A: Accounting Policies" of the "Notes to Financial Statements" on pages 14 through 16 of the 2002 Annual Report.

The Company believes that its operations and facilities, both owned or leased, are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on the Company's operations or financial condition. See "Legal Proceedings" on page 17 of this Form 10-K and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on page 25 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation" on page 41 of the 2002 Annual Report. However, future events, such as changes in or modified interpretations of existing laws and regulations or enforcement policies, or further investigation or evaluation of the potential health hazards of certain products or business activities, may give rise to additional compliance and other costs that could have a material adverse effect on the Company.

In general, quarry sites must comply with noise, water discharge, and air quality regulations, zoning, and special use permitting requirements, applicable mining regulations, and federal health and safety requirements. As new quarry sites are located and acquired, the Company works closely with local authorities during the zoning and permitting processes to design new quarries in such a way as to minimize disturbances. The Company frequently acquires large tracts of land so that quarry and production facilities can be situated substantial distances from surrounding property owners. Also, the Company's ability to transport material by rail and ship allows it to locate its facilities further away from residential areas. The Company maintains a centralized blasting procedure for its quarry operations and has established policies designed to minimize disturbances to surrounding property owners.

The Company is generally required by state or local laws or pursuant to the terms of an applicable lease to reclaim quarry sites after use. The Company generally reclaims its quarries on an ongoing basis, reclaiming mined-out areas of the quarry while continuing operations at other areas of the site. Historically, the Company has not incurred extraordinary or substantial costs in connection with the closing of quarries. Reclaimed quarry sites owned by the Company are available for sale, typically for commercial development or use as reservoirs.

As is the case with other companies in the same industry, some of the Company's products contain varying amounts of crystalline silica, a common mineral. Excessive, prolonged inhalation of very small-sized particles of crystalline silica has been associated with nonmalignant lung disease. The carcinogenic potential of crystalline silica was evaluated by the International Agency for Research on Cancer and later by the U.S. National Toxicology Program. In 1987, the agency found limited evidence of carcinogenicity in humans but sufficient evidence of carcinogenicity in animals. The National Toxicology Program concluded in 1991 that crystalline silica is "reasonably anticipated to be a carcinogen." In October 1996, the International Agency for Research on Cancer issued another report stating that "inhaled crystalline silica in the form of quartz or cristobalite from occupational sources is carcinogenic to humans." The Mine Safety and Health Administration has included the development of a crystalline silica standard as one of its long-term goals. The Occupational Safety and Health Administration has identified occupational overexposure to crystalline silica among its top five health priorities and committed itself to rulemaking, targeting November 2003 on its regulatory calendar for proposed regulation. The Company, through safety information sheets and other means, communicates what it believes to be appropriate warnings and cautions to employees and customers about the risks associated with excessive, prolonged inhalation of mineral dust in general and crystalline silica in particular.

The Clean Air Act Amendments of 1990 require the EPA to develop regulations for a broad spectrum of industrial sectors that emit hazardous air pollutants, including lime manufacturing. The new standards to be established would require plants to install feasible control equipment for certain hazardous air pollutants, thereby significantly reducing air emissions. The Company is actively participating with other lime manufacturers in working with the EPA to define test protocols, better define the scope of the standards, determine the existence and feasibility of various technologies, and develop realistic emission limitations and continuous emissions monitoring/reporting requirements for the lime industry. The EPA has conducted testing at lime manufacturing facilities located in Alabama, Texas, and Ohio, including the Company's Woodville facility, the results of which were discussed with the EPA in 1999 to determine whether the facilities should be subject to these regulations. The EPA received comments on its proposed technology-based standards for the industry in November 2000, and a proposed rule for the national emission standards for lime manufacturing plants was released on December 20, 2002. The proposed rules favorably addressed many of the issues raised by NLA in the negotiation process. NLA and the Company submitted comments on the proposed rules in February 2003. The Company expects the proposed rules to be finalized at some point during the last half of 2003. The USEPA proposed that facilities must be in compliance within three years after the date of the publication of the final rule in the Federal Register. The Company believes that any costs associated with the upgrade and/or replacement of equipment required to comply with the new regulations would not have a material adverse effect on the Company's operations or its financial condition but can give no assurance that the compliance costs will not have a material adverse effect on the financial condition or results of the Magnesia Specialties segment's operations.

In February 1998, the Georgia Department of Natural Resources ("GDNR") determined that both the Company and the Georgia Department of Transportation ("GDOT") are responsible parties for investigation and remediation at the Company's Camak Quarry in Thomson, Georgia, due to the discovery of trichloroethene ("TCE") above its naturally occurring background concentration in a drinking water well on site. The Company provided the GDNR with information indicating that the source of the release was either from an asphalt plant that was on the site in the early 1970's or from a maintenance shop that was operated on the property in the 1940's and 1950's before the Company purchased the property. The Company entered into a Consent Order with GDNR to conduct an environmental assessment of the site and file a report of the findings. The Company and GDOT signed an agreement to share evenly the costs of the assessment work. The assessment report was completed and filed. Based upon the results of the assessment report, GDOT withdrew from the cost sharing agreement and has indicated it will not share in any future remediation costs. The Company submitted a corrective action plan to GDNR for approval on December 9, 2002. The Company is funding the entire cost of future investigations and remediation which will occur over several years. Management believes any costs incurred by the Company associated with the site will not have a material adverse effect on the Company's operations or its financial condition.

In December 1998, the GDNR determined that the Company, the GDOT, and two former asphalt plant operators are responsible parties for investigation and remediation of groundwater contamination at the Company's Ruby Quarry in Macon, Georgia. The Company was designated by virtue of its ownership of the property. GDOT was designated because it operated a testing laboratory at the site. The two other parties were designated because both entities operated asphalt plants at the site. The groundwater contamination was discovered when the Company's tenant vacated the premises and environmental testing was conducted. The Company and GDOT signed an agreement to share the

costs of the assessment work. The report of the assessment work was filed with the GDNR. GDOT entered into a Consent Order with GDNR agreeing to conduct additional testing and any necessary remediation at the site. On May 21, 2001, GDNR issued separate Administrative Orders against the Company and other responsible parties to require all parties to participate with GDOT to undertake additional testing and any necessary remediation. The Company and GDOT submitted a corrective action plan to GDNR for approval on May 20, 2002. If the Company is required to fund the cost of remediation, the Company will pursue its right of contribution from the responsible parties. Management believes any costs incurred by the Company associated with the site will not have a material adverse effect on the Company's operations or its financial condition.

In the vicinity of and beneath the Magnesia Specialties division's Manistee, Michigan, facility, there is an underground plume of material originating from adjacent property which formerly was used by Packaging Corporation of America ("PCA") as a part of its operations. The Company believes the plume consists of paper mill waste. On September 8, 1983, the PCA plume and property were listed on the National Priorities List ("NPL") under the authority of the Comprehensive Environmental Response, Compensation and Liability Act (the "Superfund" statute). The PCA plume is subject to a Record of Decision issued by the U.S. Environmental Protection Agency ("USEPA") on May 2, 1994, pursuant to which PCA (and now its successor, Pactiv Corporation ("Pactiv")) is required to conduct annual monitoring. The USEPA has not required remediation of the groundwater contamination. On January 10, 2002, the Michigan Department of Environmental Quality ("MDEQ") issued Notice of Demand letters to the Company, PCA and Pactiv indicating that it believes that the Company's chloride contamination is commingling with the PCA plume which originates upgradient from the Company's property. The MDEQ is concerned about possible effects of these plumes, and designated the Company, PCA and Pactiv as parties responsible for investigation and remediation under Michigan state law. The MDEQ held separate meetings with the Company, PCA, and Pactiv to discuss remediation and reimbursement for past investigation costs totaling approximately $700,000. The Company entered into an Administrative Order with the MDEQ to pay for a portion of MDEQ's past investigation costs and thereby limit its liability for past costs in the amount of $20,073.62. Michigan law provides that responsible parties are jointly and severally liable, and, therefore, the Company is potentially liable for the full cost of funding future investigative activities and any necessary remediation. Michigan law also provides a procedure whereby liability may be apportioned among responsible parties if it is capable of division. The Company believes that the liability most likely will be apportioned and that any such costs attributed to the Company's brine contamination will not have a material adverse effect on the Company's operations or its financial condition but can give no assurance that the liability will be apportioned or that the compliance costs will not have a material adverse effect on the financial condition or results of the Magnesia Specialties segment's operations.

***Employees***

As of March 20, 2003, the Company has approximately 6,400 employees. Approximately 4,800 are hourly employees and approximately 1,600 are salaried employees. Included among these employees are approximately 760 hourly employees represented by labor unions. Approximately 12% of the Company's Aggregates division's hourly employees are members of a labor union, while approximately 98% of the Magnesia Specialties division's hourly employees are represented by labor unions. The Company's principal union contracts cover employees at the Manistee, Michigan, magnesia-based products plant and the Woodville, Ohio, lime plant. The current Manistee collective bargaining agreement expires in August 2003. There can be no assurance that a successor agreement

will be reached at the Manistee location in 2003. The current Woodville collective bargaining agreement expires in June 2006.

***Available Information***

The Company maintains an Internet address at http://www.martinmarietta.com. The Company makes available free of charge through its Internet web site its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, if any, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports and any amendments are accessed via the Company's web site through a link with the Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system maintained by the Securities and Exchange Commission (the "SEC") at http://www.sec.gov. Accordingly, the Company's referenced reports and any amendments are made available as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC, once EDGAR places such material in its database.

The Company has adopted a code of ethics that applies to all its employees, including the Company's chief executive officer, chief financial officer, and chief accounting officer. The code of ethics is available on the Company's Internet address at http://www.martinmarietta.com. The Company intends to disclose on its Internet web site any waivers of or amendments to its code of ethics as it applies to its chief executive officer, chief financial officer, and chief accounting officer.

The Company will make paper copies of its filings with the SEC and its code of ethics available to its shareholders free of charge upon request.

## ITEM 2. PROPERTIES

***Aggregates***

As of March 20, 2003, the Company processed or shipped aggregates from 337 quarries and distribution yards in 28 states and in Canada and the Bahamas, of which 100 are located on land owned by the Company free of major encumbrances, 71 are on land owned in part and leased in part, 149 are on leased land, and 17 are on facilities neither owned nor leased, where raw materials are removed under an agreement. The Company's aggregates reserves on the average exceed 60 years of production, based on current levels of activity. However, certain locations may be subject to more limited reserves and may not be able to expand. In addition, the Company processed and shipped ready mixed concrete and/or asphalt products from 25 properties in 5 states, of which 12 are located on land owned by the Company free of major encumbrances, 2 are on land owned in part and leased in part, and 11 are on leased land.

***Magnesia Specialties***

The Magnesia Specialties division currently operates a major manufacturing facility in Manistee, Michigan, and smaller processing plants in Bridgeport, Connecticut, and Lenoir City, Tennessee. All of these facilities are owned, except Lenoir City, which is leased. The Company has also entered into several third-party toll-manufacturing agreements pursuant to which it processes various chemical products. In addition, in 2001 the Company transferred operating responsibility for its Woodville, Ohio dolomitic lime operation from its Magnesia Specialties division to the Mid-America

Division of its Aggregates division, but the Woodville, Ohio operations will continue to be reported by the Company within the Magnesia Specialties segment. The Woodville, Ohio facilities are owned.

***Other Properties***

The Company's principal corporate office, which it owns, is located in Raleigh, North Carolina. The Company owns and leases various administrative offices and research and development laboratories for its two reportable business segments and other related businesses. The Company also leases a plant in Sparta, North Carolina, which the Company is currently fitting up to serve as an assembly plant for its structural composites business.

The Company's principal properties, which are of varying ages and are of different construction types, are believed to be generally in good condition, are generally well maintained, and are generally suitable and adequate for the purposes for which they are used. The principal properties are believed to be utilized at average productive capacities of approximately 80% and are capable of supporting a higher level of market demand.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time claims of various types are asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use and permits, safety, health, and environmental matters (such as noise abatement, vibrations, air emissions, and water discharges). Such matters are subject to many uncertainties, and it is not possible to determine the probable outcome of, or the amount of liability, if any, from, these matters. In the opinion of management of the Company (which opinion is based in part upon consideration of the opinion of counsel), it is unlikely that the outcome of these claims will have a material adverse effect on the Company's operations or its financial condition. However, there can be no assurance that an adverse outcome in any of such litigation would not have a material adverse effect on the Company or its operating segments.

See also "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on page 25 of the 2002 Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation" on page 41 of the 2002 Annual Report.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

**FORWARD-LOOKING STATEMENTS – SAFE HARBOR PROVISIONS**

This Annual Report on Form 10-K and other written reports and oral statements made from time to time by the Company contain statements which constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange

Act of 1934. Investors are cautioned that all forward-looking statements involve risks and uncertainties, and are based on assumptions that the Company believes in good faith are reasonable, but which may be materially different from actual results.

Factors that the Company currently believes could cause its actual results to differ materially from those in the forward-looking statements include, but are not limited to, business and economic conditions and trends in the markets the Company serves; the timing or extent of any recovery of the economy; the level and timing of federal and state transportation funding; levels of construction spending in the markets the Company serves; unfavorable weather conditions; fuel costs; transportation costs; competition from new or existing competitors; changes in environmental and other governmental regulations; ability to recognize increased sales and quantifiable savings from internal expansion programs; ability to successfully integrate acquisitions quickly and in a cost-effective manner and achieve anticipated profitability; changes in capital availability or costs; successful development and implementation of the structural composite technological process and strategic products for specific market segments; unanticipated costs or other adverse effects associated with structural composite revenue levels, product pricing, and cost associated with manufacturing ramp up; the financial strength of the structural composite customers and suppliers; business and economic conditions and trends in the trucking and composites industries in various geographic regions; possible disruption in commercial activities related to terrorist activity and armed conflict, such as reduced end-user purchases relative to expectations; and the timing and occurrence of events that may be subject to circumstances beyond the Company's control.

Investors are also cautioned that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E. These forward-looking statements are made as of the date hereof based on management's current expectations, and the Company does not undertake an obligation to update such statements, whether as a result of new information, future events, or otherwise.

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Company's Securities and Exchange Commission filings, including, but not limited to, the discussion of "Competition" on pages 11 and 12 of this Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 26 through 51 of the 2002 Annual Report and "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 14 through 16 and page 25, respectively, of the Audited Consolidated Financial Statements included in the 2002 Annual Report.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding the executive officers of Martin Marietta Materials, Inc. as of March 20, 2003:

| *Name* | *Age* | *Present Position at March 20, 2003* | *Year Assumed Present Position* | *Other Positions and Other Business Experience Within the Last Five Years* |
|---|---|---|---|---|
| Stephen P. Zelnak, Jr. | 58 | Chairman of the Board of Directors;<br>President and Chief Executive Officer;<br>President of Aggregates Division | 1997<br>1993<br>1993 | Vice Chairman of the Board of Directors (1996-1997) |
| Philip J. Sipling | 55 | Executive Vice President;<br>Chairman of Magnesia Specialties Division;<br>Executive Vice President of Aggregates Division | 1997<br>1997<br>1993 | Senior Vice President (1993-1997);<br>President, Magnesia Specialties Division (1993-1997) |
| Janice K. Henry | 51 | Treasurer;<br>Senior Vice President;<br>Chief Financial Officer | 2002<br>1998<br>1994 | Vice President (1994-1998);<br>Treasurer (1996-2000) |
| Donald M. Moe | 58 | Senior Vice President;<br>Senior Vice President of Aggregates Division;<br>President-Carolina Division | 2001<br>1999<br>1996 | Vice President (1999-2001) |
| Jonathan T. Stewart | 54 | Senior Vice President, Human Resources | 2001 | Vice President, Human Resources (1993-2001) |
| Roselyn R. Bar | 44 | Vice President and General Counsel;<br>Corporate Secretary | 2001<br>1997 | Deputy General Counsel (2001);<br>Associate General Counsel (1998-2001) |
| Donald J. Easterlin, III | 61 | Vice President | 2002 | Vice President, Business Development (1994-2002) |
| Daniel G. Shephard | 44 | Vice President-Marketing and Business Development;<br>President of Magnesia Specialties Division | 2002<br>1999 | Vice President and Treasurer (2000-2002)<br>Assistant Treasurer (1996-1999) |

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

***Market Information, Holders, and Dividends***

The Company's Common Stock, $.01 par value, is traded on the New York Stock Exchange (Symbol: MLM). Information concerning stock prices and dividends paid is included under the caption "Quarterly Performance (Unaudited)" on page 52 of the 2002 Annual Report, and that information is incorporated herein by reference. There were approximately 1,275 holders of record of the Company's Common Stock, as of March 20, 2003.

***Recent Sales of Unregistered Securities***

During 2002, the Company issued 244,323 shares of its Common Stock in connection with the acquisition of additional businesses for its Aggregates Division, none of which were material transactions. The Company issued 4,847 shares of its Common Stock on January 2, 2002, with the remaining 239,476 shares issued on May 14, 2002. These acquisitions generally consisted of the acquisition of certain assets or stock of the businesses being acquired in exchange for cash and/or the Company's Common Stock paid to the selling businesses or their shareholders, along with the assumption of certain liabilities of the businesses. All of the shares issued during 2002 in these acquisition transactions were issued in connection with two separate acquisitions, one of which was pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act") under Section 4(2) of the 1933 Act, and Rule 506 under the 1933 Act, and in the other acquisition, the shares issued constituted exempted securities under Section 3(a)(10) of the 1933 Act following a fairness hearing held before the North Carolina Secretary of State (through the North Carolina Securities Administrator).

### ITEM 6. SELECTED FINANCIAL DATA

The information required in response to this Item 6 is included under the caption "Five Year Summary" on page 53 of the 2002 Annual Report, and that information is incorporated herein by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required in response to this Item 7 is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 26 through 51 of the 2002 Annual Report, and that information is incorporated herein by reference, except that the information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations-Outlook" on pages 43 through 45 of the 2002 Annual Report is not incorporated herein by reference.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required in response to this Item 7A is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosures About Market Risk" on page 50 of the 2002 Annual Report, and that information is incorporated herein by reference.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required in response to this Item 8 is included under the caption "Consolidated Statement of Earnings," "Consolidated Balance Sheet," "Consolidated Statement of Cash Flows," "Consolidated Statement of Shareholders' Equity," "Notes to Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quarterly Performance (Unaudited)" on pages 10 through 52 of the 2002 Annual Report, and that information is incorporated herein by reference.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors required in response to this Item 10 is included under the captions "Corporate Governance Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year ended December 31, 2002 (the "2003 Proxy Statement"), and that information is hereby incorporated by reference in this Form 10-K. Information concerning executive officers of the Company required in response to this Item 10 is included in Part I on page 19 of this Form 10-K.

## ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 is included under the captions "Executive Compensation," "Corporate Governance Matters," "Report of the Compensation Committee on Executive Compensation," "Comparison of Cumulative Total Return Martin Marietta Materials, Inc., S&P 500, S&P Materials, and Peer Group Indices," and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" in the Company's 2002 Proxy Statement, and that information, except for the information required by Items 402(k) and (l) of Regulation S-K, is hereby incorporated by reference in this Form 10-K.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required in response to this Item 12 is included under the captions “General Information,” “Security Ownership of Certain Beneficial Owners and Management,” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the Company’s 2003 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item 13 is included under the captions “Compensation Committee Interlocks and Insider Participation in Compensation Decisions” and “Independent Directors” in the Company’s 2003 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

### ITEM 14. CONTROLS AND PROCEDURES

As of December 31, 2002, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2002. There have been no significant changes in the Company’s internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2002.

For these purposes, “disclosure controls and procedures” are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in its reports filed under the Securities Exchange Act of 1934 (“Exchange Act”), such as this Annual Report on Form 10-K, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s (SEC) rules and forms. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company’s internal controls are procedures designed with the objective of providing reasonable assurance that the Company’s transactions are properly authorized, its assets are safeguarded against unauthorized or improper use, and its transactions are properly recorded and reported, all to permit the preparation of the Company’s financial statements in conformity with generally accepted accounting principles.

The Company’s management, including the CEO and CFO, does not expect that the Company’s control system will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These

inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Appearing immediately following the Signatures section of this Annual Report on Form 10-K are forms of "Certifications" of the Company's CEO and CFO as required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certification"). The Section 302 Certifications refer to this evaluation of the Company's disclosure policies and procedures. The information in this section should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

**(a) (1) List of financial statements filed as part of this Form 10-K.**

The following consolidated financial statements of Martin Marietta Materials, Inc. and consolidated subsidiaries, included in the 2002 Annual Report, are incorporated by reference into Item 8 on page 21 of this Form 10-K. Page numbers refer to the 2002 Annual Report:


| | Page |
|---|---|
| Consolidated Statement of Earnings—<br>for years ended December 31, 2002, 2001 and 2000 | 10 |
| Consolidated Balance Sheet—<br>at December 31, 2002 and 2001 | 11 |
| Consolidated Statement of Cash Flows—<br>for years ended December 31, 2002, 2001 and 2000 | 12 |
| Consolidated Statement of Shareholders' Equity—<br>Balance at December 31, 2002, 2001 and 2000 | 13 |
| Notes to Financial Statements— | 14 through 25 |

**(2) List of financial statement schedules filed as part of this Form 10-K**

The following financial statement schedule of Martin Marietta Materials, Inc. and consolidated subsidiaries is included in Item 15(d). The page number refers to this Form 10-K.

Schedule II – Valuation and Qualifying Accounts 28

All other schedules have been omitted because they are not applicable, not required, or the information has been otherwise supplied in the financial statements or notes to the financial statements.

The report of the Company's independent auditors with respect to the above-referenced financial statements appears on page 9 of the 2002 Annual Report, and that report is hereby incorporated by reference in this Form 10-K. The report on the financial statement schedule and the consent of the Company's independent auditors appear on the last page of this Form 10-K.

**(3) Exhibits**

The list of Exhibits on the accompanying Index of Exhibits on pages 25 through 27 of this Form 10-K is hereby incorporated by reference. Each management contract or compensatory plan or arrangement required to be filed as an exhibit is indicated by asterisks.

**(b) Reports on Form 8-K**

During the quarter ended December 31, 2002, the Company filed the following current reports on Form 8-K:

| Date of Report | Description |
|---|---|
| October 18, 2002 | The Company issued a press release announcing revised third quarter and full year 2002 earnings expectations. |
| October 31, 2002 | The Company issued a press release reporting its financial results for the third quarter and nine months ended September 30, 2002. |

**(c) Index of Exhibits**

| Exhibit No. | |
|---|---|
| 3.01 | --Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibits 3.1 and 3.2 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) |
| 3.02 | --Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.3 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) |
| 4.01 | --Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Martin Marietta Materials, Inc. registration statement on Form S-1 (SEC Registration No. 33-72648)) |
| 4.02 | --Articles 2 and 8 of the Company's Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 4.03 | --Article I of the Company's Restated Bylaws, as amended (incorporated by reference to Exhibit 4.03 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 4.04 | --Indenture dated as of December 1, 1995 between Martin Marietta Materials, Inc. and First Union National Bank of North Carolina (incorporated by reference to Exhibit 4(a) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.05 | --Form of Martin Marietta Materials, Inc. 7% Debenture due 2025 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.06 | --Form of Martin Marietta Materials, Inc. 6.9% Notes due 2007 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.08 | --Indenture dated as of December 7, 1998 between Martin Marietta Materials, Inc. and First Union National Bank (incorporated by reference to Exhibit 4.08 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793)) |
| 4.09 | --Form of Martin Marietta Materials, Inc. 5.875% Note due December 1, 2008 (incorporated by reference to Exhibit 4.09 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793)) |
| 4.10 | --Form of Martin Marietta Materials, Inc. 6?% Note due April 1, 2011 (incorporated by reference to Exhibit 4.12 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-61454)) |
| 10.01 | --Rights Agreement, dated as of October 21, 1996, between the Company and First Union National Bank of North Carolina, as Rights Agent, which includes the Form of Articles of Amendment With Respect to the Junior Participating Class A Preferred Stock of Martin Marietta Materials, Inc., as Exhibit A, the Form of Rights Certificate, as Exhibit B, and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (incorporated by reference to Exhibit 1 to the Martin Marietta Materials, Inc. registration statement on Form 8-A, filed with the Securities and Exchange Commission on October 21, 1996) |
| 10.02 | --Five -Year Credit Agreement dated as of August 8, 2001, among Martin Marietta Materials, Inc., the banks parties thereto, and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) |

| | |
|---|---|
| 10.03 | --Amendment No. 1 to Five-Year Credit Agreement dated as of August 8, 2002 among Martin Marietta Materials, Inc., the bank parties thereto, and JPMorgan Chase Bank, as agent (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2002) |
| 10.04 | --Martin Marietta Materials, Inc. Amended and Restated Shareholder Value Achievement Plan (incorporated by reference to Exhibit 10.07 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1999)** |
| *10.05 | --Form of Martin Marietta Materials, Inc. Second Amended and Restated Employment Protection Agreement** |
| 10.06 | --Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.10 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996)** |
| 10.07 | --Martin Marietta Materials, Inc. Executive Incentive Plan, as amended (incorporated by reference to Exhibit 10.18 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1995)** |
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| *21.01 | --List of subsidiaries of Martin Marietta Materials, Inc. |

*23.01 --Consent of Ernst & Young LLP, Independent Auditors for Martin Marietta Materials, Inc. and consolidated subsidiaries
*24.01 --Powers of Attorney (included in this Form 10-K at pages 29-31)
*99.01 --Additional Exhibit--Regulation FD Disclosure--Written Statement dated March 27, 2003 of Chief Executive Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99.02 --Additional Exhibit--Regulation FD Disclosure--Written Statement dated March 27, 2003 of Chief Financial Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Other material incorporated by reference:

Martin Marietta Materials, Inc.'s 2003 Proxy Statement filed pursuant to Regulation 14A, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2003 Proxy Statement which are not incorporated by reference shall not be deemed to be "filed" as part of this report.

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* Filed herewith
** Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K

**(d) Financial Statement Schedule**

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**
**MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES**

| Col A | Col B | Col C | | Col D | Col E |
|---|---|---|---|---|---|
| | | Additions | | | |
| Description | Balance at beginning of period | (1) Charged to costs and expenses | (2) Charged to other accounts describe | Deductions describe | Balance at end of period |
| | | | (Amounts in Thousands) | | |
| **Year ended December 31, 2002** | | | | | |
| Allowance for doubtful accounts | $ 7,367 | $ 1,082 | — | $ 167(a) | $ 8,282 |
| Inventory valuation allowance | 6,020 | 504 | — | 504(a) | 5,659 |
| | | | | 361(b) | |
| Accumulated amortization of | | | | 803(b) | |
| intangible assets | 103,015 | 6,102 | — | 3,423(c) | 27,505 |
| | | | | 77,386(d) | |
| **Year ended December 31, 2001** | | | | | |
| Allowance for doubtful accounts | $ 5,139 | $ 2,173 | $ 950(e) | $ 895(f) | $ 7,367 |
| Inventory valuation allowance | 5,772 | 591 | — | 343(f) | 6,020 |
| Accumulated amortization of | 75,146 | 28,393 | 3,746(e) | 3,095(c) | 103,015 |
| intangible assets | | | | 512(a) | |
| | | | | 663(f) | |
| **Year ended December 31, 2000** | | | | | |
| Allowance for doubtful accounts | $ 4,707 | $ 432 | — | — | $ 5,139 |
| Inventory valuation allowance | 6,745 | — | — | $ 973(a) | 5,772 |
| Accumulated amortization of intangible assets | 58,354 | 22,612 | — | 5,820(c) | 75,146 |

(a) To adjust allowance for change in estimates.
(b) Divestitures.
(c) Write off of fully amortized intangible assets.
(d) Write off of accumulated amortization related to nonamortized goodwill.
(e) Purchase accounting adjustments.
(f) Sale of Magnesia Specialties refractories assets.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARTIN MARIETTA MATERIALS, INC.

By: /s/ Roselyn R. Bar

Roselyn R. Bar
Vice President, General Counsel
and Corporate Secretary

Dated: March 27, 2003

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below appoints Roselyn R. Bar and M. Guy Brooks, III, jointly and severally, as his or her true and lawful attorney-in-fact, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, jointly and severally, full power and authority to do and perform each in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, jointly and severally, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| ***Signature*** | ***Title*** | ***Date*** |
|---|---|---|
| /s/ Stephen P. Zelnak, Jr.<br>Stephen P. Zelnak, Jr. | Chairman of the Board, President and Chief Executive Officer | March 27, 2003 |
| /s/ Janice K. Henry<br>Janice K. Henry | Senior Vice President and Chief Financial Officer | March 27, 2003 |
| /s/ Anne H. Lloyd<br>Anne H. Lloyd | Chief Accounting Officer | March 27, 2003 |
| /s/ Richard G. Adamson<br>Richard G. Adamson | Director | March 27, 2003 |
| /s/ Marcus C. Bennett<br>Marcus C. Bennett | Director | March 27, 2003 |
| /s/ Sue W. Cole<br>Sue W. Cole | Director | March 27, 2003 |
| /s/ Bobby F. Leonard<br>Bobby F. Leonard | Director | March 27, 2003 |
| /s/ William E. McDonald<br>William E. McDonald | Director | March 27, 2003 |
| /s/ Frank H. Menaker, Jr.<br>Frank H. Menaker, Jr. | Director | March 27, 2003 |

| | | |
|---|---|---|
| /s/ James M. Reed<br>James M. Reed | Director | March 27, 2003 |
| /s/ William B. Sansom<br>William B. Sansom | Director | March 27, 2003 |
| /s/ Richard A. Vinroot<br>Richard A. Vinroot | Director | March 27, 2003 |

## CERTIFICATIONS

### CERTIFICATION PURSUANT TO SECURITIES AND EXCHANGE ACT OF 1934 RULE 13a-14 AS ADOPTED PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Stephen P. Zelnak, Jr., Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Martin Marietta Materials, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/Stephen P. Zelnak, Jr.

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

**CERTIFICATION PURSUANT TO SECURITIES AND EXCHANGE ACT OF 1934**
**RULE 13a-14 AS ADOPTED PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002**

I, Janice K. Henry, Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Martin Marietta Materials, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
    a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
    c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ Janice K. Henry

Janice K. Henry
Chief Financial Officer

**EXHIBITS**

| *Exhibit No.* | |
|---|---|
| 3.01 | --Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibits 3.1 and 3.2 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) |
| 3.02 | --Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.3 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) |
| 4.01 | --Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Martin Marietta Materials, Inc. registration statement on Form S-1 (SEC Registration No. 33-72648)) |
| 4.02 | --Articles 2 and 8 of the Company's Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 4.03 | --Article I of the Company's Restated Bylaws, as amended (incorporated by reference to Exhibit 4.03 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 4.04 | --Indenture dated as of December 1, 1995 between Martin Marietta Materials, Inc. and First Union National Bank of North Carolina (incorporated by reference to Exhibit 4(a) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.05 | --Form of Martin Marietta Materials, Inc. 7% Debenture due 2025 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.06 | --Form of Martin Marietta Materials, Inc. 6.9% Notes due 2007 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082)) |
| 4.08 | --Indenture dated as of December 7, 1998 between Martin Marietta Materials, Inc. and First Union National Bank (incorporated by reference to Exhibit 4.08 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793)) |
| 4.09 | --Form of Martin Marietta Materials, Inc. 5.875% Note due December 1, 2008 (incorporated by reference to Exhibit 4.09 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793)) |
| 4.10 | --Form of Martin Marietta Materials, Inc. 6?% Note due April 1, 2011 (incorporated by reference to Exhibit 4.12 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-61454)) |
| 10.01 | --Rights Agreement, dated as of October 21, 1996, between the Company and First Union National Bank of North Carolina, as Rights Agent, which includes the Form of Articles of Amendment With Respect to the Junior Participating Class A Preferred Stock of Martin Marietta Materials, Inc., as Exhibit A, the Form of Rights Certificate, as Exhibit B, and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (incorporated by reference to Exhibit 1 to the Martin Marietta Materials, Inc. registration statement on Form 8-A, filed with the Securities and Exchange Commission on October 21, 1996) |

| | |
|---|---|
| 10.02 | --Five -Year Credit Agreement dated as of August 8, 2001, among Martin Marietta Materials, Inc., the banks parties thereto, and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) |
| 10.03 | --Amendment No. 1 to Five-Year Credit Agreement dated as of August 8, 2002 among Martin Marietta Materials, Inc., the bank parties thereto, and JPMorgan Chase Bank, as agent (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2002) |
| 10.04 | --Martin Marietta Materials, Inc. Amended and Restated Shareholder Value Achievement Plan (incorporated by reference to Exhibit 10.07 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1999)** |
| *10.05 | --Form of Martin Marietta Materials, Inc. Second Amended and Restated Employment Protection Agreement** |
| 10.06 | --Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.10 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996)** |
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**EXHIBIT 10.05**

**SECOND AMENDED AND RESTATED**
**EMPLOYMENT PROTECTION AGREEMENT**

THIS Second Amended and Restated Employee Protection Agreement between Martin Marietta Materials, Inc., a North Carolina corporation (the "Company"), and (the "Employee"), dated as of this 14th day of November, 2002 (the "Effective Date")

W I T N E S S E T H :

WHEREAS, Employee is a valuable member of management of the Company and the Company desires to ensure the continuity of its senior management; and

WHEREAS, it is the determination of the Company that management continuity is most likely to occur if senior management is financially protected against involuntary termination following a "Change of Control" (as defined below) of the Company; and

WHEREAS, the Company and the Employee entered into an Employment Protection Agreement dated as of November 19, 1996, as amended and restated on November 11, 1999 (as amended, the "Prior Agreement") to provide the Employee with payments and benefits upon certain terminations of the Employee's employment with the Company in connection with a Change of Control, in consideration of the Employee's continued service to the Company (which the parties hereto agree constitutes adequate consideration to support to the Company's obligations under this Agreement); and

WHEREAS, the Company and the employee desire to more clearly reflect their intention with respect to certain provisions in the Prior Agreement, as set forth in this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, it is hereby agreed by and between the Company and the Employee, each of whom intends to be legally bound, as follows:

1. Definitions. For purposes of this Agreement,

(a) "Annual Bonus" shall mean the Employee's highest annual bonus paid during the period beginning five years prior to a Change of Control and ending on the date of termination of employment.

(b) “Base Salary” shall mean the highest annual rate of base salary that Employee receives from the Company or its affiliates within the twelve-month period ending on the date of a Change of Control.

(c) “Board” shall mean the Board of Directors of the Company.

(d) “Cause” shall mean the Employee’s having been convicted in a court of competent jurisdiction of a felony or has been adjudged by a court of competent jurisdiction to be liable for fraudulent or dishonest conduct, or gross abuse of authority or discretion, with respect to the Company, and such conviction or adjudication has become final and non-appealable. The Employee shall not be deemed to have been terminated for Cause, unless the Company shall have given the Employee (A) notice setting forth, in reasonable detail, the facts and circumstances claimed to provide a basis for termination for Cause, (B) a reasonable opportunity for the Employee, together with his counsel, to be heard before the Board and (C) a notice of termination stating that, in the reasonable judgment of the Board, the Employee was guilty of conduct constituting Cause and specifying the particulars thereof in reasonable detail.

(e) “Change of Control” shall mean:

(i) The acquisition on or after October 18, 1996 by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (an “Acquiring Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 40% or more of either (A) the fully diluted shares of common stock of the Company, as reflected on the Company’s financial statements (the “Outstanding Company Common Stock”), or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (X) any acquisition by the Company or any “affiliate” of the Company, within the meaning of 17 C.F.R. § 230.405 (an “Affiliate”), (Y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate of the Company or (Z) any acquisition by any entity pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this definition; or

(ii) Individuals who constitute the Incumbent Board cease for any reason to constitute at least a majority of the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the

Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, and (B) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate of the Company, or such corporation resulting from such Business Combination or any Affiliate of such corporation) beneficially owns, directly or indirectly, 40% or more of, respectively, the fully diluted shares of common stock of the corporation resulting from such Business Combination, as reflected on such corporation's financial statements, or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(f) "COBRA" shall mean 29 U.S.C. §§ 1161-1168, as amended from time to time.

(g) "Disability" shall mean a medically determined physical or mental impairment which qualifies the Employee for benefits under the Company's long-term disability program. An Employee shall not be deemed to have incurred a Disability until such benefits actually become payable (i.e., after any applicable waiting period). If the Company does not maintain a long-term disability program, or if the Employee does not elect coverage under such program, Disability shall mean the incapacity of the Employee such that he is unable to perform his duties to the Company for a period of 150 out of 180 consecutive days, as determined in the reasonable judgment of the Committee.

(h) "Good Reason" shall mean (i) a good faith determination by the Employee that the Company or any of its officers has (A) taken any action which materially and adversely changes the Employee's position (including titles), authority or responsibilities with the Company or reduces the Employee's ability to carry out his duties and responsibilities with the Company or (B) has failed to take any action where such failure results in material and adverse changes in the Employee's position (including titles), authority or responsibilities with the Company or reduces the Employee's ability to carry out his duties and responsibilities with the Company; (ii) a reduction in the Employee's Base Salary or a restriction on the eligibility requirements for other forms of monetary compensation that is inconsistent with the eligibility requirements used prior to a Change of Control; or (iii) requiring the Employee to be employed at any location more than 35 miles further from his principal residence than the location at which the Employee was employed immediately preceding the Change of Control, in any case of (i), (ii) or (iii) without the Employee's prior written consent.

(i) "Incumbent Board" shall mean a member of the Board of Directors of the Corporation who is not an Acquiring Person, or an affiliate (as defined in Rule 12b-2 of the

Exchange Act) or an associate (as defined in Rule 12b-2 of the Exchange Act) of an Acquiring Person, or a representative or nominee of an Acquiring Person.

(j) "IRS" shall mean the United States Internal Revenue Service.

(k) "Term" shall mean the term of this Agreement as set forth in Section 2.

(l) "Welfare Benefits" shall mean all benefits provided by the Company to its employees pursuant to an "employee welfare benefit plan" as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended.

2. Effective Date; Term. This Agreement shall be effective as of the Effective Date, and shall remain in effect up to and including November 13, 2003, after which time this Agreement shall expire; provided, however, that on November 14, 2003, and on each subsequent anniversary thereof (each an "Anniversary Date"), the Term of this Agreement shall automatically be extended for one additional year, unless at least sixty (60) days prior to such Anniversary Date, either party to this Agreement gives written notice to the other party of an intent to cancel such automatic extension, in which case this Agreement shall expire upon the expiration of the then existing Term; further provided, however, that, notwithstanding the above, (a) if a Change of Control occurs prior to the termination of this Agreement, or (b) if prior to the termination of this Agreement the Board becomes aware of any circumstances which in the ordinary course result in a Change of Control (whether or not with respect to the party first coming to the Board's attention), then under no circumstances will this Agreement terminate prior to the date that is 31 days following the second anniversary of the Change of Control. Notwithstanding this Section 2, the Company's obligations under this Agreement shall survive the termination of this Agreement if all events giving rise to such obligations occurred prior to such termination.

3. Obligations of the Company upon Termination. If, during the two year period following the effective date of a Change of Control, the Company terminates the Employee's employment other than for Cause or Disability, or the Employee terminates his employment for Good Reason or if, during the thirty day period following the two year anniversary of the effective date of a Change of Control, the Employee terminates his employment for any reason:

(a) The Company shall pay to the Employee in a lump sum within 15 days following Employee's termination of employment:

(i) if not theretofore paid, an amount equal to any portion of the Employee's earned but unpaid Base Salary (including unused but accrued vacation time) through the date of termination of employment; and

(ii) a cash amount equal to three times the sum of:

(A) the Employee's annual Base Salary and

(B) the Employee's Annual Bonus.

(b) The Company shall provide, for the period of three years following the date of Employee's termination of employment, all Welfare Benefits for the Employee and his dependents and beneficiaries that are at least as favorable in all material respects as the benefits provided to such person immediately preceding the Change of Control and to employees employed by the Company or its successor in positions following the Change of Control that are similar to the position the Employee held immediately prior to the Change of Control ("Similarly Situated Active Employees"); provided, however, that, with respect to this Section 3(b), the Employee shall be required to pay the same share of the cost of such Welfare Benefits as Similarly Situated Active Employees.

(c) The Company shall continue to be obligated to provide all the benefits provided for under the Company's defined benefit retirement plans and defined contribution retirement plans, including the Company's Supplemental Excess Retirement Plan.

(d) The Company shall provide the Employee with the same retiree medical benefits that were in effect for retirees of the Company immediately prior to the Change in Control, based on the Employee's years of service, including service after the Change in Control; provided, however, that if Employee is less than age 55 on the date of termination of employment, Employee shall be treated for purposes of entitlement to such benefits as if he had attained age 55 prior to such termination.

4. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Employee, or any benefit provided by the Company to the Employee (whether paid or payable or distributed or distributable provided pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 4) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision) or any interest or penalties are incurred by the Employee with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Employee of all taxes with respect to the Gross-Up Payment (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

(b) Subject to the provisions of Section 4(c), all determinations required to be made under this Section 4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Ernst & Young or such other nationally recognized accounting firm then auditing the accounts of the Company (the "Accounting Firm") which shall provide

detailed supporting calculations both to the Company and the Employee within 15 business days of the receipt of notice from the Employee that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, or is unwilling or unable to perform its obligations pursuant to this Section 4, the Employee shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, determined pursuant to this Section 4, shall be paid by the Company to the Employee within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Employee. As a result of the potential uncertainty in the application of Section 4999 of the Code (or any successor provision) at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 4(c) and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Employee.

(c) The Employee shall notify the Company in writing of any claim by the IRS that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 20 business days after the Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall

indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 4(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis, and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled to settle or contest, as the case may be, any other issue raised by the IRS or any other taxing authority.

(d) If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 4(c), the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of Section 4(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 4(c), a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

5. Other Compensation and Benefits. The amount payable under this Agreement in accordance with Section 3(a) shall not be reduced on account of any compensation received by the Employee from other employment. From and after the date the Employee is employed by a third party which provides any of the benefits described in Section 3(b), the Company shall not be obligated to provide the benefits to the extent provided by such third party.

6. Legal Fees and Expenses. The Company shall promptly reimburse the Employee for the reasonable legal fees and expenses incurred by the Employee in connection with enforcing any right of the Employee pursuant to and afforded by this Agreement; provided, however, that the Company only will reimburse the Employee for such legal fees and expenses if, in connection with enforcing any right of the Employee pursuant to and afforded by this Agreement, either (a) a judgment has been rendered in favor of the Employee by a duly

authorized court of law, (b) a duly authorized court of law determines that the Employee's claim was not frivolous, or (c) the Company and the Employee have entered into a settlement agreement providing for the payment to the Employee of any or all amounts due hereunder.

7. Confidential Information. The Employee shall not disclose any secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, obtained by the Employee during his employment by the Company or any of its affiliated companies and which is not otherwise public knowledge. In no event shall an asserted violation of the provisions of this Section 7 constitute a basis for deferring or withholding any amounts or benefits otherwise payable to the Employee under this Agreement.

8. Release from Other Severance Benefits; COBRA. The Employee hereby waives and releases the Company from the obligation to pay any severance benefits to the Employee on account of a termination of employment on or after a Change of Control, under any termination or severance policy of the Company other than this Agreement, so long as all payments are made, and benefits provided, to the Employee pursuant to Sections 3(a) and (b) herein. To the extent that the obligation of the Company to provide medical benefits pursuant to Section 3(b) is fulfilled, the period in which such medical benefits are provided shall be credited towards the continued health care coverage required to be offered to the Employee by COBRA, to the extent allowable under COBRA and the regulations promulgated thereunder. In the event that no payment or benefits are required pursuant to Sections 3(a) and (b), the Employee rescinds any such waiver and release. Except for payments provided pursuant to the Company's formal severance policy, if any, the benefits and payments to be provided by this Agreement will not reduce or eliminate any benefits or payments of any kind whatsoever that are to be provided to the Employee, including but not limited to, under any vacation policy, defined benefit retirement plan, defined contribution retirement plan, and the Company's Supplemental Excess Retirement Plan.

9. Successors.

(a) This Agreement is personal to the Employee and, without the prior written consent of the Company, shall not be assignable by the Employee otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors. The Company shall cause any successor to its business, in any transaction in which this Agreement would not be assumed by such successor by operation of law, to assume this Agreement by contract.

10. Miscellaneous.

(a) Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, applied without reference to principles of conflict of laws.

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(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, or overnight delivery service requiring acknowledgement of receipt, addressed as follows:

If to the Employee: ____________________________
____________________________
____________________________

If to the Company: Martin Marietta Materials, Inc.
2710 Wycliff Road
Raleigh, North Carolina 27607
Attention: Vice President and General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Tax Withholding. The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

IN WITNESS WHEREOF, the Employee has hereunto set his hand and the Company has caused this Agreement to be executed in its name on its behalf, as of the day and year first above written.

MARTIN MARIETTA MATERIALS, INC.

By:____________________________
Stephen P. Zelnak, Jr.
Chairman and Chief Executive Officer

EMPLOYEE

____________________________
Name

EXHIBIT 12.01

**MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES**

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

**For the Year Ended December 31, 2002**

| | |
|---|---|
| **EARNINGS:** | |
| Earnings before income taxes | $144,270 |
| Earnings of less than 50%-owned associated companies, net | 978 |
| Interest Expense | 44,028 |
| Portion of rents representative of an interest factor | 6,984 |
| **Adjusted Earnings and Fixed Charges** | **$196,260** |
| **FIXED CHARGES:** | |
| Interest Expense | $44,028 |
| Capitalized Interest | 3,788 |
| Portion of rents representative of an interest factor | 6,984 |
| **Total Fixed Charges** | **$54,800** |
| **Ratio of Earnings to Fixed Charges** | **3.58** |

***Shareholders***
***Martin Marietta Materials, Inc.***

The management of Martin Marietta Materials, Inc., is responsible for the consolidated financial statements and all related financial information contained in this report. The financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis.

The Corporation maintains a system of internal accounting controls designed and intended to provide reasonable assurance that assets are safeguarded, that transactions are executed and recorded in accordance with management's authorization, and that accountability for assets is maintained. An environment that establishes an appropriate level of control-consciousness is maintained and monitored and includes examinations by an internal audit staff and by the independent auditors in connection with their annual audit.

The Corporation's management recognizes its responsibility to foster a strong ethical climate. Management has issued written policy statements which document the Corporation's business code of ethics. The importance of ethical behavior is regularly communicated to all employees through the distribution of the *Code of Ethics and Standards of Conduct* booklet and through ongoing education and review programs designed to create a strong commitment to ethical business practices.

The Audit Committee of the Board of Directors, which consists of five outside directors, meets periodically and separately with the independent auditors, management and the internal auditors to review the activities of each. The Audit Committee meets standards established by the Securities and Exchange Commission and the New York Stock Exchange as they relate to the composition and practices of audit committees.

The consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report appears on the following page.

Janice K. Henry
Senior Vice President, Chief Financial Officer and Treasurer

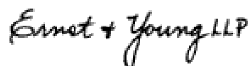
***Board of Directors and Shareholders***
***Martin Marietta Materials, Inc.***

We have audited the accompanying consolidated balance sheet of Martin Marietta Materials, Inc., and subsidiaries at December 31, 2002 and 2001, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Martin Marietta Materials, Inc., and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B to the consolidated financial statements, in 2002 the Corporation adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and changed its method of accounting for intangible assets.




Raleigh, North Carolina
January 27, 2003

***for years ended December 31***

| (add 000, except per share) | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Net Sales** | **$1,497,101** | $1,505,691 | $1,333,000 |
| Freight and delivery revenues | **195,336** | 212,359 | 184,517 |
| Total revenues | **1,692,437** | 1,718,050 | 1,517,517 |
| Cost of sales | **1,206,207** | 1,201,941 | 1,029,429 |
| Freight and delivery costs | **195,336** | 212,359 | 184,517 |
| Total cost of revenues | **1,401,543** | 1,414,300 | 1,213,946 |
| **Gross Profit** | **290,894** | 303,750 | 303,571 |
| Selling, general and administrative expenses | **115,836** | 105,949 | 98,768 |
| Research and development | **369** | 556 | 2,326 |
| **Earnings from Operations** | **174,689** | 197,245 | 202,477 |
| Interest expense | **44,028** | 46,792 | 41,895 |
| Other income and (expenses), net | **13,609** | 7,986 | 8,239 |
| Earnings before taxes on income and cumulative effect of change in accounting principle | **144,270** | 158,439 | 168,821 |
| Taxes on income | **46,455** | 53,077 | 56,794 |
| **Earnings before Cumulative Effect of Change in Accounting Principle** | **97,815** | 105,362 | 112,027 |
| Cumulative effect of change in accounting for intangible assets | **(11,510)** | — | — |
| **Net Earnings** | **$ 86,305** | $ 105,362 | $ 112,027 |
| **Net Earnings Per Common Share** | | | |
| - Basic before cumulative effect of change in accounting principle | **$ 2.01** | $ 2.20 | $ 2.40 |
| Cumulative effect of change in accounting principle | **(0.24)** | — | — |
| | **$ 1.77** | $ 2.20 | $ 2.40 |
| - Diluted before cumulative effect of change in accounting principle | **$ 2.00** | $ 2.19 | 2.39 |
| Cumulative effect of change in accounting principle | **(0.23)** | — | — |
| | **$ 1.77** | $ 2.19 | $ 2.39 |
| **Average Number of Common Shares Outstanding** | | | |
| **- Basic** | **48,727** | 47,873 | 46,753 |
| **- Diluted** | **48,858** | 48,066 | 46,948 |
| **Cash Dividends Per Common Share** | **$ 0.58** | $ 0.56 | $ 0.54 |

*at December 31*

| **Assets** *(add 000)* | **2002** | **2001** |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | **$ —** | $ 1,379 |
| Accounts receivable, net | **232,884** | 215,184 |
| Inventories, net | **239,726** | 231,003 |
| Current deferred income tax benefits | **21,387** | 19,696 |
| Other current assets | **32,152** | 28,970 |
| **Total Current Assets** | **526,149** | 496,232 |
| Property, plant and equipment, net | **1,067,576** | 1,082,189 |
| Goodwill, net | **577,449** | 571,186 |
| Other intangibles, net | **31,972** | 35,782 |
| Other noncurrent assets | **55,384** | 39,191 |
| **Total Assets** | **$2,258,530** | $2,224,580 |
| **Liabilities and Shareholders' Equity** *(add 000)* | | |
| **Current Liabilities:** | | |
| Bank overdraft | **$ 304** | $ — |
| Accounts payable | **73,186** | 79,572 |
| Accrued salaries, benefits and payroll taxes | **45,168** | 38,553 |
| Accrued insurance and other taxes | **32,511** | 32,265 |
| Income taxes | **2,307** | 3,091 |
| Current maturities of long-term debt | **11,389** | 4,490 |
| Other current liabilities | **32,962** | 34,066 |
| **Total Current Liabilities** | **197,827** | 192,037 |
| Long-term debt and commercial paper | **733,471** | 797,385 |
| Pension, postretirement and postemployment benefits | **101,796** | 81,650 |
| Noncurrent deferred income taxes | **108,496** | 102,664 |
| Other noncurrent liabilities | **33,930** | 28,632 |
| **Total Liabilities** | **1,175,520** | 1,202,368 |
| **Shareholders' Equity:** | | |
| Common stock, $0.01 par value; 100,000,000 shares authorized | **488** | 485 |
| Preferred stock, $0.01 par value; 10,000,000 shares authorized | **—** | — |
| Additional paid-in capital | **447,153** | 437,020 |
| Accumulated other comprehensive loss | **(7,365)** | — |
| Retained earnings | **642,734** | 584,707 |
| **Total Shareholders' Equity** | **1,083,010** | 1,022,212 |
| **Total Liabilities and Shareholders' Equity** | **$2,258,530** | $2,224,580 |

*The notes on pages 14 to 25 are an integral part of these financial statements.*

***for years ended December 31***

| (add 000) | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Net earnings | **$ 86,305** | $ 105,362 | $ 112,027 |
| Cumulative effect of change in accounting principle | **11,510** | — | — |
| Earnings before cumulative effect of change in accounting principle | **97,815** | 105,362 | 112,027 |
| Adjustments to reconcile earnings to cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | **138,696** | 154,635 | 136,373 |
| Other items, net | **(23,031)** | (12,682) | (2,331) |
| Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: | | | |
| Deferred income taxes | **24,489** | 14,356 | 9,457 |
| Accounts receivable, net | **(11,227)** | (10,532) | 18,024 |
| Inventories, net | **(14,329)** | (7,809) | (33,489) |
| Accounts payable | **(7,531)** | 8,968 | 2,372 |
| Other assets and liabilities, net | **(1,322)** | 645 | (29,553) |
| **Net Cash Provided by Operating Activities** | **203,560** | 252,943 | 212,880 |
| **Cash Flows from Investing Activities:** | | | |
| Additions to property, plant and equipment | **(152,680)** | (194,386) | (170,805) |
| Acquisitions, net | **(47,970)** | (221,772) | (39,327) |
| Divestitures and other investing activities, net | **97,731** | 45,973 | 8,326 |
| **Net Cash Used for Investing Activities** | **(102,919)** | (370,185) | (201,806) |
| **Cash Flows from Financing Activities:** | | | |
| Repayments of long-term debt | **(5,399)** | (2,680) | (9,369) |
| Increase in long-term debt | **—** | 250,078 | 805 |
| Commercial paper and line of credit, net | **(69,287)** | (97,518) | 12,518 |
| Debt issue costs | — | (2,175) | — |
| Dividends paid | **(28,278)** | (26,927) | (25,248) |
| Issuances of common stock | **640** | 2,621 | 2,039 |
| **Net Cash (Used for) Provided by Financing Activities** | **(102,324)** | 123,399 | (19,255) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | **(1,683)** | 6,157 | (8,181) |
| **Cash and Cash Equivalents (Bank Overdraft), beginning of year** | **1,379** | (4,778) | 3,403 |
| **(Bank Overdraft) Cash and Cash Equivalents, end of year** | **$ (304)** | $ 1,379 | $ (4,778) |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid for interest | **$ 47,082** | $ 47,478 | $ 42,661 |
| Cash paid for income taxes | **$ 25,355** | $ 42,126 | $ 59,915 |
| Noncash investing and financing activities: | | | |
| Exchange of quarries | **$ 10,500** | $ — | $ — |
| Value of common stock issued in connection with acquisitions | **$ 9,718** | $ 77,976 | $ — |
| Debt assumed in connection with acquisitions | **$ 7,500** | $ 5,140 | $ 950 |
| Notes receivable issued in connection with divestitures | **5,645** | $ — | $ — |

| (add 000) | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at December 31 , 1999 | $ 467 | $354,046 | $ — | $419,493 | $ 774,006 |
| Net earnings | — | — | — | 112,027 | 112,027 |
| Dividends declared ($0.54 a share) | — | — | — | (25,248) | (25,248) |
| Net stock transactions | 1 | 2,500 | — | — | 2,501 |
| Balance at December 31, 2000 | 468 | 356,546 | — | 506,272 | 863,286 |
| Net earnings | — | — | — | 105,362 | 105,362 |
| Dividends declared ($0.56 a share) | — | — | — | (26,927) | (26,927) |
| Net stock transactions | 17 | 80,474 | — | — | 80,491 |
| Balance at December 31, 2001 | 485 | 437,020 | — | 584,707 | 1,022,212 |
| **Net earnings** | **—** | **—** | **—** | **86,305** | **86,305** |
| **Minimum pension liability, net of tax** | **—** | **—** | **(7,365)** | **—** | **(7,365)** |
| **Comprehensive earnings** | | | | | **78,940** |
| **Dividends declared ($0.58 a share)** | **—** | **—** | **—** | **(28,278)** | **(28,278)** |
| **Net stock transactions** | **3** | **10,133** | **—** | **—** | **10,136** |
| **Balance at December 31, 2002** | **$ 488** | **$447,153** | **$ (7,365)** | **$642,734** | **$1,083,010** |

*The notes on pages 14 to 25 are an integral part of these financial statements.*

**Note A: Accounting Policies**

***Organization.*** Martin Marietta Materials, Inc. (the "Corporation"), is engaged principally in the construction aggregates business. Aggregates products are used primarily for construction of highways and other infrastructure projects in the United States, and in the domestic commercial and residential construction industries. The Corporation's aggregates and asphalt products and ready mixed concrete are sold and shipped from a network of approximately 360 quarries, distribution facilities and plants to customers in 32 states, Canada and the Caribbean. Texas, North Carolina, Georgia, Iowa and Arkansas account for approximately 54% of total 2002 net sales. In addition, the Corporation produces magnesia-based chemicals products used in industrial, agricultural and environmental applications, and dolomitic lime sold primarily to customers in the steel industry.

***Basis of Consolidation.*** The consolidated financial statements include the accounts of the Corporation and its wholly owned and majority-owned subsidiaries. Partially owned affiliates are accounted for at cost or as equity investments depending on the level of ownership interest or the Corporation's ability to exercise control over the affiliates' operations. Intercompany balances and transactions have been eliminated in consolidation.

The Corporation is a minority member of certain limited liability corporations whereby the majority members are paid preferred returns from the profits of the underlying businesses. Generally, the Corporation has an option to purchase the majority members' interests after the lapse of a specified number of years. One such option was exercised in January 2003 and another option is exercisable beginning after July 1, 2003 for a combined purchase price of $14,456,000.

***Use of Estimates.*** The preparation of the Corporation's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions. Such judgments affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

***Revenue Recognition.*** Substantially all revenues are recognized when finished products are shipped to unaffiliated customers or services have been rendered. Revenues derived from the road paving business are generally recognized using the percentage completion method. Total revenues generally include sales of materials and services provided to customers, net of discounts or allowances, if any, and include freight and delivery charges billed to customers.

***Cash and Cash Equivalents.*** Cash equivalents are comprised generally of highly liquid instruments with original maturities of three months or less from the date of purchase. Cash and cash equivalents are net of outstanding checks that are funded daily as presented for payment.

***Inventories Valuation.*** Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

***Properties and Depreciation.*** Property, plant and equipment are stated at cost. The estimated service lives for property, plant and equipment are as follow:

| Class of Assets | Range of Service Lives |
|---|---|
| Buildings | 1 to 50 years |
| Machinery & Equipment | 1 to 30 years |
| Land Improvements | 2 to 30 years |

Depreciation is computed over estimated service lives, principally by the straight-line method. Depletion of mineral deposits is calculated over estimated recoverable quantities, principally by the units-of-production method.

***Repair and Maintenance Costs.*** Repair and maintenance costs that do not substantially extend the life of the Corporation's plants and equipment are expensed as incurred.

***Intangible Assets.*** Goodwill represents the excess purchase price paid for acquired businesses over the estimated fair value of identifiable assets and liabilities. The carrying value of goodwill is reviewed annually, as of October 1, for impairment in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). An interim review is performed between annual tests if facts or circumstances indicate potential impairment. If an impairment review indicates that the carrying value is impaired, a charge is recorded (see Note B).

Other intangibles represent amounts assigned principally to contractual agreements and are amortized ratably over periods based on related contractual terms. The carrying value of other intangibles is reviewed if facts and circumstances indicate potential impairment. If this review determines that the carrying value is impaired, a charge is recorded.

***Derivatives.*** The Corporation recognizes derivatives as either assets or liabilities in its consolidated balance sheet and measures those instruments at fair value. The Corporation's derivatives are interest rate swaps, which were entered into in 2002 and represent fair value hedges. The Corporation's objective for holding these derivatives is to balance its exposure to the fixed and variable interest rate markets. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), these hedges are considered perfectly effective, and no net gain or loss is recorded for changes in fair value of the interest rate swaps or the related debt.

***Stock-Based Compensation.*** The Corporation has stock-based compensation plans for employees and directors, which are described more fully in Note K. The Corporation accounts for those plans under the intrinsic value method prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related Interpretations. For options granted under those plans with an exercise price equal to the market value of the stock on the date of grant, no compensation cost is recognized in net earnings as reported in the consolidated statement of earnings. Compensation cost is recognized in net earnings for awards granted under those plans with an exercise price less than the market value of the underlying common stock on the date of grant. Such costs are recognized ratably over the vesting period. The following table illustrates the effect on net earnings and earnings per share if the Corporation had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation.*

| *years ended December 31* (add 000, except per share) | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net earnings, as reported | **$86,305** | $105,362 | $112,027 |
| Add: Stock-based compensation expense included in reported net earnings, net of related tax effects | **152** | 695 | 698 |
| Deduct: Total stock-based compensation expense determined under fair value for all awards, net of related tax effects | **(6,755)** | (6,980) | (4,643) |
| Pro forma net earnings | **$79,702** | $ 99,077 | $108,082 |
| Earnings per share: | | | |
| Basic-as reported | **$ 1.77** | $ 2.20 | $ 2.40 |
| Basic-pro forma | **$ 1.64** | $ 2.07 | $ 2.31 |
| Diluted-as reported | **$ 1.77** | $ 2.19 | $ 2.39 |
| Diluted-pro forma | **$ 1.63** | $ 2.06 | $ 2.30 |

The fair value for these stock-based plans was estimated as of the date of grant using a Black-Scholes valuation model with the following weighted-average assumptions as of December 31:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Risk-free interest rate | **4.00%** | 4.90% | 6.10% |
| Dividend yield | **1.30%** | 1.20% | 1.20% |
| Volatility factor | **31.70%** | 34.40% | 34.10% |
| Expected life | **7 years** | 7 years | 7 years |

Based on these assumptions, the weighted-average fair value of each award granted was $12.90, $17.45 and $19.44 for 2002, 2001 and 2000, respectively.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded awards which have no vesting restrictions and are fully transferable. In addition, valuation models require the input of highly subjective assumptions, including the expected stock price volatility factor. Because awards under the Corporation's stock-based plans are not traded awards and changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based plans.

***Environmental Matters.*** The Corporation records an accrual for environmental remediation liabilities in the period in which it is probable that a liability has been incurred and the appropriate amount can be estimated reasonably. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are generally not discounted to their present value.

Certain reclamation and other environmental-related costs are treated as normal ongoing operating expenses and expensed generally in the period in which they are incurred.

***Income Taxes.*** Deferred income tax assets and liabilities on the consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

***Research and Development and Similar Costs.*** Research and development and similar costs are charged to operations as incurred.

***Start-Up Costs.*** Preoperating costs and noncapital-related start-up costs for new facilities and products are generally charged to operations as incurred.

***Comprehensive Earnings.*** Comprehensive earnings for the Corporation consists of net earnings and, for 2002, the $7,365,000 impact of a minimum pension liability, which is net of a $4,818,000 income tax benefit.

***Segment Information.*** Information concerning business segment data is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 45 and 46.

***Earnings Per Common Share.*** Basic earnings per common share are based on the weighted-average number of common shares outstanding during the year. Diluted earnings per common share are computed assuming that the weighted-average number of common shares are increased by the conversion, using the treasury stock method, of awards to be issued to employees and nonemployee members of the Corporation's Board of Directors under certain stock-based compensation arrangements. The diluted per-share computations reflect a change in the number of common shares outstanding (the "denominator") to include the number of additional shares that would have been outstanding if the potentially dilutive common shares had been issued. In each year presented, the net earnings available to common shareholders (the "numerator") is the same for both basic and dilutive per-share computations. The following table sets forth a reconciliation of the denominators for the basic and diluted earnings per share computations for each of the years ended December 31:

| (add 000) | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Basic Earnings per Common Share:** | | | |
| Weighted-average number of shares | **48,727** | 47,873 | 46,753 |
| **Effect of Dilutive Securities:** | | | |
| Employee and Director awards | **131** | 193 | 195 |
| **Diluted Earnings per Common Share:** | | | |
| Weighted-average number of shares and assumed conversions | **48,858** | 48,066 | 46,948 |

***Accounting Changes.*** On January 1, 2002, the Corporation adopted FAS 142 (see Note B).

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"). FAS 144 supercedes Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* and Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations -Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* FAS 144 establishes criteria for the recognition and measurement of an impairment loss for long-lived assets to be held and used and defines classification of continuing and discontinued operations. FAS 144 also requires that assets held for sale be measured at the lower of their carrying amount or fair value less cost to sell. The adoption of FAS 144 had no impact on the Corporation's net earnings or financial position.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure* ("FAS 148"). FAS 148 provides transition guidance for companies that adopt the fair value method for stock-based employee compensation and has certain disclosure provisions that are effective as of December 31, 2002. Due to the Corporation continuing to apply the intrinsic value provisions of APB 25, the adoption of FAS 148 did not have any impact on its net earnings or financial position.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). FAS 143 requires recognition of the fair value of a liability representing an asset retirement obligation in the period in which it is incurred. The asset retirement obligation is recorded at the acquisition date of a long-lived tangible asset if the fair value can be reasonably estimated. A corresponding amount is capitalized as part of the asset's carrying amount. The Corporation incurs reclamation costs as part of its aggregates mining process. For periods ended December 31, 2002, these costs were treated as normal, ongoing operating expenses and expensed generally in the period in which they were incurred. FAS 143 is effective the first quarter of 2003. The analysis of the impact of the adoption of FAS 143 is currently under review by senior management and is subject to change. However, the Corporation expects the cumulative effect of the adoption will not exceed $20 million on a pretax basis.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Obligations Associated with Disposal Activities* ("FAS 146"). FAS 146 requires that a liability for a disposal obligation be recognized and measured at its fair value when it is incurred, including severance pay and other obligations. FAS 146 is effective for disposal activities initiated after December 31, 2002. The adoption of FAS 146 is not expected to be material to the Corporation's net earnings or financial position.

**Note B: Intangible Assets**

Effective January 1, 2002, the Corporation adopted FAS 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, while other intangible assets, which consist primarily of contractual agreements, continue to be amortized over their related contractual terms. Goodwill and indefinite-lived intangibles are required to be tested annually for impairment using fair value measurement techniques prescribed by FAS 142.

Management determined that the reporting units, which represent the level at which goodwill is tested for impairment, are the divisions of the Aggregates segment and the segment's road paving business. There is no goodwill associated with the Magnesia Specialties segment. In accordance with FAS 142, goodwill for each of the reporting units is tested for impairment by comparing its fair value to its carrying value, which represents step 1 of a required two-step approach. If any reporting unit has a carrying value in excess of its fair value, then step 2 is necessary. Step 2 requires the calculation of the implied fair value of goodwill to be calculated by allocating the fair value of the reporting unit to its tangible and intangible net assets, other than goodwill, similar to the purchase price allocation prescribed under Statement of Financial Accounting Standards No. 141, *Business Combinations*. The remaining unallocated fair value represents the implied fair value of the goodwill and if the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded for the difference. If the implied fair value exceeds its carrying amount, there is no impairment.

In 2002, the impairment evaluation was performed as of January 1 for the initial adoption of FAS 142 and as of October 1, which represents the ongoing annual evaluation date. Generally, the fair values of the reporting units were determined using a 15-year discounted cash flow model. Key assumptions included management's estimates of future profitability, capital requirements, a 10% discount rate and a 2% terminal growth rate. The fair values for reporting units exceeded the respective carrying values at the January 1 initial adoption evaluation date, with the exception of the road paving business. This business was acquired as supplemental operations to larger acquisitions, does not represent a core business of the Corporation and has incurred operating losses since acquisition. After step 2 was completed for the road paving business, it was determined that all goodwill related to this business was impaired. Consequently, an impairment charge of $11,510,000 was recorded as the cumulative effect of a change in accounting principle. For the October 1 evaluation, all reporting units had fair values in excess of carrying values.

During 2002 and 2001, the Corporation acquired goodwill of $41,325,000 and $218,741,000, respectively, all related to acquisitions in the Aggregates segment. During 2002, the Corporation allocated $21,433,000 of goodwill to divestitures of assets in the Aggregates segment.

The following shows the changes in net goodwill from December 31, 2001 to December 31, 2002:

| (add 000) | |
|---|---|
| Balance at December 31, 2001 | $571,186 |
| Acquisitions | 41,325 |
| Adjustments to purchase price allocations for 2001 acquisitions | (2,119) |
| Impairment charge | (11,510) |
| Amounts allocated to divestitures | (21,433) |
| Balance at December 31, 2002 | $577,449 |

Intangible assets subject to amortization consist of the following at December 31:

| (add 000) | 2002 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Balance |
| Noncompetition agreements | $35,874 | $ (18,927) | $ 16,947 |
| Trade names | 8,561 | (1,705) | 6,856 |
| Supply agreements | 900 | (540) | 360 |
| Use rights and other | 13,942 | (6,333) | 7,609 |
| Total | $59,277 | $ (27,505) | $ 31,772 |

| | 2001 | | |
|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Balance |
| Noncompetition agreements | $36,838 | $ (16,906) | $ 19,932 |
| Trade names | 8,625 | (1,081) | 7,544 |
| Supply agreements | 1,663 | (1,021) | 642 |

| | | | |
|---|---|---|---|
| Use rights and other | 14,285 | (6,621) | 7,664 |
| Total | $61,411 | $ (25,629) | $ 35,782 |

At December 31, 2002, the Corporation has water use rights of $200,000 that are deemed to have an indefinite life and are not being amortized.

During 2002 and 2001, the Corporation acquired $2,879,000 and $8,603,000, respectively, of other intangibles that are subject to amortization. The amount and weighted-average amortization periods for each major class of other intangible assets acquired are as follow:

(add 000, except for years)

| | 2002 | |
|---|---|---|
| | Amount | Weighted-Average Amortization Period |
| Noncompetition agreements | $1,708 | 6.4 years |
| Licensing agreements | 1,171 | 6.8 years |
| Total | $2,879 | 6.6 years |

| | 2001 | |
|---|---|---|
| | Amount | Weighted-Average Amortization Period |
| Noncompetition agreements | $6,503 | 5.7 years |
| Trade names | 2,100 | 7.4 years |
| Total | $8,603 | 6.1 years |

Total amortization expense for intangible assets for 2002, 2001 and 2000 was $6,102,000, $28,393,000 and $22,612,000, respectively. Goodwill amortization expense was included in 2001 and 2000.

The following presents the estimated amortization expense for intangible assets for each of the next five years and thereafter:

| (add 000) | |
|---|---|
| 2003 | $ 5,825 |
| 2004 | 4,970 |
| 2005 | 3,773 |
| 2006 | 2,947 |
| 2007 | 1,865 |
| Thereafter | 12,392 |
| Total | $31,772 |

In accordance with FAS 142, effective January 1, 2002, the Corporation discontinued the amortization of goodwill. The following pro forma information presents the results of operations for 2001 and 2000 as if FAS 142 had been adopted on January 1, 2000:

| (add 000) | 2001 | 2000 |
|---|---|---|
| Earnings before taxes on income, as reported | $158,439 | $168,821 |
| Goodwill amortization | 22,394 | 16,205 |
| Earnings before taxes on income | 180,833 | 185,026 |
| Income tax expense | 56,221 | 57,932 |
| Net earnings | $124,612 | $127,094 |
| Earnings per diluted share | $ 2.59 | $ 2.71 |

**Note C: Business Combinations and Divestitures**

During 2002, the Corporation completed six acquisitions for $47,970,000 plus 244,300 shares of the Corporation’s common stock, valued at the time of the transactions at $9,718,000, plus the assumption of certain liabilities. Additionally, one of the acquisitions was an exchange transaction. The operating results of the acquired entities are included with those of the Corporation from the respective acquisition dates forward.

The Corporation, also in 2002, finalized the purchase price allocation of the thirteen transactions completed in 2001, the most significant of which was Meridian Aggregates Company (“Meridian”). The adjustments to the Meridian transaction included finalizing the values of acquired land and mineral rights, accruals for plant closure costs, a loss contingency under an assumed long-term supply contract and recording deferred taxes. The

adjustments to purchase price allocations for 2001 acquisitions decreased goodwill by $2,119,000.

In 2002, the Corporation divested certain operations in the Columbus, Ohio area and the Culpepper and Spotsylvania, Virginia areas and recognized an aggregate gain of $20,023,000 on these two transactions. The Corporation also completed divestitures of certain other small nonstrategic operations during 2002.

As of May 1, 2001, the Corporation completed the sale of certain of its assets related to the Magnesia Specialties refractories business to a subsidiary of Minerals Technologies Inc. for $34,000,000. The Corporation recognized a gain of $8,936,000 on the sale of these assets after the write-down of certain retained refractories assets, including assets at the Magnesia Specialties division's Manistee, Michigan operating facility, as the facility was repositioned to focus on production of chemicals products. The refractories business contributed $26,774,000 in 2001 and $57,333,000 in 2000 to Magnesia Specialties' net sales.

**Note D: Accounts Receivable, Net**

| *December 31*<br>(add 000) | **2002** | **2001** |
|---|---|---|
| Customer receivables | $230,098 | $215,846 |
| Other current receivables | 11,068 | 6,705 |
| | 241,166 | 222,551 |
| Less allowances | (8,282) | (7,367) |
| Total | $232,884 | $215,184 |

**Note E: Inventories, Net**

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Finished products | **$212,694** | $207,696 |
| Products in process and raw materials | **8,967** | 5,659 |
| Supplies and expendable parts | **23,724** | 23,668 |
| | **245,385** | 237,023 |
| Less allowances | **(5,659)** | (6,020) |
| Total | **$239,726** | $231,003 |

**Note F: Property, Plant and Equipment, Net**

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Land and improvements | **$ 262,395** | $ 226,943 |
| Mineral deposits | **183,217** | 192,858 |
| Buildings | **79,593** | 75,212 |
| Machinery and equipment | **1,532,204** | 1,402,965 |
| Construction in progress | **89,071** | 176,444 |
| | **2,146,480** | 2,074,422 |
| Less allowances for depreciation and depletion | **(1,078,904)** | (992,233) |
| Total | **$ 1,067,576** | $1,082,189 |

Depreciation and depletion expense was $131,926,000, $125,642,000 and $113,221,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Interest cost of $3,788,000 and $6,040,000 was capitalized during 2002 and 2001, respectively.

At December 31, 2002 and 2001, $79,507,000 and $84,966,000, respectively, of the Corporation’s fixed assets were located in foreign countries, principally the Bahamas.

**Note G: Long-Term Debt**

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| 6.875% Notes, due 2011 | **$249,750** | $249,728 |
| 5.875% Notes, due 2008 | **209,143** | 199,229 |
| 6.9% Notes, due 2007 | **124,971** | 124,965 |
| 7% Debentures, due 2025 | **124,251** | 124,238 |
| Commercial Paper, interest rates ranging from 1.50% to 2.30% | **20,000** | 95,000 |
| Line of credit, interest rate of 1.94% | **5,713** | – |
| Acquisition notes, interest rates ranging from 3.79% to 9.00% | **10,849** | 7,080 |
| Other notes | **183** | 1,635 |
| Total | **744,860** | 801,875 |
| Less current maturities | **(11,389)** | (4,490) |
| Long-term debt | **$733,471** | $797,385 |

The 6.875% Notes were offered and sold by the Corporation, through a private offering, in March 2001, at 99.85% of their principal amount of $250,000,000. In July 2001, the Corporation exchanged $249,650,000 of the Notes for publicly registered notes with substantially identical terms. The effective interest rate on these securities is 6.98%. The Notes mature on April 1, 2011.

The 5.875% Notes were offered and sold by the Corporation, through a private placement, in December 1998, at 99.5% of their principal amount of $200,000,000. The Corporation exchanged the Notes for publicly registered notes with substantially identical terms. The effective interest rate on these securities is 6.03%. The Notes mature on December 1, 2008.

During August 1997, the Corporation offered and sold the 6.9% Notes at 99.7% of their principal amount of $125,000,000. The effective interest rate on these securities is 7.00%. The Notes which are publicly traded mature on August 15, 2007.

The 7% Debentures were sold at 99.3% of their principal amount of $125,000,000 in December 1995. The effective interest rate on these securities is 7.12%. The Debentures which are publicly traded mature on December 1, 2025.

These Notes and Debentures are carried net of original issue discount, which is being amortized by the effective interest method over the life of the issue. None are redeemable prior to their respective maturity dates.

In May 2002, the Corporation entered into interest rate swap agreements (the “Swaps”) related to $100 million of the Notes due in 2008. The Swaps are with four separate financial institutions, each agreement covering $25 million of the Notes. The Corporation will receive a 5.875% fixed annual interest rate and pay a floating annual rate equal to six-month London Interbank Offer Rate (“LIBOR”) plus an average of 0.235%. The terms of the Swaps and the related Notes match and other necessary conditions of FAS 133 have been met. Therefore, the hedges are considered perfectly effective and qualify for the shortcut method of accounting. The Corporation is required to record the fair value of the Swaps and the corresponding change in the fair value of the related Notes in its consolidated financial statements. At December 31, 2002, the fair value of the Swaps is $9,821,000. A corresponding amount is included in other non-current assets on the consolidated balance sheet.

In 2002 the Corporation amended its five-year revolving credit agreement by increasing the credit facility from $225,000,000 to $275,000,000. Additionally, the Corporation did not renew the 364-day $225,000,000 revolving credit agreement that expired

in August 2002. The five-year credit agreement, which is syndicated with a group of domestic and foreign commercial banks, expires in August 2006. Borrowings under the credit agreement are unsecured and bear interest, at the Corporation's option, at rates based upon: (i) the Euro-Dollar rate (as defined on the basis of a LIBOR) plus basis points related to a pricing grid; (ii) a bank base rate (as defined on the basis of a published prime rate or the Federal Funds Rate plus 1/2 of 1%); or (iii) a competitively determined rate (as defined on the basis of a bidding process). The credit agreement contains restrictive covenants relating to leverage, requirements for limitations on encumbrances and provisions that relate to certain changes in control. The Corporation pays an annual loan commitment fee to the bank group.

The credit agreement supports a $275,000,000 commercial paper program. In 2002, the Corporation reduced the commercial paper program from $450,000,000 to $275,000,000. No borrowings were outstanding under the revolving credit agreement at December 31, 2002. Commercial paper borrowings of $20,000,000 and $95,000,000 were outstanding at December 31, 2002 and 2001, respectively. Such borrowings were classified as long-term debt on the Corporation's consolidated balance sheet based on management's ability to maintain this debt outstanding for at least one year.

Excluding commercial paper and the Swaps, the Corporation's long-term debt maturities for the five years following December 31, 2002, and thereafter are:

| (add 000) | |
|---|---|
| 2003 | $ 11,389 |
| 2004 | 664 |
| 2005 | 565 |
| 2006 | 770 |
| 2007 | 125,506 |
| Thereafter | 576,145 |
| Total | $715,039 |

**Note H: Financial Instruments**

In addition to the Swaps and its publicly registered long-term notes and debentures, the Corporation's financial instruments include temporary cash investments, customer accounts and notes receivable, commercial paper and other borrowings.

Temporary cash investments are placed with creditworthy financial institutions, primarily in Euro-time deposits. The Corporation's cash equivalents generally have maturities of less than three months. Due to the short maturity of these investments, they are carried on the consolidated balance sheet at cost, which approximates fair value.

Customer receivables are due from a large number of customers who are dispersed across wide geographic and economic regions. However, customer receivables are more heavily concentrated in the Corporation's five largest states (see Note A). At December 31, 2002 and 2001, the Corporation had no significant concentrations of credit risk. The estimated fair values of customer receivables approximate their carrying amounts.

The estimated fair value of the Corporation's publicly registered long-term notes and debentures at December 31, 2002 was approximately $778,203,000 compared with a carrying amount of $708,115,000 on the consolidated balance sheet. The estimated fair value and carrying amount include the fair value of the Swaps. The fair value of this long-term debt was estimated based on quoted market prices for those instruments publicly traded. The estimated fair value of commercial paper and other borrowings approximate their carrying amounts.

**Note I: Income Taxes**

The components of the Corporation's tax expense on income are as follow:

| *years ended December 31*<br>(add 000) | **2002** | **2001** | **2000** |
|---|---|---|---|
| Federal income taxes: | | | |
| Current | **$15,820** | $34,553 | $42,862 |
| Deferred | **22,090** | 7,366 | 2,656 |
| Total federal income taxes | **37,910** | 41,919 | 45,518 |
| State income taxes: | | | |
| Current | **3,455** | 7,109 | 9,409 |
| Deferred | **4,129** | 1,809 | 427 |
| Total state income taxes | **7,584** | 8,918 | 9,836 |
| Foreign income taxes: | | | |
| Current | **961** | 2,240 | 1,440 |
| Total provision | **$46,455** | $53,077 | $56,794 |

The Corporation's effective income tax rate varied from the statutory United States income tax rate because of the following permanent tax differences:

| *years ended December 31* | **2002** | **2001** | **2000** |
|---|---|---|---|
| Statutory tax rate | **35.0%** | 35.0% | 35.0% |
| Increase (reduction) resulting from: | | | |
| Effect of statutory depletion | **(12.5)** | (7.4) | (8.3) |
| State income taxes | **3.4** | 3.7 | 3.8 |
| Goodwill write-off | **3.9** | – | – |
| Goodwill amortization | **–** | 3.2 | 2.7 |
| Effect of foreign operations | **1.8** | 1.3 | 0.2 |
| Partnership interest | **–** | (2.6) | – |
| Other items | **0.6** | 0.3 | 0.2 |
| Effective tax rate | **32.2%** | 33.5% | 33.6% |

The principal components of the Corporation's deferred tax assets and liabilities at December 31 are as follow:

| (add 000) | Deferred Assets (Liabilities) 2002 | 2001 |
|---|---|---|
| Property, plant and equipment | **$(131,025)** | $(133,850) |
| Goodwill and other intangibles | **(6,628)** | 4,200 |
| Employee benefits | **30,296** | 32,339 |
| Valuation and other reserves | **11,113** | 6,461 |
| Other items, net | **4,317** | 7,882 |
| Total | **$ (91,927)** | $ (82,968) |

Additionally, the Corporation has a deferred tax asset of $4,818,000 at December 31,2002 related to its minimum pension liability. Deferred tax assets and liabilities related to goodwill and other intangibles, for 2002, reflect the cessation of goodwill amortization for financial reporting purposes pursuant to FAS 142 and the write-off of certain intangible assets for income tax purposes that were previously written off for financial reporting purposes.

Deferred tax liabilities for property, plant and equipment result from accelerated depreciation methods being used for income tax purposes as compared to the straight-line method for financial reporting purposes. Deferred tax assets for employee benefits result from the timing differences of the deductions for pension and postretirement obligations. For financial reporting purposes, such amounts are expensed in accordance with Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("FAS 87"). For income tax purposes, such amounts are deductible as funded.

The Corporation does not believe a valuation allowance is required at December 31, 2002 or 2001.

**Note J: Retirement Plans, Postretirement and Postemployment Benefits**

***Defined Benefit Plans.*** The Corporation sponsors defined benefit retirement plans which cover substantially all employees. The assets of the Corporation's retirement plans are held in the Corporation's Master Retirement Trust and are invested in listed stocks, bonds and cash equivalents. Defined benefit retirement plans for salaried employees provide benefits based on each employee's years of service and average compensation for a specified period of time before retirement. Defined benefit retirement plans for hourly employees generally provide benefits of stated amounts for specified periods of service.

The Corporation sponsors a Supplemental Excess Retirement Plan ("SERP") that generally provides for the payment of retirement benefits in excess of allowable Internal Revenue Code limits. The SERP provides for a lump sum payment of vested benefits provided by the SERP unless the participant chooses to receive the benefits in the same manner that benefits are paid under the Corporation's defined benefit retirement plans.

The Corporation's defined benefit pension plans comply with three principal standards: the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which, in conjunction with the Internal Revenue Code, determines legal minimum and maximum deductible funding requirements; FAS 87; and Statement of Financial Accounting Standards No. 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits,* which establish rules for financial reporting. FAS 87 specifies that certain key actuarial assumptions be adjusted annually to reflect current, rather than long-term, trends in the economy.

The net periodic retirement benefit cost of defined benefit plans included the following components:

| *years ended December 31* (add 000) | 2002 | 2001 | 2000 |
|---|---|---|---|
| Components of net periodic benefit cost: | | | |
| Service cost | **$ 9,352** | $ 8,284 | $ 6,764 |
| Interest cost | **13,463** | 11,950 | 10,973 |
| Expected return on assets | **(12,826)** | (14,114) | (14,886) |
| Amortization of: | | | |
| Prior service cost | **617** | 617 | 571 |
| Actuarial loss (gain) | **48** | (1,006) | (3,005) |
| Transition asset | **(14)** | (357) | (357) |
| Net periodic benefit cost | **10,640** | 5,374 | 60 |
| Curtailment gain | **–** | (1,472) | – |
| Total net periodic benefit cost | **$ 10,640** | $ 3,902 | $ 60 |

Weighted-average assumptions used as of December 31 are:

| | 2002 | 2001 |
|---|---|---|
| Discount rate | **6.75%** | 7.25% |
| Rate of increase in future compensation levels | **5.00%** | 5.00% |
| Expected long-term rate of return on assets | **8.25%** | 9.00% |

These assumptions are used to calculate the succeeding year's pension expense. The expected long-term rate of return on assets at December 31, 2002 is net of investment charges. For the periods ended December 31, 2002 and 2001, pension expense was calculated assuming a 9.00% expected return on assets and a reserve for investment charges which resulted in a net expected return of 8.25%.

The following tables set forth the defined benefit plans' change in benefit obligation, change in plan assets, funded status and amounts recognized in the Corporation's consolidated balance sheet as of:

| *years ended December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Change in benefit obligation: | | |
| Net benefit obligation at beginning of year | **$174,627** | $154,015 |
| Service cost | **9,352** | 8,284 |
| Interest cost | **13,463** | 11,950 |
| Actuarial loss | **18,610** | 9,714 |
| Plan amendments | **(55)** | 850 |
| Curtailment | **–** | (1,600) |
| Gross benefits paid | **(8,485)** | (8,586) |
| Net benefit obligation at end of year | **$207,512** | $174,627 |

| *years ended December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | **$147,094** | $160,602 |
| Actual return on plan assets, net | **(12,565)** | (5,184) |
| Employer contributions | **47** | 262 |
| Gross benefits paid | **(8,485)** | (8,586) |
| Fair value of plan assets at end of year | **$126,091** | $147,094 |

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Funded status of the plan at end of year | **$(81,421)** | $(27,533) |
| Unrecognized net actuarial loss (gain) | **42,959** | (1,025) |
| Unrecognized prior service cost | **3,602** | 4,275 |
| Unrecognized net transition asset | **(19)** | (33) |
| Minimum pension liability | **(15,767)** | – |
| Accrued benefit cost | **$(50,646)** | $(24,316) |

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Amounts recognized in the consolidated balance sheet consist of: | | |
| Prepaid benefit cost | **$ 186** | $ 157 |
| Accrued benefit cost | **(35,065)** | (24,473) |
| Accrued minimum pension liability | **(15,767)** | – |
| Net amount recognized at end of year | **$(50,646)** | $(24,316) |

The Corporation recorded an intangible asset of $3,584,000 and accumulated other comprehensive loss of $7,365,000 at December 31, 2002 related to the minimum pension liability. The intangible asset is included in other noncurrent assets.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $207,100,000, $176,416,000 and $125,586,000, respectively, at December 31, 2002, and $21,477,000, $19,145,000 and $13,015,000, respectively, as of December 31, 2001.

The Corporation realized a $1,600,000 reduction in the year-ended December 31, 2001 net benefit obligation, as a result of the elimination of future service related to the refractories employees of Magnesia Specialties. After immediate recognition of unrecognized prior service costs related to these employees, a curtailment gain of $1,472,000 was recorded through other income and expenses, net, as a part of the gain on the sale of refractories business.

***Postretirement Benefits.*** The Corporation provides other postretirement benefits for certain employees including medical benefits for retirees and their spouses (and Medicare Part B reimbursement) and retiree life insurance. The net periodic postretirement benefit cost of postretirement plans

included the following components:

| *years ended December 31* (add 000) | **2002** | **2001** | **2000** |
|---|---|---|---|
| Components of net periodic benefit cost: | | | |
| Service cost | **$ 675** | $ 791 | $1,144 |
| Interest cost | **3,582** | 4,203 | 3,886 |
| Amortization of: | | | |
| Prior service cost | **(569)** | (483) | (394) |
| Actuarial gain | **(263)** | (112) | (482) |
| Net periodic benefit cost | **3,425** | 4,399 | 4,154 |
| Curtailment charge | **–** | 115 | – |
| Settlement gain | **–** | (471) | – |
| Total net periodic benefit cost | **$3,425** | $4,043 | $4,154 |

The postretirement health care plans' change in benefit obligation, change in plan assets, funded status and amounts recognized in the Corporation's consolidated balance sheet are as follow:

| *years ended December 31* (add 000) | **2002** | **2001** |
|---|---|---|
| Change in benefit obligation: | | |
| Net benefit obligation at beginning of year | $58,649 | $55,279 |
| Service cost | 675 | 791 |
| Interest cost | 3,582 | 4,203 |
| Participants' contributions | 384 | 300 |
| Plan amendments | — | (2,156) |
| Settlement | — | (386) |
| Actuarial loss | 4,015 | 4,023 |
| Gross benefits paid | (3,935 ) | (3,405) |
| Net benefit obligation at end of year | $63,370 | $58,649 |

| *years ended December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | **$ 0** | $ 0 |
| Employer contributions | **3,551** | 3,105 |
| Participants' contributions | **384** | 300 |
| Gross benefits paid | **(3,935)** | (3,405) |
| Fair value of plan assets at end of year | **$ 0** | $ 0 |

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Funded status of the plan at end of year | **$(63,370)** | $(58,649) |
| Unrecognized net actuarial loss | **5,756** | 1,550 |
| Unrecognized prior service cost | **(6,753)** | (7,314) |
| Accrued benefit cost | **$(64,367)** | $(64,413) |

| *December 31* (add 000) | 2002 | 2001 |
|---|---|---|
| Amounts recognized in the consolidated balance sheet consist of: | | |
| Accrued benefit cost | **$(64,367)** | $(64,413) |
| Net amount recognized at end of year | **$(64,367)** | $(64,413) |

The weighted average discount rate assumption was 6.75% and 7.25% at December 31, 2002 and 2001, respectively. This assumption is used to calculate the succeeding year's postretirement expense.

The assumed trend rate for health care inflation used in measuring the net periodic benefit cost and benefit obligation is 12.0% for 2002, declining to 5.0% in 2010 and remaining at that level thereafter. The assumed health care trend rate has a significant impact on the amounts reported. A one-percentage point change in the assumed health care trend rate would have the following effects at December 31, 2002:

| | One Percentage Point | |
|---|---|---|
| (add 000) | Increase | (Decrease) |
| Total service and interest cost components | **$ 277** | **$ (241)** |
| Postretirement benefit obligation | **$ 5,381** | **$ (4,589)** |

The curtailment charge and settlement gain in 2001 relate to sale of the refractories business (see Note C).

***Defined Contribution Plans.*** The Corporation maintains three defined contribution plans which cover substantially all employees. These plans, intended to be qualified under Section 401 (a) of the Internal Revenue Code, are retirement savings and investment plans for the Corporation's salaried and hourly employees. Under certain provisions of these plans, the Corporation, at established rates, matches employees' eligible contributions. The Corporation's matching obligations were $4,705,000 in 2002, $4,846,000 in 2001 and $3,695,000 in 2000.

***Postemployment Benefits.*** The Corporation provides certain benefits to former or inactive employees after employment but before retirement, such as workers' compensation and disability benefits. The Corporation has accrued postemployment benefits of $1,577,000 at each of December 31, 2002 and 2001.

**Note K: Stock Options and Award Plans**

The shareholders approved, on May 8, 1998, the Martin Marietta Materials, Inc. Stock-Based Award Plan (the "Plan"), as amended from time to time (along with the Amended Omnibus Securities Award Plan, originally approved in 1994, the "Plans"). In connection with the Plans, the Corporation is authorized to repurchase up to 6,007,000 shares of the Corporation's common stock for issuance under the Plans.

Under the Plans, the Corporation grants options to employees to purchase its common stock at a price equal to the market value at the date of grant. These options become exercisable in three equal annual installments beginning one year after date of grant and expire ten years from such date. The Plans allow the Corporation to provide for financing of purchases, subject to certain conditions, by interest-bearing notes payable to the Corporation. However, the Corporation has provided no such financing.

Additionally, an incentive stock plan has been adopted under the Plans whereby certain participants elect to use up to 50% of their annual incentive compensation to acquire units representing shares of the Corporation's common stock at a 20% discount to the market value on the date of the incentive compensation award. Certain executive officers are required to participate in the incentive stock plan at certain minimum levels. Participants earn the right to acquire their respective shares at the discounted value generally at the end of a 35-month period of additional employment from the date of award or at retirement at age 62. All rights of ownership of the common stock convey to the participants upon the issuance of their respective shares at the end of the ownership-vesting period, with the exception of dividends which are paid on the units during the vesting period.

In 2001, the Corporation granted restricted stock awards under the Plans to a group of executive officers and key personnel. Certain restricted stock awards are based on specific common

stock performance criteria over a specified period of time. In addition, certain awards were granted to individuals to encourage retention and promote long-term growth and performance. These awards generally vest if the executive is continuously employed on December 1 in the year that is immediately preceding three or five years from the date of grant.

The Plans provide that each nonemployee director receives 2,000 non-qualified stock options annually. The Corporation grants the nonemployee directors options to purchase its common stock at a price equal to the market value at the date of grant. These options vest immediately upon grant and expire ten years from such date.

The following table includes summary information for the Plans and includes awards under the option plan for employees, incentive stock plan for certain participants, restricted stock awards for executive officers and key personnel and nonemployee director awards.

| | Number of Shares | | |
|---|---|---|---|
| | Available for Grant | Awards Outstanding | Weighted-Average Exercise Price |
| December 31, 1999 | 4,232,292 | 1,474,128 | $ 38.15 |
| Granted | (507,898) | 507,898 | $ 45.50 |
| Exercised | — | (74,202) | $ 28.04 |
| Terminated | 17,931 | (17,931) | $ 45.98 |
| December 31, 2000 | 3,742,325 | 1,889,893 | $ 40.44 |
| Granted | (624,326) | 624,326 | $ 38.81 |
| Exercised | — | (89,107) | $ 29.54 |
| Terminated | 10,289 | (10,289) | $ 44.35 |
| December 31, 2001 | 3,128,288 | 2,414,823 | $ 40.41 |
| **Granted** | **(590,452)** | **590,452** | **$ 36.46** |
| **Exercised** | **—** | **(60,815)** | **$ 31.39** |
| **Terminated** | **58,240** | **(58,240)** | **$ 44.61** |
| **December 31, 2002** | **2,596,076** | **2,886,220** | **$ 39.71** |

Exercise prices for awards outstanding as of December 31, 2002, ranged from $0.00 to $63.44. The weighted-average remaining contractual life of those awards is 6.8 years. Approximately 1,778,000, 1,347,000 and 997,000 outstanding awards were exercisable at December 31, 2002, 2001 and 2000, respectively. The weighted-average exercise price of outstanding exercisable awards at December 31, 2002 is $40.79.

The following table summarizes information for awards outstanding and exercisable at December 31, 2002.

**Awards Outstanding**

| Range of Prices | Number of Shares | Weighted-Average Remaining Life | Weighted-Average Exercise Price |
|---|---|---|---|
| $0.00 | 56,254 | 2.0 | $ 0.00 |
| $20.00-$24.25 | 307,252 | 2.7 | $ 22.24 |
| $32.37-$48.75 | 2,498,714 | 7.4 | $ 42.58 |
| $51.50-$63.44 | 24,000 | 6.8 | $ 57.47 |

**Awards Exercisable**

| Range of Prices | Number of Shares | Weighted-Average Remaining Life | Weighted-Average Exercise Price |
|---|---|---|---|
| $20.00-$24.25 | 307,252 | 2.7 | $ 22.24 |
| $32.37-$48.75 | 1,446,359 | 6.4 | $ 44.46 |
| $51.50-$63.44 | 24,000 | 6.8 | $ 57.47 |

In 1996, the Corporation adopted the Shareholder Value Achievement Plan to award shares of the Corporation’s common stock to key senior employees based on certain common stock performance criteria over a long-term period. Under the terms of this plan, 250,000 shares of common stock are reserved for grant. Stock units potentially representing 50,804 shares of the Corporation’s common stock were granted under this plan in 2000. Based on the performance of the Corporation’s common stock, the Corporation issued 9,207 shares of common stock in January 2003, representing stock awards granted in 2000. Further, the Corporation did not issue any shares of common stock in 2002 in connection with awards granted in 1999. No additional awards have been granted under this plan after 2000.

Also, the Corporation adopted the Amended and Restated Common Stock Purchase Plan for Directors, which provides non-employee directors the election to receive all or a portion of their total fees in the form of the Corporation’s common stock. Under the terms of this plan, 100,000 shares of common stock are reserved for issuance. Currently, directors are required to defer at least 50% of their retainer in the form of the Corporation’s common stock at a 20% discount to market value. Directors elected to defer portions of their fees representing 14,080, 9,731 and 4,699 shares of the Corporation’s common stock under this plan during 2002, 2001 and 2000, respectively.

**Note L: Leases**

Total lease expense for all operating leases was $53,950,000, $43,803,000 and $31,109,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The Corporation’s operating leases generally contain renewal and/or purchase options with varying terms. Total royalties, principally for leased properties, were $31,155,000, $29,087,000 and $22,460,000 for the

years ended December 31, 2002, 2001 and 2000, respectively. Future minimum lease and mineral and other royalty commitments for all noncancelable agreements as of December 31, 2002 are as follow:

| (add 000) | |
|---|---|
| 2003 | $ 28,164 |
| 2004 | 24,884 |
| 2005 | 23,051 |
| 2006 | 20,694 |
| 2007 | 19,753 |
| Thereafter | 55,388 |
| Total | $171,934 |

**Note M: Shareholders' Equity**

The authorized capital structure of the Corporation includes 10,000,000 shares of preferred stock with par value of $0.01 a share, none of which is issued currently; however, 100,000 shares of Class A Preferred Stock have been reserved in connection with the Corporation's Shareholders Rights Plan. In addition, the capital structure includes 100,000,000 shares of common stock, with a par value of $0.01 a share. As of December 31, 2002 and 2001, there were approximately 48,842,000 and 48,549,000 shares, respectively, of the Corporation's common stock issued and outstanding. Approximately 5,790,000 common shares have been reserved for issuance under benefit and stock-based incentive plans. At December 31, 2002, there were 1,286 and 1,351, respectively, shareholders of record.

The Board has authorized the repurchase of approximately 7,000,000 shares of the Corporation's common stock for issuance under various stock-based compensation and common stock purchase plans. There were no shares repurchased in the three years ended December 31, 2002.

The Corporation issued 244,300 and 1,684,400 shares of common stock for acquisitions in 2002 and 2001, respectively.

**Note N: Commitments and Contingencies**

The Corporation is engaged in certain legal and administrative proceedings incidental to its normal business activities. While it is not possible to determine the ultimate outcome of those actions at this time, in the opinion of management and counsel, it is unlikely that the outcome of such litigation and other proceedings, including those pertaining to environmental matters (see Note A), will have a material adverse effect on the results of the Corporation's operations or on its financial position.

***Environmental Matters.*** The Corporation's operations are subject to and affected by federal, state and local laws and regulations relating to the environment, health and safety and other regulatory matters. Certain of the Corporation's operations, may, from time to time, involve the use of substances that are classified as toxic or hazardous within the meaning of these laws and regulations. Environmental operating permits are, or may be, required for certain of the Corporation's operations, and such permits are subject to modification, renewal and revocation. The Corporation regularly monitors and reviews its operations, procedures and policies for compliance with these laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of the Corporation's businesses, as it is with other companies engaged in similar businesses, and there can be no assurance that environmental liabilities will not have a material adverse effect on the Corporation in the future.

The Corporation currently has no material provisions for estimated costs recorded in connection with expected remediation costs or other environmental-related expenditures because it is extremely speculative to quantify the impact of all actions regarding environmental matters, particularly the extent and cost of future remediation and other compliance efforts. However, effective January 1, 2003, the Corporation will adopt FAS 143 (see Note A).

***Insurance Reserves and Letters of Credit.*** The Corporation has insurance coverage for workers' compensation, automobile liability and general liability claims with deductibles ranging from $250,000 to $1,500,000. The Corporation is also self-insured for health claims. At December 31, 2002 and 2001, reserves of approximately $25,200,000 were recorded for all such insurance claims. In connection with these workers' compensation and automobile and general liability insurance deductibles, the Corporation has entered into standby letter of credit agreements of $17,250,000 at December 31, 2002.

***Surety Bonds.*** In the normal course of business, the Corporation is contingently liable for $155,140,000 in surety bonds required by certain states and municipalities, and their related agencies. The bonds are principally for certain construction contracts, reclamation obligations and mining permits. The Corporation has indemnified the underwriting insurance company against any exposure under the surety bonds. In the Corporation's past experience, no material claims have been made against these financial instruments.

Three of these bonds, totaling $56,645,000, or 37% of all outstanding surety bonds, relate to specific performance for road construction projects currently underway.

***Employees.*** Approximately 11% of the Corporation's employees are represented by a labor union. All such employees are hourly employees. One of the labor union contracts, which covers approximately 1% of the Corporation's employees, expires in August 2003.

Martin Marietta Materials, Inc. (the “Corporation”), is the nation’s second largest producer of construction aggregates and a leading producer of magnesia-based chemicals. The discussion and analysis that follow reflect management’s assessment of the financial condition and results of operations of the Corporation and should be read in conjunction with the audited consolidated financial statements on pages 9 through 25.

**Business Combinations and Divestitures**

During 2002, the Corporation completed six acquisitions for a combined $48.0 million in cash and 244,300 shares of the Corporation’s common stock, valued at the time of the acquisitions at $9.7 million, plus the assumption of certain liabilities including debt of $7.5 million. Additionally, one of the acquisitions was an exchange transaction. The Corporation also finalized the purchase price allocation of the thirteen transactions completed in 2001, the most significant of which was Meridian Aggregates Company (“Meridian”). The adjustments to the Meridian transaction included finalizing the values of acquired land and mineral rights, accruals for plant closure costs, a loss contingency under an assumed long-term supply contract and recording deferred taxes. The adjustments to purchase price allocations for 2001 acquisitions decreased goodwill by $2.1 million.

The Corporation also continued its planned divestiture of nonstrategic operations during 2002. These divestitures included six quarries in the Columbus, Ohio area; two quarries in Fredericksburg and Culpepper, Virginia; nine small locations in Southern Iowa; and a ready mixed concrete plant in Oklahoma, among other small divestitures. The Corporation will continue to evaluate opportunities to divest nonstrategic, underperforming assets during 2003 in an effort to redeploy capital to enhance future financial returns.

Goodwill represents the excess of the purchase price paid for acquired businesses over the estimated fair value of identifiable assets and liabilities. The carrying value of goodwill is reviewed annually for impairment in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (“FAS 142”). If this review indicates that the goodwill is impaired, a charge is recorded. During 2002, in connection with the adoption of FAS 142, the Corporation recorded an impairment charge of $11.5 million as the cumulative effect of a change in accounting principle (see Note B to the audited consolidated financial statements on pages 17 and 18 and “Application of Critical Accounting Policies” on pages 26 through 31). Goodwill is as follows at December 31:

| | Goodwill (in millions) | % of Total Assets | % of Shareholders' Equity |
|---|---|---|---|
| **2002** | **$ 577.4** | **25.6%** | **53.3%** |
| 2001 | $ 571.2 | 25.7% | 55.9% |

**Application of Critical Accounting Policies**

The Corporation’s audited consolidated financial statements include certain critical estimates regarding the effect of matters that are inherently uncertain. These estimates require management’s subjective and complex judgments and amounts reported in the Corporation’s consolidated financial statements could differ materially if management had used different assumptions in making these estimates. Further, actual results could differ from those estimates. Methodologies used and assumptions selected by management in making these estimates, as well as the related disclosures, have been reviewed by and discussed with the Corporation’s Audit Committee.

Management’s determination of the critical nature of accounting estimates and judgments may change from time to time dependent on facts and circumstances that management cannot currently predict. In 2003, estimates and judgments related to the adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (“FAS 143”), are expected to be a critical accounting policy (see Note A to the audited consolidated financial statements on pages 14 through 16 and “New Accounting Standards” on pages 49 and 50).

Sensitivity analysis is provided to enhance the reader’s understanding of these critical accounting policies and is not intended to be indicative of management’s judgment of materiality.

***Impairment Review of Intangible Assets — Selection of Assumptions.*** Effective January 1, 2002, the Corporation adopted FAS 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, while other intangible assets, which consist primarily of contractual agreements, continue to be amortized over their related contractual terms. Goodwill and indefinite-lived intangibles are required to be tested annually for impairment using fair value measurement techniques prescribed by FAS 142 including present value of discounted cash flow techniques. The impairment evaluation of

intangible assets is a critical accounting estimate because goodwill represents 53.3% of the Corporation's total shareholders' equity at December 31, 2002, the evaluation requires the selection of assumptions that are inherently volatile and an impairment charge could be material to the Corporation's financial condition and its results of operations.

Management determined that the reporting units, which represent the level at which goodwill is tested for impairment under FAS 142, were the divisions of the Aggregates segment and the segment's road paving business. During 2002, the Corporation was managed through eight geographic divisions with plants and distribution yards as follow:

- *Carolina,* which includes North Carolina;
- *Central,* which includes quarry operations and distribution yards along the Mississippi River system and Gulf Coast and offshore quarry operations in the Bahamas and Nova Scotia;
- *Meridian,* which includes Nevada, Washington and California;
- *MidAmerica,* which includes Indiana and Ohio;
- *Mideast,* which includes Virginia, West Virginia and Maryland;
- *Midwest,* which includes Iowa, Kansas, Nebraska, Missouri, Wyoming, Wisconsin and Minnesota;
- *Southeast,* which includes Georgia, Alabama, South Carolina, Tennessee, Florida and Mississippi; and
- *Southwest,* which includes Texas, Oklahoma, Arkansas and Louisiana.

In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("FAS 131"), disclosures for the eight divisions are consolidated for financial reporting purposes as they meet the aggregation criteria. The road paving business was acquired as complementary operations to aggregates and asphalt acquisition opportunities and is currently reported through the Southwest Division. These operations have not been integrated into the core aggregates business and have had limited growth. There is no goodwill associated with the Magnesia Specialties segment. Any impact on reporting units resulting from organizational changes made by management are generally reflected in the succeeding evaluation.

Goodwill for each of the reporting units was tested for impairment by comparing the reporting unit's fair value to its carrying value, which represents step 1 of a required two-step approach required by FAS 142. A step 1 failure, a reporting unit with a carrying value in excess of its fair value, leads to a step 2 evaluation. Step 2 requires the calculation of the implied fair value of goodwill by allocating the fair value of the reporting unit to its tangible and intangible net assets, other than goodwill, similar to the purchase price allocation prescribed under Statement of Financial Accounting Standards No. 141, *Business Combinations*. The remaining unallocated fair value represents the implied fair value of the goodwill. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded for the difference. If the implied fair value of goodwill exceeds its carrying amount, there is no impairment.

In 2002, the impairment evaluation was performed as of January 1 for the initial adoption of FAS 142 and as of October 1, which represents the ongoing annual evaluation date. Generally, the fair values of the reporting units were determined using a 15-year discounted cash flow model. Key assumptions included management's estimates of future profitability, capital requirements, a 10% discount rate and a 2% terminal growth rate. The fair values for reporting units exceeded the respective carrying values at the January 1 initial adoption evaluation date, with the exception of the road paving business. Step 2 was completed for the road paving business and it was determined that all goodwill related to this business was impaired. Consequently, an impairment charge of $11.5 million was recorded as the cumulative effect of a change in accounting principle. For the October 1 evaluation, all reporting units had fair values in excess of carrying values.

The term of the discounted cash flow model is a significant factor in determining the fair value of the reporting units. A 15-year term was selected based on management's judgment and was supported by quantitative factors including the Corporation's strong financial position, long history of earnings growth and the remaining life of underlying mineral reserves, currently estimated at over 60 years at current production rates. Additional consideration was given to qualitative factors, including the Corporation's industry leadership position and the lack of obsolescence risks related to the Aggregates division.

Future profitability and capital requirements are, by their nature, estimates. The profitability estimates utilized in the evaluation were consistent with the five-year operating plan prepared by management and approved by the Board of Directors. The succeeding ten years (2007 to 2016) of profitability were estimated using assumptions for price, cost and volume increases. Future price and cost assumptions were

selected based on a review of these trends during the fifteen-year period ended 2001. Volume increases were capped when shipments reached the current production capacity, although additional capacity can be gained through increases in operating hours and capital infusion. Capital requirements for 2007 to 2016 were estimated based on expected recapitalization needs of the reporting units.

The assumed discount rate was selected based on the Corporation's weighted-average cost of capital ("WACC"). The WACC was calculated using four different techniques, producing a range of 8% to 11%. A capital asset pricing model, which calculated a WACC of 10%, was the selected methodology.

Recent historical data would support a terminal growth rate in the range of 3% to 4%, however, management selected a rate of 2% to better match the Corporation's enterprise value at the time of the evaluation.

Price, cost and volume increases, profitability of acquired operations, efficiency improvements, the discount rate and the terminal growth rate are significant assumptions in performing the impairment test. These assumptions are interdependent and have a significant impact on the results of the test. For example, changes in certain of these assumptions would have the following effect as of the October 1 evaluation:

- An increase in the discount rate to 11% would have resulted in the Meridian, MidAmerica, Mideast and Southwest Divisions failing step 1.
- A decrease in the terminal growth rate to 1% would have resulted in the Mideast Division failing step 1.

The failure of step 1 does not necessarily result in an impairment charge. Rather, it requires step 2 to be completed. The completion of step 2 would determine the amount, if any, of the impairment charge. Possible impairment charges under these various scenarios were not calculated.

Management believes that all assumptions used were reasonable based on historical operating results and expected future trends. However, if future operating results are unfavorable as compared to forecasts, the results of future FAS 142 evaluations could be negatively affected. The reporting units' future cash flows will be updated as required based on expected future cash flow trends. Management does not expect significant changes to the valuation term, discount rate or growth rate for the 2003 evaluation.

***Pension Expense — Selection of Assumptions.*** The Corporation sponsors noncontributory defined benefit retirement plans which cover substantially all employees. These benefit plans are accounted for in accordance with Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("FAS 87"). In accordance with FAS 87, annual pension expense consists of several components:

- *Service Cost,* which represents the present value of benefits attributed to services rendered in the current year, measured by expected future salary levels.
- *Interest Cost,* which represents the accretion cost on the liability that has been discounted back to its present value.
- *Expected Return on Assets,* which represents the expected investment return on pension fund assets.
- *Amortization of Prior Service Cost and Actuarial Gains and Losses,* which represents components that are not recognized immediately, but over time in accordance with FAS 87. Prior service cost represents credit given to employees for years of service prior to plan inception. Actuarial gains and losses arise from changes in assumptions regarding future events or when actual returns on assets differ from expected returns. At December 31, 2002, the net unrecognized actuarial loss and unrecognized prior service cost were $43.0 million and $3.6 million, respectively (see Note J to the audited consolidated financial statements on pages 21 through 23). Assuming the December 31, 2002 projected benefit obligation, the amortization of these amounts will increase annual pension expense by approximately $2 million, which is included in the estimated 2003 annual pension expense.

The components are calculated annually to determine the pension expense that is reflected in the Corporation's results of operations.

The selection of assumptions related to the annual pension expense is a critical accounting estimate due to the high degree of volatility in the expense dependent on selected assumptions. The key assumptions are as follow:

- The *discount rate* is the rate used to present value the pension obligation and represents the current rate at which the pension obligations could be effectively settled.
- The *rate of increase in future compensation levels* is used to project the pay-related pension benefit formula and should estimate actual future compensation levels.

- *The expected long-term rate of return on pension fund assets* is used to estimate future asset returns and should reflect the average rate of long-term earnings on assets already invested.

Management's selection of the discount rate is based on the current rate of return for high quality, fixed-income investments. The recent decline in the interest rate on high-quality corporate bonds has resulted in a lower discount rate in 2002 and higher pension expense. Of the three key assumptions, the discount rate is generally the most volatile and sensitive estimate. Accordingly, a change in this assumption would have the most significant impact on the annual expense.

Management's selection of the rate of increase in future compensation levels is generally based on the Corporation's historical salary increases, including cost of living adjustments and merit and promotion increases, giving consideration to any known future trends. A higher rate of increase will result in a higher pension expense.

Management's selection of the expected long-term rate of return on pension fund assets is generally based on both the current rates of return and the rates of return expected to be available for reinvestment. Given that these returns are long-term, there are generally not significant fluctuations from year to year. A higher expected rate of return will result in a lower pension expense.

Assumptions are selected on December 31 for the succeeding year's expense. For the 2002 pension expense, the assumptions selected at December 31, 2001, were as follow:

| | |
|---|---|
| Discount rate | 7.25% |
| Rate of increase in future compensation levels | 5.00% |
| Expected long-term rate of return on assets | 9.00% |

Using these assumptions, the 2002 pension expense was $10.6 million. A change in the assumptions would have had the following impact on the 2002 expense:

- A change of 25 basis points in the discount rate would have changed 2002 expense by approximately $0.5 million.

- A change of 25 basis points in the expected long-term rate of return on assets would have changed the 2002 expense by approximately $0.4 million.

For the 2003 pension expense, the assumptions selected at December 31, 2002, were as follow:

| | |
|---|---|
| Discount rate | 6.75% |
| Rate of increase in future compensation levels | 5.00% |
| Expected long-term rate of return on assets | 8.25% |

Using these assumptions, the 2003 pension expense is expected to be approximately $17 million based on current demographics of the plans. Changes in the underlying assumptions would have the following impact on the 2003 expense:

- A change of 25 basis points in the discount rate would change the 2003 expense by approximately $1.0 million.

- A change of 25 basis points in the expected long-term rate of return on assets would change the 2003 expense by approximately $0.3 million.

The current recessionary economy and its impact on actual returns on assets has resulted in the Corporation's pension plans being underfunded by $81.4 million at December 31, 2002 (see Note J to the audited consolidated financial statements on pages 21 through 23). Although an underfunded plan indicates a need for cash contributions, the Employee Retirement Income Security Act of 1974 ("ERISA"), and more recently, Congressional changes in the timing and calculation of pension plan funding generally allow companies several years to make the required contributions. During this period, improvements in actual returns on assets may decrease or eliminate the need for cash contributions. The Corporation will be required to make pension plan cash contributions of approximately $11.1 million in 2003. However, the Corporation may make additional contributions of approximately $10 million during 2003. Further, the underfunded pension plans have resulted in the recording of a minimum pension liability at December 31, 2002. This liability required a direct charge of $7.4 million to shareholders' equity and is classified as other comprehensive loss.

***Estimated Effective Income Tax Rate.*** The Corporation uses the liability method to determine its provision for income taxes as outlined in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Accordingly, the annual provision for income taxes reflects estimates of the current liability for income taxes, estimates of the tax effect of book versus tax basis differences using statutory income tax rates and management's judgment with respect to any valuation allowances on deferred tax assets. The result is management's estimate of the annual effective tax rate (the "ETR").

Income for tax purposes is determined through the application of the rules and regulations under the Internal Revenue Code and under the statutes of various state and local tax jurisdictions. As prescribed by these various regulations, as well as generally accepted accounting principles, the manner in which revenues and expenses are recognized for financial reporting purposes and income tax purposes is not always the same. Therefore, there are always differences between the Corporation's pretax income for financial reporting purposes and the amount of taxable income for income tax purposes which are either temporary or permanent, depending on the nature of the differences.

Temporary differences reflect revenues or expenses that are recognized for financial reporting income in one period and taxable income in a different period. Temporary differences create differences between the book and tax basis of assets which give rise to deferred tax assets or liabilities (i.e., future tax deductions or future taxable income). Therefore, when temporary differences exist, they are offset by a corresponding change in a deferred tax account. As such, total income tax expense, as reported on the Corporation's consolidated statement of earnings, is not affected by temporary differences. For example, accelerated methods of depreciating machinery and equipment are often used for income tax purposes as compared to the straight-line method used for financial reporting purposes. Initially, the straight-line method will provide a higher income tax expense for financial reporting purposes, with the difference between this method and the accelerated method resulting in the establishment of a deferred tax liability.

The Corporation's estimated ETR reflects adjustments to financial reporting income for permanent differences. Permanent differences reflect revenues or expenses that are recognized in determining either financial reporting income or taxable income, but not both. An example of a material permanent difference that affects the Corporation's estimated ETR is depletion in excess of basis for mineral reserves. For income tax purposes, the depletion deduction is calculated as a percent of sales, subject to certain limitations. As a result, the Corporation may continue to claim depletion deductions exceeding the basis of the mineral reserves. For book purposes, the depletion expense ceases once the value of the mineral reserves is fully amortized. The continuing depletion for tax purposes is treated as a permanent difference. Permanent differences either increase or decrease income tax expense with no offset in deferred tax liability, thereby affecting the effective tax rate.

Percentage depletion allowances are the single largest permanent deduction for the Corporation in calculating taxable income. Therefore, a significant amount of the financial reporting risk related to the estimated ETR is based on this estimate. Estimates of the percentage depletion allowance are based on other accounting estimates, namely sales and profitability by tax unit, which compounds the risk related to the estimated ETR. Further, the percentage depletion allowance may not increase or decrease proportionately to a change in pretax earnings.

Each quarter, management updates the estimated ETR for the current year based on events that occur during the quarter. Examples of such events include, but are not limited to, changing forecasts of annual sales and related earnings, purchases and sales of business units, product mix subject to different percentage depletion rates and finalizing and filing income tax returns for the previous year. During 2002, the estimated ETR was changed primarily by the sale of certain locations in the Columbus, Ohio area in the second quarter; the filing of the 2001 federal income tax return, which trued-up prior estimates of permanent and temporary differences in the third quarter; and the actual reported annual sales and related earnings and the final estimate of permanent differences in the fourth quarter.

To calculate the estimated ETR for any year, management uses actual information where practicable. Certain permanent and temporary differences are calculated prior to filing the income tax returns. However, certain amounts, including deductions for percentage depletion allowances, are estimated at the time of the provision. After estimating amounts that management considers reasonable under the circumstances, a provision for income taxes is recorded. For 2002, an estimated ETR of 32.2% was used to calculate the provision for income taxes.

When the Corporation's income tax returns are filed in the succeeding year, typically in the third quarter, a return-to-provision adjustment is calculated and recorded. This adjustment represents the difference between the income tax provision included for financial reporting purposes and the actual income tax expense based on the income tax returns as filed. However, all income tax filings are subject to examination by federal, state and local regulatory agencies, generally within three years of the filing date. These examinations could result in adjustments to income tax expense. The Corporation's tax years subject to examination are 1999 through 2002.

The estimated ETR is sensitive given that changes in the rate can have a significant impact on annual earnings. A change of 100 basis points in the estimated ETR would affect the 2002 tax provision expense by $1.4 million.

***Fixed Assets — Selection of Useful Lives.*** The selection of useful lives for the Corporation's fixed assets as a critical accounting estimate is due to net fixed assets representing 47.3% of total assets at December 31, 2002. Service lives of the assets can vary depending on factors including production levels and portability. Additionally, inclement weather can reduce the service life of an asset. Historically, the Corporation has not recognized significant losses on the disposal or retirement of fixed assets.

***Business Combinations — Purchase Price Allocation.*** The Corporation has accounted for all of its acquisitions under the purchase method of accounting. The Corporation allocates the purchase price to tangible assets based on internal and third-party appraisals to determine estimated fair value. Typically, assumed liabilities in the Corporation's business combinations are of a working capital nature and are recorded at fair value. The purchase price allocation is finalized the year following the purchase as estimated values are adjusted to reflect final valuation results and assumed preacquisition contingencies are evaluated. Adjustments from preliminary to final purchase price allocations have not been material to the Corporation's financial position.

The excess of the purchase price over the fair value of the tangible net assets acquired is generally allocated to identifiable intangible assets, namely noncompete, consulting, supply and trade name agreements, or to goodwill. The identifiable intangible assets are amortized over contractually-specified periods. Goodwill was amortized over a 10-to-30 year period on a straight-line basis prior to adoption of the nonamortization provision of FAS 142.

***Inventory Standards.*** The Corporation values its inventories under the first-in, first-out methodology, using standard costs that are updated annually during the fourth quarter. For quarries, the standards are developed using production costs for the preceding twelve-month period, in addition to complying with the principle of lower of cost or market. For sales yards, in addition to production costs, the standards include a freight component for the cost of transporting the inventory from a quarry to the sales yard and materials handling costs. Generally, unusual costs are expensed as deemed appropriate by management and are not capitalized as part of inventory costs. These standards are generally used to determine inventory values for the succeeding year.

In periods in which production costs have changed significantly from the prior period, the updating of standards can have a significant impact on the Corporation's operating results.

**Results of Operations**

The Corporation's Aggregates division's business is characterized by a high level of dependence on construction-sector spending, and the Magnesia Specialties' product lines, particularly dolomitic lime products, are used principally within the steel industry. Therefore, the Corporation's operating results are highly dependent upon activity within the construction and steel-related marketplaces, both of which are subject to interest rate fluctuations and economic cycles within the public and private business sectors. Factors, such as seasonal and other weather-related conditions, also affect the Aggregates division's production schedules and levels of profitability. Accordingly, the financial results for a particular year, or year-to-year comparisons of reported results, may not be indicative of future operating results. The Corporation's Aggregates division generated over 95% of net sales and over 97% of the operating earnings during 2002. The following comparative analysis and discussion should be read in that context. The comparative analysis in this Management's Discussion and Analysis of Financial Condition and Results of Operations is based on net sales and cost of sales, which exclude freight and delivery revenues and costs billed to customers, and is consistent with the basis by which management reviews the Corporation's operating results.

The Corporation's consolidated net sales of $1.497 billion in 2002 represent a decrease of $8.6 million, or 1%, as compared to 2001 net sales of $1.506 billion. The 2000 consolidated net sales were $1.333 billion. Consolidated earnings from operations were $174.7 million in 2002 and $197.2 million in 2001, reflecting a decrease of $22.6 million, or 11%, in 2002 and a decrease of $5.2 million, or 3%, in 2001, both as compared to the prior year. The Corporation's 2000 consolidated operating earnings were $202.5 million. 2001 and 2000 earnings from operations include goodwill amortization expense of $22.4 million and $16.2 million, respectively. Other income and expenses, net, was income of $13.6 million, $8.0 million and $8.2 million in 2002, 2001 and 2000, respectively. Interest expense was $44.0 million, $46.8 million and $41.9 million in 2002, 2001 and 2000, respectively. The Corporation's 2002 net earnings of $97.8 million, or $2.00 per diluted share, which excludes the $0.23 per diluted share loss for the cumulative effect of adopt-

ing FAS 142 and the resulting write-off of goodwill related to the road paving business, decreased 7% compared with 2001 net earnings of $105.4 million, or $2.19 per diluted share. The 2001 net earnings were 6% lower than 2000 net earnings of $112.0 million, or $2.39 per diluted share.

In 2002, aggregates shipments decreased 2% to 188.6 million tons. Shipments for 2002 were negatively affected by the current recessionary economic environment. Commercial construction declined significantly as a result of reduced economic activity, workforce reductions and increased vacancy rates for commercial building space. This decline was partially offset by increases in public-works and residential construction spending. The following table presents shipments for 2002 and 2001. Heritage aggregates operations exclude acquisitions that have not been included in both 2002 and 2001 operations for a full fiscal year. Divestitures represent tons related to divested operations up to the date of divestiture.

| Shipments (thousands of tons) | **2002** | **2001** |
|---|---|---|
| Heritage Aggregates Operations | **151,213** | 155,326 |
| Acquisitions (2002 and 2001) | **34,494** | 25,128 |
| Divestitures | **2,880** | 11,272 |
| Aggregates Division | **188,587** | 191,726 |

In 2001, total aggregates shipments increased 16% while heritage aggregates shipments increased 1%, both compared to the prior year.

Heritage price increases of 2.4% and 2.6% in 2002 and 2001, respectively, were negatively affected by the recessionary economy and are lower than the five years ended December 31, 2002 average 3.6% annual heritage price increase. The pricing structure in acquired operations generally reflects lower overall average net selling prices, principally because of differences in product groups, production costs, demand and competitive conditions, when compared with product sales from the Corporation's heritage aggregates operations.

| | **2002** | **2001** |
|---|---|---|
| Heritage Aggregates Operations | **2.4%** | 2.6% |
| Aggregates Division | **2.8%** | 1.0% |

For purposes of determining heritage sales price increases, the percentage change for the year is calculated using the then heritage aggregates prices.

The following presents average sales price percentage increases from the prior year for aggregates products:

| Net Sales (in millions) | Aggregates | Magnesia Specialties | Total |
|---|---|---|---|
| **2002** | **$1,423** | **$ 74** | **$1,497** |
| 2001 | $1,406 | $ 100 | $1,506 |
| 2000 | $1,203 | $ 130 | $1,333 |
| 1999 | $1,126 | $ 133 | $1,259 |
| 1998 | $ 921 | $ 137 | $1,058 |

Gross margin decreased to 19.7% in 2002 as compared to 20.6% in 2001. In addition to the previously discussed recessionary economy, shipments were negatively affected by wet weather, particularly in the Southeastern United States and Texas. In response to the declining demand, inventory control measures were implemented to better match production with shipment levels. Reduced shipment and production levels, particularly in the fourth quarter, resulted in higher costs from the underabsorption of fixed production costs. Further, gross margin was also affected by winter losses incurred during the first quarter of 2002 at certain locations acquired in 2001, particularly Meridian which was acquired in April 2001. Repair and maintenance costs at newly acquired locations are generally higher-than-normal as equipment is upgraded to better meet the Corporation's operational and safety standards. The Corporation sold certain operations, particularly in the Columbus, Ohio area in May 2002, which incurred typical winter losses prior to the divestiture with no offsetting later seasonal earnings. Start-up costs at the Bahamas facility were higher-than-anticipated subsequent to the recent completion of the new plant and ship-loading system. These factors were partially offset by the nonamortization of goodwill and strong performance in the asphalt and ready mixed concrete operations. The improvement in the asphalt business gross profit was due in part to higher sales and lower energy-related costs, principally liquid asphalt and natural gas.

Selling, general and administrative expenses increased as compared to 2001, in addition to other items, due to higher health care and pension costs. Additionally, 2002 reflects higher costs related to the Corporation's information systems project, including depreciation and expensing amounts that qualified for capitalization in 2001.

The Corporation's Magnesia Specialties' division contributed $74.4 million to net sales, a 25% decrease compared to 2001 net sales of $99.5 million. The decrease results primarily from the sale of the refractories business in May 2001. Operating earnings of $4.8 million in 2002 increased $1.6 million, or 48%, when compared to the prior year, principally from lower fuel costs. Additionally, 2001 operating earnings were negatively affected by the underabsorption of fixed costs associated with the repositioning of the Manistee, Michigan facility to focus on chemicals production subsequent to the sale of the refractories business.

The Corporation's operating margin was 11.7% in 2002 as compared to 13.1% in 2001 and 15.2% in 2000.

Other income and expenses, net, for the year-ended December 31, 2002, was $13.6 million in income, compared to income of $8.0 million and $8.2 million in 2001 and 2000, respectively. In addition to other offsetting amounts, other income and expenses, net, is comprised generally of interest income, gains and losses associated with the disposition of certain assets, gains and losses related to certain amounts receivable, costs associated with the commercialization of certain new technologies and net equity earnings from nonconsolidated investments. In 2002, other income included $20.0 million of nonrecurring gains on divestitures of quarries in the Columbus, Ohio area and the Fredericksburg and Culpepper, Virginia areas. Other income and expenses, net, also included $7.2 million of expenses in 2002 related to legal settlements and to reserve an investment related to microwave technologies. In 2001, other income included an $8.9 million gain on the sale of certain Magnesia Specialties refractories-related assets. In 2000, other income included an insurance settlement related to Hurricane Floyd.

Interest expense for the year ended December 31, 2002, was $44.0 million. This represents a decrease of $2.8 million, or 6%, as compared to 2001. Interest expense was $46.8 million in 2001, an increase of $4.9 million, or 12%, over 2000 interest expense of $41.9 million. The 2002 decrease in interest expense relates to lower average outstanding debt and lower interest rates on the Corporation's variable rate commercial paper program. Additionally, in 2002, the Corporation entered into interest rate swap agreements which effectively converted interest rate expense on $100 million of notes from a 5.875% fixed annual rate to an average floating annual rate equal to 6-month LIBOR plus 0.235%. During 2002, the variable interest rate paid was less than the 5.875% fixed rate that it received in connection with the swap agreements. These factors were partially offset by lower capitalized interest, which was $3.8 million in 2002 as compared to $6.0 million in 2001. The increase in interest expense in 2001 as compared to 2000 was due to higher average outstanding debt, principally due to financing the Meridian acquisition. The increase was somewhat mitigated by declining interest rates on the Corporation's variable rate commercial paper program and higher capitalized interest in 2001.

The Corporation's estimated effective income tax rate for 2002 was 32.2%, compared with 33.5% in 2001 and 33.6% in 2000. The variance in the estimated effective income tax rates for these years, when compared to the federal corporate tax rate of 35%, is due to several factors. The Corporation's estimated effective tax rate reflects the effect of state income taxes and the impact of differences in book and tax accounting arising from the net permanent benefits associated with the depletion allowances for mineral reserves, foreign operating earnings, earnings from non-consolidated investments, and for 2001 and 2000, amortization of nondeductible goodwill. For 2002, the estimated effective tax rate increased as a result of the write-off of nondeductible goodwill allocated to the divestiture of certain operations. This increase was offset by an adjustment to reflect the difference between the estimated taxes for 2001 and actual taxes reported, principally in statutory depletion.

The Corporation recorded a minimum pension liability at December 31, 2002. This liability resulted from low investment returns on pension plan assets coupled with a decrease in the discount rate. In accordance with generally accepted accounting principles, a direct charge to shareholders' equity of $7.4 million was recorded as other comprehensive loss.

The Corporation's debt-to-capitalization ratio was 41% at December 31, 2002, as compared to 44% at December 31, 2001. Total debt, including commercial paper obligations, decreased from $801.9 million to $744.9 million. The debt balance at December 31, 2002 includes $9.8 million which represents the fair value of interest rate swaps. Shareholders' equity increased from $1.022 billion at December 31, 2001 to $1.083 billion at December 31, 2002. During 2002, the Corporation paid common stock dividends of $28.3 million, or $0.58 per common share. Additional information regarding the Corporation's debt and capital structure is contained in Notes G and M to the audited consolidated financial statements on pages 19 and 20 and page 25, respectively, and under "Liquidity and Cash Flows" and "Capital Structure and Resources" on pages 46 through 49.

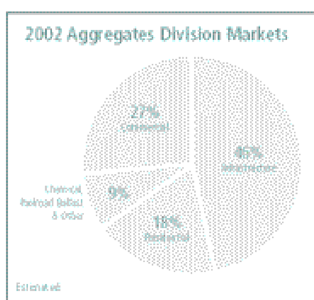
**Business Environment**

The headings and subheadings in this "Business Environment" discussion on pages 34 through 43, and the disclosures therein, are intended to provide the reader with a synopsis of the business environment trends and risks facing the Corporation. However, the reader should understand that no single trend or risk stands alone. The relationship between trends and risks is dynamic, and this discussion should be read with this understanding.

**Aggregates Industry and Corporation Trends**

The Corporation's principal business is Martin Marietta Aggregates, which primarily serves commercial customers in construction aggregates-related markets. This business is strongly affected by activity within the construction marketplace, which is cyclical in nature. Accordingly, the Corporation's profitability is sensitive to national, regional and local economic conditions and particularly to cyclical swings in construction spending. The cyclical swings in construction spending are further affected by fluctuations in interest rates, changes in the levels of infrastructure funding by the public sector and demographic and population shifts.

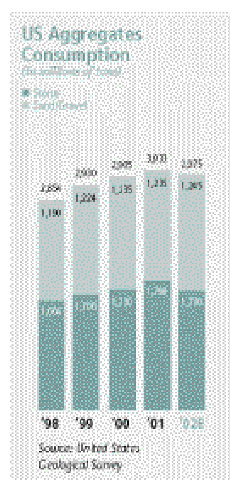
The Aggregates division markets its products primarily to contractors in connection with highway and other public infrastructure projects with the balance of its shipments made primarily to contractors in connection with commercial and residential construction projects. While construction spending in the public and private market sectors is affected by changes in economic cycles, there has been a tendency for the level of spending for infrastructure projects in the public-sector portion of this market to be more stable than spending for projects in the private sector. Governmental appropriations and expenditures are typically less interest-rate sensitive than private-sector spending, and generally improved levels of funding have enabled highway and other infrastructure projects to register improvement. In 2002, the total value of the United States construction put in place on highways, streets and bridges of $54 billion was consistent with 2001 levels, according to the U.S. Census Bureau.




**2002 Aggregates Division Markets (Estimated)**

| | |
|---|---|
| Infrastructure | 46% |
| Commercial | 27% |
| Residential | 18% |
| Chemical, Railroad Ballast and Other | 9% |

Management believes public-works projects consumed more than 50% of the total annual aggregates consumption in the United States during 2002, which has consistently been the case for each year since 1990. Additionally, since public sector-related shipments account for approximately 46% of the Corporation's 2002 aggregates shipments, the Aggregates division also enjoys the benefit of the high level of public-works construction projects. Accordingly, the Corporation's management believes the Corporation's exposure to fluctuations in commercial and residential, or private sector, construction spending is lessened somewhat by the division's broad mix of public sector-related shipments. However, delays in the passage of federal highway funding authorization and widespread state budget deficits have resulted in pressure on infrastructure spending.




| U.S. Aggregates Consumption (in millions of tons) | Stone | Sand/Gravel | Total |
|---|---|---|---|
| **2002E** | **1,730** | **1,245** | **2,975** |
| 2001 | 1,798 | 1,235 | 3,033 |
| 2000 | 1,730 | 1,235 | 2,965 |
| 1999 | 1,706 | 1,224 | 2,930 |
| 1998 | 1,664 | 1,190 | 2,854 |

Source: United States Geological Survey

Commercial construction experienced severe declines in 2002, dropping 16% nationally when compared to the prior year according to the U.S. Census Bureau. The growth in commercial construction over the past few years was fueled by rapid expansion in high-technology sectors of the

economy. As these sectors imploded, demand for commercial office space diminished and a substantial amount of sublease space is available in certain markets. Additionally, the warehouse market is experiencing high vacancy rates, particularly in the Southeast. According to a recent survey by the Society of Industrial and Office Professionals, the seven coastal states from Delaware to Florida had the most empty warehouse space in the country.

The residential construction market increased 7% in 2002 according to the U.S. Census Bureau, buoyed by historically low interest rates and strong housing starts. However, due to much of the residential construction growth being in the first-time home buyer market, which is typically less aggregates intensive, the Corporation's sales in this market were stable in 2002 as compared to 2001.

The Corporation's asphalt, ready mixed concrete, road paving and trucking operations generally follow construction industry trends. These vertically integrated operations accounted for about 15% of 2002 Aggregates division net sales, with no single operation contributing more than 10% of total net sales. The Corporation became significantly more vertically integrated with the acquisition of Redland Stone Products Company in December 1998 and subsequent acquisitions in the Southwest Division. As the Corporation continues its expansion strategy westward, where vertically integrated operations, including asphalt, ready mixed concrete, road paving and trucking businesses, are the norm, profit margins are generally adversely affected. Gross margins for the asphalt and ready mixed concrete businesses typically range from 10% to 15% as compared to the aggregates business, which generally ranges from 20% to 25% for the Corporation as a whole. The road paving and trucking businesses have been acquired as supplemental operations that were part of larger acquisitions. As such, they do not represent core businesses of the Corporation. The margins in these businesses are affected by volatile factors including fuel costs, operating efficiencies and weather, and have typically resulted in losses that are insignificant to the Corporation as a whole.

*Graph*

**Aggregates Division 2002 Net Sales by Product Line** ***(in millions)***

| | |
|---|---|
| Aggregates | $1,211 |
| Asphalt | 95 |
| Road Paving | 61 |
| Ready Mixed Concrete | 30 |
| Other | 26 |
| | $1,423 |

During the past several years, a greater percentage of the Corporation's shipments have been transported by rail and water. As this trend continues, gross margins will be negatively affected. The lower margins result from customers generally not paying the Corporation a profit associated with the transportation component of the selling price.

The Corporation's management believes the overall long-term trend for the construction aggregates industry continues to be one of consolidation. However, the consolidation trend is slowing as the number of suitable acquisition targets shrinks.

The Corporation's Board of Directors and management continue to review and monitor the Corporation's strategic long-term plans. These plans include assessing business combinations and arrangements with other companies engaged in similar businesses, increasing market share in the Corporation's core businesses and pursuing new technological opportunities that are related to the Corporation's existing markets.

**Aggregates Industry and Corporation Risks**
***General Economic Conditions***

The general economy remained in a recessionary state in 2002. The commercial construction market was negatively affected by many corporations reducing capital investment to better match capacity with weakening demand. As demand continued to slow, inventories began to build, and excess capacity led to employee lay offs and increasing vacancy rates. As a result, commercial construction continued to decline throughout the year. The residential construction market, as measured by new housing starts, increased during the year, buoyed by low mortgage rates which coincided with the federal funds rate reaching a 40-year low of 1.25% in 2002.

Public-sector construction projects are funded through a combination of federal, state and local sources. The level of state public-works spending is varied across the nation and dependent upon individual state economies. Shortfalls in tax revenues can result in reductions in appropriations for infrastructure spending and may increase income and other taxes directly affecting the Corporation. As state economies deal with the recessionary environment and the resulting budget deficits, the level of state spending on public works is at risk. Accordingly, amounts put in place, or spent, may be below amounts awarded under legislative bills. If federal appropriation levels are reduced or a reduction occurs in state and local spending, the Aggregates division could be adversely affected.

While the Aggregates division's operations cover a wide geographic area, because of the high cost of transportation relative to the price of the product, the division's — and, consequently, the Corporation's — operating performance and financial results depend on the strength of local regional economies. Further, due to the localized nature of the business, particular aggregates

See final page of exhibit for graph data.

2002 Aggregates Division Net Sales by State of Destination

Aggregates Production and Sales

Aggregates Sales

operations are dependent on economic conditions in local markets, which may differ from the economic conditions of the state as a whole. Weakened regional economies adversely affected results in 2002. The Aggregates division's top five revenue-generating states, namely Texas, North Carolina, Georgia, Iowa and Arkansas, accounted for approximately 54% of its 2002 net sales by state of destination. Each of these states fund infrastructure spending from specifically allocated amounts collected from various taxes, typically gasoline taxes, in addition to federal appropriations. Additionally, subject to voter approval, the states may pass bond programs to fund infrastructure spending.

In Texas, the infrastructure market outlook is positive, with the state department of transportation increasing its budget in 2003, particularly in the Dallas/Fort Worth and Houston areas. Commercial construction is weak across the state especially in the Dallas/Fort Worth area where a concentration of high-technology industries has affected the demand for commercial office and warehouse space. Toyota recently announced that it will construct a truck manufacturing facility in San Antonio, which is expected to positively affect this local economy. The state's biennial budget deficit is projected to approximate $10 billion. While state legislators are trying to reduce the shortfall, they appear committed to transportation funding. In November 2001, Texas voters approved the use of bonds for road building in targeted South Texas communities. Road construction has yet to begin, pending engineering and affiliated studies, which should be completed soon.

In North Carolina, the recession has been longer and deeper than the nation as a whole principally due to the state's dependence on the manufacturing, telecommunications and high-technology industries. Commercial construction has significantly declined as a direct result of weak demand for office and warehouse space from these industries. Residential demand has been relatively stable but high unemployment and continued employee lay offs in the state put housing demand at risk. State spending on public works has been stable, principally due to legislation passed in 2001 that provided funding of $170 million in fiscal 2002 and $150 million in each of fiscal 2003 and 2004 for asphalt resurfacing. Additionally, the state passed a $3.1 billion education bond in 2002, which is funding new construction, repairs and renovations on the sixteen state university system campuses. The state also passed a $950 million road bond in 1996, which continues to primarily fund improvements to strate-

gic intrastate roads and the construction of secondary roads. However, the state's growing budget deficits put public works spending at risk. In the fiscal year ended June 30, 2002, the state transferred $252 million from the highway trust fund to the general fund and also appropriated $220 million for various state Department of Transportation initiatives. Including $125 million of borrowed funds, the state expects to transfer approximately $377 million from the highway trust fund to the general fund in 2003. North Carolina has generally recovered from previous recessions more rapidly when compared to the nation as a whole, but recovery from the current economic environment is dependent on recovery in manufacturing, telecommunications and high-technology companies. Historically, North Carolina operations have been above the Corporation's average in profitability, due to its quarry position in growing market areas and the related transportation advantage.

The Georgia state economy is very weak. The present condition and near-term outlook for the local Atlanta economy is poor, led by softness in key industries, including high-technology, transportation and construction. Commercial construction is down directly related to these industries. Overall, infrastructure spending has remained stable, with solid highway work being performed in the southern part of the state. Additionally, the Atlanta Regional Commission recently approved a $5.3 billion, three-year infrastructure improvement plan. However, full implementation of the improvement plan has been delayed due to legal challenges on its financing. Also, the recent election of a new governor and declines in the state's revenues may negatively affect the annual funding levels of the plan.

The Iowa state economy is showing signs of improvement as farming conditions were strong in 2002. Additionally, the Farm Security and Rural Investment Act (the "Act") of 2002 was signed into law in May, and will govern federal farm programs through 2007. Among other provisions, the Act provides minimum price supports for certain crops, including corn and soybeans. The Act, along with the drought experienced in other parts of the country this past year, has stimulated the agricultural economy in Iowa with an overall benefit expected for the state. Both commercial and infrastructure markets in Iowa have generally remained stable. The Des Moines local economy has been strong, with the construction industry being bolstered by several significant highway and public building projects that have been started or are scheduled to begin in 2003.

The Arkansas state budget is experiencing declining revenues and rising expenditures. A 0.625 percent sales tax increase has been proposed to try to preserve current programs. However, the outlook for the infrastructure market in 2003 is positive, primarily due to several road bond programs in process and the release of federal funding to the state in 2001 for the construction of an interstate highway. The commercial construction market has remained relatively stable with strength in the transportation, utilities and construction industries being partially offset by the slowing manufacturing industry. The residential construction market outlook is unfavorable.

The remaining 46% of 2002 net sales are derived in other states, which, in general, are experiencing similar budget and economic issues. The impact on profitability of the recessionary economy and reduction in infrastructure spending will vary by market as some of the Corporation's market areas are more profitable than others.

The Aggregates division is further exposed to potential losses in customer accounts receivable as the recessionary economy increases the risk of nonpayment and bankruptcy.

***Geographic Exposure and Seasonality***

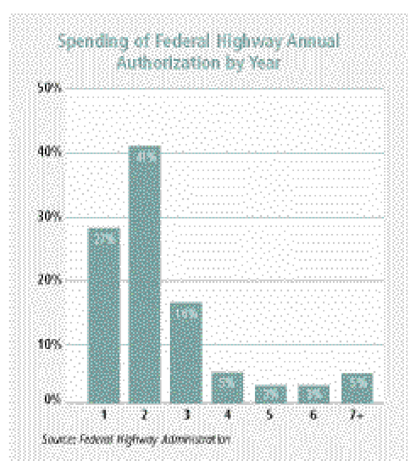
Seasonal changes and other weather-related conditions can also significantly affect the aggregates industry. Consequently, the Aggregates division's production and shipment levels coincide with general construction activity levels, most of which occur in the division's markets, typically in the spring, summer and fall. The division's operations that are concentrated in the northern region of the United States generally experience more severe winter weather conditions than the division's operations in the Southeast and Southwest. As expected, the Meridian locations acquired in April 2001 experienced operating losses during the first quarter of 2002 resulting from winter weather conditions at its operations in western and upper midwestern states.

North Carolina, one of the Corporation's largest revenue generating states, is at risk for Atlantic Ocean hurricane activity and has experienced hurricane-related losses in recent years. The southeastern and Gulf Coast regions of the United States are also at risk for hurricane activity. Texas, the Corporation's largest revenue generating state, has also experienced significant adverse weather during the past year, including flooding in San Antonio. In total, there were twelve hurricanes or tropical storms that negatively affected the Corporation in 2002 by reducing shipments and operating efficiencies.

***Federal and State Highway Appropriations***

The Transportation Equity Act for the 21st Century ("TEA-21") is currently the principal source of federal funding for public-sector construction projects. Congress passed TEA-21 legislation on June 9, 1998. TEA-21 provides federal transportation funding authorization of $218 billion ($168 billion for highway construction and $50 billion for other programs) over a six-year period ending in 2003. TEA-21 increases funding by approximately 40% over the prior federal funding level and increases funding for highway construction alone by an average of 44%, both based on the original TEA-21 bill.

TEA-21 provides a minimum funding guarantee that requires 100% of the federal gasoline tax revenues collected be directed into the Highway Trust Fund, a firewall for the Highway Account of the Highway Trust Fund, and a distribution formula that guarantees that each state will receive a minimum percentage of highway funding equal to 90.5% of the state's share of total gasoline tax contributions. Annual highway funds under all TEA-21 programs are designated by state departments of transportation during the year of appropriation. Once designated, TEA-21 funds are available until expended. Undesignated highway funds are carried over into the following year. Designated funds are generally spent over a period of years following designation, with approximately 27% in the year of funding and 41% in the succeeding year.




**Spending of Federal Highway Annual Authorization by Year**

| Year | Percent |
|---|---|
| 1 | 27 |
| 2 | 41 |
| 3 | 16 |
| 4 | 5 |
| 5 | 3 |
| 6 | 3 |
| 7+ | 5 |

Source: Federal Highway Administration

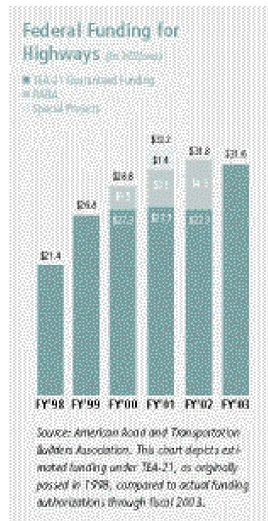
In January 2002, President Bush proposed a federal fiscal 2003 transportation appropriation level of $23.2 billion, consistent with the revenue aligned budget authority ("RABA") provisions of TEA-21 and representing an $8.6 billion reduction in appropriations. However, in July 2002, the Senate Appropriations Committee unanimously approved legislation to fund the 2003 federal highway program at $31.8 billion, consistent with the fiscal 2002 level. The House Appropriations Committee supported appropriations of $27.7 billion. The federal transportation appropriation bill for the fiscal year ended September 30, 2003, which is the final year under TEA-21, was delayed along with other federal departments by Congress and was authorized under a continuing resolution for the period from October 1, 2002 to February 13, 2003, at the annual level of $27.7 billion. In February 2003, the 2003 federal transportation bill was authorized at $31.6 billion.

In February 2003, the Bush Administration submitted its fiscal year 2004 budget to Congress. The budget proposal includes a six-year reauthorization of federal transportation programs with approximately $29 billion invested in fiscal year 2004, increasing by approximately $1 billion annually to approximately $34 billion for fiscal 2009. The transportation budget proposal includes a proposal to spend down the Highway Trust Fund, which was approximately $20 billion at September 30, 2001, according to the most recent data published by the Federal Highway Administration, and to transfer 2.5 cents per gallon of the excise tax levied on ethanol fuels from the General Fund to the Highway Trust Fund. Further, the budget includes a $1 billion Highway Infrastructure Performance and Maintenance Program to target ready-to-go highway projects that address traffic congestion and improve infrastructure conditions. This initiative, portrayed as a job creation measure, would require states to commit funds in the first half of each fiscal year under this program. A state's failure to obligate funds quickly would trigger a reallocation of these funds among other states.

The successor bill will most likely be finalized and approved after the September 30, 2003 expiration of TEA-21 which would result in fiscal 2004 federal highway authorization running under continuing resolution. In fact, TEA-21 was passed in June 1998, a full nine months after the September 30, 1997 expiration of its predecessor bill. There is no assurance that a successor bill to TEA-21 will continue to follow the TEA-21 legislated minimum funding guarantee firewall or the highway funding distribution formula. Additionally,

Congress must also annually appropriate highway funding levels, which continue to be subject to balanced budget and other proposals that may impact the additional funding available for the Highway Fund. Approximately half of the Corporation’s net sales to the infrastructure market results from federal funding authorizations, including matching funds from the states.

States are required to match funds at a predetermined rate to receive federal funds for highways. Depending on the type of project, the matching level can vary. If a state is unable to match its allocated federal funds, the funding is forfeited. Any forfeitures are then reallocated to states that can provide the appropriate matching funds. In 2002, Virginia became the first state in recent history to not meet a federal matching requirement.




**Federal Funding for Highways**
**(in billions)**

| Fiscal Year | TEA-21 Guaranteed Funding | RABA | Special Projects | Total |
|---|---|---|---|---|
| 2003 | $ 31.6 | $ — | $— | $31.6 |
| 2002 | $ 27.3 | $4.5 | $— | $31.8 |
| 2001 | $ 27.7 | $3.1 | $ 1.4 | $32.2 |
| 2000 | $ 27.3 | $1.5 | $— | $28.8 |
| 1999 | $ 26.8 | $ — | $— | $26.8 |
| 1998 | $ 21.4 | $ — | $— | $21.4 |

Source: American Road and Transportation Builders Association. This chart depicts estimated funding under TEA-21, as originally passed in 1998, compared to actual funding authorizations through fiscal 2003.

Despite state highway construction programs being primarily financed from highway user fees, including fuel taxes and vehicle registration fees, there has been a reduction in many states’ investment in highways. The delay in finalizing federal funding authorizations and concerns of a significant decline in the fiscal 2003 funding levels created by the President’s initial budget, along with uncertainty surrounding passage of a successor bill, have resulted in reduced road spending in many states. Additionally, as the recession continues, revenue shortfalls, coupled with budget deficits being experienced in many states, have negatively affected state highway construction projects.

The degree to which the Corporation could be affected by a reduction or slowdown in infrastructure spending varies by state. However, the state economies of the Corporation’s five largest revenue-generating states may disproportionately affect performance.

The Aviation Investment and Reform Act for the 21st Century (“AIR-21”) provides funding for airport improvements throughout the United States. Congress approved $3.4 billion for the Aviation Improvement Program under AIR-21 for fiscal year 2003, which represents a $100 million increase over fiscal year 2002 funding. President Bush’s budget for fiscal year 2004 proposes funding this airport improvement program at $3.4 billion through fiscal year 2009.

***Cost Structure***

Due to the high fixed costs associated with aggregates production, the Corporation’s operating leverage can be substantial. Generally, the top five categories of cost of sales for the Aggregates division are labor and related benefits; depreciation, depletion and amortization; repairs; freight on transported material (excluding freight billed directly to customers); and energy. In 2002, these categories represented approximately 73% of the Aggregates division’s total cost of sales.

Wage inflation and the resulting increase in labor costs may be somewhat mitigated by increases in productivity in an expanding economy. Rising health care costs have increased total labor costs in recent years and are expected to continue to negatively affect labor costs in the near term. Further, unfavorable investment returns on pension plan assets, coupled with a decrease in the discount rate, have resulted in increased pension costs in 2002 (see Note J to the audited consolidated financial statements on pages 21 through 23).

Generally, when the Corporation incurs higher capital costs to replace productive facilities and equipment, increased capacity and productivity, and various other offsetting factors, counterbalance increased depreciation costs. However, when aggregates demand is soft, the increased productivity and related efficiencies are not fully realized, resulting in the underabsorption of fixed costs.

The impact of inflation on the Corporation’s businesses has become less significant with the benefit of continued moderate inflation rates. However, the Corporation has been negatively affected by increases in several cost areas. Notably, energy sector inflation affects, among other things, the costs of operating mobile equipment used in quarry operations, waterborne transportation of aggregates materials and asphalt production. Accordingly, increases in energy costs can have a significant negative impact on the Corporation’s results of operations. For example, in 2000, increased energy-related costs reduced the Aggregates division’s net earnings by $0.35 per diluted share as compared to 1999.

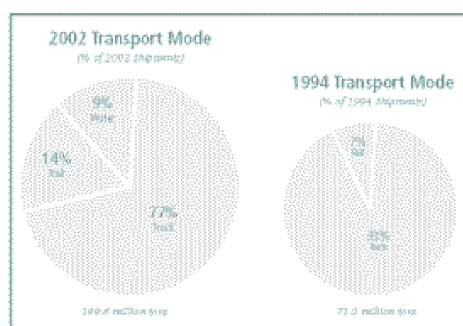
***Transportation Exposure***

A growing percentage of the Corporation's aggregates shipments are being moved by rail or water through a network of distribution yards. The Corporation's acquisition of Dravo Corporation in 1995 expanded its waterborne capabilities, both by barge and oceangoing ship, which were enhanced by the 1995 acquisition of a deep-water quarry in Nova Scotia, while the 1998 acquisition of Redland Stone and the 2001 acquisition of Meridian increased its rail-based distribution network. As the Corporation continues to move more aggregates by rail and water, embedded freight costs have eroded profit margins. The freight costs for aggregates products often equal or exceed the selling price of the underlying aggregates products. The Corporation handles freight costs principally in three ways:

Option 1: The customer supplies transportation.

Option 2: The Corporation will arrange for a third party carrier to deliver the aggregates material and specifically pass through the freight costs to the customer. These freight and delivery revenues and costs are presented in the consolidated statement of earnings as required by Emerging Issues Task Force Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*.

Option 3: The Corporation transports, either by rail or water, aggregates from a production location to a distribution terminal. At that point, the selling price includes the freight component to transport the product to the distribution location. Subsequent transportation from the distribution location is accounted for as described above in options 1 and 2.




| | 2002 Transport Mode | 1994 Transport Mode |
|---|---|---|
| Truck | 77% | 93% |
| Rail | 14% | 7% |
| Water | 9% | — |
| | 188.6 million tons | 71.2 million tons |

When the third option occurs, margins are negatively affected because the customer does not generally pay the Corporation a profit associated with the transportation component of the selling price. For example, a truck customer in a local market will pick up the material and pay $6.50 for one ton of aggregate. Assuming a $1.50 gross profit per ton, the Corporation would recognize a 23% gross margin. However, if a customer purchased a ton of aggregate that was transported to a distribution yard by the Corporation via rail or water, the selling price may be $12.50 per ton, assuming a $6.00 cost of internal freight. With the same $1.50 gross profit per ton and no profit associated with the transportation component, the gross margin would be reduced to 12% as a result of the embedded freight.

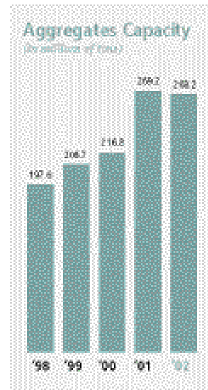
In 1994, 93% of the Corporation's aggregates shipments were moved by truck while the balance was moved by rail. In contrast, the Corporation's aggregates shipments moved 77% by truck, 14% by rail and 9% by water in 2002. Further, the acquisition of Meridian and its rail-based distribution network, coupled with the extensive use of rail service in the Southwest Division, has increased the Corporation's dependence on and exposure to railroad performance, including track congestion, crew availability and power failures, and the ability to renegotiate favorable railroad shipping contracts. The waterborne distribution network increases the Corporation's exposure to certain risks, including, among other items, the ability to negotiate favorable shipping contracts, demurrage costs, fuel costs, barge or ship availability and weather disruptions.

***Integration of Acquisitions and Internal Expansion***

The Corporation's capital expansion, acquisition and greensiting programs are focused on taking advantage of infrastructure growth, through investment in both permanent and portable quarrying operations. Recently, the Corporation completed the most extensive array of plant modernization and capacity expansion projects in its history. Included in these projects was the construction of a new plant and ship-loading system at the Corporation's deep-water quarry in the Bahamas. This project increased annual capacity at this location from 2.5 million tons to over 6 million tons. The Corporation also completed several

new plant and equipment upgrade projects at locations in Texas. While such projects generally increase capacity, lower production costs and improve product quality, it may take time to increase shipments and absorb increased depreciation and other fixed costs, particularly in a slow economy. In addition, pricing may be negatively affected by the additional volume available in the market.

The Corporation’s management believes the overall long-term trend for the construction aggregates industry continues to be one of consolidation. During 2002, the Corporation expanded its market opportunities by consummating six transactions for the acquisition of aggregates and other operations. These acquisitions included operations in North Carolina, Alabama, Texas and Florida. Approximately 56% of the Corporation’s 2002 net sales are derived from acquisitions that have occurred since January 1,1995.




| Aggregates Capacity (in millions of tons) | |
|---|---|
| **2002** | **268.2** |
| 2001 | 269.2 |
| 2000 | 216.8 |
| 1999 | 208.7 |
| 1998 | 197.6 |

Acquired locations generally are not up to the Corporation’s safety, maintenance and pit development standards. In such cases, additional resources must be invested prior to the Corporation realizing the optimal benefits of the acquisitions. The initial focus on such locations is safety. Additionally, the first repair and maintenance cycle, which normally occurs in the first quarter as this represents the slowest sales and production volumes of the year, requires higher costs to upgrade the machinery and equipment to better match the Corporation’s operational standards. In particular, smaller acquisitions require more pit development than larger transactions. Therefore, smaller acquisitions generally are not profitable initially. As with any new operation, there is a risk regarding the ability to integrate the operations and achieve the expected profitability.

The Corporation’s aggregates reserves, including the reserves of its 2002 acquisitions, on the average exceed 60 years of production, based on current levels of activity. However, certain locations may be subject to more limited reserves and may not be able to expand.

***Environmental Regulation and Litigation***

The aggregates industry’s expansion and growth are subject to increasing challenges from environmental and political advocates who want to control the pace of future development and preserve open space. Rail and other transportation alternatives are being supported by these groups as solutions to mitigate traffic congestion and overcrowding.

The Clean Air Act, originally passed in 1963 and periodically updated by amendments, is the United States’ national air pollution control program that granted the Environmental Protection Agency (“EPA”) the authority to set limits on the level of various air pollutants. Recently, environmental groups have been successful in lawsuits against the federal and certain state departments of transportation, asserting that highway construction should be delayed until the municipal area is in compliance with the Clean Air Act. The EPA lists 107 areas as nonattainment areas with deadlines to reduce air pollutants or face fines or control by the EPA. Included in the nonattainment areas are several major metropolitan areas in the Corporation’s markets, including Atlanta, Georgia and Houston/Galveston and Dallas/Fort Worth, Texas. Federal transportation funding through TEA-21 is directly tied to compliance with the Clean Air Act.

Other environmental groups have published lists of targeted municipal areas, including areas within the Corporation’s marketplace, for environmental and suburban growth control. The effect of these initiatives on the Corporation’s growth is typically localized, and further challenges are expected as these initiatives gain momentum across the United States.

The Corporation’s operations are subject to and affected by federal, state and local laws and regulations relating to the environment, health and safety and other regulatory matters. Certain of the Corporation’s operations may, from time to time, involve the use of substances that are classified as toxic or hazardous within the meaning of these laws and regulations. The Corporation regularly monitors and reviews its operations, procedures and policies for compliance with these laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of the Corporation’s businesses, as it is with other companies engaged in similar businesses.

Environmental operating permits are, or may be, required for certain of the Corporation’s operations, and such permits are subject to modification, renewal and revocation. New permits, which

are generally required for opening new sites or for expansion at existing operations, can take up to several years to obtain. Rezoning and special purpose permits are becoming increasingly difficult to acquire. Once a permit is obtained, the location is generally required to operate in accordance with the approved site plan.

The Corporation is engaged in certain legal and administrative proceedings incidental to its normal business activities (see Notes A and N to the audited consolidated financial statements on pages 14 through 16 and page 25, respectively).

***Magnesia Specialties***

Through its Magnesia Specialties division, the Corporation manufactures and markets magnesia-based chemicals products for industrial, agricultural and environmental applications, including wastewater treatment and acid neutralization, and dolomitic lime for use primarily in the steel industry. Given the high fixed costs associated with operating the division, excess capacity negatively affects its results of operations. Magnesia Specialties' products used within the steel industry accounted for approximately 52% of the division's net sales for 2002. Accordingly, a portion of the division's product pricing structure is affected by current business economic trends within the steel industry. Although the U.S. steel industry ran at a strong pace in 2002, the U.S. market continues to be negatively affected by the high level of foreign imports. As a result of government subsidies, foreign steel producers have built excess capacity, resulting in high levels of inventories which have been shipped into the U.S. market. Further, U.S. government guarantees have allowed certain U.S. steel companies to obtain bank financing and thus remain in the market, compounding the over-capacity situation. In March 2002, after review by the U.S. International Trade Commission under Section 201 of the 1974 Trade Act, President Bush imposed temporary safeguard measures on key products to support U.S. steel manufacturers. These measures are temporary and do not ensure the long-term competitiveness of the U.S. steel industry which is being further affected by high pension and other retirement costs. As a result, the Magnesia Specialties division is further exposed to potential losses in customer accounts receivable.

Approximately 12% of the Magnesia Specialties division's products are sold in foreign jurisdictions, with no single country accounting for 10% or more of the division's sales. While the division's products are manufactured and sold principally in the United States, the division also markets its products in Canada, Mexico, Europe, South America and the Pacific Rim. As a result of these foreign market sales, the division's financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the division distributes its products. To mitigate the short-term effects of changes in currency exchange rates on the division's operations, the division principally uses the U.S. dollar as the functional currency in foreign transactions.

Approximately 98% of the Magnesia Specialties' hourly employees are members of a labor union. The division's union contracts cover employees at the Manistee, Michigan magnesia-based products plant and the Woodville, Ohio lime plant. The current Manistee labor union contract expires in August 2003 while the current Woodville labor union contract expires in June 2006.

***Other Risk Areas***

The Corporation will continue to pursue opportunities that provide proprietary technology in high growth-rate markets that it understands, that require limited research and development with minimal capital investment relative to revenue and profit generation potential, and that have the potential to provide above-average returns while minimizing risk. Commercial viability and profitability of these technological product areas is not assured.

In 2002, the Corporation continued to pursue opportunities in the structural composite products business and expanded its related technology. To date, revenues in this start-up business have been insignificant. The Corporation abandoned its research and development on SC27™ soil inoculant, a microbial soil enhancer used to enhance plant growth. As expected, the technological areas did not generate profits in 2002. Further, the Corporation reserved an investment related to certain microwave technologies.

The Corporation is replacing its existing information systems with an enterprise-wide information solution primarily through J. D. Edwards & Company. The capital requirements for this project, which exclude systems replacement for acquisitions not currently on the Corporation's Raleigh-based systems, principally Redland Stone and Meridian, are expected to be $27.8 million, with $9.5 million expended in 2002, $13.0 million in 2001 and $4.0 million in 2000. The final rollout of the scale system software is generally expected to be completed in 2003 or early 2004. The Corporation

is currently implementing the phase of the project that will convert systems of the Meridian locations. The Corporation believes it has deployed sufficient personnel and capital to successfully complete the project. The timeframe for integration of the Southwest Division and other locations has not yet been determined.

**Outlook**

***2003 and Beyond***

The outlook for 2003 remains uncertain. The commercial construction market is expected to remain weak while the residential construction market, although currently stable, could decline depending on weakening consumer confidence, unemployment levels, higher interest rates, and the duration of the soft economy. Further, state and local economies are not expected to improve. Based on its current assessment, management expects heritage aggregates volume to be flat in 2003. However, continuing stable supply/demand characteristics are expected to lead to a price increase of 1.5 to 2 percent. The Corporation is beginning to realize improvements in its operating cost structure as a result of its strategic initiatives it has executed over the past couple of years. Productivity improvement initiatives are leading to increased plant efficiency and reduced headcount; internal expansion projects and acquisitions are moving beyond the start-up and integration phases, reducing nonrecurring costs; and selective divestitures should improve returns. Management believes these factors will provide earnings to offset the $20 million of nonrecurring gains from a higher-than-normal level of divestitures realized in 2002. Net earnings are expected to range from $1.95 to $2.25 per diluted share for 2003. However, improvement in the economy that leads to increased aggregates demand and the full absorption of fixed costs could improve margins and provide upside potential for 2003 net earnings. Conversely, weakening of the economy, war with Iraq or other worldwide conflicts, increases in energy-related costs, and fewer-than-expected improvements in the Corporation’s operating cost structure represent downside risks. Management believes that the downside risks outweigh the upside potential for 2003, primarily based on the potential impact of war on consumer and business confidence and energy supply and pricing. This earnings guidance excludes any potential impact from the adoption of FAS 143.

American Road and Transportation Builders Association (“ARTBA”) has reported to Congress that an annual federal highway investment of up to $60 billion is necessary to ensure the nation’s traffic congestion does not get worse and to maintain current physical and safety conditions on the nation’s highways. ARTBA’s recommended level of spending would require an increase in federal motor fuels excise taxes and highway user fees averaging about two cents per gallon of gasoline. While management is supportive of ARTBA’s projected annual highway investment requirements, management believes it is highly unlikely that an increase of ARTBA’s magnitude will pass, because the current political climate is not supportive of tax increases of any magnitude. However, management currently expects that the TEA-21 successor bill will include modest increases in spending.

Over the next five years, management expects that the Aggregates division’s business and financial results will continue to grow as a result of increased infrastructure construction spending generated by the reauthorization of a new federal highway funding bill, coupled with moderate growth in residential and commercial construction. Further, the Aggregates division will generally follow national, regional and local general economic, construction and industry trends.

***Analysis of Margins***

The Aggregates division’s margin performance has declined in recent years due to several factors, the most significant of which is the expansion and development of water and rail distribution yards. Most of this activity is in coastal areas which generally do not have an indigenous supply of aggregates and exhibit above average growth characteristics. Development of this distribution network is a key component of the Corporation’s strategic plan for growth and has already led to increased market share in certain areas. However, sales from rail and water distribution locations provide lower margins, as compared to sales directly from quarry operations, due to transportation freight cost, which is embedded in the delivery price of aggregates products, and the related pricing structure at the distribution yards which is dependent on the supply/demand characteristics of the local market (see “Transportation Exposure” on page 40). In 2002, approximately 24 million tons were sold from distribution yards and the cost of embedded freight and distribution operations lowered gross margins by nearly 400 basis points. It is management’s expectation, although this cannot be assured, that the distribution network currently in place will afford the Corporation a greater growth opportunity than many of its competitors and margins should gradually improve, subject to the economic environment.

Other factors including vertical integration, a large number of internal expansion and plant improvement projects, acquisitions, certain nonstrategic assets and, most recently, the economic recession have further affected margin. The gross margins associated with vertically integrated operations, including asphalt, ready mixed concrete and construction operations, are lower as compared to aggregates operations. In 2002, the mix of these operations, excluding those which may be divested in 2003, to total aggregates operations lowered gross margin by approximately 10 basis points. The Corporation's gross margin will continue to be similarly affected by the lower margins for these vertically integrated businesses and for the water and rail distribution network as a result of management's strategic growth plan.

During 2002, the Corporation continued its planned divestiture of nonstrategic operations. If these divestitures had been completed as of January 1, 2002, gross margin would have improved by 100 basis points. Management also expects to continue to carefully review nonstrategic operations in 2003 and continue its divestiture program. If targeted 2003 divestitures had been completed as of January 1, 2002, gross margin for 2002 would have improved by an additional 100 basis points.

The economic recession has slowed demand for aggregates products and limited the rate of increase in average selling prices. As discussed previously, reduced volume has led to an underabsorption of fixed costs which negatively affected margins in 2002. Generally, a significant increase in costs is recoverable through a comparable increase in selling price. However, recent economic conditions, and their affect on the Corporation, have limited the Corporation's ability to recover significant cost increases.

Internal expansion and plant improvement projects, certain strategic but underperforming assets and the current economy, represent situations that are expected to show improvement in the future. Assuming a similar mix of operations, realization of efficiencies at expansion projects, the operational improvement of certain underperforming assets and any reasonable, sustained recovery in the economy, management expects its gross margin to improve. However, there can be no assurance that such events will occur.

***Structural Composite Products Business***

The Corporation, through its wholly owned subsidiary, Martin Marietta Composites, Inc. ("MMC"), has engaged in developmental activities related to composite technology since its initial purchase in 1995 from Lockheed Martin Corporation. MMC's fiber-reinforced polymer ("FRP") composite materials are manufactured from complex glass fabrics and polymer resins. The fabrics are folded and formed to the desired structural shape, impregnated with resins and drawn under heat and pressure through a heated die. This produces an extremely hard structural shape which is cut to the desired length. The component shapes are then assembled with adhesives to construct components for structural applications. MMC is targeting several industries for its FRP composite materials: infrastructure, which includes bridge decks; transportation, which includes specialty truck trailers and chassis, railcar components and dump beds; and construction, which includes wall panels, parking decks and heavy equipment components.

MMC's line of DuraSpan® bridge decks offers several advantages over bridge decks made of conventional materials including, lighter weight but high strength; rapid installation, which significantly reduces construction time and labor costs; and resistance to corrosion and fatigue, which results in a longer life expectancy. During 2002, bridge decks were installed in Pennsylvania and Ohio. The two bridge decks installed in Ohio represent part of an agreement for the fabrication of six new composite bridge decks for this state. To date, MMC has completed eighteen successful installations in eleven states. For 2003, the Corporation has been awarded projects in Washington and Oregon and expects to install composite decks in three European countries.

In 2001, the Corporation entered into a licensing agreement with Compositrailer n.v. of Belgium under which it will manufacture and market commercial specialty truck trailers in North America, utilizing fiber-reinforced composite materials. The initial trailer model will target market segments including municipal solid waste, recycling materials, wood chips and agriculture. Subsequently, prototypes and models are expected to be produced for platform, dump, and refrigerated trailers. Late in 2002, the Corporation also signed a licensing agreement related to a proprietary composite sandwich technology, which is expected to play an important role in the product line related to flat panel applications.

The Corporation recently entered into an agreement to open a 185,000 square foot facility in Sparta, North Carolina, which will represent the assembly and manufacturing hub for composite structures. Manufacturing at this facility is expected to commence in the second half of 2003 with potential expansion in 2004. The Corporation will continue research and development in areas of other composite applications.

The Corporation expects to ramp up its composite business during 2003, with 2004 being the first full year of business. The Corporation's objective over the next five to seven years, beginning in 2004, is to create a business with characteristics that include high organic growth rates, low capital intensity, noncyclicality based on diverse products and opportunities for substitution for existing structural materials. Although revenue has been insignificant to date and any start-up opportunity is subject to risks, given the size of the potential market and the diverse opportunities the Corporation is exploring, management's goal is to build a revenue base of $300 million to $500 million with fifteen percent margins based on earnings before interest and taxes.

**Discussion of Business Segments**

The Corporation conducts its operations through two reportable business segments: Aggregates and Magnesia Specialties. The Aggregates division is the second largest producer of construction aggregates in the United States. The Corporation's sales and earnings are predominantly derived from its Aggregates segment, which processes and sells granite, limestone, sand, gravel and other aggregates products for use primarily by commercial customers. The division's products are used principally in domestic construction of highways and other infrastructure projects and for commercial and residential buildings. The Aggregates division also includes the operations of its other construction materials businesses. These businesses, acquired through continued selective vertical integration by the Corporation, include primarily asphalt, ready mixed concrete and road paving operations. The Corporation's Magnesia Specialties division produces dolomitic lime used in domestic basic steel production and chemicals products used in domestic and foreign industrial, agricultural and environmental applications.

The Corporation's evaluation of performance and allocation of resources is based primarily on earnings from operations. Earnings from operations is net sales less cost of sales; selling, general and administrative expenses; and research and development expenses; and excludes interest expense and other income (expense). The accounting policies of the reportable segments are the same as those described in Note A to the audited consolidated financial statements on pages 14 through 16. Assets employed by segment include assets directly identified with those operations. Corporate headquarters' assets consist primarily of cash and cash equivalents, and property, plant and equipment for corporate operations, principally related to the new information systems. All debt, and the related interest expense, is held at corporate headquarters. Property additions include property, plant and equipment that has been purchased through acquisitions in the amount of $23,611,000 in 2002; $118,365,000 in 2001; and $15,325,000 in 2000.

The following tables display selected financial data for the Corporation's reportable business segments for each of the three years in the period ended December 31, 2002. The geographic divisions of the Aggregates division are aggregated for segment reporting as they meet the aggregation criteria prescribed by FAS 131.

***Selected Financial Data by Business Segment***

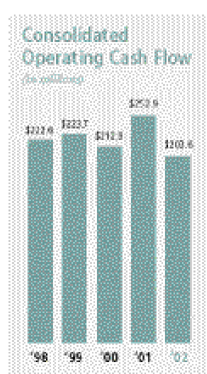
| *years ended December 31*<br>(add 000) | **2002** | **2001** | **2000** |
|---|---|---|---|
| **Net sales** | | | |
| Aggregates | **$1,422,673** | $1,406,179 | $1,202,581 |
| Magnesia Specialties | **74,428** | 99,512 | 130,419 |
| Total | **$1,497,101** | $1,505,691 | $1,333,000 |
| **Gross profit** | | | |
| Aggregates | **$ 279,632** | $ 289,805 | $ 276,640 |
| Magnesia Specialties | **11,262** | 13,945 | 26,931 |
| Total | **$ 290,894** | $ 303,750 | $ 303,571 |
| **Selling, general and administrative expenses** | | | |
| Aggregates | **$ 109,651** | $ 95,988 | $ 82,088 |
| Magnesia Specialties | **6,185** | 9,961 | 16,680 |
| Total | **$ 115,836** | $ 105,949 | $ 98,768 |
| **Earnings from operations** | | | |
| Aggregates | **$ 169,916** | $ 194,027 | $ 194,232 |
| Magnesia Specialties | **4,773** | 3,218 | 8,245 |
| Total | **$ 174,689** | $ 197,245 | $ 202,477 |
| **Assets employed** | | | |
| Aggregates | **$2,103,922** | $2,088,170 | $1,703,752 |
| Magnesia Specialties | **56,739** | 61,253 | 99,913 |
| Corporate headquarters | **97,869** | 75,157 | 37,774 |
| Total | **$2,258,530** | $2,224,580 | $1,841,439 |
| **Depreciation, depletion and amortization** | | | |

| | | | |
|---|---|---|---|
| Aggregates | **$ 128,078** | $ 145,488 | $ 125,697 |
| Magnesia Specialties | **5,179** | 6,390 | 8,532 |
| Corporate headquarters | **5,439** | 2,757 | 2,144 |
| Total | **$ 138,696** | $ 154,635 | $ 136,373 |
| **Property additions** | | | |
| Aggregates | **$ 162,116** | $ 287,954 | $ 174,797 |
| Magnesia Specialties | **2,007** | 2,315 | 6,817 |
| Corporate headquarters | **12,168** | 22,482 | 4,516 |
| Total | **$ 176,291** | $ 312,751 | $ 186,130 |

***Aggregates.*** The Aggregates division's net sales increased 1% to $1.423 billion for the year ended December 31, 2002, compared with the prior year's net sales. The division's operating earnings for 2002 were $169.9 million as compared to $194.0 million in the prior year. The "Results of Operations" section of this Management's Discussion and Analysis includes a discussion of the factors affecting the performance of the Aggregates business segment.

For the year ended December 31, 2001, the Aggregates division had net sales of $1.406 billion, which were $204 million, or 17%, higher than the 2000 net sales of $1.203 billion. The increase in net sales is due to the acquisition of Meridian Aggregates Company and 17 other businesses completed in 2001 and 2000. Additionally, pricing at heritage aggregates operations increased 2.6% in 2001. The division's operating earnings for 2001 were $194.0 million in 2001 as compared to $194.2 million in 2000. The Aggregates division's 2001 operating margin decreased, principally as a result of the recessionary economy, lower margins at Meridian and other recently acquired operations, and higher health and welfare costs.

***Magnesia Specialties.*** For the year ended December 31, 2002, the Magnesia Specialties division had net sales of $74.4 million, a decrease of $25.1 million, or 25%, from 2001 net sales of $99.5 million. The division's earnings from operations for 2002 of $4.8 million increased $1.6 million, or 48%, when compared to 2001 earnings from operations of $3.2 million. As expected, net sales for the division decreased, primarily due to the divestiture of the refractories business in May 2001. In 2001, the refractories business contributed $26.8 million to net sales. The increase in operating earnings resulted principally from lower fuel costs. Additionally, in 2001, the division incurred higher costs from the under-absorption of fixed costs as the division repositioned its Manistee, Michigan operating facility to focus on production of chemicals products.




**Consolidated Operating Cash Flow (in millions)**

| | |
|---|---|
| **2002** | **$203.6** |
| 2001 | $252.9 |
| 2000 | $212.9 |
| 1999 | $223.7 |
| 1998 | $222.6 |

Magnesia Specialties division's 2001 net sales of $99.5 million were 24% below the prior year's. The division's operating earnings for 2001 of $3.2 million were $5.0 million below the 2000 operating earnings. The decline in operating earnings resulted principally from higher energy-related costs for natural gas and the previously mentioned costs related to repositioning the Manistee, Michigan facility.

**Liquidity and Cash Flows**

***Operating Activities***

A primary source of the Corporation's liquidity during the past three years has been cash generated from its operating activities. Cash provided by its operations was $203.6 million in 2002, as compared to $252.9 million in 2001 and $212.9 million in 2000. These cash flows were derived, substantially, from net earnings before deduction of certain noncash charges for depreciation, depletion and amortization of its properties and intangible assets. Depreciation, depletion and amortization were as follow:

| *years ended December 31*<br>(in thousands) | 2002 | 2001 | 2000 |
|---|---|---|---|
| Depreciation | **$125,817** | $119,606 | $108,540 |
| Depletion | **6,109** | 6,036 | 4,681 |
| Amortization | **6,770** | 28,993 | 23,152 |
| Total | **$138,696** | $154,635 | $136,373 |

The decrease in amortization expense in 2002 resulted from the nonamortization of goodwill provision of FAS 142.

The decrease in net cash provided by operating activities in 2002 as compared to 2001 of $49.4 million is principally due to lower earnings before depreciation, depletion and amortization. Additionally, a higher percentage of earnings during 2002 related to the divestitures of assets. Further, in 2002, there was a greater increase in accounts receivable as customers generally have taken longer to pay outstanding accounts in the current economic environment. Accounts payable decreased in 2002 as compared to an increase in 2001. These factors were offset somewhat by a decrease in cash paid for taxes in 2002 as compared to 2001.

The increase in cash provided by operating activities in 2001 as compared to 2000 of $40.1 million is, among other things, due to a reduction in the cash payment of taxes; 2001 accruals for amounts payable; and an increase in 2000 of other amounts receivable.

### *Investing Activities*

Net cash used for investing activities was $102.9 million in 2002, a decrease of $267.3 million from $370.2 million reported in 2001. In 2002, the Corporation used $48.0 million for the purchase of six Aggregates division-related acquisitions, compared with $221.8 million in 2001 for the purchase of Meridian and twelve other Aggregates division-related acquisitions, and $39.3 million in 2000 for the purchase of five Aggregates division-related acquisitions. Additions to property, plant and equipment, excluding acquisitions, of $152.7 million were 21% lower in 2002, compared with 2001. The decrease from 2001 is due to the completion of several large capital expansion projects. Additionally, the Corporation has increased the amount of operating leases it has entered into, primarily for mobile equipment, in the ordinary course of business. Comparable full-year capital expenditures were $194.4 million in 2001 and $170.8 million in 2000. The Corporation's acquisition and capital expenditures reflect planned strategic growth and capital spending activities that are consistent with management's strategy for investment and expansion within the consolidating aggregates industry. Spending for property, plant and equipment, exclusive of acquisitions and property and equipment acquired under operating leases, is expected to be $135 million to $140 million in 2003. Divestitures and other investing activities included, among other things, the sale of surplus land and equipment; in 2002, the sale of several aggregates operations, primarily locations in the Columbus, Ohio area and the Spotsylvania and Culpepper, Virginia areas; in 2001, the sale of the refractories business; and in 2000, the Corporation's additional investment in Industrial Microwave Systems.

### *Financing Activities*

Approximately $102.3 million of cash was used for financing activities during 2002, compared with $123.4 million of cash provided by and $19.3 million of cash used for financing activities in 2001 and 2000, respectively. The Corporation repaid indebtedness of $74.7 million in 2002, excluding $7.5 million assumed in connection with acquisitions completed during the year and the impact of the interest rate swaps. The Corporation incurred indebtedness of $149.9 million 2001, excluding $5.1 million assumed in connection with acquisitions completed during the year; and $4.0 million in 2000, excluding $1.0 million assumed in connection with acquisitions completed during the year. During 2001, $2.2 million of cash was used in connection with the issuance of $250 million of notes issued in March 2001.

In 2002, the Board of Directors approved total cash dividends on the Corporation's common stock of $0.58 a share. Regular quarterly dividends were authorized and paid by the Corporation at a rate of $0.14 a share for the first and second quarters and at a rate of $0.15 a share for the third and fourth quarters. During 2002, the Corporation issued stock under its stock-based award plans, providing $0.6 million in cash. Comparable cash provided by issuance of common stock was $2.6 million and $2.0 million in 2001 and 2000, respectively. Further, during 2002 and 2001, the Corporation issued approximately 244,300 and 1,684,400 shares of common stock, respectively, for acquisitions. The Corporation did not issue any shares of common stock for acquisitions in 2000. There were no shares repurchased during the three year period ended 2002.

### **Capital Structure and Resources**

The Corporation's internal cash flows and availability of financing resources, including its access to capital markets, both debt and equity, and its commercial paper program and revolving credit agreement, are expected to continue to be sufficient to provide the capital resources necessary to support anticipated operating needs, to cover debt service requirements, to meet capital expenditures and discretionary investment needs and to allow for payment of dividends for the foreseeable future. The Corporation's ability to borrow or issue securities is dependent upon, among other things, prevailing economic, financial and market conditions.

The Corporation's senior unsecured debt has been rated "A-" by Standard & Poor's and "A3" by Moody's. The Corporation's $275 million commercial paper program is rated "A-2" by Standard & Poor's and "P-2" by Moody's. In July 2001, Standard & Poor's revised its outlook for the Corporation to negative from stable while reaffirming its ratings. The outlook revision reflects Standard & Poor's belief that the Corporation's acquisition activity could make it more difficult for the Corporation to restore its credit ratios to certain levels. While management believes its credit ratings will remain at an investment-grade level, no assurance can be given that these ratings will remain at the above-mentioned levels.

The Corporation is authorized to repurchase up to approximately 7,000,000 shares of its common stock for issuance under its stock award plans.

***Contractual Obligations***

Long-term debt, including current maturities of long-term debt and commercial paper, decreased to $744.9 million at the end of 2002, from $801.9 million at the end of 2001. The fair value of the interest rate swaps, $9.8 million, is included in the 2002 long-term debt balance. Total debt represented approximately 41% of total capitalization at December 31, 2002, compared with 44% at December 31, 2001. The Corporation's debt at December 31, 2002 was principally in the form of publicly issued long-term, fixed-rate notes and debentures. Shareholders' equity grew to $1.083 billion at December 31, 2002 from $1.022 billion at December 31, 2001.

The Corporation has a revolving five-year credit facility, syndicated through a group of commercial domestic and foreign banks, which supports a United States commercial paper program. The five-year agreement expires in August 2006. In 2002, the Corporation amended the five-year facility by increasing the available credit from $225 million to $275 million. The Corporation did not renew the 364-day $225 million revolving credit agreement that expired in August 2002. Accordingly, the Corporation also reduced its commercial paper program facility from $450 million to $275 million (see Note G to the audited consolidated financial statements on pages 19 and 20).

No borrowings were outstanding under the revolving credit agreement at December 31, 2002. However, the credit agreement supports commercial paper borrowings of $20 million outstanding at December 31, 2002, which has been classified as long-term debt on the Corporation's consolidated balance sheet. At December 31, 2002, $255 million was available under the Corporation's revolving credit agreement.

In May 2002, the Corporation entered into interest rate swap agreements related to $100 million of the $200 million in principal amount of 5.875% Notes due in 2008. The Corporation will receive a fixed annual interest rate of 5.875% and pay a variable annual interest rate based on six-month LIBOR plus an average of 0.235%. The swap agreements terminate concurrently with the maturity of the Notes. The Corporation is required to record the fair value of the swap agreements and the change in the fair value of the related Notes in its consolidated financial statements. In accordance with accounting guidance, no net gain or loss is recorded for the change in fair values. At December 31, 2002, the fair value of the swap agreements was approximately $9.8 million.

In connection with normal, ongoing operations, the Corporation enters into leases for property, plant and equipment and royalty commitments principally associated with leased land. Additionally, the Corporation enters into equipment rentals to meet shorter-term, nonrecurring and intermittent needs. Amounts due under operating leases and royalty agreements are expensed in the period incurred. Management anticipates that during 2003 the Corporation will enter into additional operating leases for certain mobile and other equipment, as well as royalty agreements for land and mineral reserves.

The current volatility in the economy and the resulting adverse effect on investment returns on the assets invested in the retirement benefit fund in 2002 have resulted in a required cash contribution of approximately $11.1 million in 2003.

The Corporation is a minority member of three limited liability corporations ("LLCs") whereby the majority members are paid preferred returns from the profits of the underlying businesses. The Corporation, in January 2003, purchased the remaining interest in one of these LLCs and intends to purchase the remaining interest in a second LLC prior to the end of 2003, both for approximately $14.5 million.

The Corporation's contractual commitments for debt, excluding commercial paper and the swap agreements; minimum lease and royalty commitments for all noncancelable operating leases and royalty agreements; pension contributions; and the purchase of the remaining interests of two LLCs as of December 31, 2002, are as follow:

| (add 000) | Total | < 1 yr. | 1-3 yrs. | 3-5 yrs. | > 5 yrs. |
|---|---|---|---|---|---|
| Long-term debt | $715,039 | $11,389 | $ 1,229 | $126,276 | $576,145 |
| Operating leases | 113,595 | 22,403 | 38,060 | 32,413 | 20,719 |
| Royalty agreements | 58,339 | 5,761 | 9,875 | 8,034 | 34,669 |
| Pension contributions | 11,084 | 11,084 | — | — | — |
| Purchase of LLCs remaining interests | 14,456 | 14,456 | — | — | — |
| Total | $912,513 | $65,093 | $49,164 | $166,723 | $631,533 |

Notes A, G, J and L to the audited consolidated financial statements on pages 14 through 16; 19 and 20; 21 through 23; and 24 and 25, respectively, contain additional information regarding these commitments and should be read in conjunction with this table.

***Contingent Liabilities and Commitments***

The Corporation has entered into standby letter of credit agreements relating to workers' compensation and automobile and general liability self-insurance. On December 31, 2002, the Corporation had contingent liabilities under these outstanding letters of credit of approximately $17.2 million.

In the normal course of business, the Corporation is contingently liable for $155.1 million in surety bonds required by certain states and municipalities and their related agencies. The bonds are principally for certain construction contracts, reclamation obligations and mining permits. Three of these bonds, totaling $56.6 million, or 37% of all outstanding surety bonds, relate to specific performance for road projects currently underway. The Corporation has indemnified the underwriting insurance company against any exposure under the surety bonds. In the Corporation's past experience, no material claims have been made against these financial instruments.

The Corporation, through its Magnesia Specialties division, is a 50% member of a limited liability company. Each of the two members of the limited liability company has guaranteed 50% of its debt, each up to a maximum of $7.5 million, none of which was outstanding at December 31, 2002. In connection with the limited liability company, Magnesia Specialties entered into a long-term supply agreement under which it will supply processed brine to the other member at a specified price.

The Corporation has a certain acquisition related contingent lease obligation of approximately $6 million.

**New Accounting Standards**

Effective January 1, 2002, the Corporation adopted FAS 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are tested annually for impairment. FAS 142 provides new measurement techniques for evaluating the recoverability of such assets. Other intangible assets, which consist primarily of contractual agreements, continue to be amortized over their related contractual terms. In connection with the adoption of FAS 142, the Corporation recorded an impairment charge of $11.5 million as the cumulative effect of a change in accounting principle (see Note B to the audited consolidated financial statements on pages 17 and 18).

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"). FAS 144 superceded Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* and Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.* FAS 144 establishes criteria for the recognition and measurement of an impairment loss for long-lived assets to be held and used, and defines classification of continuing and discontinued operations. FAS 144 also requires that assets held for sale be measured at the lower of their carrying amount or fair value less cost to sell. The adoption of FAS 144 had no impact on the Corporation's net earnings or financial position.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* ("FAS 148"). FAS 148 provides transition guidance for companies that adopt the fair value method for stock-based employee compensation and has certain disclosure provisions that are effective as of December 31, 2002. Due to the Corporation continuing to apply the intrinsic value provisions of APB opinion No. 25, *Accounting for Stock Issued to Employees*, the adoption of FAS 148 did not have any impact on its earnings or financial position.

In June 2001, the FASB issued FAS 143, which requires recognition of the fair value of a liability representing an asset retirement obligation in the period in which it is incurred. The asset retirement obligation is recorded at the acquisition date of a long-lived tangible asset if the fair value can be reasonably estimated. A corresponding amount is capitalized as part of the asset's carrying amount. The Corporation incurs reclamation liabilities as part of its aggregates mining process. FAS 143 is effective the first quarter of 2003 for the Corporation. The analysis of the impact of the adoption of FAS 143 is currently under review by senior management and is subject to change. However, the Corporation expects the cumulative effect of the adoption will not exceed $20 million on a pretax basis.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Obligations Associated with Disposal Activities* ("FAS 146"). FAS 146 requires that a liability for a disposal obligation should be recognized and measured at its fair value when it is incurred, including severance pay and other obligations. FAS 146 is effective for disposal activities initiated after December 31, 2002. The impact of the adoption of FAS 146 is not expected to be material to the Corporation's net earnings or financial position.

**Quantitative and Qualitative Disclosures About Market Risk**

As discussed earlier, the Corporation's operations are highly dependent upon the interest rate-sensitive construction and steelmaking industries. Consequently, these marketplaces could experience lower levels of economic activity in an environment of rising interest rates or escalating costs (see "Business Environment" on pages 34 through 43). Aside from these inherent risks from within its operations, the Corporation's earnings are affected also by changes in short-term interest rates, as a result of its temporary cash investments, including overnight investments in Eurodollars; interest rate swaps; outstanding commercial paper obligations; and defined benefit pension plans.

***Interest Rate Swaps.*** In May 2002, the Corporation entered into interest rate swap agreements (the "Swaps") for interest related to $100 million of the $200 million Notes due in 2008 to increase the percentage of its long-term debt that bears interest at a variable rate. The Swaps are fair value hedges designed to hedge against changes in the fair value of the Notes due to changes in LIBOR, the designated benchmark interest rate. The terms of the Swaps include the Corporation receiving a fixed annual interest rate of 5.875% and paying a variable annual interest rate based on six-month LIBOR plus an average of 0.235%.

The Corporation is required to record the fair value of the Swaps and the change in the fair value of the related Notes in its consolidated financial statements. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* no net gain or loss is recorded for the changes in fair values. At December 31, 2002, the fair value of the Swaps is $9.8 million.

As a result of the Swaps, the Corporation has increased interest rate risk associated with changes in the LIBOR rate. The hypothetical change in interest rates of 1% would change annual interest expense by $1 million and also change the fair value of the debt covered by the Swaps by approximately $6 million.

***Commercial Paper Obligations.*** The Corporation has a $275 million commercial paper program in which borrowings bear interest at a variable rate based on LIBOR. At December 31, 2002, there were outstanding commercial paper borrowings of $20 million. Due to the borrowings bearing interest at a variable rate, the Corporation has interest rate risk. The effect of a hypothetical increase in interest rates of 1% on borrowings of $20 million would be an increase of $200,000 in interest expense on an annual basis.

***Pension Expense.*** The Corporation sponsors noncontributory defined benefit pension plans which cover substantially all employees. Therefore, the Corporation's results of operations are affected by its pension expense. Assumptions that affect this expense include the discount rate and the expected long-term rate of return on assets. The selection of the discount rate is based on the yields on high quality, fixed income investments. The selection of the expected long-term rate of return on assets is based on general market conditions and related returns on a portfolio of investments. Therefore, the Corporation has interest rate risk associated with these factors. The impact of hypothetical changes in these assumptions on the Corporation's annual pension expense is discussed in the "Application of Critical Accounting Policies" section on pages 26 through 31.

***Aggregate Interest Rate Risk.*** The pension expense for 2003 is calculated based on assumptions selected at December 31, 2002. Therefore, the Corporation's interest rate risk in 2003 is primarily limited to the potential effect related to the interest rate swaps and outstanding commercial paper. Assuming outstanding commercial paper borrowings of $20 million and including the impact related to the Swaps, the aggregate effect of a hypothetical 1% increase in interest rates would increase interest expense and decrease pretax earnings by $1.2 million.

**Forward-looking Statements — Safe Harbor Provisions**

This Annual Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors are cautioned that all forward-looking statements involve risks and uncertainties, and are based on assumptions

that the Corporation believes in good faith are reasonable, but which may be materially different from actual results.

Factors that the Corporation currently believes could cause its actual results to differ materially from those in the forward-looking statements include, but are not limited to, business and economic conditions and trends in the markets the Corporation serves; the level and timing of federal and state transportation funding; levels of construction spending in the markets the Corporation serves; unfavorable weather conditions; ability to recognize increased sales and quantifiable savings from internal expansion projects; ability to successfully integrate acquisitions quickly and in a cost-effective manner and achieve anticipated profitability; fuel costs; transportation costs; competition from new or existing competitors; successful development and implementation of the structural composite technological process and strategic products for specific market segments; unanticipated costs or other adverse effects associated with structural composite revenue levels, product pricing, and cost associated with manufacturing ramp-up; the financial strength of the structural composites customers and suppliers; business and economic conditions and trends in the trucking and composites industries in various geographic regions; possible disruption in commercial activities related to terrorist activity and armed conflict, such as reduced end-user purchases relative to expectations; the factors identified in the "Outlook" section on pages 43 through 45 in this Annual Report; and the timing and occurrence of events that may be subject to circumstances beyond the Corporation's control.

Investors are also cautioned that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E. These forward-looking statements are made as of the date hereof based on management's current expectations, and the Corporation does not undertake an obligation to update such statements, whether as a result of new information, future events or otherwise.

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Corporation's Securities and Exchange Commission filings, including, but not limited to, the discussion of "Competition" in the Corporation's Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 26 through 51 of the 2002 Annual Report and "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 14 through 16 and 25, respectively, of the Audited Consolidated Financial Statements included in the 2002 Annual Report.

*unaudited*

*(add 000, except per share)*

| | Net Sales[1] | | Gross Profit | | Earnings before Cumulative Effect of Accounting Change | | Net Earnings | |
|---|---|---|---|---|---|---|---|---|
| **Quarter** | **2002** | **2001** | **2002** | **2001** | **2002[3]** | **2001[5]** | **2002[3,4]** | **2001[5]** |
| First | **$ 289,931** | $ 263,658 | **$ 23,897** | $ 27,164 | **$(10,549)** | $ (4,652) | **$(22,059)** | $ (4,652) |
| Second | **424,816** | 420,218 | **111,194** | 93,461 | **53,362** | 39,002 | **53,362** | 39,002 |
| Third | **429,143** | 437,014 | **98,130** | 105,882 | **38,925** | 45,917 | **38,925** | 45,917 |
| Fourth | **353,211** | 384,801 | **57,673** | 77,243 | **16,077** | 25,095 | **16,077** | 25,095 |
| Totals | **$1,497,101** | $1,505,691 | **$290,894** | $303,750 | **$ 97,815** | $105,362 | **$ 86,305** | $105,362 |

| | Per Common Share | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Stock Prices | | | |
| | Basic Earnings[2] | | Diluted Earnings[2] | | Dividends Paid | | High | Low | High | Low |
| **Quarter** | **2002[3,4]** | **2001[5]** | **2002[3,4]** | **2001[5]** | **2002** | **2001** | **2002** | | **2001** | |
| First | **$(0.45)** | $(0.10) | **$(0.45)** | $(0.10) | **$0.14** | $0.14 | **$49.33** | **$39.02** | $47.45 | $38.00 |
| Second | **1.10** | 0.82 | **1.09** | 0.82 | **0.14** | 0.14 | **$43.60** | **$37.15** | $51.60 | $41.95 |
| Third | **0.80** | 0.95 | **0.80** | 0.95 | **0.15** | 0.14 | **$39.10** | **$32.33** | $50.39 | $34.75 |
| Fourth | **0.33** | 0.52 | **0.33** | 0.52 | **0.15** | 0.14 | **$32.95** | **$27.30** | $46.60 | $37.90 |
| Totals | **$ 1.77** | $ 2.20 | **$ 1.77** | $ 2.19 | **$0.58** | $0.56 | | | | |

[1] Net sales exclude freight and delivery revenues; such revenues are included in total revenues in accordance with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs,* on the Consolidated Statement of Earnings on page 10.

[2] The sum of per-share earnings by quarter may not equal earnings per share for the year due to changes in average share calculations. This is in accordance with prescribed reporting requirements.

[3] Net earnings and basic and diluted earnings per common share in the second quarter include recognition of gains on the divestitures of quarries in the Columbus, Ohio area and the Culpepper and Fredericksburg, Virginia areas.

[4] Net earnings and basic and diluted earnings per common share in the first quarter differ from amounts previously reported in the Form 10-Q for the quarter ended March 31, 2002. The difference results from the $11,510,000 impairment charge, or $0.24 per basic share and $0.23 per diluted share, recorded during the fourth quarter, retroactive to January 1, 2002, for the cumulative effect of a change in accounting principle related to the adoption of FAS 142.

[5] Net earnings and basic and diluted earnings per common share in the second quarter include recognition of a gain on the divestiture of certain refractories-related assets of Magnesia Specialties.

| (add 000, except per share) | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Consolidated Operating Results** | | | | | |
| Net sales | **$1,497,101** | $1,505,691 | $1,333,000 | $1,258,827 | $1,057,691 |
| Freight and delivery revenues | **195,336** | 212,359 | 184,517 | 175,292 | 143,805 |
| Total revenues | **1,692,437** | 1,718,050 | 1,517,517 | 1,434,119 | 1,201,496 |
| Cost of sales, other costs and expenses | **1,322,412** | 1,308,446 | 1,130,523 | 1,043,538 | 861,137 |
| Freight and delivery costs | **195,336** | 212,359 | 184,517 | 175,292 | 143,805 |
| Cost of operations | **1,517,748** | 1,520,805 | 1,315,040 | 1,218,830 | 1,004,942 |
| **Earnings from Operations** | **174,689** | 197,245 | 202,477 | 215,289 | 196,554 |
| Interest expense | **44,028** | 46,792 | 41,895 | 39,411 | 23,759 |
| Other income and (expenses), net | **13,609** | 7,986 | 8,239 | 18,435 | 1,347 |
| Earnings before taxes on income and cumulative effect of change in accounting principle | **144,270** | 158,439 | 168,821 | 194,313 | 174,142 |
| Taxes on income | **46,455** | 53,077 | 56,794 | 68,532 | 58,529 |
| **Earnings before cumulative effect of change in accounting principle** | **97,815** | 105,362 | 112,027 | 125,781 | 115,613 |
| Cumulative effect of change in accounting for intangible assets | **(11,510)** | — | — | — | — |
| **Net Earnings** | **$ 86,305** | $ 105,362 | $ 112,027 | $ 125,781 | $ 115,613 |
| **Basic Earnings Per Common Share:** | | | | | |
| Earnings before cumulative effect of change in accounting principle | **$ 2.01** | $ 2.20 | $ 2.40 | $ 2.70 | $ 2.49 |
| Cumulative effect of change in accounting for intangible assets | **(0.24)** | — | — | — | — |
| **Basic Earnings Per Common Share** | **$ 1.77** | $ 2.20 | $ 2.40 | $ 2.70 | $ 2.49 |
| **Diluted Earnings Per Common Share:** | | | | | |
| Earnings before cumulative effect of change in accounting principle | **$ 2.00** | $ 2.19 | $ 2.39 | $ 2.68 | $ 2.48 |
| Cumulative effect of change in accounting for intangible assets | **(0.23)** | — | — | — | — |
| **Diluted Earnings Per Common Share** | **$ 1.77** | $ 2.19 | $ 2.39 | $ 2.68 | $ 2.48 |
| **Pro forma earnings, assuming nonamortization of goodwill provision of FAS 142 adopted on January 1, 1998:** | | | | | |
| **Net earnings** | | $ 124,612 | $ 127,094 | $ 139,635 | $ 122,793 |
| **Earnings per diluted share** | | $ 2.59 | $ 2.71 | $ 2.97 | $ 2.63 |
| **Cash Dividends Per Common Share** | **$ 0.58** | $ 0.56 | $ 0.54 | $ 0.52 | $ 0.50 |
| **Condensed Consolidated Balance Sheet Data** | | | | | |
| Current deferred income tax benefits | **$ 21,387** | $ 19,696 | $ 16,750 | $ 21,899 | $ 18,978 |
| Current assets — other | **504,762** | 476,536 | 408,251 | 381,466 | 350,410 |
| Property, plant and equipment, net | **1,067,576** | 1,082,189 | 914,072 | 846,993 | 777,528 |
| Goodwill, net | **577,449** | 571,186 | 374,994 | 375,327 | 348,026 |
| Other intangibles, net | **31,972** | 35,782 | 34,462 | 31,497 | 27,952 |
| Other noncurrent assets | **55,384** | 39,191 | 92,910 | 85,392 | 65,695 |
| **Total** | **$2,258,530** | $2,224,580 | $1,841,439 | $1,742,574 | $1,588,589 |
| Current liabilities — other | **$ 186,438** | $ 187,547 | $ 143,958 | $ 142,974 | $ 136,576 |
| Current maturities of long-term debt and commercial paper | **11,389** | 4,490 | 45,155 | 39,722 | 15,657 |
| Long-term debt and commercial paper | **733,471** | 797,385 | 601,580 | 602,011 | 602,113 |

| | | | | | |
|---|---|---|---|---|---|
| Pension and postretirement benefits | **101,796** | 81,650 | 84,950 | 85,839 | 76,209 |
| Noncurrent deferred income taxes | **108,496** | 102,664 | 86,563 | 81,857 | 75,623 |
| Other noncurrent liabilities | **33,930** | 28,632 | 15,947 | 16,165 | 14,712 |
| Shareholders' equity | **1,083,010** | 1,022,212 | 863,286 | 774,006 | 667,699 |
| **Total** | **$2,258,530** | $2,224,580 | $1,841,439 | $1,742,574 | $1,588,589 |

**Data for “2002 Aggregates Division Net Sales by State of Destination” graph on page 36**

**Aggregates Production and Sales**

| Location | % of Net Sales |
|---|---|
| Alabama | 3% |
| Arkansas | 6% |
| Bahamas | <1% |
| California | <1% |
| Florida | 4% |
| Georgia | 6% |
| Illinois | <1% |
| Indiana | 4% |
| Iowa | 6% |
| Kansas | 2% |
| Kentucky | <1% |
| Louisiana | 5% |
| Maryland | <1% |
| Minnesota | 1% |
| Mississippi | 2% |
| Missouri | 2% |
| Nebraska | 1% |
| Nevada | <1% |
| North Carolina | 17% |
| Nova Scotia | <1% |
| Ohio | 5% |
| Oklahoma | 3% |
| South Carolina | 4% |
| Tennessee | 1% |
| Texas | 19% |
| Virginia | 2% |
| Washington | <1% |
| West Virginia | 2% |
| Wisconsin | <1% |
| Wyoming | 1% |

**Aggregates Sales**

| Location | % of Net Sales |
|---|---|
| Colorado | <1% |
| Montana | <1% |
| New Jersey | <1% |
| Pennsylvania | <1% |

**EXHIBIT 21.01**

## SUBSIDIARIES OF MARTIN MARIETTA MATERIALS, INC.
## AS OF MARCH 20, 2003

| Name of Subsidiary | Percent Owned |
|---|---|
| Alamo Gulf Coast Railroad Company, a Texas corporation | 99.5%[1] |
| Alamo North Texas Railroad Company, a Texas corporation | 99.5%[2] |
| American Aggregates Corporation, a Delaware corporation | 100% |
| American Stone Company, a North Carolina corporation | 50%[3] |
| B&B Materials and Hauling, Inc., a Texas corporation | 100%[4] |
| Bahama Rock Limited, a Bahamas corporation | 100% |
| Central Rock Company, a North Carolina corporation | 100% |
| City Wide Rock & Excavating Co., a Nebraska corporation | 100% |
| Fredonia Valley Railroad, Inc., a Delaware corporation | 100% |
| Granite Canyon Quarry, a Wyoming joint venture | 51%[5] |
| Harding Street Corporation, a Delaware corporation | 100% |
| J.W. Jones Materials, LLC, a Delaware limited liability company | 100% |
| Martin Marietta Composites, Inc., a Delaware corporation | 100% |
| Martin Marietta Equipment Company, Inc., a Delaware corporation | 100% |
| Martin Marietta Equipment Leasing, LLC, a Delaware limited liability company | 100% |

[1] Alamo Gulf Coast Railroad Company is owned by Martin Marietta Materials Southwest, Ltd. (99.5%) and certain individuals (0.5%).

[2] Alamo North Texas Railroad Company is owned by Martin Marietta Materials Southwest, Ltd. (99.5%) and certain individuals (0.5%).

[3] Central Rock Company, a wholly-owned subsidiary of Martin Marietta Materials, Inc., owns a 50% interest in American Stone Company.

[4] B&B Materials and Hauling, Inc. is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

[5] Meridian Granite Company, an indirect wholly-owned subsidiary of Martin Marietta Materials, Inc., owns a 51% interest in Granite Canyon Quarry.

| | |
|---|---|
| Martin Marietta Magnesia Specialties, LLC, a Delaware limited liability company | 100% |
| Martin Marietta Materials Canada Limited, a Nova Scotia, Canada corporation | 100% |
| Martin Marietta Materials of Alabama, LLC, a Delaware limited liability company | 100%[6] |
| Martin Marietta Materials of Florida, LLC, a Delaware limited liability company | 100% |
| Martin Marietta Materials of Louisiana, Inc., a Delaware corporation | 100% |
| Martin Marietta Materials of Missouri, Inc., a Delaware corporation | 100% |
| Martin Marietta Materials Real Estate Investments, Inc., a Delaware corporation | 100% |
| Martin Marietta Materials Southwest, Ltd., a Texas limited partnership | 100%[7] |
| Martin Marietta Materials of Tennessee, Inc., a Delaware corporation | 100% |
| Material Producers, Inc., an Oklahoma corporation | 100%[8] |
| Menefee Crushed Stone Company, a Tennessee corporation | 100%[9] |
| Meridian Aggregates Company, a Limited Partnership, a Delaware limited partnership | 98%[10] |
| Meridian Aggregates Investments, LLC, a Delaware limited liability company | 100%[11] |
| Meridian Granite Company, a Delaware corporation | 100%[12] |
| Mid-State Construction & Materials, Inc., an Arkansas corporation | 100%[13] |
| Norman Asphalt Co., an Oklahoma corporation | 100%[14] |

[6] Martin Marietta Materials of Alabama, LLC is a wholly-owned subsidiary of American Aggregates Corporation.

[7] Martin Marietta Materials Southwest, Ltd. is owned 2% by Southwest I, LLC and 98% by Southwest II, LLC.

[8] Material Producers, Inc. is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

[9] Menefee Crushed Stone Company is a wholly-owned subsidiary of Martin Marietta Materials of Tennessee, Inc.

[10] Meridian Aggregates Company, a Limited Partnership is owned 98% by Meridian Aggregates Investments, LLC. The remaining 2% is owned by Martin Marietta Materials, Inc.

[11] Meridian Aggregates Investments, LLC is owned 99% by Martin Marietta Materials, Inc. and 1% by Martin Marietta Materials Real Estate Investments, Inc.

[12] Meridian Granite Company is a wholly-owned subsidiary of Meridian Aggregates Company, a Limited Partnership

[13] Mid-State Construction & Materials, Inc. is a wholly-owned subsidiary of Martin Marietta Materials of Arkansas, Inc.

[14] Norman Asphalt Co. is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

| | |
|---|---|
| OK Sand & Gravel, LLC, a Delaware limited liability company | 99%[15] |
| Quarry, Inc., a Texas corporation | 100%[16] |
| R&S Sand & Gravel, LLC, a Delaware limited liability company | 100%[17] |
| Rebco Trucking Company, Inc., a Louisiana corporation | 100%[18] |
| Rebel Sand & Gravel Company, Inc., a Louisiana corporation | 100%[19] |
| Redland Development Company, a Texas corporation | 100%[20] |
| Redland Park Development Limited Partnership, a Texas limited partnership | 100%[21] |
| Redland Stone Development Company, a Texas corporation | 100%[22] |
| Red River Trucking Company, a Delaware corporation | 100%[23] |
| Rocky Ridge, Inc., a Nevada corporation | 100% |
| Sha-Neva, Inc., a Nevada corporation | 100% |
| Southwest I, LLC, a Delaware limited liability company | 100% |
| Southwest II, LLC, a Delaware limited liability company | 100% |
| Superior Stone Company, a North Carolina corporation | 100% |
| Theodore Holding, LLC, a Delaware limited liability company | 60.7%[24] |
| Valley Stone LLC, a Virginia limited liability company | 50%[25] |

[15] Martin Marietta Materials, Inc. is the manager of and owns a 99% interest in OK Sand & Gravel, LLC.

[16] Quarry, Inc. is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

[17] Martin Marietta Materials, Inc. is the manager of and owns a 90% interest in R&S Sand & Gravel, LLC. The other 10% is owned by Harding Street Corporation, a wholly-owned subsidiary of Martin Marietta Materials, Inc.

[18] Rebco Trucking Company, Inc. is a wholly-owned subsidiary of Meridian Aggregates Company, a Limited Partnership.

[19] Rebel Sand & Gravel Company, Inc. is a wholly-owned subsidiary of Meridian Aggregates Company, a Limited Partnership.

[20] Redland Development Company is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

[21] Redland Park Development Limited Partnership is owned 100% by Martin Marietta Materials Southwest, Ltd. directly and through its subsidiaries.

[22] Redland Stone Development Company is a wholly-owned subsidiary of Martin Marietta Materials Southwest, Ltd.

[23] Red River Trucking Company is a wholly-owned subsidiary of Meridian Aggregates Company, a Limited Partnership.

[24] Superior Stone Company, a wholly-owned subsidiary of Martin Marietta Materials, Inc., is the manager of and owns a 60.7% interest in Theodore Holding, LLC.

[25] Martin Marietta Materials, Inc. is the manager of and owns a 50% interest in Valley Stone LLC.

**EXHIBIT 23.01**

**CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Martin Marietta Materials, Inc., of our report dated January 27, 2003 included in the 2002 Annual Report to Shareholders of Martin Marietta Materials, Inc. and subsidiaries.

Our audit also included the financial statement schedule of Martin Marietta Materials, Inc. and subsidiaries listed in Item 15(d). This schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-85608) pertaining to the Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors; Registration Statement (Form S-8 No. 33-83516) pertaining to the Martin Marietta Materials, Inc. Omnibus Securities Award Plan, as amended; in the Registration Statement (Form S-8 No. 333-15429) pertaining to the Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors, Martin Marietta Materials, Inc. Performance Sharing Plan and the Martin Marietta Materials, Inc. Savings and Investment Plan for Hourly Employees; in the Registration Statement (Form S-8 No. 333-79039) pertaining to the Martin Marietta Materials, Inc. Stock-Based Award Plan, as amended; and in the Registration Statement (Form S-8 No. 333-37886) pertaining to the Martin Marietta Materials, Inc. Southwest Division 401(k) Plan, of our report dated January 27, 2003, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Martin Marietta Materials, Inc., for the year ended December 31, 2002.

ERNST & YOUNG LLP

Raleigh, North Carolina
March 24, 2003

**EXHIBIT 99.01**

**Written Statement Pursuant to 18 U.S.C. 1350,**
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the 2002 Annual Report on Form 10-K (the “Report”) of Martin Marietta Materials, Inc. (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Stephen P. Zelnak, Jr., the Chief Executive Officer of the Registrant certify, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Stephen P. Zelnak, Jr.

Stephen P. Zelnak, Jr.
Chief Executive Officer

Date: March 27, 2003

A signed original of this written statement required by Section 906 has been provided to Martin Marietta Materials, Inc. and will be retained by Martin Marietta Materials, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 99.02**

**Written Statement Pursuant to 18 U.S.C. 1350,**
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the 2002 Annual Report on Form 10-K (the “Report”) of Martin Marietta Materials, Inc. (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Janice K. Henry, the Chief Financial Officer of the Registrant certify, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Janice K. Henry

Janice K. Henry
Chief Financial Officer

Date: March 27, 2003

A signed original of this written statement required by Section 906 has been provided to Martin Marietta Materials, Inc. and will be retained by Martin Marietta Materials, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.