



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2003**

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**  
(State or other jurisdiction of  
incorporation or organization)

**56-1848578**  
(I.R.S. employer  
identification no.)

**2710 Wycliff Road, Raleigh, North Carolina**  
(Address of principal executive offices)

**27607-3033**  
(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
<b>Common Stock (par value \$.01 per share) (including rights attached thereto)</b>	<b>New York Stock Exchange</b>

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 [  ] 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 [  ] No [  ]

The aggregate market value of voting stock (based on the closing price on the New York Stock Exchange on June 30, 2003 as published in the Wall Street Journal) held by non-affiliates of the Company was \$962,563,747.27. 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 10, 2004 was as follows:

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Martin Marietta Materials, Inc. 2004 Proxy Statement are incorporated by reference into Part III.

Portions of the Martin Marietta Materials, Inc. 2003 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

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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, and is developing structural composite products for use in a wide variety of industries. In 2003, the Company’s aggregates segment accounted for 94% of the Company’s total net sales, and the Company’s specialty products segment accounted for 6% 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 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 ("Magnesia Specialties"), sold certain assets related to the refractories portion of its Magnesia Specialties 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 at market rates principally from the Manistee, Michigan plant of Magnesia Specialties for a period of time following the sale. This agreement ended in 2002. The sale of Magnesia Specialties' refractories business lessened the dependence of the Magnesia Specialties business on the steel industry.

In 2002, the Company completed a number of sales of nonstrategic operations in its Aggregates division, including the sale of facilities in Illinois, Iowa, Ohio, Oklahoma, Tennessee, and Virginia. In 2003, the Company continued these sales of nonstrategic operations, including the sale of facilities in Alabama, Louisiana, Missouri, Ohio, Texas, and West Virginia. In addition, in 2003 the Magnesia Specialties business also disposed of two of its nonstrategic lines of business. The Company will continue to evaluate opportunities to divest nonstrategic assets during 2004 in an effort to redeploy capital for other opportunities.

In 2003, the Company, through its wholly owned subsidiary, Martin Marietta Composites, Inc. ("Martin Marietta Composites"), opened for business a 185,000 square foot facility in Sparta, North Carolina, which serves as the assembly and manufacturing hub for its structural composite products ("Structural Composite Products") business.

### ***Business Segment Information***

The Company operates in two reportable business segments: Aggregates and Specialty Products. The Specialty Products segment includes the Magnesia Specialties business and the Structural Composite Products business. Information concerning the Company's total revenues, 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, 2003 is included in "Note O: Business Segments" of the "Notes to Financial Statements" on pages 27 and 28 of the Company's 2003 Annual Report to Shareholders (the "2003 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 2003, the Company shipped approximately 192 million tons of aggregates primarily to customers in 31 states, in addition to Canada and the Bahamas, generating net sales and earnings from operations of \$1.4 billion and \$185 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, asphalt products, and ready mixed concrete are sold and shipped from a network of approximately 353 quarries, distribution facilities, and plants in 28 states, as well as the Bahamas and Canada, although the Company's five largest revenue-generating states, exclusive of road paving operations (Texas, North Carolina, Georgia, Iowa, and Indiana) 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 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 in the northern region of the country 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 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 2003, unlike 2002, the Company's operations were not significantly affected by hurricane or tropical storm activity.

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 2003. 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 and the Caribbean, as well as to additional geographic areas which can be accessed economically by its expanded distribution system. In 2002, the Company 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 11% of revenues in 2003, with no single operation contributing more than 6% of revenues. 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. 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. In 2003 the Company began disposing of some of these operations. 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 aggregates 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 current production in its aggregates segment. The Company's aggregates reserves on the average exceed 50 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. Moreover, as noted above, environmental and zoning regulations will likely make it harder for the Company to expand its existing quarries or develop new quarry operations.

The Company uses various drilling methods, depending on the type of aggregate, to estimate reserves that are economically mineable. The extent of drilling varies and depends on whether the location is a potential new site (greensite), an existing location, or a potential acquisition. More extensive drilling is performed for potential greensites and acquisitions, and in rare cases the Company may rely on existing geological data or results of prior drilling by third parties. Subsequent to drilling, selected core samples are tested for soundness, abrasion resistance, and other physical properties relevant to the aggregates industry. If the reserves meet the Company's standards and are economically mineable, then they are either leased or purchased.

The Company estimates proven and probable reserves based on the results of drilling. Proven reserves are reserves of homogenous deposits designated using closely spaced drill data. Proven

reserves have a certainty of 85% to 90%. Probable reserves are reserves that are inferred utilizing fewer drill holes and/or assumptions about the economically mineable reserves based on local geology or drill results from adjacent properties. The degree of certainty for probable reserves is 70% to 75%. In determining the amount of reserves, the Company's policy is to not include calculations that exceed certain depths, so for deposits, such as granite, that typically continue to depths well below the ground, there may be additional deposits that are not included in the reserve calculation. The Company also deducts loss factors, such as property boundaries and plant configurations, as deemed appropriate when estimating reserves. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies - Property, Plant and Equipment" on pages 48-49 of the 2003 Annual Report for discussion of reserves evaluation by the Company.

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.

Less than 1% of the Aggregates division's sales are made in foreign jurisdictions, principally in Canada and the Bahamas, with revenues from customers in foreign countries totaling \$14.6 million, \$10.0 million, and \$6.5 million, during 2003, 2002, and 2001, respectively.

### **Specialty Products**

The Company's Specialty Products division consists of the Magnesia Specialties business and the Structural Composite Products business.

**Magnesia Specialties Business.** The Company in 2003 also manufactured and marketed, through Magnesia Specialties, dolomitic lime and magnesia-based chemicals products for industrial, agricultural, and environmental uses. Prior to 2003, Magnesia Specialties manufactured and marketed certain magnesia-based heat-resistant refractories products, but sold that business in 2001 and stopped production and sale of these products in 2002.

Given the high fixed costs associated with the operations of this business, 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 profitability of the Magnesia Specialties business has historically depended on the production of steel and the related marketplace, and a portion of the product pricing structure of the business has historically been affected by current economic conditions within the steel industry. While the sale of the refractories business in 2001 lessened the dependence of Magnesia Specialties on the steel industry, Magnesia Specialties' products used in the steel industry still accounted for approximately 50% of the revenues of the business in 2003, attributable primarily to the sale of dolomitic lime products. Magnesia Specialties has also experienced losses in accounts receivable due to customer bankruptcies.

Competitive pricing pressures in the Magnesia Specialties business also continued throughout 2003. The chemicals group portion of the Magnesia Specialties business continued to diversify in chemicals used as flame retardants, in wastewater treatment, in pulp and paper production, and in other

environmental applications, and is not as dependent on the steel industry as is the dolomitic lime portion of the Magnesia Specialties business.

The principal raw materials used in Magnesia Specialties' 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 current operational levels for the foreseeable future.

Once the reserves of brine of the Magnesia Specialties business are used in the production process, the business must dispose of the processed brine. Typically the business does this by reinjecting the processed brine back into its underground brine reserve network around its facility in Manistee, Michigan. The business has also sold a portion of this processed brine to third parties. In 2003 Magnesia Specialties entered into a long-term processed brine supply agreement with The Dow Chemical Company ("Dow") pursuant to which Dow purchases processed brine from Magnesia Specialties, at market rates, for use in Dow's production of calcium chloride products. Magnesia Specialties also entered into a venture with Dow to construct, own, and operate a processed brine supply pipeline between the Magnesia Specialties facility in Manistee, Michigan, and Dow's facility in Ludington, Michigan. Construction of such pipeline was completed in 2003, and Dow began purchasing processed brine from Magnesia Specialties through the pipeline.

The supply of natural and synthetic magnesia is abundant worldwide. In 2003, Magnesia Specialties purchased some of its magnesia requirements from various sources located in China. While Magnesia Specialties 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, Magnesia Specialties believes it could obtain alternate supplies worldwide, although there could be no assurance that Magnesia Specialties could do so at current prices. Alternatively, Magnesia Specialties believes it could adjust its mix of products and/or increase production at its Manistee, Michigan plant.

Magnesia Specialties generally delivers its products upon receipt of orders or requests from customers. Accordingly, there is no significant backlog information. Inventory for the Magnesia Specialties products is generally maintained in sufficient quantities to meet rapid delivery requirements of customers.

Approximately 12% of the products of the Magnesia Specialties business 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 sales of the business. Revenues from customers in foreign countries totaled \$10.7 million, \$8.9 million, and \$11.8 million during 2003, 2002, and 2001, respectively. As a result of these foreign sales, the financial results of the Magnesia Specialties business 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 Magnesia Specialties business principally uses the U.S. dollar as the functional currency in foreign transactions.

**Structural Composite Products Business.** The Company in 2003 also manufactured and marketed, through Martin Marietta Composites, structural composite products for use in a wide variety

of industries. Pursuant to various agreements, Martin Marietta Composites has rights to commercialize certain proprietary technologies related to the Company's business. One of the agreements gives Martin Marietta Composites 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. Martin Marietta Composites continued its research and product development activities during 2003 on these structural composites technologies and initiated manufacturing and marketing of selected products. In 2002, Martin Marietta Composites leased a 185,000 square foot facility in Sparta, North Carolina, which serves as the assembly and manufacturing hub for the Structural Composite Products business of Martin Marietta Composites. Manufacturing at this facility commenced in the fourth quarter of 2003, with planned product expansion in 2004.

Martin Marietta Composites 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 tractor and trailer components; and construction, which includes wall panels, parking decks, and heavy equipment components. In 2003, Martin Marietta Composites announced the installation of bridge decks in 4 states, bringing its total to 25 bridge deck installations in 13 states utilizing these composite materials technologies. Martin Marietta Composites continued to explore opportunities to introduce its composite bridge installations to foreign markets. Martin Marietta Composites has rights under a licensing agreement executed in 2001 whereby it will manufacture and market commercial specialty truck trailers in North America, utilizing fiber-reinforced composite materials. In 2002, Martin Marietta Composites signed a licensing agreement relating to a proprietary composite sandwich technology, which Martin Marietta Composites expects will play an important role in the product line related to flat panel applications. Martin Marietta Composites expects to ramp up its Structural Composite Products business during 2004. Martin Marietta Composites 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 Martin Marietta Composites, would complement and expand the Company's business. While Martin Marietta Composites expects to increase its revenues related to its Structural Composite Products business over the next five years, there can be no assurance that these technologies will become profitable.

#### ***Patents and Trademarks***

As of March 10, 2004, the Company owns, has the right to use, or has pending applications for approximately 64 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 in the Aggregates division 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 31% of the total market. The Company in its Aggregates division 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 business of the Company's Specialty Products division 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 business also competes for sales to customers located outside the United States, with sales to such customers accounting for approximately 12% of revenues for the Magnesia Specialties business in 2003, 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. Certain of the Company's competitors in the Magnesia Specialties business have greater financial resources than the Company.

The Structural Composite Products business of the Company's Specialty Products division is a relatively new business that competes or will compete with various companies in different geographic and product areas principally on the basis of technological advances, quality, price, and technical support. The Structural Composite Products business competes or will compete for sales to customers located outside the United States. Certain of the Company's competitors in the Structural Composite Products business have greater financial resources than the Company.

### ***Research and Development***

The Company conducts research and development activities principally for its Magnesia Specialties business, at its plant in Manistee, Michigan, and for its Structural Composite Products business, at its headquarters in Raleigh, North Carolina, and its plant in Sparta, North Carolina. In general, the Company's research and development efforts in 2003 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 \$0.6 million in 2003, \$0.4 million in 2002, and \$0.6 million in 2001 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, including the operations of Magnesia Specialties and Martin Marietta Composites, 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 records an accrual for environmental remediation liabilities in the period in which it is probable that a liability has been incurred and the amounts can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. The accruals are not discounted to their present value or offset for potential insurance or other claims or potential gains from future alternative uses for a site.

The Company regularly monitors and reviews its operations, procedures, and policies for compliance with existing laws and regulations, changes in interpretations of existing laws and enforcement policies, new laws that are adopted, and new laws that the Company anticipates will be adopted that could affect its operations. The Company has a full time staff of environmental engineers and managers that perform these responsibilities. The direct costs of ongoing environmental compliance were \$5.7 million in 2003 and \$4.6 million in 2002 and are related to the Company's environmental staff and ongoing monitoring costs for various matters (including those matters disclosed in this Annual Report on Form 10-K). Capitalized costs related to environmental control facilities were less than \$1 million in 2003. The Company's capital expenditures for environmental matters were not material to its results of operations or financial condition in 2003 or 2002. 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.

Many of the requirements of the environmental laws are satisfied by procedures that the Company adopts as best business practices in the ordinary course of its operations. For example, plant equipment that is used to crush aggregates products may, as an ordinary course of operations, have an attached water spray bar that is used to clean the stone. The water spray bar also suffices as a dust control mechanism that complies with applicable environmental laws. The Company does not break out the portion of the cost, depreciation, and other financial information relating to the water spray bar that is only attributable to environmental purposes, as it would be derived from an arbitrary allocation methodology. The incremental portion of such operating costs that is attributable to environmental compliance rather than best operating practices is impractical to quantify. Accordingly, the Company expenses costs in that category when incurred as operating expenses.

The environmental accruals recorded by the Company are based on internal studies of the required remediation costs and estimates of potential costs that arise from time to time under federal, state, and/or local environmental protection laws. Many of these laws and the regulations promulgated under them are complex, and are subject to challenges and new interpretations by regulators and the courts from time to time. In addition, new laws are adopted from time to time. It is often difficult to accurately and fully quantify the costs to comply with new rules until it is determined the type of operations to which they will apply and the manner in which they will be implemented is more accurately defined. This process often takes years to finalize and changes significantly from the time the rules are proposed to the time they are final. The Company typically has several appropriate alternatives available to satisfy compliance requirements, which could range from nominal costs to some alternatives that may be satisfied in conjunction with equipment replacement or expansion that also benefits operating efficiencies or capacities and carry significantly higher costs.

Management believes that its current accrual for environmental costs is reasonable, although those amounts may increase or decrease depending on the impact of applicable rules as they are finalized from time to time and changes in facts and circumstances. The Company believes that any additional costs for ongoing environmental compliance would not have a material adverse effect on the Company's obligations or financial condition.

With respect to reclamation costs, however, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). See "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 14 through 17 and pages 26 and 27, respectively, of the 2003 Annual Report. Under FAS 143, future reclamation costs are estimated using statutory reclamation requirements and management's experience and knowledge in the industry, and are discounted to their present value using a credit-adjusted, risk-free rate of interest. The future reclamation costs are not offset by potential recoveries. 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 performs activities on an ongoing basis that may reduce the ultimate reclamation obligation. These activities are performed as an integral part of the normal quarrying process. For example, the perimeter and interior walls of an open pit quarry are sloped and benched as they are developed to prevent erosion and provide stabilization. This sloping and benching meets dual objectives — safety regulations required by the Mine Safety and Health Administration for ongoing operations and final reclamation requirements. Therefore, these types of activities are included in normal operating costs and are not a part of the asset retirement obligation. 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.

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 20 of this Form 10-K and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 26 and 27 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation" on page 41 of the



2003 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 air quality, water quality, and noise 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 has established policies designed to minimize disturbances to surrounding property owners from its operations.

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 and the Occupational Safety and Health Administration both have listed the development of a crystalline silica standard as one of the regulations they expect to have under active consideration for promulgation, proposal, or review during 2004. The Occupational Safety and Health Administration has identified occupational overexposure to crystalline silica among its top five health priorities and developed a draft regulation in 2003. The Mine Safety and Health Administration has indicated that it intends to issue an advance notice of proposed rulemaking for the development of a crystalline silica standard in May 2004. 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 required 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 in the targeted industries to install feasible control equipment for certain hazardous air pollutants, thereby significantly reducing air emissions. The Company and other lime manufacturers through the National Lime Association, the leading industry trade association ("NLA"), worked 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 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 EPA published the final rule in the Federal Register on January 5, 2004, and facilities must be in compliance within three years after the date of publication. The Company believes that there are several alternatives for achieving compliance with the new technology-based standard, and that any costs associated with the upgrade and/or replacement of equipment required to comply with the new regulations will 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 operations of the Magnesia Specialties business.

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 and associated GDOT testing laboratory 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. On February 7, 2003, GDNR requested additional information in connection with its consideration of the submitted plan and recommended remediation method. Under Georgia law, responsible parties are jointly and severally liable, and therefore, the Company is potentially liable for the full cost of funding any necessary remediation. 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 facility in 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. Magnesia Specialties 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 ("EPA") on May 2, 1994, pursuant to which PCA's successor, Pactiv Corporation ("Pactiv"), is required to conduct annual monitoring. The EPA 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 Magnesia Specialties, PCA and Pactiv indicating that it believes that Magnesia Specialties' chloride contamination is commingling with the PCA plume which originates upgradient from the Magnesia Specialties property. The MDEQ is concerned about possible effects of these plumes, and designated Magnesia Specialties, PCA and Pactiv as parties responsible for investigation and remediation under Michigan state law. The MDEQ held separate meetings with Magnesia Specialties, PCA, and Pactiv to discuss remediation and reimbursement for past investigation costs totaling approximately \$700,000. Magnesia Specialties 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 \$20,000. Michigan law provides that responsible parties are jointly and severally liable, and, therefore, Magnesia Specialties 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 Magnesia Specialties' 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 operations of the Magnesia Specialties business.

### **Employees**

As of March 10, 2004, the Company has approximately 5,900 employees. Approximately 4,400 are hourly employees and approximately 1,500 are salaried employees. Included among these employees are approximately 800 hourly employees represented by labor unions. Approximately 14% of the Company's Aggregates division's hourly employees are members of a labor union, while approximately 98% of the Specialty Products division's hourly employees are represented by labor unions. The Company's principal union contracts cover employees of the Magnesia Specialties business at the Manistee, Michigan, magnesia-based products plant and the Woodville, Ohio, lime plant. The current Manistee collective bargaining agreement expires in August 2007. 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 and Standards of Conduct* that applies to all of its directors, officers, and employees. The Company's 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 directors and executive officers.

The Company has adopted a set of *Corporate Governance Guidelines* to address issues of fundamental importance relating to the corporate governance of the Company, including director qualifications and responsibilities, responsibilities of key board committees, director compensation, and similar issues. Each of the Audit Committee, the Management Development and Compensation Committee, and the Nominating and Corporate Governance Committee of the Board of Directors of the Company has adopted a written charter addressing various issues of importance relating to each committee, including the committee's purposes and responsibilities, an annual performance evaluation of each committee, and similar issues. These *Corporate Governance Guidelines*, and the charters of each of these committees, are available on the Company's internet address at <http://www.martinmarietta.com>.

The Company will make paper copies of its filings with the SEC, its *Code of Ethics and Standards of Conduct*, its *Corporate Governance Guidelines*, and the charters of its key committees, available to its shareholders free of charge upon request by writing to: Martin Marietta Materials, Inc., Attn: Corporate Secretary, 2710 Wycliff Road, Raleigh, North Carolina 27607-3033.

The Company's Chief Executive Officer and Chief Financial Officer are required to file with the SEC each year certifications regarding the quality of the Company's public disclosure of its financial condition. These certifications are included as Exhibits to this Annual Report on Form 10-K. The Company's Chief Executive Officer is also required to certify to the New York Stock Exchange each year that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards. The filing of these certifications with the SEC and with the New York Stock Exchange is also disclosed in the Company's 2003 Annual Report.

## ITEM 2. PROPERTIES

### Aggregates

As of December 31, 2003, the Company processed or shipped aggregates from 328 quarries and distribution yards in 28 states and in Canada and the Bahamas, of which 102 are located on land owned by the Company free of major encumbrances, 76 are on land owned in part and leased in part, 136 are on leased land, and 14 are on facilities neither owned nor leased, where raw materials are removed under an agreement. The Company's aggregates reserves on the average exceed 50 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, as of December 31, 2003, 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, 1 is on land owned in part and leased in part, and 12 are on leased land.

Set forth in the tables below are the Company's estimates of reserves of recoverable aggregates of suitable quality for economic extraction, shown on a state-by-state basis, and the Company's total annual production for the last 3 years, along with the Company's estimate of years of production available, shown on a region-by-region basis. In determining the amount of reserves, the Company's policy is to not include calculations that exceed certain depths, so for deposits, such as granite, that typically continue to depths well below the ground, there may be additional deposits that are not included in the reserves calculations.

State	Number of Producing Quarries 2003	Tonnage of reserves for each general type of aggregate at 12/31/02 (add 000)		Percentage of aggregate reserves located at an existing quarry, and reserves not located at an existing quarry		Percent of aggregate reserves on land that has not been zoned for quarrying	Percent of reserves owned and percent leased	
		Hard Rock	S & G	At Quarry	Not at Quarry		Owned	Leased
Alabama	10	66,514	13,593	100%	—	0%	42%	58%
Arkansas	7	692,500	0	88%	12%	0%	25%	75%
California	2	37,736	0	100%	—	0%	30%	70%
Florida	4	71,165	0	100%	—	0%	0%	100%
Georgia	12	437,533	0	86%	14%	0%	62%	38%
Illinois	5	707,363	0	48%	52%	0%	9%	91%
Indiana	13	221,600	208,100	92%	8%	15%	43%	57%
Iowa	40	410,561	50,843	96%	4%	1%	13%	87%
Kansas	16	207,877	0	47%	53%	0%	35%	65%
Kentucky	4	415,649	0	100%	—	0%	15%	85%
Louisiana	1	—	—	—	—	—	—	—
Maryland	2	137,604	0	100%	—	15%	100%	0%
Minnesota	2	231,492	0	100%	—	0%	84%	16%
Mississippi	2	0	26,450	100%	—	0%	100%	0%
Missouri	7	193,310	0	20%	80%	0%	40%	60%
Montana	0	50,000	0	0%	100%	0%	100%	0%
Nebraska	3	77,350	0	99%	1%	0%	24%	76%
Nevada	3	20,776	2	100%	—	0%	0%	100%
North Carolina	47	1,786,429	2,000	86%	14%	3%	68%	32%
Ohio	21	187,600	264,127	84%	16%	3%	97%	3%
Oklahoma	9	536,820	7,430	75%	25%	0%	45%	55%
South Carolina	7	260,914	0	81%	19%	19%	76%	24%
Tennessee	4	48,370	16,000	100%	—	0%	10%	90%
Texas	28	1,636,623	200,900	65%	35%	33%	60%	40%
Virginia	5	340,977	0	97%	3%	1%	69%	31%
Washington	5	70,176	0	72%	28%	0%	7%	93%
West Virginia	5	182,277	0	35%	65%	0%	20%	80%
Wisconsin	1	6,033	0	100%	—	0%	0%	100%
Wyoming	1	146,157	0	100%	—	0%	0%	100%
<b>U.S. Total</b>	<b>266</b>	<b>9,181,406</b>	<b>789,445</b>					
Non-US	2	685,563	0	100%	—	0%	97%	3%
<b>Grand Total</b>	<b>268</b>	<b>9,866,969</b>	<b>789,445</b>	<b>80%</b>	<b>20%</b>	<b>8%</b>	<b>52%</b>	<b>48%</b>

Region	Total Annual Production (in tons) for year ended December 31			Number of years of production available at December 31, 2002
	2003	2002	2001	
Midwest	64,122	67,223	73,814	63.0
Northwest	30,434	33,006	30,152	49.4
Southeast	44,569	41,641	40,404	45.8
Southwest	39,305	41,413	41,138	78.2
<b>Total</b>	<b>178,430</b>	<b>183,283</b>	<b>185,508</b>	<b>59.7</b>

### Specialty Products

The Magnesia Specialties business currently operates major manufacturing facilities in Manistee, Michigan, and Woodville, Ohio, and smaller processing plants in Bridgeport, Connecticut, and Lenoir City, Tennessee. All of these facilities are owned, except Lenoir City, which is leased.

The Structural Composite Products business leases a 185,000 square foot facility in Sparta, North Carolina, which serves as the assembly and manufacturing hub for the Structural Composite Products business of Martin Marietta Composites.

### 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 for its two reportable business segments.

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. During 2003, the principal properties were believed to be utilized at average productive capacities of approximately 80% and were 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 pages 26 and 27 of the 2003 Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation" on page 41 of the 2003 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 2003.

#### **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. Investors can identify these statements by the fact that they do not relate only to historic or current facts. They may use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words of similar meaning in connection with future events or future operating or financial performance. Any or all of the Company's forward-looking statements in this Annual Report on Form 10-K and in other publications may turn out to be wrong.

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 projects; 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; the timing and occurrence of events that may be subject to circumstances beyond the Company's control; and other risk factors listed from time to time in the Company's filings with the SEC.

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. Other factors besides those listed may also adversely affect the Company and may be material to the Company. 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 page 12 of this Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 29 through 55 of the 2003 Annual Report and "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 14 through 17 and pages 26 and 27, respectively, of the Audited Consolidated Financial Statements included in the 2003 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 10, 2004:

Name	Age	Present Position at March 10, 2004	Year Assumed Present Position	Other Positions and Other Business Experience Within the Last Five Years
Stephen P. Zelnak, Jr.	59	Chairman of the Board of Directors;	1997	Vice Chairman of the Board of Directors (1996-1997)
		President and Chief Executive Officer;	1993	
		President of Aggregates Division	1993	
Philip J. Sipling	56	Executive Vice President;	1997	Senior Vice President (1993-1997); President, Magnesia Specialties Division (1993-1997)
		Chairman of Magnesia Specialties Division;	1997	
		Executive Vice President of Aggregates Division	1993	



<u>Name</u>	<u>Age</u>	<u>Present Position at March 10, 2004</u>	<u>Year Assumed Present Position</u>	<u>Other Positions and Other Business Experience Within the Last Five Years</u>
Janice K. Henry	52	Treasurer; Senior Vice President; Chief Financial Officer	2002 1998 1994	Vice President (1994-1998); Treasurer (1996-2000)
Donald M. Moe	58	Senior Vice President; Senior Vice President of Aggregates Division; President-Carolina Division	2001 1999 1996	Vice President (1999 - 2001)
Jonathan T. Stewart	55	Senior Vice President, Human Resources	2001	Vice President, Human Resources (1993 - 2001)
Roselyn R. Bar	45	Vice President and General Counsel; Corporate Secretary	2001 1997	Deputy General Counsel (2001); Associate General Counsel (1998-2001)
Donald J. Easterlin, III	62	Vice President	2002	Vice President, Business Development (1994-2002)
Daniel G. Shephard	45	Vice President-Marketing and Business Development; Regional Vice President and General Manager - MidAmerica Region; President of Magnesia Specialties Division	2002 2003 1999	Vice President and Treasurer (2000-2002) Assistant Treasurer (1996-1999)
Anne H. Lloyd	42	Chief Accounting Officer; Vice President and Controller	1999 1998	
David S. Watterson	43	Vice President and Chief Information Officer	2003	Vice President, Information Services (1999-2003)

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### *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 56 of the 2003 Annual Report, and that information is incorporated herein by reference. There were approximately 1,195 holders of record of the Company's Common Stock, as of March 10, 2004.

#### *Recent Sales of Unregistered Securities*

None.

**ITEM 6. SELECTED FINANCIAL DATA**

The information required in response to this Item 6 is included under the caption "Five Year Summary" on page 57 of the 2003 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 29 through 55 of the 2003 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 2004" on pages 42 and 43 of the 2003 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 pages 54 and 55 of the 2003 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 Statements of Earnings," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," "Consolidated Statements 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 56 of the 2003 Annual Report, and that information is incorporated herein by reference.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

As of December 31, 2003, 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 CEO and CFO, concluded that the Company's disclosure controls and procedures were effective in

ensuring that all material information required to be disclosed is made known to them in a timely manner as of December 31, 2003.

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 SEC’s 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.

Included among the Exhibits to this Annual Report on Form 10-K are forms of “Certifications” of the Company’s CEO and CFO as required in accordance 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.

### **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, 2003 (the "2004 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 pages 21 and 22 of this Form 10-K. The information concerning the Company's code of ethics required in response to this Item 10 is included in Part I, under the heading "Available Information," on page 18 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 Management Development and Compensation Committee on Executive Compensation," "Comparison of Cumulative Total Return, Martin Marietta Materials, Inc., S&P 500, and S&P Materials Indices," and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" in the Company's 2004 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 2004 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 2004 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required in response to this Item 14 is included under the caption "Independent Auditors" in the Company's 2004 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

**PART IV**

**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 2003 Annual Report, are incorporated by reference into Item 8 on page 23 of this Form 10-K. Page numbers refer to the 2003 Annual Report:

	<u>Page</u>
Consolidated Statements of Earnings—for years ended December 31, 2003, 2002 and 2001	10
Consolidated Balance Sheets—at December 31, 2003 and 2002	11
Consolidated Statements of Cash Flows—for years ended December 31, 2003, 2002 and 2001	12
Consolidated Statements of Shareholders' Equity—Balance at December 31, 2003, 2002 and 2001	13
Notes to Financial Statements—	14 through 28

**(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 31

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 2003 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 are attached as Exhibit 23.01 to this Form 10-K.

### (3) Exhibits

The list of Exhibits on the accompanying Index of Exhibits on pages 27 through 30 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, 2003, the Company filed the following current reports on Form 8-K:

<u>Date of Report</u>	<u>Description</u>
October 1, 2003	The Company issued a press release announcing the election of Dennis L. Rediker to the Company's Board of Directors.
October 30, 2003	The Company issued a press release reporting its financial results for the third quarter and nine months ended September 30, 2003. The Company also provided additional information about Non-GAAP Financial Measures used by the Company, which additional information is also available on the Company's internet web site.
December 1, 2003	The Company announced the resumption of the stock repurchase program.

### (c) Index of Exhibits

<u>Exhibit No.</u>	
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) (Commission File No. 1-12744)
*3.02	—Restated Bylaws of the Company, as amended
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) (Commission File No. 1-12744)
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) (Commission File No. 1-12744)
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))

Exhibit No.	
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. 6.875% 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) (Commission File No. 1-12744)
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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) (Commission File No. 1-12744)**
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<b>Exhibit No.</b>	
10.09	—Amendment No. 1 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 1997) (Commission File No. 1-12744)**
10.10	—Amendment No. 2 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.13 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1999) (Commission File No. 1-12744)**
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10.12	—Amendment No. 4 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.14 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.13	—Amendment No. 5 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.03 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) (Commission File No. 1-12744)**
10.14	—Amendment No. 6 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 2003) (Commission File No. 1-12744)**
10.15	—Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.16	—Amendment No. 1 to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001) (Commission File No. 1-12744)**
10.17	—Martin Marietta Materials, Inc. Amended Omnibus Securities Award Plan (incorporated by reference to Exhibit 10.16 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.18	—Martin Marietta Materials, Inc. Supplemental Excess Retirement Plan (incorporated by reference to Exhibit 10.16 of the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ending December 31, 1999) (Commission File No. 1-12744)**
*12.01	—Computation of ratio of earnings to fixed charges for the year ended December 31, 2003
*13.01	—Martin Marietta Materials, Inc. 2003 Annual Report to Shareholders, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2003 Annual Report to Shareholders that are not incorporated by reference shall not be deemed to be “filed” as part of this report.
*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 page 32)
*31.01	—Certification dated March 12, 2004 of Chief Executive Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.02	—Certification dated March 12, 2004 of Chief Financial Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.01	—Certification dated March 12, 2004 of Chief Executive Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**Exhibit  
No.**

\*32.02 —Certification dated March 12, 2004 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 2004 Proxy Statement filed pursuant to Regulation 14A, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2004 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
Description	Balance at beginning of period	Additions		Deductions—describe	Balance at end of period
		(1) Charged to costs and expenses	(2) Charged to other accounts—describe		
(Amounts in Thousands)					
<b>Year ended December 31, 2003</b>					
Allowance for doubtful accounts	\$ 8,282	\$ 488		\$ 3,574(a)	\$ 5,196
Inventory valuation allowance	5,659	675		87(b) 191(c) 66(d)	5,990
Accumulated amortization of intangible assets	27,505	5,840		3,556(c) 1,433(e)	28,356
<b>Year ended December 31, 2002</b>					
Allowance for doubtful accounts	\$ 7,367	\$ 1,082	—	\$ 167(b)	\$ 8,282
Inventory valuation allowance	6,020	504	—	504(b) 361(c)	5,659
Accumulated amortization of intangible assets	103,015	6,102	—	803(c) 3,423(e) 77,386(f)	27,505
<b>Year ended December 31, 2001</b>					
Allowance for doubtful accounts	\$ 5,139	\$ 2,173	\$ 950(g)	\$ 895(h)	\$ 7,367
Inventory valuation allowance	5,772	591	—	343(h)	6,020
Accumulated amortization of intangible assets	75,146	28,393	3,746(g)	3,095(e) 512(b) 663(h)	103,015

- (a) Write off of uncollectible accounts against allowance.
- (b) To adjust allowance for change in estimates.
- (c) Divestitures.
- (d) Write off of fully reserved inventory.
- (e) Write off of fully amortized intangible assets.
- (f) Write off of accumulated amortization related to nonamortized goodwill.
- (g) Purchase accounting adjustments.
- (h) 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 15, 2004

## 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:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Stephen P. Zelnak, Jr.</u> Stephen P. Zelnak, Jr.	Chairman of the Board, President and Chief Executive Officer	March 15, 2004
<u>/s/ Janice K. Henry</u> Janice K. Henry	Senior Vice President and Chief Financial Officer	March 15, 2004
<u>/s/ Anne H. Lloyd</u> Anne H. Lloyd	Vice President and Chief Accounting Officer	March 15, 2004
<u>/s/ Richard G. Adamson</u> Richard G. Adamson	Director	March 15, 2004
<u>/s/ Marcus C. Bennett</u> Marcus C. Bennett	Director	March 15, 2004
<u>/s/ Sue W. Cole</u> Sue W. Cole	Director	March 15, 2004
<u>/s/ Bobby F. Leonard</u> Bobby F. Leonard	Director	March 15, 2004
<u>/s/ William E. McDonald</u> William E. McDonald	Director	March 15, 2004
<u>/s/ Frank H. Menaker, Jr.</u> Frank H. Menaker, Jr.	Director	March 15, 2004

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<hr/> /s/ Dennis L. Rediker	Director	March 15, 2004
Dennis L. Rediker <hr/> /s/ James M. Reed	Director	March 15, 2004
James M. Reed <hr/> /s/ William B. Sansom	Director	March 15, 2004
William B. Sansom <hr/> /s/ Richard A. Vinroot	Director	March 15, 2004
Richard A. Vinroot		

**Exhibit  
No.**

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- 4.10 —Form of Martin Marietta Materials, Inc. 6.875% 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))
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10.16	—Amendment No. 1 to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001) (Commission File No. 1-12744)**

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10.17	—Martin Marietta Materials, Inc. Amended Omnibus Securities Award Plan (incorporated by reference to Exhibit 10.16 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.18	—Martin Marietta Materials, Inc. Supplemental Excess Retirement Plan (incorporated by reference to Exhibit 10.16 of the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ending December 31, 1999) (Commission File No. 1-12744)**
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*32.02	—Certification dated March 12, 2004 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 2004 Proxy Statement filed pursuant to Regulation 14A, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2004 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



RESTATED  
BYLAWS  
OF  
MARTIN MARIETTA MATERIALS, INC.

(Incorporated under the laws of North Carolina, November 12, 1993, and herein referred to as the "Corporation")

ARTICLE I.

SHAREHOLDERS

SECTION 1.01. ANNUAL MEETINGS. The Corporation shall hold an annual meeting of the shareholders for the election of directors and the transaction of any business within the powers of the Corporation on such date during the month of May in each year as shall be determined by the Board of Directors or at such time during the year as the Board of Directors may prescribe. Subject to Section 1.12 of these Bylaws, any business of the Corporation may be transacted at such annual meeting. Failure to hold an annual meeting at the designated time shall not, however, invalidate the corporate existence or affect otherwise valid corporate acts.

SECTION 1.02. SPECIAL MEETINGS. The power to call a special meeting of the shareholders of the Corporation shall be governed by Article 9 of the Corporation's Restated Articles of Incorporation, as such provision may be amended from time to time.

SECTION 1.03. PLACE OF MEETINGS. All meetings of shareholders shall be held at such place within the United States as may be designated in the Notice of Meeting.

SECTION 1.04. NOTICE OF MEETINGS. Not less than ten (10) days nor more than sixty (60) days before the date of every shareholders' meeting, the Secretary shall give to each shareholder entitled to vote at such meeting and each other shareholder entitled to notice of the meeting, written or printed notice stating the time and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, either by mail or by presenting it to him or her personally or by leaving it at his or her residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the shareholder at his or her post office address as it appears on the records of the Corporation, with postage thereon prepaid. Any meeting of shareholders, annual or special, may adjourn from time to time without further notice to a date not more than 120 days after the original record date at the same or some other place.

SECTION 1.05. WAIVER OF NOTICE. Any shareholder may waive notice of any meeting before or after the meeting. The waiver must be in writing, signed by the shareholder and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance, in person or by proxy, at a meeting (a) waives objection to lack of notice or defective notice of the meeting, unless the shareholder or his proxy at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and (b) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder or his proxy objects to considering the matter before it is voted upon.

SECTION 1.06. PRESIDING OFFICER AND SECRETARY AT MEETINGS. At each meeting of shareholders the Chairman of the Board, or in his or her absence the President, or in their absence, the person designated in writing by the Chairman of the Board, or if no person is so designated, then a person designated by the Board of Directors, shall preside as chairman of the meeting; if no person is so designated, then the meeting shall choose a chairman by a majority of all votes cast at a meeting at which a quorum is present. The Secretary, or in the absence of the Secretary, a person designated by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 1.07. QUORUM. Shares entitled to vote as a separate voting group may take action on a matter at the meeting only if a quorum of those shares exists. A majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter.

Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

In the absence of a quorum at the opening of any meeting of shareholders, such meeting may be adjourned from time to time by the vote of a majority of the votes cast on the motion to adjourn; and, subject to the provisions of Section 1.04, at any subsequent session of a meeting that has been adjourned any business may be transacted that might have been transacted at the original meeting if a quorum exists with respect to the matter proposed.

SECTION 1.08. PROXIES. Shares may be voted either in person or by one or more proxies authorized by a written appointment of proxy signed by the shareholder or by his duly authorized attorney in fact. An appointment of proxy is valid for eleven (11) months from the date of its execution, unless a different period is expressly provided in the appointment form.

SECTION 1.09. VOTING OF SHARES. Subject to the provisions of the Articles of Incorporation, each outstanding share shall be entitled to one vote on each matter voted on at a meeting of shareholders.

Except in the election of directors as governed by the provisions of Section 2.03, if a quorum exists, action on a matter by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater vote is required by law or the Articles of Incorporation or these Bylaws.

Absent special circumstances, shares of the Corporation are not entitled to vote if they are owned, directly or indirectly, by another corporation in which the Corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors of the second corporation; provided that this provision does not limit the power of the Corporation to vote its own shares held by it in a fiduciary capacity.

SECTION 1.10. SHAREHOLDERS' LIST. Before each meeting of shareholders, the Secretary of the Corporation shall prepare an alphabetical list of the shareholders entitled to notice of such meeting. The list shall be arranged by voting group (and within each voting group, by class or series of shares) and show the address of and number of shares held by each shareholder. The list shall be kept on file at the principal office of the Corporation, or at a place identified in the meeting notice in the city where the meeting will be held, for the period beginning two business days after notice of the meeting is given and continuing through the meeting, and shall be available for inspection by any shareholder, his agent or attorney, at any time during regular business

hours. The list shall also be available at the meeting and shall be subject to inspection by any shareholder, his agent or attorney, at any time during the meeting or any adjournment thereof.

SECTION 1.11. INSPECTORS OF ELECTION. In advance of any meeting of shareholders, the Board of Directors may appoint Inspectors of Election to act at such meeting or at any adjournment or adjournments thereof. If such Inspectors are not so appointed or fail or refuse to act, the chairman of any such meeting may (and shall upon the request of shareholders entitled to cast a majority of all the votes entitled to be cast at the meeting) make such appointments. No such Inspector need be a shareholder of the Corporation.

If there are three (3) or more Inspectors of Election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all. The Inspectors of Election shall determine the number of shares outstanding, the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies; shall receive votes, ballots, assents or consents, hear and determine all challenges and questions in any way arising in connection with the vote, count and tabulate all votes, assents and consents, and determine the result; and do such acts as may be proper to conduct the election and the vote with fairness to all shareholders. On request, the Inspectors shall make a report in writing of any challenge, question or matter determined by them, and shall make and execute a certificate of any fact found by them.

#### SECTION 1.12. DIRECTOR NOMINATIONS AND SHAREHOLDERS BUSINESS.

(a) Advance Notice of Nominations of Directors. Only persons who are nominated in accordance with the provisions set forth in these Bylaws shall be eligible to be elected as directors at an annual or special meeting of shareholders. Nomination for election to the Board of Directors shall be made by the Board of Directors or a Nominating Committee appointed by the Board of Directors.

Nomination for election of any person to the Board of Directors may also be made by a shareholder if written notice of the nomination of such person shall have been delivered to the Secretary of the Corporation at the principal office of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the mailing of the preceding year's proxy statement in connection with the annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by shareholder must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination, the beneficial owner, if any, on whose behalf the nomination is made and of the person or persons to be nominated; (b) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner, and a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) all other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission if the nominee had been nominated by the Board of Directors; and (e) the written consent of each nominee to serve as director of the Corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(b) Advance Notice of General Matters. No business shall be transacted at an annual meeting of shareholders, except such business as shall be (a) specified in the notice of meeting given as provided in Section 1.04, (b) otherwise brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise brought before the meeting by a shareholder of record entitled to vote at the meeting, in compliance with the procedure set forth in this Section 1.12. For business to be brought before an annual meeting by a shareholder pursuant to (c) above, the shareholder must have given timely notice in writing to the Secretary. To be timely, a shareholder's notice must be delivered to, or mailed to and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the mailing of the preceding year's proxy statement in connection with the annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Notice of actions to be brought before the annual meeting pursuant to (c) above shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for bringing such business before the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of each shareholder proposing such business, (iii) the classes and number of shares of the Corporation that are owned of record and beneficially by such shareholder, and (iv) any material interest of such shareholder in such business other than his interest as shareholder of the Corporation. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the provisions set forth in this Section 1.12. If the chairman of the annual meeting determines that any business was not properly brought before the meeting in accordance with provisions prescribed by these Bylaws, he shall so declare to the meeting, and to the extent permitted by law, any such business not properly brought before the meeting shall not be transacted.

(c) General

For purposes of this Section 1.12, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this Section 1.12, a shareholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.12. Nothing in this Section 1.12 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II.

BOARD OF DIRECTORS

SECTION 2.01. POWERS. The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. The Board of Directors may exercise all the powers of the Corporation, except such as are by statute or the Articles of Incorporation or the Bylaws conferred upon or reserved to the shareholders.

SECTION 2.02. NUMBER OF DIRECTORS. The number of directors of the Corporation shall be determined in accordance with Article 5(a) of the Corporation's Restated Articles of Incorporation, as such

provision may be amended from time to time. A person is eligible for election as a director for a three-year term only if that term expires not later than December 31 of the calendar year in which such person's 72nd birthday occurs.

SECTION 2.03. ELECTION OF DIRECTORS. The election of directors of the Corporation shall be governed by Article 5(b) of the Corporation's Restated Articles of Incorporation, as such provision may be amended from time to time.

SECTION 2.04. CHAIRMAN OF THE BOARD. The Board of Directors shall designate from its membership a Chairman of the Board, who shall have such powers and perform such duties as may be prescribed by these Bylaws and assigned to him or her by the Board of Directors.

SECTION 2.05. REMOVAL. The removal of directors of the Corporation shall be governed by Article 5(d) of the Corporation's Restated Articles of Incorporation, as such provision may be amended from time to time.

SECTION 2.06. VACANCIES. Vacancies in the Board of Directors shall be filled in accordance with Article 5(c) of the Corporation's Restated Articles of Incorporation, as such provision may be amended from time to time.

SECTION 2.07. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such time and place within or without the State of North Carolina as may be designated by the Board of Directors.

SECTION 2.08. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called at any time, at any place, and for any purpose by the Chairman of the Board, the President, the Chairman of the Executive Committee, or upon the request of a majority of the Board of any officer of the Corporation.

SECTION 2.09. NOTICE OF MEETINGS. Regular meetings of the Board of Directors may be held without notice. Notice of the place, day, and hour of every special meeting of the Board of Directors shall be given to each director twenty-four (24) hours (or more) before the meeting, by telephoning the notice to such director, or by delivering the notice to him or her personally, or by sending the notice to him or her by telegraph, or by facsimile, or by leaving notice at his or her residence or usual place of business, or, in the alternative, by mailing such notice three (3) days (or more) before the meeting, postage prepaid, and addressed to him or her at his or her last known post office address, according to the records of the Corporation. If mailed, such notice shall be deemed to be given when deposited in the United States mail, properly addressed with postage thereon prepaid. If notice be given by telegram or by facsimile, such notice shall be deemed to be given when the telegram is delivered to the telegraph company or when the facsimile is transmitted. If the notice be given by telephone or by personal delivery, such notice shall be deemed to be given at the time of the communication or delivery. Unless required by law, by these Bylaws or by resolution of the Board of Directors, no notice of any meeting of the Board of Directors, need state the business to be transacted thereat. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no further notice need be given of any such adjourned meeting.

SECTION 2.10. WAIVER OF NOTICE. Any director may waive notice of any meeting before or after the meeting. The waiver must be in writing, signed by the director entitled to the notice and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. A director's attendance at or participation in a meeting waives any required notice of such meeting unless the director at the beginning of the

meeting, or promptly upon arrival, objects to holding the meeting or to transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

SECTION 2.11. TELEPHONE MEETING. Members of the Board, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in this manner shall constitute presence in person at the meeting.

SECTION 2.12. ACTION WITHOUT MEETING. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents signed by each director before or after such action, describing the action taken, and included in the minutes or filed with the corporate records.

SECTION 2.13. PRESIDING OFFICER AND SECRETARY AT MEETINGS. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his or her absence, by the President or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The Secretary, or in his or her absence, an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

SECTION 2.14. QUORUM AND VOTING. At all meetings of the Board of Directors, one third (1/3) of the Board of Directors, but in no case less than two (2) directors, shall constitute a quorum for the transaction of business. Except in cases in which it is by statute, by the Articles of Incorporation, or by the Bylaws otherwise provided, the vote of a majority of such quorum at a duly constituted meeting shall be sufficient to pass any measure. In the absence of a quorum, the directors present by majority vote and without notice other than by announcement may adjourn the meeting from time to time until a quorum shall be present. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting originally notified.

SECTION 2.15. PRESUMPTION OF ASSENT. A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless (a) he objects at the beginning of the meeting, or promptly upon his arrival, to holding it or to transacting business at the meeting, or (b) his dissent or abstention from the action taken is entered in the minutes of the meeting, or (c) he files written notice of his dissent or abstention with the presiding officer of the meeting before its adjournment or with the Corporation immediately after the adjournment of the meeting. Such right of dissent or abstention is not available to a director who votes in favor of the action taken.

SECTION 2.16. COMPENSATION. The Board of Directors may provide by resolution for the compensation of directors for their services as such and for the payment or reimbursement of any or all expenses incurred by them in connection with such services.

### ARTICLE III.

#### COMMITTEES

SECTION 3.01. COMMITTEES OF THE BOARD. The Board of Directors may by resolution create an Executive Committee, an Audit Committee, a Nominating Committee and such other committees of the Board and appoint members of the Board of Directors to serve on them. The creation of a committee of the Board and appointment of members to it must be approved by a majority of the number of directors in office when the action is taken. Each committee of the Board must have two or more members and, to the extent

authorized by law and specified by the Board of Directors, shall have and may exercise all of the authority of the Board of Directors, shall have and may exercise all of the authority of the Board of Directors in the management of the Corporation, except that a committee may not have such powers or perform such duties as may be (i) inconsistent with law, (ii) inconsistent with the Articles of Incorporation or Bylaws, or (iii) inconsistent with the resolution creating such committee and the authority delegated to it therein. Each committee member serves at the pleasure of the Board of Directors. The provisions in these Bylaws governing meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors apply to committees of the Board established under this section.

SECTION 3.02. MEETINGS OF COMMITTEES. Each committee of the Board of Directors shall fix its own rules of procedure consistent with the provisions of the Board of Directors governing such committee, and shall meet as provided by such rules or by resolution of the Board of Directors, and it shall also meet at the call of its chairman or any two (2) members of such committee. Unless otherwise provided by such rules or by such resolution, the provisions of the article of these Bylaws entitled "Board of Directors" relating to the place of holding and notice required of meetings of the Board of Directors shall govern committees of the Board of Directors. A majority of each committee shall constitute a quorum thereof; provided, however, that in the absence of any member of such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a member of the Board of Directors to act in the place of such absent member. Except in cases in which it is otherwise provided by the rules of such committee or by resolution of the Board of Directors, the vote of a majority of such quorum at a duly constituted meeting shall be sufficient to pass any measure.

#### ARTICLE IV.

##### OFFICERS

SECTION 4.01. OFFICERS OF THE CORPORATION. The officers of the Corporation shall consist of a President, a Secretary, a Treasurer and such elected Vice-Presidents, Assistant Secretaries, Assistant Treasurers, and other officers as may from time to time be appointed by or under the authority of the Board of Directors. Any two or more offices may be held by the same person, but no officer may act in more than one capacity where action of two or more officers is required.

SECTION 4.02. APPOINTMENT AND TERM. The officers of the Corporation shall be appointed by the Board of Directors or by a duly appointed officer authorized by the Board of Directors to appoint one or more officers or assistant officers. Each officer shall hold office until his or her death, resignation, retirement, removal, disqualification or his or her successor shall have been appointed.

SECTION 4.03. PRESIDENT. The President shall be the Chief Executive Officer of the Corporation and shall, in the absence of the Chairman of the Board, preside at all meetings of the shareholders. Subject to the authority of the Board of Directors, he or she shall have general charge and supervision of the Business and affairs of the Corporation. He or she may sign with the Secretary or an Assistant Secretary certificates of stock of the Corporation. He or she shall have the authority to sign and execute in the name of the Corporation all deeds, mortgages, bonds, contracts or other instruments. He or she shall have the authority to vote stock in other corporations, and he or she shall perform such other duties of management as may be prescribed by a resolution or resolutions or as otherwise may be assigned to him or her by the Board of Directors. He or she shall have the authority to delegate such authorization and power as vested in him or her by these Bylaws to some other officer or employee or agent of the Corporation as he or she shall deem appropriate.

SECTION 4.04. VICE-PRESIDENTS. In the absence of the President or in the event of his or her death, inability or refusal to act, the Vice-Presidents in the order of their length of service, as such, unless otherwise determined by the Board of Directors, shall perform the duties of the President, and when so acting shall have the powers of and be subject to all the restrictions upon the President. In the absence of the Chairman of the Board or the President, any Vice-President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties as from time to time may be prescribed by the President or Board of Directors.

SECTION 4.05. SECRETARY. The Secretary shall keep the minutes of the meetings of the shareholders and of the Board of Directors, in books provided for the purpose; shall see that all notices of such meetings are duly given in accordance with the provisions of the Bylaws of the Corporation, or as required by law; may sign certificates of shares of the Corporation with the Chairman of the Board; shall be custodian of the corporate seal; shall see that the corporate seal is affixed to all documents, the execution of which, on behalf of the Corporation, under its seal, is duly authorized, and when so affixed may attest the same; and in general, shall perform all duties incident to the office of a secretary of a corporation, and such other duties as from time to time may be assigned to the Secretary by the President or the Board of Directors.

SECTION 4.06. TREASURER. The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation, and shall deposit, or cause to be deposited, in the name of the Corporation, all monies or other valuable effects in such banks, trust companies, or other depositories as shall, from time to time, be selected by the Board of Directors; and in general, shall perform all the duties incident to the office of a treasurer of a corporation, and such other duties as from time to time may be assigned to him or her by the President or the Board of Directors.

SECTION 4.07. OFFICERS HOLDING TWO OR MORE OFFICES. Any two (2) or more of the above mentioned offices, except those of President and Vice-President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument be required by law, by the Articles of Incorporation or by these By-Laws, to be executed, acknowledged or verified by any two (2) or more officers.

SECTION 4.08. COMPENSATION OF OFFICERS. The compensation of all officers of the Corporation shall be fixed by or under the authority of the Board of Directors, and no officer shall serve the Corporation in any other capacity and receive compensation therefor unless such additional compensation shall be duly authorized. The appointment of an officer does not itself create contract rights.

SECTION 4.09. RESIGNATIONS. An officer may resign at any time by communicating his or her resignation to the Corporation, orally or in writing. A resignation is effective when communicated unless it specifies in writing a later effective date. If a resignation is made effective at a later date that is accepted by the Corporation, the Board of Directors may fill the pending vacancy before the effective date if the Board provides that the successor does not take office until the effective date.

SECTION 4.10. REMOVAL. Any officer of the Corporation may be removed, with or without cause, by the Board of Directors, if such removal is determined in the judgment of the Board of Directors to be in the best interests of the Corporation, and any officer of the Corporation duly appointed by another officer may be removed, with or without cause, by such officer.

SECTION 4.11. BONDS. The Board of Directors may by resolution require any officer, agent, or employee of the Corporation to give bond to the Corporation, with sufficient sureties, conditioned on the faithful



performance of the duties of his respective office or position and to comply with such other conditions as may from time to time be required by the Board of Directors.

## ARTICLE V.

### SHARES

SECTION 5.01. CERTIFICATES. Each shareholder shall be entitled to a certificate or certificates which shall represent and certify the number and kind of shares owned by such shareholder in the Corporation. Such certificates shall be signed by the Chairman of the Board or the President, or in their absence, any Vice-President, and countersigned by the Secretary or an Assistant Secretary, and sealed with the seal of the Corporation or a facsimile of such seal. Shares certificates shall be in such form, not inconsistent with law or with the charter, as shall be approved by the Board of Directors. When certificates for stock of any class are countersigned by a transfer agent, other than the Corporation or its employee, or by a registrar, other than the Corporation or its employee, any other signature on such certificates may be a facsimile. In case any officer of the Corporation who has signed any certificate ceases to be an officer of the Corporation, whether because of death, resignation or otherwise, before such certificate is issued, the certificate may nevertheless be issued and delivered by the Corporation as if the officer had not ceased to be such officer as of the date of its issue.

SECTION 5.02. TRANSFER OF SHARES. Shares shall be transferable only on the books of the Corporation by the holder thereof, in person or by duly authorized attorney, upon the surrender of the certificate representing the shares to be transferred, properly endorsed. The Board of Directors shall have power and authority to make such other rules and regulations concerning the issue, transfer and resignation of certificates of stock as it may deem expedient.

SECTION 5.03. TRANSFER AGENTS AND REGISTRARS. The Corporation may have one (1) or more transfer agents and one(1) or more registrars of its stock, whose respective duties the Board of Directors may, from time to time, define. No certificate of stock shall be valid until countersigned by a transfer agent, if the Corporation has a transfer agent, or until registered by a registrar, if the Corporation has a registrar. The duties of transfer agent and registrar may be combined.

SECTION 5.04. RECORD DATES. The Board of Directors is hereby empowered to fix, in advance, a date as the record date for the purpose of determining shareholders entitled to notice of, or to vote at, any meeting of shareholders, or shareholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of shareholders for any other proper purpose. Such date in any case shall be not more than seventy (70) days, and, in the case of a meeting of shareholders, not less than ten (10) days, prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If a record date is not set and the transfer books are not closed, the record date for the purpose of making any proper determination with respect to shareholders shall be fixed in accordance with applicable law.

SECTION 5.05. NEW CERTIFICATES. In case any certificate of stock is lost, stolen, mutilated or destroyed, the Board of Directors may authorize the issue of a new certificate in place thereof upon such terms and conditions as it may deem advisable; or the Board of Directors may delegate such power to any officer or officers or agents of the Corporation; but the Board of Directors or such officer or officers, in their discretion, may refuse to issue such new certificate save upon the order of some court having jurisdiction in the premises.

## ARTICLE VI.

### INDEMNIFICATION

Any person (1) who at any time serves or has served as an officer, employee or a director of the Corporation, or (2) who, while serving as an officer, employee or a director of the Corporation, serves or has served at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or as a trustee, other fiduciary or administrator under an employee benefit plan, shall have a right to be indemnified by the Corporation to the fullest extent permitted by law (provided that any employee of the Corporation shall have a right to be indemnified by the Corporation acting in his or her capacity as an employee of the Corporation only upon satisfaction of the standards of conduct for officers and directors set forth in the North Carolina Business Corporation Act) against (a) expenses, including attorneys' fees, incurred by him or her in connection with any threatened, pending or completed civil, criminal, administrative, investigative or arbitrative action, suit or proceeding (and any appeal therein), whether or not brought by or on behalf of the Corporation, seeking to hold him or her liable by reason of the fact that such person is or was acting in such capacity, and (b) payments made by such person in satisfaction of any liability, judgment, money decree, fine (including an excise tax assessed with respect to an employee benefit plan), penalty or settlement for which he or she may have become liable in any such action, suit or proceeding. To the fullest extent from time to time permitted by law, the Corporation agrees to pay the indemnitee's expenses, including attorney's fees and expenses incurred in defending any such action, suit, or proceeding in advance of the final disposition of such action, suit, or proceeding and without requiring a preliminary determination of the ultimate entitlement to indemnification; provided that, the indemnified party first provides the Corporation with (a) a written affirmation of the indemnified party's good faith belief that such party meets the standard of conduct necessary for indemnification under the laws of the State of North Carolina and (b) a written undertaking by or on behalf of such indemnified party to repay the amount advanced if it shall ultimately be determined by a final judicial decision from which there is no further right to appeal that the applicable standard of conduct has not been met. The foregoing rights of the indemnitee hereunder shall inure to the benefit of the indemnitee, whether or not he or she is an officer, director, employee, or agent at the time such liabilities or expenses are imposed or incurred.

The Board of Directors of the Corporation shall take all such action as may be necessary and appropriate to authorize the Corporation to pay the indemnification required by this bylaw, including without limitation, making a determination that indemnification is permissible in the circumstances and a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount or indemnity due him. The Board of Directors may appoint a committee or special counsel to make such determination and evaluation. The Board may give notice to, and obtain approval by, the shareholders of the Corporation for any decision to indemnify.

Any person who at any time after the adoption of this bylaw serves or has served in the aforesaid capacity for or on behalf of the Corporation shall be deemed to be doing or to have done so in reliance upon and as consideration for, the right of indemnification provided herein. Such right shall inure to the benefit of the legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from the provision of this bylaw, including a right of indemnification under any statute, agreement or insurance policy.

ARTICLE VII.

SUNDRY PROVISIONS

SECTION 7.01. SEAL. The corporate seal of the Corporation shall consist of two concentric circles between which is the name of the Corporation and in the center of which is inscribed SEAL; and such seal, as impressed or affixed on the margin hereof, is hereby adopted as the corporate seal of the Corporation.

SECTION 7.02. AMENDMENTS. Except as otherwise provided in the Articles of Incorporation or by law, these Bylaws, including any bylaws adopted by the shareholders, may be amended or repealed and new bylaws may be adopted by the Board of Directors.

## MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2003

## EARNINGS:

Earnings before income taxes	\$143,002
Earnings of less than 50%-owned associated companies, net	490
Interest Expense	42,587
Portion of rents representative of an interest factor	9,471
	-----
ADJUSTED EARNINGS AND FIXED CHARGES	\$195,550

## FIXED CHARGES:

Interest Expense	\$ 42,587
Capitalized Interest	1,875
Portion of rents representative of an interest factor	9,471
	-----
TOTAL FIXED CHARGES	\$ 53,933
RATIO OF EARNINGS TO FIXED CHARGES	3.63

## n STATEMENT OF FINANCIAL RESPONSIBILITY

**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 that 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 independent, nonemployee directors, meets periodically and separately with the independent auditors 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.

/s/ Janice K. Henry  
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 sheets of Martin Marietta Materials, Inc., and subsidiaries at December 31, 2003 and 2002, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note N to the consolidated financial statements, in 2003 the Corporation adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, and changed its method of accounting for asset retirement obligations. 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.

ERNST & YOUNG LLP

Raleigh, North Carolina  
January 27, 2004

*Martin Marietta Materials, Inc. and Consolidated Subsidiaries*

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n CONSOLIDATED STATEMENTS OF EARNINGS

for years ended December 31

(add 000, except per share)

	2003	2002	2001
<b>Net Sales</b>	<b>\$1,500,686</b>	\$1,429,327	\$1,394,112
Freight and delivery revenues	210,767	190,550	200,249
Total revenues	<u>1,711,453</u>	<u>1,619,877</u>	<u>1,594,361</u>
Cost of sales	1,200,923	1,139,687	1,098,819
Freight and delivery costs	210,767	190,550	200,249
Total cost of revenues	<u>1,411,690</u>	<u>1,330,237</u>	<u>1,299,068</u>
<b>Gross Profit</b>	<b>299,763</b>	289,640	295,293
Selling, general and administrative expenses	121,373	114,274	103,918
Research and development	612	369	556
Other operating (income) and expenses, net	(7,369)	(4,891)	(12,299)
<b>Earnings from Operations</b>	<b>185,147</b>	179,888	203,118
Interest expense	42,587	44,028	46,792
Other nonoperating (income) and expenses, net	429	11,476	3,777
Earnings from continuing operations before taxes on income and cumulative effect of change in accounting principle	142,131	124,384	152,549
Taxes on income	41,047	32,265	51,546
<b>Earnings from Continuing Operations before Cumulative Effect of Change in Accounting Principle</b>	<b>101,084</b>	92,119	101,003
(Loss) Gain on discontinued operations, net of related tax expense of \$1,458, \$14,190 and \$1,531, respectively	(587)	5,696	4,359
<b>Earnings before Cumulative Effect of Change in Accounting Principle</b>	<b>100,497</b>	97,815	105,362
Cumulative effect of change in accounting for asset retirement obligations, net of related taxes of \$4,498	(6,874)	—	—
Cumulative effect of change in accounting for intangible assets	—	(11,510)	—
<b>Net Earnings</b>	<b>\$ 93,623</b>	<b>\$ 86,305</b>	<b>\$ 105,362</b>
<b>Net Earnings Per Common Share</b>			
- Basic from continuing operations before cumulative effect of change in accounting principle	\$ 2.06	\$ 1.89	\$ 2.11
- Discontinued operations	(0.01)	0.12	0.09
- Basic before cumulative effect of change in accounting principle	2.05	2.01	2.20
- Cumulative effect of change in accounting principle	(0.14)	(0.24)	—
	<u>\$ 1.91</u>	<u>\$ 1.77</u>	<u>\$ 2.20</u>
- Diluted from continuing operations before cumulative effect of change in accounting principle	\$ 2.06	\$ 1.88	\$ 2.10
- Discontinued operations	(0.01)	0.12	0.09
- Diluted before cumulative effect of change in accounting principle	2.05	2.00	2.19
- Cumulative effect of change in accounting principle	(0.14)	(0.23)	—
	<u>\$ 1.91</u>	<u>\$ 1.77</u>	<u>\$ 2.19</u>
<b>Weighted-Average Number of Common Shares Outstanding</b>			
- Basic	48,905	48,727	47,873
- Diluted	49,136	48,858	48,066
<b>Cash Dividends Per Common Share</b>	<b>\$ 0.69</b>	<b>\$ 0.58</b>	<b>\$ 0.56</b>

at December 31

<i>Assets (add 000)</i>	2003	2002
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 125,133	\$ 14,498
Accounts receivable, net	234,578	232,884
Inventories, net	213,843	239,726
Current deferred income tax benefits	21,603	21,387
Other current assets	26,362	32,152
<b>Total Current Assets</b>	<b>621,519</b>	<b>540,647</b>
Property, plant and equipment, net	1,042,432	1,067,576
Goodwill	577,586	577,449
Other intangibles, net	25,142	31,972
Other noncurrent assets	63,414	55,384
<b>Total Assets</b>	<b>\$2,330,093</b>	<b>\$2,273,028</b>
<b>Liabilities and Shareholders' Equity (add 000, except parenthetical share data)</b>		
<b>Current Liabilities:</b>		
Bank overdraft	\$ 11,264	\$ 14,802
Accounts payable	76,576	73,186
Accrued salaries, benefits and payroll taxes	29,287	30,374
Pension and postretirement benefits	36,176	14,794
Accrued insurance and other taxes	37,927	32,511
Income taxes	246	2,307
Current maturities of long-term debt	1,068	11,389
Other current liabilities	27,620	32,962
<b>Total Current Liabilities</b>	<b>220,164</b>	<b>212,325</b>
Long-term debt and commercial paper	717,073	733,471
Pension, postretirement and postemployment benefits	76,917	101,796
Noncurrent deferred income taxes	130,102	108,496
Other noncurrent liabilities	55,990	33,930
<b>Total Liabilities</b>	<b>1,200,246</b>	<b>1,190,018</b>
<b>Shareholders' Equity:</b>		
Common stock (\$0.01 par value; 100,000,000 shares authorized; 48,670,000 and 48,842,000 shares outstanding at December 31, 2003 and 2002, respectively)	486	488
Preferred stock (\$0.01 par value; 10,000,000 shares authorized; no shares outstanding)	—	—
Additional paid-in capital	435,412	447,153
Accumulated other comprehensive loss	(8,694)	(7,365)
Retained earnings	702,643	642,734
<b>Total Shareholders' Equity</b>	<b>1,129,847</b>	<b>1,083,010</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$2,330,093</b>	<b>\$2,273,028</b>

The notes on pages 14 to 28 are an integral part of these financial statements.



n CONSOLIDATED STATEMENTS OF CASH FLOWS

for years ended December 31

(add 000)

	2003	2002	2001
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 93,623	\$ 86,305	\$ 105,362
Cumulative effect of change in accounting principle	6,874	11,510	—
Earnings before cumulative effect of change in accounting principle	100,497	97,815	105,362
Adjustments to reconcile earnings to cash provided by operating activities:			
Depreciation, depletion and amortization	139,606	138,696	154,635
Gains on sales of assets	(4,399)	(24,155)	(13,438)
Other items, net	(299)	1,124	756
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Deferred income taxes	22,629	24,489	14,356
Accounts receivable, net	(62)	(11,227)	(10,532)
Inventories, net	18,039	(14,329)	(7,809)
Accounts payable	4,047	(7,531)	8,968
Other assets and liabilities, net	(2,889)	(1,322)	645
<b>Net Cash Provided by Operating Activities</b>	<b>277,169</b>	<b>203,560</b>	<b>252,943</b>
<b>Cash Flows from Investing Activities:</b>			
Additions to property, plant and equipment	(120,638)	(152,680)	(194,386)
Acquisitions, net	(8,618)	(47,970)	(221,772)
Proceeds from divestitures of assets	29,478	97,731	49,460
Other investing activities, net	—	—	(3,487)
<b>Net Cash Used for Investing Activities</b>	<b>(99,778)</b>	<b>(102,919)</b>	<b>(370,185)</b>
<b>Cash Flows from Financing Activities:</b>			
Repayments of long-term debt	(4,156)	(5,399)	(2,680)
Increase in long-term debt	—	—	250,078
Commercial paper and line of credit, net	(25,713)	(69,287)	(97,518)
Debt issue costs	—	—	(2,175)
Change in bank overdraft	(3,538)	(7,416)	7,021
Termination of interest rate swaps	12,581	—	—
Dividends paid	(33,714)	(28,278)	(26,927)
Repurchases of common stock	(13,253)	—	—
Issuances of common stock	1,037	640	2,621
<b>Net Cash (Used for) Provided by Financing Activities</b>	<b>(66,756)</b>	<b>(109,740)</b>	<b>130,420</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>110,635</b>	<b>(9,099)</b>	<b>13,178</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>14,498</b>	<b>23,597</b>	<b>10,419</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 125,133</b>	<b>\$ 14,498</b>	<b>\$ 23,597</b>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY n

<i>(add 000)</i>	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2000	46,783	\$468	\$356,546	\$ —	\$506,272	\$ 863,286
Net earnings	—	—	—	—	105,362	105,362
Dividends declared	—	—	—	—	(26,927)	(26,927)
Issuances of common stock for acquisitions	1,684	17	77,309	—	—	77,326
Issuances of common stock for stock award plans	82	—	3,165	—	—	3,165
Balance at December 31, 2001	48,549	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	—	—	—	—	(28,278)	(28,278)
Issuances of common stock for acquisitions	244	2	8,132	—	—	8,134
Issuances of common stock for stock award plans	49	1	2,001	—	—	2,002
Balance at December 31, 2002	48,842	488	447,153	(7,365)	642,734	1,083,010
<b>Net earnings</b>	—	—	—	—	<b>93,623</b>	<b>93,623</b>
<b>Minimum pension liability, net of tax</b>	—	—	—	<b>(1,329)</b>	—	<b>(1,329)</b>
<b>Comprehensive earnings</b>	—	—	—	—	—	<b>92,294</b>
<b>Dividends declared</b>	—	—	—	—	<b>(33,714)</b>	<b>(33,714)</b>
<b>Issuances of common stock for stock award plans</b>	<b>159</b>	<b>1</b>	<b>3,273</b>	—	—	<b>3,274</b>
<b>Repurchases of common stock</b>	<b>(331)</b>	<b>(3)</b>	<b>(15,014)</b>	—	—	<b>(15,017)</b>
<b>Balance at December 31, 2003</b>	<b>48,670</b>	<b>\$486</b>	<b>\$435,412</b>	<b>\$(8,694)</b>	<b>\$702,643</b>	<b>\$1,129,847</b>

The notes on pages 14 to 28 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 353 quarries, distribution facilities and plants to customers in 31 states, Canada and the Caribbean. Texas, North Carolina, Georgia, Iowa and Indiana account for approximately 54% of total 2003 net sales. In addition, the Corporation has a Specialty Products segment which produces magnesia-based chemicals products used in industrial, agricultural and environmental applications; dolomitic lime sold primarily to customers in the steel industry; and structural composite products used in a wide variety of industries.

**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 companies whereby the majority members are paid preferred returns. Generally, the Corporation has the ability to redeem the majority members' interests after the lapse of a specified number of years. One such redemption was exercised in January 2004 for \$5,593,000.

**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.** Revenues for product sales are recognized when finished products are shipped to unaffiliated customers. Revenues for services are recognized when services are rendered. Revenues derived from the road paving business are recognized using the percentage completion method. Total revenues 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 of highly liquid instruments with original maturities of three months or less from the date of purchase. Additionally, at December 31, 2003 and 2002, cash of \$10,440,000 and \$6,814,000, respectively, was held in an unrestricted escrow account on behalf of the Corporation. These cash balances are reported in other noncurrent assets.

**Customer Receivables.** Customer receivables are stated at cost. The Corporation has not charged interest on customer accounts receivable.

**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

The Corporation begins capitalizing quarry development costs at a point when reserves are determined as proven and probable, economically mineable by the Corporation's geological and operational staff and when demand supports investment in the market. Quarry development costs are depreciated over periods up to thirty years.

Mineral reserves are valued at the present value of royalty payments, using a prevailing market royalty rate, that would have been incurred if the Corporation had leased the reserves as opposed to fee-ownership for the life of the reserves, not to exceed twenty years.

Depreciation is computed over estimated service lives, principally by the straight-line method. Depletion of mineral deposits is calculated over proven and probable reserves, by the units-of-production method on a quarry-by-quarry basis.

**Repair and Maintenance Costs.** Repair and maintenance costs that do not substantially extend the life of the Corporation's plant 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.

In accordance with FAS 142, leased mineral rights acquired in a business combination that have a royalty rate less than a prevailing market rate are recognized as intangible assets. The leased mineral rights are valued at the present value of the difference between the market royalty rate and the contractual royalty rate over the lesser of the life of the lease, not to exceed thirty years, or the amount of mineable reserves.

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 sheets and measures those instruments at fair value. The Corporation’s derivatives are interest rate swaps, which 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*, 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 statements 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)	2003	2002	2001
Net earnings, as reported	\$93,623	\$86,305	\$105,362
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	1,396	152	695
Deduct: Stock-based compensation expense determined under fair value for all awards, net of related tax effects	(5,847)	(6,755)	(6,980)
Pro forma net earnings	<u>\$89,172</u>	<u>\$79,702</u>	<u>\$ 99,077</u>
Earnings per share:			
Basic-as reported	\$ 1.91	\$ 1.77	\$ 2.20
Basic-pro forma	<u>\$ 1.82</u>	<u>\$ 1.64</u>	<u>\$ 2.07</u>
Diluted-as reported	\$ 1.91	\$ 1.77	\$ 2.19
Diluted-pro forma	<u>\$ 1.81</u>	<u>\$ 1.63</u>	<u>\$ 2.06</u>

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:

	2003	2002	2001
Risk-free interest rate	4.00%	4.00%	4.90%
Dividend yield	1.60%	1.30%	1.20%
Volatility factor	26.40%	31.70%	34.40%
Expected life	7 years	7 years	7 years

Based on these assumptions, the weighted-average fair value of each award granted was \$11.47, \$12.90 and \$17.45 for 2003, 2002 and 2001, 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, are not transferable, have vesting provisions and changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not provide a reliable single measure of the fair value of its stock-based plans.

**Environmental Matters.** The Corporation accounts for asset retirement obligations in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (“FAS 143”). In accordance with FAS 143, a liability for an asset retirement obligation is recorded at fair value in the period in which it is incurred (see Note N). 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.

Further, the Corporation records an accrual for other environmental remediation liabilities in the period in which it is probable that a liability has been incurred and the appropriate amounts can be estimated reasonably. Such accruals are adjusted as further information develops or circumstances change. These costs are not discounted to their present value.

**Income Taxes.** Deferred income tax assets and liabilities on the consolidated balance sheets 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 startup costs for new facilities and products are charged to operations as incurred.

**Comprehensive Earnings.** Comprehensive earnings for the Corporation consists of net earnings and, for 2003 and 2002, respectively, the \$1,329,000 and \$7,365,000 impact of a minimum pension liability, which is net of income tax benefits of \$870,000 and \$4,818,000, respectively.

**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)	2003	2002	2001
<b>Basic Earnings per Common Share:</b>			
Weighted-average number of shares	48,905	48,727	47,873
<b>Effect of Dilutive Securities:</b>			
Employee and Director awards	231	131	193
<b>Diluted Earnings per Common Share:</b>			
Weighted-average number of shares and assumed conversions	49,136	48,858	48,066

**Accounting Changes.** On January 1, 2003, the Corporation adopted FAS 143 (see Note N).

On January 1, 2003, the Corporation adopted 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. The adoption of FAS 146 had no impact on the Corporation's net earnings or financial position.

On July 1, 2003, the Corporation adopted Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("FAS 150"). FAS 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The adoption of FAS 150 had no impact on the Corporation's net earnings or financial position.

In 2003, the Corporation adopted Financial Accounting Standards Board ("FASB") Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 requires that upon issuance of certain guarantees, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. In accordance with FIN 45, at December 31, 2003, the Corporation has recorded a liability of \$6,000,000 for a guarantee of debt of a limited liability company, of which it is a member.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires a new approach in determining if a reporting entity consolidates certain legal entities referred to as variable interest entities ("VIEs"), including joint ventures, limited liability companies and equity investments, in which it has invested. A VIE is an entity that has insufficient resources to finance the entity's activities without receiving additional financial support from other parties and in which the investor does not have a controlling interest. Under FIN 46, consolidation of a VIE is required by the investor that absorbs a majority of the entity's expected losses or receives a majority of the entity's residual returns, or both. FIN 46 will be effective as of March 31, 2004 for the Corporation. The Corporation does not believe that it is reasonably possible that the adoption of FIN 46 will be material to its financial position or results of operations.

**Reclassifications.** Certain 2002 and 2001 amounts have been reclassified to conform to the 2003 presentation. Gains and losses on accounts receivable and fixed asset sales and income and expenses related to the structural composite products business and other operating assets were reclassified from nonoperating earnings to operating earnings. Operating results related to divested locations were reclassified into discontinued operations (see Note C). Additionally, cash balances have been reclassified to include accounts with positive balances in cash and cash equivalents and accounts in an overdraft position as a bank overdraft on the consolidated balance sheets. The reclassifications had no impact on previously reported net earnings or financial position.

#### Note B: Intangible Assets

The following shows the changes in goodwill, all of which relate to the Aggregates segment, for the years ended December 31:

(add 000)	2003	2002
Balance at beginning of period	\$577,449	\$571,186
Acquisitions	5,242	41,325
Adjustments to purchase price allocations	(495)	(2,119)
Amounts allocated to divestitures	(4,610)	(21,433)
Impairment charge	—	(11,510)
Balance at end of period	<u>\$577,586</u>	<u>\$577,449</u>

The impairment charge in 2002 represented the cumulative effect of adopting FAS 142 and related to the road paving business reporting unit. 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.

The fair value of this reporting unit was determined using a discounted cash flow model. At January 1, 2002, the carrying value of the reporting unit exceeded its fair value. The impairment charge represented all of the goodwill related to this reporting unit.

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

(add 000)	2003		
	Gross Amount	Accumulated Amortization	Net Balance
Noncompetition agreements	\$30,410	\$(18,605)	\$11,805
Trade names	6,067	(2,091)	3,976
Supply agreements	900	(623)	277
Use rights and other	15,921	(7,037)	8,884
Total	<u>\$53,298</u>	<u>\$(28,356)</u>	<u>\$24,942</u>
	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	<u>\$59,277</u>	<u>\$(27,505)</u>	<u>\$31,772</u>

At December 31, 2003 and 2002, the Corporation has water use rights of \$200,000 that are deemed to have an indefinite life and are not being amortized.

During 2003 and 2002, the Corporation acquired \$2,029,000 and \$2,879,000, 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)

	2003	
	Amount	Weighted-Average Amortization Period
Licensing agreements	<u>\$2,029</u>	<u>5.4 years</u>

	<u>Amount</u>	<u>Weighted-Average Amortization Period</u>
Noncompetition agreements	\$1,708	6.4 years
Licensing agreements	1,171	6.8 years
Total	<u>\$2,879</u>	<u>6.6 years</u>

n NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Total amortization expense for intangible assets for 2003, 2002 and 2001 was \$5,840,000, \$6,102,000 and \$28,393,000, respectively. Goodwill amortization expense was included in 2001.

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

(add 000)	
2004	\$ 5,141
2005	4,148
2006	3,166
2007	2,117
2008	1,169
Thereafter	9,201
<b>Total</b>	<b>\$24,942</b>

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 as if FAS 142 had been adopted on January 1, 2001:

(add 000)	
Earnings before taxes on income, as reported	\$158,439
Goodwill amortization	22,394
Earnings before taxes on income	180,833
Income tax expense	56,221
<b>Net earnings</b>	<b>\$124,612</b>
Earnings per diluted share	\$ 2.59

**Note C: Business Combinations and Divestitures**

In 2003, the Corporation disposed of various nonstrategic operations in markets in Alabama, Ohio, Missouri, West Virginia, Louisiana and Texas. These divestitures resulted in discontinued operations, and, therefore, the results of all divested operations through the dates of disposal and any gain or loss on disposals are included in discontinued operations on the consolidated statements of earnings. The results of discontinued operations for 2002 and 2001 have been reclassified, as required, to conform to the 2003 presentation. In 2003, 2002 and 2001, the discontinued operations included net sales of \$37,183,000, \$68,853,000 and \$113,223,000, respectively, and pretax earnings of \$871,000, \$19,886,000 and \$5,890,000, respectively. These pretax earnings include a net gain on disposals of \$1,794,000 and \$21,621,000 in 2003 and 2002, respectively.

During 2003, the Corporation acquired the remaining interest in an LLC from a majority member for \$9,113,000. The Corporation, also in 2003, finalized the purchase price allocation of the six transactions completed in 2002. The adjustments to purchase price allocations decreased goodwill by \$495,000.

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, which is included in other operating income and expenses, net, on the sale of these assets after the write-down of certain retained refractories assets, including assets at the Magnesia Specialties' 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 to Magnesia Specialties' net sales.

**Note D: Accounts Receivable, Net**

December 31 (add 000)	2003	2002
Customer receivables	\$231,308	\$230,098
Other current receivables	8,466	11,068
	239,774	241,166
Less allowances	(5,196)	(8,282)
<b>Total</b>	<b>\$234,578</b>	<b>\$232,884</b>

During 2003, the Corporation decreased its allowance for doubtful accounts based on its recent experience for bad debts. The change in allowance increased net income by approximately \$1,900,000, or \$0.04 per diluted share.

**Note E: Inventories, Net**

December 31 (add 000)	2003	2002
Finished products	\$183,479	\$212,694
Products in process and raw materials	12,535	8,967
Supplies and expendable parts	23,819	23,724
	219,833	245,385
Less allowances	(5,990)	(5,659)



Total

\$213,843\$239,726**Note F: Property, Plant and Equipment, Net**

<i>December 31</i> <i>(add 000)</i>	<b>2003</b>	<b>2002</b>
Land and improvements	\$ 280,926	\$ 262,395
Mineral deposits	184,955	183,217
Buildings	80,571	79,593
Machinery and equipment	1,611,403	1,532,204
Construction in progress	47,610	89,071
	<u>2,205,465</u>	<u>2,146,480</u>
Less allowances for depreciation and depletion	<u>(1,163,033)</u>	<u>(1,078,904)</u>
Total	<u>\$ 1,042,432</u>	<u>\$ 1,067,576</u>

Depreciation and depletion expense was \$133,090,000, \$131,926,000 and \$125,642,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Interest cost of \$1,875,000, \$3,788,000 and \$6,040,000 was capitalized during 2003, 2002 and 2001, respectively.

At December 31, 2003 and 2002, \$76,435,000 and \$79,507,000, respectively, of the Corporation's fixed assets were located in foreign countries, principally the Bahamas.

#### Note G: Long-Term Debt

<i>December 31</i> (add 000)	2003	2002
6.875% Notes, due 2011	<b>\$249,773</b>	\$249,750
5.875% Notes, due 2008	<b>212,251</b>	209,143
6.9% Notes, due 2007	<b>124,976</b>	124,971
7% Debentures, due 2025	<b>124,265</b>	124,251
Commercial Paper, interest rates ranging from 1.50% to		
1.65%	—	20,000
Line of credit, interest rate of 1.94%	—	5,713
Acquisition notes, interest rates ranging from 3.79% to		
9.00%	<b>5,916</b>	10,849
Other notes	<b>960</b>	183
<b>Total</b>	<b>718,141</b>	744,860
Less current maturities	<b>(1,068)</b>	(11,389)
<b>Long-term debt</b>	<b>\$717,073</b>	\$733,471

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 related to \$100 million of the Notes due in 2008. The swaps were with four separate financial institutions, each agreement covering \$25 million of the Notes. The Corporation received a 5.875% fixed annual interest rate and paid 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 were met. Therefore, the hedges were considered perfectly effective and qualified for the shortcut method of accounting. The Corporation was 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 these interest rate swaps was \$9,821,000. A corresponding amount is included in other noncurrent assets on the consolidated balance sheet.

In May 2003, the Corporation terminated its interest rate swap agreements and received a cash payment of \$12,581,000, which represented the fair value of the swaps on the date of termination. The Corporation also received accrued interest of \$2,152,000, which represented the difference between the fixed interest rate received and the variable interest paid from the previous interest payment date to the termination date. In accordance with generally accepted accounting principles, the carrying amount of the related Notes on the date of termination, which includes adjustments for changes in the fair value of the debt while the swaps were in effect, will be accreted back to its par value over the remaining life of the Notes. The accretion will decrease annual interest expense by approximately \$2,000,000 until the maturity of the Notes in 2008. At December 31, 2003, the unamortized value of the terminated swaps was \$11,393,000.

In August 2003, the Corporation entered into new interest rate swap agreements related to \$100 million of the Notes due in 2008. The swaps were with four separate financial institutions, each agreement covering \$25 million of the Notes. The Corporation received a 5.875% fixed annual interest rate and paid a floating annual rate equal to six-month LIBOR plus 1.50%. 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

n NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 2003, the fair value of these interest rate swaps is \$1,437,000. A corresponding amount is included in other noncurrent assets on the consolidated balance sheet.

The Corporation has a \$275,000,000 five-year revolving credit agreement (the "Credit Agreement"), which is syndicated with a group of domestic and foreign commercial banks and 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 the Corporation's debt-to-total capitalization ratio, 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. No borrowings were outstanding under the Credit Agreement at December 31, 2003 and 2002.

The Credit Agreement supports a \$275,000,000 commercial paper program, none of which was outstanding at December 31, 2003. Commercial paper borrowings of \$20,000,000 were outstanding at December 31, 2002. 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 interest rate swaps, the Corporation's long-term debt maturities for the five years following December 31, 2003, and thereafter are:

(add 000)	
2004	\$ 1,068
2005	971
2006	1,035
2007	125,777
2008	200,000
Thereafter	376,460
Total	<u>\$705,311</u>

**Note H: Financial Instruments**

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

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

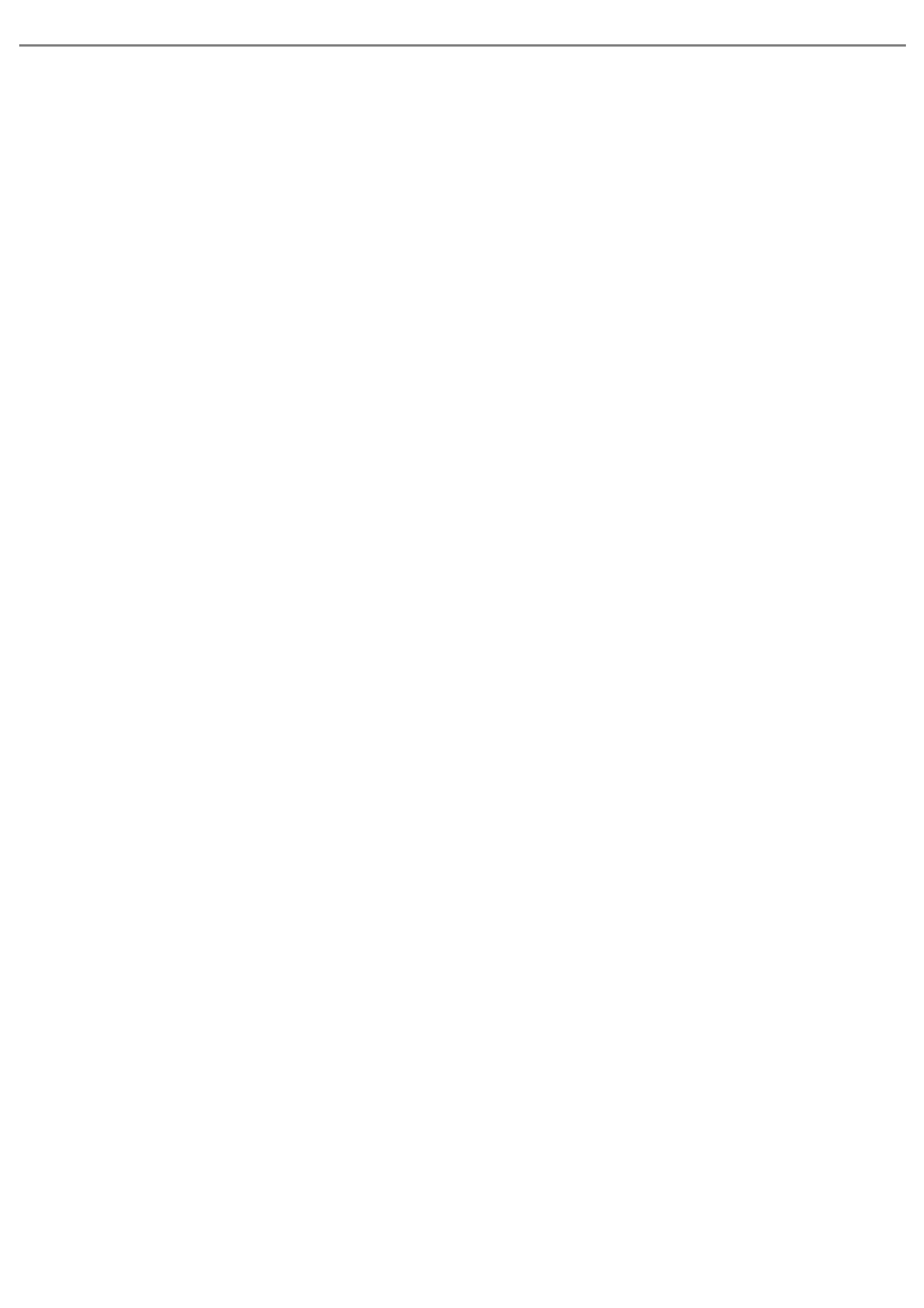
Customer receivables are due from a large number of customers who are dispersed across wide geographic and economic regions. However, customer receivables are more heavily concentrated in certain states (see Note A). At December 31, 2003 and 2002, the Corporation had no significant concentrations of credit risk. The estimated fair values of customer receivables approximate their carrying amounts.

The bank overdraft represents the float of outstanding checks. The estimated fair value of the bank overdraft approximates its carrying value.

The estimated fair value of the Corporation's publicly registered long-term notes and debentures at December 31, 2003 was approximately \$778,878,000 compared with a carrying amount of \$698,435,000 on the consolidated balance sheet. The estimated fair value and carrying amount exclude the impact of interest rate 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 other borrowings approximate their carrying amounts.

The carrying values and fair values of the Corporation's financial instruments at December 31 are as follow:

(add 000)	2003	
	Carrying Value	Fair Value
Cash and cash equivalents	\$125,133	\$125,133
Accounts receivable, net	\$234,578	\$234,578
Bank overdraft	\$ 11,264	\$ 11,264
Long-term debt, excluding interest rate swaps	\$705,311	\$785,754
Interest rate swaps	\$ 1,437	\$ 1,437
	2002	
(add 000)	Carrying Value	Fair Value
Cash and cash equivalents	\$ 14,498	\$ 14,498
Accounts receivable, net	\$232,884	\$232,884
Bank overdraft	\$ 14,802	\$ 14,802
Long-term debt, excluding interest rate swaps	\$735,039	\$805,127
Interest rate swaps	\$ 9,821	\$ 9,821



**Note I: Income Taxes**

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

years ended December 31 (add 000)	2003	2002	2001
<b>Federal income taxes:</b>			
Current	\$13,302	\$ 4,088	\$33,241
Deferred	20,818	22,090	7,366
Total federal income taxes	<u>34,120</u>	<u>26,178</u>	<u>40,607</u>
<b>State income taxes:</b>			
Current	2,347	996	6,890
Deferred	3,421	4,130	1,809
Total state income taxes	<u>5,768</u>	<u>5,126</u>	<u>8,699</u>
<b>Foreign income taxes:</b>			
Current	1,159	961	2,240
Total provision	<u>\$41,047</u>	<u>\$32,265</u>	<u>\$51,546</u>

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

years ended December 31	2003	2002	2001
Statutory tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
Effect of statutory depletion	(10.5)	(14.3)	(7.2)
State income taxes	2.6	2.7	3.7
Goodwill amortization	—	—	3.3
Effect of foreign operations	0.6	2.1	1.3
Partnership interest	—	—	(2.7)
Other items	1.2	0.4	0.4
Effective tax rate	<u>28.9%</u>	<u>25.9%</u>	<u>33.8%</u>

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

(add 000)	Deferred Assets (Liabilities)	
	2003	2002
Property, plant and equipment	\$(141,982)	\$(131,025)
Goodwill and other intangibles	(12,977)	(6,628)
Employee benefits	23,186	30,296
Valuation and other reserves	6,974	11,113
Other items, net	10,612	4,317
Total	<u>\$(114,187)</u>	<u>\$ (91,927)</u>

Additionally, the Corporation has a deferred tax asset of \$5,688,000 and \$4,818,000 at December 31, 2003 and 2002, respectively, related to its minimum pension liability. Deferred tax assets and liabilities related to goodwill and other intangibles reflect the cessation of goodwill amortization for financial reporting purposes pursuant to FAS 142 and, for 2002, 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 has tax credit carryforwards of approximately \$5,100,000 at December 31, 2003, which do not expire. The Corporation does not believe a valuation allowance is required at December 31, 2003 or 2002.

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

**Defined Benefit Plans.** The Corporation sponsors defined benefit retirement plans that 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.

n NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Corporation's defined benefit retirement 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*, as revised, 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 measurement date for the Corporation's defined benefit plans is December 31.

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

years ended December 31 (add 000)	2003	2002	2001
Components of net periodic benefit cost:			
Service cost	\$ 9,073	\$ 9,352	\$ 8,284
Interest cost	14,437	13,463	11,950
Expected return on assets	(10,648)	(12,826)	(14,114)
Amortization of:			
Prior service cost	605	617	617
Actuarial loss (gain)	1,634	48	(1,006)
Transition asset	1	(14)	(357)
Net periodic benefit cost	15,102	10,640	5,374
Curtailement gain	—	—	(1,472)
Total net periodic benefit cost	\$ 15,102	\$ 10,640	\$ 3,902

The Corporation realized a curtailment gain of \$1,472,000 related to the 2001 sale of the refractories business of Martin Marietta Magnesia Specialties.

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

years ended December 31 (add 000)	2003	2002
Change in benefit obligation:		
Net benefit obligation at beginning of year	\$207,512	\$174,627
Service cost	9,073	9,352
Interest cost	14,437	13,463
Actuarial loss	26,806	18,610
Plan amendments	—	(55)
Gross benefits paid	(8,669)	(8,485)
Net benefit obligation at end of year	\$249,159	\$207,512

years ended December 31 (add 000)	2003	2002
Change in plan assets:		
Fair value of plan assets at beginning of year	\$126,091	\$147,094
Actual return on plan assets, net	27,090	(12,565)
Employer contributions	21,058	47
Gross benefits paid	(8,669)	(8,485)
Fair value of plan assets at end of year	\$165,570	\$126,091

December 31 (add 000)	2003	2002
Funded status of the plan at end of year	\$(83,589)	\$(81,421)
Unrecognized net actuarial loss	51,452	42,959
Unrecognized prior service cost	2,997	3,602
Unrecognized net transition asset	(20)	(19)
Minimum pension liability	(17,359)	(15,767)
Accrued benefit cost	\$(46,519)	\$(50,646)

December 31 (add 000)	2003	2002
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit cost	\$ 207	\$ 186
Accrued benefit cost	(29,367)	(35,065)
Accrued minimum pension liability	(17,359)	(15,767)
Net amount recognized at end of year	\$(46,519)	\$(50,646)

The Corporation recorded an intangible asset of \$2,977,000 and \$3,584,000 and accumulated other comprehensive loss, net of applicable taxes, of \$8,694,000 and \$7,365,000 at December 31, 2003 and 2002, respectively, related to the minimum pension liability. The intangible asset is included in other noncurrent

assets.

The accumulated benefit obligation for all defined benefit pension plans was \$212,079,000 and \$176,629,000 at December 31, 2003 and 2002, respectively.

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 \$248,638,000, \$211,746,000 and \$165,020,000, respectively, at December 31, 2003, and \$207,100,000, \$176,416,000 and \$125,586,000, respectively, as of December 31, 2002.

Weighted-average assumptions used to determine benefit obligations as of December 31 are:

	<u>2003</u>	<u>2002</u>
Discount rate	<b>6.25%</b>	6.75%
Rate of increase in future compensation levels	<b>5.00%</b>	5.00%



Weighted-average assumptions used to determine net periodic retirement benefit cost for years ended December 31 are:

	2003	2002
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%

The expected long-term rate of return on assets to determine net cost for the year ended December 31, 2003 is net of investment charges. For the year ended December 31, 2002, 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 Corporation's expected long-term rate of return on assets is based on historical rates of return for a similar mix of invested assets.

The pension plan asset allocation at December 31, 2003 and 2002 and target allocation for 2004 by asset category are as follow:

Asset Category	Target Allocation	Percent of Plan Assets	
		December 31 2003	2002
Equity securities	60%	63%	54%
Debt securities	39%	37%	44%
Cash	1%	—	2%
Total	100%	100%	100%

The Corporation's investment strategy for pension plan assets is for approximately two-thirds of the equity investments to be invested in a large capitalization index fund. The remaining third of the equity investments is invested in small capitalization and international funds. Fixed income investments are invested in funds with the objective of matching the return of the Lehman Brothers Bond Index.

In January 2004, the Corporation made a voluntary pension plan contribution of \$32,000,000. The Corporation does not expect to make any additional pension plan contributions in 2004.

**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 measurement date for these plans is December 31. The net periodic postretirement benefit cost of postretirement plans included the following components:

<i>years ended December 31</i> (add 000)	2003	2002	2001
Components of net periodic benefit cost:			
Service cost	\$ 687	\$ 675	\$ 791
Interest cost	4,068	3,582	4,203
Amortization of:			
Prior service cost	(720)	(569)	(483)
Actuarial loss (gain)	212	(263)	(112)
Net periodic benefit cost	4,247	3,425	4,399
Curtailement charge	—	—	115
Settlement gain	—	—	(471)
Total net periodic benefit cost	\$4,247	\$3,425	\$4,043

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

<i>years ended December 31</i> (add 000)	2003	2002
Change in benefit obligation:		
Net benefit obligation at beginning of year	\$63,370	\$58,649
Service cost	687	675
Interest cost	4,068	3,582
Participants' contributions	578	384
Plan amendments	(8,878)	—
Actuarial loss	4,777	4,015
Gross benefits paid	(4,192)	(3,935)
Net benefit obligation at end of year	\$60,410	\$63,370

<i>years ended December 31</i> (add 000)	2003	2002
Change in plan assets:		

Fair value of plan assets at beginning of year	\$ 0	\$ 0
Employer contributions	3,614	3,551
Participants' contributions	578	384
Gross benefits paid	<b>(4,192)</b>	<b>(3,935)</b>
Fair value of plan assets at end of year	<u>\$ 0</u>	<u>\$ 0</u>

<i>December 31</i> (add 000)	2003	2002
Funded status of the plan at end of year	<b>\$(60,410)</b>	\$(63,370)
Unrecognized net actuarial loss	10,623	5,756
Unrecognized prior service cost	<b>(14,910)</b>	<b>(6,753)</b>
Accrued benefit cost	<u><b>\$(64,697)</b></u>	<u>\$(64,367)</u>

<i>December 31</i> (add 000)	2003	2002
Amounts recognized in the consolidated balance sheets consist of:		
Accrued benefit cost	<b>\$(64,697)</b>	\$(64,367)
Net amount recognized at end of year	<u><b>\$(64,697)</b></u>	<u>\$(64,367)</u>

n NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Weighted-average assumptions used to determine the postretirement benefit obligations as of December 31 are:

	2003	2002
Discount rate	6.25%	6.75%

Weighted-average assumptions used to determine net postretirement benefit cost for years ended December 31 are:

	2003	2002
Discount rate	6.75%	7.25%

Assumed health care cost trend rate at December 31:

	2003	2002
Health care cost trend rate assumed for next year	11.0%	12.0%
Rate that the cost trend rate gradually declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

(add 000)	One Percentage Point	
	Increase	(Decrease)
Total service and interest cost components	\$ 339	\$ (289)
Postretirement benefit obligation	\$3,904	\$(3,373)

The Corporation's estimate of its contributions to its postretirement health care plans in 2004 is approximately \$4,000,000.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. The Act provides a voluntary prescription drug benefit under the Social Security Act, with benefits beginning January 1, 2006. The Act also provides for the government to pay a special subsidy to employers who sponsor retiree prescription drug plans, provided certain conditions are met. The Corporation offers prescription drug coverage to its retirees as part of its postretirement benefits. As allowed by Financial Staff Position No. FAS 106-1, the Corporation has elected to defer reflecting any adjustment related to the impact of the Act in its accumulated postretirement benefit obligation at December 31, 2003. Specific authoritative guidance on accounting for the federal subsidy is pending and could require a plan sponsor to change previously reported information.

**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 \$4,516,000 in 2003, \$4,705,000 in 2002 and \$4,846,000 in 2001.

**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 \$1,877,000 and \$1,577,000 at December 31, 2003 and 2002, respectively.

**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 was 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.

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 stock options for employees and nonemployee director awards.

	Number of Options Outstanding	Weighted- Average Exercise Price
Balance at December 31, 2000	1,836,657	\$40.41
Granted	528,000	\$43.54
Exercised	(68,502)	\$25.40
Terminated	(9,731)	\$45.01
Balance at December 31, 2001	2,286,424	\$41.61
Granted	552,000	\$36.55
Exercised	(30,167)	\$25.74
Terminated	(55,751)	\$46.22
Balance at December 31, 2002	2,752,506	\$40.68
<b>Granted</b>	<b>532,750</b>	<b>\$38.32</b>
<b>Exercised</b>	<b>(52,799)</b>	<b>\$24.73</b>
<b>Terminated</b>	<b>(52,584)</b>	<b>\$41.15</b>
<b>December 31, 2003</b>	<b>3,179,873</b>	<b>\$40.80</b>

Exercise prices for options outstanding as of December 31, 2003, ranged from \$20.00 to \$63.44. The weighted-average remaining contractual life of those options is 6.7 years. Approximately 2,171,000, 1,738,000 and 1,344,000 outstanding options were exercisable at December 31, 2003, 2002 and 2001, respectively. The weighted-average exercise price of outstanding exercisable options at December 31, 2003 is \$41.47.

The following table summarizes information for options outstanding and exercisable at December 31, 2003.

Options Outstanding			
Range of Prices	Number of Shares	Weighted- Average Remaining Life	Weighted- Average Exercise Price
\$20.00-\$24.25	264,252	1.9	\$22.27
\$32.37-\$48.75	2,891,621	7.1	\$42.07
\$51.50-\$63.44	24,000	5.8	\$57.47
Options Exercisable			
Range of Prices	Number of Shares	Weighted- Average Remaining Life	Weighted- Average Exercise Price
\$20.00-\$24.25	264,252	1.9	\$22.27
\$32.37-\$48.75	1,883,121	6.1	\$43.97
\$51.50-\$63.44	24,000	5.8	\$57.47

Additionally, an incentive stock plan has been adopted under the Plans whereby certain participants may 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. Stock unit awards representing 47,680, 38,452 and 38,222 shares of the Corporation's common stock were awarded in 2003, 2002 and 2001, respectively. The weighted-average grant-date fair value of these awards was \$28.15, \$43.91 and \$40.46, respectively.

Participants earn the right to receive 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 beginning 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 that are paid on the units during the vesting period.

In 2003 and 2001, the Corporation granted 192,793 and 56,254, respectively, restricted stock awards under the Plans to a group of executive officers and key personnel. The weighted-average grant-date fair value of these awards was \$40.64 and \$31.98 for 2003 and 2001, respectively. 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 motivate key employees. 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, upon turning age 62 or on the sixth anniversary from the date of grant.

At December 31, 2003, there are approximately 1,877,000 awards available for grant under the Plans.

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. No additional awards have been granted under this plan after 2000.

Also, the Corporation adopted and the shareholders approved the Common Stock Purchase Plan for Directors in 1996, which provides nonemployee 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 16,941, 14,080 and 9,731 shares of the Corporation's common stock under this plan during 2003, 2002 and 2001, respectively.



**Note L: Leases**

Total lease expense for all operating leases was \$55,665,000, \$53,950,000 and \$43,803,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The Corporation's operating leases generally contain renewal and/or purchase options with varying terms. Total royalties, principally for leased properties, were \$33,362,000, \$31,155,000 and \$29,087,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Future minimum lease and mineral and other royalty commitments for all noncancelable agreements as of December 31, 2003 are as follow:

(add 000)	
2004	\$ 34,189
2005	31,707
2006	28,534
2007	27,723
2008	21,198
Thereafter	57,619
Total	\$200,970

**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. 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. Approximately 5,600,000 common shares have been reserved for issuance under benefit and stock-based incentive plans. At December 31, 2003 and 2002, there were 1,215 and 1,286, respectively, shareholders of record.

Approximately 6,000,000 shares of the Corporation's common stock are authorized to be repurchased under various stock-based compensation and common stock purchase plans and are outstanding under the Board's authorization. During 2003, the Corporation repurchased 331,100 shares of its common stock at public market prices at various purchase dates. There were no shares repurchased in 2002 or 2001.

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.

**Asset Retirement Obligations.** The Corporation incurs reclamation costs as part of its aggregates mining process. Effective January 1, 2003, the Corporation adopted FAS 143. The cumulative effect of the adoption was a charge of \$6,874,000, or \$0.14 per diluted share, which is net of a \$4,498,000 income tax benefit.

The estimated future reclamation obligations have been discounted to their present value and are being accreted to their projected future obligations via charges to operating expenses. Additionally, the fixed assets recorded concurrently with the liabilities are being depreciated over the period until reclamation activities are expected to occur. Total accretion and depreciation expenses for 2003 were \$1,692,000 and are included in other operating income and expenses, net, on the consolidated statements of earnings.

The provisions of FAS 143 require the projected estimated reclamation obligation to include a market risk premium which represents the amount an external party would charge for bearing the uncertainty of guaranteeing a fixed price today for performance in the future. However, due to the average remaining quarry life exceeding 50 years at current production rates and the nature of quarry reclamation work, the Corporation believes that it is impractical for external parties to agree to a fixed price today. Therefore, a market risk premium has not been included in the reclamation liabilities.

The following shows the changes in the asset retirement obligations for 2003:

(add 000)	
Balance at January 1	\$18,122
Accretion expense	1,028
Liabilities incurred	763
Liabilities settled	(284)
Balance at December 31	\$19,629

The following pro forma information presents net earnings, excluding the cumulative effect of the accounting change, and the asset retirement obligation as if FAS 143 had been adopted on January 1, 2001:

(add 000, except per share)	2002	2001
Net earnings	\$85,198	\$104,666
Earnings per diluted share	\$ 1.74	\$ 2.18
Asset Retirement Obligation		
January 1, 2001		\$12,789
December 31, 2001		\$17,425
December 31, 2002		\$18,122

**Other 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 remediation liability is inherent in the operation of the Corporation's businesses, as it is with other companies engaged in similar businesses. The Corporation has no material provisions for environmental remediation liabilities and does not believe that it is reasonably possible that such liabilities will have a material adverse effect on the Corporation in the future.

**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. During 2003, the Corporation decreased its accrual for incurred but not reported health claims. The change in estimate increased net earnings for the year by approximately \$1,150,000, or \$0.02 per diluted share, and was based on the Corporation's recent claims experience. At December 31, 2003 and 2002, reserves of approximately \$26,400,000 and \$25,200,000, respectively, 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 \$17,607,000 at December 31, 2003.

**Surety Bonds.** In the normal course of business, the Corporation is contingently liable for \$135,384,000 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 and guarantee the Corporation's own performance. 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 \$45,617,000, or 34% of all outstanding surety bonds, relate to specific performance for road construction projects currently underway.

**Employees.** Approximately 13% of the Corporation's employees are represented by a labor union. All such employees are hourly employees.

#### Note O: Business Segments

The Corporation conducts its operations through two reportable business segments: Aggregates and Specialty Products. The Corporation's evaluation of performance and allocation of resources are based primarily on earnings from operations. Earnings from operations are net sales less cost of sales; selling, general and administrative expenses; and research and development expenses; include other operating income and expenses; and exclude interest expense and other nonoperating income and expenses. 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 includes property, plant and equipment that has been purchased through acquisitions in the amount of \$2,913,000, in 2003; \$23,611,000 in 2002; and \$118,365,000 in 2001.

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, 2003. The product lines, asphalt, ready mixed concrete, construction and other, are combined into the aggregates segment because these lines are considered internal customers of the core aggregates business. The Specialty Products segment includes the Magnesia Specialties and Structural Composites businesses.

**Selected Financial Data by Business Segment**

years ended December 31  
(add 000)

	2003	2002	2001
<b>Total revenues</b>			
Aggregates	\$1,617,040	\$1,539,834	\$1,486,646
Specialty Products	94,413	80,043	107,715
Total	<u>\$1,711,453</u>	<u>\$1,619,877</u>	<u>\$1,594,361</u>
<b>Net sales</b>			
Aggregates	\$1,412,356	\$1,353,820	\$1,292,956
Specialty Products	88,330	75,507	101,156
Total	<u>\$1,500,686</u>	<u>\$1,429,327</u>	<u>\$1,394,112</u>
<b>Gross profit</b>			
Aggregates	\$ 290,209	\$ 278,880	\$ 281,261
Specialty Products	9,554	10,760	14,032
Total	<u>\$ 299,763</u>	<u>\$ 289,640</u>	<u>\$ 295,293</u>
<b>Selling, general and administrative expenses</b>			
Aggregates	\$ 113,423	\$ 106,864	\$ 93,303
Specialty Products	7,950	7,410	10,615
Total	<u>\$ 121,373</u>	<u>\$ 114,274</u>	<u>\$ 103,918</u>
<b>Earnings from operations</b>			
Aggregates	\$ 185,055	\$ 177,238	\$ 191,461
Specialty Products	92	2,650	11,657
Total	<u>\$ 185,147</u>	<u>\$ 179,888</u>	<u>\$ 203,118</u>
<b>Assets employed</b>			
Aggregates	\$2,034,346	\$2,115,335	\$2,107,873
Specialty Products	76,805	66,128	69,241
Corporate headquarters	218,942	91,565	69,684
Total	<u>\$2,330,093</u>	<u>\$2,273,028</u>	<u>\$2,246,798</u>
<b>Depreciation, depletion and amortization</b>			
Aggregates	\$ 127,743	\$ 128,078	\$ 145,488
Specialty Products	5,544	5,473	6,471
Corporate headquarters	6,319	5,145	2,676
Total	<u>\$ 139,606</u>	<u>\$ 138,696</u>	<u>\$ 154,635</u>
<b>Property additions</b>			
Aggregates	\$ 115,031	\$ 162,116	\$ 287,954
Specialty Products	5,236	2,654	2,411
Corporate headquarters	3,284	11,521	22,386
Total	<u>\$ 123,551</u>	<u>\$ 176,291</u>	<u>\$ 312,751</u>

The following table displays total revenues by product line for each of the three years ended December 31, 2003:

years ended December 31  
(add 000)

	2003	2002	2001
<b>Total revenues</b>			
Aggregates	\$1,438,021	\$1,351,163	\$1,295,313
Asphalt	85,232	88,061	91,598
Ready Mixed Concrete	31,005	29,114	28,019
Road Paving	51,634	60,457	59,864
Other	11,148	11,039	11,852
Total Aggregates segment	<u>1,617,040</u>	<u>1,539,834</u>	<u>1,486,646</u>
Specialty Products	94,413	80,043	107,715
Total	<u>\$1,711,453</u>	<u>\$1,619,877</u>	<u>\$1,594,361</u>

**Note P: Supplemental Cash Flow Information**

The following presents supplemental cash flow information for the years ended December 31:

(add 000)	2003	2002	2001
Cash paid for interest	<u>\$46,813</u>	<u>\$47,082</u>	<u>\$47,478</u>



Cash paid for taxes	<b>\$14,832</b>	\$25,355	\$42,126
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
Notes receivable issued in connection with divestitures	<b>\$10,273</b>	\$ 5,645	\$ —

The following presents the components of the change in other assets and liabilities, net, for the years ended December 31:

(add 000)	2003	2002	2001
Other current and noncurrent assets	<b>\$(6,216)</b>	\$ (2,461)	\$ 5,551
Accrued salaries, benefits and payroll taxes	<b>510</b>	(1,584)	(2,042)
Accrued insurance and other taxes	<b>5,261</b>	246	2,238
Accrued income taxes	<b>5,800</b>	(2,422)	(4,217)
Accrued pension, postretirement and postemployment benefits	<b>(6,687)</b>	12,071	6,186
Other current and noncurrent liabilities	<b>(1,557)</b>	(7,172)	(7,071)
Total	<b>\$(2,889)</b>	\$ (1,322)	\$ 645

## INTRODUCTORY OVERVIEW

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 Corporation is also developing structural composite products for use in a wide variety of industries. In evaluating the Corporation's financial condition and operating results, management considers each of the factors described below.

### Economic Considerations

The construction aggregates business is a commodity-like business that is cyclical and dependent on activity within the construction marketplace. The principal end-users are in public infrastructure (e.g., highways, bridges, schools, prisons), commercial and residential construction markets. As discussed further under the section, *Aggregates Industry and Corporation Trends*, on pages 34 and 35, end-user markets respond to changing economic conditions in different ways. Public infrastructure construction is typically more stable than commercial and residential construction due to funding from federal and state governments. Commercial and residential construction levels typically move in a direct relationship with economic cycles.

The industry and the Corporation are focusing, in the near term, on passage of a new federal highway program. As discussed under the section, *Federal and State Highway Appropriations*, on pages 37 through 39, management believes that a federal highway program funding bill will be approved at a higher level than the recently expired bill. However, the debate on funding levels, terms and duration will continue through mid-year 2004 and possibly longer.

Currently, in spite of a stagnant economy, residential construction has remained strong, supported by low mortgage interest rates, while commercial construction is at a low level, matching economic conditions. Management does not expect significant commercial construction recovery until late 2004 or, more probably, 2005.

In 2003, the Corporation shipped 191.6 million tons of aggregates to customers in 31 states, in addition to Canada and the Bahamas, from 328 quarries and distribution yards. Additionally, the Corporation sells asphalt and ready mixed concrete from 25 plants. While the Corporation's aggregates operations cover a wide geographic area, because of the high cost of transportation relative to the price of the product, financial results depend on the strength of the applicable economies. The Aggregates division's top-five revenue-generating states, exclusive of road paving operations, namely Texas, North Carolina, Georgia, Iowa and Indiana, accounted for approximately 54% of 2003 net sales by state of destination. Therefore, management closely monitors economic conditions and public infrastructure spending in these states and in the market areas within these states where its operations are located.

### Industry-wide Considerations

The construction aggregates business is conducted outdoors. Therefore, seasonal changes and other weather-related conditions significantly affect the aggregates industry and can impact the Aggregates division's production schedules and levels of profitability.

While natural aggregates sources typically occur in homogeneous deposits throughout the United States, the challenge facing aggregates producers is to locate economically mineable aggregates deposits in the proximity of growing markets. Currently, locating reserves in proximity to growth markets is becoming more challenging as residential expansion and other real estate development have encroached on attractive quarrying locations, imposing regulatory constraints or otherwise making these locations impractical. Management believes the Corporation continues to meet this challenge through strategic planning efforts to site locations in advance of economic expansion and the development of a long-haul transportation network. This network moves aggregates materials from aggregates sources, both domestic and offshore, via rail and water, to markets where aggregates supply is limited. This emerging trend introduces risks and affects operating results as discussed more fully under the sections, *Transportation Exposure* and *Analysis of Margins*, on pages 39 and 40 and page 33, respectively.

The aggregates industry, over the past ten years, has been in a consolidation trend. The Corporation actively participated in the consolidation of the industry. In fact, approximately 56% of the Corporation's 2003 net sales are derived from acquisitions that have occurred since January 1, 1995. When acquired, new locations generally do not satisfy the Corporation's internal safety, maintenance and pit development standards, and, therefore, acquired operations require additional resources before the Corporation realizes the benefits of the acquisitions. Management continues to integrate and upgrade its acquired

operations. The consolidation trend is slowing for the industry as the number of suitable acquisition targets shrinks. As acquisition growth slows, the Corporation has focused on investing in internal expansion projects in high growth markets and on divestiture of nonstrategic, underperforming operations.

### **Financial Considerations**

The production of construction-related aggregates products requires a significant capital investment leading to high fixed and semi-fixed costs, as discussed more fully under the section, *Cost Structure*, on page 39. Therefore, operating results and financial performance are sensitive to volume changes. Management evaluates financial performance in a variety of ways. However, gross profit as a percentage of net sales is a significant measure of financial performance reviewed by management on a quarry-by-quarry basis. Internally, management also reviews changes in average selling prices and costs per ton produced for the aggregates business. While the change in average selling prices demonstrates economic and competitive conditions, changes in costs per ton produced are indicative of operating efficiency.

### **Other Business Considerations**

The Corporation also produces dolomitic lime and magnesia-based chemicals through its Magnesia Specialties business and is developing a structural composite products business. These businesses are reported through the Specialty Products segment.

The dolomitic lime business is dependent on the highly cyclical steel industry, and operating results are affected by changes in that industry. Further, the production of certain magnesia-based products requires the use of natural gas, and fluctuations in natural gas prices directly affect operating results. Management has strategically shifted the focus of the Magnesia Specialties business to higher margin specialty chemicals that can be produced at volume levels that support efficient operations. Management believes that this focus, coupled with the joint venture brine pipeline with The Dow Chemical Company, has well-positioned the Magnesia Specialties business.

The Corporation has engaged in developmental activities related to fiber-reinforced composite technology since its initial purchase of the technology in 1995. The Corporation's strategic objective for structural composites is to create a business with characteristics that include high organic growth rates, low capital intensity and noncyclicality, based on diverse products and opportunities for substitution for existing structural materials. Revenue has been insignificant to date, and any start-up opportunity is subject to uncertainty and risks.

### **Cash Flow Considerations**

The Corporation's cash flows are generated primarily from its operations. Operating cash flows generally fund working capital, capital expenditures, dividends and smaller acquisitions. Cash generation through debt has been related to large acquisitions, and equity has been used for smaller acquisitions as appropriate. During 2003, the Corporation's management focused on strengthening the balance sheet by reducing leverage and increasing available cash.

### **FINANCIAL OVERVIEW**

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 8 through 28. As previously summarized, and discussed in more detail herein, the Corporation's operating results are highly dependent upon activity within the construction and steel-related marketplaces, economic cycles within the public and private business sectors and seasonal and other weather-related conditions. 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 94% of net sales and nearly 100% of the operating earnings during 2003. The remaining net sales and operating earnings are attributable to the Corporation's Specialty Products division. 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 and is consistent with the basis by which management reviews the Corporation's operating results.

Further, sensitivity analysis and certain other data is provided to enhance the reader's understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and is not intended to be indicative of management's judgment of materiality.

### **Results of Operations**

The Corporation's consolidated net sales of \$1.501 billion in 2003 represent an increase of \$71.4 million, or 5%, as compared to 2002 net sales of \$1.429 billion. The 2001 consolidated net sales were \$1.394 billion. Consolidated earnings from operations were \$185.1 million in 2003 and \$179.9 million in 2002, reflecting an increase of \$5.3 million, or 3%, in 2003 and a decrease of \$23.2 million, or 11%, in 2002, each as compared to the prior year. The Corporation's 2001 consolidated earnings from operations, which

included goodwill amortization expense, were \$203.1 million. Interest expense was \$42.6 million, \$44.0 million and \$46.8 million in 2003, 2002 and 2001, respectively. Other nonoperating income and expenses, net, was an expense of \$0.4 million, \$11.5 million and \$3.8 million in 2003, 2002 and 2001, respectively. The Corporation's earnings from continuing operations before the cumulative effect of change in accounting principle were \$101.1 million in 2003 and \$92.1 million in 2002, an increase of 10%. Comparable earnings in 2001 were \$101.0 million.

In 2003, the Corporation disposed of various nonstrategic operations within its Aggregates segment located in markets in Alabama, Ohio, Missouri, West Virginia, Louisiana and Texas. These divestitures resulted in discontinued operations, and, therefore, the results of all divested operations through the dates of disposal and any gains or losses on disposals are included in discontinued operations on the consolidated statements of earnings. The results of discontinued operations for 2002 and 2001 have been reclassified, as required, to conform to the 2003 presentation. In 2003, 2002 and 2001, the discontinued operations included net sales of \$37.2 million, \$68.9 million and \$113.2 million and pretax earnings of \$0.9 million, \$19.9 million and \$5.9 million, respectively. These pretax earnings include gains on disposals of \$1.8 million and \$21.6 million in 2003 and 2002, respectively.

2003 net earnings of \$100.5 million, or \$2.05 per diluted share, which excludes a \$0.14 per diluted share loss for the cumulative effect of adopting Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"), increased 3% compared with 2002 net earnings of \$97.8 million, or \$2.00 per diluted share, which excludes a \$0.23 per diluted share loss for the cumulative effect of adopting Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). The 2002 net earnings, prior to the cumulative effect of the accounting change, were 7% lower than 2001 net earnings of \$105.4 million, or \$2.19 per diluted share.

For the Corporation's Aggregates segment, operating results for the first six months of 2003 reflected poor weather-related operating conditions that were experienced in many of the Corporation's markets coupled with weak demand resulting from the recessionary construction industry economy and high energy costs. Extremely wet weather, with the notable exception of the Florida market, restricted shipments and production in the majority of the Corporation's markets. The Corporation's operating results during the second half of 2003 were very positive as weather conditions significantly improved during the third quarter and remained moderate in the fourth quarter. As customers worked on backlog projects, shipment levels increased. Production levels also increased, and unit production costs for the third and fourth quarters decreased as compared to the respective prior year quarter.

In 2003, aggregates shipments increased 1.6% to 191.6 million tons. The following table presents shipments for 2003 and 2002. Heritage aggregates operations exclude acquisitions that were not included in both 2003 and 2002 operations for a full fiscal year. Divestitures represent tons related to divested operations up to the date of divestiture.

Shipments (thousands of tons)	2003	2002
Heritage Aggregates Operations	184,370	178,627
Acquisitions (2003 and 2002)	5,008	2,901
Divestitures	2,216	7,059
Aggregates Division	191,594	188,587

In 2002, total aggregates shipments decreased 2% as compared to the prior year, primarily the result of the recessionary economic environment in the construction industry and adverse weather conditions in the latter part of the year.

Heritage price increases of 1.3% and 2.4% in 2003 and 2002, respectively, were negatively affected by the recessionary construction economy and are lower than the five years ended December 31, 2001, average 3.9% 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. The following presents average sales price percentage increases from the prior year for aggregates products:

	2003	2002	2001
Heritage Aggregates Operations	1.3%	2.4%	2.6%
Aggregates Division	1.6%	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.

Gross margin remained relatively flat and was 20.5% in 2003 as compared to 20.6% in 2002.

Selling, general and administrative expenses increased slightly in 2003 on an absolute basis as compared to 2002. Higher costs were the result of increased employee benefits costs. However,

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as a percentage of net sales, selling, general and administrative expenses remained stable at approximately 8%.

Earnings from operations for the Aggregates segment were \$185.1 million, an increase of \$7.8 million, or 4%, over the prior year of \$177.2 million. In 2001, earnings from operations were \$191.5 million.

The Corporation's Specialty Products division recorded net sales of \$88.3 million, a 17% increase compared to 2002 net sales of \$75.5 million. The division generated increased sales from strong lime shipments, water treatment products and a new product line for the pulp and paper industry. Operating earnings of \$0.1 million in 2003 decreased \$2.6 million when compared to the prior year as a result of the \$3.6 million increase in the start-up loss related to the structural composites business partially offset by robust sales, strong production and continued focus on cost controls in the Magnesia Specialties business. In 2001, operating earnings were \$11.7 million.

Consolidated earnings from operations, as discussed in the above segment results, include other operating income and expenses, net, which was income of \$7.4 million, \$4.9 million and \$12.3 million in 2003, 2002 and 2001, respectively. Among other items, other operating income and expenses, net, includes gains and losses on the sale of assets, gains and losses related to certain amounts receivable and rental, royalty and services income, and for 2003, the accretion and depreciation expenses related to FAS 143. Also, in 2001, other operating income included an \$8.9 million pretax gain on the sale of certain Magnesia Specialties refractories-related assets. Certain earnings and expenses were reclassified from nonoperating earnings to operating earnings in 2003, with prior years reclassified for consistent presentation.

Overall, the Corporation's operating margin was 12.3% in 2003, 12.6% in 2002 and 14.6% in 2001. Margins in 2003 and 2002 were negatively affected by the continuing recessionary economy in the construction industry and the resultant impact on shipments and production.

Interest expense for 2003 was \$42.6 million. This represents a decrease of \$1.4 million, or 3%, as compared to 2002. Interest expense was \$44.0 million in 2002, a decrease of \$2.8 million, or 6%, from 2001 interest expense of \$46.8 million. The 2003 decrease in interest expense relates to lower average outstanding debt partially offset by lower capitalized interest. The decrease in interest expense in 2002 as compared to 2001 was due to lower average outstanding debt, lower interest rates on outstanding commercial paper and the impact of interest rate swaps entered into in 2002 somewhat offset by lower capitalized interest in 2002.

Other nonoperating income and expenses, net, for the year ended December 31 was an expense of \$0.4 million, \$11.5 million and \$3.8 million in 2003, 2002 and 2001, respectively. Other nonoperating income and expenses, net, is comprised generally of interest income, net equity earnings from nonconsolidated investments and eliminations of minority interests for consolidated, non-wholly owned subsidiaries. In 2002, other nonoperating income and expenses, net, also included \$7.2 million of expenses related to legal settlements and to reserve an investment related to microwave technologies. Certain earnings and expenses were reclassified from nonoperating earnings to operating earnings in 2003, with prior years reclassified for consistent presentation.

The Corporation's estimated effective income tax rate for continuing operations for 2003 was 28.9%, compared with 25.9% in 2002 and 33.8% in 2001. 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 nonconsolidated investments, and, for 2001, amortization of nondeductible goodwill.

The Corporation recorded minimum pension liabilities at both December 31, 2003 and 2002. These liabilities resulted from unfavorable investment returns on pension plan assets in 2002, 2001 and 2000, coupled with a decrease in the discount rate. In accordance with generally accepted accounting principles, a direct charge to shareholders' equity of \$1.3 million and \$7.4 million was recorded as other comprehensive loss at December 31, 2003 and 2002, respectively.

Operating cash flow increased \$73.6 million to \$277.2 million in 2003. The increase in cash provided by operating activities was, among other things, due to working capital control measures implemented in 2003 that resulted in a reduction of inventories and relatively flat accounts receivable. Cash balances were \$125.1 million and \$14.5 million at December 31, 2003 and 2002, respectively.

The Corporation's debt-to-capitalization ratio, net of available cash and the impact of interest rate swaps, was 34% at December 31, 2003, as compared to 40% at December 31,

2002. Total debt, including commercial paper obligations, decreased from \$744.9 million to \$718.1 million. The debt balance at December 31, 2003 and 2002, includes \$12.8 million and \$9.8 million, respectively, for the impact of interest rate swaps. Shareholders' equity increased from \$1.083 billion at December 31, 2002 to \$1.130 billion at December 31, 2003. During 2003, the Corporation paid common stock dividends of \$33.7 million, or \$0.69 per common share. Also during 2003, the Corporation repurchased 331,100 shares of its common stock for an aggregate price of \$15 million. 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 26, respectively, and under sections *Liquidity and Cash Flows* and *Capital Structure and Resources* on pages 51 through 54.

### **Analysis of Margins**

The Aggregates division's margin performance has been negatively affected, when compared to peak gross margins in the late 1990's, due to several factors, a significant portion 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 from the production site to the distribution terminals, which is embedded in the delivered 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 section, *Transportation Exposure* on pages 39 and 40). In 2003, approximately 25 million tons were sold from distribution yards, and the cost of embedded freight and distribution operations lowered gross margin by approximately 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. Gross margins for the Corporation's asphalt and ready mixed concrete businesses typically range from 10% to 15% as compared to the Corporation's aggregates business, which generally ranges from 20% to 25%. 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 these businesses have typically resulted in losses that are insignificant to the Corporation as a whole. In 2003, the mix of these operations to total aggregates operations lowered gross margin by approximately 250 basis points. The Corporation's gross margin will continue to be adversely 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. However, the recent in-process disposal of the road paving business in one market should reduce the negative impact of vertical integration on the Corporation's gross margin.

The economic recession in the construction industry has slowed demand for aggregates products and limited the rate of increase in average selling prices. Reduced volume has led to an underabsorption of fixed costs which negatively affected margins in 2003. Generally, a significant increase in costs is recoverable through a comparable increase in selling price. However, there may be a lag between the cost increase and the sales price increase, as pricing is generally adjusted annually. Additionally, recent economic conditions, and their effect on the Corporation, have limited the Corporation's ability to recover significant cost increases.

During 2003, the Corporation utilized inventory control measures that resulted in a reduction of inventories during the year. When production levels are less than shipments, the change in inventory results in costs that were capitalized in inventory in prior periods being expensed in the current period. Certain of these costs are fixed in nature and, as a result, negatively impact earnings. Further, when production levels are less than optimal, production cost per unit is negatively affected by these fixed costs. If aggregates demand improves in future periods, the Corporation expects production to better match shipments. These factors should provide a positive impact on the Corporation's earnings.

### Business Combinations and Divestitures

The Corporation continued its planned divestiture of nonstrategic operations during 2003. These divestitures included two quarries in the Columbus, Ohio area; a quarry and sales yard in West Virginia; several small aggregates locations in Missouri; a quarry in Alabama; an asphalt plant and a sales yard in Louisiana; and trucking businesses in the southwestern United States. Additionally, the Corporation initiated a disposal of its road paving business in the Shreveport, Louisiana market, which will be finalized upon completing a specific highway project in 2004.

During 2003, the Corporation completed one acquisition for \$9.1 million in cash. The acquisition represented the Corporation buying out a majority member's ownership interest in a limited liability company ("LLC") for which the Corporation was the other member. The Corporation made its initial investment in the LLC in 1997. The Corporation also finalized the purchase price allocation of the six transactions completed in 2002. The adjustments to purchase price allocations for the 2002 acquisitions decreased goodwill by \$0.5 million.

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 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 the section *Application of Critical Accounting Policies* on pages 43 through 50). Goodwill was as follows at December 31:

	Goodwill (in millions)	% of Total Assets	% of Shareholders' Equity
2003	\$577.6	24.8%	51.1%
2002	\$577.4	25.4%	53.3%

### BUSINESS ENVIRONMENT

The sections 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

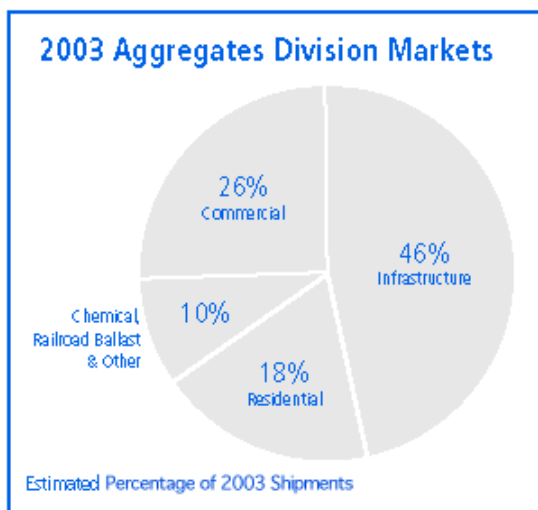
The Corporation's principal business primarily serves commercial customers in construction aggregates-related markets. This business is strongly affected by activity within the construction marketplace, which is cyclical in nature. Accordingly, the Corporation's profitability is sensitive to national, 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 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 improve overall as compared to commercial and residential construction. The total value of the United States construction put in place on highways, streets and bridges was \$62 billion in 2003 compared with \$61 billion in 2002, according to the U.S. Census Bureau. Management believes public-works projects accounted for more than 50% of the total annual aggregates consumption in the United States during 2003, which has consistently been the case for each year since 1990. Since public sector-related shipments account for approximately 46% of the Corporation's 2003 aggregates shipments, the Aggregates division enjoys the benefit of the 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 by the division's mix of public sector-related shipments. However, delays in the passage of a federal highway funding authorization and widespread state budget deficits have resulted in pressure on infrastructure spending.

Commercial construction continued to decline in 2003, dropping 6% nationally when compared to the prior year, according to the U.S. Census Bureau. Prior to the decline beginning in 2001, the growth in commercial construction was fueled by

rapid expansion in the high-technology sector of the economy. As the high-technology sector imploded, demand for commercial office space diminished, and a substantial amount of sublease space became available in certain markets. Additionally, the warehouse market is experiencing high vacancy rates, particularly in the Southeast.

The residential construction market increased 10% in 2003 from 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 flat in 2003 as compared to 2002.



2003 Aggregates Division Markets  
(Estimated Percentage of 2003 Shipments)

Infrastructure	46 %
Commercial	26 %
Residential	18 %
Chemical, Railroad Ballast and Other	10 %

The Corporation's asphalt, ready mixed concrete and road paving operations generally follow construction industry trends. These vertically integrated operations accounted for about 11% of 2003 Aggregates division's total revenues with no single operation contributing more than 10% of total revenues. The Corporation became significantly more vertically integrated with the acquisition of Redland Stone Products Company in December 1998 and subsequent acquisitions in the Southwest. Vertically integrated operations, including asphalt, ready mixed concrete, road paving and trucking businesses, are the norm in the southwestern United States and have lower profit margins. The Corporation divested of certain operations within these businesses during 2003.

Each year since 1995, 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.

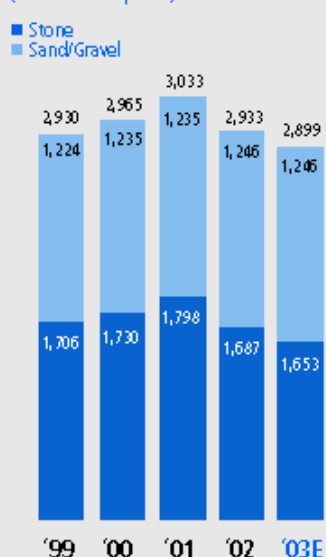
The Corporation's management monitors the consolidation trend in the aggregates industry and review and monitor the operations of companies engaged in similar businesses to the Corporation's existing operations.

#### Aggregates Industry and General Economic Conditions

#### General Economic Conditions

The general economy has been negatively affected by a recession. Housing starts, increased during 2003.

#### US Aggregates Consumption (in millions of tons)



Source: United States Geological Survey

The consolidation trend in the construction aggregates industry continues to be one of consolidation. However, the market share of smaller companies continues to shrink. The Corporation's Board of Directors and management continue to evaluate these plans include assessing business combinations and arrangements with other companies in the aggregates industry to enhance the Corporation's core businesses and pursuing new technological opportunities that are related to the Corporation's core businesses.

The commercial construction market has remained in a recessionary state and continues to be affected by high vacancy rates. The residential construction market, as measured by new housing starts, coincided with the federal funds rate reaching a 45-year low of 1.00% in 2003.

U.S. Aggregates Consumption  
(in millions of tons)

	Stone	Sand/Gravel	Total
2003E	1,653	1,246	2,899
2002	1,687	1,246	2,933
2001	1,798	1,235	3,033
2000	1,730	1,235	2,965
1999	1,706	1,224	2,930

Source: United States Geological Survey

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. 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 aggregates, the Corporation's sales are concentrated in the southwestern United States.





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 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 2003. The Aggregates division's top five revenue-generating states, exclusive of road paving operations, namely Texas, North Carolina, Georgia, Iowa and Indiana, accounted for approximately 54% of its 2003 net sales by state of destination. Each of these states fund infrastructure spending from specifically allocated amounts collected from various taxes, typically gasoline taxes and vehicle fees, in addition to federal appropriations. Additionally, subject to voter approval, the states may pass bond programs to fund infrastructure spending. Generally, state spending on infrastructure leads to increased growth opportunity for the Corporation. However, there may not be a direct relationship between state spending and the Corporation's revenue.

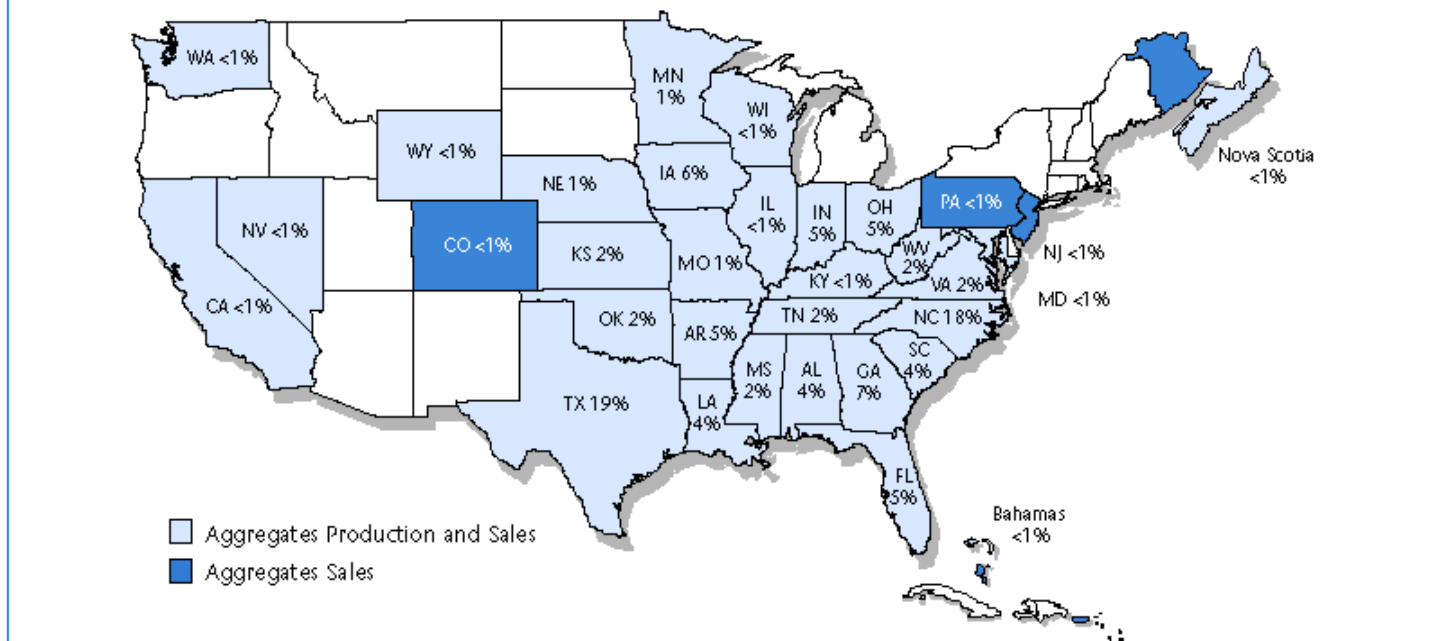
In Texas, the infrastructure market outlook is positive as the state legislature has protected infrastructure spending levels recently. Additionally, legislation was passed that increased highway financing options local communities may utilize. In San Antonio, the residential and commercial construction markets are expected to increase in 2004. Toyota is expected to break ground on constructing a manufacturing facility, which will include construction activity of approximately \$42 million. In Dallas, the construction market should remain positive. However, total construction activity in the Houston market is expected to decrease in 2004. Commercial construction has been negatively affected by an increase in office vacancy rates, offset somewhat by an increase in infrastructure construction.

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 textiles, tobacco and furniture manufacturing, telecommunications and high-technology companies. 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. North Carolina's spending on highways has been stable, as indicated by state highway spending data maintained by the Federal Highway Administration and has averaged \$2.7 billion annually during the 5-year period ended in fiscal 2000. This stability continues 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 higher 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 fund primarily improvements to strategic 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, 2003, the state transferred \$252 million from the highway trust fund to the general fund and also appropriated \$255 million for various state Department of Transportation initiatives. 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 average in profitability, due to its quarry position in growing market areas and the related transportation advantage.

The Georgia state economy is recovering, driven by growth in the Atlanta market. The state's economic growth is expected to exceed the national level in 2004, according to economists at Economy.com. However, the continued economic recovery in Georgia is dependent on the recovery of the national economy. The commercial construction market continues to be down based on the recent decline in the high-technology and manufacturing industries. The residential market is showing signs of weakness. Overall, infrastructure spending has remained stable, with a high proportion of highway work being performed in the southern part of the state. The Atlanta Regional Commission recently approved a \$5.3 billion, three-year infrastructure improvement plan, which is expected to increase construction activity above current levels. However, full implementation of the improvement plan has been delayed due to legal challenges on its financing.

The Iowa state economy is expected to be weak in 2004 as spending in the fiscal year ended June 30, 2003 created an unexpected \$62 million deficit. Additionally, the unemployment rate hit an 11-year high, but is showing signs of recovering. Local economies have been strong in urban areas of the state while economies in rural areas remain weak. The state is dependent on the agriculture industry, banking and insurance, all of which remained strong in 2003. The Farm Security and Rural Investment Act (the "Act") of 2002 governs federal farm

### 2003 Aggregates Division Net Sales by State of Destination



See final page of exhibit for graph data

programs through 2007. Among other provisions, the Act provides minimum price supports for certain crops, including corn and soybeans. The Act has stimulated the agricultural economy in Iowa and is expected to provide an overall benefit for the state. The commercial market has remained stable while the infrastructure market has declined.

Indiana’s public works market is expected to benefit in fiscal year 2004 from an anticipated Indiana Department of Transportation funding level of \$777 million, which represents a 3% increase over the fiscal 2003 budget. During this period, public works development is expected to continue in support of the Midfield Terminal expansion project at Indianapolis International Airport. When complete, this \$974 million project, currently underway, will include a new concourse, terminal, parking garage and airfield improvements, along with road and related utility work. However, management believes that the Indiana state legislature will be challenged to generate the necessary financial support required to fund maintenance and expansion of the state’s infrastructure in the near future. In the Indianapolis area, residential construction market is anticipated to remain flat or decline slightly while the commercial construction market is expected to experience a significant decline in 2004, both versus the prior year.

Generally, other states, in which the Corporation sells products, are experiencing similar budget and economic issues. The impact on profitability of the recessionary economy in the construction industry 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. However, the Corporation’s bad debt write-offs have not been significant, and management believes the allowance for doubtful accounts is adequate at December 31, 2003.

#### **Federal and State Highway Appropriations**

The federal highway bill, which must be authorized by Congress, is the principal source of federal funding for public-sector construction projects. Congress typically passes multi-year surface transportation bills for federal highway and mass transit funding. The Transportation Equity Act for the 21st Century (“TEA-21”), which expired by its terms on September 30, 2003, was a six-year bill. During its tenure, TEA-21 generated almost 45 percent of public dollars invested in capital construction of highways, roads and bridges. Although a successor bill was not passed when TEA-21 expired, its provisions were extended under a continuing budget resolution. The continuing resolution is funding the federal highway program at an annual level of \$33.6 billion, which is \$2.0 billion greater than fiscal 2003, while Congress and the President work on a successor bill. Management expects that the fiscal 2004 federal highway program will continue to operate under this continuing resolution for the near term.

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During the current reauthorization process, the Bush Administration and both the House and Senate have proposed long-term, federal highway funding bills that exceed the level of spending under the six-year TEA-21 funding bill of \$218 billion. Congress and the Administration continue to deliberate federal highway funding. Management expects that a successor bill may not be passed until mid-year 2004, or possibly later.

The process of passing a surface transportation act generally starts with the President's administration proposing legislation to reauthorize highway and other surface transportation programs. Once approved by the Office of Management and Budget, the bill is introduced in Congress, whereby committee hearings are held to allow interested organizations, citizens, and members of Congress and the Executive branch an opportunity to express their views on the programs. The primary congressional committees responsible for federal highway bills are the House Transportation and Infrastructure Committee and the Senate Environment and Public Works Committee. After committee hearings are held, subcommittees in both the House and the Senate work independently on drafting bills. Once the Senate and the House pass their respective bills, a conference committee is formed to reconcile differences and arrive at a joint conference bill. When the conference bill is passed in both the Senate and the House, it is presented to the President for signature.

The federal highway bill provides spending authorizations, which represent maximum amounts. Each year, an appropriation act is passed to establish the amount that can actually be used for particular programs. The annual funding level is generally tied to receipts of highway user taxes, which are placed in the Highway Trust Fund. TEA-21 included a revenue-aligned budget authority provision, which was an annual review and adjustment made to ensure that annual funding was linked to actual and anticipated revenues credited to the Highway Trust Fund. Once the annual appropriation is passed, the funds are then distributed to each of the states based on formulas (apportionments) or other procedures (allocations). TEA-21 provided minimum guarantees to ensure that states that contribute more in highway user taxes receive a larger share of federal funds. Apportioned and allocated funds are generally required to be spent on specific programs as outlined in the federal legislation.

Most federal funds are available for a period of four years in total. Once a state project is approved by the federal government, the funds are committed and considered spent regardless of when the cash is actually spent by the state and reimbursed by the federal government. In fact, funds are generally spent over a period of years following designation, with approximately 27% in the year of funding authorization 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

Federal highway bills require Congress to annually appropriate highway funding levels, which continue to be subject to balanced budget and other proposals that may impact the funding available for the Highway Fund. However, investments in transportation improvements generally create new jobs. According to American Road and Transportation Builders Association, federal data indicates that every \$1 billion in federal highway investment creates 47,500 jobs. 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.

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 uncertainty surrounding passage of a successor

federal bill has 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 and local highway construction projects that are not federally funded. Significant increases in federal infrastructure funding typically will require state governments to increase highway user fees to match federal spending. However, there is no assurance that current state economies can effectively increase revenues.

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, which provided funding for airport improvements throughout the United States, expired on September 30, 2003. A four-year successor bill, Vision 100-Century of Aviation Reauthorization Act, was passed by Congress and provides annual funding of \$3.4 billion in fiscal 2004. Annual funding escalates \$100 million each year and reaches \$3.7 billion in fiscal 2007.

### ***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. Additionally, significant amounts of rainfall, such as were experienced in the first half of 2003, can adversely affect shipments, production and profitability.

The Corporation's operations in the southeastern and Gulf Coast regions of the United States are at risk for hurricane activity. During 2003, the Corporation did not sustain any significant hurricane-related losses.

### ***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 2003, these categories represented approximately 70% 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 in 2002, 2001 and 2000, coupled with a decrease in the discount rate, have resulted in increased pension costs in 2003 (see Note J to the audited consolidated financial statements on pages 21 through 24).

Generally, when the Corporation incurs higher capital costs to replace 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 may not be 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.

Selling, general and administrative costs have increased due to continuing increases in benefits and other costs. In an effort to control overhead costs, management efficiency and cost reduction initiatives were implemented in the Aggregates division in 2003.

Shortfalls in federal and state revenues may result in increases in income taxes and other taxes.

### ***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 deepwater 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 arranges for a third party carrier to deliver aggregates and specifically passes the freight costs through to the customer. These freight and delivery revenues and costs are presented in the Corporation's consolidated statements 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. The selling price at the distribution terminal includes the freight component to transport the product to the distribution location. Transportation costs from the distribution location to the customer are accounted for as described above in options 1 and 2.

When the third option is used, margins are negatively affected because the customer does not 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 at the quarry and pay \$6.50 per 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, in 2003 the Corporation's aggregates shipments moved 77% by truck, 14% by rail and 9% by water. Further, the acquisition of Meridian and its rail-based distribution network, coupled with the extensive use of rail service in the Southwest, 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.

	2003 Transport Mode	1994 Transport Mode
Truck	77%	93%
Rail	14%	7%
Water	9%	—
	191.6 million tons	71.2 million tons

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

The Corporation's capital expansion, acquisition and greensiting programs are focused on taking advantage of construction market 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. While such projects generally increase capacity, lower production costs and improve product quality, they generally experience start-up costs in early years. Additionally, it may take time to increase shipments and absorb increased depreciation and other fixed costs, particularly in a slow economy. Therefore, the full economic benefit of a capital project may not be realized immediately subsequent to its completion. 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. However, the Corporation's acquisition activity in 2003 and 2002 has been lower than levels experienced in prior years due to the declining number of attractive opportunities in targeted markets. During 2003, the Corporation consummated one acquisition. Approximately 56% of the Corporation's 2003 net sales were derived from acquisitions that have occurred since January 1, 1995.

When acquired, new locations generally do not satisfy the Corporation's internal safety, maintenance and pit development standards. In these cases, additional resources must be invested prior to the Corporation realizing the potential 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 of each calendar year 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. 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 on the average exceed 50 years of production, based on current levels of activity. However, some locations have 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 road 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 in a municipal area should be delayed until the municipality 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 was directly tied to compliance with the Clean Air Act. A successor federal highway bill may have similar provisions.

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 17 and pages 26 and 27, respectively).

### ***Magnesia Specialties Business***

Through its Magnesia Specialties business, 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 business, low capacity utilization negatively affects its results of operations. Further, the production of magnesia-based and lime products requires the use of natural gas to fuel kilns. Changes in the prices of natural gas can have a significant affect on the profitability of the Magnesia Specialties business.

Magnesia Specialties' products used within the steel industry accounted for approximately 50% of the business' net sales for 2003. Accordingly, a portion of the product pricing structure is affected by current economic trends within the steel industry. Although the U.S. steel industry ran at a strong pace in 2003, the U.S. market continues to be negatively affected by capacity added by foreign steel producers, which has resulted in high levels of inventories being shipped into the U.S. market. Further, the three-year tariffs on steel imports that were initiated in 2002 were lifted in December 2003, prior to their scheduled termination.

As a result, the long-term competitiveness of the U.S. steel industry remains in question. Further, the Magnesia Specialties business continues to be exposed to potential losses in customer accounts receivable.

Approximately 12% of Magnesia Specialties' products are sold in foreign jurisdictions, with no single country accounting for 10% or more of its sales. Magnesia Specialties sells its products in the United States, Canada, Mexico, Europe, South America and the Pacific Rim. As a result of these foreign market sales, the business' 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 business distributes its products. To mitigate the short-term effects of changes in currency exchange rates on operations, the U.S. dollar is principally used as the functional currency in foreign transactions.

Approximately 98% of the Magnesia Specialties' hourly employees are members of a labor union. Union contracts cover employees at the Manistee, Michigan magnesia-based products plant and the Woodville, Ohio lime plant. A new labor contract was signed with the Manistee labor union and will expire in August 2007 while the current Woodville labor union contract expires in June 2006.

### **Structural Composite Products Business**

The Corporation, through its wholly owned subsidiary, Martin Marietta Composites, Inc. ("MMC"), has engaged in developmental activities related to fiber-reinforced composite technology since its initial purchase of the technology 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 that 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 and railcar components; and general construction applications. As with any start-up opportunity, these activities are subject to uncertainty and risk, including development and implementation of the structural composites technological process and strategic products for specific market segments and market acceptance of these products.

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. To date, MMC has completed twenty-five successful installations in thirteen states.

In 2001, MMC entered into a licensing agreement with Compositraller 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 models are an open-top van with, or without, a reciprocating slat floor and 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, tipper and refrigerated trailers. MMC 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 first composite trailer manufactured by MMC was completed in 2003.

In 2003, MMC opened a 185,000 square foot facility in Sparta, North Carolina, which represents the assembly and manufacturing hub for composite structures. MMC is currently manufacturing bridge decks and composite sandwich flat panels and assembling specialty trailers at this facility. MMC will continue research and development in areas of other composite applications. During 2003, the Corporation incurred a loss associated with starting the structural composite products business of \$5.4 million.

### **Outlook 2004**

Management's outlook for 2004 is cautiously optimistic. Improved aggregates demand in the second half of 2003 primarily resulted from customers working through weather-related backlog coupled with some modest improvement in the overall economy. The 2004 outlook is dependent on passage of an increased federal highway program to support higher aggregates demand. The federal highway program is currently operating under a continuing budget resolution, as Congress debates spending priorities. However, the continuing resolution funds fiscal 2004 federal highway spending at \$33.6 billion, \$2 billion more than fiscal 2003 spending. Management currently believes that the successor bill will be larger than the current program; however, uncertainty will exist until the bill is finalized and state construction spending priorities are set. Residential



construction spending is expected to be essentially flat. Commercial construction spending, while beginning to recover, is not expected to improve significantly until late 2004 or, more likely, 2005. Under this scenario, in 2004, management expects aggregates shipments volume to increase 1 percent to 3 percent and aggregates pricing to increase 1.5 percent to 2 percent as compared to 2003. 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 the Corporation's gross margin to improve.

Management expects 2004 to be the first full year of production of structural composite products as the Corporation works toward its strategic objective of creating a business with characteristics that include high organic growth rates, low capital intensity and noncyclicality based on diverse products and opportunities for substitution for existing structural materials. Start-up costs will continue through the first half of 2004, as the Corporation ramps up production and introduces new product technology to potential customers. Although revenue has been insignificant to date and any start-up opportunity is subject to uncertainty and risks, management expects 2004 composites sales to range from \$15 million to \$30 million based on the markets and opportunities identified to date. Sales will be skewed towards the latter part of the year. Earnings for the business are expected to be approximately breakeven in 2004, with continued start-up costs in the first half of the year expected to be offset by earnings as sales ramp up.

With this backdrop, management expects net earnings per diluted share to increase in 2004 and range from \$2.30 to \$2.60, an increase of between 12% and 27% compared with 2003 results prior to the cumulative effect of an accounting change. Increased production and continued improvement in aggregates gross margin are required to reach the 2004 net earnings range. Economic improvement that leads to increased aggregates demand and a strong follow-on bill to the existing federal program, together with continued improvement in aggregates gross margin, could create an opportunity to be at the high end of the 2004 net earnings range.

In 2004, management will continue to focus on strengthening the Corporation's balance sheet. In January, the Corporation made a \$32.0 million voluntary contribution to its pension plan and repurchased an additional 307,600 shares of the Corporation's common stock for an aggregate value of \$15.0 million. The Corporation anticipates spending \$140.0 million for capital expenditures in 2004 and will continue to consider acquisitions, dividend increases and stock repurchases, as appropriate.

## **OTHER FINANCIAL INFORMATION**

### **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. Further, while management believes its estimates are reasonable, the Securities and Exchange Commission and the Emerging Issues Task Force are reviewing accounting practices for the mining industry.

Management's determination of the critical nature of accounting estimates and judgments may change from time to time depending on facts and circumstances that management cannot currently predict. In 2003, estimates and judgments related to the adoption of FAS 143 (see Note N to the audited consolidated financial statements on pages 26 and 27) and the determination of mineral reserves were added as critical accounting policies.

### **Impairment Review of Goodwill**

Goodwill is 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 51% of the Corporation's total shareholders' equity at December 31, 2003, 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 the reporting units, which represent the level at which goodwill is tested for impairment under FAS 142, were as follows:

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

In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, disclosures for the aforementioned reporting units 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. This business has not been integrated into the core aggregates business and has had limited growth. During 2003, the Corporation agreed to dispose of its road paving operations in the Shreveport, Louisiana market upon completion of a highway project in that area in 2004. There is no goodwill associated with the road paving business, due to the write-off upon adoption of FAS 142, or the Specialty Products segment. Any impact on reporting units resulting from organizational changes made by management are 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 two-step approach required by FAS 142. A reporting unit with a carrying value in excess of its fair value constitutes a step 1 failure and 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 2003, the impairment evaluation was performed as of October 1, which represents the ongoing annual evaluation date. 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 implied fair values for each reporting unit exceeded its respective carrying value.

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 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 50 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 generally consistent with the five-year operating plan prepared by management and reviewed by the Board of Directors. The succeeding ten years (2008 to 2017) 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 a recent fifteen-year period. 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 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. Further, management conducted a review of recent construction materials-related transactions multiples and compared those results to the Corporation's enterprise value to assess the reasonableness of the aggregate fair value of the reporting units. The results of these analyses were considerations in selecting the terminal growth rate assumption.

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.

The Southwest reporting unit is very significant to the evaluation as \$321 million of the Corporation's goodwill is attributable to this reporting unit. It is also the reporting unit with the most sensitive evaluation as evidenced by the following scenarios:

- An increase in the discount rate to 11 % or a decrease in the terminal growth rate to 1% would have resulted in a step 1 failure.
- If the present value of projected future cash flows were 3% less than currently forecasted, the reporting unit would have failed 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 2004 evaluation.

### ***Pension Expense-Selection of Assumptions***

The Corporation sponsors noncontributory defined benefit retirement plans that 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 recognized over time rather than immediately, 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, 2003, the net unrecognized actuarial loss and unrecognized prior service cost were \$51.5 million and \$3.0 million, respectively (see Note 1 to the audited consolidated financial statements on pages 21 through 24). Assuming the December 31, 2003 projected benefit obligation, approximately \$2.5 million of amortization of these amounts will be a component of 2004 annual pension expense.

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

Management believes that 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 2003 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.

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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 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 was \$15.1 million. A change in the assumptions would have had the following impact on the 2003 expense:

- A change of 25 basis points in the discount rate would have changed 2003 expense by approximately \$0.9 million.
- A change of 25 basis points in the expected long-term rate of return on assets would have changed the 2003 expense by approximately \$0.3 million.

For the 2004 pension expense, the assumptions selected at December 31, 2003, were as follow:

Discount rate	6.25%
Rate of increase in future compensation levels	5.00%
Expected long-term rate of return on assets	8.25%

Using these assumptions and the effect of the \$32 million voluntary pension contribution in January 2004, the 2004 pension expense is expected to be approximately \$13 million based on current demographics and structure of the plans. Changes in the underlying assumptions would have the following impact on the 2004 expense:

- A change of 25 basis points in the discount rate would change the 2004 expense by approximately \$1.1 million.
- A change of 25 basis points in the expected long-term rate of return on assets would change the 2004 expense by approximately \$0.5 million.

The recent recessionary economy and its impact on actual returns on assets has resulted in the Corporation's pension plans being underfunded by \$83.6 million at December 31, 2003 (see Note 1 to the audited consolidated financial statements on pages 21 through 24). 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 made pension plan contributions of \$21 million in 2003, which includes \$11 million required under ERISA plus an additional voluntary contribution of \$10 million. The underfunded pension plans have resulted in an additional minimum pension liability of \$17.4 million at December 31, 2003. This liability required a 2003 direct charge of \$1.3 million, net of taxes, to shareholders' equity and is classified as other comprehensive loss. In January 2004, the Corporation made a voluntary contribution of \$32 million to its pension plan.

#### ***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 §613 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 that are either temporary or permanent differences depending on their nature.

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 statements 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 minerals 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 ETR.

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 2003, the estimated ETR was changed in the third quarter, primarily to reflect the filing of the 2002 federal and state income tax returns, which trued-up prior estimates of permanent and temporary differences and at the end of the fourth quarter, to reflect actual reported annual sales and related earnings and the final estimate of permanent differences.

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, other 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.

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 2000 through 2003. The Corporation has established reserves for taxes that may become payable in future years as a result of an examination by tax authorities.

For 2003, an estimated overall ETR of 29.7% was used to calculate the provision for income taxes, a portion of which was allocated to discontinued operations. 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 2003 tax provision expense by \$1.4 million.

### ***Adoption of FAS 143***

Effective January 1, 2003, the Corporation adopted FAS 143. This pronouncement requires recognition of a liability that represents an asset retirement obligation in the period in which it is incurred if a reasonable estimation of fair value can be made. A corresponding amount is capitalized as part of the fixed asset. The liability is recorded at its present value and accreted to its future value over the life of the reserves. The fixed asset is depreciated over the life of the underlying reserves. FAS 143 is limited to obligations that are legally enforceable, whether due to law or statute, an oral or written contract, or under the doctrine of promissory estoppel. The Corporation, through its Aggregates segment, incurs reclamation obligations at most of its quarries.

The selection of the adoption of FAS 143 as a critical accounting policy is due to the significant assumptions and estimates made by management in determining the asset retirement liability and the cumulative effect of the change in accounting principle. Further, the adoption of FAS 143 has resulted in additional

depreciation expense and accretion expense; however, the amounts of expense are relatively immaterial.

The significant assumptions and estimates required in the adoption of FAS 143 include the following:

- *Year quarry is expected to close.* The estimated closing year is when final reclamation occurs and is generally based on the remaining years of mineral reserves or the expiration of a lease. Changes in demand, the ability to extract additional mineral reserves or renewing a lease can affect the closing year. On average, the Corporation has greater than 50 years of mineral reserves, both owned and leased, at its quarries based on current production rates.
- *Total current reclamation costs.* State performance bonding requirements and management's experience and knowledge of the industry provided estimates of the current reclamation costs. During the 10 year period prior to the adoption of FAS 143, the Corporation permanently closed fewer than 5 quarries, and reclamation costs were immaterial.
- *Inflation rate.* The inflation rate is applied to total current estimated reclamation costs to estimate the reclamation costs at the time the quarries are closed. The Corporation assumed an annual inflation rate of 3%.
- *Discount rate.* The estimated reclamation costs at the closing year were discounted back to January 1, 2003 to determine the initial asset retirement obligation. Further, the reclamation costs were discounted back to the year that the quarry was either initially mined or acquired to determine the amount of the fixed asset. The discount rate represents the Corporation's credit-adjusted, risk-free rate of interest. This rate for the Corporation depends on the term of the debt and ranged from 5.50% to 7.00%, for ten to thirty years, respectively.

Using these estimates and assumptions, the cumulative effect of the change in accounting principle, fixed asset, accumulated depreciation and the asset retirement obligation were calculated for each of the Corporation's locations that have an asset retirement obligation. At January 1, 2003, the following amounts were recorded in connection with the adoption of FAS 143:

Asset retirement obligations	\$17.6 million
Fixed assets	\$6.2 million
Net deferred tax asset	\$4.5 million
Cumulative effect of change in accounting principle	\$6.9 million

Subsequent to the adoption of FAS 143, the Corporation will recognize depreciation expense related to the fixed assets and accretion expense as the asset retirement obligation is accreted to its future value. For 2004, these expenses are estimated to total approximately \$1.8 million.

In addition to changes in the amount of disturbed acres as the mining process continues, other factors that could affect the Corporation's assumptions in estimating the asset retirement obligation include any change in reclamation regulations. Further, any subsequent alternative uses for the property, such as a water reservoir or a housing development, could reduce the Corporation's terminal reclamation obligation. The assumptions and estimates related to FAS 143 will be updated as facts and circumstances change. Any changes will affect the annual depreciation and accretion expenses.

### ***Property, Plant and Equipment***

Management believes that property, plant and equipment is a critical accounting policy due to the net balance representing 45% of total assets at December 31, 2003. Useful lives of these assets can vary depending on factors including production levels and portability. Additionally, inclement weather can reduce the useful life of an asset. Historically, the Corporation has not recognized significant losses on the disposal or retirement of property, plant and equipment.

The Corporation evaluates aggregate reserves in several ways, depending on the geology at a particular location and whether the location is a potential new site (greensite), an acquisition or an existing operation. Greensites require a more intensive drilling program that is undertaken before any significant investment is made in terms of time, site development, or efforts to obtain appropriate zoning and permitting. The amount of overburden and the quality of the aggregate material are significant factors in whether to pursue opening the site. Further, the estimated average selling price for products in a market is also a significant factor in concluding that reserves are economically mineable. If the Corporation's analysis based on these factors is satisfactory, the total aggregate reserves available are calculated and a determination is made whether to open the location.

Reserve evaluation at our existing locations is typically performed to evaluate purchasing adjoining properties, and for quality control, calculating overburden volumes, and mine planning. Reserve evaluation of acquisitions may require a higher degree of sampling to locate any problem areas that may exist and to verify the total reserves. The fact that these operating locations exist is indicative that the initial investment has already been made and that average selling price data is available.

Well-ordered subsurface sampling of the underlying deposit is basic to determining reserves at any location. This subsurface sampling usually involves one or more types of drilling, determined by the nature of the material to be sampled, and the particular objective of the sampling. The Corporation's objectives are to insure that the underlying deposit meets aggregate specifications and the total reserves on site are sufficient for mining.

Locations underlain with hard rock deposits, such as granite and limestone, are drilled using the diamond core method, which provides the most useful and accurate samples of the deposit. Selected core samples are tested for soundness, abrasion resistance and other physical properties relevant to the aggregates industry. The number of holes and their depth are determined by the size of the site and the complexity of the site-specific geology. Geological factors that may affect the number and depth of holes include faults, folds, chemical irregularities, clay pockets, thickness of formations and weathering. A typical spacing of core holes on the area to be tested is one hole for every four acres, but wider spacing may be justified if the deposit is homogeneous.

Locations underlain with sand and gravel are typically drilled using the auger method, whereby a 6-inch corkscrew brings up material sampled from below. Deposits in these locations are typically limited in thickness and the quality and quantity of the deposit can vary both horizontally and vertically. Hole spacing at these locations is approximately one hole for every acre to ensure a representative sampling.

The geologist conducting the reserve evaluation makes the decision as to the number of holes and the spacing. Further, the estimated size of the deposit, based on U.S. geological maps, also dictates the number of holes used.

The generally accepted reserve categories for the aggregates industry and the designations the Corporation uses for reserve categories are summarized as follows:

*Proven Reserves* — These reserves are designated using closely spaced drill data as described above and a determination by a professional geologist that the deposit is homogeneous based on the drilling results and exploration data provided from various sources including U.S. geologic maps, the U.S. Department of Agriculture soil maps, aerial photographs, and/or electromagnetic, seismic, or other surveys conducted by independent geotechnical engineering firms. These proven reserves that are recorded reflect losses incurred during quarrying that result from leaving ramps, safety benches, pillars (underground), and the fines (small particles) that will be generated during processing. The Corporation typically assumes a loss factor of 25%. However, the assumed loss factor at coastal operations is approximately 50% due to the nature of the material. The assumed loss factor for underground operations is 35% due to pillars. Proven reserves are reduced by reserves that are under the plant and stockpile areas, as well as setbacks from neighboring property lines.

*Probable Reserves* — These reserves are inferred utilizing fewer drill holes, and/or assumptions about the economically mineable reserves based on local geology or drill results from adjacent properties.

The Corporation's proven and probable reserves recognize reasonable economic and operating constraints as to maximum depth of overburden and stone excavation, and also include reserves at the Corporation's inactive and undeveloped sites, including some sites where permitting and zoning applications will not be filed until warranted by expected future growth. The Corporation has historically been successful in obtaining and maintaining appropriate zoning and permitting.

The Corporation expenses all exploration costs until proven or probable reserves are established. Mineral Reserves are valued at the present value of royalty payments, using a prevailing market royalty rate that would have been incurred if the Corporation had leased the reserves as opposed to fee-ownership for the life of the reserves, not to exceed twenty years.

The Corporation uses proven and probable reserves as the denominator in its units-of-production calculation to amortize fee ownership mineral deposits. During 2003, depletion expense was \$6.3 million.

#### ***Business Combinations-Purchase Price Allocation***

The Corporation has accounted for all of its acquisitions under the purchase method of accounting. The Corporation allocates 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 generally 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 or results of operations.

The excess of the purchase price over the value of the tangible net assets acquired is generally allocated to identifiable intangible

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assets, namely noncompete, consulting, supply and trade name agreements, or to goodwill. The identifiable intangible assets are amortized over contractually specified periods.

The Emerging Issues Task Force has formed a committee to evaluate certain mining industry accounting issues, including issues arising from the implementation of Statement of Financial Accounting Standards No. 141, *Business Combinations*, and FAS 142. The issues relate to business combinations within the mining industry and accounting for goodwill and other intangibles may be addressed along with the related question of whether mineral interests conveyed by leases represent tangible or intangible assets and the amortization of such assets. The Corporation cannot predict whether the deliberations of this committee will ultimately modify or otherwise result in new accounting standards or interpretations thereof that differ from the Corporation's current practices.

**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. Preoperating start-up costs are expensed 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.

**Discussion of Business Segments**

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, 2003.

**Selected Financial Data by Business Segment**

years ended December 31  
(add 000)

Total revenues	2003	2002	2001
Aggregates	\$1,617,040	\$1,539,834	\$1,486,646
Specialty Products	94,413	80,043	107,715
Total	\$1,711,453	\$1,619,877	\$1,594,361
<b>Net sales</b>			
Aggregates	\$1,412,356	\$1,353,820	\$1,292,956
Specialty Products	88,330	75,507	101,156
Total	\$1,500,686	\$1,429,327	\$1,394,112
<b>Gross profit</b>			
Aggregates	\$ 290,209	\$ 278,880	\$ 281,261
Specialty Products	9,554	10,760	14,032
Total	\$ 299,763	\$ 289,640	\$ 295,293
<b>Selling, general and administrative expenses</b>			
Aggregates	\$ 113,423	\$ 106,864	\$ 93,303
Specialty Products	7,950	7,410	10,615
Total	\$ 121,373	\$ 114,274	\$ 103,918
<b>Other operating (income) and expenses, net</b>			
Aggregates	\$ (8,253)	\$ (5,187)	\$ (3,553)
Specialty Products	884	296	(8,746)
Total	\$ (7,369)	\$ (4,891)	\$ (12,299)
<b>Earnings from operations</b>			
Aggregates	\$ 185,055	\$ 177,238	\$ 191,461
Specialty Products	92	2,650	11,657
Total	\$ 185,147	\$ 179,888	\$ 203,118

**Aggregates**

The Aggregates division's net sales increased 4% to \$1.412 billion for the year ended December 31, 2003, compared with the prior year's net sales. The division's operating earnings for 2003 were \$185.1 million as compared to \$177.2 million in the prior year. The *Results of Operations* section on pages 30 through 33 includes a discussion of the factors affecting the performance of the Aggregates division.

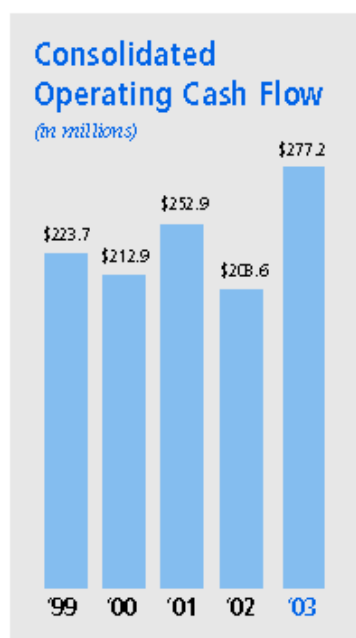


For the year ended December 31, 2002, the Aggregates division had net sales of \$1.354 billion, which were \$60.9 million, or 5%, higher than the 2001 net sales of \$1.293 billion. In 2002, the division's earnings from operations of \$177.2 million represented a 7% decrease from 2001 earnings from operations of \$191.5 million. Operating margins were 13.1 % in 2002 and 14.8% in 2001. The Aggregates division's 2002 operating earnings and margins decreased compared to 2001, as a result of the recessionary economy in the construction industry and wet weather conditions that reduced shipments. Costs were negatively affected by reduced production levels in the fourth quarter, winter losses at acquired operations and start-up costs, all partially offset by the nonamortization of goodwill in 2002.

## Specialty Products

For the year ended December 31, 2003, the Specialty Products division had net sales of \$88.3 million, an increase of \$12.8 million, or 17%, from 2002 net sales of \$75.5 million. The division's earnings from operations for 2003 of \$0.1 million decreased \$2.6 million when compared to 2002 earnings from operations of \$2.7 million.

Specialty Products division's 2002 net sales of \$75.5 million were 25% below 2001 net sales of \$101.2 million. The decrease in net sales is due to the sale of the refractories business in May 2001. The segment's operating earnings for 2001 of \$11.7 million included an \$8.9 million gain on the sale of the refractories business.



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

2003	\$277.2
2002	\$203.6
2001	\$252.9
2000	\$212.9
1999	\$223.7

## Liquidity and Cash Flows

### Operating Activities

The 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 \$277.2 million in 2003, as compared to \$203.6 million in 2002 and \$252.9 million in 2001. 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  
(add 000)

	2003	2002	2001
Depreciation	\$126,829	\$125,817	\$119,606
Depletion	6,261	6,109	6,036
Amortization	6,516	6,770	28,993
Total	\$139,606	\$138,696	\$154,635

Goodwill amortization expense was included in 2001.

The increase in cash provided by operating activities in 2003 as compared to 2002 of \$73.6 million was, among other things, due to working capital control measures implemented in 2003 that resulted in a reduction of inventories and relatively flat accounts receivable despite an increase in net sales. These provided a net source of cash compared to a use of cash in 2002. Additionally, while 2003 earnings before the cumulative effect of the accounting change were comparable to 2002, the current year earnings included a pretax gain on divestitures and the sale of assets of \$4.4 million, compared to \$24.2 million in 2002. In accordance with generally accepted accounting principles, these gains on divestitures are deducted from earnings in determining net cash provided by operating activities. Further, the 2002 divestitures included the write-off of nondeductible goodwill, which resulted in higher income tax payments in 2002. Accounts payable were a source of funds in 2003 compared with a use of funds in 2002. These factors were partially offset by a \$21 million increase in pension plan contributions in 2003 compared with the prior year.

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 sales of assets or divestitures. In 2002, accounts receivable continued to increase as customers took longer to pay outstanding accounts in the weak economic environment. Year-end 2002 inventories were higher than 2001 levels as poor weather in the fourth quarter slowed shipments. Accounts payable balances declined 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.

### Investing Activities

Net cash used for investing activities was \$99.8 million in 2003 and \$102.9 million in 2002 while \$370.2 million was used in 2001. The decline in 2003 and 2002 compared with 2001 was the result of diminished acquisition activity. Additions to property, plant and equipment, excluding acquisitions, declined to

\$120.6 million in 2003 from \$152.7 million and \$194.4 million in 2002 and 2001, respectively, due to the completion of several large capital expansion projects. Additionally, the Corporation has continued to enter into operating leases, primarily for mobile equipment in the ordinary course of business. The obligations for these operating leases are included under the section *Contractual and Off Balance Sheet Obligations* on pages 53 and 54. Spending for property, plant and equipment, exclusive of acquisitions and property and equipment acquired under operating leases, is expected to approximate depreciation, depletion and amortization expense in 2004, or approximately \$140 million.

The Corporation used \$8.6 million in 2003 primarily for the purchase of the remaining interest in a limited liability company; \$48.0 million in 2002 for six acquisitions; and \$221.8

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million in 2001 for the purchase of Meridian and twelve other acquisitions. All acquisitions have been Aggregates division related. The Corporation's acquisition and capital expenditures reflect planned strategic and capital spending activities that are consistent with management's strategy for investment and expansion within the consolidating aggregates industry.

Proceeds from divestitures of assets include the pretax cash from the sale of surplus land and equipment and primarily the divestitures of several aggregates operations, and in 2001, the refractories business.

### **Financing Activities**

Approximately \$66.8 million and \$109.7 million of cash was used for financing activities during 2003 and 2002, respectively. In 2001, \$130.4 million of cash was provided by financing activities.

The Corporation repaid net indebtedness of \$29.9 million in 2003 and \$74.7 million in 2002, both excluding the impact of the interest rate of swaps. In 2001, the Corporation incurred indebtedness of \$149.9 million, primarily in connection with acquisitions made during the year. Net cash from financing activities excludes the debt obligations assumed in connection with acquisitions of \$7.5 million in 2002 and \$5.1 million in 2001, which are reflected under the section *Investing Activities* on pages 51 and 52.

In May 2003, the Corporation terminated the interest rate swap agreements entered into in May 2002 and received a cash payment of \$12.6 million, which represented the fair value of the swaps on the date of termination. In August 2003, the Corporation entered into interest rate swap agreements related to \$100 million of the \$200 million Notes due in 2008. Additional information is contained in Note G to the audited consolidated financial statements on pages 19 and 20.

In 2003, the Board of Directors approved total cash dividends on the Corporation's common stock of \$0.69 a share. Regular quarterly dividends were authorized and paid by the Corporation at a rate of \$0.15 a share for the first quarter and at a rate of \$0.18 a share for the second, third and fourth quarters.

During 2003, the Corporation resumed its common stock repurchase plan through open market purchases pursuant to authority granted by its Board of Directors. In 2003, the Corporation repurchased 331,100 shares at an aggregate price of \$15.0 million. There were no shares repurchased in 2002 or 2001. During 2003, the Corporation issued stock under its stock-based award plans, providing \$1.0 million in cash. Comparable cash provided by issuance of common stock was \$0.6 million and \$2.6 million in 2002 and 2001, 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 2003.

### **Capital Structure and Resources**

Long-term debt, including current maturities of long-term debt and commercial paper, decreased to \$718.1 million at the end of 2003, from \$744.9 million at the end of 2002. The fair value of the interest rate swaps, \$1.4 million and \$9.8 million at December 31, 2003 and 2002, respectively, is included in the long-term debt balance. Additionally, the unamortized portion of unwound swaps, \$11.4 million, is included in the December 31, 2003 balance. Net of available cash, which includes escrowed cash, and the effect of interest rate swaps, total debt represented 34% of total capitalization at December 31, 2003, compared with 40% at December 31, 2002. The Corporation's debt at December 31, 2003 was principally in the form of publicly issued long-term, fixed-rate notes and debentures. Shareholders' equity increased to \$1.130 billion at December 31, 2003 from \$1.083 billion at December 31, 2002.

In May 2003, the Corporation terminated its interest rate swap agreements and received a cash payment of \$12.6 million, which represented the fair value of the swaps on the date of termination. The Corporation also received accrued interest of \$2.1 million, which represented the difference in the interest rate between the fixed interest received and the variable interest paid from the previous interest payment date to the termination date. In accordance with generally accepted accounting principles, the carrying amount of the related Notes on the date of termination, which includes adjustments for changes in the fair value of the debt while the swaps were in effect, will be accreted back to its par value over the remaining life of the Notes. The accretion will decrease annual interest expense by approximately \$2 million until the maturity of the Notes in 2008.

In August 2003, the Corporation entered into new 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 1.50%. 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 balance sheet. In accordance with accounting guidance, no net gain or loss is recorded for the change in fair values of the swap agreements or the Notes. At December 31, 2003, the fair value of the swap agreements was \$1.4 million.

At December 31, 2003, the Corporation had \$125.1 million in cash and cash equivalents. This cash, along with 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. 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 6,000,000 shares of its common stock for issuance under its stock award plans. Management will consider repurchasing shares of its common stock from time to time as deemed appropriate. The timing of such repurchases will be dependent upon availability of shares, the prevailing market prices and any other considerations that may, in the opinion of management, affect the advisability of purchasing the stock.

### ***Contractual and Off Balance Sheet Obligations***

In addition to long-term debt, the Corporation has a \$275 million revolving five-year credit facility, syndicated through a group of commercial domestic and foreign banks, which supports a \$275 million United States commercial paper program. The five-year agreement expires in August 2006 (see Note G to the audited consolidated financial statements on pages 19 and 20). No borrowings were outstanding under the revolving credit agreement or commercial paper program at December 31, 2003.

The Corporation, through its Magnesia Specialties business, 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 based on repayment obligations under a loan facility. At December 31, 2003, the Corporation recorded a liability of \$6.0 million, which reflects its expected future contributions to the limited liability company to repay the debt and is included in the table of contractual obligations. 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 market rate.

In connection with normal, ongoing operations, the Corporation enters into market-rate 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 2004, 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 Corporation has entered into commitments to purchase natural gas in 2004. These commitments totaled \$2.2 million as of December 31, 2003.

In 2004, the Corporation continued its common stock repurchase plan and, as of January 31, 2004, had repurchased 307,600 shares at an aggregate cost of \$15.0 million.

The Corporation is a minority member of two LLCs whereby the majority members are paid preferred returns. The Corporation purchased the remaining interest in one of the LLCs in January 2004 for \$5.6 million. The Corporation does not have the right to acquire the remaining interest of the other LLC until 2010.

The Corporation's contractual commitments for debt (excluding the swap agreements), contributions to a LLC for a debt guarantee, minimum lease and royalty commitments for all noncancelable operating leases and royalty agreements, natural gas purchase obligations, repurchases of common stock, the purchase of the remaining interest of a LLC and preferred payments to the majority member of a LLC as of December 31, 2003, are as follow:

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(add 000)	Total	< 1 yr.	1-3yrs.	3-5 yrs.	> 5 yrs.
<b>ON BALANCE SHEET:</b>					
Long-term debt	\$705,311	\$ 1,068	\$ 2,006	\$325,777	\$376,460
Debt guarantee payments to LLC	6,000	1,200	2,400	2,400	—
<b>OFF BALANCE SHEET:</b>					
Operating leases	120,392	25,831	45,764	34,407	14,390
Royalty agreements	80,578	8,358	14,477	14,514	43,229
Natural gas purchase obligations	2,239	2,239	—	—	—
Repurchases of common stock	15,009	15,009	—	—	—
Purchase of LLC's remaining interest	5,593	5,593	—	—	—
Preferred payments to LLC majority member	5,951	707	1,414	1,414	2,416
<b>Total</b>	<b>\$941,073</b>	<b>\$60,005</b>	<b>\$66,061</b>	<b>\$378,512</b>	<b>\$436,495</b>

Notes A, G and L to the audited consolidated financial statements on pages 14 through 17; 19 and 20; and 26, 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, 2003, the Corporation had contingent liabilities guaranteeing its own performance under these outstanding letters of credit of approximately \$17.6 million.

In the normal course of business, the Corporation is contingently liable for \$135.4 million in surety bonds which guarantee its own performance and are 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 \$45.6 million, or 34% 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.

**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* section 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 money market funds and overnight investments in Eurodollars; interest rate swaps; any outstanding commercial paper obligations; and defined benefit pension plans.

**Interest Rate Swaps**

In August 2003, 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 1.50%.

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 balance sheet. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, no gain or loss is recorded for the changes in fair values. At December 31, 2003, the fair market value of the Swaps is \$1.4 million.

As a result of the Swaps, the Corporation has increased interest rate risk associated with changes in the LIBOR rate. A hypothetical decrease in interest rates of 1% would decrease annual interest expense by \$1 million and also increase the fair market value of the debt covered by the Swaps by approximately \$4.4 million. A hypothetical increase in interest rates of 1% would increase annual interest expense by \$1 million and also decrease the fair market value of the debt covered by the Swaps by approximately \$5.1 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, 2003, there were no outstanding commercial paper borrowings. Due to commercial paper borrowings bearing interest at a variable rate, there is interest rate risk when such debt is outstanding.

### ***Pension Expense***

The Corporation sponsors noncontributory defined benefit pension plans that 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 section *Application of Critical Accounting Policies* section on pages 43 through 50.

### ***Aggregate Interest Rate Risk***

The pension expense for 2004 is calculated based on assumptions selected at December 31, 2003. Therefore, interest rate risk in 2004 is limited to the potential effect related to the interest rate swaps and outstanding commercial paper. Assuming no commercial paper is outstanding, which is consistent with the balance at December 31, 2003, the aggregate effect of a hypothetical 1% increase in interest rates would increase interest expense and decrease pretax earnings by \$1 million.

### **FORWARD-LOOKING STATEMENTS — SAFE HARBOR PROVISIONS**

If you are interested in Martin Marietta Materials, Inc. stock, management recommends that, at a minimum, you read the Corporation's current annual report and 10-K, and 10-Q and 8-K reports to the SEC over the past year. The Corporation's recent proxy statement for the annual meeting of shareholders also contains important information. These and other materials that have been filed with the SEC are accessible through the Corporation's Web site at [www.martinmarietta.com](http://www.martinmarietta.com) and are also available at the SEC's Web site at [www.sec.gov](http://www.sec.gov). You may also write or call the Corporation's Corporate Secretary, who will provide copies of such reports.

Investors are cautioned that all statements in this annual report that relate to the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and 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. Forward-looking statements give the investor our expectations or forecasts of future events. You can identify these statements by the fact that they do not relate only to historical or current facts. They may use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words of similar meaning in connection with future events or future operating or financial performance. Any or all of our forward-looking statements here and in other publications may turn out to be wrong.

Factors that the Corporation currently believes could cause actual results to differ materially from the forward-looking statements in this annual report 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 and market acceptance of these products; unanticipated costs or other adverse effects associated with structural composite revenue levels, products 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 other risk factors listed from time to time found in the Corporation's filings with the Securities and Exchange Commission. Other factors besides those listed here may also adversely affect the Corporation, and may be material to the Corporation. The Corporation assumes no obligation to update any forward-looking statements.

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 29 through 55 of the 2003 Annual Report and "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 14 through 17 and 26 and 27, respectively, of the audited consolidated financial statements included in the 2003 Annual Report.

n QUARTERLY PERFORMANCE

unaudited

(add 000, except per share)

Quarter	Total Revenues		Net Sales		Gross Profit		Earnings before Cumulative Effect of Accounting Change		Net Earnings	
	2003	2002	2003	2002	2003	2002	2003	2002 <sup>2</sup>	2003	2002 <sup>2, 3</sup>
First	\$ 315,055	\$ 314,424	\$ 274,553	\$ 273,874	\$ 20,869	\$ 28,039	\$ (14,018)	\$(10,549)	\$ (20,892)	\$(22,059)
Second	457,985	451,734	403,107	402,732	99,055	107,873	39,650	53,362	39,650	53,362
Third	505,869	465,130	444,341	410,824	102,975	96,574	45,520	38,925	45,520	38,925
Fourth	432,544	388,589	378,685	341,897	76,864	57,154	29,345	16,077	29,345	16,077
Totals	\$1,711,453	\$1,619,877	\$1,500,686	\$1,429,327	\$299,763	\$289,640	\$100,497	\$ 97,815	\$ 93,623	\$ 86,305

Per Common Share

Quarter	Basic Earnings <sup>1</sup>		Diluted Earnings <sup>1</sup>		Dividends Paid		Stock Prices			
							High	Low	High	Low
	2003	2002 <sup>2, 3</sup>	2003	2002 <sup>2, 3</sup>	2003	2002	2003		2002	
First	\$(0.29)	\$(0.22)	\$(0.29)	\$(0.22)	\$0.15	\$0.14	\$32.01	\$26.10	\$49.33	\$39.02
Second	0.81	1.10	0.81	1.09	0.18	0.14	\$38.05	\$27.36	\$43.60	\$37.15
Third	0.93	0.80	0.93	0.80	0.18	0.15	\$39.97	\$33.10	\$39.10	\$32.33
Fourth	0.60	0.33	0.60	0.33	0.18	0.15	\$48.00	\$36.45	\$32.95	\$27.30
Totals	\$ 2.05	\$ 2.01	\$ 2.05	\$ 2.00	\$0.69	\$0.58				

1 Earnings per common share are before the cumulative effect of an accounting change. In 2003, the Corporation recorded a \$0.14 per basic and diluted share charge as the cumulative effect of adopting FAS 143. In 2002, the Corporation recorded a \$0.24 per basic share and \$0.23 per diluted share charge as the cumulative effect adopting FAS 142.

2 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 Culpeper and Fredericksburg, Virginia areas.

3 Net earnings and earnings per basic and diluted 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 recorded during the fourth quarter of 2002, retroactive to January 1, 2002, for the cumulative effect of a change in accounting principle related to the adoption of FAS 142.

The following presents total revenues, net sales, net earnings (loss) and earnings (loss) per diluted share attributable to discontinued operations:

(add 000, except per share)

Quarter	Total Revenues		Net Sales		Net Earnings (Loss)		Earnings (Loss) per Diluted Share	
	2003	2002	2003	2002	2003	2002	2003	2002
First	\$ 9,312	\$17,317	\$ 8,759	\$15,970	\$ 820	\$(1,480)	\$ 0.02	\$(0.03)
Second	14,658	24,332	13,793	22,776	(617)	6,923	(0.01)	0.14
Third	11,319	19,282	11,079	18,319	129	205	—	0.01
Fourth	3,552	12,708	3,552	11,788	(919)	48	(0.02)	—
Totals	\$38,841	\$73,639	\$37,183	\$68,853	\$(587)	\$ 5,696	\$(0.01)	\$ 0.12



(add 000, except per share)

	2003	2002	2001	2000	1999
<b>Consolidated Operating Results</b>					
Net sales	\$1,500,686	\$1,429,327	\$1,394,112	\$1,229,221	\$1,180,042
Freight and delivery revenues	210,767	190,550	200,249	172,740	166,349
Total revenues	1,711,453	1,619,877	1,594,361	1,401,961	1,346,391
Cost of sales, other costs and expenses	1,322,908	1,254,330	1,203,293	1,037,370	975,963
Freight and delivery costs	210,767	190,550	200,249	172,740	166,349
Cost of operations	1,533,675	1,444,880	1,403,542	1,210,110	1,142,312
	177,778	174,997	190,819	191,851	204,079
Other operating (income) and expenses, net	(7,369)	(4,891)	(12,299)	(4,789)	(9,198)
<b>Earnings from Operations</b>	<b>185,147</b>	<b>179,888</b>	<b>203,118</b>	<b>196,640</b>	<b>213,277</b>
Interest expense	42,587	44,028	46,792	41,895	39,411
Other nonoperating (income) and expenses, net	429	11,476	3,777	(3,991)	(9,841)
Earnings from continuing operations before taxes					
on income and cumulative effect of change in accounting principle	142,131	124,384	152,549	158,736	183,707
Taxes on income	41,047	32,265	51,546	53,542	65,069
<b>Earnings from continuing operations before cumulative effect of change in accounting principle</b>	<b>101,084</b>	<b>92,119</b>	<b>101,003</b>	<b>105,194</b>	<b>118,638</b>
Discontinued operations, net of taxes	(587)	5,696	4,359	6,833	7,143
<b>Earnings before cumulative effect of change in accounting principle</b>	<b>100,497</b>	<b>97,815</b>	<b>105,362</b>	<b>112,027</b>	<b>125,781</b>
Cumulative effect of change in accounting for asset retirement obligations	(6,874)	—	—	—	—
Cumulative effect of change in accounting for intangible assets	—	(11,510)	—	—	—
<b>Net Earnings</b>	<b>\$ 93,623</b>	<b>\$ 86,305</b>	<b>\$ 105,362</b>	<b>\$ 112,027</b>	<b>\$ 125,781</b>
<b>Basic Earnings Per Common Share:</b>					
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 2.06	\$ 1.89	\$ 2.11	\$ 2.25	\$ 2.55
Discontinued operations	(0.01)	0.12	0.09	0.15	0.15
Earnings before cumulative effect of change in accounting principle	2.05	2.01	2.20	2.40	2.70
Cumulative effect of change in accounting principle	(0.14)	(0.24)	—	—	—
<b>Basic Earnings Per Common Share</b>	<b>\$ 1.91</b>	<b>\$ 1.77</b>	<b>\$ 2.20</b>	<b>\$ 2.40</b>	<b>\$ 2.70</b>
<b>Diluted Earnings Per Common Share:</b>					
Earnings from continuing operations before cumulative effect of change in accounting principle	\$ 2.06	\$ 1.88	\$ 2.10	\$ 2.24	\$ 2.53
Discontinued operations	(0.01)	0.12	0.09	0.15	0.15
Earnings before cumulative effect of change in accounting principle	2.05	2.00	2.19	2.39	2.68
Cumulative effect of change in accounting principle	(0.14)	(0.23)	—	—	—
<b>Diluted Earnings Per Common Share</b>	<b>\$ 1.91</b>	<b>\$ 1.77</b>	<b>\$ 2.19</b>	<b>\$ 2.39</b>	<b>\$ 2.68</b>
<b>Pro forma earnings, assuming nonamortization of goodwill provision of FAS 142 adopted on January 1, 1999:</b>					
Net earnings			\$ 124,612	\$ 127,094	\$ 139,635
Earnings per diluted share			\$ 2.59	\$ 2.71	\$ 2.97
<b>Cash Dividends Per Common Share</b>	<b>\$ 0.69</b>	<b>\$ 0.58</b>	<b>\$ 0.56</b>	<b>\$ 0.54</b>	<b>\$ 0.52</b>
<b>Condensed Consolidated Balance Sheet Data</b>					
Current deferred income tax benefits	\$ 21,603	\$ 21,387	\$ 19,696	\$ 16,750	\$ 21,899
Current assets - other	599,916	519,260	498,754	418,670	396,848
Property, plant and equipment, net	1,042,432	1,067,576	1,082,189	914,072	846,993
Goodwill, net	577,586	577,449	571,186	374,994	375,327
Other intangibles, net	25,142	31,972	35,782	34,462	31,497
Other noncurrent assets	63,414	55,384	39,191	92,910	85,392
<b>Total</b>	<b>\$2,330,093</b>	<b>\$2,273,028</b>	<b>\$2,246,798</b>	<b>\$1,851,858</b>	<b>\$1,757,956</b>
Current liabilities - other	\$ 219,096	\$ 200,936	\$ 209,765	\$ 154,377	\$ 158,356
Current maturities of long-term debt and commercial paper	1,068	11,389	4,490	45,155	39,722

Long-term debt and commercial paper	<b>717,073</b>	733,471	797,385	601,580	602,011
Pension and postretirement benefits	<b>76,917</b>	101,796	81,650	84,950	85,839
Noncurrent deferred income taxes	<b>130,102</b>	108,496	102,664	86,563	81,857
Other noncurrent liabilities	<b>55,990</b>	33,930	28,632	15,947	16,165
Shareholders' equity	<b>1,129,847</b>	1,083,010	1,022,212	863,286	774,006
<b>Total</b>	<b><u>\$2,330,093</u></b>	<u>\$2,273,028</u>	<u>\$2,246,798</u>	<u>\$1,851,858</u>	<u>\$1,757,956</u>

Data for “2003 Aggregates Division Net Sales by State of Destination” graph on page 37

**Aggregates Production and Sales**

Location	% of Net Sales
Alabama	4%
Arkansas	5%
Bahamas	<1%
California	<1%
Florida	5%
Georgia	7%
Illinois	<1%
Indiana	5%
Iowa	6%
Kansas	2%
Kentucky	<1%
Louisiana	4%
Maryland	<1%
Minnesota	1%
Mississippi	2%
Missouri	1%
Nebraska	1%
Nevada	<1%
North Carolina	18%
Nova Scotia	<1%
Ohio	5%
Oklahoma	2%
South Carolina	4%
Tennessee	2%
Texas	19%
Virginia	2%
Washington	<1%
West Virginia	2%
Wisconsin	<1%
Wyoming	<1%

**Aggregates Sales**

Location	% of Net Sales
Colorado	<1%
New Jersey	<1%
Pennsylvania	<1%

SUBSIDIARIES OF MARTIN MARIETTA MATERIALS, INC.  
AS OF MARCH 10, 2004

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%

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- (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 Equipment Leasing, LLC, a Delaware limited liability company	100%(6)
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%(7)
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%(8)
Martin Marietta Materials of Tennessee, Inc., a Delaware corporation	100%
Material Producers, Inc., an Oklahoma corporation	100%(9)
Menefee Crushed Stone Company, a Tennessee corporation	100%(10)
Meridian Aggregates Company, a Limited Partnership, a Delaware limited partnership	100%(11)
Meridian Aggregates Company Northwest, LLC, a Delaware limited liability company	100%(12)
Meridian Aggregates Company Southwest, LLC, a Delaware limited liability company	100%(13)

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- (6) Martin Marietta Equipment Leasing, LLC is owned 99% by Martin Marietta Materials, Inc. The remaining 1% is owned by Martin Marietta Equipment Company, Inc.
- (7) Martin Marietta Materials of Alabama, LLC is a wholly owned subsidiary of American Aggregates Corporation.
- (8) Martin Marietta Materials Southwest, Ltd. is owned 2% by Southwest I, LLC and 98% by Southwest II, LLC.
- (9) Material Producers, Inc. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.
- (10) Menefee Crushed Stone Company is a wholly owned subsidiary of Martin Marietta Materials of Tennessee, Inc.
- (11) Meridian Aggregates Company, a Limited Partnership is owned 98% by Meridian Aggregates Investments, LLC. The remaining 2% is owned by Martin Marietta Materials, Inc.
- (12) Martin Marietta Materials, Inc. is the sole member of Meridian Aggregates Company Northwest, LLC.
- (13) Martin Marietta Materials, Inc. is the sole member of Meridian Aggregates Company Southwest, LLC.

Meridian Aggregates Investments, LLC, a Delaware limited liability company	100%(14)
Meridian Granite Company, a Delaware corporation	100%(15)
Mid-State Construction & Materials, Inc., an Arkansas corporation	100%(16)
MTD Pipeline LLC, a Delaware limited liability company	50%(17)
Norman Asphalt Co., an Oklahoma corporation	100%(18)
OK Sand & Gravel, LLC, a Delaware limited liability company	99%(19)
Powderly Transportation, Inc., a Delaware corporation	100%(20)
R&S Sand & Gravel, LLC, a Delaware limited liability company	100%(21)
Rebco Trucking Company, Inc., a Louisiana corporation	100%(22)
Rebel Sand & Gravel Company, Inc., a Louisiana corporation	100%(23)
Redland Park Development, Inc., a Texas corporation	100%(24)
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%

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- (14) Meridian Aggregates Investments, LLC is owned 99% by Martin Marietta Materials, Inc. and 1% by Martin Marietta Materials Real Estate Investments, Inc.
- (15) Meridian Granite Company is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership
- (16) Mid-State Construction & Materials, Inc. is a wholly owned subsidiary of Martin Marietta Materials of Arkansas, Inc.
- (17) Martin Marietta Magnesia Specialties, LLC, a wholly owned subsidiary of Martin Marietta Materials, Inc., owns a 50% interest in MTD Pipeline LLC.
- (18) Norman Asphalt Co. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.
- (19) Martin Marietta Materials, Inc. is the manager of and owns a 99% interest in OK Sand & Gravel, LLC.
- (20) Powderly Transportation, Inc. is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership.
- (21) 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.
- (22) Rebco Trucking Company, Inc. is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership.
- (23) Rebel Sand & Gravel Company, Inc. is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership.
- (24) Redland Park Development, Inc. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.

Theodore Holding, LLC, a Delaware limited liability company 60.7%(25)

Valley Stone LLC, a Virginia limited liability company 50%(26)

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(25) 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.

(26) Martin Marietta Materials, Inc. is the manager of and owns a 50% interest in Valley Stone LLC.

## CONSENT OF ERNST &amp; 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, 2004 included in the 2003 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, 2004, 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, 2003.

ERNST & YOUNG LLP

Raleigh, North Carolina  
March 10, 2004



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

CERTIFICATIONS

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

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

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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

## CERTIFICATIONS

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2004

By: /s/ Janice K. Henry

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Janice K. Henry  
Chief Financial Officer

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 2003 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.

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Stephen P. Zelnak, Jr.  
Chief Executive Officer

Date: March 15, 2004

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.

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 2003 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

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Janice K. Henry  
Chief Financial Officer

Date: March 15, 2004

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.

