1999 Annual Report

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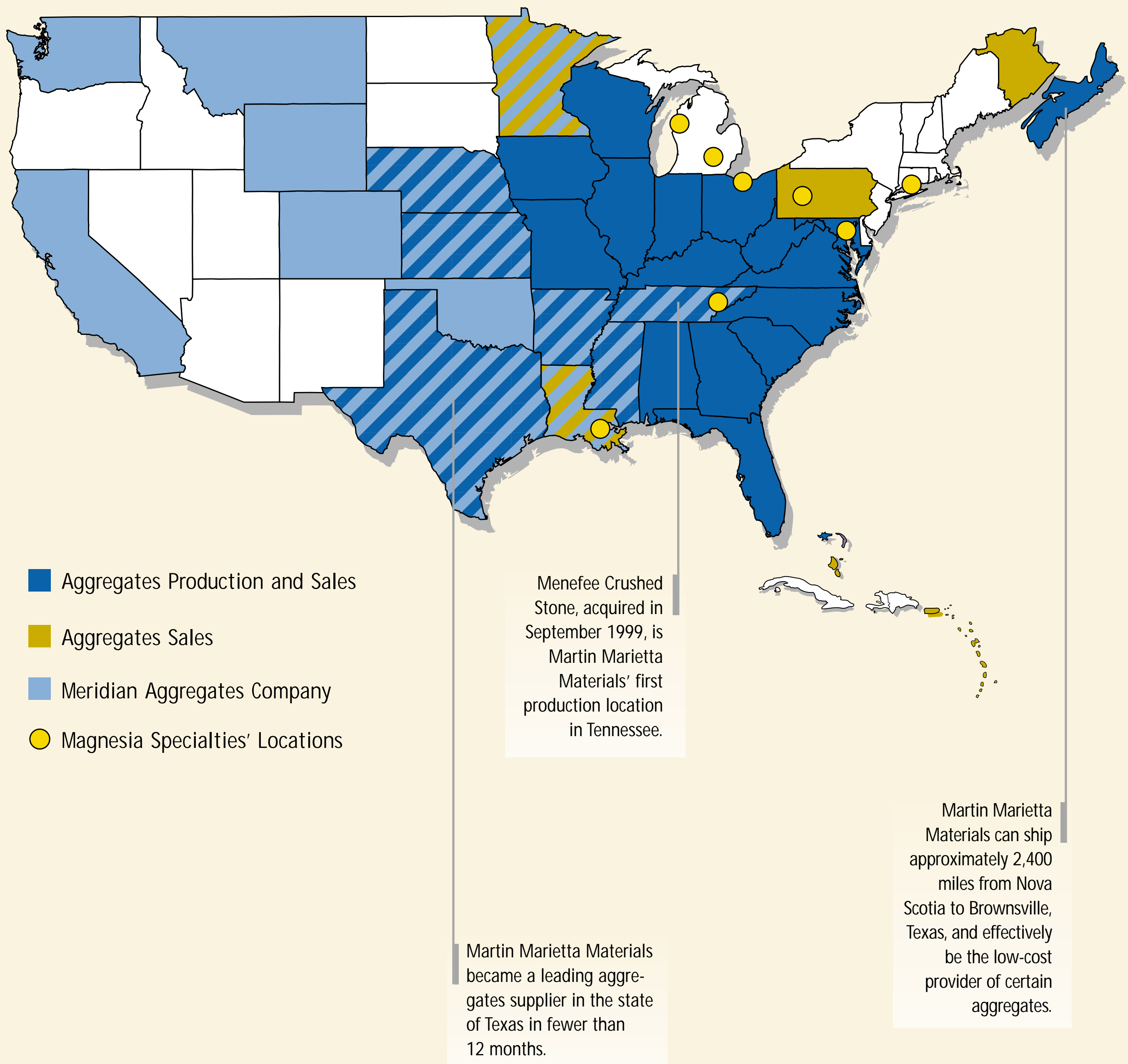
General Information . . . . . Inside Back Cover

Martin Marietta Materials is the nation's second largest producer of aggregates used for the construction of highways and other infrastructure projects, and for commercial and residential construction. The Corporation is also a leading producer of magnesia-based chemical and refractory products used in a wide variety of industrial, environmental and chemical applications.

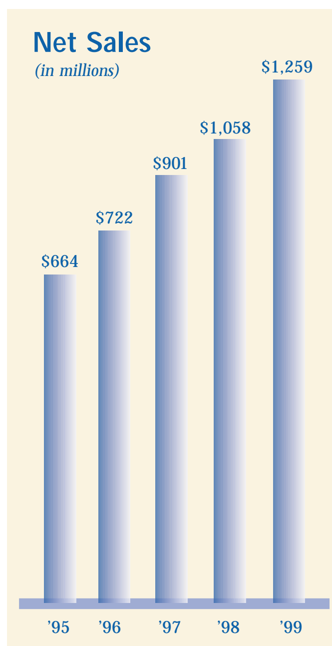


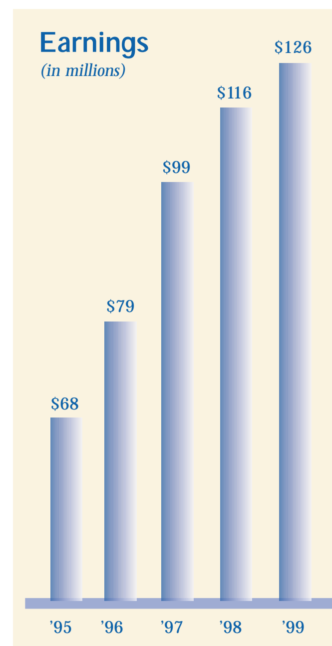
Menefee Crushed Stone, acquired in September 1999, is Martin Marietta Materials' first production location in Tennessee.

Martin Marietta Materials can ship approximately 2,400 miles from Nova Scotia to Brownsville, Texas, and effectively be the low-cost provider of certain aggregates.

Martin Marietta Materials became a leading aggregates supplier in the state of Texas in fewer than 12 months.

(*dollars in thousands, except per share*)	**1999**	1998
Net sales	**$ 1,258,827**	$ 1,057,691
Earnings from operations	**$ 215,289**	$ 196,554
Net earnings	**$ 125,781**	$ 115,613
Basic earnings per common share	**$ 2.70**	$ 2.49
Diluted earnings per common share	**$ 2.68**	$ 2.48
Cash dividends per common share	**$ 0.52**	$ 0.50
Debt-to-capitalization ratio	**45%**	48%
Common shares outstanding at year-end	**46,715,000**	46,621,000
Number of shareholders of record	**1,580**	1,631





1999 was our sixth consecutive year of record sales and earnings as a publicly traded Company. It was also a year during which we overcame significant challenges.

In North Carolina, our largest revenue state, results were seriously affected by Hurricane Floyd and the flooding associated with that storm, along with two other hurricanes – all occurring within a five-week time frame. In Iowa, one of our top five production states, historically low farm-commodity prices caused a significant decline in business in the rural farm communities that we serve. Also, our Magnesia Specialties business experienced a sharp decline in earnings due to a glut of imports affecting the operating levels of our steel customers.

Despite these events and due to the tenacity and commitment of our people, we were able to conclude 1999 with strong performance and record results.

Revenue for 1999 increased 19 percent to $1.259 billion, while net earnings rose 9 percent to $126 million, or $2.68 per diluted share. Cash flow, as measured by EBITDA (earnings before interest, taxes, depreciation, depletion and amortization) increased 21 percent to $358 million. Our Aggregates business accounted for all of the growth in revenue and operating earnings. Earnings also benefited from $18 million in other income, including nonrecurring settlements from antitrust claims, with the balance primarily attributable to the Aggregates business. In spite of our record performance and continuing positive growth prospects, our stock price had a disappointing year after stellar years in 1997 and 1998. Investors' interest appeared to focus on technology stocks and large capitalization companies to the detriment of companies like ours.

Stephen P. Zelnak, Jr.

We continued to grow our Aggregates business, with revenue rising 22 percent to $1.126 billion and operating earnings, which does not include attributable other income, rising 13 percent to $208.0 million in spite of the negative impact that weather had on operating costs. The primary driver of this growth was our Redland Stone acquisition in Texas, which we finalized in December 1998. This acquisition performed above expectations.

During the year, we completed ten acquisitions, which expanded our business in Texas, Tennessee, Louisiana, Arkansas, West Virginia, Mississippi and Alabama. In Texas, our purchase of Marock, Inc., which added annual capacity of about 4.5 million tons of aggregates and 700,000 tons of asphalt, gives us access to the Dallas/Fort Worth area. In another major transaction, we purchased L.J. Earnest, Inc., with operations in Shreveport, Louisiana, and Texarkana, Arkansas. Aggregates, supplied from our Hot Springs, Arkansas, quarry, will be distributed through the Earnest distribution network. In addition, this acquisition brought with it three asphalt plants, two ready mixed concrete plants and a significant road paving business.

Magnesia Specialties experienced a down year in revenue and earnings as a result of lower demand from the steel industry, which generates about 70 percent of the sales for this business. Revenue decreased 3 percent to $133.2 million, while operating earnings dropped 39 percent to $7.3 million. Both our lime and refractory product lines were negatively affected. Fortunately, our chemicals product area enjoyed another record revenue year as we continued to expand our markets.

In the Technologies and Services area, we continue to develop lower-cost, high-performance designs for our composite bridge decks. We believe that we have the best technology of its type in the marketplace. Additional funds, from the TEA-21 program for innovative technologies in roadways, offer opportunities to put new bridge decks in service and to focus more attention on the long-life and low-maintenance costs expected from composites. We also made an investment in a start-up company, Industrial Microwave Systems (IMS). IMS has proprietary technology for use in industrial heating and drying applications, as well as food processing and aseptic packaging. In addition, we began to market an environmentally friendly soil remineralization product, ECO-MIN® fertilizer, and our microbial product, SC27™ soil inoculant. These products are focused on enhancing plant growth and health. All of our technology initiatives are in the early stages, and it will take some time to determine if they will become commercially viable.

In looking ahead, we expect 2000 to be the first year to reflect a significant positive impact from the increased highway funding that went into effect in 1998, as a result of the TEA-21 bill. This six-year act increases applicable funding by 44 percent over the prior act. In Martin Marietta-served states, the increase is 55 percent. Based on this funding, we would expect an accelerated growth rate in highway spending for the next three to four years, with continuing growth but at a lesser rate, as the act reaches its conclusion. In addition, based on currently available forecasts, we expect a slight decline in housing and a slight increase in demand for commercial building in 2000. Using this scenario, we would expect overall demand for aggregates to grow this year, with a positive outlook stimulated by TEA-21.

Over the past five years, normalized for acquisitions, our pricing for aggregates products has increased at an average rate of about four percent annually. Based on increased demand, we expect 2000 to be another positive pricing year. Additionally, the Company is strongly focused on a best-practices initiative to reduce costs and improve operating efficiency. We expect this effort to have a positive impact in 2000 and beyond.

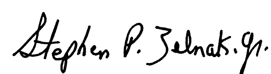
As we look to the future, we foresee the following trends influencing our Company's direction and actions:

- *Consolidation of the aggregates and other construction materials industries is moving at an accelerating rate. This wave of consolidation activity will likely be completed within the next five to seven years.*
- *Tighter product specifications, which require increased technical expertise as well as additional capital investments, should enhance the positions of the large aggregates producers.*
- *Increased vertical integration of aggregates producers in asphalt, ready mixed concrete, construction and, in some cases, cement will become more the norm than the exception.*
- *Zoning and permitting of new quarry locations in proximity to large markets is becoming significantly more difficult. This will enhance the value of currently controlled mineral reserves and will likely create an increased stream of earnings over the long term.*
- *Logistics management will become a focal point for the industry as a growing percentage of aggregates will move by rail or water through a distribution yard network.*

Our success in 1999, in achieving a sixth consecutive record year, is the direct result of the tireless efforts of our more than 6,100 employees. They overcame numerous obstacles to lead our Company to another year of positive performance. As we enter the new century, we believe that the high quality and commitment of our people provide our greatest competitive advantage.

In closing, on behalf of our Board of Directors and the employees of Martin Marietta Materials, I wish to thank you, our nearly 16,000 shareholders, for your support as we pursue our growth objectives. We are confident that we have the right people and the right plan to continue to grow our business at a rapid pace while achieving above-average profitability. Coupled with strong cash flow, these factors provide the opportunity for above-average value creation for our shareholders.

Respectfully,



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

March 10, 2000

Granite from Nova Scotia is off loaded from ships into locations across the Eastern Seaboard and the Gulf Coast. Here, granite is off loaded at our Tampa, Florida, yard.

From Road, to Rail, to River – It's Not Just What We Make, It's What We Make Possible.™

Providing Alternatives

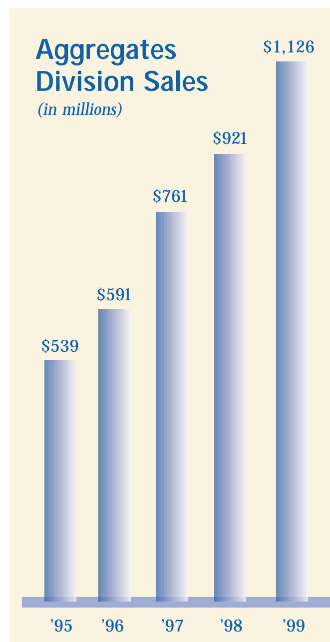
With focus directed on ensuring our products reach our customers where and when they are needed, the Company has made significant investments in a network of distribution facilities. This network has steadily grown over the past five years, enabling the Aggregates division to provide innovative and cost-effective delivery solutions via alternative transportation modes – road, rail and water.

During 1999, the Company continued to develop and expand this network.

By Rail

In October, the division completed the purchase of L.J. Earnest, Inc. This acquisition includes a major aggregates rail distribution yard in Shreveport, Louisiana, as well as a yard site in Texarkana, Arkansas. Nearly 600,000 tons of aggregates were shipped through these facilities during 1999, with the prospect of significant growth in 2000 and beyond. To more efficiently move aggregates from the division's quarry in Arkansas to these locations, the Company is investing in rapid load-out equipment that can load a rail car every four minutes, more than three times faster than the current system.

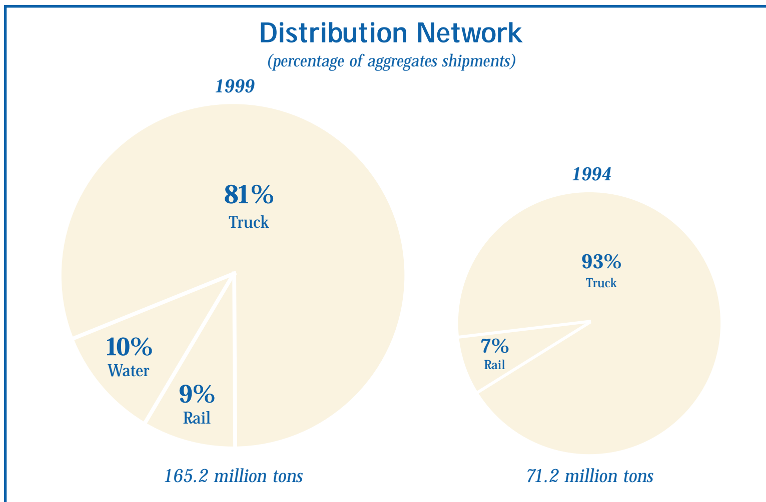
With the 1998 acquisition of Redland Stone, Martin Marietta Aggregates acquired the most extensive rail-distribution network serving the Houston, Texas, area. During 1999, the Company enhanced this rail network with the acquisition of CSB Materials. This acquisition also provides an opportunity to serve new markets in the high-growth area south of the city.



Junction City quarry ships the majority of its 2 million-ton annual production via railroad to customers as far away as 250 miles. A significant amount of product from this location is used by the railroad for ballast.

The 1999 Marock acquisition provided entry into the rapidly growing Dallas/Fort Worth area. In addition to the division supplying aggregates to this area from the former Marock locations, the Company's affiliate, Meridian Aggregates, ships from Oklahoma into Dallas/Fort Worth by rail to further serve area customers.

In 1999 alone, Martin Marietta Aggregates moved over 150,000 rail cars of aggregates – totaling more than 15 million tons.



By Water

The division's extensive distribution network results in greater flexibility in serving customers. In several regions – including Savannah, Georgia; Charleston, South Carolina; Mobile, Alabama; Jacksonville, Florida and Wilmington, North Carolina – Martin Marietta Aggregates provides aggregates to the market via rail and water.

Martin Marietta Aggregates now delivers to over 460 waterborne destinations. In 1999, the division employed more than 300 barges and 4 oceangoing vessels to move over 16 million tons of aggregates. Barges deliver to locations along the Ohio and Mississippi rivers, their tributaries and the Intracoastal Waterways and are supported by equipment that allows for precision unloading at either customers' sites or the division's distribution yards. Ships, or oceangoing vessels, can carry up to 70,000 tons of aggregates and provide a cost-effective solution for transporting products to many of the major ports within the United States.

Martin Marietta Aggregates has begun construction of a $45 million expansion project at its quarry in the Bahamas in order to capitalize on the division's waterborne capabilities. This expansion, one of the largest capital expansion projects in the history of the Company, will increase annual plant capacity from its present 2.7 million tons to 6.5 million tons and will increase waterborne load-out capacity from 1,000 to a peak of 5,000 tons per hour. Products from this location are transported by ship to fulfill customers' demand along the Atlantic and Gulf coasts, as well as in the Caribbean and South America.

By Road

In general, aggregates are being shipped increasing distances due to limited reserves in certain coastal areas, as well as a result of increased customer demand for special-quality materials. However, while a growing percentage of the division's products are being moved through this rail and water network, road transportation continues to play the major role in aggregates distribution.

In selected regions, Martin Marietta Aggregates has formed strategic alliances with key trucking contractors that have the capability, knowledge and expertise to support the unique needs of the aggregates industry. These contractors provide fast turnaround and superior service that customers can count on. On any given day, there are close to 25,000 trucks out and about moving materials to Martin Marietta's customers within the United States.

An Industry Leader

From road to rail to water, Martin Marietta Aggregates solves customers' problems by providing versatile, timely transportation solutions to meet their requirements. It's not just about offering the best products; it's about getting the product to the customers when and where it's needed while remaining a low-cost provider.

Our Augusta and Camak quarries in Georgia and our Bahamas quarry are supplying 400,000 tons of aggregates to the Sidney Lanier Bridge. The aggregates used in this 1.6-mile bridge, which crosses Georgia's Brunswick River, include 278,000 tons of riprap to build artificial islands such as the one shown.

A sample is pulled for analysis from a rotary kiln at Magnesia Specialties' Woodville, Ohio, lime facility. The plant received ISO 9002 recertification in the summer of 1999, affirming the superior manufacturing procedures and documentation at that location.

Providing customers with the products they need, and the quality they have come to expect, continues to be the major focus of Martin Marietta Magnesia Specialties.

Meeting Customers' Needs

Providing almost 300 products used worldwide, Magnesia Specialties knows the importance of supplying customers with the products they need.

Magnesia Specialties remains at the forefront of the magnesia industry because of its unparalleled ability to formulate and manufacture highly specialized products and supply those products with exceptional customer service and technical support.

The division continued to expand the sales of its MarScan® laser-imaging technology, which is used to measure refractory thickness in steel furnaces. This technology, now in service in five steel mills around the world, is expected to set the measurement-time standard within the industry. The division estimates that there could be 12 of these units in service by the end of 2000.

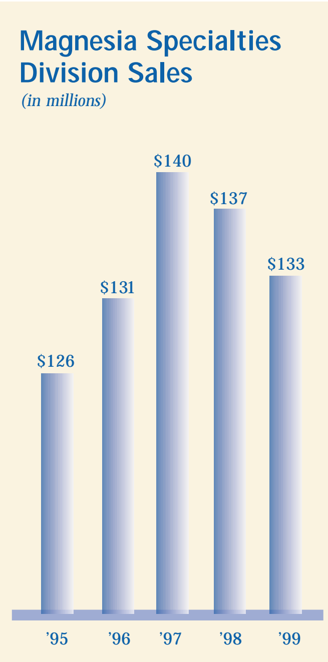
In the chemicals product area, a new finely sized particle product was introduced into the division's flame-retardant market. This technology is used in more demanding applications, such as plastic-based products for roofing, laminates and wire insulation.

Assuring Quality

With customers in more than 30 countries worldwide, Magnesia Specialties knows the importance of delivering high-quality products.

This commitment to quality and productivity improvements continued as the division initiated two capital projects, designed to enhance kiln operations at Manistee and Woodville. The Manistee, Michigan, facility produces high-quality magnesia chemicals and refractory products. The Woodville, Ohio, facility is the largest dolomitic lime plant within the United States. These projects, which provide additional automation of selected kilns, allow a single kiln operator to monitor and control the entire production process from one central location. In addition to reducing operating costs, these new systems enhance quality assurance practices, as the kiln operator has the capability to quickly adjust temperature, fuel mixture and flow rates for a more consistent finished product.

Continued emphasis on quality was recognized as Magnesia Specialties applied for and received ISO 9002 quality recertification at its Manistee and Woodville facilities. Certification by this internationally recognized standards organization provides further assurance to the division's global customers that proper manufacturing standards are in place to enhance quality control.



An Industry Leader

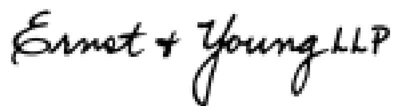
From refractory products, to laser imaging, to flame retardants, Magnesia Specialties continues to provide industry with high-quality, innovative products, as well as superior customer service. Across the globe, Martin Marietta Magnesia Specialties remains a recognized leader in the magnesia industry.

Board of Directors and Shareholders
Martin Marietta Materials, Inc.

We have audited the accompanying consolidated balance sheet of Martin Marietta Materials, Inc., and subsidiaries at December 31, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.



Raleigh, North Carolina
January 24, 2000

Shareholders
Martin Marietta Materials, Inc.

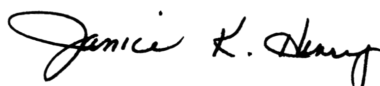
The management of Martin Marietta Materials, Inc., is responsible for the consolidated financial statements and all related financial information contained in this report. The financial statements, which include amounts based on estimates and judgments, have been prepared in accordance with accounting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

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

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

The Audit Committee of the Board of Directors, which consists of four outside directors, meets periodically and when appropriate, separately with the independent auditors, management and the internal auditors to review the activities of each.

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



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

for years ended December 31

(add 000, except per share)		**1999**		1998		1997
Net Sales	**$**	**1,258,827**	$	1,057,691	$	900,863
Cost of sales		**948,128**		776,043		665,594
Gross Profit		**310,699**		281,648		235,269
Selling, general and administrative expenses		**92,621**		82,041		69,093
Research and development		**2,789**		3,053		3,406
Earnings from Operations		**215,289**		196,554		162,770
Interest expense on debt		**39,411**		23,759		16,899
Other income and (expenses), net		**18,435**		1,347		5,341
Earnings before taxes on income		**194,313**		174,142		151,212
Taxes on income		**68,532**		58,529		52,683
Net Earnings	**$**	**125,781**	$	115,613	$	98,529
Net Earnings Per Common Share						
– Basic	**$**	**2.70**	$	2.49	$	2.14
– Diluted	**$**	**2.68**	$	2.48	$	2.13
Average Number of Common Shares Outstanding						
– Basic		**46,668**		46,454		46,122
– Diluted		**46,947**		46,708		46,238
Cash Dividends Per Common Share	**$**	**0.52**	$	0.50	$	0.48

at December 31

Assets (*add 000*)		**1999**		1998
Current Assets:				
Cash and cash equivalents	**$**	**3,403**	$	14,586
Accounts receivable, net		**197,554**		171,511
Inventories		**172,865**		157,104
Current deferred income tax benefits		**21,899**		18,978
Other current assets		**7,644**		7,209
Total Current Assets		**403,365**		369,388
Property, plant and equipment, net		**846,993**		777,528
Costs in excess of net assets acquired		**375,327**		348,026
Other intangibles		**31,497**		27,952
Other noncurrent assets		**85,392**		65,695
Total Assets	**$**	**1,742,574**	$	1,588,589

Liabilities and Shareholders' Equity (*add 000*)				
Current Liabilities:				
Accounts payable	**$**	**55,872**	$	57,720
Accrued salaries, benefits and payroll taxes		**24,887**		23,502
Accrued insurance and other taxes		**26,705**		25,370
Income taxes		**4,293**		7,201
Current maturities of long-term debt and commercial paper		**39,722**		15,657
Other current liabilities		**31,217**		22,783
Total Current Liabilities		**182,696**		152,233
Long-term debt and commercial paper		**602,011**		602,113
Pension, postretirement and postemployment benefits		**85,839**		76,209
Noncurrent deferred income taxes		**81,857**		75,623
Other noncurrent liabilities		**16,165**		14,712
Total Liabilities		**968,568**		920,890
Shareholders' Equity:				
Common stock, $0.01 par value; 100,000,000 shares authorized		**467**		466
Additional paid-in capital		**354,046**		349,245
Retained earnings		**419,493**		317,988
Total Shareholders' Equity		**774,006**		667,699
Total Liabilities and Shareholders' Equity	**$**	**1,742,574**	$	1,588,589

The notes on pages 16 to 25 are an integral part of these financial statements.

for years ended December 31

(add 000)		1999		1998		1997
Cash Flows from Operating Activities:						
Net earnings	**$**	**125,781**	$	115,613	$	98,529
Adjustments to reconcile net earnings to cash provided by operating activities:						
Depreciation, depletion and amortization		**124,754**		98,765		79,720
Other items, net		**(6,257)**		(4,573)		(3,638)
Changes in operating assets and liabilities:						
Deferred income taxes		**(3,266)**		(3,457)		7,090
Net changes in receivables, inventories and payables		**(31,513)**		(9,661)		(2,865)
Other assets and liabilities, net		**14,177**		25,886		16,782
Net Cash Provided by Operating Activities		**223,676**		222,573		195,618
Cash Flows from Investing Activities:						
Additions to property, plant and equipment		**(137,820)**		(123,926)		(86,440)
Acquisitions, net		**(77,080)**		(347,882)		(279,056)
Transactions with Lockheed Martin Corporation		**–**		–		23,768
Other investing activities, net		**339**		(34,014)		8,359
Net Cash Used for Investing Activities		**(214,561)**		(505,822)		(333,369)
Cash Flows from Financing Activities:						
Repayments of long-term debt		**(618)**		(1,704)		(226,367)
Increase in long-term debt		**280**		198,994		349,947
Commercial paper, net		**15,000**		105,000		60,000
Debt issue costs		**–**		(1,745)		(938)
Dividends paid		**(24,276)**		(23,233)		(22,134)
Issuances of common stock		**2,022**		1,862		164
Repurchases of common stock		**(12,706)**		–		–
Net Cash (Used for) Provided by Financing Activities		**(20,298)**		279,174		160,672
Net (Decrease) Increase in Cash and Cash Equivalents		**(11,183)**		(4,075)		22,921
Cash and Cash Equivalents (Book Overdraft), beginning of year		**14,586**		18,661		(4,260)
Cash and Cash Equivalents, end of year	**$**	**3,403**	$	14,586	$	18,661

for years ended December 31

(add 000)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 1996	$ 461	$ 331,303	$ 149,213	$ 480,977
Net earnings	–	–	98,529	98,529
Dividends declared ($0.48 a share)	–	–	(22,134)	(22,134)
Net stock transactions	1	4,463	–	4,464
Balance at December 31, 1997	462	335,766	225,608	561,836
Net earnings	–	–	115,613	115,613
Dividends declared ($0.50 a share)	–	–	(23,233)	(23,233)
Net stock transactions	4	13,479	–	13,483
Balance at December 31, 1998	466	349,245	317,988	667,699
Net earnings	**–**	**–**	**125,781**	**125,781**
Dividends declared ($0.52 a share)	**–**	**–**	**(24,276)**	**(24,276)**
Net stock transactions	**4**	**17,504**	**–**	**17,508**
Repurchases of common stock	**(3)**	**(12,703)**	**–**	**(12,706)**
Balance at December 31, 1999	**$ 467**	**$ 354,046**	**$ 419,493**	**$ 774,006**

The notes on pages 16 to 25 are an integral part of these financial statements.

Note A: Accounting Policies

Organization. Martin Marietta Materials, Inc. ("Martin Marietta Materials" or 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. In addition, the Corporation produces magnesia-based chemicals, refractories and dolomitic lime products used in a wide variety of industrial, environmental and agricultural applications with a majority of its products used by customers in the worldwide steel industry.

Basis of Consolidation and Use of Estimates. 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. In particular, the Corporation's 14% investment in Meridian Aggregates Company ("Meridian") is recorded at cost. The Corporation may be required to purchase some or all of the other investors' interests in Meridian. The other investors, by the terms of the original investment agreement, have an option, exercisable at the end of each year beginning December 31, 2000, to require the Corporation to purchase their interests at a predetermined formula price. The Corporation also has an option to purchase Meridian at a predetermined formula price beginning September 30, 2003.

All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of the Corporation's financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. Such judgments affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition. Substantially all revenues are recognized, net of discounts, if any, when finished products are shipped to unaffiliated customers or services have been rendered, with appropriate provision for uncollectible amounts. Revenues generally represent sales of materials to customers, excluding freight and delivery charges.

Cash and Cash Equivalents. Cash and cash equivalents are net of outstanding checks that are funded daily as presented for payment. Cash equivalents are comprised generally of highly liquid instruments with original maturities of three months or less from the date of purchase. The Corporation's cash and cash equivalents were invested with its former parent, Lockheed Martin Corporation, through January 31, 1997. At that time, all funds held by Lockheed Martin were transferred to the Corporation and invested under its own cash management arrangements with third party commercial banks.

Inventories Valuation. Inventories are stated at the lower of cost or market. Costs are determined principally by the first-in, first-out ("FIFO") method.

Properties and Depreciation. Property, plant and equipment are stated at cost. Depreciation is computed over estimated service lives principally by the straight-line method. The estimated service life for buildings ranges from 10 to 20 years and from 4 to 20 years for machinery and equipment. Depletion of mineral deposits is calculated over estimated recoverable quantities principally by the units-of-production method. Depreciation and depletion expense was $103,928,000, $86,602,000 and $71,756,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Intangible Assets. Costs in excess of net assets acquired ("goodwill") represent the excess purchase price paid for acquired businesses over the estimated fair value of identifiable assets and liabilities. Goodwill is amortized ratably over appropriate periods ranging from 10 to 30 years. At December 31, 1999 and 1998, the amounts for accumulated amortization of costs in excess of net assets acquired were approximately $36,104,000 and $21,685,000, respectively. Other intangibles represent amounts assigned principally to noncompete agreements and are amortized ratably over periods based on related contractual terms, generally 2 to 20 years. At December 31, 1999 and 1998, the amounts for accumulated amortization of other intangibles were approximately $22,250,000 and $20,826,000, respectively. Amortization expense for intangibles was $20,290,000, $12,163,000 and $7,964,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The carrying value of goodwill and other intangibles is reviewed if the facts and circumstances indicate potential impairment. If this review indicates that the carrying value of goodwill and

other intangibles is not recoverable, as determined based on estimated cash flows of the business acquired over the remaining amortization period, goodwill and other intangibles are reduced by the estimated shortfall of discounted cash flows.

Stock-Based Compensation. In 1996, the Corporation adopted the Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("FAS 123"). In accordance with FAS 123, the Corporation has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting for certain of its employee stock-based compensation plans.

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

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

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

Related Party Transactions. The Corporation entered into certain agreements with Meridian. These agreements require the Corporation to provide certain advisory and consulting services at agreed-upon rates. In 1999, the Corporation provided funds to finance certain Meridian expansion projects at market rates of interest. Further, the Corporation is negotiating a multi-year supply agreement whereby Meridian will provide aggregates to certain operations in 2000 and beyond. The Corporation recorded an investment in Meridian, including receivables and a convertible note, of $53,511,000 and $42,267,000 at December 31, 1999 and 1998, respectively, and Meridian-related revenue of $3,395,000 during 1999.

Research and Development and Similar Costs. Research and development and similar costs are charged to operations as incurred. Pre-operating costs and start-up costs for new facilities and products are generally charged to operations as incurred.

Segment Information. Information concerning business segment data is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 34 through 36.

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 were computed assuming that the weighted-average number of common shares was increased by the conversion of fixed awards (employee stock options and incentive stock awards) and nonvested stock awards to be issued to employees and non-employee 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 income 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:

	1999	1998	1997
Basic Earnings per Common Share:			
Weighted-average number of shares	**46,667,600**	46,453,900	46,121,800
Effect of Dilutive Securities:			
Employee fixed awards	**238,500**	234,800	113,300
Employee and Director nonvested stock	**40,900**	18,900	2,700
Diluted Earnings per Common Share:			
Weighted-average number of shares and assumed conversions	**46,947,000**	46,707,600	46,237,800

Accounting Changes. In June 1998, the Financial Accounting Standards Board ("FASB") issued the Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), which was required to be adopted in years beginning after June 15, 1999. The FASB amended FAS 133 to defer the effective date of adoption until all fiscal quarters of all fiscal years beginning after June 15, 2000. Statement of Financial Accounting Standards

No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*, was issued in June 1999. Because of the Corporation's minimal use of derivatives, if any, management does not anticipate that the adoption of FAS 133 will have a significant impact on net earnings or the financial position of the Corporation.

Note B: Business Combinations

As of December 4, 1998, the Corporation purchased all of the outstanding common stock of Redland Stone Products Company ("Redland Stone") from an affiliate of Lafarge SA. The operating results of the acquired business have been included with those of the Corporation since that date.

The purchase price consisted of approximately $272 million in cash plus normal balance sheet liabilities, subject to certain post-closing adjustments relating to working capital, and approximately $8 million estimated for certain other assumed liabilities and transaction costs. The acquisition has been accounted for under the purchase method of accounting wherein the Corporation recognized approximately $166 million in costs in excess of net assets acquired after recording other purchase adjustments necessary to allocate the purchase price to the fair value of assets acquired and liabilities assumed. Goodwill is being amortized over a 30-year period. The preliminary purchase price allocation was adjusted in 1999 within the applicable period provided by Accounting Principles Bulletin No. 16, *Business Combinations*. The post-closing adjustments related to working capital and other fair-value adjustments were finalized without a significant impact on the preliminary purchase price allocation.

For comparative purposes, the following unaudited pro forma summary financial information presents the historical results of operations of the Corporation and the Redland Stone business for the year ended December 31, 1998. The financial information reflects pro forma adjustments as if the acquisition had been consummated as of the beginning of the period presented. The pro forma financial information is based upon certain estimates and assumptions that management of the Corporation believes are reasonable in the circumstances. The unaudited pro forma information presented below is not necessarily indicative of what results of operations actually would have been if the acquisition had occurred on the date indicated. Moreover, they are not necessarily indicative of future results.

Pro Forma Information *(Unaudited)*

year ended December 31 *(add 000, except per share)*	1998
Net sales	$ 1,185,278
Net earnings	$ 113,113
Earnings per common share:	
Basic	$ 2.44
Diluted	$ 2.42

Information concerning other business combinations completed during 1999 is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on page 26.

Note C: Accounts Receivable

December 31 *(add 000)*	**1999**	1998
Customer receivables	**$ 193,380**	$ 172,372
Other current receivables	**8,881**	3,569
	202,261	175,941
Less allowances	**(4,707)**	(4,430)
Total	**$ 197,554**	$ 171,511

Note D: Inventories

December 31 *(add 000)*	**1999**	1998
Finished products	**$ 143,776**	$ 127,904
Products in process and raw materials	**9,972**	12,342
Supplies and expendable parts	**25,862**	25,307
	179,610	165,553
Less allowances	**(6,745)**	(8,449)
Total	**$ 172,865**	$ 157,104

Note E: Property, Plant and Equipment, Net

December 31 *(add 000)*	**1999**	1998
Land and improvements	**$ 182,670**	$ 164,362
Mineral deposits	**156,870**	150,684
Buildings	**69,273**	63,205
Machinery and equipment	**1,170,592**	1,072,258
Construction in progress	**73,803**	52,003
	1,653,208	1,502,512
Less allowances for depreciation and depletion	**(806,215)**	(724,984)
Total	**$ 846,993**	$ 777,528

Note F: Long-Term Debt

December 31 (*add 000*)	1999	1998
5.875% Notes, due 2008	**$ 199,059**	$ 198,980
6.9% Notes, due 2007	**124,956**	124,952
7% Debentures, due 2025	**124,215**	124,204
Commercial Paper, interest rates ranging from 5.50% to 7.14%	**180,000**	165,000
Acquisition notes, interest rates ranging from 5.50% to 10.00%	**12,395**	3,299
Other notes	**1,108**	1,335
Total	**641,733**	617,770
Less current maturities	**(39,722)**	(15,657)
Long-term debt	**$ 602,011**	$ 602,113

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 are not redeemable prior to their maturity 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 entire amount of these long-term fixed rate debt securities was registered under the Corporation's shelf registration statement on file with the Securities and Exchange Commission. The effective interest rate on these securities is 6.91%. The Notes are not redeemable prior to their maturity on August 15, 2007.

The 7% Debentures were sold at 99.3% of their principal amount of $125,000,000 in December 1995. The entire amount of these long-term fixed rate debt securities was registered under the Corporation's shelf registration statement on file with the Securities and Exchange Commission. The effective interest rate is 7.05%, and the Debentures are not redeemable prior to their maturity date of 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.

The Corporation entered into revolving credit agreements, syndicated with a group of domestic and foreign commercial banks, which provide for borrowings of up to $150,000,000 for general corporate purposes through January 2002 and $300,000,000 for general corporate purposes through August 2000 (collectively the "Agreements"). Borrowings under these Agreements are unsecured and bear interest, at the Corporation's option, at rates based upon: (i) the Eurodollar 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). These Agreements contain restrictive covenants relating to leverage, requirements for limitations on encumbrances, and provisions that relate to certain changes in control. The Corporation is required to pay an annual loan commitment fee to the bank group.

No borrowings were outstanding under the revolving credit agreements at December 31, 1999. However, the Agreements support a commercial paper program of $450,000,000, of which borrowings of $180,000,000 and $165,000,000 were outstanding at December 31, 1999 and 1998, respectively. Of these amounts, $150,000,000 at December 31, 1999 and 1998, was classified as long-term debt on the Corporation's consolidated balance sheet based on management's ability and intention to maintain this debt outstanding for at least one year. The remaining $30,000,000 at December 31, 1999, and $15,000,000 at December 31, 1998, was classified as a current liability.

Excluding commercial paper, the Corporation's long-term debt maturities for the five years following December 31, 1999, are:

(*add 000*)	
2000	$ 9,722
2001	1,060
2002	893
2003	277
2004	213
Thereafter	449,568
Total	$ 461,733

Total interest paid was $37,108,000, $23,677,000 and $14,487,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Amounts reflected in acquisitions, net, in the consolidated statement of cash flows include assumed or incurred indebtedness of $9,208,000, $3,373,000 and $1,364,000 for the years ended December 31, 1999, 1998 and 1997, respectively. In addition, the amount reflected in acquisitions, net, for 1999, 1998 and 1997 excludes the effect of the issuance of approximately 311,100, 280,100 and 123,500 shares, respectively, of the Corporation's common stock.

Note G: Financial Instruments

In addition to its long-term debt arrangements, the Corporation's financial instruments also include temporary cash investments, customer accounts and notes receivable, and commercial paper borrowings. Temporary investments are placed with creditworthy financial institutions, primarily in Euro-time deposits. The Corporation's cash equivalents principally have maturities of less than three months. Due to the short maturity of these investments, they are carried on the consolidated balance sheet at cost, which approximates market value. Customer receivables are due from a large number of customers who are dispersed across wide geographic and economic regions. At December 31, 1999 and 1998, the Corporation had no significant concentrations of credit risk.

The estimated fair values of customer receivables and commercial paper borrowings approximate their carrying amounts. The estimated fair values of the Corporation's long-term debt instruments (excluding commercial paper borrowings) at December 31, 1999, was approximately $420,768,000 compared with a carrying amount of $461,733,000 on the consolidated balance sheet. The fair values of long-term debt were estimated based on quoted market prices for those instruments publicly traded. For privately placed debt, the fair values were estimated based on the quoted market prices for similar issues, or on current rates offered to the Corporation for debt of the same remaining maturities.

Note H: Income Taxes

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

years ended December 31 (*add 000*)	**1999**	1998	1997
Federal income taxes:			
Current	**$ 61,349**	$ 52,663	$ 40,916
Deferred	**(4,081)**	(4,486)	2,566
Total federal income taxes	**57,268**	48,177	43,482
State income taxes:			
Current	**12,128**	11,360	9,032
Deferred	**(864)**	(1,008)	169
Total state income taxes	**11,264**	10,352	9,201
Total provision	**$ 68,532**	$ 58,529	$ 52,683

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

years ended December 31	**1999**	1998	1997
Statutory tax rate	**35.0%**	35.0%	35.0%
Increase (reduction) resulting from:			
Effect of statutory depletion	**(6.4)**	(6.6)	(5.8)
State income taxes	**3.8**	3.9	4.0
Other items	**2.9**	1.3	1.6
Effective tax rate	**35.3%**	33.6%	34.8%

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

	Deferred Assets (Liabilities)	
(*add 000*)	**1999**	1998
Property, plant and equipment	**$ (85,609)**	$ (77,954)
Employee benefits	**21,395**	15,159
Financial reserves	**7,549**	7,436
Other items, net	**(3,293)**	(1,286)
Total	**$ (59,958)**	$ (56,645)

Deferred income taxes on the consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation does not believe a valuation allowance is required at December 31, 1999 or 1998.

The Corporation's total income tax payments were $71,644,000, $59,466,000 and $54,181,000, respectively, during the years ended December 31, 1999, 1998 and 1997.

Note I: Retirement Plans, Postretirement and Postemployment Benefits

Defined Benefit Plans. The Corporation sponsors a number of noncontributory defined benefit retirement plans, covering substantially all employees. The assets of the Corporation's retirement plans are held in the Corporation's Master Retirement Trust and are invested principally in commingled funds. The underlying investments are invested in listed stocks and bonds and cash equivalents. Defined benefit 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 retirement plans for hourly employees generally provide benefits of stated amounts for specified periods of service.

The Corporation's defined benefit pension plans comply with two 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, and Statement of Financial Accounting Standards No. 87, *Employers Accounting for Pensions* ("FAS 87") and Statement of Financial Accounting Standards No.132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*, which establish rules for financial accounting and reporting. When any funded plan exceeds the full-funding limits of ERISA, no contribution is made to that plan. FAS 87 specifies that certain key actuarial assumptions be adjusted annually to reflect current, rather than long-term, trends in the economy.

It is the Corporation's funding policy to stabilize annual contributions with assumptions selected on the basis of expected long-term trends. The net periodic pension benefit cost of defined benefit plans included the following components:

years ended December 31 (*add 000*)	**1999**	1998	1997
Components of net periodic benefit cost:			
Service cost	**$ 7,578**	$ 5,965	$ 5,039
Interest cost	**10,071**	9,231	8,245
Expected return on assets	**(12,946)**	(11,454)	(9,598)
Amortization of:			
Prior service cost	**531**	512	537
Actuarial gain	**(485)**	(464)	(648)
Transition asset	**(357)**	(331)	(360)
Net periodic benefit cost	**$ 4,392**	$ 3,459	$ 3,215

Weighted-average assumptions used as of December 31 are as follows:

	1999	1998	1997
Discount rates	**8.00%**	6.75%	7.25%
Rate of increase in future compensation levels	**5.00%**	5.00%	5.50%
Expected long-term rate of return on assets	**9.00%**	9.00%	9.00%

The following table sets forth the defined benefit plans' change in benefit obligations, change in plan assets, funded status and amounts recognized in the respective consolidated balance sheet as of:

years ended December 31 (*add 000*)	**1999**	1998
Change in benefit obligations:		
Net obligation at beginning of year	**$ 144,109**	$ 125,973
Service cost	**7,578**	5,965
Interest cost	**10,071**	9,231
Actuarial (gain)/loss	**(26,718)**	4,473
Acquisitions/divestitures	**1,216**	4,600
Gross benefits paid	**(5,587)**	(6,133)
Net benefit obligation at end of year	**$ 130,669**	$ 144,109

years ended December 31 (*add 000*)	**1999**	1998
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 147,187**	$ 130,345
Actual return on plan assets, net	**27,291**	20,180
Acquisitions	**–**	2,600
Employer contributions	**52**	195
Gross benefits paid	**(5,587)**	(6,133)
Fair value of plan assets at end of year	**$ 168,943**	$ 147,187

December 31 (*add 000*)	**1999**	1998
Funded status of the plan at end of year	**$ 38,274**	$ 3,078
Unrecognized net actuarial gain	**(63,003)**	(21,998)
Unrecognized prior service cost	**4,130**	4,661
Unrecognized net transition asset	**(748)**	(1,105)
Accrued benefit cost	**$ (21,347)**	$ (15,364)

December 31 (*add 000*)	**1999**	1998
Amounts recognized in the consolidated balance sheet consist of:		
Prepaid benefit cost	**$ 118**	$ 101
Accrued benefit cost	**(21,465)**	(15,465)
Net amount recognized at end of year	**$ (21,347)**	$ (15,364)

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 $3,900,000, $2,478,000 and $0, respectively, as of December 31, 1999, and $3,124,000, $1,375,000 and $0, respectively, as of December 31, 1998.

Postretirement Benefits. The Corporation provides other postretirement benefits including medical benefits for retirees and their spouses (and Medicare Part B reimbursement for

certain retirees) and retiree life insurance. The net periodic postretirement benefit cost of postretirement plans included the following components:

years ended December 31 (add 000)	**1999**	1998	1997
Components of net periodic benefit cost:			
Service cost	**$ 2,738**	$ 1,732	$ 1,360
Interest cost	**3,782**	4,034	3,539
Expected return on assets	**(35)**	(121)	(246)
Amortization of:			
Prior service cost	**(35)**	25	36
Actuarial gain	**(419)**	(85)	(372)
Net periodic benefit cost	**$ 6,031**	$ 5,585	$ 4,317

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

years ended December 31 (add 000)	**1999**	1998
Change in benefit obligations:		
Net benefit obligation at beginning of year	**$ 62,381**	$ 52,158
Service cost	**2,738**	1,732
Interest cost	**3,782**	4,034
Participants' contribution	**31**	164
Plan amendments	**(6,410)**	–
Actuarial (gain)/loss	**(13,208)**	6,713
Gross benefits paid	**(2,879)**	(2,420)
Net benefit obligation at end of year	**$ 46,435**	$ 62,381

years ended December 31 (add 000)	**1999**	1998
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 578**	$ 2,926
Actual return on plan assets, net	**15**	(92)
Participants' contributions	**31**	164
Gross benefits paid	**(624)**	(2,420)
Fair value of plan assets at end of year	**$ 0**	$ 578

December 31 (add 000)	**1999**	1998
Funded status of the plan at end of year	**$ (46,435)**	$ (61,803)
Unrecognized net actuarial (gain)/loss	**(10,469)**	2,270
Unrecognized prior service cost	**(5,918)**	456
Accrued benefit cost	**$ (62,822)**	$ (59,077)

December 31 (add 000)	**1999**	1998
Amounts recognized in the consolidated balance sheet consist of:		
Accrued benefit cost	**$ (62,822)**	$ (59,077)
Net amount recognized at end of year	**$ (62,822)**	$ (59,077)

Weighted-average assumptions used as of December 31 are as follows:

	1999	1998	1997
Discount rate	**8.00%**	6.75%	7.25%
Expected long-term rate of return on assets	**9.00%**	9.00%	9.00%

The assumed trend rate for health care inflation used in measuring the net periodic benefit cost and benefit obligation is 8% for 1999, declining to 4.5% in 2004 and remaining at that level thereafter. The assumed health care trend rate has a significant impact on the amounts reported. A one-percentage point change in the assumed health care trend rate would have the following effects at December 31, 1999:

	One Percentage Point	
(add 000)	**Increase**	**(Decrease)**
Total service and interest cost components	**$ 506**	**$ (416)**
Postretirement benefit obligation	**$ 4,811**	**$ (4,041)**

In November 1999, the Corporation amended its postretirement medical benefits to, among other things, realign the maximum annual medical benefits available to retirees, modify the retiree premium schedules and limit future retiree participation.

Defined Contribution Plans. The Corporation maintains two 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. The employees of Redland Stone participate in a separate defined contribution plan established prior to the Corporation's acquisition. The Corporation will continue to support the existing plan in the near term. Under certain provisions of these 401(k) plans, the Corporation, at established rates, matches employees' eligible contributions. The Corporation's matching obligations were $3,144,000 in 1999, $2,381,000 in 1998 and $1,418,000 in 1997.

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 $1,734,000 at each of December 31, 1999 and 1998.

Note J: Stock Options and Award Plans

In 1994, the shareholders of the Corporation approved an Amended Omnibus Securities Award Plan (an "Amended Omnibus Plan") that provided authorization for the Corporation to repurchase 2,000,000 shares of the Corporation's Common Stock for issuance under the Amended Omnibus Plan. On May 8, 1998, the repurchase authorization was decreased to approximately 1,007,000 shares, which represented the aggregate number of shares that were subject to grants made through May 8, 1998. The shareholders approved, on May 8, 1998, the Martin Marietta Materials, Inc. Stock-Based Award Plan (the "Plan"), as amended from time to time (collectively the "Plans", along with the "Amended Omnibus Plan"). In connection with the Plan, the Corporation was authorized to repurchase up to 5,000,000 shares of the Corporation's Common Stock for issuance under the Plan.

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

Additionally, an incentive stock plan has been adopted under the Plans whereby certain participants elect to use up to 50% of their annual incentive compensation to acquire 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 32,648 shares for 1999, 22,905 shares for 1998 and 28,029 shares for 1997 of the Corporation's common stock, were awarded under the incentive stock plan. Such awards are granted in the subsequent year. Under the awards outstanding, participants earn the right to acquire their respective shares at the discounted value generally at the end of a three-year period of additional employment from the date of award. 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.

The Plan provides that each non-employee director receives 1,500 non-qualified stock options annually. The Corporation grants the non-employee directors options to purchase its common stock at a price equal to the market value at the date of grant. These options become exercisable in one year from the grant date assuming completion of the service year by the non-employee director and expire ten years from such date.

A summary of the Corporation's stock-based plans' activity and related information follows:

	Number of Shares		
	Available for Grant	*Awards Outstanding*	*Weighted-Avg. Exercise Price*
December 31, 1996	1,317,141	682,859	$ 21.96
Granted	(315,327)	315,327	$ 34.10
Exercised	–	(10,030)	$ 21.33
Terminated	2,334	(2,334)	$ 25.57
December 31, 1997	1,004,148	985,822	$ 25.84
Additions	5,000,000	–	–
Authorization decrease	(993,000)	–	–
Granted	(360,779)	360,779	$ 46.31
Exercised	–	(165,612)	$ 21.09
Terminated	7,166	(7,166)	$ 30.17
December 31, 1998	4,657,535	1,173,823	$ 32.78
Granted	**(433,155)**	**433,155**	**$ 48.20**
Exercised	**–**	**(124,938)**	**$ 22.53**
Terminated	**7,912**	**(7,912)**	**$ 37.56**
December 31, 1999	**4,232,292**	**1,474,128**	**$ 38.15**

Approximately 712,000, 519,000 and 411,000 outstanding awards were exercisable at December 31, 1999, 1998 and 1997, respectively. Exercise prices for awards outstanding as of December 31, 1999, ranged from $20.00 to $63.44. The weighted-average remaining contractual life of those awards is 7.7 years. The weighted-average exercise price of outstanding exercisable awards at December 31, 1999, is $29.85.

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 16,791 and 24,324 shares of the Corporation's com-

mon stock were granted under this plan in 1999 and 1998, respectively. The Corporation issued 10,872 net shares of common stock to key senior employees in January 2000 representing stock unit awards granted for 1997.

Also, the Corporation adopted the Amended and Restated Common Stock Purchase Plan for Directors, which provides non-employee directors the election to receive all or a portion of their total fees in the form of the Corporation's common stock. Under the terms of this plan, 50,000 shares of common stock are reserved for issuance. Currently, directors are required to defer at least 30% of the retainer portion of their fees in the form of common stock. Directors elected to defer portions of their fees representing 3,551 and 6,328 shares of the Corporation's common stock under this plan during 1999 and 1998, respectively.

Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if the Corporation had accounted for its employee stock options and other stock-based awards and grants subsequent to December 31, 1994, under the fair value method prescribed by FAS 123. 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:

	1999	1998	1997
Risk-free interest rate	**6.20%**	5.40%	6.40%
Dividend yield	**1.40%**	1.80%	1.70%
Volatility factor	**27.70%**	17.90%	20.40%
Expected life	**7 years**	7 years	7 years

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 changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based plans.

For purposes of pro forma disclosure, the estimated fair value of the stock-based plans is amortized hypothetically over the vesting period of the related grant or award. The Corporation's pro forma information for the years ended December 31 is as follows:

(*add 000, except per share*)	**1999**	1998	1997
Basic earnings per common share:			
Net earnings	**$122,791**	$113,658	$ 97,557
Earnings per share	**$ 2.63**	$ 2.45	$ 2.12
Diluted earnings per common share:			
Net earnings	**$122,791**	$113,343	$ 97,072
Earnings per share	**$ 2.62**	$ 2.43	$ 2.10

Note K: Leases

Total rent expense for all operating leases was $26,761,000, $23,460,000 and $19,700,000 for the years ended December 31, 1999, 1998 and 1997, respectively. The Corporation's operating leases generally contain renewal and/or purchase options with varying terms. Total mineral royalties for all leased properties were $23,482,000, $19,988,000 and $17,750,000 for the years ended December 31, 1999, 1998 and 1997, respectively. Future minimum rental and royalty commitments for all non-cancelable operating leases and royalty agreements as of December 31, 1999, are as follows:

(*add 000*)	
2000	$ 8,915
2001	6,767
2002	5,252
2003	4,113
2004	3,353
Thereafter	41,575
Total	$ 69,975

Note L: Shareholders' Equity

The authorized capital structure of Martin Marietta Materials, Inc., includes 10,000,000 shares of preferred stock with par value of $0.01 a share, none of which is issued currently; however, 100,000 shares of Class A Preferred Stock have been reserved in connection with the Corporation's Shareholders' Rights Plan. In addition, the capital structure includes 100,000,000 shares of common stock, with a par value of $0.01 a share. As of December 31, 1999 and 1998, there were approximately 46,715,000 and 46,621,000 shares, respectively, of the Corporation's common stock issued and outstanding. Approximately 8,307,000 common shares have been reserved for issuance under benefit and stock-based incentive plans.

In 1999, the Corporation repurchased 322,300 shares of its common stock at public market prices at various purchase dates. The repurchase of shares was authorized under the Corporation's stock-based award plans' authorizations (see Note J). There were no shares repurchased in 1998 or 1997. Further, during 1999, the Corporation issued 311,100 restricted shares of common stock as part of an acquisition (see Management's Discussion and Analysis of Financial Condition and Results of Operations, page 37).

Under the North Carolina Business Corporation Act, shares of common stock reacquired by a corporation constitute unissued shares. For financial reporting purposes, reacquired shares are recorded as reductions to issued common stock and to additional paid-in capital.

Note M: 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 and Management's Discussion and Analysis of Financial Condition and Results of Operations, page 39), will have a material adverse effect on the results of the Corporation's operations or on its financial position.

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

The Corporation currently has no material provisions for estimated costs in connection with expected remediation costs or other environmental-related expenditures because it is impossible to quantify the impact of all actions regarding environmental matters, particularly the extent and cost of future remediation and other compliance efforts. However, in the opinion of management, it is unlikely that any additional liability the Corporation may incur for known environmental issues or compliance with present environmental-protection laws would have a material adverse effect on the Corporation's consolidated financial position or on its results of operations (see Note A and Management's Discussion and Analysis of Financial Condition and Results of Operations on page 39).

Letters of Credit. The Corporation has entered into a standby letter of credit agreement relating to workers' compensation self-insurance requirements. At December 31, 1999, the Corporation had a contingent liability on this outstanding letter of credit of approximately $6,700,000.

Martin Marietta Materials, Inc. ("Martin Marietta Materials" or the "Corporation"), is the nation's second largest producer of construction aggregates and a leading producer of magnesia-based chemicals, refractories and dolomitic lime products, used in a wide variety of industries. The discussion and analysis that follows reflects management's assessment of the financial condition and results of operations of Martin Marietta Materials and should be read in conjunction with the audited consolidated financial statements on pages 12 through 25.

Business Combinations

In 1999, the Corporation completed ten transactions, excluding its new technology investment in Industrial Microwave Systems, for a combined $77.1 million in cash, stock and certain other consideration, that strategically expanded its aggregates, asphalt and ready mixed concrete businesses in Texas, Tennessee, Louisiana, Arkansas, West Virginia, Mississippi and Alabama. Of the ten transactions, two are particularly noteworthy. In Texas, the Corporation began serving the Dallas/Fort Worth area through the purchase of Marock, Inc. The Marock acquisition included a limestone quarry and a sand and gravel operation with annual production capacity of 4.5 million tons. The purchase also included three asphalt plants with annual capacity of 700,000 tons. The Corporation also acquired L.J. Earnest, Inc., with operations in Shreveport, Louisiana, and Texarkana, Arkansas. L.J. Earnest operates a major aggregates distribution yard, to which the Corporation was supplying aggregates via rail from Arkansas; three asphalt plants with annual capacity in excess of 800,000 tons; and two ready mixed concrete plants. L.J. Earnest is also a major road-paving contractor in Louisiana and Arkansas. Vertical integration – that is, owning and operating facilities that use materials from the company's quarries – is more common in the industry as the Corporation continues its expansion west of the Mississippi River. While management has no current plan to become a significant participant in the road paving industry, the Corporation will continue to look selectively at acquisitions, like L.J. Earnest, that are complementary to the aggregates business.

The ten acquisitions in 1999 were accounted for under the purchase method of accounting, and the operating results of the businesses acquired were included with those of the Corporation from the acquisition dates forward. The Liquidity and Cash Flow discussion, which follows, outlines the impact of these acquisitions on financing and investing activities. During 1999, the Corporation finalized the purchase price allocation related to its acquisition of Redland Stone Products Company ("Redland Stone"). The Redland Stone acquisition, completed on December 4, 1998, for $272 million in cash plus normal balance sheet liabilities, subject to certain post-closing adjustments in working capital, and $8 million estimated for certain other assumed liabilities and transaction costs, has been included in operating results since the acquisition date. The post-closing adjustments related to working capital and other fair-value adjustments were finalized without a significant impact on the preliminary purchase price allocation.

Costs in excess of net assets acquired ("goodwill") represent 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 if the facts and circumstances indicate potential impairment. If this review indicates that the carrying value of goodwill will not be recoverable, as determined based on estimated discounted cash flows of the business acquired over the remaining amortization period, goodwill is reduced by the estimated shortfall of cash flows. Goodwill is as follows at December 31:

	Costs in Excess of Net Assets Acquired (*in millions*)	% of Total Assets	% of Shareholders' Equity
1999	**$ 375.3**	**21.5%**	**48.5%**
1998	$ 348.0	21.9%	52.1%

Results of Operations

The Corporation's Aggregates division's business is characterized by a high level of dependence on construction-sector spending; and the Magnesia Specialties product lines, particularly refractories and dolomitic lime products, are used principally within the steel industry. Therefore, the Corporation's operating results are highly dependent upon activity within the construction and steel-related marketplaces, both of which are subject to interest rate fluctuations and economic cycles within the public and private business sectors. Factors such as sea-

sonal and other weather-related conditions also affect the Corporation's business production schedules and levels of profitability. Accordingly, the financial results for a particular year, or year-to-year comparisons of reported results, may not be indicative of future operating results. Further, the Corporation's sales and earnings are predominantly derived from its Aggregates division. The following comparative analysis and discussion should be read in that context.

The Corporation's 1999 net earnings of $125.8 million, or $2.68 per diluted share, represent an increase of 9% over 1998 net earnings of $115.6 million, or $2.48 per diluted share. The 1998 net earnings were 17% higher than 1997 net earnings of $98.5 million, or $2.13 per diluted share. The Corporation's consolidated net sales of $1.259 billion in 1999 represent an increase of $201.1 million, or 19%, over 1998 net sales of $1.058 billion. The 1997 consolidated net sales were $900.9 million. Consolidated earnings from operations were $215.3 million in 1999 and $196.6 million in 1998, reflecting an increase of $18.7 million, or 10%, in 1999 and $33.8 million, or 21%, in 1998, both over the prior year. The Corporation's 1997 operating earnings were $162.8 million.

In 1999, the Corporation's results reflected the impact of weather-related events, changing agricultural and commercial construction demand, positive performance from the recently acquired Redland Stone and nonrecurring other income. Hurricane Floyd, and two other hurricanes that occurred in the third and fourth quarters, most significantly affected the Corporation's operations in its largest production state, North Carolina. Historic levels of flooding in North Carolina left seven quarries temporarily inoperable after the hurricanes. However, by the end of the year, all quarries had resumed normal operations. During this period, Hurricane Floyd continued to impact the level of sales in North Carolina, as well as increase production and transportation costs. Certain storm-related property damage and business interruption costs may be recovered under the Corporation's insurance program. Certain of these amounts were recorded as receivables at year end. Further, five weeks of unusually wet weather in the Midwest and Southeast during the second quarter of 1999 also contributed to relatively flat year-over-year volume at heritage operations and rising production costs.

The agricultural economy in the Midwest began to decline during the year and significantly affected performance during the third quarter, as farm commodity prices reached record low levels. Sales of agricultural-use lime and base road stone declined in Iowa, the Corporation's fourth largest production state. However, United States' federal government agricultural subsidies late in the year partially offset the decline in these product areas. Weaker-than-expected demand in commercial construction in the central region of the United States had further impact on the Corporation's performance during 1999.

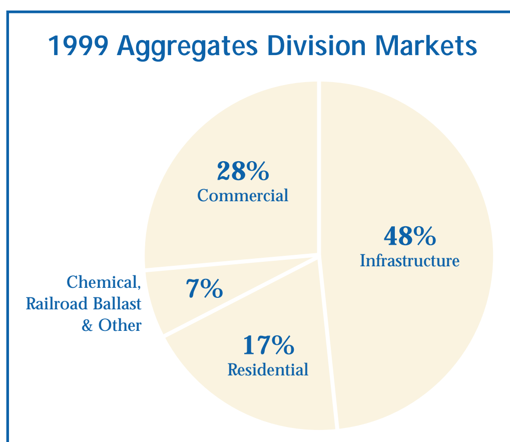
Acquisitions, particularly Redland Stone, somewhat mitigated the impact of weather-related events and changing agricultural market and commercial construction demand. The Texas Department of Transportation was one of the country's leaders in utilizing federal-aid highway funds under the Transportation Equity Act for the 21st Century ("TEA-21"), with a backlog of engineered and approved projects awaiting funding. Favorable market conditions were experienced for all product lines as dry weather conditions in 1999 provided Redland Stone with the opportunity to work through a backlog of projects created from significant flooding in late 1998.

The Corporation's operating performance was negatively affected by declining sales and earnings in its Magnesia Specialties division. The division's sales and earnings continued to reflect the weak economic performance of the steel industry. Operating results were further reduced as management slowed production rates to better match production to declining sales volume.

The Corporation's operating margin of 17.1% in 1999 declined from 18.6% in 1998, primarily as a result of hurricane- and other weather-related costs and lower volumes at heritage aggregates operations (which exclude acquisitions that have not been included in prior-year operations for a full year). Lower margin asphalt, ready mixed and paving operations associated with certain acquisitions, along with Magnesia Specialties' declining results, also contributed to the operating margin reduction.

Other income and expenses, net, for the year ended December 31, 1999, was $18.4 million in income, compared to income of $1.3 million and $5.3 million in 1998 and 1997, respectively. In addition to other offsetting amounts, other income and expenses, net, is comprised generally of interest income, gains and losses associated with the disposition of certain assets, gains and losses related to certain accounts receivable, income from nonoperating services, costs associated with the commercialization of certain new technologies, and net equity earnings from nonconsolidated investments. In 1999, other income and expenses, net, includes nonrecurring settlements from antitrust claims and a higher-than-normal level of planned property sales, both principally relating to the Aggregates division. Further, beginning in the third quarter of 1999, income from certain nonoperating services was recorded as operating income, as the activities associated with these services became a recurring feature of business operations. The prospective classification between operating and nonoperating income did not materially affect operating earnings.

Interest expense for the year ended December 31, 1999, was $39.4 million. This represents an increase of $15.7 million, or 66%, in 1999 over 1998. Interest expense was $23.8 million in 1998, an increase of $6.9 million, or 41%, over 1997 interest expense of $16.9 million. The increased interest expense in 1999 results primarily from the full-year impact of borrowings to finance the acquisition of Redland Stone. The interest expense increase from 1998, as compared to 1997, resulted primarily from additional borrowings to finance the acquisition of Redland Stone, coupled with the full-year impact of borrowings to finance the acquisition of American Aggregates Corporation ("American Aggregates"), which was consummated in May 1997.



The Corporation's effective income tax rate for 1999 was 35.3%, compared with 33.6% in 1998 and 34.8% in 1997. The variance in the effective income tax rates for these years, when compared to the federal corporate tax rate of 35%, is due to the effect of several factors. In this regard, the Corporation's effective tax rates for these years reflect the impact of differences in financial and tax accounting arising from the net permanent benefit associated with the depletion allowances for mineral reserves, nondeductible amortization of certain goodwill balances, foreign operating earnings, and earnings from nonconsolidated investments. As expected, the 1999 effective tax rate increased as a result of the Redland Stone acquisition, principally from the amortization of nondeductible goodwill.

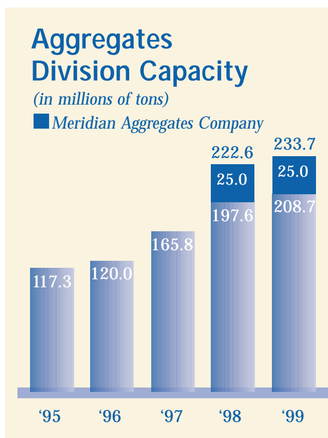
The Corporation's debt-to-capitalization ratio decreased from 48% at December 31, 1998, to 45% at December 31, 1999, with total debt, including commercial paper obligations, increasing from $617.8 million to $641.7 million, and shareholders' equity increasing from $667.7 million to $774.0 million. During 1999, the Corporation paid common stock dividends of $24.3 million, or $0.52 per common share. Additional information regarding the Corporation's debt and capital structure is contained in Note F to the audited financial statements on page 19 and under "Liquidity and Cash Flows" and "Capital Structure and Resources" on pages 36 through 39.

Business Environment

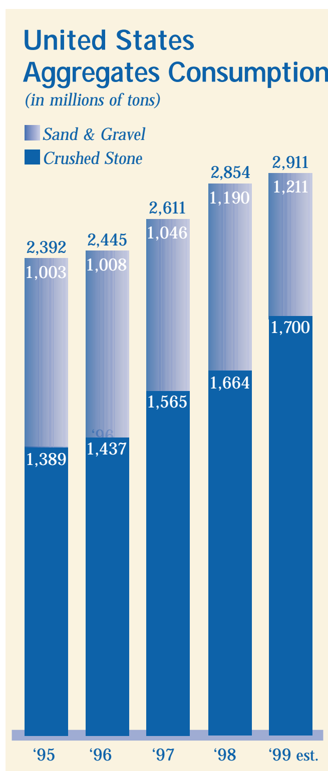
The Corporation's principal lines of business include Martin Marietta Aggregates, which primarily serves commercial customers in the construction aggregates-related markets, and Martin Marietta Magnesia Specialties, which manufactures and markets magnesia-based products and dolomitic lime, principally for use in the steel industry. These businesses are strongly affected by activity within the construction and steel-related marketplaces, respectively, both of which represent industries that are cyclical in nature.

The Aggregates division markets its products primarily to the construction industry, with approximately half of its aggregates

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. Accordingly, the Corporation's profitability is sensitive to national, as well as regional and local, economic conditions, and particularly to cyclical swings in construction spending. The cyclical swings in construction spending are affected by fluctuations in interest rates, changes in the levels of infrastructure funding by the public sector and demographic and population shifts. Further, the Corporation's asphalt, ready mixed and road paving operations generally follow trends in the construction industry. Due to the high level of fixed costs associated with aggregates production, the Corporation's operating leverage can be substantial.



While construction spending in the public and private market sectors is affected by changes in economic cycles, there has been a tendency for the level of spending for infrastructure projects in the public-sector portion of this market to be more stable than spending for projects in the private sector. Governmental appropriations and expenditures are less interest-rate sensitive than private-sector spending, and generally improved levels of funding have enabled highway and other infrastructure projects to register improvement over the past few years. The Corporation believes public-works projects consumed more than 50% of the total annual aggregates consumption in the United States during 1999. This has consistently been the trend in construction spending for each year since 1990. Additionally, since public sector-related shipments account for almost 50% of the Corporation's 1999 aggregates shipments, the Aggregates division also enjoys the benefit of the high level of public-works construction projects. Accordingly, the Corporation's management believes the Corporation's exposure to fluctuations in commercial and residential, or private sector, construction spending is lessened somewhat by the division's broad mix of public sector-related shipments.

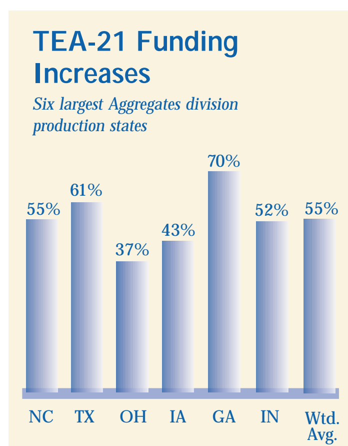


Public-sector construction projects are funded through a combination of federal, state, and local sources, with TEA-21 providing the principal source of federal funding. Congress passed TEA-21 legislation on June 9, 1998. TEA-21 provides federal transportation funding authorization of $218 billion ($168 billion for highway construction and $50 billion for other programs) over a six-year period ending in 2003. TEA-21 increases funding by approximately 40% over the prior federal funding level and increases funding for highway construction alone by an average of 44%.

In a change from previous legislation, TEA-21 provides a minimum funding guarantee firewall for the Highway Account of the Highway Trust Fund and minimum percentage of funding guarantees for each state. TEA-21 requires that 100% of the federal gasoline tax revenues collected be directed into the Highway Trust Fund as a minimum funding guarantee. However, Congress must annually appropriate highway funding levels and could choose to fund at a level below the minimum funding guarantee. Further, TEA-21 includes a revised highway funding distribution formula that guarantees that each state will receive a minimum percentage of highway funding, equal to 90.5% of the state's share of total gasoline tax contributions. Many states in the South are expected to experience an increase in funding in excess of the 44%

national average as a result of the revised highway funding distribution formula. Highway construction spending is expected to increase further as state departments of transportation match, as required, the federal funds received under TEA-21.

The federal transportation appropriation bill for fiscal 2000 fully funded the guaranteed highway funding level authorized under TEA-21 of $26.7 billion. Further, the fiscal 2000 transportation appropriations bill includes an additional $1.5 billion for guaranteed highway funding. The additional $1.5 billion of guaranteed funding results from the adjustment of TEA-21 Federal-Aid Highways authorizations as gasoline tax receipt projections were amended to reflect actual receipts.



However, to balance the federal budget, federal funding for fiscal 2000 appropriations is subject to a 0.38% across-the-board spending reduction provision for all federal agencies. The spending reduction provides the Clinton Administration with the flexibility to determine which programs within each federal agency will be reduced but would prevent any program from being reduced by more than 15%. TEA-21 transportation appropriations will be reduced by $105.2 million for fiscal 2000. Further, the 2001 Transportation Budget released by the Clinton Administration proposes to reallocate a portion of the additional $3.0 billion of guaranteed highway funding between TEA-21 and non-TEA-21 transportation programs. These and other potential proposals may impact the additional funding available for the Highway Fund. There is no assurance that Congress will continue to follow the TEA-21 legislated minimum funding guarantee firewall. Management currently believes that reductions in TEA-21 funding, if any, will not have a significant impact on the Corporation.

The Corporation's six largest production states are expected to experience an approximately 55% increase in six-year weighted average annual public-works construction funding under TEA-21 (see graph) as compared to the prior bill. As expected, TEA-21 did not significantly impact operations in 1999. However, management expects that the ultimate level of spending for public-works construction projects will continue to increase in 2000 as a result of TEA-21. In the Corporation's survey of transportation departments across its production states, management reaffirmed its TEA-21 expectations. Those expectations include that most states are utilizing federal TEA-21 funding obligations, have the ability to raise the needed matching funds and are experiencing an increase in highway projects. However, the highway projects are more complex in nature and require more extensive feasibility, engineering and environmental studies before letting contracts and beginning construction. Many transportation departments, based on the survey, are increasing the utilization of consultants to handle engineering and environmental work for these additional projects. Therefore, as expected, there is a lag between the appropriation of highway funds and the actual commencement of construction. Annual highway funds under all TEA-21 programs are available for obligation within a four-year period, including the year of appropriation. Once obligated, TEA-21 funds are available until expended. The Corporation's capital expansion program is focused on taking advantage of the TEA-21 growth through investment in both permanent and portable quarrying operations. However, there is no guarantee that the Corporation will fully benefit from the expected increase in public-works construction projects.

Because of the Aggregates division's operations in the southeastern, southwestern, midwestern and central regions of the nation, the division's – and, consequently, the Corporation's – operating performance and financial results depend on the strength of these specific regional economies. In recent years, the economic growth in these regions of the United States, particularly in the Southeast and Southwest, has been generally strong. However, if federal appropriation levels are reduced, if a reduction occurs in state and local spending, or if the specific regional economies decline, similar to the impact experienced in the Midwest as a result of a declining agricultural economy, the Aggregates division could be adversely affected.

The general economy, spurred by rising business productivity, strong consumer spending, improving foreign economies and negligible inflation, outside of certain sectors, has exceeded the previously-set record expansion of 106 months, which occurred during the 1960's. Further, the Federal Reserve, as a result of controlled inflation, continues to have the flexibility to adjust monetary policy and sustain the economic growth curve. Therefore, generally, economists expect the U.S. economy to continue to grow in 2000 at, or slightly lower than, the level in 1999. Management believes that the construction industry will continue to benefit from enhanced public-works construction funding. Management also expects growth in commercial construction, albeit slower growth than in 1999. However, within the construction industry, the anticipated increases in public-works and commercial construction could be offset by potential decreases, triggered by anticipated higher interest rates, in the residential construction markets. However, as discussed previously, public-works construction spending is principally driven by the level of gasoline tax revenues and the appropriation guidelines under TEA-21. As such, the volatility of public-works construction spending to interest-rate changes is somewhat mitigated.

Currently, management believes the construction industry's overall consumption levels and the Corporation's heritage production and shipments will grow by 2% to 4% in 2000. However, there is no assurance that these levels will be achieved or will continue. Over the next five years, management expects that the Aggregates division's business and financial results will continue to grow, as a result of increased infrastructure construction spending generated by TEA-21, coupled with moderate growth in residential and commercial construction. Further, the Aggregates division will generally follow national, regional and local general economic, construction and industry trends.

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

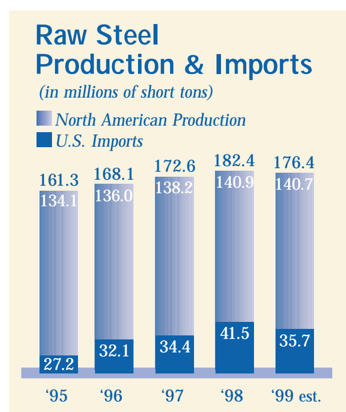
The Clean Air Act, originally passed in 1963 and periodically updated by amendments, is the United States' national air pollution control program that granted the Environmental Protection Agency ("EPA") the authority to set limits on the level of various air pollutants. Recently, environmental groups have been successful in lawsuits against the federal and certain state departments of transportation, asserting that highway construction should be delayed until the municipal area is in compliance with the Clean Air Act. For example, during 1999 in the Atlanta, Georgia, metro area, 44 of 61 funded highway projects were delayed because of nonattainment of air pollutant standards. The EPA lists ten major metropolitan areas in the Corporation's markets, including Atlanta and Houston/Galveston, Texas, as nonattainment areas with deadlines to reduce air pollutants or face fines or control by the EPA. Other environmental groups have published lists of targeted municipal areas, including areas within the Corporation's marketplace, for environmental and suburban growth control. The impact of these initiatives on the Corporation's growth is typically localized, and further challenges are expected as these initiatives gain momentum.

Seasonal changes and other weather-related conditions on business production schedules 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 principally in the north central region of the Midwest generally experience more severe winter weather conditions than the division's operations in the Southeast and Southwest.

The Corporation's management believes the overall long-term trend for the construction aggregates industry continues to be one of consolidation. The Corporation's Board of Directors and management continue to review and monitor the Corporation's strategic long-term plans. These plans include assessing business combinations and arrangements with other companies engaged in similar businesses, building market share in the Corporation's core businesses and pursuing new technological opportunities that are related to the Corporation's existing markets.

During 1999, the Corporation expanded its market opportunities by consummating ten transactions for the acquisition of aggregates, asphalt, ready mixed concrete or road paving operations, and either opened, or began the process of opening, three quarry locations – known as greensiting – in the Southeast and Midwest.

The Corporation's aggregates reserves, including its investment in Meridian Aggregates Company ("Meridian"), exceed 50 years of production based on current levels of activity.



Through its Magnesia Specialties division, the Corporation also manufactures and markets magnesia-based products, including heat-resistant refractories products for the steel industry and magnesia-based chemicals products for industrial, agricultural and environmental uses, including wastewater treatment and acid neutralization. Magnesia Specialties' products, particularly refractories products and dolomitic lime, which are used within the steel industry, currently account for approximately 68% of the division's net sales. Accordingly, the division's profitability is dependent on the production of steel and the related marketplace, and a significant portion of the division's product pricing structure is affected by current business economic trends within the steel industry. Further, due to the high level of fixed costs associated with production, the division's operating leverage can be substantial.

In 1999, particularly in the second half of the year, the United States' steel industry began to show signs of improvement. Foreign steel imports that flooded the United States' markets in 1998 slowed during the year as these foreign economies began to improve. Although the United States assisted in slowing foreign imports by reaching agreements with select foreign countries, no broad tariffs or duties were passed to provide long-term restriction of foreign steel imports.

The Magnesia Specialties division's steel-related products areas' performance followed the steel industry's performance. Refractories and dolomitic lime products, as expected, continued to experience declining volumes and sales during 1999 as a result of instabilities in the steel industry. While refractories and dolomitic lime volumes and sales improved in the second half of 1999, compared with the second half of 1998, pricing pressures continued as the steel industry exercised its pricing power. Also, consolidation among manufacturers of refractory brick may remove a significant periclase customer from the market in the near term.

The division's chemicals products achieved record volume and sales in 1999 as a result of increased sales in chemicals used as flame retardants and in wastewater treatment. The division also added several new customers that utilize magnesia to reduce stack pollution. Further, improving Asian economies reduced the global pressures experienced in the chemicals products area during 1998. However, competitive pricing pressures continued throughout 1999.

As expected, sales and earnings for the division declined in 1999; however, the second half of 1999 began to show marked improvement compared to the previous twelve-month period. The division's performance will continue to be directly tied to the steel industry and, although improving, the absence of federal restrictions on foreign steel imports continues to weaken prospects for long-term improvements. Therefore, management expects competitive pressure within its steel-related products areas to continue throughout 2000. Management further expects continued growth in its chemicals products in 2000, offset somewhat by competitive pricing pressures. While management expects sales and earnings from operations of the Magnesia Specialties division to improve in 2000, management does not expect a full return to 1998's and previous years' performances. The Corporation continues to explore opportunities, including possible divestiture of all or part of the Magnesia Specialties division, with a goal of creating additional value for the Corporation. However, there can be no assurance that management will continue to pursue these opportunities, if any.

Approximately 16% of the Magnesia Specialties division's products are sold in foreign jurisdictions, with no single country accounting for 10% or more of the division's sales. While the division's products are manufactured and sold principally in the United States, the division also markets its products in the Canadian, Mexican, European (principally England and Germany) and Pacific Rim (primarily Korea) markets. As a result of these foreign market sales, the division's financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the division distributes its products. To mitigate the short-term effects of changes in currency exchange rates on the division's operations, the division principally uses the U.S. dollar as the functional currency in substantially all foreign transactions. However, adverse general economic conditions within a foreign market where the Magnesia Specialties division conducts business could have a negative impact on the division's results of operations.

To mitigate its exposure to market dependence on the steel industry, the division's management has taken steps to emphasize new product development and concentrate on additional products for use in environmental, agricultural and other industrial applications and transition its existing products toward higher margin specialty applications.

The four-year union contract for the division's employees at its major operating facility in Manistee, Michigan, was ratified in August 1999. The union contract for the division's employees at its Woodville, Ohio, operating facility expires in June 2000.

The Corporation continued research and development activities during 1999 in several technological product areas. Composite materials have been used for bridge deck installation and replacement, and research is continuing in a variety of other construction-related uses. Management believes that additional funds for innovative technologies in roadways, from the TEA-21 program, offer opportunities to put new bridge decks in service and to focus more attention on the long-life and low-maintenance costs expected from the composite materials. The Corporation also made an investment in a start-up company in 1999, Industrial Microwave Systems ("IMS"). IMS has proprietary technology for use in industrial heating and drying applications, as well as food processing and aseptic packaging. Commercial viability of these technological product areas is not assured.

As expected, the Corporation had limited revenue in 1999 for both ECO-MIN® fertilizer, a patented soil remineralization product, and SC27™ soil inoculant, a microbial soil enhancer, both used to enhance plant growth, along with a laser-measuring device for use in measuring refractory thickness in steel production furnaces. Further, as expected, these technologies did not generate profits in 1999. Commercialization of microwave technology, used for cleaning ready mixed concrete equipment, has been deferred for the near future as research and development continues. The Corporation will continue to pursue opportunities that provide proprietary technology in high growth-rate markets that it understands, that require limited research and development with minimal capital investment relative to revenue and profit generation potential, and that have the potential to provide above-average returns while minimizing risk. There can be no assurance that these technologies can achieve profitability.

Generally, the impact of inflation on the Corporation's businesses has become less significant with the benefit of continued lower inflation rates in recent years. However, energy sector inflation affects the cost of transportation and asphalt production. Wage inflation, triggered by low unemployment and the resulting increase in labor costs, is somewhat mitigated by increases in productivity. Generally, when the Corporation incurs higher costs to replace productive facilities and equipment, increased capacity and productivity and various other offsetting factors generally counterbalance increased depreciation costs.

The Corporation's management successfully completed the conversion of its information technology computer hardware and software and its non-information technology equipment to enable effective functioning on and after January 1, 2000. The total costs for the year 2000 system conversion were $3.7 million, $1.1 million in 1999 and $2.6 million in 1998, all funded from operating cash flows. The Corporation's focus is now directed at replacing its existing systems with an enterprise-wide information solution. In 2000, the Corporation

expects to complete the needs assessment and system selection. However, system implementation will take a period of three to five years.

Discussion of Business Segments

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

The Corporation's evaluation of performance and allocation of resources is based primarily on earnings from operations. Earnings from operations is total revenue less operating expenses; selling, general and administrative expenses; and research and development, and excludes interest expense and other income (expense). The accounting policies of the reportable segments are the same as those described in Note A to the audited financial statements on pages 16 through 18. 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. Substantially all debt, and the related interest expense, is held at corporate headquarters. Property additions include property, plant and equipment that has been purchased through acquisitions in the amount of $44,747,000 in 1999, $154,445,000 in 1998 and $174,339,000 in 1997.

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, 1999.

Selected Financial Data by Business Segment

year ended December 31
(add 000)

Net sales

	1999	1998	1997
Aggregates	**$1,125,636**	$ 920,767	$ 760,702
Magnesia Specialties	**133,191**	136,924	140,161
Total	**$1,258,827**	$1,057,691	$ 900,863

Gross profit

	1999	1998	1997
Aggregates	**$ 283,998**	$ 249,516	$ 202,197
Magnesia Specialties	**26,701**	32,132	33,072
Total	**$ 310,699**	$ 281,648	$ 235,269

Selling, general and administrative expenses

	1999	1998	1997
Aggregates	**$ 75,568**	$ 64,106	$ 52,062
Magnesia Specialties	**17,053**	17,935	17,031
Total	**$ 92,621**	$ 82,041	$ 69,093

Earnings from operations

	1999	1998	1997
Aggregates	**$ 208,011**	$ 184,648	$ 148,944
Magnesia Specialties	**7,278**	11,906	13,826
Total	**$ 215,289**	$ 196,554	$ 162,770

Assets employed

	1999	1998	1997
Aggregates	**$1,598,948**	$1,423,031	$ 959,883
Magnesia Specialties	**105,362**	117,549	115,682
Corporate headquarters	**38,264**	48,009	30,148
Total	**$1,742,574**	$1,588,589	$1,105,713

Depreciation, depletion and amortization

	1999	1998	1997
Aggregates	**$ 114,457**	$ 89,487	$ 70,552
Magnesia Specialties	**8,468**	8,738	8,716
Corporate headquarters	**1,829**	540	452
Total	**$ 124,754**	$ 98,765	$ 79,720

Property additions

	1999	1998	1997
Aggregates	**$ 177,318**	$ 260,112	$ 248,215
Magnesia Specialties	**3,942**	6,874	11,072
Corporate headquarters	**1,307**	11,385	1,492
Total	**$ 182,567**	$ 278,371	$ 260,779

Aggregates. The Aggregates division's sales increased 22% to $1.126 billion for the year ended December 31, 1999, compared with the prior year's sales. This increase in sales reflects a 15.7 million-ton increase in total aggregates tons shipped during 1999 to 165.2 million tons. The acquisition of Redland Stone and other acquisitions made during 1998 and 1999 accounted for all of the increase in total tons shipped. The division's heritage operations, which exclude acquisitions that have not been included in prior-year operations for a full year, experienced pricing improvements during 1999 of approximately 4% in average net selling price, while the division's overall average net selling price increased 3.6% when compared with prior year's prices. As in 1998, the pricing structure in acquired operations reflects lower overall net average 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 operations.

The division's operating earnings for the full year 1999 increased 13% to $208.0 million from the prior year's earnings from operations of $184.6 million. As discussed previously in the Results of Operations section of this Management's Discussion and Analysis, the division's operating earnings for the year increased principally as a result of the acquisition of Redland Stone, which was somewhat offset by the impact of weather-related events and weakening agricultural and commercial construction demand.

For the year ended December 31, 1998, the Aggregates division had net sales of $920.8 million, which were $160.1 million or 21% higher than the 1997 net sales of $760.7 million. This improvement reflects a 20.4 million-ton increase in total tons shipped during 1998 to 149.5 million-tons and reflects an increase of approximately 3% in the division's overall average net selling price when compared with the prior year's. Earnings from operations in the year were $184.6 million, an increase of 24% over the division's operating earnings for 1997. The division's operating profits during the year reflected continued record volume, price increases at heritage locations and growth from acquisitions. 1997 operating results reflect an approximately 4% increase in prices and certain operating performance improvements both in its heritage operations, as well as synergies achieved in the acquired businesses, which were offset somewhat by costs associated with higher levels of greensiting activities during the year.

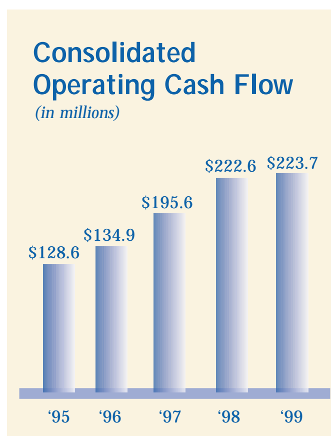
Magnesia Specialties. For the year ended December 31, 1999, the Magnesia Specialties division had sales of $133.2 million, a decrease of $3.7 million, or 3%, from 1998 sales of $136.9 million. The division's earnings from operations for 1999 of $7.3 million were down $4.6 million, or 39%, when compared to 1998 earnings from operations of $11.9 million. As discussed earlier, during 1999 the division continued to feel the effects of poor performance in the steel industry. The division's steel-related products areas experienced declining volumes and competitive pricing pressures that continued to depress 1999 sales and earnings. In spite of global pricing pressures, the division's chemicals products achieved record volume and net sales and achieved strong earnings in 1999. As expected, the division's operating earnings in 1999 were also negatively affected as production rates were slowed to adjust production levels to anticipated sales volume. Currently, although selective inventory reductions continue, management believes it has stabilized its inventory and production levels.

Magnesia Specialties division's 1998 net sales of $136.9 million were 2% below the prior year's. The division's operating earnings for 1998 of $11.9 million were 14% below the 1997 operating earnings. The division experienced softening in its refractories and dolomitic lime products as a direct result of decreased steel production from United States mills. While U.S. steel demand was strong, foreign imports, principally from Japan, Korea, Russia and Brazil, supplied a substantially increased percentage of U.S. demand. Also, worldwide competition in the periclase and chemicals products areas intensified. As a result, sales and operating earnings declined significantly during the year, despite favorable operations. The division's 1998 operating earnings were also negatively affected by the operating losses of a calcium carbonate grinding facility that was closed at the end of the year. The Magnesia Specialties division's 1997 net sales of $140.2 million were 7% above the prior year. Shipment levels for all of the division's product lines

increased in 1997 and the division experienced some modest pricing improvements when compared with the year-earlier period. The division's operating earnings for 1997 of $13.8 million were 23% over the 1996 operating earnings.

Liquidity and Cash Flows

A primary source of the Corporation's liquidity during the past three years has been cash generated from its operating activities. Cash provided by its operations was $223.7 million in 1999, as compared to $222.6 million in 1998 and $195.6 million in 1997. 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, as well as from changes in operating assets and liabilities.



Working capital increases for 1999 included in the above-referenced changes in operating assets and liabilities were due primarily to increases in Aggregates division inventories as a result of expected increases in demand in 2000 and an increase in accounts receivable balances primarily associated with the increased level of sales. The 1998 working capital increases included in changes in operating assets and liabilities reflect an increase in the Magnesia Specialties division's inventory as a result of strong production in 1998, coupled with reduced demand in certain product areas, and a decrease in overall trade accounts payable balances, partially offset by a decrease in accounts receivable balances resulting from accelerated cash collections. The 1997 working capital increases included in changes in operating assets and liabilities reflect increases in accounts receivable balances resulting from increased sales volume activity, offset by increased trade accounts payable balances and reduction of inventory balances on hand at the end of the year. In addition to other offsetting amounts, other assets and liabilities, net, in 1999, changed principally due to the decline in the rate of increase in certain self-insurance reserves, as compared to a significant increase in 1998 as a result of higher-than-average claims.

Net cash used for investing activities was $214.6 million in 1999, a decrease of $291.3 million from $505.8 million reported in 1998. Of that amount, the Corporation used $77.1 million for the purchase of ten Aggregates division-related acquisitions, compared with $347.9 million in 1998 that financed the acquisition of Redland Stone and nine other acquisitions, and $279.1 million in 1997 that included the acquisition of American Aggregates and eight smaller acquisitions. Other investing activities in 1999 included the Corporation's 19% investment in Industrial Microwave Systems and loans to Meridian, among other things, while the same activities, in 1998, principally included the Corporation's initial investment in Meridian. Additions to property, plant and equipment, excluding acquisitions, of $137.8 million, were 11% higher in 1999, compared with 1998. Comparable full-year capital expenditures were $123.9 million in 1998 and $86.4 million in 1997, with this increase primarily as a result of the impact of American Aggregates, which was acquired in May 1997, and capacity expansion projects. The Corporation's acquisition and capital expenditures reflect planned strategic growth and capital spending activities that are consistent with management's strategy for investment and expansion within the consolidating aggregates industry. For the year 1999, the Corporation's management had anticipated a more significant increase in property, plant and equipment additions. However, as planned growth in the heritage operations was delayed due to weather-related conditions and softening commercial and agricultural markets, management scaled back capacity expansion to better match the timing of market expansion. Through January 1997, the Corporation's cash and cash equivalents balances were invested under a cash management agreement with its former parent, Lockheed Martin Corporation (see Note A to the audited financial statements on pages 16 through 18). During the year ended December 31, 1997, the Corporation reduced the balance of cash and cash equivalents invested with Lockheed Martin Corporation by $23.8 million.

Approximately $20.3 million of cash was used for financing activities during 1999, compared with $279.2 million and $160.7 million of cash provided by financing activities in 1998 and 1997, respectively. The Corporation incurred $14.7 million of net indebtedness in 1999, excluding $9.2 million reflected in acquisitions, net, principally in connection with the ten acquisitions completed during the year. The Corporation used cash of $12.7 million during 1999 to finance the repurchase of 322,300 shares of its common stock at public market prices at various purchase dates. The repurchase of shares was authorized under the Corporation's 6.0 million-share authorization from the Board of Directors for the Stock-Based Award Plan and the Amended Omnibus Securities Award Plan. There were no shares repurchased in 1998 or 1997. Further, during 1999, the Corporation issued stock under its stock-based award plans, as well as issuing approximately 311,100 restricted shares of common stock, along with other consideration to purchase L.J. Earnest, Inc. Comparable cash provided by issuance of common stock was $1.9 million in 1998, principally for the stock-based award plans and an acquisition; and $0.2 million in 1997. Excluding commercial paper obligations, $9.7 million of long-term debt will mature in 2000. In 1999, the Board of Directors approved total cash dividends on the Corporation's common stock of $0.52 a share. Regular quarterly dividends were authorized and paid by the Corporation at a rate of $0.13 a share.

During 1998, the Corporation incurred $302.3 million of net indebtedness, principally in connection with the consummation of the Redland Stone acquisition, which was financed initially through the issuance of United States' commercial paper. A portion of the commercial paper borrowings was repaid, with the proceeds obtained from the private placement of 5.875% Notes due December 1, 2008, issued in the aggregate principal amount of $200 million. The private placement borrowings remained outstanding at December 31, 1998, and were publicly registered in 1999. In 1997, the Corporation paid net cash consideration of $242 million for the acquisition of all of the outstanding common stock of American Aggregates. The sources of funds for this acquisition were a combination of borrowings under revolving credit facilities and the issuance of commercial paper. The Corporation subsequently issued $125 million of long-term debt securities, the net proceeds of which were used to repay amounts outstanding under the revolving credit agreements and to reduce the amount of commercial paper outstanding.

Capital Structure and Resources

Long-term debt, including current maturities of long-term debt and commercial paper, increased to $641.7 million at the end of 1999 from $617.8 million at the end of 1998. Total debt represented approximately 45% of total capitalization at December 31, 1999, compared with 48% at December 31, 1998. The Corporation's debt is in the form of publicly and privately issued long-term fixed-rate notes and debentures and United States' commercial paper (see Note F to the audited consolidated financial statements on page 19). Shareholders' equity grew to $774.0 million at December 31, 1999, from $667.7 million at December 31, 1998.

The Corporation has $450 million in revolving credit facilities, which are syndicated through a group of commercial domestic and foreign banks, and a United States commercial paper program with available funds of a comparable amount. The credit facilities consist of a five-year, unsecured revolving credit agreement in the amount of $150 million (the "Long-Term Credit Agreement") which expires in January 2002 and a 364-day unsecured revolving credit agreement in the amount of $300 million (the "Short-Term Credit Agreement"), which expires in August 2000 (see Note F to audited consolidated financial statements on page 19). The Corporation's management believes it will be able to amend its Short-Term Credit Agreement for an additional 364-day period beyond August 2000.

No borrowings were outstanding under either of the revolving credit agreements at December 31, 1999. However, the Long- and Short-Term Credit Agreements support commercial paper borrowings of $180 million outstanding at December 31, 1999, of which $150 million has been classified as long-term debt on the Corporation's consolidated balance

sheet, based on management's ability and intention to maintain this debt outstanding for at least one year. The remaining outstanding commercial paper of $30 million has been classified as current on the Corporation's consolidated balance sheet.

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 (see "Business Environment" on pages 28 through 34). 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 outstanding commercial paper obligations and temporary cash investments, including overnight investments in Eurodollars. However, management believes that the Corporation's exposure to short-term interest rate market risk is not material.

Long-term interest rates influence assumptions used to develop the costs for the Corporation's employee retirement and postretirement benefit plans. The Corporation's management anticipates a reduction in pension and postretirement benefit expense in 2000. This reduction is a result of the increased discount rate for the retirement and postretirement benefit plans, favorable 1999 investment returns on employee retirement plan assets and the changes to the postretirement benefit plan. There is no assurance that retirement and postretirement expense reductions will continue due to the underlying volatility of interest rates and investment returns (see Note I to the audited consolidated financial statements on pages 20 through 23).

Certain agreements expose the Corporation to foreign currency fluctuations. However, management believes this exposure is not material to the Corporation.

The Corporation has entered into a standby letter of credit agreement relating to workers' compensation self-insurance requirements. On December 31, 1999, the Corporation had a contingent liability on this outstanding letter of credit of approximately $6.7 million.

The 5.875% Notes, with an effective rate of 6.03%, that were issued in December 1998 through private placement in connection with the acquisition of Redland Stone were subsequently registered with the Securities and Exchange Commission (the "Commission") in February 1999. The initial purchasers in the private placement offering exchanged their outstanding notes for registered notes with substantially identical terms.

Currently, the Board has granted management the authority to file a universal shelf registration statement with the Commission for up to $500 million in issuance of either debt or equity securities. However, management has not determined the timing when, or the amount for which, it may file such shelf registration. In January 2000, the Corporation terminated and deregistered the unissued debt securities in its $300 million effective shelf registration on file with the Commission that had up to $50 million of debt securities outstanding.

Martin Marietta Materials' internal cash flows and availability of financing resources, including its access to capital markets, both debt and equity, and its revolving credit agreements, 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 may be required to purchase some or all of the other investors' interests in Meridian in 2000. The other investors, by the terms of the original investment agreement consummated in 1998, have an annual option to require the Corporation to purchase their interests, at a predetermined formula price, beginning December 31, 2000. The required purchase option is accelerated in the event of the death of an investor. The Corporation may finance the acquisition of the remaining Meridian interests in the public or private markets.

The Corporation's senior unsecured debt has been rated "A" by Standard & Poor's and "A3" by Moody's. The Corporation's $450 million commercial paper program is rated "A-1" by Standard & Poor's, "P-2" by Moody's and "F-1" by Fitch IBCA,

Inc. 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.

Environmental Matters

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

The Corporation records appropriate financial statement accruals for environmental matters in the period in which liability is established and the appropriate amount can be estimated reasonably. Among the variables that management must assess in evaluating costs associated with environmental issues are the evolving environmental regulatory standards. The nature of these matters makes it difficult to estimate the amount of any costs that may be necessary for future remedial measures. The Corporation currently has no material provisions for estimated costs in connection with expected remediation or other environmental-related expenditures because it is impossible to quantify the impact of all actions regarding environmental matters, particularly the extent and cost of future remediation and other compliance efforts. However, in the opinion of management, it is unlikely that any additional liability the Corporation may incur for known environmental issues or compliance with present environmental-protection laws would have a material adverse effect on the Corporation's consolidated financial position or on its results of operations (see Note M to the audited consolidated financial statements on page 25).

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), which is required to be adopted in years beginning after June 15, 1999. The FASB amended FAS 133 to defer the effective date of adoption until all fiscal quarters of all fiscal years beginning after June 15, 2000. Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*, was issued in June 1999. Because of the Corporation's minimal use of derivatives, if any, management does not anticipate that the adoption of FAS 133 will have a significant impact on net earnings or the financial position of the Corporation.

Cautionary Statements

This Annual Report contains statements that 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, including those arising out of economic, climatic, political, regulatory, competitive and other factors. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E. 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 filings with the Securities and Exchange Commission including, but not limited to, the discussion of "Competition" in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 26 through 39 of this Annual Report; "Note A: Accounting Policies" on pages 16 through 18 and "Note M: Commitments and Contingencies" on page 25 of the Notes to Financial Statements of the Audited Consolidated Financial Statements included in this Annual Report, incorporated by reference into the Form 10-K.

unaudited

(add 000, except per share)	Net Sales		Gross Profit		Net Earnings		Basic Earnings Per Common Share*	
Quarter	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
First	**$ 241,061**	$ 186,535	**$ 39,742**	$ 29,479	**$ 7,940**	$ 2,636	**$ 0.17**	$ 0.06
Second	**328,865**	277,737	**90,227**	83,235	**41,273**	36,356	**0.88**	0.78
Third	**353,792**	312,445	**99,661**	95,830	**43,951**	45,907	**0.94**	0.99
Fourth	**335,109**	280,974	**81,069**	73,104	**32,617**	30,714	**0.70**	0.66
Totals	**$ 1,258,827**	$1,057,691	**$ 310,699**	$ 281,648	**$ 125,781**	$ 115,613	**$ 2.70**	$ 2.49

	Diluted Earnings Per Common Share*		Common Dividends Paid and Stock Prices Per Common Share					
			Dividends Paid		Market Prices			
					High	Low	High	Low
Quarter	**1999**	1998	**1999**	1998	**1999**		1998	
First	**$ 0.17**	$ 0.06	**$ 0.13**	$ 0.12	**$ 61**	**$ 49 3/16**	$ 47 3/4	$ 35 13/16
Second	**0.88**	0.78	**0.13**	0.12	**68 1/8**	**54 7/8**	49 5/16	42 3/16
Third	**0.94**	0.98	**0.13**	0.13	**60 3/8**	**35 1/4**	51 1/4	41 11/16
Fourth	**0.70**	0.66	**0.13**	0.13	**42 5/8**	**35 3/8**	62 3/16	38 5/8
Totals	**$ 2.68**	$ 2.48	**$ 0.52**	$ 0.50				

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

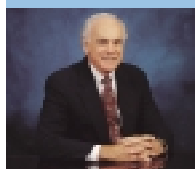
(*add 000, except per share*)	**1999**	1998	1997	1996	1995
Consolidated Operating Results					
Net sales	**$ 1,258,827**	$ 1,057,691	$ 900,863	$ 721,947	$ 664,406
Cost of sales, other costs and expenses	**1,043,538**	861,137	738,093	601,271	556,841
Earnings from Operations	**215,289**	196,554	162,770	120,676	107,565
Interest expense on debt	**39,411**	23,759	16,899	10,121	9,733
Other income and (expenses), net	**18,435**	1,347	5,341	8,398	5,959
Earnings before taxes on income	**194,313**	174,142	151,212	118,953	103,791
Taxes on income	**68,532**	58,529	52,683	40,325	36,240
Net Earnings	**$ 125,781**	$ 115,613	$ 98,529	$ 78,628	$ 67,551
Basic Earnings Per Common Share	**$ 2.70**	$ 2.49	$ 2.14	$ 1.71	$ 1.47
Diluted Earnings Per Common Share	**$ 2.68**	$ 2.48	$ 2.13	$ 1.71	$ 1.47
Cash Dividends Per Common Share	**$ 0.52**	$ 0.50	$ 0.48	$ 0.46	$ 0.44
Condensed Consolidated Balance Sheet Data					
Current deferred income tax benefits	**$ 21,899**	$ 18,978	$ 16,873	$ 15,547	$ 12,622
Current assets – other	**381,466**	350,410	305,139	255,619	301,733
Property, plant and equipment, net	**846,993**	777,528	591,420	408,820	392,223
Costs in excess of net assets acquired	**375,327**	348,026	148,481	39,952	37,245
Other intangibles	**31,497**	27,952	26,415	23,216	23,967
Other noncurrent assets	**85,392**	65,695	17,385	25,764	21,581
Total	**$ 1,742,574**	$ 1,588,589	$1,105,713	$ 768,918	$ 789,371
Current liabilities – other	**$ 142,974**	$ 136,576	$ 106,804	$ 86,871	$ 69,596
Current maturities of long-term debt and commercial paper	**39,722**	15,657	1,431	1,273	103,740
Long-term debt and commercial paper	**602,011**	602,113	310,675	125,890	124,986
Pension and postretirement benefits	**85,839**	76,209	63,070	52,646	47,483
Noncurrent deferred income taxes	**81,857**	75,623	50,008	13,592	10,606
Other noncurrent liabilities	**16,165**	14,712	11,889	7,669	9,415
Shareholders' equity	**774,006**	667,699	561,836	480,977	423,545
Total	**$ 1,742,574**	$ 1,588,589	$1,105,713	$ 768,918	$ 789,371

BOARD OF DIRECTORS

Stephen P. Zelnak, Jr.
Chairman, Board of Directors
President and Chief Executive Officer
Martin Marietta Materials, Inc.

Richard G. Adamson
Retired Vice President, Strategic Development
Martin Marietta Corporation

Marcus C. Bennett
Retired Executive Vice President and Chief Financial Officer
Lockheed Martin Corporation



Bobby F. Leonard
Retired Vice President, Human Resources
Martin Marietta Corporation

William E. McDonald
Senior Vice President, Customer Service Operations
Sprint Corporation

Frank H. Menaker, Jr.
Senior Vice President and General Counsel
Lockheed Martin Corporation

James M. Reed
Retired Vice Chairman and Chief Financial Officer
Union Camp Corporation

William B. Sansom
Chairman and Chief Executive Officer
The H.T. Hackney Co.

Richard A. Vinroot
Partner
Robinson, Bradshaw & Hinson, P.A.

COMMITTEES

Audit Committee
Mr. Reed, *Chairman*
Messrs. Adamson, McDonald and Menaker

Compensation Committee
Mr. Leonard, *Chairman*
Messrs. Bennett, McDonald and Sansom

Ethics, Environment, Safety and Health Committee
Mr. Sansom, *Chairman*
Messrs. Adamson, Menaker and Vinroot

Executive Committee
Mr. Bennett, *Chairman*
Messrs. Reed and Zelnak

Finance Committee
Mr. Bennett, *Chairman*
Messrs. Leonard, Reed and Zelnak

ELECTED OFFICERS

Corporate Officers

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

Philip J. Sipling
Executive Vice President

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

Robert R. Winchester
Senior Vice President

Bruce A. Deerson
Vice President and General Counsel

Donald J. Easterlin, III
Vice President, Business Development

Jonathan T. Stewart
Vice President, Human Resources

Roselyn R. Bar
Corporate Secretary

Operating Officers

Geoffrey C. Harris
Vice President

Robert C. Meskimen
Vice President

Donald M. Moe
Vice President

J. Michael Pertsch
Vice President

H. Donovan Ross
Vice President

George S. Seamen
Vice President

Bruce A. Vaio
Vice President

PRINCIPAL OPERATING ELEMENTS

Martin Marietta Aggregates
Raleigh, North Carolina

Stephen P. Zelnak, Jr., *President*
Philip J. Sipling, *Executive Vice President*
Donald M. Moe, *Senior Vice President*

Carolina Division
Raleigh, North Carolina

Donald M. Moe, *President*

Central Division
New Orleans, Louisiana

H. Donovan Ross, *President*

MidAmerica Division
Cincinnati, Ohio

Geoffrey C. Harris, *President*

Mideast Division
Richmond, Virginia

George S. Seamen, *President*

Midwest Division
Des Moines, Iowa

Robert C. Meskimen, *President*

Southeast Division
Atlanta, Georgia

J. Michael Pertsch, *President*

Southwest Division
San Antonio, Texas

Bruce A. Vaio, *President*

Martin Marietta Magnesia Specialties
Raleigh, North Carolina

Philip J. Sipling, *Chairman, Board of Directors*
Daniel G. Shephard, *President*

Sales, Marketing and Operations
Baltimore, Maryland
John R. Harman, *Vice President Magnesia Chemicals*

Manistee, Michigan
William F. Sawhill, *Vice President Refractory Products*

Woodville, Ohio
Steven D. Raffensperger, *Vice President Operations*

Notice of Proxy

A formal notice of the Annual Meeting of Shareholders of the Corporation, together with a proxy, will be mailed to each shareholder approximately four weeks prior to the meeting. Proxies will be requested by the Board of Directors at the meeting.

Annual Report on Form 10-K

Shareholders may obtain, without charge, a copy of Martin Marietta Materials' Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the fiscal year ended December 31, 1999, by writing to:

Martin Marietta Materials, Inc.
Attention: Corporate Secretary
2710 Wycliff Road
Raleigh, North Carolina 27607-3033

Transfer Agent & Registrar

First Union National Bank
Shareholder Services Group
1525 West W.T. Harris Boulevard – 3C3
Charlotte, North Carolina 28288-1153
Telephone: (800) 829-8432

Inquiries regarding your account records, issuance of stock certificates, distribution of dividends and IRS Form 1099 should be directed to First Union National Bank.

Common Stock

Listed: New York Stock Exchange
Stock Symbol: MLM

Independent Auditors

Ernst & Young LLP
3200 Beechleaf Court
Raleigh, North Carolina 27604-1063

Corporate Headquarters

2710 Wycliff Road
Raleigh, North Carolina 27607-3033
Telephone: (919) 781-4550

Investor Relations

Martin Marietta Materials' press releases, quarterly shareholders' letters and filings with the Securities and Exchange Commission can be accessed via the Corporation's Website.

Telephone: (919) 783-4658
Email: investors@martinmarietta.com
Website Address: www.martinmarietta.com

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Michael Back

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