UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2004**

OR

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

For the transition period from to

Commission file number **1-12744**

MARTIN MARIETTA MATERIALS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

The aggregate market value of voting stock (based on the closing price on the New York Stock Exchange on June 30, 2004 as published in the Wall Street Journal) held by non-affiliates of the Company was $1,302,554,817.85. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's classes of common stock on February 18, 2005 was as follows:

Common Stock (par value $.01 per share)	**47,166,288 shares**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Martin Marietta Materials, Inc. 2005 Annual Meeting Proxy Statement are incorporated by reference into Part III.

Portions of the Martin Marietta Materials, Inc. 2004 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV.

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PART I

ITEM 1. BUSINESS

General

Martin Marietta Materials, Inc. (the "Company") is the United States' second largest producer of aggregates for the construction industry, including highways, infrastructure, commercial, and residential. The Company also manufactures and markets magnesia-based chemical products used in industrial, agricultural, and environmental applications, and dolomitic lime sold primarily to the steel industry, and is developing structural composite products for use in a wide variety of industries. In 2004, the Company's aggregates segment accounted for 93% of the Company's total net sales, and the Company's specialty products segment accounted for 7% of the Company's total net sales.

The Company was formed in 1993 as a North Carolina corporation to succeed to the operations of the materials group of the organization that is now Lockheed Martin Corporation. An initial public offering of a portion of the Company's Common Stock was completed in 1994, followed by a transaction in 1996 that resulted in 100% of the Company's Common Stock being publicly traded.

Initially the Company's operations were predominantly in the Southeast with additional operations in the Midwest. In 1995, the Company started its geographic expansion with the purchase of a significant aggregates business, which included an extensive waterborne distribution system along the East and Gulf Coasts and the Mississippi River. Smaller acquisitions that year, including acquisition of the Company's granite operations on the Strait of Canso in Nova Scotia, complemented the Company's new coastal distribution network.

Another significant acquisition in 1997 expanded the Company's aggregates business in the middle of the country, while another significant acquisition in 1998 added the leading producer of aggregates products in Texas and provided the Company with an extensive rail network in Texas. These two transactions set the stage for numerous additional expansion acquisitions in Ohio and Indiana, the Southeast, and the Southwest, with the Company completing 29 smaller acquisitions between 1997 and 1999, which allowed the Company to enhance and expand its presence in the aggregates marketplace. In 1998, the Company also made its initial investment, as described below, in a business that would later serve as the Company's platform for further expansion in the southwestern and western United States.

In October 1998, the Company purchased an initial 14% interest in the business of Meridian Aggregates Company ("Meridian"). In April 2001, the Company completed the purchase of all of the remaining interests of Meridian under the purchase option terms of the original investment agreement. The purchase consideration consisted of $238 million, including the original October 1998 investment of $42 million, the retirement of debt, the forgiveness of related party obligations, and estimated amounts for certain other assumed liabilities and transaction costs, plus the assumption of normal balance sheet liabilities (the "Meridian Acquisition"). At the time of the Meridian transaction, Meridian operated 25 aggregates production facilities and seven rail-served distribution yards in 11

states in the southwestern and western United States and sold aggregates to customers in 14 states, including six states in which the Company had not previously conducted any business. The Meridian Acquisition added more than 1.6 billion tons of aggregates reserves, expanded the Company's presence in the southwest and western states, and increased its ability to use rail as a mode of transportation.

In December 2004, the Company announced the formation of a joint venture with Hunt Midwest Enterprises, effective January 1, 2005, to operate substantially all of the aggregates facilities of both companies in Kansas City and surrounding areas. The joint venture was formed by the parties contributing a total of 15 active quarry operations with production of approximately 7.5 million tons annually.

In 2002, the Company completed a number of sales of nonstrategic operations in its Aggregates division, including the sale of facilities in Illinois, Iowa, Ohio, Oklahoma, Tennessee, and Virginia. In 2003, the Company continued these sales of nonstrategic operations, including the sale of facilities in Alabama, Louisiana, Missouri, Ohio, Texas, and West Virginia. In 2004 the Company divested nonstrategic aggregate facilities in Alabama, California, Tennessee, and Washington, as well as certain facilities involved with its asphalt, ready mixed concrete, and road paving operations in Louisiana, Texas, and Oklahoma. In some of these transactions, the Company concurrently entered into supply agreements to provide aggregates at market rates to certain of these businesses. The Company will continue to evaluate opportunities to divest nonstrategic assets during 2005 in an effort to redeploy capital for other opportunities.

In May 2001, the Company, through its wholly owned subsidiary, Martin Marietta Magnesia Specialties ("Magnesia Specialties"), sold certain assets related to the refractories portion of its Magnesia Specialties business to a subsidiary of Minerals Technologies Inc. for $34 million. The Company retained certain current assets (including accounts receivable) and certain liabilities relating to the refractories business. In an accompanying manufacturing agreement, Magnesia Specialties agreed to supply the subsidiary of Minerals Technologies with certain refractories products at market rates principally from the Manistee, Michigan plant of Magnesia Specialties for a period of time following the sale. This agreement ended in 2002. The sale of Magnesia Specialties' refractories business lessened the dependence of the Magnesia Specialties business on the steel industry. In addition, in 2003 the Magnesia Specialties business also disposed of two of its nonstrategic lines of business.

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

Business Segment Information

The Company operates in two reportable business segments: Aggregates and Specialty Products. The Specialty Products segment includes the Magnesia Specialties business and the Structural Composite Products business. Information concerning the Company's total revenues, net sales, earnings from operations, assets employed, and certain additional information attributable to each reportable industry segment for each year in the three-year period ended December 31, 2004 is included in "Note O: Business Segments" of the "Notes to Financial Statements" on pages 32 and 33 of the Company's 2004 Annual Report to Shareholders (the "2004 Annual Report"), which information is incorporated herein by reference.

Aggregates

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

The Company is the United States' second largest producer of aggregates. In 2004, the Company's Aggregates division shipped 191.5 million tons of aggregates primarily to customers in 32 states, Canada, and the Bahamas, generating net sales and earnings from operations of $1.4 billion and $220 million, respectively.

The Aggregates division markets its products primarily to the construction industry, with approximately 46% of its shipments made to contractors in connection with highway and other public infrastructure projects and the balance of its shipments made primarily to contractors in connection with commercial and residential construction projects. As a result of dependence upon the construction industry, the profitability of aggregates producers is sensitive to national, regional, and local economic conditions, and particularly to cyclical swings in construction spending, which is affected by fluctuations in interest rates, and demographic and population shifts and to changes in the level of infrastructure spending funded by the public sector. The Company's aggregates business covers a wide geographic area. The Company's aggregates, asphalt products, and ready mixed concrete are sold and shipped from a network of approximately 325 quarries, distribution facilities, and plants in 28 states, Canada, and the Bahamas, although the Company's five largest revenue-generating states (Texas, North Carolina, Georgia, Iowa, and Indiana) account for approximately 57% of total net sales by state of destination. The Company's business is accordingly affected by the economies in these regions and has been adversely affected in part by recessions and weaknesses in these economies.

The Company's aggregates business is also highly seasonal, due primarily to the effect of weather conditions on construction activity within its markets. As the Company has expanded, its exposure to winter weather-related risks has increased. The Aggregates division's operations that are concentrated in the northern region of the United States and Canada experience more severe winter weather conditions than the division's operations in the Southeast and Southwest. Due to these factors, the Company's second and third quarters are the strongest, with the first quarter generally reflecting

the weakest results. Results in any quarter are not necessarily indicative of the Company's annual results. Similarly, the division's operations in the southeastern and Gulf Coast regions of the United States and the Bahamas are at risk for hurricane activity and have experienced weather-related losses in recent years, which have had a significant adverse impact on the financial performance of the Company. During 2004, aggregates shipments in the Company's southeastern and Gulf Coast markets were adversely affected by four hurricanes. The Company's Bahamas facility took two direct hits from hurricanes with limited physical damage. However, power was not restored at the facility for five weeks after the storms, resulting in no production and limited shipments during that time.

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

A growing percentage of the Company's aggregates shipments are being moved by rail or water through a distribution yard network. In 1994, 93% of the Company's aggregates shipments were moved by truck, while the balance of 7% was moved by rail. In contrast, the Company's aggregates shipments were moved 79% by truck, 11% by rail, and 10% by water in 2004. The Company has an extensive network of aggregates quarries and distribution centers along the Mississippi River system throughout the central and southern United States and in the Bahamas and Canada, as well as distribution centers along the Gulf of Mexico and Atlantic coasts. The Gulf and Atlantic coastal areas are being supplied in part from the Bahamas location, two large quarries on the Ohio River system, and a Canadian quarry on the Strait of Canso in Nova Scotia. In addition, the Company's acquisitions have expanded its ability to ship by rail. Accordingly, in addition to increasing the Company's geographic presence through acquisitions, the Company has also enhanced its reach through its ability to provide cost-effective coverage of coastal markets on the east and gulf coasts, as well as additional geographic areas which can be accessed economically by the Company's expanded distribution system. In 2002, the Company completed a major project to modernize and expand the plant capacity at its Bahamas location, which provides the opportunity for the Company to capture future potential market growth and reduce costs (although there can be no assurance of such growth and cost reductions).

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

During 2004, the Company experienced significant rail transportation shortages in Texas and parts of the Southeast. These shortages resulted from the downsizing in personnel and equipment made by certain railroads. Management is reviewing alternatives to address these issues. In response to these issues, rail transportation providers have focused on increasing the volume of cars related to transportation contracts and are generally enticing customers, through the freight rate structure, to accommodate unit train unloadings. Certain of the Company's sales yards in the Southwest have the system capabilities to meet the unit train requirement.

The waterborne distribution network increases the Company's exposure to certain risks, including the ability to negotiate favorable shipping contracts, demurrage costs, fuel costs, barge or ship availability, and weather disruptions. In 2004, the Company signed long-term agreements that provide additional dedicated shipping capacity from the Company's Bahamas and Nova Scotia operations to its coastal ports.

The Company's management expects the multiple transportation modes that have been developed with various rail carriers and via deepwater ships should provide the Company with the flexibility to effectively serve customers in the Southwest and Southeast.

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

Prior to 1998, the Company had historically focused on the production of aggregates and had not integrated vertically in a substantial manner into other construction materials businesses. The Company became significantly more vertically integrated with a significant acquisition in 1998 and subsequent acquisitions, particularly in the Southwest, pursuant to which the Company acquired asphaltic concrete, ready mixed concrete, paving construction, trucking, and other businesses, which establish vertical integration that complement the Company's aggregates business. These vertically integrated operations accounted for about 8% of revenues in 2004. If the Company were to continue its expansion strategy westward, where vertically integrated operations are the norm, profit margins generally would be adversely affected. Generally these operations have lower gross margins than aggregates products, and are affected by volatile factors, including fuel costs, operating efficiencies, and weather, to an even greater extent than the Company's aggregates operations. The road paving and trucking businesses have been acquired as supplemental operations that were part of larger acquisitions. As such they do not represent core businesses of the Company. These operations have typically resulted in losses that are insignificant to the Company as a whole. In 2004 the Company continued disposing of some of these operations. The Company continues to review carefully these operations to determine if they represent opportunities to divest nonstrategic assets in an effort to redeploy capital for other opportunities.

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

Management believes the Aggregates division's raw materials, or aggregates reserves, are sufficient to permit production at present operational levels for the foreseeable future. The Company does not anticipate any material difficulty in obtaining the raw materials that it uses for current production in its aggregates segment. The Company's aggregates reserves on the average exceed 50 years of production, based on current levels of activity. However, certain locations may be subject to more limited reserves and may not be able to expand. Moreover, as noted above, environmental and zoning regulations will likely make it harder for the Company to expand its existing quarries or develop new quarry operations.

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

The Company estimates proven and probable reserves based on the results of drilling. Proven reserves are reserves of deposits designated using closely spaced drill data, and based on that data the reserves are believed to be relatively homogenous. Proven reserves have a certainty of 85% to 90%. Probable reserves are reserves that are inferred utilizing fewer drill holes and/or assumptions about the economically mineable reserves based on local geology or drill results from adjacent properties. The degree of certainty for probable reserves is 70% to 75%. In determining the amount of reserves, the Company's policy is to not include calculations that exceed certain depths, so for deposits, such as granite, that typically continue to depths well below the ground, there may be additional deposits that are not included in the reserve calculation. The Company also deducts loss factors, such as property boundaries and plant configurations, as deemed appropriate when estimating reserves. For additional information on the Company's assessment of reserves, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Application of Critical Accounting Policies — Property, Plant and Equipment" on pages 58-60 of the 2004 Annual Report for discussion of reserves evaluation by the Company.

The Company generally delivers products in its Aggregates segment upon receipt of orders or requests from customers. Accordingly, there is no significant backlog information. Inventory of aggregates is generally maintained in sufficient quantities to meet rapid delivery requirements of customers.

Less than 1% of the Aggregates division's revenues are from foreign jurisdictions, principally Canada and the Bahamas, with revenues from customers in foreign countries totaling $15.4 million, $14.6 million, and $10.0 million, during 2004, 2003, and 2002, respectively.

Specialty Products

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

Magnesia Specialties Business. The Company in 2004 also manufactured and marketed, through Magnesia Specialties, dolomitic lime and magnesia-based chemicals products for industrial, agricultural, and environmental uses. Given the high fixed costs associated with the operations of this business, excess capacity negatively affects its results of operations. A significant portion of the costs related to the production of dolomitic lime and magnesia-based products is of a fixed or semi-fixed nature. In addition, the production of dolomitic lime and certain magnesia-based products requires the use of natural gas, coal, and petroleum coke to fuel kilns. Year-over-year increases in natural gas and other fuel prices directly affect operating results.

Magnesia Specialties' dolomitic lime products are sold primarily to the steel industry. Accordingly, the profitability of the Magnesia Specialties business is dependent on the production of steel and the related marketplace. Magnesia Specialties' products used in the steel industry accounted for approximately 48% of the revenues of the business in 2004, attributable primarily to the sale of dolomitic lime products. However, Magnesia Specialties' management has shifted the strategic focus of its magnesia-based business to higher margin specialty chemicals that can be produced at volume levels that support efficient operations. Moreover, in 2004 the chemicals group portion of the Magnesia Specialties business continued to diversify in chemicals used as flame retardants, in wastewater treatment, in pulp and paper production, and in other environmental applications, and that business is not as dependent on the steel industry as is the dolomitic lime portion of the Magnesia Specialties business.

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

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

The supply of natural and synthetic magnesia is abundant worldwide. In 2004, Magnesia Specialties purchased some of its magnesia requirements from various sources located in China. While Magnesia Specialties does not expect an interruption in the supply of magnesia from these sources, various factors associated with economic and political uncertainty in China could result in future supply interruptions. If such an interruption were to occur, Magnesia Specialties believes it could obtain alternate supplies worldwide, although there could be no assurance that Magnesia Specialties could do so at current prices. Alternatively, Magnesia Specialties believes it could adjust its mix of products and/or increase production at its Manistee, Michigan plant.

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

Approximately 14% of the revenues of the Magnesia Specialties business are from foreign jurisdictions, principally Canada, Mexico, Europe, South America, and the Pacific Rim, but no single country accounts for 10% or more of the revenues of the business. Revenues from customers in foreign countries totaled $16.1 million, $12.5 million, and $10.3 million during 2004, 2003, and 2002, respectively. As a result of these foreign revenues, the financial results of the Magnesia Specialties business could be affected by changes in foreign currency exchange rates or weak economic conditions in the foreign markets. To mitigate the short-term effects of changes in currency exchange rates, the Magnesia Specialties business principally uses the U.S. dollar as the functional currency in foreign transactions.

Structural Composite Products Business. The Company in 2004 also manufactured and marketed, through Martin Marietta Composites (“MMC”), structural composite products for use in a wide variety of industries. Pursuant to various agreements, MMC has rights to commercialize certain proprietary technologies related to the Company’s business. One of the agreements gives MMC the opportunity to pursue the use of certain fiber-reinforced polymer composites technologies for products where corrosion resistance and high strength-to-weight ratios are important factors, such as bridge decks, marine applications, and other structures and applications. MMC continued its research and product development activities during 2004 on these structural composites technologies and initiated or continued manufacturing and marketing of selected products. Since 2002, MMC has leased a 185,000 square foot facility in Sparta, North Carolina, which serves as the assembly and manufacturing hub for the Structural Composite Products business of MMC.

MMC is targeting several industries and the military for its fiber-reinforced polymer composite materials: infrastructure, which includes pedestrian and vehicular bridge decks; transportation, which includes specialty truck trailers and chassis, railcar components, and tractor and trailer components; and construction, which includes wall panels, temporary structures, and industrial mats. In 2004, MMC announced the installation of bridge decks in 2 states, bringing its total to 27 bridge deck installations in 13 states and 2 foreign countries utilizing these composite materials technologies. MMC continued to explore opportunities to introduce its composite bridge installations to foreign markets. MMC has rights under a licensing agreement executed in 2001 regarding the manufacturing

and marketing of commercial specialty truck trailers in North America, utilizing fiber-reinforced composite materials. In 2002, MMC signed a licensing agreement relating to a proprietary composite sandwich technology, which MMC expects will play an important role in the product line related to flat panel applications. The first composite trailer prototype manufactured by MMC was completed in 2003 and further developed in 2004.

MMC intends to continue to ramp up its Structural Composite Products business during 2005. Product trials and commercialization continue to be the near-term focus of MMC. However, MMC is approximately six months behind plan in commercialization of its Structural Composites Products business. Improved performance in 2005 is essential to continued investment in this business. MMC will continue to evaluate a variety of construction-related and commercial uses for composite materials, in addition to its use in bridge decks and truck trailers. While MMC expects to increase its revenues related to its Structural Composite Products business over the next five years, there can be no assurance that these technologies will become profitable.

Patents and Trademarks

As of February 18, 2005, the Company owns, has the right to use, or has pending applications for approximately 80 patents pending or granted by the United States and various countries and approximately 62 trademarks related to business. The Company believes that its rights under its existing patents, patent applications, and trademarks are of value to its operations, but no one patent or trademark or group of patents or trademarks is material to the conduct of the Company’s business as a whole.

Customers

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

Competition

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

The Company is the second largest producer of aggregates in the United States based on tons shipped. There are over 4,000 companies in the United States that produce aggregates. The largest five producers account for approximately 26% of the total market. The Company in its Aggregates division competes with a number of other large and small producers. The Company believes that its

ability to transport materials by ocean vessels and river barges and its increased access to rail transportation have enhanced the Company's ability to compete in certain extended areas. Certain of the Company's competitors in the aggregates industry have greater financial resources than the Company.

The Magnesia Specialties business of the Company's Specialty Products division competes with various companies in different geographic and product areas principally on the basis of quality, price, and technical support for its products. The Magnesia Specialties business also competes for sales to customers located outside the United States, with revenues from foreign jurisdictions accounting for approximately 14% of revenues for the Magnesia Specialties business in 2004, principally in Canada, Mexico, Europe, South America, and the Pacific Rim. Certain of the Company's competitors in the Magnesia Specialties business have greater financial resources than the Company.

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

Research and Development

The Company conducts research and development activities principally for its Magnesia Specialties business, at its plant in Manistee, Michigan, and for its Structural Composite Products business, at its headquarters in Raleigh, North Carolina, and its plant in Sparta, North Carolina. In general, the Company's research and development efforts in 2004 were directed to applied technological development for the use of its chemicals products and for its proprietary technologies, including composite materials. The Company spent approximately $0.9 million in 2004, $0.6 million in 2003, and $0.4 million in 2002 on research and development activities.

Environmental and Governmental Regulations

The Company's operations are subject to and affected by federal, state, and local laws and regulations relating to the environment, health and safety, and other regulatory matters. Certain of the Company's operations may from time to time involve the use of substances that are classified as toxic or hazardous substances within the meaning of these laws and regulations. Environmental operating permits are, or may be, required for certain of the Company's operations, and such permits are subject to modification, renewal, and revocation.

The Company records an accrual for environmental remediation liabilities in the period in which it is probable that a liability has been incurred and the amounts can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. The accruals are not discounted to their present value or offset for potential insurance or other claims or potential gains from future alternative uses for a site.

The Company regularly monitors and reviews its operations, procedures, and policies for compliance with existing laws and regulations, changes in interpretations of existing laws and enforcement policies, new laws that are adopted, and new laws that the Company anticipates will be adopted that could affect its operations. The Company has a full time staff of environmental engineers and managers that perform these responsibilities. The direct costs of ongoing environmental compliance were $5.3 million in 2004 and $5.7 million in 2003 and are related to the Company's environmental staff and ongoing monitoring costs for various matters (including those matters disclosed in this Annual Report on Form 10-K). Capitalized costs related to environmental control facilities were less than $1 million in 2004. The Company's capital expenditures for environmental matters were not material to its results of operations or financial condition in 2004 or 2003. Despite these compliance efforts, risk of environmental liability is inherent in the operation of the Company's businesses, as it is with other companies engaged in similar businesses, and there can be no assurance that environmental liabilities will not have a material adverse effect on the Company in the future.

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

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

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

With respect to reclamation costs, however, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). See "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 31 and 32 of the 2004 Annual Report. Under FAS 143, future reclamation costs are estimated using statutory reclamation requirements and management's experience and knowledge in the industry, and are discounted to their present value using a credit-adjusted, risk-free rate of interest. The future reclamation costs are not offset by potential recoveries. The Company is generally required by state or local laws or pursuant to the terms of an applicable lease to reclaim quarry sites after use. The Company performs activities on an ongoing basis that may reduce the ultimate reclamation obligation. These activities are performed as an integral part of the normal quarrying process. For example, the perimeter and interior walls of an open pit quarry are sloped and benched as they are developed to prevent erosion and provide stabilization. This sloping and benching meets dual objectives — safety regulations required by the Mine Safety and Health Administration for ongoing operations and final reclamation requirements. Therefore, these types of activities are included in normal operating costs and are not a part of the asset retirement obligation. Historically, the Company has not incurred substantial costs in connection with the closing of quarries. Reclaimed quarry sites owned by the Company are available for sale, typically for commercial development or use as reservoirs.

The Company believes that its operations and facilities, both owned or leased, are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on the Company's operations or financial condition. See "Legal Proceedings" on pages 21 and 22 of this Form 10-K and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 31 and 32 and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation" on page 50 of the 2004 Annual Report. However, future events, such as changes in or modified interpretations of existing laws and regulations or enforcement policies, or further investigation or evaluation of the potential health hazards of certain products or business activities, may give rise to additional compliance and other costs that could have a material adverse effect on the Company.

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

As is the case with other companies in the same industry, some of the Company's products contain varying amounts of crystalline silica, a mineral commonly called quartz. Excessive, prolonged inhalation of very small-sized particles of crystalline silica has been associated with nonmalignant lung disease. The carcinogenic potential of crystalline silica was evaluated by the International Agency for Research on Cancer and later by the U.S. National Toxicology Program. In 1987, the agency found

limited evidence of carcinogenicity in humans but sufficient evidence of carcinogenicity in animals. The National Toxicology Program concluded in 1991 that crystalline silica is "reasonably anticipated to be a carcinogen." In October 1996, the International Agency for Research on Cancer issued another report stating that "inhaled crystalline silica in the form of quartz or cristobalite from occupational sources is carcinogenic to humans." The Mine Safety and Health Administration and the Occupational Safety and Health Administration both have listed the development of a crystalline silica standard as one of the regulations they expect to have under active consideration for promulgation, proposal, or review during 2004. The Occupational Safety and Health Administration has identified occupational overexposure to crystalline silica among its top five health priorities and developed a draft regulation in 2003. The Mine Safety and Health Administration (MSHA) did not issue an advance notice of proposed rulemaking for the development of a crystalline silica standard in May 2004 as had been previously announced. The issue is in the prerule status, and MSHA is preparing a detailed risk assessment and plans to complete an external peer review of a draft assessment by February 2005. The Company, through safety information sheets and other means, communicates what it believes to be appropriate warnings and cautions to employees and customers about the risks associated with excessive, prolonged inhalation of mineral dust in general and crystalline silica in particular.

The Clean Air Act Amendments of 1990 required the EPA to develop regulations for a broad spectrum of industrial sectors that emit hazardous air pollutants, including lime manufacturing. The new standards to be established would require plants in the targeted industries to install feasible control equipment for certain hazardous air pollutants, thereby significantly reducing air emissions. The Company and other lime manufacturers through the National Lime Association, the leading industry trade association ("NLA"), worked with the EPA to define test protocols, better define the scope of the standards, determine the existence and feasibility of various technologies, and develop realistic emission limitations and continuous emissions monitoring/reporting requirements for the lime industry. The EPA received comments on its proposed technology-based standards for the industry in November 2000, and a proposed rule for the national emission standards for lime manufacturing plants was released on December 20, 2002. The proposed rules favorably addressed many of the issues raised by NLA in the negotiation process. NLA and the Company submitted comments on the proposed rules in February 2003. The EPA published the final rule in the Federal Register on January 5, 2004, and facilities must be in compliance within three years after the date of publication. The Company believes that there are several alternatives for achieving compliance with the new technology-based standard, and that any costs associated with the upgrade and/or replacement of equipment required to comply with the new regulations will not have a material adverse effect on the Company's operations or its financial condition, but can give no assurance that the compliance costs will not have a material adverse effect on the financial condition or results of the operations of the Magnesia Specialties business.

In February 1998, the Georgia Department of Natural Resources ("GDNR") determined that both the Company and the Georgia Department of Transportation ("GDOT") are responsible parties for investigation and remediation at the Company's Camak Quarry in Thomson, Georgia, due to the discovery of trichloroethene ("TCE") above its naturally occurring background concentration in a drinking water well on site. The Company provided the GDNR with information indicating that the source of the release was either from an asphalt plant and associated GDOT testing laboratory that was on the site in the early 1970's or from a maintenance shop that was operated on the property in the

1940's and 1950's before the Company purchased the property. The Company entered into a Consent Order with GDNR to conduct an environmental assessment of the site and file a report of the findings. The Company and GDOT signed an agreement to share evenly the costs of the assessment work. The assessment report was completed and filed. Based upon the results of the assessment report, GDOT withdrew from the cost sharing agreement and has indicated it will not share in any future remediation costs. The Company submitted a corrective action plan to GDNR for approval on December 9, 2002. GDNR requested additional information which was duly submitted. The Company is waiting for GDNR to approve the plan before implementing it. The Company is funding the entire cost of future investigations and remediation which will occur over several years. Management believes any costs incurred by the Company associated with the site will not have a material adverse effect on the Company's operations or its financial condition.

In December 1998, the GDNR determined that the Company, the GDOT, and two former asphalt plant operators are responsible parties for investigation and remediation of groundwater contamination at the Company's Ruby Quarry in Macon, Georgia. The Company was designated by virtue of its ownership of the property. GDOT was designated because it operated a testing laboratory at the site. The two other parties were designated because both entities operated asphalt plants at the site. The groundwater contamination was discovered when the Company's tenant vacated the premises and environmental testing was conducted. The Company and GDOT signed an agreement to share the costs of the assessment work. The report of the assessment work was filed with the GDNR. GDOT entered into a Consent Order with GDNR agreeing to conduct additional testing and any necessary remediation at the site. On May 21, 2001, GDNR issued separate Administrative Orders against the Company and other responsible parties to require all parties to participate with GDOT to undertake additional testing and any necessary remediation. The Company and GDOT submitted a corrective action plan to GDNR for approval on May 20, 2002. GDNR requested additional information in connection with its consideration of the submitted plan and subsequently approved the plan on July 19, 2004. GDOT is filing an amendment to the plan, and once the amendment is approved by GDNR, it is expected that GDOT will develop a schedule to implement the plan. Under Georgia law, responsible parties are jointly and severally liable, and therefore, the Company is potentially liable for the full cost of funding any necessary remediation. If the Company is required to fund the cost of remediation, the Company will pursue its right of contribution from the responsible parties. Management believes any costs incurred by the Company associated with the site will not have a material adverse effect on the Company's operations or its financial condition.

In the vicinity of and beneath the Magnesia Specialties facility in Manistee, Michigan, facility, there is an underground plume of material originating from adjacent property which formerly was used by Packaging Corporation of America ("PCA") as a part of its operations. Magnesia Specialties believes the plume consists of paper mill waste. On September 8, 1983, the PCA plume and property were listed on the National Priorities List ("NPL") under the authority of the Comprehensive Environmental Response, Compensation and Liability Act (the "Superfund" statute). The PCA plume is subject to a Record of Decision issued by the U.S. Environmental Protection Agency ("EPA") on May 2, 1994, pursuant to which PCA's successor, Pactiv Corporation ("Pactiv"), is required to conduct annual monitoring. The EPA has not required remediation of the groundwater contamination. On January 10, 2002, the Michigan Department of Environmental Quality ("MDEQ") issued Notice of Demand letters to Magnesia Specialties, PCA and Pactiv indicating that it believes that Magnesia

Specialties' chloride contamination is commingling with the PCA plume which originates upgradient from the Magnesia Specialties property. The MDEQ is concerned about possible effects of these plumes, and designated Magnesia Specialties, PCA and Pactiv as parties responsible for investigation and remediation under Michigan state law. The MDEQ held separate meetings with Magnesia Specialties, PCA, and Pactiv to discuss remediation and reimbursement for past investigation costs totaling approximately $700,000. Magnesia Specialties entered into an Administrative Order with the MDEQ to pay for a portion of MDEQ's past investigation costs and thereby limit its liability for past costs in the amount of $20,000. Michigan law provides that responsible parties are jointly and severally liable, and, therefore, Magnesia Specialties is potentially liable for the full cost of funding future investigative activities and any necessary remediation. Michigan law also provides a procedure whereby liability may be apportioned among responsible parties if it is capable of division. The Company believes that the liability most likely will be apportioned and that any such costs attributed to Magnesia Specialties' brine contamination will not have a material adverse effect on the Company's operations or its financial condition, but can give no assurance that the liability will be apportioned or that the compliance costs will not have a material adverse effect on the financial condition or results of the operations of the Magnesia Specialties business.

Employees

As of February 18, 2005, the Company has approximately 5,778 employees. Approximately 4,326 are hourly employees and approximately 1,452 are salaried employees. Included among these employees are approximately 837 hourly employees represented by labor unions (approximately 14% of the Company's employees). Approximately 18% of the Company's Aggregates division's hourly employees are members of a labor union, while approximately 98% of the Specialty Products division's hourly employees are represented by labor unions. The Company's principal union contracts cover employees of the Magnesia Specialties business at the Manistee, Michigan, magnesia-based chemicals plant and the Woodville, Ohio, lime plant. The Manistee collective bargaining agreement expires in August 2007. The Woodville collective bargaining agreement expires in June 2006.

Available Information

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

The Company has adopted a *Code of Ethics and Standards of Conduct* that applies to all of its directors, officers, and employees. The Company's code of ethics is available on the Company's Internet address at http://www.martinmarietta.com. The Company intends to disclose on its Internet

web site any waivers of or amendments to its code of ethics as it applies to its directors and executive officers.

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

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

The Company's Chief Executive Officer and Chief Financial Officer are required to file with the SEC each year certifications regarding the quality of the Company's public disclosure of its financial condition. These certifications are included as Exhibits to this Annual Report on Form 10-K. The Company's Chief Executive Officer is also required to certify to the New York Stock Exchange each year that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards. The filing of these certifications with the SEC and with the New York Stock Exchange is also disclosed in the Company's 2004 Annual Report.

ITEM 2. PROPERTIES

Aggregates

As of December 31, 2004, the Company processed or shipped aggregates from 308 quarries and distribution yards in 28 states and in Canada and the Bahamas, of which 86 are located on land owned by the Company free of major encumbrances, 73 are on land owned in part and leased in part, 138 are on leased land, and 11 are on facilities neither owned nor leased, where raw materials are removed under an agreement. The Company's aggregates reserves on the average exceed 50 years of production, based on current levels of activity. However, certain locations may be subject to more limited reserves and may not be able to expand. In addition, as of December 31, 2004, the Company processed and shipped ready mixed concrete and/or asphalt products from 17 properties in 3 states, of which 9 are located on land owned by the Company free of major encumbrances, 1 is on land owned in part and leased in part, and 7 are on leased land.

Set forth in the tables below are the Company's estimates of reserves of recoverable aggregates of suitable quality for economic extraction, shown on a state-by-state basis, and the Company's total annual production for the last 3 years, along with the Company's estimate of years of production

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available, shown on a region-by-region basis. In determining the amount of reserves, the Company's policy is to not include calculations that exceed certain depths, so for deposits, such as granite, that typically continue to depths well below the ground, there may be additional deposits that are not included in the reserves calculations.

State	Number of Producing Quarries 2004	Tonnage of reserves for each general type of aggregate at 12/31/04 (add 000)		Percentage of aggregate reserves located at an existing quarry, and reserves not located at an existing quarry		Percent of aggregate reserves on land that has not been zoned for quarrying	Percent of reserves owned and percent leased	
		Hard Rock	S & G	At Quarry	Not at Quarry		Owned	Leased
Alabama	8	98,031	10,989	100%	—	0%	42%	58%
Arkansas	4	683,332	0	88%	12%	0%	25%	75%
California	2	36,376	0	100%	—	0%	30%	70%
Florida	2	67,574	0	100%	—	0%	0%	100%
Georgia	11	409,864	0	86%	14%	0%	62%	38%
Illinois	5	695,806	0	48%	52%	0%	9%	91%
Indiana	13	431,256	199,874	92%	8%	15%	43%	57%
Iowa	42	653,767	56,295	96%	4%	1%	13%	87%
Kansas	20	271,499	0	47%	53%	0%	35%	65%
Kentucky	2	622,822	0	100%	—	0%	15%	85%
Louisiana	0	—	—	—	—	—	—	—
Maryland	2	134,083	0	100%	—	15%	100%	0%
Minnesota	2	256,166	0	100%	—	0%	84%	16%
Mississippi	2	0	24,928	100%	—	0%	100%	0%
Missouri	23	594,260	0	20%	80%	0%	40%	60%
Montana	0	50,000	0	0%	100%	0%	100%	0%
Nebraska	4	75,936	0	99%	1%	0%	24%	76%
Nevada	2	18,670	2	100%	—	0%	0%	100%
North Carolina	41	1,863,957	2,000	86%	14%	3%	68%	32%
Ohio	22	185,657	223,979	84%	16%	3%	97%	3%
Oklahoma	7	523,888	6,236	75%	25%	0%	45%	55%
South Carolina	7	291,172	0	81%	19%	19%	76%	24%
Tennessee	2	0	15,138	100%	—	0%	10%	90%
Texas	14	1,775,985	196,854	65%	35%	33%	60%	40%
Virginia	5	375,489	0	97%	3%	1%	69%	31%
Washington	4	35,012	0	72%	28%	0%	7%	93%
West Virginia	2	61,076	0	35%	65%	0%	20%	80%
Wisconsin	1	4,807	0	100%	—	0%	0%	100%
Wyoming	1	98,790	0	100%	—	0%	0%	100%
U.S. Total	**250**	**10,315,275**	**736,293**					
Non-U.S.	2	711,690	0	100%	—	0%	97%	3%
Grand Total	**252**	**11,026,965**	**736,293**	**80%**	**20%**	**8%**	**52%**	**48%**

Region	Total Annual Production (in tons) for year ended December 31 (add 000)			Number of years of production available at December 31, 2004
	2004	2003	2002	
Mideast	67,986	64,122	67,223	61.4
Northwest	29,824	30,434	33,006	72.1
Southeast	50,242	44,569	41,641	34.9
Southwest	38,811	39,305	41,413	82.1
Total	**186,863**	**178,430**	**183,283**	**60.3**

Specialty Products

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

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

Other Properties

The Company’s principal corporate office, which it owns, is located in Raleigh, North Carolina. The Company owns and leases various administrative offices for its two reportable business segments.

The Company’s principal properties, which are of varying ages and are of different construction types, are believed to be generally in good condition, are generally well maintained, and are generally suitable and adequate for the purposes for which they are used. During 2004, the principal properties were believed to be utilized at average productive capacities of approximately 80% and were capable of supporting a higher level of market demand.

ITEM 3. LEGAL PROCEEDINGS

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

outcome in any of such litigation would not have a material adverse effect on the Company or its operating segments.

See also “Note N: Commitments and Contingencies” of the “Notes to Financial Statements” on pages 31 and 32 of the 2004 Annual Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Environmental Regulation and Litigation” on page 50 of the 2004 Annual Report.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

FORWARD-LOOKING STATEMENTS — SAFE HARBOR PROVISIONS

This Annual Report on Form 10-K and other written reports and oral statements made from time to time by the Company contain statements which constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors are cautioned that all forward-looking statements involve risks and uncertainties, and are based on assumptions that the Company believes in good faith are reasonable, but which may be materially different from actual results. Investors can identify these statements by the fact that they do not relate only to historic or current facts. They may use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words of similar meaning in connection with future events or future operating or financial performance. Any or all of the Company’s forward-looking statements in this Annual Report on Form 10-K and in other publications may turn out to be wrong.

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

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

For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Company's Securities and Exchange Commission filings, including, but not limited to, the discussion of "Competition" on pages 12 and 13 of this Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 34-65 of the 2004 Annual Report and "Note A: Accounting Policies" and "Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 31 and 32, respectively, of the Audited Consolidated Financial Statements included in the 2004 Annual Report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding the executive officers of Martin Marietta Materials, Inc. as of February 18, 2005:

Name	*Age*	*Present Position*	*Year Assumed Present Position*	*Other Positions and Other Business Experience Within the Last Five Years*
Stephen P. Zelnak, Jr.	60	Chairman of the Board of Directors;	1997	
		President and Chief Executive Officer;	1993	
		President of Aggregates Division	1993	
Philip J. Sipling	57	Executive Vice President;	1997	
		Chairman of Magnesia Specialties Division;	1997	
		Executive Vice President of Aggregates Division	1993	
Janice K. Henry	53	Treasurer;	2002	Treasurer (1996-2000)
		Senior Vice President;	1998	
		Chief Financial Officer	1994	
Donald M. Moe	59	Senior Vice President;	2001	Vice President (1999 - 2001)
		Senior Vice President of Aggregates Division;	1999	
		President-Mideast Division	1996	

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Name	*Age*	*Present Position*	*Year Assumed Present Position*	*Other Positions and Other Business Experience Within the Last Five Years*
Jonathan T. Stewart	56	Senior Vice President, Human Resources	2001	Vice President, Human Resources (1993 - 2001)
Roselyn R. Bar	46	Vice President and General Counsel; Corporate Secretary	2001 1997	Deputy General Counsel (2001); Associate General Counsel (1998-2001)
Daniel G. Shephard	46	Senior Vice President; Vice President-Business Development and Capital Planning Regional Vice President and General Manager - MidAmerica Region; President of Magnesia Specialties Division	2004 2002 2003 1999	Vice President-Marketing (2002-2004) Vice President and Treasurer (2000-2002)
Anne H. Lloyd	43	Chief Accounting Officer; Vice President and Controller	1999 1998	
David S. Watterson	43	Vice President and Chief Information Officer	2003	Vice President, Information Services (1999-2003)

PART II

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

Market Information, Holders, and Dividends

The Company's Common Stock, $.01 par value, is traded on the New York Stock Exchange (Symbol: MLM). Information concerning stock prices and dividends paid is included under the caption "Quarterly Performance (Unaudited)" on page 66 of the 2004 Annual Report, and that information is incorporated herein by reference. There were approximately 1,100 holders of record of the Company's Common Stock as of February 18, 2005.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required in response to this subsection of Item 5 is included in Part III, under the heading "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," on page 28 of this Form 10-K.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2004 - October 31, 2004	100,578	$ 45.60	100,578	4,543,222
November 1, 2004 - November 30, 2004	340,000	$ 49.76	340,000	4,203,222
December 1, 2004 - December 31, 2004	440,000	$ 51.78	440,000	3,763,222
Total	880,578	$ 50.30	880,578	3,763,222

(1) The Company's initial stock repurchase program, which authorized the repurchase of 2.5 million shares of common stock, was announced in a press release dated May 6, 1994, and has been updated as appropriate. The program does not have an expiration date.

ITEM 6. SELECTED FINANCIAL DATA

The information required in response to this Item 6 is included under the caption "Five Year Summary" on page 67 of the 2004 Annual Report, and that information is incorporated herein by reference.

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

The information required in response to this Item 7 is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 34-65 of the 2004 Annual Report, and that information is incorporated herein by reference, except that the information contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations-Outlook 2005" on page 52 of the 2004 Annual Report is not incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required in response to this Item 7A is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations-Quantitative and Qualitative Disclosures About Market Risk" on page 64 of the 2004 Annual Report, and that information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required in response to this Item 8 is included under the caption “Consolidated Statements of Earnings,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” “Consolidated Statements of Shareholders’ Equity,” “Notes to Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quarterly Performance (Unaudited)” on pages 13-66 of the 2004 Annual Report, and that information is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2004, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures and the Company’s internal control over financial reporting. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective in ensuring that all material information required to be disclosed is made known to them in a timely manner as of December 31, 2004 and further concluded that the Company’s internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with generally accepted accounting principles as of December 31, 2004.

The Company’s management, including the CEO and CFO, does not expect that the Company’s control system will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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The Company's management has issued its annual report on the Company's internal control over financial reporting, which included management's assessment that the Company's internal control over financial reporting was effective at December 31, 2004. The Company's independent registered public accounting firm has issued an attestation report agreeing with management's assessment that the Company's internal control over financial reporting was effective at December 31, 2004. Management's report on the Company's internal controls and the related attestation report of the Company's independent registered public accounting firm appear on pages 10 and 11 of the 2004 Annual Report, and those reports are hereby incorporated by reference in this Form 10-K. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Internal Control and Accounting and Reporting Risk" on page 52 of the 2004 Annual Report.

Included among the Exhibits to this Annual Report on Form 10-K are forms of "Certifications" of the Company's CEO and CFO as required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certification"). The Section 302 Certifications refer to this evaluation of the Company's disclosure policies and procedures and internal control over financial reporting. The information in this section should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors required in response to this Item 10 is included under the captions "Corporate Governance Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year ended December 31, 2004 (the "2005 Proxy Statement"), and that information is hereby incorporated by reference in this Form 10-K. Information concerning executive officers of the Company required in response to this Item 10 is included in Part I, under the heading "Executive Officers of the Registrant," on pages 23 and 24 of this Form 10-K. The information concerning the Company's code of ethics required in response to this Item 10 is included in Part I, under the heading "Available Information," on pages 18 and 19 of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 is included under the captions "Executive Compensation," "Corporate Governance Matters," "Report of the Management Development and Compensation Committee on Executive Compensation," "Comparison of Cumulative Total Return, Martin Marietta Materials, Inc., S&P 500, and S&P Materials Indices," and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" in the Company's 2005 Proxy

Statement, and that information, except for the information required by Items 402(k) and (l) of Regulation S-K, is hereby incorporated by reference in this Form 10-K.

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

The information required in response to this Item 12 is included under the captions “General Information,” “Security Ownership of Certain Beneficial Owners and Management,” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the Company’s 2005 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item 13 is included under the captions “Compensation Committee Interlocks and Insider Participation in Compensation Decisions” and “Independent Directors” in the Company’s 2005 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this Item 14 is included under the caption “Independent Auditors” in the Company’s 2005 Proxy Statement, and that information is hereby incorporated by reference in this Form 10-K.

PART IV

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

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

The following consolidated financial statements of Martin Marietta Materials, Inc. and consolidated subsidiaries, included in the 2004 Annual Report, are incorporated by reference into Item 8 on page 26 of this Form 10-K. Page numbers refer to the 2004 Annual Report:

	Page
Consolidated Statements of Earnings— for years ended December 31, 2004, 2003 and 2002	13
Consolidated Balance Sheets— at December 31, 2004 and 2003	14
Consolidated Statements of Cash Flows— for years ended December 31, 2004, 2003 and 2002	13

	Page
Consolidated Statements of Shareholders' Equity— Balance at December 31, 2004, 2003 and 2002	16
Notes to Financial Statements—	17-33

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

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

Schedule II — Valuation and Qualifying Accounts.............................. 32-33

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

The report of the Company's independent registered public accounting firm with respect to the above-referenced financial statements appears on page 12 of the 2004 Annual Report, and that report is hereby incorporated by reference in this Form 10-K. The report on the financial statement schedule and the consent of the Company's independent registered public accounting firm are attached as Exhibit 23.01 to this Form 10-K.

(3) Exhibits

The list of Exhibits on the accompanying Index of Exhibits on pages 37-39 of this Form 10-K is hereby incorporated by reference. Each management contract or compensatory plan or arrangement required to be filed as an exhibit is indicated by asterisks.

(c) Index of Exhibits

Exhibit No.	
3.01	—Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibits 3.1 and 3.2 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) (Commission File No. 1-12744)
3.02	—Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003) (Commission File No. 1-12744)
4.01	—Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003) (Commission File No. 1-12744)
4.02	—Articles 2 and 8 of the Company's Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No. 1-12744)

Exhibit No.	
4.03	—Article I of the Company's Restated Bylaws, as amended (incorporated by reference to Exhibit 4.03 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No. 1-12744)
4.04	—Indenture dated as of December 1, 1995 between Martin Marietta Materials, Inc. and First Union National Bank of North Carolina (incorporated by reference to Exhibit 4(a) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.05	—Form of Martin Marietta Materials, Inc. 7% Debenture due 2025 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.06	—Form of Martin Marietta Materials, Inc. 6.9% Notes due 2007 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.08	—Indenture dated as of December 7, 1998 between Martin Marietta Materials, Inc. and First Union National Bank (incorporated by reference to Exhibit 4.08 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793))
4.09	—Form of Martin Marietta Materials, Inc. 5.875% Note due December 1, 2008 (incorporated by reference to Exhibit 4.09 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793))
4.10	—Form of Martin Marietta Materials, Inc. 6.875% Note due April 1, 2011 (incorporated by reference to Exhibit 4.12 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-61454))
10.01	—Rights Agreement, dated as of October 21, 1996, between the Company and First Union National Bank of North Carolina, as Rights Agent, which includes the Form of Articles of Amendment With Respect to the Junior Participating Class A Preferred Stock of Martin Marietta Materials, Inc., as Exhibit A, the Form of Rights Certificate, as Exhibit B, and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (incorporated by reference to Exhibit 1 to the Martin Marietta Materials, Inc. registration statement on Form 8-A, filed with the Securities and Exchange Commission on October 21, 1996)
10.02	—Amendment No. 1 to the Rights Agreement, dated as of May 3, 2004, between the Company and Wachovia Bank, N.A. (as successor to First Union National Bank of North Carolina) (incorporated by references to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (Commission File No. 1012744))
10.03	—Five -Year Credit Agreement dated as of August 8, 2001, among Martin Marietta Materials, Inc., the banks parties thereto, and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) (Commission File No. 1-12744)
10.04	—Amendment No. 1 to Five-Year Credit Agreement dated as of August 8, 2002 among Martin Marietta Materials, Inc., the bank parties thereto, and JPMorgan Chase Bank, as agent (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2002) (Commission File No. 1-12744)
10.05	—Form of Martin Marietta Materials, Inc. Second Amended and Restated Employment Protection Agreement (incorporated by reference to Exhibit 10.05 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003) (Commission File No. 1-12744)**
10.06	—Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.10 to the Martin Marietta Materials,

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Exhibit No.	
	Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No. 1-12744)**
10.07	—Amendment No. 1 to the Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2004) (Commission File No. 1-12744)**
10.08	—Martin Marietta Materials, Inc. Amended and Restated Executive Incentive Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2003) (Commission File No. 1-12744)**
10.09	—Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 1995) (Commission File No. 1-12744)**
10.10	—Amendment No. 1 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 1997) (Commission File No. 1-12744)**
10.11	—Amendment No. 2 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.13 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1999) (Commission File No. 1-12744)**
10.12	—Amendment No. 3 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2000) (Commission File No. 1-12744)**
10.13	—Amendment No. 4 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.14 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.14	—Amendment No. 5 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.03 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) (Commission File No. 1-12744)**
10.15	—Amendment No. 6 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 2003) (Commission File No. 1-12744)**
10.16	—Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.17	—Amendment No. 1 to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001) (Commission File No. 1-12744)**
10.18	—Martin Marietta Materials, Inc. Amended Omnibus Securities Award Plan (incorporated by reference to Exhibit 10.16 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.19	—Martin Marietta Materials, Inc. Supplemental Excess Retirement Plan (incorporated by reference to Exhibit 10.16 of the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ending December 31, 1999) (Commission File No. 1-12744)**
*10.20	—Form of Option Award Agreement under the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan**
*10.21	—Form of Restricted Stock Unit Agreement under the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan**
*12.01	—Computation of ratio of earnings to fixed charges for the year ended December 31, 2004

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Exhibit No.	
*13.01	—Martin Marietta Materials, Inc. 2004 Annual Report to Shareholders, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2004 Annual Report to Shareholders that are not incorporated by reference shall not be deemed to be “filed” as part of this report.
*18.01	—Letter dated February 21, 2005 of Ernst & Young LLP, Independent Registered Public Accounting Firm for Martin Marietta Materials, Inc. and consolidated subsidiaries, regarding a change in accounting principles
*21.01	—List of subsidiaries of Martin Marietta Materials, Inc.
*23.01	—Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm for Martin Marietta Materials, Inc. and consolidated subsidiaries
*24.01	—Powers of Attorney (included in this Form 10-K at page 34)
*31.01	—Certification dated February 22, 2005 of Chief Executive Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.02	—Certification dated February 22, 2005 of Chief Financial Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.01	—Certification dated February 22, 2005 of Chief Executive Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.02	—Certification dated February 22, 2005 of Chief Financial Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Other material incorporated by reference:

Martin Marietta Materials, Inc.’s 2005 Proxy Statement filed pursuant to Regulation 14A, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2005 Proxy Statement which are not incorporated by reference shall not be deemed to be “filed” as part of this report.

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*Filed herewith

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

(d) Financial Statement Schedule

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

		Col C Additions			
Col A Description	Col B Balance at beginning of period	(1) Charged to costs and expenses	(2) Charged to other accounts—describe	Col D Deductions—describe	Col E Balance at end of period
		(Amounts in Thousands)			
Year ended December 31, 2004					
Allowance for doubtful accounts and uncollectible notes receivable	$ 5,196	$ 2,103		$ 57(a)	$ 7,242

Col A Description	Col B Balance at beginning of period	Col C Additions (1) Charged to costs and expenses	Col C Additions (2) Charged to other accounts—describe	Col D Deductions—describe	Col E Balance at end of period
	(Amounts in Thousands)				
Inventory valuation allowance	5,990	945		1,393(a)	5,463
				79(b)	
Accumulated amortization of intangible assets	28,356	4,677		2,119(b)	29,605
				1,309(c)	
Year ended December 31, 2003					
Allowance for doubtful accounts	$ 8,282	$ 488		$ 3,574(d)	$ 5,196
Inventory valuation allowance	5,659	675		87(a)	5,990
				191(b)	
				66(e)	
Accumulated amortization of intangible assets	27,505	5,840		3,556(b)	28,356
				1,433(c)	
Year ended December 31, 2002					
Allowance for doubtful accounts	$ 7,367	$ 1,082	—	$ 167(a)	$ 8,282
Inventory valuation allowance	6,020	504	—	504(a)	5,659
				361(b)	
Accumulated amortization of intangible assets	103,015	6,102	—	803(b)	27,505
				3,423(c)	
				77,386(f)	

(a) To adjust allowance for change in estimates.
(b) Divestitures.
(c) Write off of fully amortized intangible assets.
(d) Write off of uncollectible accounts against allowance.
(e) Write off of fully reserved inventory.
(f) Write off of accumulated amortization related to nonamortized goodwill.

SIGNATURES

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

MARTIN MARIETTA MATERIALS, INC.

By: /s/ Roselyn R. Bar
Roselyn R. Bar
Vice President, General Counsel and Corporate Secretary

Dated: February 22, 2005

POWER OF ATTORNEY

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

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

Signature	*Title*	*Date*
/s/ Stephen P. Zelnak, Jr. Stephen P. Zelnak, Jr.	Chairman of the Board, President and Chief Executive Officer	February 22, 2005
/s/ Janice K. Henry Janice K. Henry	Senior Vice President and Chief Financial Officer	February 22, 2005
/s/ Anne H. Lloyd Anne H. Lloyd	Vice President and Chief Accounting Officer	February 22, 2005
/s/ Marcus C. Bennett Marcus C. Bennett	Director	February 22, 2005
/s/ Sue W. Cole Sue W. Cole	Director	February 22, 2005
/s/ William E. McDonald William E. McDonald	Director	February 22, 2005
/s/ Frank H. Menaker, Jr. Frank H. Menaker, Jr.	Director	February 22, 2005
/s/ Laree E. Perez Laree E. Perez	Director	February 22, 2005

Signature	*Title*	*Date*
/s/ James M. Reed James M. Reed	Director	February 22, 2005
/s/ William B. Sansom William B. Sansom	Director	February 22, 2005
/s/ Richard A. Vinroot Richard A. Vinroot	Director	February 22, 2005

EXHIBITS

Exhibit No.	
3.01	—Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibits 3.1 and 3.2 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on October 25, 1996) (Commission File No. 1-12744)
3.02	—Restated Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003)(Commission File No. 1-12744)
4.01	—Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003) (Commission File No. 1-12744)
4.02	—Articles 2 and 8 of the Company's Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.02 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No. 1-12744)
4.03	—Article I of the Company's Restated Bylaws, as amended (incorporated by reference to Exhibit 4.03 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No.1-12744)
4.04	—Indenture dated as of December 1, 1995 between Martin Marietta Materials, Inc. and First Union National Bank of North Carolina (incorporated by reference to Exhibit 4(a) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.05	—Form of Martin Marietta Materials, Inc. 7% Debenture due 2025 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.06	—Form of Martin Marietta Materials, Inc. 6.9% Notes due 2007 (incorporated by reference to Exhibit 4(a)(i) to the Martin Marietta Materials, Inc. registration statement on Form S-3 (SEC Registration No. 33-99082))
4.08	—Indenture dated as of December 7, 1998 between Martin Marietta Materials, Inc. and First Union National Bank (incorporated by reference to Exhibit 4.08 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793))
4.09	—Form of Martin Marietta Materials, Inc. 5.875% Note due December 1, 2008 (incorporated by reference to Exhibit 4.09 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-71793))
4.10	—Form of Martin Marietta Materials, Inc. 6.875% Note due April 1, 2011 (incorporated by reference to Exhibit 4.12 to the Martin Marietta Materials, Inc. registration statement on Form S-4 (SEC Registration No. 333-61454))
10.01	—Rights Agreement, dated as of October 21, 1996, between the Company and First Union National Bank of North Carolina, as Rights Agent, which includes the Form of Articles of Amendment With Respect to the Junior Participating Class A Preferred Stock of Martin Marietta Materials, Inc., as Exhibit A, the Form of Rights Certificate, as Exhibit B, and the Summary of Rights to Purchase Preferred Stock, as Exhibit C (incorporated by reference to Exhibit 1 to the Martin Marietta Materials, Inc. registration statement on Form 8-A, filed with the Securities and Exchange Commission on October 21, 1996)
10.02	—Amendment No. 1 to the Rights Agreement, dated as of May 3, 2004, between the Company and Wachovia Bank, N.A. (as successor to First Union National Bank of North Carolina)

Exhibit No.	
	(incorporated by references to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (Commission File No. 1012744))
10.03	—Five -Year Credit Agreement dated as of August 8, 2001, among Martin Marietta Materials, Inc., the banks parties thereto, and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) (Commission File No. 1-12744)
10.04	—Amendment No. 1 to Five-Year Credit Agreement dated as of August 8, 2002 among Martin Marietta Materials, Inc., the bank parties thereto, and JPMorgan Chase Bank, as agent (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2002) (Commission File No. 1-12744)
10.05	—Form of Martin Marietta Materials, Inc. Second Amended and Restated Employment Protection Agreement (incorporated by reference to Exhibit 10.05 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2003) (Commission File No. 1-12744)**
10.06	—Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.10 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (Commission File No. 1-12744)**
10.07	—Amendment No. 1 to the Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2004) (Commission File No. 1-12744)**
10.08	—Martin Marietta Materials, Inc. Amended and Restated Executive Incentive Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2003) (Commission File No. 1-12744)**
10.09	—Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 1995) (Commission File No. 1-12744)**
10.10	—Amendment No. 1 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 1997) (Commission File No. 1-12744)**
10.11	—Amendment No. 2 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.13 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 1999) (Commission File No. 1-12744)**
10.12	—Amendment No. 3 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2000) (Commission File No. 1-12744)**
10.13	—Amendment No. 4 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.14 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.14	—Amendment No. 5 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.03 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended June 30, 2001) (Commission File No. 1-12744)**
10.15	—Amendment No. 6 to the Martin Marietta Materials, Inc. Incentive Stock Plan (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Form 10-Q for the quarter ended September 30, 2003) (Commission File No. 1-12744)**

Exhibit No.	
10.16	—Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.17	—Amendment No. 1 to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (incorporated by reference to Exhibit 10.15 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2001) (Commission File No. 1-12744)**
10.18	—Martin Marietta Materials, Inc. Amended Omnibus Securities Award Plan (incorporated by reference to Exhibit 10.16 to the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2000) (Commission File No. 1-12744)**
10.19	—Martin Marietta Materials, Inc. Supplemental Excess Retirement Plan (incorporated by reference to Exhibit 10.16 of the Martin Marietta Materials, Inc. Annual Report on Form 10-K for the fiscal year ending December 31, 1999) (Commission File No. 1-12744)**
*10.20	—Form of Option Award Agreement under the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan**
*10.21	—Form of Restricted Stock Unit Agreement under the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan**
*12.01	—Computation of ratio of earnings to fixed charges for the year ended December 31, 2004
*13.01	—Martin Marietta Materials, Inc. 2004 Annual Report to Shareholders, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2004 Annual Report to Shareholders that are not incorporated by reference shall not be deemed to be “filed” as part of this report.
*18.01	—Letter dated February 21, 2005 of Ernst & Young LLP, Independent Registered Public Accounting Firm for Martin Marietta Materials, Inc. and consolidated subsidiaries, regarding a change in accounting principles
*21.01	—List of subsidiaries of Martin Marietta Materials, Inc.
*23.01	—Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm for Martin Marietta Materials, Inc. and consolidated subsidiaries
*24.01	—Powers of Attorney (included in this Form 10-K at page 34)
*31.01	—Certification dated February 22, 2005 of Chief Executive Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.02	—Certification dated February 22, 2005 of Chief Financial Officer pursuant to Securities and Exchange Act of 1934, rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.01	—Certification dated February 22, 2005 of Chief Executive Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.02	—Certification dated February 22, 2005 of Chief Financial Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Other material incorporated by reference:

Martin Marietta Materials, Inc.’s 2005 Proxy Statement filed pursuant to Regulation 14A, portions of which are incorporated by reference in this Form 10-K. Those portions of the 2005 Proxy Statement which are not incorporated by reference shall not be deemed to be “filed” as part of this report.

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*Filed herewith

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

EXHIBIT 10.20

MARTIN MARIETTA MATERIALS, INC.

OPTION AWARD AGREEMENT

THIS OPTION AWARD AGREEMENT, made as of ___, between Martin Marietta Materials, Inc., a North Carolina corporation (the "Corporation"), and ___ ___(the "Employee").

1. GRANT

Pursuant to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (the "Plan"), the Corporation hereby grants the Employee the option to purchase, on the terms and conditions contained in this Award Agreement ___ shares of Martin Marietta Materials, Inc. common stock ("Stock"), at a purchase price per share equal to ___ (the "Exercise Price"), subject to the terms and conditions of the Plan, a copy of which is attached hereto and made a part hereof with the same effect as if set forth herein. The term "Option" or "Options" as used in this Award Agreement refers only to the options awarded to you under this Award Agreement.

2. EXERCISE RIGHTS

Subject to the terms and conditions hereof and of the Plan, the Options granted hereby shall become exercisable as follows:

Exercise Date	Number of Shares First Exercisable

provided that the Employee is employed by the Corporation on the date any such installment first becomes exercisable. Notwithstanding the foregoing, upon the occurrence of an event specified in Section 11 hereof, this Option shall be fully exercisable without limitation for the 90-day period specified therein.

3. TRANSFERABLE ONLY UPON DEATH

This Option shall not be assignable or transferable by an Employee except by will or the laws of descent and distribution and shall be exercisable during the Employee's lifetime only by such Employee or, if legally incapacitated, by his or her guardian or authorized representative.

4. OPTION PRICE

The Exercise Price of the Options granted hereunder is ___, subject to adjustment under the Plan. The Exercise Price of an Option must be paid in cash.

5. TERM

Once an installment of the Option becomes exercisable pursuant to Section 2 herein, it shall continue to be exercisable until, but not including, ___ (the "Expiration Date"). Any portion of this Option that is not exercised prior to the Expiration Date shall be automatically canceled on the Expiration Date.

6. TERMINATION, RETIREMENT, DISABILITY OR DEATH

(a) Termination

If an Employee's employment with the Corporation is terminated, whether by the Employee or by the Corporation, and in the latter case whether with or without cause, then (i) Options which are not vested on the effective date of such termination shall expire upon such termination and (ii) those Options which are vested on the effective date of such termination shall expire ninety (90) calendar days thereafter.

(b) Early Retirement

If an Employee retires from the Corporation prior to reaching age 62 but on or after reaching age 55, then (i) Options which are not vested on the effective date of such retirement shall expire on the second business day thereafter and (ii) those Options which are vested on the effective date of such retirement shall expire ninety (90) calendar days thereafter; provided, however, that, in the sole discretion of the Compensation Committee of the Board of Directors of the Corporation (the "Committee") or (for persons not subject to Section 16 of the Securities Exchange Act of 1934, as amended) the Board of Directors or the Chief Executive Officer, the terms of all outstanding Options shall be unaffected by such early retirement.

(c) Retirement or Disability

If an Employee retires from the Corporation after reaching age 62 or ceases active employment with the Corporation as the result of a disability under circumstances entitling the Employee to the commencement of benefits under a long-term disability plan maintained by the Corporation, then the terms of all outstanding Options shall be unaffected by such retirement or disability.

(d) Death

If an Employee dies, without regard to whether the Employee was at the time of death still in the employ of the Corporation, then the vesting date of all outstanding Options shall be accelerated so as to cause all outstanding Options to become exercisable. Following the death of an Employee, without regard to the expiration dates otherwise provided in the foregoing provisions, all outstanding exercisable Options shall expire one (1) year following the date of the Employee's death. In such event, the Options may be exercised by the authorized representative of the Employee's estate.

7. LIMITATIONS ON EXERCISE

Notwithstanding any other provisions herein, no Option may be exercised under any circumstances less than six months or more than ten years after the date of grant thereof. In addition, no Option granted hereunder may be exercised to purchase fewer than 100 shares unless fewer than 100 shares remain unexercised in this specific option grant.

8. MANNER OF EXERCISE

This Option may be exercised, in whole or in part, in accordance with the procedure specified by the Committee from time to time pursuant to Section 7 of the Plan, provided that written notice of exercise, in a form satisfactory to the Committee, be delivered to the Corporation specifying the number of shares as to which the Option is being exercised, subject to the limitation in Section 7 hereof. Full payment of the Exercise Price shall accompany the notice of Option. Payment accompanying the notice of Option must be made in cash or its equivalent (including personal check).

9. EMPLOYEE'S REPRESENTATION

The issuance of Shares upon any exercise of this Option may be postponed until (a) the Corporation has completed the registration, stock exchange listing or other qualification, if any, of such Stock under federal and state laws, rules and regulations, or such other arrangements as are deemed appropriate or (b) Shares in the open market have been acquired in compliance with federal and state laws, rules and regulations sufficient in number to issue pursuant to such exercise. The Employee or other person exercising this Option may be required to make such representations, enter into such agreements and undertakings, including but not limited to execution of stock powers, and furnish such information and other documents as it may consider appropriate and in compliance with applicable law.

10. TAX WITHHOLDING

At the time of exercise, the Corporation will withhold applicable taxes as required by law. An Employee must pay the withholding tax in cash at the time of exercise, or, subject to the continuing approval of the Committee, may elect to have shares applied to satisfy the withholding obligation. If the Employee is an Insider, the Employee's ability to elect to satisfy his/her withholding obligations by applying shares may be limited by the federal securities laws. To the extent that cash is not timely tendered, an Employee will be deemed to have elected to pay the withholding tax in Stock. If the Employee is an Insider, in situations where the federal securities laws limit the Employee's ability to elect such treatment, having such treatment deemed to occur may have adverse consequences. Stock tendered in satisfaction of the withholding obligation will be valued at the Fair Market Value determined by the closing price as of the most recent closing prior to exercise as such closing price is reported in the Wall Street Journal. Withholding will be at the minimum rate prescribed by law; therefore, an Employee may owe additional taxes as a result of the exercise of an Option. An Employee who is paying the withholding tax in cash may pay the withholding at greater than the minimum rate. An Employee who elects to have shares applied to satisfy the withholding obligation may not request tax to be withheld at greater than the minimum rate.

11. CHANGE IN CONTROL

In the event of a change in control of the Corporation, as defined in Section 10 of the Plan, then the vesting date of all outstanding Options shall be accelerated so as to cause all outstanding Options to become exercisable.

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12. AMENDMENT AND TERMINATION OF PLAN OR AWARDS

As provided in Section 8 of the Plan, subject to certain limitations contained within Section 8, the Board of Directors may at any time amend, suspend or discontinue the Plan and the Committee may at any time alter or amend all Award Agreements under the Plan. Notwithstanding Section 8 of the Plan, no such amendment, suspension or discontinuance of the Plan or alteration or amendment of this Award Agreement shall, except with your express written consent, adversely affect any Option granted under this Award Agreement.

13. EXECUTION OF AWARD AGREEMENT

No Option granted under this Award Agreement is exercisable nor is this Award Agreement enforceable until this Award Agreement has been fully executed by this Corporation and the Employee. By executing this Award Agreement, the Employee shall be deemed to have accepted and consented to any action taken under the Plan by the Committee, the Board of Directors or their delegates.

14. MISCELLANEOUS

(a) For the purpose of calculating the expiration date of Options granted under this Award Agreement, all Options will be deemed to expire at 4:30 p.m. Eastern Time on the day of expiration. Further, if the day an Option would otherwise expire is not a business day then such Options will be deemed to expire at 4:30 p.m. Eastern Time on the next succeeding business day. For this purpose, the term business day shall be deemed to mean a day upon which the Corporation is conducting business.

(b) An Employee on leave of absence will be considered as still in the employ of the Corporation unless otherwise provided in an agreement between the Employee and the Corporation.

(c) Nothing contained in this Award Agreement or in any Option granted hereunder shall confer upon any Employee any right of continued employment by the Corporation, expressed or implied, nor limit in any way the right of the Corporation to terminate the Employee’s employment at any time.

(d) An Employee or the person or persons to whom the Employee’s rights under this Option shall have passed by will or by the laws of descent and distribution, as the case may be, shall have no rights as a shareholder with respect to any securities covered by this Award Agreement until the date the Employee becomes the holder of record.

(e) Except as provided under Section 6(d) herein, neither this Option nor any of the rights or obligations hereunder shall be assigned or delegated by either party hereto.

15. NOTICES

Notices and all other communications provided for in this Award Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employee, to the address set forth in the first paragraph in this Award Agreement.

If to the Corporation, to:

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

or to such other address or such other person as the Employee or the Corporation shall designate in writing in accordance with this Section 15, except that notices regarding changes in notices shall be effective only upon receipt.

16. GOVERNING LAW

This Award Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF, the Corporation has caused this Award Agreement to be executed and the Employee has hereunto set his hand as of the day and year first above written.

Martin Marietta Materials, Inc.
By: ______________________________
Corporate Secretary

Employee

____
(Employee's Signature)

EXHIBIT 10.21

MARTIN MARIETTA MATERIALS, INC.

RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (the "Award Agreement"), made as of ___ between Martin Marietta Materials, Inc., a North Carolina corporation (the "Corporation"), and ___ (the "Employee").

1. GRANT

Pursuant to the Martin Marietta Materials, Inc. Amended and Restated Stock-Based Award Plan (the "Plan"), the Corporation hereby grants the Employee ___ Restricted Stock Units on the terms and conditions contained in this Award Agreement, and subject to the terms and conditions of the Plan. The term "Restricted Stock Unit" or "Unit(s)" as used in this Award Agreement refers only to the Restricted Stock Units awarded to the Employee under this Award Agreement.

2. GRANT DATE

The Grant Date is

3. RESTRICTION PERIOD

Subject to the terms and conditions hereof and of the Plan, the restriction period begins on the Grant Date and ends on ___ (the "Vesting Date").

4. DIVIDENDS

The Corporation will make a cash payment to each Employee equal to the dividend paid on a share of the Corporation's common stock for each dividend record date during the year multiplied by the number of Restricted Stock Units. These dividend equivalent amounts shall be paid quarterly at the same time as dividends are paid on shares of the Corporation's common stock. The dividend equivalent amounts shall be paid from the general assets of the Corporation and shall be treated and reported as additional compensation for the year in which payment is made.

5. AWARD PAYOUT

The grant of ___ Restricted Stock Units will be converted to shares of Martin Marietta Materials, Inc. common stock as soon as practicable following the Vesting Date provided that the Employee is employed by the Corporation on the Vesting Date. The Vesting from Units to common stock will be one Unit for one share of common stock.

6. TRANSFERABLE ONLY UPON DEATH

This Restricted Stock Unit grant shall not be assignable or transferable by the Employee except by will or the laws of descent and distribution.

7. TERMINATION, RETIREMENT, DISABILITY OR DEATH

(a) Termination. If the Employee's employment with the Corporation is terminated prior to the Vesting Date, whether by the employee or by the Corporation, and in the latter case whether with or without cause, then the Units will be forfeited upon such termination.

(b) Retirement or Disability. If the Employee's employment with the Corporation is terminated prior to the Vesting Date upon Retirement (as defined below) or as the result of a disability under circumstances entitling the Employee to the commencement of benefits under a long-term disability plan maintained by the Corporation ("Disability"), then the terms of all outstanding Units shall be unaffected by such retirement or disability; provided, however, that in the case of the Employee's termination on account of Retirement or Disability, if the Vesting Date occurs following such termination but before the date which is six months following such termination, the Vesting Date shall be postponed until the date that is six months following such termination. "Retirement" is defined as termination of employment with the Corporation after reaching age 62; provided, that, the Compensation Committee of the Board of Directors may in its sole discretion classify an Employee's termination of employment as Retirement under other circumstances.

(c) Death. If, prior to the Vesting Date, the Employee dies while employed by the Corporation or after termination by reason of Disability, then the restriction period shall be accelerated so as to cause all outstanding Units to be converted to common shares.

(d) Committee Negative Discretion. The Compensation Committee of the Board of Directors may in its sole discretion decide to reduce or eliminate any amount otherwise payable with respect to an award under Sections 7(b) or 7(c).

8. TAX WITHHOLDING

At the time of Vesting, the Employee will recognize ordinary income equal to the fair market value of the common shares received. The Corporation shall withhold applicable taxes as required by law at the time of such Vesting by deducting shares of common stock from the payment to satisfy the obligation prior to the delivery of the certificates for common shares. Withholding will be at the minimum rates prescribed by law; therefore, the Employee may owe additional taxes as a result of the distribution. The Employee may not request tax to be withheld at greater than the minimum rate.

9. CHANGE IN CONTROL

In the event of a change in control of the Corporation, as defined in Section 11 of the Plan, the restriction period of all outstanding Units shall be accelerated so as to cause all outstanding Units to convert to shares of common stock.

10. AMENDMENT AND TERMINATION OF PLAN OR AWARDS

As provided in Section 8 of the Plan, subject to certain limitations contained within Section 8, the Board of Directors may at any time amend, suspend or discontinue the Plan and the Compensation Committee of the Board of Directors may at any time alter or amend all Award Agreements under the Plan. Notwithstanding Section 8 of the Plan, no such amendment, suspension or discontinuance of the Plan or alteration or amendment of this Award Agreement shall, except with the Employee's express

written consent, adversely affect any Restricted Stock Unit granted under this Award Agreement, unless such amendment is for the purpose of causing the Plan, this Agreement or the payments hereunder to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

11. EXECUTION OF AWARD AGREEMENT

No Restricted Stock Unit granted under this Award Agreement is distributable nor is this Award Agreement enforceable until this Award Agreement has been fully executed by the Corporation and the Employee. By executing this Award Agreement, the Employee shall be deemed to have accepted and consented to any action taken under the Plan by the Compensation Committee, the Board of Directors or their delegates.

12. MISCELLANEOUS

(a) Nothing contained in the Award Agreement confers on the Employee the rights of a shareholder with respect to this Restricted Stock Unit award during the restriction period.

(b) For the purpose of calculating the expiration of the restriction period for the Units granted under this Award Agreement, all Units' restrictions will be deemed to lapse at 4:30 p.m. Eastern Time on the Vesting Date. Further, if the day a Unit's restrictions would otherwise lapse is not a business day then such Unit's restrictions will be deemed to lapse at 4:30 p.m. Eastern Time on the next succeeding business day. For this purpose, the term business day shall be deemed to mean a day upon which the Corporation is conducting business.

(c) For purposes of this Award Agreement, the Employee will be considered to be in the employ of the Corporation during an approved leave of absence unless otherwise provided in an agreement between the Employee and the Corporation.

(d) Nothing contained in this Award Agreement or in any Restricted Stock Unit granted hereunder shall confer upon any Employee any right of continued employment by the corporation, expressed or implied, nor limit in any way the right of the Corporation to terminate the Employee's employment at any time.

(e) Except as provided under Section 6 herein, neither this Unit nor any of the rights or obligations hereunder shall be assigned or delegated by either party hereto.

13. NOTICES

Notices and all other communications provided for in this Award Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by overnight mail courier service, postage prepaid, addressed as follows:

If to the Employee, to the address set forth

in the first paragraph in this Award Agreement.

If to the Corporation, to:
Martin Marietta Materials, Inc.
2710 Wycliff Road
Raleigh, NC 27607
Fax: (919) 783-4535
Attn: Corporate Secretary

or to such other address or such other person as the Employee or the Corporation shall designate in writing in accordance with this Section 13, except that notices regarding changes in notices shall be effective only upon receipt.

14. GOVERNING LAW

This Award Agreement shall be governed by the laws of the State of North Carolina.

IN WITNESS WHEREOF, the Corporation has caused this Award Agreement to be executed and the Employee has hereunto set his hand as of the day and year first above written.

MARTIN MARIETTA MATERIALS, INC.

By: ____________________
Corporate Secretary

EMPLOYEE

By: ____________________
(Employee’s Signature)

EXHIBIT 12.01

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

For the Year Ended December 31, 2004

EARNINGS	
Earnings before income taxes	$ 187,819
Earnings of less than 50%-owned associated companies, net	417
Interest Expense	42,954
Portion of rents representative of an interest factor	9,910
Adjusted Earnings and Fixed Charges	**$ 241,100**
FIXED CHARGES:	
Interest Expense	$ 42,954
Capitalized Interest	1,101
Portion of rents representative of an interest factor	9,910
Total Fixed Charges	**$ 53,965**
Ratio of Earnings to Fixed Charges	4.47

STATEMENT OF FINANCIAL RESPONSIBILITY

Shareholders
Martin Marietta Materials, Inc.

The management of Martin Marietta Materials, Inc., is responsible for the consolidated financial statements, the related financial information contained in this 2004 Annual Report and the establishment and maintenance of adequate internal control over financial reporting. The consolidated balance sheets for Martin Marietta Materials, Inc., at December 31, 2004 and 2003, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004, include amounts based on estimates and judgments and have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis.

A system of internal control over financial reporting is designed to provide reasonable assurance, in a cost-effective manner, that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, accountability for assets is maintained and financial statements are prepared and presented fairly in accordance with accounting principles generally accepted in the United States. Internal control systems over financial reporting have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation operates in an environment that establishes an appropriate system of internal control over financial reporting and ensures that the system is maintained, assessed and monitored on a periodic basis. This internal control system includes examinations by internal audit staff and oversight by the Audit Committee of the Board of Directors.

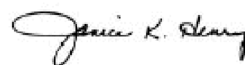
The Corporation's management recognizes its responsibility to foster a strong ethical climate. Management has issued written policy statements that document the Corporation's business code of ethics. The importance of ethical behavior is regularly communicated to all employees through the distribution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

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

Management of Martin Marietta Materials, Inc., assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment under the framework in *Internal Control — Integrated Framework,* management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2004.

The consolidated financial statements and management's assertion regarding its assessment of internal control over financial reporting have been audited by Ernst & Young LLP, an independent registered public accounting firm, whose reports appear on the following pages.

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



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

February 21, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Martin Marietta Materials, Inc.

We have audited management's assessment, included in the accompanying Statement of Financial Responsibility, that Martin Marietta Materials, Inc., maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Martin Marietta Materials, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Martin Marietta Materials, Inc., maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Martin Marietta Materials, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Martin Marietta Materials, Inc., and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 of Martin Marietta Materials, Inc., and subsidiaries and our report dated February 21, 2005 expressed an unqualified opinion thereon.

Ernst + Young LLP

Raleigh, North Carolina

February 21, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Martin Marietta Materials, Inc.

We have audited the accompanying consolidated balance sheets of Martin Marietta Materials, Inc., and subsidiaries at December 31, 2004 and 2003, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note N to the consolidated financial statements, in 2003 the Corporation adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations,* and changed its method of accounting for asset retirement obligations. As discussed in Note B to the consolidated financial statements, in 2002 the Corporation adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* and changed its method of accounting for intangible assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Martin Marietta Materials, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2005 expressed an unqualified opinion thereon.

Ernst + Young LLP

Raleigh, North Carolina

February 21, 2005

CONSOLIDATED STATEMENTS OF EARNINGS *for years ended December 31*

(add 000, except per share)	**2004**	2003	2002
Net Sales	**$1,551,327**	$1,476,146	$1,400,386
Freight and delivery revenues	**208,286**	208,402	188,167
Total revenues	**1,759,613**	1,684,548	1,588,553
Cost of sales	**1,209,137**	1,166,617	1,112,935
Freight and delivery costs	**208,286**	208,402	188,167
Total cost of revenues	**1,417,423**	1,375,019	1,301,102
Gross Profit	**342,190**	309,529	287,451
Selling, general and administrative expenses	**127,676**	120,540	113,300
Research and development	**891**	612	369
Other operating (income) and expenses, net	**(12,969)**	(7,078)	(4,709)
Earnings from Operations	**226,592**	195,455	178,491
Interest expense	**42,954**	42,587	44,028
Other nonoperating (income) and expenses, net	**(1,084)**	429	11,476
Earnings from continuing operations before taxes on income and cumulative effect of change in accounting principle	**184,722**	152,439	122,987
Taxes on income	**56,543**	45,198	32,161
Earnings from Continuing Operations before Cumulative Effect of Change in Accounting Principle	**128,179**	107,241	90,826
Gain (Loss) on discontinued operations, net of related tax effect of $2,113, $(2,693) and $ 14,294, respectively	**984**	(6,744)	6,989
Earnings before Cumulative Effect of Change in Accounting Principle	**129,163**	100,497	97,815
Cumulative effect of change in accounting for asset retirement obligations, net of related tax benefit of $4,498	**—**	(6,874)	—
Cumulative effect of change in accounting for intangible assets	—	—	(11,510)
Net Earnings	**$ 129,163**	$ 93,623	$ 86,305
Net Earnings Per Common Share			
- Basic from continuing operations before cumulative effect of change in accounting principle	**$ 2.66**	$ 2.19	$ 1.87
- Discontinued operations	**0.02**	(0.14)	0.14
- Basic before cumulative effect of change in accounting principle	**2.68**	2.05	2.01
- Cumulative effect of change in accounting principle	—	(0.14)	(0.24)
	$ 2.68	$ 1.91	$ 1.77
- Diluted from continuing operations before cumulative effect of change in accounting principle	**$ 2.64**	$ 2.19	$ 1.86
- Discontinued operations	**0.02**	(0.14)	0.14
- Diluted before cumulative effect of change in accounting principle	**2.66**	2.05	2.00
- Cumulative effect of change in accounting principle	—	(0.14)	(0.23)
	$ 2.66	$ 1.91	$ 1.77
Weighted-Average Common Shares Outstanding			
- Basic	**48,142**	48,905	47,727
- Diluted	**48,534**	49,136	48,858
Cash Dividends Per Common Share	**$ 0.76**	$ 0.69	$ 0.58

The notes on pages 17 to 33 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS *at December 31*

Assets *(add 000}*	**2004**	2003
Current Assets:		
Cash and cash equivalents	**$ 161,620**	$ 125,133
Accounts receivable, net	**219,589**	231,514
Inventories, net	**209,309**	213, 843
Current portion of notes receivable	**4,655**	3,064
Current deferred income tax benefits	**5,750**	21,603
Other current assets	**23,330**	15,494
Total Current Assets	**624,253**	610,651
Property, plant and equipment, net	**1,065,215**	1,042,432
Goodwill	**567,495**	577,586
Other intangibles, net	**18,642**	25,142
Noncurrent notes receivable	**26,501**	17,668
Other noncurrent assets	**53,746**	45,746
Total Assets	**$2,355,852**	$2,319,225

Liabilities and Shareholders' Equity *(add 000, except parenthetical share data)*		
Current Liabilities:		
Bank overdraft	**$ 9,527**	$ 11,264
Accounts payable	**89,949**	76,576
Accrued salaries, benefits and payroll taxes	**22,710**	29,287
Pension and postretirement benefits	**4,199**	36,176
Accrued insurance and other taxes	**35,904**	37,927
Income taxes	**10,697**	2,833
Current maturities of long-term debt	**970**	1,068
Other current liabilities	**29,857**	27,620
Total Current Liabilities	**203,813**	222,751
Long-term debt	**713,661**	717,073
Pension, postretirement and postemployment benefits	**88,241**	76,917
Noncurrent deferred income taxes	**139,179**	116,647
Other noncurrent liabilities	**57,531**	55,990
Total Liabilities	**1,202,425**	1,189,378
Shareholders' Equity:		
Common stock ($0.01 par value; 100,000,000 shares authorized; 47,306,000 and 48,670,000 shares outstanding at December 31, 2004 and 2003, respectively)	**472**	486
Preferred stock ($0.01 par value; 10,000,000 shares authorized; no shares outstanding)	**—**	—
Additional paid-in capital	**366,626**	435,412
Accumulated other comprehensive loss	**(8,970)**	(8,694)
Retained earnings	**795,299**	702,643
Total Shareholders' Equity	**1,153,427**	1,129,847
Total Liabilities and Shareholders' Equity	**$2,355,852**	$2,319,225

CONSOLIDATED STATEMENTS OF CASH FLOWS *for years ended December 31*

(add 000)	**2004**	2003	2002
Cash Flows from Operating Activities:			
Net earnings	**$ 129,163**	$ 93,623	$ 86,305
Cumulative effect of change in accounting principle	**—**	6,874	11,510
Earnings before cumulative effect of change in accounting principle	**129,163**	100,497	97,815
Adjustments to reconcile earnings to cash provided by operating activities:			
Depreciation, depletion and amortization	**132,859**	139,606	138,696
Gains on divestitures and sales of assets	**(17,126)**	(4,399)	(24,155)
Deferred income taxes	**38,544**	16,651	23,816
Other items, net	**(913)**	(299)	1,124
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable, net	**11,926**	(1,887)	(15,178)
Inventories, net	**786**	18,039	(14,329)
Accounts payable	**13,374**	4,047	(7,531)
Other assets and liabilities, net	**(41,772)**	4,914	3,302
Net Cash Provided by Operating Activities	**266,841**	277,169	203,560
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	**(163,445)**	(120,638)	(152,680)
Acquisitions, net	**(5,567)**	(8,618)	(47,970)
Proceeds from divestitures and sales of assets	**45,687**	29,478	97,731
Net Cash Used for Investing Activities	**(123,325)**	(99,778)	(102,919)
Cash Flows from Financing Activities:			
Repayments of long-term debt	**(1,065)**	(4,156)	(5,399)
Repayments of commercial paper and line of credit net	**—**	(25,713)	(69,287)
Change in bank overdraft	**(1,737)**	(3,538)	(7,416)
Termination of interest rate swaps	**—**	12,581	—
Dividends paid	**(36,507)**	(33,714)	(28,278)
Repurchases of common stock	**(71,507)**	(13,253)	—
Issuances of common stock	**3,787**	1,037	640
Net Cash Used for Financing Activities	**(107,029)**	(66,756)	(109,740)
Net Increase (Decrease) in Cash and Cash Equivalents	**36,487**	110,635	(9,099)
Cash and Cash Equivalents, beginning of year	**125,133**	14,498	23,597
Cash and Cash Equivalents, end of year	**$ 161,620**	$ 125,133	$ 14,498

The notes on pages 17 to 33 are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(add 000)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2001	48,549	$ 485	$ 437,020	$ —	$584,707	$1,022,212
Net earnings	—	—	—	—	86,305	86,305
Minimum pension liability, net of tax	—	—	—	(7,365)	—	(7,365)
Comprehensive earnings						78,940
Dividends declared	—	—	—	—	(28,278)	(28,278)
Issuances of common stock for acquisitions	244	2	8,132	—	—	8,134
Issuances of common stock for stock award plans	49	1	2,001	—	—	2,002
Balance at December 31, 2002	48,842	488	447,153	(7,365)	642,734	1,083,010
Net earnings	—	—	—	—	93,623	93,623
Minimum pension liability, net of tax	—	—	—	(1,329)	—	(1,329)
Comprehensive earnings						92,294
Dividends declared	—	—	—	—	(33,714)	(33,714)
Issuances of common stock for stock award plans	159	1	3,273	—	—	3,274
Repurchases of common stock	(331)	(3)	(15,014)	—	—	(15,017)
Balance at December 31, 2003	48,670	486	435,412	(8,694)	702,643	1,129,847
Net earnings	**—**	**—**	**—**	**—**	**129,163**	**129,163**
Minimum pension liability, net of tax	**—**	**—**	**—**	**(276)**	**—**	**(276)**
Comprehensive earnings						**128,887**
Dividends declared	**—**	**—**	**—**	**—**	**(36,507)**	**(36,507)**
Issuances of common stock for stock award plans	**158**	**1**	**5,923**	**—**	**—**	**5,924**
Repurchases of common stock	**(1,522)**	**(15)**	**(74,709)**	**—**	**—**	**(74,724)**
Balance at December 31, 2004	**47,306**	**$ 472**	**$ 366,626**	**$ (8,970)**	**$795,299**	**$1,153,427**

The notes on pages 17 to 33 are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A: Accounting Policies

Organization. Martin Marietta Materials, Inc. (the “Corporation”) is engaged principally in the construction aggregates business. Aggregates products are used primarily for construction of highways and other infrastructure projects, and in the domestic commercial and residential construction industries. The Corporation’s aggregates, asphalt products and ready mixed concrete are sold and shipped from a network of 325 quarries, distribution facilities and plants to customers in 32 states, Canada and the Caribbean. Texas, North Carolina, Georgia, Iowa and Indiana account for approximately 57% of total 2004 net sales. In addition, the Corporation has a Specialty Products segment that produces magnesia-based chemicals products used in industrial, agricultural and environmental applications; dolomitic lime sold primarily to customers in the steel industry; and structural composite products used in a wide variety of industries.

Basis of Consolidation. The consolidated financial statements include the accounts of the Corporation and its wholly owned and majority-owned subsidiaries. Partially owned affiliates are either consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities* (“FIN 46”), or accounted for at cost or as equity investments depending on the level of ownership interest or the Corporation’s ability to exercise control over the affiliates’ operations. Intercompany balances and transactions have been eliminated in consolidation.

The Corporation is a minority member of a limited liability company whereby the majority member is paid a preferred annual return. The Corporation has the ability to redeem the majority member’s interest after the lapse of a specified number of years. The Corporation consolidates the limited liability company in its consolidated financial statements.

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

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

Cash and Cash Equivalents. Cash equivalents are comprised of highly liquid instruments with original maturities of three months or less from the date of purchase. Additionally, at December 31, 2004 and 2003, cash of $7,520,000 and $10,440,000, respectively, was held in an unrestricted escrow account on behalf of the Corporation. These cash balances are reported in other noncurrent assets.

Customer Receivables. Customer receivables are stated at cost. The Corporation does not charge interest on customer accounts receivable. The Corporation records an allowance for doubtful accounts, which includes a general reserve based on historical write offs and a specific reserve for accounts greater than $50,000 deemed at risk.

Inventories Valuation. Inventories are stated at the lower of cost or market. Cost for finished products and in process inventories is determined by the first-in, first-out method.

Notes Receivable. Notes receivable are stated at cost. The Corporation records an allowance for notes receivable deemed uncollectible. At December 31, 2004 and 2003, the allowance for uncollectible notes receivable was $737,000 and $602,000, respectively.

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

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

The Corporation begins capitalizing quarry development costs at a point when reserves are determined as proven and probable, economically mineable by the Corporation’s geological and operational staff and when demand supports investment in the market. Quarry development costs are included in mineral reserves.

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

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

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

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

The Corporation's reporting units, which represent the level at which goodwill is tested for impairment under FAS 142, are based on its geographic regions. Goodwill is allocated to the reporting units based on the location of acquisitions and divestitures at the time of consummation.

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

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

Derivatives. The Corporation recognizes derivatives as either assets or liabilities in its consolidated balance sheets and measures those instruments at fair value. The Corporation's derivatives are interest rate swaps, which represent fair value hedges. The Corporation's objective for holding these derivatives is to balance its exposure to the fixed and variable interest rate markets. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 1 33"), these hedges are considered perfectly effective, and no net gain or loss is recorded for changes in the fair value of the interest rate swaps or the related debt.

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

years ended December 31 (add 000, except per share)	**2004**	2003	2002
Net earnings, as reported	**$129,163**	$93,623	$86,305
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	**1,244**	1,396	152
Deduct: Stock-based compensation expense determined under fair value for all awards, net of related tax effects	**(5,185)**	(5,847)	(6,755)
Pro forma net earnings	**$125,222**	$89,172	$79,702
Earnings per share:			
Basic-as reported	**$ 2.68**	$ 1.91	$ 1.77
Basic-pro forma	**$ 2.60**	$ 1.82	$ 1.64
Diluted-as reported	**$ 2.66**	$ 1.91	$ 1.77
Diluted-pro forma	**$ 2.58**	$ 1.81	$ 1.63

In 2004, the Corporation changed the model used for valuing stock options for options granted under the Corporation's stock-based compensation plans. The fair value of the 2004 option awards was determined using a lattice valuation model as opposed to the Black-Scholes valuation model used in prior years. The lattice model takes into account employees' exercise patterns based on changes in the Corporation's stock price and other variables and is considered to result in a better valuation of employee stock options. The Corporation assumed that all participants would exercise their vested options once the options reach 150% of their exercise price or at termination, retirement or death, if earlier. Other key assumptions used in determining the fair value of the stock options awarded in 2004 were a dividend yield of 1.68% and a volatility factor of 26.1%. For the 2004 option grant, the fair value calculated using the lattice model was $733,000 lower than the fair value calculated using the Black-Scholes model.

For awards granted in 2003 and prior years, the fair value was estimated as of the date of grant using a Black-Scholes valuation model with the following weighted-average assumptions:

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

Based on the assumptions, the weighted-average fair value of each award granted was $11.00, $11.47 and $12.90 for 2004, 2003 and 2002, respectively.

Environmental Matters. The Corporation accounts for asset retirement obligations in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). In accordance with FAS 143, a liability for an asset retirement obligation is recorded at fair value in the period in which it is incurred (see Note N). The asset retirement obligation is recorded at the acquisition date of a long-lived tangible asset if the fair value can be reasonably estimated. A corresponding amount is capitalized as part of the asset's carrying amount.

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

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

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

Start-Up Costs. Preoperating costs and noncapital startup costs for new facilities and products are charged to operations as incurred.

Comprehensive Earnings. Comprehensive earnings for the Corporation consists of net earnings and, for 2004 and 2003, respectively, $276,000 and $1,329,000 for the increase in the minimum pension liability, which is net of income tax benefits of $181,000 and $870,000, respectively.

Earnings Per Common Share. Basic earnings per common share are based on the weighted-average number of common shares outstanding during the year. Diluted

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

(add 000)	**2004**	2003	2002
Basic Earnings per Common Share:			
Weighted-average number of shares	**48,142**	48,905	48,727
Effect of Dilutive Securities:			
Employee and Director awards	**392**	231	131
Diluted Earnings per Common Share:			
Weighted-average number of shares and assumed conversions	**48,534**	49,136	48,858

Accounting Changes. In January 2003, the Financial Accounting Standards Board (“FASB”) issued FIN 46 which requires a new approach in determining if a reporting entity consolidates certain legal entities referred to as variable interest entities (“VIEs”), including joint ventures, limited liability companies and equity investments, in which it has invested. Under FIN 46, consolidation of a VIE is required by the investor that absorbs a majority of the entity’s expected losses or receives a majority of the entity’s residual returns, or both. FIN 46 was effective as of March 31, 2004 for the Corporation. The adoption of FIN 46 was not material to the Corporation’s financial position or results of operations.

In May 2004, the FASB issued Staff Position FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (“FSP FAS 106-2”), which provides guidance on how companies should account for the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) on its postretirement health care plans. To encourage employers to retain or provide postretirement drug benefits, beginning in 2006, the federal government will provide non-taxable subsidy payments to employers that sponsor prescription drug benefits to retirees that are “actuarially equivalent” to the Medicare benefit. The Corporation has determined that its postretirement health care plans’ prescription drug benefits are actuarially equivalent to Medicare Part D benefits to be provided under the Act. Effective July 1, 2004, the Corporation adopted the accounting guidance of FSP FAS 106-2, which reduced its postretirement health care plans’ accumulated postretirement benefit obligation by $3,003,000 and 2004 annual expense by $174,000.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (“FAS 123(R)”), which is a revision of FAS 123. FAS 123(R) supercedes APB No. 25 and amends FASB Statement No. 95, *Statement of Cash Flows,* and requires all forms of share-based payments to employees, including employee stock options, to be recognized as compensation expense. The compensation expense of the awards is measured at fair value at the grant date. FAS 123(R) is effective July 1, 2005 for the Corporation. The Corporation expects to adopt the provisions of the statement using the modified prospective transition method, which would recognize stock option awards as compensation expense for unvested awards as of july 1, 2005 and awards subsequent to that date. The 2005 impact of the adoption of FAS 123(R) on the Corporation’s results of operations will depend on the levels of share-based payments granted in 2005. If the Corporation had adopted FAS 123(R) in prior periods, net earnings would have been reduced by approximately $3,900,000, $4,500,000 and $6,600,000 in 2004, 2003 and 2002, respectively (see Note A - Stock-Based Compensation).

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* ("FAS 151"). The amendments made by FAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period charges and require the allocation of fixed production overhead to inventory to be based on the normal capacity of the underlying production facilities. FAS 151 is effective for fiscal years beginning after June 15, 2005. The adoption of FAS 151 is not expected to have a material impact on the Corporation's net earnings or financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* ("FAS 153"). The amendments made by FAS 153 require that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Currently, the accounting for an exchange of a productive asset for a similar productive asset is based on the recorded amount of the asset relinquished. FAS 153 is effective for fiscal periods beginning after June 15, 2005. The adoption of FAS 153 is not expected to have a material impact on the Corporation's net earnings or financial position.

Reclassifications. Certain 2003 and 2002 amounts have been reclassed to conform to the 2004 presentation. The reclassifications had no impact on previously reported net earnings or financial position.

Note B: Intangible Assets

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

(add 000)	**2004**	2003
Balance at beginning of period	**$577,586**	$577,449
Acquisitions	**4,384**	5,242
Adjustments to purchase price allocations	**902**	(495)
Amounts allocated to divestitures	**(15,377)**	(4,610)
Balance at end of period	**$567,495**	$577,586

In 2002, the Corporation recorded an impairment charge of $11,510,000, which represented the cumulative effect of adopting FAS 142 and related to the road paving business reporting unit. This business was acquired as supplemental operations to larger acquisitions, does not represent a strategic business of the Corporation and has incurred operating losses since acquisition. The fair value of this reporting unit was determined using a discounted cash flow model. At January 1, 2002, the carrying value of the reporting unit exceeded its fair value. The impairment charge represented all of the goodwill related to this reporting unit.

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

(add 000)	**2004**		
	Gross Amount	**Accumulated Amortization**	**Net Balance**
Noncompetition agreements	**$26,790**	**$ (18,861)**	**$ 7,929**
Trade names	**4,331**	**(2,206)**	**2,125**
Supply agreements	**900**	**(706)**	**194**
Use rights and other	**16,026**	**(7,832)**	**8,194**
Total	**$48,047**	**$ (29,605)**	**$ 18,442**

	2003		
	Gross Amount	**Accumulated Amortization**	**Net Balance**
Noncompetition agreements	$30,410	$ (18,605)	$ 11,805
Trade names	6,067	(2,091)	3,976
Supply agreements	900	(623)	277
Use rights and other	15,921	(7,037)	8,884
Total	$53,298	$ (28,356)	$ 24,942

At December 31, 2004 and 2003, the Corporation had water use rights of $200,000 that are deemed to have an indefinite life and are not being amortized.

During 2004 and 2003, the Corporation acquired $350,000 and $2,029,000, respectively, of other intangibles, consisting of licensing agreements, that are subject to amortization. The weighted-average amortization period for these licensing agreements is 10.0 and 5.4 years in 2004 and 2003, respectively.

Total amortization expense for intangible assets for the years ended December 31, 2004, 2003 and 2002 was $4,677,000, $5,840,000 and $6,102,000, respectively.

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

(add 000)	
2005	$ 3,846
2006	3,217
2007	2,252
2008	1,437
2009	1,051
Thereafter	6,639
Total	$18,442

Note C: Business Combinations and Divestitures

In 2004, the Corporation disposed of various nonstrategic operations in its Aggregates segment in markets in Tennessee, Louisiana, Washington, Oklahoma, California and Alabama. These divestitures represent discontinued operations, and, therefore, the results of their operations through the dates of disposal and any gain or loss on disposals are included in discontinued operations on the consolidated statements of earnings.

The discontinued operations included the following net sales, pretax loss on operations, pretax gain on disposals, income tax expense or benefit and net gain or loss:

years ended December 31 (add 000)	**2004**	2003	2002
Net sales	**$15,790**	$ 61,723	$97,794
Pretax loss on operations	**$ (3,630)**	$(11,231)	$ (338)
Pretax gain on disposals	**6,727**	1,794	21,621
Pretax gain (loss)	**3,097**	(9,437)	21,283
Income tax expense (benefit)	**2,113**	(2,693)	14,294
Net gain (loss)	**$ 984**	$ (6,744)	$ 6,989

On October 29, 2004, the Corporation divested locations comprising approximately 70% of its sales of asphalt in the Houston, Texas area for consideration that included a note receivable with final payment due September 30, 2008. In connection with the divestiture, the Corporation entered into a supply agreement to sell aggregates to the buyer at market rates. The divestiture is included in continuing operations because of the Corporation’s continuing financial interest in the Houston asphalt market, as well as the related financing.

During 2004, the Corporation acquired the remaining interest in an LLC from a majority member for $5,567,000.

Note D: Accounts Receivable, Net

December 31 (add 000)	**2004**	2003
Customer receivables	**$221,954**	$230,841
Other current receivables	**4,140**	5,267
	226,094	236,108
Less allowances	**(6,505)**	(4,594)
Total	**$219,589**	$231,514

Bad debt expense was $3,574,000, $623,000 and $3,018,000 in 2004, 2003 and 2002, respectively, and is recorded in other operating income and expenses, net, on the consolidated statements of earnings.

During 2004, the Corporation increased its allowance for doubtful accounts. The change in allowance decreased net earnings by approximately $1,200,000, or $0.02 per diluted share. During 2003, the Corporation decreased its allowance for doubtful accounts. The change in allowance increased net earnings by approximately $1,900,000, or $0.04 per diluted share. These changes in estimates, which are recorded in bad debt expense, primarily resulted from changes in the level of specific accounts deemed at risk.

Note E: Inventories, Net

December 31 (add 000)	**2004**	2003
Finished products	**$173,013**	$183,479
Products in process and raw materials	**17,412**	12,535
Supplies and expendable parts	**24,347**	23,819
	214,772	219,833
Less allowances	**(5,463)**	(5,990)
Total	**$209,309**	$213,843

Note F: Property, Plant and Equipment, Net

December 31 (add 000)	**2004**	2003

	2004	2003
Land and improvements	**$ 299,729**	$ 280,926
Mineral reserves	**190,247**	184,955
Buildings	**85,075**	80,571
Machinery and equipment	**1,674,476**	1,611,403
Construction in progress	**60,010**	47,610
	2,309,537	2,205,465
Less allowances for depreciation and depletion	**(1,244,322)**	(1,163,033)
Total	**$ 1,065,215**	$ 1,042,432

At December 31, 2004 and 2003, the net carrying value of mineral reserves was $ 143,992,000 and $144,415,000, respectively.

Depreciation and depletion expense was $127,496,000, $133,090,000 and $131,926,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Interest cost of $1,101,000, $1,875,000 and $3,788,000 was capitalized during 2004, 2003 and 2002, respectively.

At December 31, 2004 and 2003, $76,030,000 and $76,435,000, respectively, of the Corporation's fixed assets were located in foreign countries, principally the Bahamas and Canada.

Note G: Long-Term Debt

December 31 (add 000)	**2004**	2003
6.875% Notes, due 2011	**$249,773**	$249,773
5.875% Notes, due 2008	**209,761**	212,251
6.9% Notes, due 2007	**124,982**	124,976
7% Debentures, due 2025	**124,279**	124,265
Acquisition notes, interest rates ranging from 2.11% to 9.00%	**4,725**	5,916
Other notes	**1,111**	960
Total	**714,631**	718,141
Less current maturities	**(970)**	(1,068)
Long-term debt	**$713,661**	$717,073

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

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

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

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

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

In May 2002, the Corporation entered into interest rate swap agreements related to $100 million of the Notes due in 2008. The swaps were with four separate financial institutions, each agreement covering $25 million of the Notes. The Corporation received a 5.875% fixed annual interest rate and paid a floating annual rate equal to six-month London Interbank Offer Rate ("LIBOR") plus an average of 0.235%. The terms of the swaps and the related Notes match, and other necessary conditions of FAS 133 were met. Therefore, the hedges were considered perfectly effective and qualified for the shortcut method of accounting.

In May 2003, the Corporation terminated its interest rate swap agreements and received a cash payment of $12,581,000, which represented the fair value of the swaps on the date of termination. The Corporation also received accrued interest of $2,152,000, which represented the difference between the fixed interest rate received and the variable interest paid from the previous interest payment date to the termination date. In accordance with generally accepted accounting principles, the carrying amount of the related Notes on the date of termination, which includes adjustments for changes in the fair value of the debt while the swaps were in effect, will be accreted back to its par value over the remaining life of the Notes. The accretion will decrease annual interest expense by approximately $2,000,000 until the maturity of the Notes in 2008. At December 31, 2004 and 2003, the unamortized value of the terminated swaps was $9,281,000 and $11,393,000, respectively.

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

the related Notes match and other necessary conditions of FAS 133 have been met. Therefore, the hedges are considered perfectly effective and qualify for the shortcut method of accounting. The Corporation is required to record the fair value of the swaps and the corresponding change in the fair value of the related Notes in its consolidated financial statements. At December 31, 2004 and 2003, the fair value of these interest rate swaps was $954,000 and $1,437,000, respectively. A corresponding amount is included in other noncurrent assets on the consolidated balance sheets.

The Corporation has a $275,000,000 five-year revolving credit agreement (the "Credit Agreement"), which is syndicated with a group of domestic and foreign commercial banks and expires in August 2006. Borrowings under the Credit Agreement are unsecured and bear interest, at the Corporation's option, at rates based upon: (i) the Euro-Dollar rate (as defined on the basis of a LIBOR) plus basis points related to a pricing grid; (ii) a bank base rate (as defined on the basis of a published prime rate or the Federal Funds Rate plus 1 /2 of 1 %); or (iii) a competitively determined rate (as defined on the basis of a bidding process). The Credit Agreement contains restrictive covenants relating to the Corporation's debt-to-total capitalization ratio, requirements for limitations on encumbrances and provisions that relate to certain changes in control. The Corporation pays an annual loan commitment fee to the bank group. No borrowings were outstanding under the Credit Agreement at December 31, 2004 and 2003.

The Credit Agreement supports a $275,000,000 commercial paper program, none of which was outstanding at December 31, 2004 or 2003.

Excluding interest rate swaps, the Corporation's long-term debt maturities for the five years following December 31, 2004, and thereafter are:

(add 000)	
2005	$ 970
2006	1,035
2007	125,782
2008	200,105
2009	497
Thereafter	376,007
Total	$704,396

Note H: Financial instruments

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

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

Customer receivables are due from a large number of customers who are dispersed across wide geographic and economic regions. However, customer receivables are more heavily concentrated in certain states (see Note A). The estimated fair values of customer receivables approximate their carrying amounts.

Notes receivable are primarily related to divestitures. At December 31, 2004, the Corporation had notes receivable related to a divestiture with a carrying value of $12,943,000. At December 31, 2003, the Corporation had no significant concentrations of credit risk. The notes receivable are not publicly traded. However, using current market interest rates, but excluding adjustments for credit worthiness, if any, management estimates that the fair value of notes receivable approximates its carrying amount.

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

The estimated fair value of the Corporation's publicly registered long-term notes and debentures at December 31, 2004 was approximately $765,450,000 compared with a carrying amount of $698,560,000 on the consolidated balance sheet. The estimated fair value and carrying amount exclude the impact of interest rate swaps. The fair value of this long-term debt was estimated based on quoted market prices for those instruments publicly traded. The estimated fair value of other borrowings of $5,836,000 at December 31, 2004 approximates its carrying amount.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	2004	
(add 000)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**$ 161,620**	**$161,620**
Accounts receivable, net	**$ 219,589**	**$219,589**
Notes receivable	**$ 31,156**	**$ 31,156**
Bank overdraft	**$ 9,527**	**$ 9,527**
Long-term debt, excluding interest rate swaps	**$ 704,396**	**$771,286**
Interest rate swaps in effect	**$ 954**	**$ 954**

	2003	
(add 000)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 125,133	$125,133
Accounts receivable, net	$ 231,514	$231,514
Notes receivable	$ 20,732	$ 20,732
Bank overdraft	$ 11,264	$ 11,264
Long-term debt, excluding interest rate swaps	$ 705,311	$785,754
Interest rate swaps in effect	$ 1,437	$ 1,437

Note I: Income Taxes

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

years ended December 31 (add 000)	**2004**	2003	2002
Federal income taxes:			
Current	**$ 9,472**	$18,011	$ 5,544
Deferred	**35,752**	19,436	20,546
Total federal income taxes	**45,224**	37,447	26,090
State income taxes:			
Current	**7,828**	1,595	734
Deferred	**1,815**	4,997	4,376
Total state income taxes	**9,643**	6,592	5,110
Foreign income taxes:			
Current	**992**	1,159	961
Deferred	**684**	—	—
Total foreign income taxes	**1,676**	1,159	961
Total provision	**$ 56,543**	$45,198	$32,161

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

years ended December 31	**2004**	2003	2002
Statutory tax rate	**35.0%**	35.0%	35.0%
Increase (reduction) resulting from:			
Effect of statutory depletion	**(8.2)**	(9.8)	(14.4)
State income taxes	**0.3**	2.8	2.7
Valuation allowance for state loss carryforwards	**3.1**	—	—
Goodwill write offs	**1.2**	—	—
Effect of foreign operations	**—**	0.6	2.1
Other items	**(0.8)**	1.0	0.7
Effective tax rate	**30.6%**	29.6%	26.1%

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

	Deferred Assets (Liabilities)	
(add 000)	**2004**	2003
Property, plant and equipment	**$(185,835)**	$(143,833)
Goodwill and other intangibles	**(15,544)**	(21,044)
Employee benefits	**39,112**	34,923
Valuation and other reserves	**12,030**	16,885
Inventories	**6,792**	6,308
Net operating loss carryforwards	**6,939**	—
Valuation allowance on deferred tax assets	**(5,711)**	—
Other items, net	**2,919**	6,029
Total	**$(139,298)**	$(100,732)

Additionally, the Corporation had a deferred tax asset of $5,869,000 and $5,688,000 at December 31, 2004 and 2003, respectively, related to its minimum pension liability.

Deferred tax liabilities for property, plant and equipment result from accelerated depreciation methods being used for income tax purposes as compared to the straight-line method for financial reporting purposes.

Deferred tax liabilities related to goodwill and other intangibles reflect the cessation of goodwill amortization for financial reporting purposes pursuant to FAS 142.

Deferred tax assets for employee benefits result from the timing differences of the deductions for pension and postretirement obligations. For financial reporting purposes, such amounts are expensed in accordance with Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("FAS 87"). For income tax purposes, such amounts are deductible as funded.

The Corporation had net operating loss carryforwards of $103,196,000 at December 31, 2004, primarily related to state income taxes and which have varying expiration dates. The Corporation had deferred tax assets of $6,939,000 for the net operating loss carryforwards and a related valuation allowance of $5,711,000 at December 31, 2004, all of which was established in 2004.

The Corporation has established $14,191,000 and $13,455,000 of reserves for taxes at December 31, 2004 and 2003, respectively, that may become payable in future years as a result of an examination by tax authorities. The reserves, which are included in current income taxes payable on the consolidated balance sheets, primarily relate to federal tax treatment of percentage depletion deductions,

acquisition and legal entity transaction structuring and transfer pricing, and state tax treatment of federal bonus depreciation deductions and certain transaction gains. The reserves are calculated based on probable exposures to additional tax payments to federal and state tax authorities. Tax reserves are reversed as a discrete event if an examination of applicable tax returns is not begun by a federal or state tax authority within the statute of limitations or upon completion of an audit by federal or state tax authorities.

Note J: Retirement Plans, Postretirement and Postemployment Benefits

The Corporation sponsors defined benefit retirement plans that cover substantially all employees. Additionally, the Corporation provides other postretirement benefits for certain employees, including medical benefits for retirees and their spouses (and Medicare Part B reimbursement) and retiree life insurance. The Corporation also provides certain benefits to former or inactive employees after employment but before retirement, such as workers' compensation and disability benefits.

The measurement date for the Corporation's defined benefit plans, postretirement benefit plans and postemployment benefit plans is November 30 for 2004 and December 31 for 2003. In 2004, the Corporation accelerated the date for actuarial measurement of its obligation from December 31 to November 30. The Corporation believes the one-month acceleration of the measurement date is a preferred change as it improves internal control procedures by allowing more time to review the completeness and accuracy of the actuarial benefit obligation measurements. The effect of the change in measurement date on the respective obligations and assets of the plans did not have a material cumulative effect on annual expense or accrued benefit costs.

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

The Corporation sponsors a Supplemental Excess Retirement Plan ("SERP") that generally provides for the payment of retirement benefits in excess of allowable Internal Revenue Code limits. In 2004, the SERP provided for a lump sum payment of vested benefits provided by the SERP unless the participant chooses to receive the benefits in the same manner that benefits are paid under the Corporation's defined benefit retirement plans.

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

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

years ended December 31 (add 000)	**2004**	2003	2002
Components of net periodic benefit cost:			
Service cost	**$ 10,434**	$ 9,073	$ 9,352
Interest cost	**15,513**	14,437	13,463
Expected return on assets	**(16,377)**	(10,648)	(12,826)
Amortization of:			
Prior service cost	**599**	605	617
Actuarial loss	**1,309**	1,634	48
Transition (asset) obligation	**(1)**	1	(14)
Net periodic benefit cost	**$ 11,477**	$ 15,102	$ 10,640

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

years ended December 31 (add 000)	**2004**	2003
Change in benefit obligation:		
Net benefit obligation at beginning of year	**$249,159**	$207,512
Service cost	**10,434**	9,073
Interest cost	**15,513**	14,437
Actuarial (gain) loss	**(728)**	26,806
Plan amendments	**1,625**	—
Gross benefits paid	**(8,507)**	(8,669)
Net benefit obligation at end of year	**$267,496**	$249,159

years ended December 31 (add 000)	**2004**	2003
Change in plan assets:		
Fair value of plan assets at beginning of year	**$165,570**	$126,091
Actual return on plan assets, net	**11,119**	27,090
Employer contributions	**51,220**	21,058
Gross benefits paid	**(8,507)**	(8,669)
Fair value of plan assets at end of year	**$219,402**	$165,570

December 31 (add 000)	**2004**	2003
Funded status of the plan at end of year	**$(48,094)**	$(83,589)
Unrecognized net actuarial loss	**54,675**	51,452
Unrecognized prior service cost	**4,023**	2,997
Unrecognized net transition asset	**(19)**	(20)
Minimum pension liability	**(18,844)**	(17,359)
Net accrued benefit cost	**$ (8,259)**	$(46,519)

December 31 (add 000)	**2004**	2003
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid benefit cost	**$ 17,331**	$ 207
Accrued benefit cost	**(6,746)**	(29,367)
Accrued minimum pension liability	**(18,844)**	(17,359)
Net amount recognized at end of year	**$ (8,259)**	$(46,519)

The Corporation recorded an intangible asset of $4,004,000 and $2,977,000 and accumulated other comprehensive loss, net of applicable taxes, of $8,970,000 and $8,694,000 at December 31, 2004 and 2003, respectively, related to the minimum pension liability. The intangible asset is included in other noncurrent assets.

The accumulated benefit obligation for all defined benefit pension plans was $227,691,000 and $212,079,000 at December 31, 2004 and 2003, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $266,920,000, $227,296,000 and $218,816,000, respectively, at December 31, 2004, and $248,638,000, $211,746,000 and $165,020,000, respectively, as of December 31, 2003.

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

	2004	2003
Discount rate	**6.00%**	6.25%
Rate of increase in future compensation levels	**5.00%**	5.00%

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

	2004	2003
Discount rate	**6.25%**	6.75%
Rate of increase in future compensation levels	**5.00%**	5.00%
Expected long-term rate of return on assets	**8.25%**	8.25%

The Corporation’s expected long-term rate of return on assets is based on historical rates of return for a similar mix of invested assets.

The pension plan asset allocation at December 31, 2004 and 2003 and target allocation for 2005 by asset category are as follow:

	Percent of Plan Assets		
	Target	December 31	
Asset Category	Allocation	**2004**	2003
Equity securities	60%	**62%**	63%
Debt securities	39%	**37%**	37%
Cash	1%	**1%**	—
Total	100%	**100%**	100%

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

The Corporation made contributions of $51,220,000 and $21,058,000 to its pension plan in 2004 and 2003, respectively. The Corporation does not expect to make any pension plan contributions in 2005.

The expected benefit payments to be paid from plan assets for each of the next five years and the five-year period thereafter are as follow:

(add 000)

2005	$ 9,242
2006	$ 9,806
2007	$ 10,513
2008	$ 11,408
2009	$ 12,396
Years 2010-2014	$ 83,055

Postretirement Benefits. The net periodic postretirement benefit cost of postretirement plans included the following components:

years ended December 31 (add 000)	**2004**	2003	2002
Components of net periodic benefit cost:			
Service cost	**$ 656**	$ 687	$ 675
Interest cost	**3,528**	4,068	3,582
Amortization of:			
Prior service cost	**(1,294)**	(720)	(569)
Actuarial loss (gain)	**320**	212	(263)
Total net periodic benefit cost	**$ 3,210**	$ 4,247	$ 3,425

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

years *ended December 31* (add 000)	**2004**	2003
Change in benefit obligation:		
Net benefit obligation at beginning of year	**$ 60,410**	$ 63,370
Service cost	**656**	687
Interest cost	**3,528**	4,068
Participants' contributions	**534**	578
Actuarial (gain) loss	**(2,761)**	4,777
Plan amendments	**—**	(8,878)
Gross benefits paid	**(3,471)**	(4,192)
Net benefit obligation at end of year	**$ 58,896**	$ 60,410

years ended December 31 (add 000)	**2004**	2003
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 0**	$ 0
Employer contributions	**2,937**	3,614
Participants' contributions	**534**	578
Gross benefits paid	**(3,471)**	(4,192)
Fair value of plan assets at end of year	**$ 0**	$ 0

December 31 (add 000)	**2004**	2003
Funded status of the plan at end of year	**$ (58,896)**	$ (60,410)
Unrecognized net actuarial loss	**7,544**	10,623
Unrecognized prior service cost	**(13,617)**	(14,910)
Accrued benefit cost	**$ (64,969)**	$ (64,697)

December 31 (add 000)	**2004**	2003
Amounts recognized in the consolidated balance sheets consist of:		
Accrued benefit cost	**$ (64,969)**	$ (64,697)
Net amount recognized at end of year	**$ (64,969)**	$ (64,697)

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

	2004	2003
Discount rate	**6.00%**	6.25%

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

	2004	2003
Discount rate	**6.25%**	6.75%

Assumed health care cost trend rates at December 31 are:

	2004	2003
Health care cost trend rate assumed for next year	**10.0%**	11.0%
Rate to which the cost trend rate gradually declines	**5.0%**	5.0%
Year the rate reaches the ultimate rate	**2010**	2010

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

One Percentage Point

(add 000)	Increase	(Decrease)
Total service and interest cost components	$ 221	$ (190)
Postretirement benefit obligation	$ 3,599	$ (3,096)

The Corporation's estimate of its contributions to its postretirement health care plans in 2005 is approximately $3,100,000.

The expected benefit payments for each of the next five years and the five-year period thereafter are as follow:

(add 000)	
2005	$ 3,858
2006	$ 3,894
2007	$ 4,086
2008	$ 4,193
2009	$ 4,312
Years 2010-2014	$ 22,597

Effective July 1, 2004, the Corporation adopted the accounting guidance of FSP FAS 106-2, which reduced its postretirement health care plans' accumulated postretirement benefit obligation by $3,003,000 and 2004 expense by $174,000.

Defined Contribution Plans. The Corporation maintains three defined contribution plans that cover substantially all employees. These plans, intended to be qualified under Section 401 (a) of the Internal Revenue Code, are retirement savings and investment plans for the Corporation's salaried and hourly employees. Under certain provisions of these plans, the Corporation, at established rates, matches employees' eligible contributions. The Corporation's matching obligations were $4,649,000 in 2004, $4,516,000 in 2003 and $4,705,000 in 2002.

Postemployment Benefits. The Corporation has accrued postemployment benefits of $1,881,000 and $1,877,000 at December 31, 2004 and 2003, respectively.

Note K: Stock Options and Award Plans

The shareholders approved, on May 8, 1998, the Martin Marietta Materials, Inc. Stock-Based Award Plan, as amended from time to time (along with the Amended Omnibus Securities Award Plan, originally approved in 1994, the "Plans"). In connection with the Plans, as of December 31, 2004, the Corporation was authorized to repurchase up to 3,800,000 shares of the Corporation's common stock for issuance under the Plans.

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

The Plans provide that each nonemployee director receives 3,000 non-qualified stock options annually. The Corporation grants the nonemployee directors options to purchase its common stock at a price equal to the market value at the date of grant. These options vest immediately upon grant and expire ten years from such date.

The following table includes summary information for stock options for employees and nonemployee director awards:

	Number of Options Outstanding	Weighted-Average Exercise Price
Balance at December 31, 2001	2,286,424	$ 41.61
Granted	552,000	$ 36.55
Exercised	(30,167)	$ 25.74
Terminated	(55,751)	$ 46.22
Balance at December 31, 2002	2,752,506	$ 40.68
Granted	532,750	$ 38.32
Exercised	(52,799)	$ 24.73
Terminated	(52,584)	$ 41.15
Balance at December 31, 2003	3,179,873	$ 40.80
Granted	**516,000**	**$ 42.38**
Exercised	**(146,470)**	**$ 30.96**
Terminated	**(52,754)**	**$ 43.99**
Balance at December 31, 2004	**3,496,649**	**$ 41.16**

Exercise prices for options outstanding as of December 31, 2004 ranged from $20.00 to $63.44. The weighted-average remaining contractual life of those options is 6.4 years. Approximately 2,511,000, 2,171,000 and 1,738,000 outstanding options were exercisable at December 31, 2004, 2003 and 2002, respectively. The weighted-average exercise price of outstanding exercisable options at December 31, 2004 is $41.60.

The following table summarizes information for options outstanding and exercisable at December 31, 2004:

Options Outstanding			
Range of Prices	Number of Shares	Weighted-Average Remaining Life	Weighted-Average Exercise Price
$20.00-$24.25	186,518	1.2	$ 22.48
$32.37-$48.75	3,286,131	6.7	$ 42.10
$51.50-$63.44	24,000	4.8	$ 57.47

Options Exercisable			
Range of Prices	Number of Shares	Weighted-Average Remaining Life	Weighted-Average Exercise Price
$20.00-$24.25	186,518	1.2	$ 22.48
$32.37-$48.75	2,300,710	5.7	$ 42.98
$51.50-$63.44	24,000	4.8	$ 57.47

Additionally, an incentive stock plan has been adopted under the Plans whereby certain participants may elect to use up to 50% of their annual incentive compensation to acquire units representing shares of the Corporation's common stock at a 20% discount to the market value on the date of the incentive compensation award. Certain executive officers are required to participate in the incentive

stock plan at certain minimum levels. Stock unit awards representing 34,331, 47,680 and 38,452 shares of the Corporation's common stock were awarded in 2004, 2003 and 2002, respectively. The weighted-average grant-date fair value of these awards was $46.80, $28.15 and $43.91, respectively. Participants earn the right to receive their respective shares at the discounted value generally at the end of a 35-month period of additional employment from the date of award or at retirement beginning at age 62. All rights of ownership of the common stock convey to the participants upon the issuance of their respective shares at the end of the ownership-vesting period, with the exception of dividend equivalents that are paid on the units during the vesting period.

In 2004 and 2003, respectively, the Corporation granted 7,478 and 192,793 restricted stock awards under the Plans to a group of executive officers and key personnel. The weighted-average grant-date fair value of these awards was $46.80 and $40.64 in 2004 and 2003, respectively. Certain restricted stock awards are based on a specific common stock performance criteria over a specified period of time. In addition, certain awards were granted to individuals to encourage retention and motivate key employees. These awards generally vest if the executive is continuously employed on December 1 in the year that is immediately preceding three or five years from the date of grant, upon turning age 62 or on the sixth anniversary from the date of grant.

At December 31, 2004, there are approximately 1,537,000 awards available for grant under the Plans.

In 1996, the Corporation adopted the Shareholder Value Achievement Plan to award shares of the Corporation's common stock to key senior employees based on certain common stock performance criteria over a long-term period. Under the terms of this plan, 250,000 shares of common stock are reserved for grant. Stock units potentially representing 50,804 shares of the Corporation's common stock were granted under this plan in 2000. Based on the performance of the Corporation's common stock, the Corporation issued 9,207 shares of common stock in January 2003, representing stock awards granted in 2000. No additional awards have been granted under this plan after 2000.

Also, the Corporation adopted and the shareholders approved the Common Stock Purchase Plan for Directors in 1996, which provides nonemployee directors the election to receive all or a portion of their total fees in the form of the Corporation's common stock. Under the terms of this plan, 300,000 shares of common stock were reserved for issuance. Currently, directors are required to defer at least 50% of their retainer in the form of the Corporation's common stock at a 20% discount to market value. Directors elected to defer portions of their fees representing 12,007, 16,941 and 14,080 shares of the Corporation's common stock under this plan during 2004, 2003 and 2002, respectively.

Note L: Leases

Total lease expense for all operating leases was $57,291,000, $55,665,000 and $53,950,000 for the years ended December 31, 2004, 2003 and 2002, respectively. The Corporation's operating leases generally contain renewal and/or purchase options with varying terms. The Corporation has royalty agreements that generally require royalty payments based on tons produced and also contain minimum payments. Total royalties, principally for leased properties, were $34,692,000, $33,362,000 and $31,155,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Future minimum lease and mineral and other royalty commitments for all noncancelable agreements as of December 31, 2004 are as follow:

(add 000)	
2005	$ 43,730
2006	38,258
2007	34,485
2008	25,068
2009	15,011
Thereafter	38,892
Total	$195,444

Note M: Shareholders' Equity

The authorized capital structure of the Corporation includes 10,000,000 shares of preferred stock with par value of $0.01 a share. 100,000 shares of Class A Preferred Stock have been reserved in connection with the Corporation's Shareholders Rights Plan. In addition, the capital structure includes 100,000,000 shares of common stock, with a par value of $0.01 a share. At December 31, 2004, approximately 5,800,000 common shares were reserved for issuance under benefit and stock-based incentive plans. At December 31, 2004 and 2003, there were 1,115 and 1,215, respectively, shareholders of record.

At December 31, 2004, approximately 3,800,000 shares of the Corporation's common stock are authorized to be repurchased under various stock-based compensation and common stock purchase plans and are outstanding under the Board's authorization. During 2004 and 2003, respectively, the Corporation repurchased 1,522,200 and 331,100 shares of its common stock at public market prices at various purchase dates. There were no shares repurchased in 2002.

The Corporation issued 244,300 shares of common stock for acquisitions in 2002.

Note N: Commitments and Contingencies

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

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

The estimated future reclamation obligations have been discounted to their present value and are being accreted to their projected future obligations via charges to operating expenses. Additionally, the fixed assets recorded concurrently with the liabilities are being depreciated over the period until reclamation activities are expected to occur. Total accretion and depreciation expenses for 2004 and 2003 were $1,710,000 and $1,692,000, respectively, and are included in other operating income and expenses, net, on the consolidated statements of earnings.

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

The following shows the changes in the asset retirement obligations for the years ended December 31:

(add 000)	**2004**	2003
Balance at January 1	**$ 19,629**	$ 18,122
Accretion expense	**1,029**	1,028
Liabilities incurred	**239**	763
Liabilities settled	**(1,210)**	(284)
Revisions in estimated cash flows	**598**	—
Balance at December 31	**$ 20,285**	$ 19,629

The following pro forma information presents net earnings, excluding the cumulative effect of the accounting change, and earnings per diluted share as if FAS 143 had been adopted on January 1, 2002:

(add 000, except per share)	2002
Net earnings	$ 85,198
Earnings per diluted share	$ 1.74

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

Insurance Reserves and Letters of Credit. The Corporation has insurance coverage for workers' compensation, automobile liability and general liability claims with deductibles

ranging from $250,000 to $1,500,000. The Corporation is also self-insured for health claims. During 2003, the Corporation decreased its accrual for incurred but not reported health claims based on the Corporation's recent claims experience. The change in estimate increased net earnings by approximately $1,150,000, or $0.02 per diluted share. At December 31, 2004 and 2003, reserves of approximately $27,500,000 and $26,400,000, respectively, were recorded for all such insurance claims. In connection with these workers' compensation and automobile and general liability insurance deductibles, the Corporation has entered into standby letter of credit agreements of $24,560,000 at December 31, 2004.

Guarantee Liability. At December 31, 2004 and 2003, the Corporation recorded a liability of $4,800,000 and $6,000,000, respectively, for a guarantee of debt of a limited liability company of which it is a member.

Surety Bonds. In the normal course of business, at December 31, 2004, the Corporation was contingently liable for $129,751,000 in surety bonds required by certain states and municipalities and their related agencies. The bonds are principally for certain construction contracts, reclamation obligations and mining permits guaranteeing the Corporation's own performance. The Corporation has indemnified the underwriting insurance company against any exposure under the surety bonds. In the Corporation's past experience, no material claims have been made against these financial instruments. Four of these bonds, totaling $44,141,000, or 34% of all outstanding surety bonds, relate to specific performance for road construction projects currently underway.

Purchase Commitments. The Corporation had purchase commitments for property, plant and equipment of $19,621,000 and other purchase obligations related to energy and service contracts of $26,765,000 as of December 31, 2004. The Corporation's contractual purchase commitments as of December 31, 2004 are as follow:

(add 000)	
2005	$36,797
2006	4,867
2007	4,722
Total	$46,386

Employees. The Corporation had approximately 5,600 employees at December 31, 2004. Approximately 15% of the Corporation's employees are represented by a labor union. All such employees are hourly employees.

Note O: Business Segments

The Corporation conducts its operations through two reportable business segments: Aggregates and Specialty Products. The Corporation's evaluation of performance and allocation of resources are based primarily on earnings from operations as compared to assets employed. Earnings from operations are net sales less cost of sales, selling, general and administrative expenses, and research and development expenses; include other operating income and expenses, and exclude interest expense, other nonoperating income and expenses, net, and income taxes. Assets employed by segment include assets directly identified with those operations. Corporate headquarters' assets consist primarily of cash and cash equivalents, and property, plant and equipment for corporate operations, principally related to the new information systems. All debt and the related interest expense are held at corporate headquarters. Property additions include property, plant and equipment that has been purchased through acquisitions in the amount of $667,000 in 2004; $2,913,000 in 2003; and $23,611,000 in 2002.

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, 2004. The product lines, asphalt, ready mixed concrete, construction and other, are combined into the Aggregates segment because these lines are considered internal customers of the core aggregates business. The Specialty Products segment includes the Magnesia Specialties and Structural Composite Products businesses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Selected Financial Data by Business Segment

years ended December 31
(add 000)

Total revenues	**2004**	2003	2002
Aggregates	**$1,641,690**	$1,590,135	$1,508,510
Specialty Products	**117,923**	94,413	80,043
Total	**$1,759,613**	$1,684,548	$1,588,553
Net sales			
Aggregates	**$1,441,233**	$1,387,816	$1,324,879
Specialty Products	**110,094**	88,330	75,507
Total	**$1,551,327**	$1,476,146	$1,400,386
Gross profit			
Aggregates	**$ 323,178**	$ 299,975	$ 276,691
Specialty Products	**19,012**	9,554	10,760
Total	**$ 342,190**	$ 309,529	$ 287,451
Selling, general and administrative expenses			
Aggregates	**$ 116,601**	$ 112,573	$ 105,890
Specialty Products	**11,075**	7,967	7,410
Total	**$ 127,676**	$ 120,540	$ 113,300
Earnings from operations			
Aggregates	**$ 220,180**	$ 195,364	$ 175,841
Specialty Products	**6,412**	91	2,650
Total	**$ 226,592**	$ 195,455	$ 178,491
Assets employed			
Aggregates	**$2,055,862**	$2,025,945	$2,108,834
Specialty Products	**81,032**	76,805	66,128
Corporate headquarters	**218,958**	216,475	90,588
Total	**$2,355,852**	$2,319,225	$2,265,550
Depreciation, depletion and amortization			
Aggregates	**$ 119,268**	$ 127,743	$ 128,078
Specialty Products	**6,179**	5,544	5,473
Corporate headquarters	**7,412**	6,319	5,145
Total	**$ 132,859**	$ 139,606	$ 138,696
Property additions			
Aggregates	**$ 147,956**	$ 115,031	$ 162,116
Specialty Products	**8,295**	5,236	2,654
Corporate headquarters	**7,861**	3,284	11,521
Total	**$ 164,112**	$ 123,551	$ 176,291

The following table displays total revenues by product line for the years ended December 31:

(add 000)	**2004**	2003	2002
Aggregates	**$1,505,017**	$1,448,044	$1,361,861
Asphalt	**71,708**	76,176	77,136
Ready mixed concrete	**31,549**	31,005	29,114
Road paving	**23,195**	24,283	30,037
Other	**10,221**	10,627	10,362
Total Aggregates segment	**1,641,690**	1,590,135	1,508,510
Specialty Products	**117,923**	94,413	80,043
Total	**$1,759,613**	$1,684,548	$1,588,553

Note P: Supplemental Cash Flow and Other Information

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

(add 000)	**2004**	2003	2002
Cash paid for interest	**$ 44,926**	$46,813	$47,082
Cash paid for taxes	**$ 13,433**	$14,832	$25,355
Noncash investing and financing activities:			

Exchange of quarries	**$ —**	$ —	$ 10,500
Value of common stock issued in connection with acquisitions	**$ —**	$ —	$ 9,718
Debt assumed in connection with acquisitions	**$ —**	$ —	$ 7,500
Notes receivable issued in connection with divestitures	**$ 12,000**	$ 10,273	$ 5,645

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

(add 000)	**2004**	2003	2002
Other current and noncurrent assets	**$ 9,345**	$ (8,229)	$ 92
Notes receivable	**(9,311)**	3,839	1,398
Accrued salaries, benefits and payroll taxes	**(6,563)**	510	(1,584)
Accrued insurance and other taxes	**(2,022)**	5,261	246
Accrued income taxes	**6,161**	11,777	(1,749)
Accrued pension, postretirement and postemployment benefits	**(39,483)**	(6,687)	12,071
Other current and noncurrent liabilities	**101**	(1,557)	(7,172)
Total	**$ (41,772)**	$ 4,914	$ 3,302

The following table presents domestic and foreign total revenues for the years ended December 31:

(add 000)	**2004**	2003	2002
Domestic	**$ 1,728,072**	$ 1,657,475	$ 1,568,300
Foreign	**31,541**	27,073	20,253
Total	**$ 1,759,613**	$ 1,684,548	$ 1,588,553

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

INTRODUCTORY OVERVIEW

Martin Marietta Materials, Inc., (the "Corporation") is the nation's second largest producer of construction aggregates and a leading producer of magnesia-based chemicals. The Corporation is also developing structural composite products for use in a wide variety of industries. The overall areas of focus for the Corporation on an ongoing basis include the following:

- Maximize shareholder return long-term by pursuing sound growth and earnings objectives;
- Conduct business in full compliance with applicable laws, rules, regulations and the highest standards of ethics;
- Provide a safe and healthy workplace for the Corporation's employees; and
- Reflect all aspects of good citizenship by being responsible neighbors.

The highlights of the Corporation's financial condition and operating results for 2004 include:

- Continued improvement in balance sheet strength;
- Gross margin improvement in core aggregates business as a result of:
  - leverage from general economic improvement;
  - cost structure improvement from plant modernization and productivity improvement initiatives; and
  - focus on expanding business in high growth markets, particularly in the Southeast and Southwest.
- Continued maximization of transportation and material options created by the Corporation's long-haul distribution network;
- Divestiture of certain underperforming assets;
- Realization of benefits from restructuring the Magnesia Specialties operations;
- Improvement in employee safety performance; and
- Successful documentation and evaluation of the system of internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002.

In 2005, management will focus on, among other things, the following initiatives:

- Profit margin improvement by maximizing pricing opportunities and continued focus on cost structure;
- Continued divestitures of nonstrategic assets;
- Maximization of return on invested capital; and
- Build the revenue base of the Structural Composite Products business

In addition, management considers each of the following factors in evaluating the Corporation's financial condition and operating results.

Aggregates Economic Considerations

The construction aggregates business is a commodity-type business that is cyclical and dependent on activity within the construction marketplace. The principal end-users are in public infrastructure (e.g., highways, bridges, schools and prisons), commercial (e.g., office buildings and malls) and residential construction markets. As discussed further under the section *Aggregates Industry and Corporation Trends* on pages 41 and 42, end-user markets respond to changing economic conditions in different ways. Public infrastructure construction is typically more stable than commercial and residential construction due to funding from federal and state governments. Commercial and residential construction levels are interest-rate sensitive and typically move in a direct relationship with economic cycles.

The industry and the Corporation are focusing, in the near term, on the passage of a new federal highway program. As discussed under the section *Federal and State Highway Appropriations* on pages 45 and 46, management believes that a federal highway program funding bill will be approved at a higher level than the previous bill, which expired on September 30, 2003. Since then, the highway program has been operating under a continuing resolution that currently expires on May 31, 2005. The spending level for fiscal year 2005 of $34.6 billion under the current continuing resolution is higher than previous levels. However, the debate on funding levels, terms and duration will continue in 2005, and the level of highway spending will continue to be uncertain until a federal highway bill is finalized and state construction spending priorities are set.

Residential construction spending increased in 2004 as compared with 2003. Commercial construction spending, while beginning to recover in some areas of the United States, was still at a low level in 2004.

In 2004, the Corporation shipped 191.5 million tons of aggregates to customers in 32 states, Canada, the Bahamas and the Caribbean Islands from 308 quarries and distribution yards. Additionally, the Corporation sells asphalt and ready mixed concrete from 17 plants. While the Corporation's aggregates operations cover a wide

geographic area, financial results depend on the strength of the applicable local economies because of the high cost of transportation relative to the price of the product. The Aggregates division's top five revenue-generating states, namely Texas, North Carolina, Georgia, Iowa and Indiana, accounted for approximately 57% of 2004 net sales by state of destination, while the top ten revenue-generating states accounted for approximately 79% of 2004 net sales. Management closely monitors economic conditions and public infrastructure spending in the market areas within these states where its operations are located.

Aggregates Industry Considerations

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

While natural aggregates sources typically occur in relatively homogeneous deposits throughout the United States, the challenge facing aggregates producers is to locate aggregates deposits that are economically mineable, can be permitted and are in the proximity of growing markets. Currently, this is becoming more challenging as residential expansion and other real estate development have encroached on attractive quarrying locations, imposing regulatory constraints or otherwise making these locations impractical. Management believes the Corporation continues to meet this challenge through strategic planning efforts to identify site locations in advance of economic expansion and the development of a long-haul distribution network. This network moves aggregates materials from aggregates sources, both domestic and offshore, via rail and water, to markets where aggregates supply is limited. This emerging trend introduces risks and affects operating results as discussed more fully under the sections *Analysis of Margins* and *Transportation Exposure* on pages 39 and 40 and pages 47 through 49, respectively.

Over the past ten years, the aggregates industry has been in a consolidation trend. The Corporation actively participated in the consolidation of the industry. In fact, approximately 49% of the Corporation's 2004 net sales are derived from acquisitions that have occurred since January 1, 1995. When acquired, new locations generally do not satisfy the Corporation's internal safety, maintenance and pit development standards and, therefore, require additional resources before the Corporation realizes the benefits of the acquisitions. Management continues to integrate and upgrade its acquired operations. The consolidation trend is slowing for the industry as the number of suitable acquisition targets in high growth markets shrinks. As acquisition growth slows, the Corporation has focused on investing in internal expansion projects in high growth markets and on divesting of nonstrategic, underperforming operations.

Aggregates Financial Considerations

The production of construction-related aggregates products requires a significant capital investment leading to high fixed and semi-fixed costs, as discussed more fully under the section *Cost Structure* on page 47. Therefore, operating results and financial performance are sensitive to volume changes. Management evaluates financial performance in a variety of ways. However, gross profit as a percentage of net sales ("gross margin") is a significant measure of financial performance reviewed by management on a quarry-by-quarry basis. The movement toward higher gross margin levels is a goal of management. The recent divestitures of nonstrategic assets, such as several Houston asphalt plants and the road paving business in the Shreveport, Louisiana market, is expected to improve overall gross margin prospectively. Internally, other key performance indicators management also reviews are changes in average selling prices, costs per ton produced and return on invested capital for the aggregates business. While the change in average selling prices demonstrates economic and competitive conditions, changes in costs per ton produced are indicative of operating efficiency.

Other Business Considerations

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

The dolomitic lime business is dependent on the highly cyclical steel industry, and operating results are affected by changes in that industry. In the chemical products component, management has strategically shifted the focus of the business to higher margin specialty chemicals that can be produced at volume levels that support efficient operations. Management believes that this focus,

coupled with the joint venture brine pipeline with The Dow Chemical Company, has improved the position of the magnesia chemicals business. Further, current and forecasted supply shortages in the dolomitic lime market have created an opportunity for management to consider an additional capital investment in this business. Management will consider pricing, costs and logistical issues, in addition to the outlook for the steel industry, to determine if the additional capital investment would provide an acceptable internal rate of return. A significant portion of the cost related to the production of dolomitic lime and magnesia chemical products is of a fixed or semifixed nature. In addition, the production of dolomitic lime and certain magnesia chemical products requires the use of natural gas, coal and petroleum coke, and fluctuations in their pricing directly affect operating results.

The Corporation is engaged in developmental activities related to fiber-reinforced composite technology. The Corporation’s strategic objective for Structural Composite Products is to create a business with characteristics that include high organic growth rates, low capital intensity and noncyclicality, based on diverse products and opportunities for substitution for existing structural materials. The recent and near-term focus is on product trials and commercialization. This business is approximately six months behind plan in the commercialization phase. Improved performance in 2005 is essential to continued investment in this business. Revenue has been insignificant to date, and, as with any start-up opportunity, development activities are subject to uncertainty and risks (see section *Structural Composite Products Business* on pages 51 and 52).

Cash Flow Considerations

The Corporation’s cash flows are generated primarily from operations. Operating cash flows generally fund working capital needs, capital expenditures, dividends, share repurchases and smaller acquisitions. Cash generation through debt has been related to large acquisitions. Equity has been used for smaller acquisitions as appropriate. During 2004, the Corporation’s management continued to focus on increasing available cash while demonstrating its commitment to shareholders and employees through share repurchases, increased dividends and voluntary contributions to the Corporation’s pension plan.

FINANCIAL OVERVIEW

The discussion and analysis that follow reflect management’s assessment of the financial condition and results of operations of the Corporation and should be read in conjunction with the audited consolidated financial statements on pages 10 through 33. As discussed in more detail herein, the Corporation’s operating results are highly dependent upon activity within the construction and steel-related marketplaces, economic cycles within the public and private business sectors and seasonal and other weather-related conditions. Accordingly, the financial results for a particular year, or year-to-year comparisons of reported results, may not be indicative of future operating results. The Corporation’s Aggregates division generated 93% of net sales and 97% of the operating earnings during 2004. The remaining net sales and operating earnings are attributable to the Corporation’s Specialty Products division. The following comparative analysis and discussion should be read in that context. The comparative analysis in this Management’s Discussion and Analysis of Financial Condition and Results of Operations is based on net sales and cost of sales and is consistent with the basis by which management reviews the Corporation’s operating results.

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

Results of Operations

The Corporation's consolidated operating results and operating results as a percentage of net sales were as follows:

years ended December 31 (add 000)	2004	% of Net Sales	2003	% of Net Sales	2002	% of Net Sales
Net sales	**$1,551,327**	**100.0%**	$1,476,146	100.0%	$1,400,386	100.0%
Cost of sales	**1,209,137**	**77.9**	1,166,617	79.0	1,112,935	79.5
Gross profit	**342,190**	**22.1**	**309,529**	**21.0**	**287,451**	**20.5**
Selling, general and administrative expenses	**127,676**	**8.2**	120,540	8.2	113,300	8.1
Research and development	**891**	**0.1**	612	0.1	369	0.0
Other operating (income) and expenses, net	**(12,969)**	**(0.8)**	(7,078)	(0.5)	(4,709)	(0.3)
Earnings from operations	**226,592**	**14.6**	**195,455**	**13.2**	**178,491**	**12.7**
Interest expense	**42,954**	**2.7**	42,587	2.9	44,028	3.1
Other nonoperating (income) and expenses, net	**(1,084)**	**(0.0)**	429	0.0	11,476	0.8
Earnings from continuing operations before taxes on income and cumulative effect of change in accounting principle	**184,722**	**11.9**	152,439	10.3	122,987	8.8
Taxes on income	**56,543**	**3.6**	45,198	3.0	32,161	2.3
Earnings from continuing operations before cumulative effect of change in accounting principle	**128,179**	**8.3**	**107,241**	**7.3**	**90,826**	**6.5**
Discontinued operations, net of taxes	**984**	**0.0**	(6,744)	(0.5)	6,989	0.5
Earnings before cumulative effect of change in accounting principle	**129,163**	**8.3**	100,497	6.8	97,815	7.0
Cumulative effect of change in accounting principle	—	—	(6,874)	(0.5)	(11,510)	(0.8)
Net earnings	**$ 129,163**	**8.3%**	**$ 93,623**	**6.3%**	**$ 86,305**	**6.2%**

Net Sales

Net Sales by reporting segment for the year ended December 31 were as follows:

(add 000)	**2004**	2003	2002
Aggregates	**$1,441,233**	$1,387,816	$1,324,879
Specialty Products	**110,094**	88,330	75,507
Total	**$1,551,327**	$1,476,146	$1,400,386

Aggregates. Net sales growth in the Aggregates segment resulted primarily from strong pricing improvement. Aggregates average sales price increases were as follows for the years ended December 31:

	2004	2003	2002
Heritage Aggregates Operations[1]	**3.2%**	1.3%	2.4%
Aggregates Division	**3.2%**	1.6%	2.8%

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

The average annual heritage price increase for the five years ended December 31, 2004 was 2.6%. Aggregates sales price increases in 2003 and 2002 were negatively affected by the recessionary construction economy experienced in those years.

Aggregates shipments of 191.5 million tons in 2004 remained relatively flat as compared with 2003. In 2003, total aggregates shipments increased 1.6% to 191.6 million tons as compared with 2002 shipments of 188.6 million tons.

Shipments *(thousands of tons)*	**2004**	2003	2002
Heritage Aggregates Operations[2]	**190,037**	187,719	179,712
Divestitures[3]	**1,431**	3,875	8,875
Aggregates Division	**191,468**	191,594	188,587

2 *Heritage aggregates operations exclude acquisitions that were not included in 2004 and 2003 operations for the full fiscal year.*

3 *Divestitures represent tons related to divested operations up to the date of divestiture.*

Specialty Products. Specialty Products net sales growth was the result of strong lime sales at increased prices to the steel industry and increased chemical sales to a variety of end users. Net sales of $110.1 million in 2004 increased 25% as compared with 2003, while net sales in 2003 increased 17% over 2002.

Cost of Sales

Cost of sales, as a percentage of net sales, decreased as plant and mobile fleet modernization and productivity improvement initiatives improved the Corporation's cost structure, in spite of rising energy, steel and manganese, and health and welfare costs.

The Corporation's operating leverage can be substantial due to the high fixed and semi-fixed costs associated with aggregates production. During 2004, production at heritage locations increased 3.9% above 2003 levels to better match shipments. Aggregates inventory levels were decreased in 2003.

Grow Profit

Gross margin is a measure of a company's efficiency during the production process. The Corporation's gross margin improved during 2004 as pricing improvements and productivity gains outpaced increases in production costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, as a percentage of net sales, were flat at 8.2%, 8.2% and 8.1% for the years ended December 31, 2004, 2003 and 2002, respectively. The absolute dollar increase of $7.1 million in 2004 as compared with 2003 resulted from increased incentive compensation and Sarbanes-Oxley regulatory compliance costs. The increase of $7.2 million in 2003 from 2002 was due to increased employee benefit costs.

Other Operating Income and Expenses, Net

Among other items, other operating income and expenses, net, include gains and losses on the sale of assets; gains and losses related to certain amounts receivable; rental, royalty and services income; and, for 2004 and 2003, the accretion and depreciation expenses related to Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("FAS 143"). In 2004, other operating income included a pretax gain of $5.0 million on the sale of certain asphalt plants in the Houston, Texas market where the Corporation has a continuing financial interest.

Earnings from Operations

Operating margin, defined as earnings from operations divided by net sales, measures a company's operating profitability. The Corporation's operating margin improved 140 basis points in 2004 as compared with prior year, the result of gross margin improvement and higher gains from the sales of assets.

Interest Expense

Interest expense increased slightly as compared with 2003 as a result of higher interest rates during the year and lower capitalized interest. The 2003 decrease in interest expense as compared with 2002 related to lower average outstanding debt partially offset by lower capitalized interest.

Other Nonoperating Income and Expenses, Net

Other nonoperating income and expenses, net, are comprised generally of interest income, net equity earnings from nonconsolidated investments and eliminations of minority interests for consolidated, non-wholly owned subsidiaries. In 2002, other nonoperating income and expenses, net, included $7.2 million of expenses related to legal settlements and to reserve an investment related to microwave technologies.

Income Taxes

Variances in the estimated effective income tax rates, when compared with the federal corporate tax rate of 35%, are due primarily to the effect of state income taxes, the impact of book and tax accounting differences arising from the net permanent benefits associated with the depletion allowances for mineral reserves, foreign operating earnings, and the tax effect of nondeductibility of goodwill related to asset sales.

The Corporation's estimated effective income tax rate, including continuing and discontinued operations, was 31.2% in 2004, 29.7% in 2003 and 32.2% in 2002. The estimated effective income tax rate for continuing operations for 2004 was 30.6%, compared with 29.6% in 2003 and 26.1% in 2002.

Discontinued Operations

2004 divestitures included nonstrategic operations within the Aggregates segment located in markets in Alabama, Tennessee, Oklahoma, Louisiana, California and Washington. 2003 divestitures included nonstrategic operations within the Aggregates segment located in markets in Alabama, Ohio, Missouri, West Virginia, Louisiana and Texas.

The results of all divested operations through the dates of disposal and any gains or losses on disposals are included in discontinued operations on the consolidated statements of earnings. The discontinued operations included the following net sales, pretax loss on operations, pretax gain on disposals, income tax expense or benefit and net gain or loss for the years ended December 31 (add 000):

	2004	2003	2002
Net sales	**$15,790**	$ 61,723	$97,794
Pretax loss on operations	**$ (3,630)**	$(11,231)	$ (338)
Pretax gain on disposals	**6,727**	1,794	21,621
Pretax gain (loss)	**3,097**	(9,437)	21,283
Income tax expense (benefit)	**2,113**	(2,693)	14,294
Net gain (loss)	**$ 984**	$ (6,744)	$ 6,989

Net Earnings and Cumulative Effect of Changes in Accounting Principle

2004 net earnings of $129.2 million, or $2.66 per diluted share, increased 29% compared with 2003 net earnings of $100.5 million, or $2.05 per diluted share, which excludes a $0.14 per diluted share loss for the cumulative effect of adopting FAS 143.

The 2003 net earnings, prior to the cumulative effect of the accounting change, increased 3% compared with 2002 net earnings of $97.8 million, or $2.00 per diluted share, which excludes a $0.23 per diluted share loss for the cumulative effect of adopting Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("FAS 142").

Analysis of Margins

The Corporation achieved its objective of overall gross margin improvement in 2004 by maximizing pricing opportunities, improving its cost structure through productivity improvement and plant modernization initiatives and divesting of certain nonstrategic assets. Consolidated gross margin for continuing operations for the years ended December 31 were as follows:

2004	**22.1%**
2003	21.0%
2002	20.5%

When compared with peak gross margins in the late 1990's, the Aggregates division's gross margin performance has been negatively affected by several factors. A primary factor is the expansion and development of water and rail distribution yards. Most of this activity is in coastal areas, which generally do not have an indigenous supply of aggregates and yet exhibit above average growth characteristics. Development of this distribution network is a key component of the Corporation's strategic growth plan and has already led to increased market share in certain areas. However, sales from rail and water distribution locations yield lower margins as compared with sales directly from quarry operations. Transportation freight cost from the production site to the distribution terminals is embedded in the delivered price of aggregates products and reflected in the pricing structure at the distribution yards. In general, a margin is not earned on the embedded freight component of price (see *Transportation Exposure* section on pages 47 through 49). In 2004, approximately 23 million tons were sold from distribution yards, and results from these distribution operations reduced gross margin for the Aggregates division by approximately 410 basis points. Management expects that the distribution network currently in place will provide the Corporation a greater growth opportunity than many of its competitors, and margins should gradually improve, subject to the economic environment.

Other factors, including vertical integration, a large number of internal expansion and plant improvement projects, acquisitions, certain nonstrategic assets and the recent economic recession, have further affected margin. Gross margins associated with vertically integrated operations, including asphalt, ready mixed concrete and construction operations, are lower as compared with aggregates operations. Gross margins for the Corporation's asphalt and ready mixed concrete businesses typically range from 10% to 15% as compared with the Corporation's aggregates business, which generally ranges from 20% to 25%. The road paving business was acquired as supplemental operations that were part of larger acquisitions. As such, it does not represent a strategic business of the Corporation. The margin in this business is affected by volatile factors including fuel costs, operating efficiencies and weather, and this business has typically resulted in losses that are not significant to the Corporation as a whole. In 2004, the mix of these operations to total aggregates operations lowered gross margin by approximately 180 basis points. The Corporation's gross margin will continue to be adversely affected by the lower margins for these vertically

integrated businesses and for the water and rail distribution network as a result of management's strategic growth plan. However, the recent disposal of certain asphalt plants in Houston, Texas should reduce the negative impact of vertical integration on the Corporation's gross margin.

During 2004, the Corporation better matched production to shipments as compared with 2003 when the Corporation utilized inventory control measures that resulted in a reduction of inventories. This factor provided a positive impact on the Corporation's earnings in 2004 when compared with 2003. When production levels are less than shipments, the change in inventory results in costs that were capitalized in inventory in prior periods being expensed in the current period. Certain of these costs are fixed in nature and, as a result, negatively impact earnings. Further, when production levels are less than optimal, production cost per unit is negatively affected by these fixed costs.

Gross margin for the Specialty Products division was 17.3%, 10.8% and 14.3% for the years ended December 31, 2004, 2003 and 2002, respectively. The 2004 improvement in gross margin resulted from strong lime and chemical sales coupled with realization of benefits from the restructuring of the Magnesia Specialties operations, partially offset by start-up costs from the Structural Composite Products business.

Business Combinations and Divestitures

The Corporation continued its planned divestiture of nonstrategic operations during 2004. These divestitures included three asphalt plants in Texas; three quarries in Tennessee; a quarry in Washington; a quarry in California; a ready mixed concrete plant in Louisiana; an asphalt plant and a trucking business in Oklahoma; and an operation in Alabama. Additionally, the Corporation completed the disposal of its road paving business in the Shreveport, Louisiana market.

The Corporation's divestiture of three asphalt plants in Texas comprised approximately 70% of its net sales of asphalt in the Houston area. The Corporation received consideration that included a note receivable with final payment due September 30, 2008. Further, in connection with the divestiture, the Corporation entered into a supply agreement at market rates with the buyer. The divestiture has been included in continuing operations because of the Corporation's continuing financial interest in the Houston asphalt market, as well as the related financing.

During 2004, the Corporation completed one acquisition for $5.6 million in cash. In this acquisition, the Corporation purchased the majority member's ownership interest in a limited liability company ("LLC") in which the Corporation was the other member and which operates an aggregates business in Mississippi. The Corporation made its initial investment in the LLC in 1998.

Goodwill represents the excess of the purchase price paid for acquired businesses over the estimated fair value of identifiable assets and liabilities. The carrying value of goodwill is reviewed annually for impairment in accordance with the provisions of FAS 142. If this review indicates that the goodwill is impaired, a charge is recorded. During 2002, in connection with the adoption of FAS 142, the Corporation recorded an impairment charge of $11.5 million as the cumulative effect of a change in accounting principle (see the section *Application of Critical Accounting Policies* on pages 53 through 60). Goodwill was as follows at December 31:

	Goodwill (in millions)	% of Total Assets	% of Shareholders' Equity
2004	**$ 567.5**	**24.1%**	**49.2%**
2003	$ 577.6	24.9%	51.1%

In December 2004, the Corporation announced the formation of a joint venture with Hunt Midwest Enterprises ("Hunt Midwest"), effective January 1, 2005, to operate substantially all of the aggregates facilities of both companies in Kansas City and surrounding areas. The joint venture company, Hunt Martin Materials LLC, is 50% owned by each party and is the leading aggregates producer in the area. The joint venture, valued at approximately $75 million, was formed by the parties contributing a total of 15 active quarry operations with production of approximately 7.5 million tons annually. The Corporation will consolidate the financial statements of the joint venture effective January 1, 2005 and present minority interest for the net assets attributable to Hunt Midwest. In the Corporation's consolidated financial statements, the assets contributed by Hunt Midwest are valued at fair value on the date of contribution to the joint venture, while assets

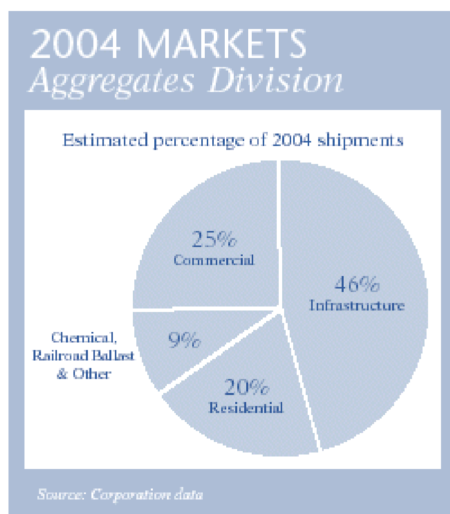
contributed by the Corporation will continue to be valued at historical cost. The terms of the joint venture agreement provide that the Corporation will operate as the managing partner and receive a management fee based on tons sold. The joint venture has a term of fifty years with certain purchase rights provided to the Corporation and Hunt Midwest.

BUSINESS ENVIRONMENT

The sections on *Business Environment* on pages 41 through 52, and the disclosures therein, are intended to provide the reader with a synopsis of the business environment trends and risks facing the Corporation. However, the reader should understand that no single trend or risk stands alone. The relationship between trends and risks is dynamic, and this discussion should be read with this understanding.

Aggregates Industry and Corporation Trends

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



2004 Markets — Aggregates Division
(Estimated percentage of 2004 shipments)

Market	%
Infrastructure	46%
Commercial	25%
Residential	20%
Chemical, Railroad Ballast & Other	9%

Source: Corporation data

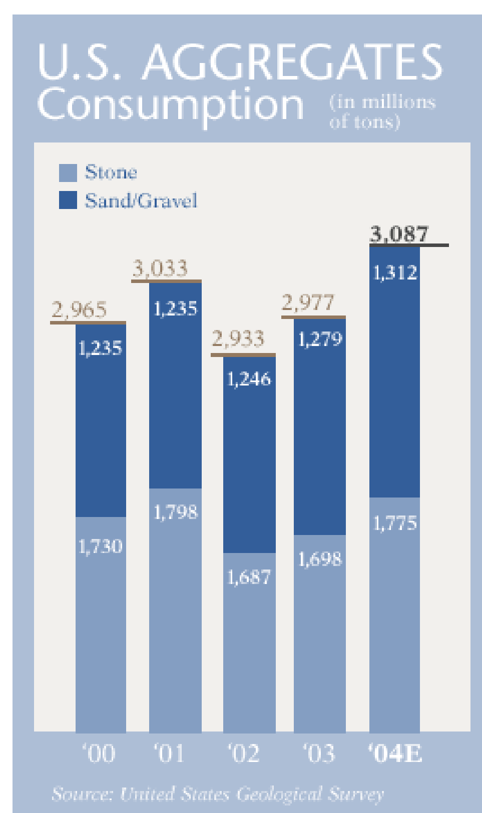
The Aggregates division sells its products primarily to contractors in connection with highway and other public infrastructure projects, with the balance of its sales to contractors in commercial and residential construction projects. While construction spending in the public and private market sectors is affected by economic cycles, there has been a tendency for the level of spending for infrastructure projects in the public-sector portion of this market to be more stable than spending for projects in the private sector. Governmental appropriations and expenditures are typically less interest-rate sensitive than private-sector spending, and generally improved levels of funding have enabled highway and other infrastructure projects to improve overall as compared with commercial and residential construction. The total value of the United States construction put in place on highways, streets and bridges was $65 billion in 2004 compared with $63 billion in 2003, according to the U.S. Census Bureau. Management believes public-works projects accounted for more than 50% of the total annual aggregates consumption in the United States during 2004, which has consistently been the case for each year since 1990. Since public sector-related shipments account for approximately 46% of the Corporation's 2004 aggregates shipments, the Aggregates division enjoys the benefit of the level of public-works construction projects. Accordingly, the Corporation's management believes the Corporation's exposure to fluctuations in commercial and residential, or private sector, construction spending is lessened by the division's mix of public sector-related shipments. However, delays in the passage of a federal highway funding authorization and state budget deficits have resulted in pressure on infrastructure spending.

The commercial construction market had a slight recovery in 2004 after monthly declines experienced since August 2001. As reported by the U.S. Census Bureau, improvements in commercial construction in 2004 occurred in the retail sector, most likely as a result of the strength of consumer spending. However, commercial construction still remains the weakest segment of the construction market as office vacancy rates remain high. There were modest reductions in office vacancy rates in certain regions, including Charlotte, North Carolina and certain areas in Florida, during 2004, but vacancy rates are still higher than levels necessary for a full-fledged commercial construction recovery. Management expects commercial construction demand to continue to improve in 2005.

The residential construction market increased 14% in 2004 from 2003, according to the U.S. Census Bureau, buoyed by low interest rates and strong housing starts. Further, the Corporation experienced an increase in the percentage of its shipments attributable to the residential construction market in 2004 as compared with 2003.

The Corporation's asphalt, ready mixed concrete and road paving operations generally follow construction industry trends. These vertically integrated operations accounted for about 8% of 2004 Aggregates division's total revenues. The Corporation became significantly more vertically integrated with the acquisition of Redland Stone Products Company in December 1998 and subsequent acquisitions in the Southwest. Vertically integrated operations, including asphalt, ready mixed concrete, road paving and trucking businesses, are the norm in the southwestern United States. The Corporation divested of certain operations within these businesses during 2004 and concurrently entered into supply agreements to provide aggregates at market rates to several of the buyers.

Since 1995, a greater percentage of the Corporation's shipments have been transported by rail and water and gross margin has been negatively affected. In addition to competitive considerations, the lower margins resulted from customers generally not paying the Corporation a profit associated with the transportation component of the selling price. However, as demand increases in supply-constrained areas, additional pricing opportunities, coupled with improved distribution cost, may help recover profitability and improve gross margin on transported material.



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

	Stone	Sand/Gravel	Total
2004E	1,775	1,312	3,087
2003	1,698	1,279	2,977
2002	1,687	1,246	2,933
2001	1,798	1,235	3,033
2000	1,730	1,235	2,965

Source: United States Geological Survey

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

Aggregates Industry and Corporation Risks

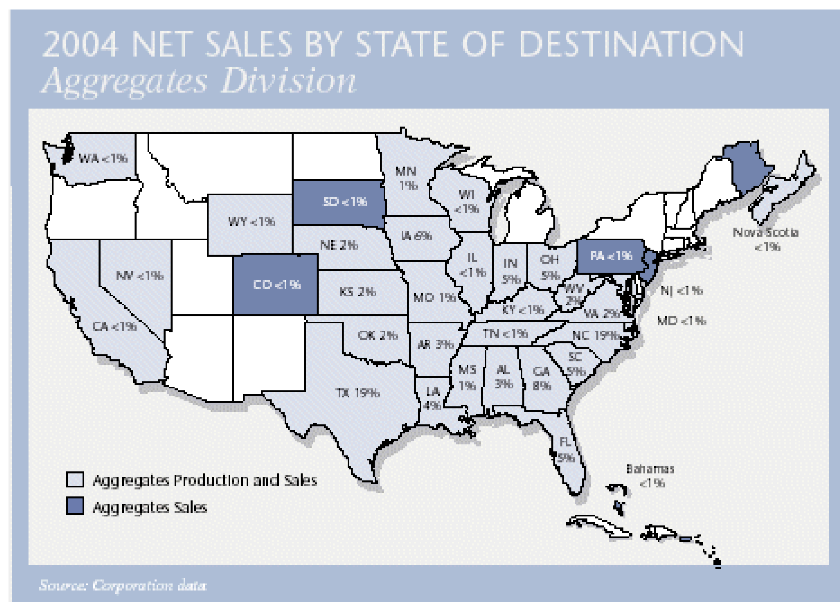
General Economic Conditions

The general economy improved in 2004. The commercial construction market improved somewhat, but continues to be negatively affected by high vacancy rates. The residential construction market, as measured by new housing starts, increased during the year, buoyed by continued low mortgage rates.

Public-sector construction projects are funded through a combination of federal, state and local sources (see section *Federal and State Highway Appropriations* on pages 45 and 46). The level of state public-works spending is varied across the nation and dependent upon individual state economies. As state economies deal with the recent recessionary environment, the level of state spending on public works is at risk. Each state funds infrastructure spending from specifically allocated amounts collected from various taxes, typically gasoline taxes and vehicle fees, in addition to federal appropriations. Additionally, subject to voter approval, the states may pass bond programs to fund infrastructure spending. Shortfalls in tax revenues can result in reductions in appropriations for infrastructure spending. Accordingly, amounts put in place, or spent, may be below amounts awarded under legislative bills.

The impact of the economic recovery will vary by market Additionally, profitability by state may not be proportionate to net sales by state as certain of the Corporation's markets are more profitable than others. Further, while the Aggregates division's operations cover a wide geographic area, because of the high cost of transportation relative to the price of the product, the

division's and, consequently, the Corporation's, operating performance and financial results depend on the strength of local economies, which may differ from the economic conditions of the state or region.



See end of exhibit for graph data

In 2004, as reported by economy.com, states with markets served by the Corporation showed an improved economic outlook when compared with 2003. In 2004, the economies in the states containing the Corporation's markets are flat or expanding. In 2003, for comparison, 15 of the 31 states were in a recessionary environment.

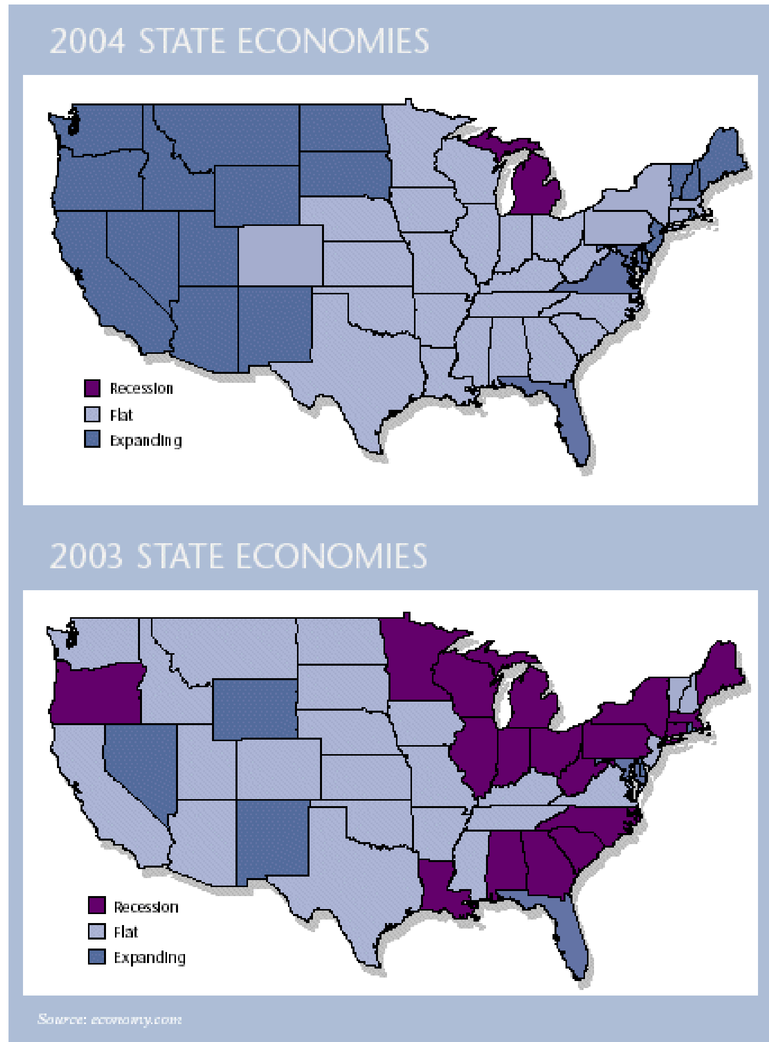
The Aggregates division's top five revenue-generating states, namely Texas, North Carolina, Georgia, Iowa and Indiana, accounted for approximately 57% of its 2004 net sales by state of destination. The top ten revenue-generating states, which also include South Carolina, Florida, Ohio, Louisiana and Arkansas, accounted for approximately 79% of 2004 net sales by state of destination.

In Texas, the infrastructure market outlook is positive as the state legislature has protected infrastructure spending levels recently. Additionally, there is a proposed multi-use, statewide network of transportation routes, the Trans-Texas Corridor, which will incorporate existing and new highways, railways and utility right-of-ways. The proposal is a long-term project that will be completed in phases over the next 50 years. In San Antonio, each of the infrastructure, commercial and residential construction markets remain strong, with the construction of a Toyota manufacturing facility spurring various construction projects. In Dallas, the construction market should remain positive with consistent state Department of Transportation funding and increased Turnpike Authority spending. Construction activity in the Houston market is expected to improve in 2005.

In North Carolina, the economy is strong, led by growth in the services, education, health care and construction industries. This growth is more than offsetting losses in the manufacturing industry that had adversely affected the length and depth of the state's recession. Commercial construction has started to recover from the recent significant decline that resulted from weak demand for office and warehouse space. Residential construction demand has been relatively stable. North Carolina's spending on highways has been strong, particularly in the Raleigh and Greensboro markets, as indicated by state highway spending data maintained by the Federal Highway Administration, which indicates average spending of $2.7 billion annually during the 5-year period ended in fiscal 2000. This stability continues principally due to legislation passed in 2001 that provided funding of $170 million in fiscal 2002 and $150 million in each of fiscal 2003 and 2004 for asphalt resurfacing. Additionally, the state passed a $3.1 billion education bond in 2002 to fund new construction, repairs and renovations on the sixteen state university system campuses. The state also passed a $950 million road bond in 1996 that continues to primarily fund improvements to strategic intrastate roads and the construction of secondary roads. Historically, North Carolina operations have been above the average in profitability because of its

quarry locations in growing market areas and the related transportation advantage.

The Georgia state economy is growing, driven by the Atlanta market. The state's economic growth is expected to continue to exceed the national levels. The commercial construction market continues to be down based on the recent decline in the high technology and manufacturing industries. The residential construction market is showing signs of weakness in connection with the increase in home mortgage rates. Overall, infrastructure construction spending has been strong as evidenced by the volume of highway work in the southern part of the state. Furthermore, the portion of the northern Florida market supplied by rail from Georgia operations continues to remain robust.



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The Iowa state economy, which is heavily dependent on the agriculture industry, is in the recovery stage. However, it continues to lag behind the national recovery. The Farm Security and Rural Investment Act of 2002 governs federal farm programs through 2007. Among other provisions, this legislation provides minimum price supports for certain crops, including corn and soybeans, has stimulated the agricultural economy in Iowa and is expected to provide an overall benefit for the state. To achieve a balanced budget for fiscal year 2005, the state will use one-time revenue sources, including reserves, and will also potentially eliminate certain state jobs. Local economies have been strong in urban areas of the state while economies in rural areas remain weak. The infrastructure construction market is strong, while the commercial construction and the residential construction markets have remained stable.

The Indiana Department of Transportation's funding level for fiscal 2005 was budgeted at $674 million, down approximately $100 million from the fiscal 2004 budget. Due to funding issues, construction spending during the last six months of fiscal 2005 may be limited to preservation and maintenance contacts, which could reduce spending to approximately $500 million. However, within Indiana, the Corporation primarily serves the greater Indianapolis market. Management does not expect the reduction in state spending in

its primary markets to be as significant as the reduction for the state as a whole. The Midfield Terminal expansion project at Indianapolis International Airport is still progressing, with approximately $35 million of projects letting in fiscal 2005. While total construction contracts for the project could exceed $350 million, the project has been affected by the overall poor performance of the airline industry, and the completion date may be delayed to 2008. Residential construction began to slow the latter half of 2004, and this trend is expected to continue. Commercial construction has been and is expected to remain steady.

The Aggregates division is exposed to potential losses in customer accounts receivable in direct relation to economic cycles with a recessionary economy increasing the risk of nonpayment and bankruptcy. However, the Corporation's bad debt write-offs have not been significant, and management believes the allowance for doubtful accounts was adequate at December 31, 2004.

Federal and State Highway Appropriations

The federal highway bill, which has yet to be authorized by Congress, is the principal source of federal funding for public-sector construction projects. Congress typically passes multi-year surface transportation bills for federal highway and mass transit funding. The Transportation Equity Act for the 21st Century ("TEA-21"), which expired by its terms on September 30, 2003, was a six-year bill. During its tenure, TEA-21 generated almost 45 percent of public dollars invested in capital construction of highways, roads and bridges. Although a successor bill was not passed when TEA-21 expired, its provisions were extended under a continuing budget resolution. The continuing resolution extends through May 31, 2005 and is funding the federal highway program at an annual level of $34.6 billion while Congress and the President work on a successor bill.

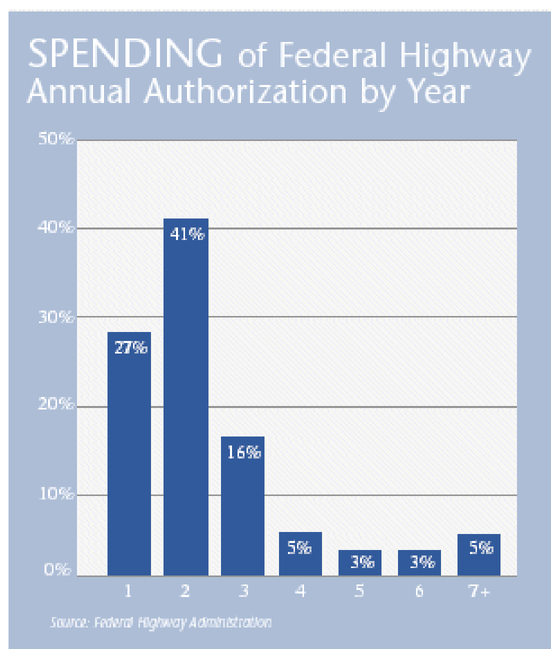
During the current reauthorization process, the Bush Administration and both the House and Senate have proposed long-term, federal highway funding bills that exceed the level of spending under the six-year TEA-21 funding bill of $218 billion. Congress and the Administration continue to deliberate federal highway funding. Management expects that a successor bill may not be passed until midyear 2005 or possibly later.

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

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

Most federal funds are available for a period of four years in total. Once the federal government approves a state project, the funds are committed and considered spent regardless of when the cash is actually spent by the state and reimbursed by the federal government. In fact, funds are generally spent over a period of years following designation, with approximately 27% in the year of funding authorization and 41% in the succeeding year.

Federal highway bills require Congress to annually appropriate highway funding levels, which continue to be subject to balanced budget and other proposals that may impact the funding available for the Highway Fund. However, investments in transportation improvements generally create new jobs. According to American Road and Transportation Builders Association ("ARTBA"), federal data indicates that every $1 billion in federal highway investment creates 47,500 jobs. Approximately half of the Corporation's net sales to the infrastructure market results from federal funding authorizations, including matching funds from the states.



Spending of Federal Highway Annual Authorization by Year

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

Source: Federal Highway Administration

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

Despite state highway construction programs being primarily financed from highway user fees, including fuel taxes and vehicle registration fees, there has been a reduction in many states' investment in highway maintenance. Significant increases in federal infrastructure funding typically will require state governments to increase highway user fees to match federal spending. During the November 2004 election cycle, ARTBA's *Special 2004 Ballot Initiatives Report* indicated an increase in transportation funding-related ballot initiatives. Voters in 21 states overwhelmingly supported tax increases to fund transportation improvements and required state governments to stop using highway user revenues to fund non-transportation programs or services.

Generally, state spending on infrastructure leads to increased growth opportunity for the Corporation. However, there may not necessarily be a direct relationship between state spending and the Corporation's revenues. The degree to which the Corporation could be affected by a reduction or slowdown in infrastructure spending varies by state. However, the state economies of the Corporation's five largest revenue-generating states may disproportionately affect performance.

The Vision 100-Century of Aviation Reauthorization Act is a four-year bill providing funding for airport improvements throughout the United States. Annual funding is $3.5 billion in fiscal 2005 and escalates $100 million each year until reaching $3.7 billion in fiscal 2007.

Geographic Exposure and Seasonality

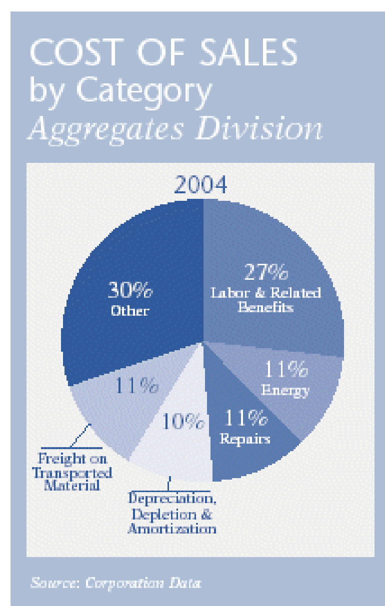
Seasonal changes and other weather-related conditions can also significantly affect the aggregates industry. Consequently, the Aggregates division's production and shipment levels coincide with general construction activity levels, most of which occur in the division's markets, typically in the spring, summer and fall. The division's operations that are concentrated in the northern region of the United States generally experience more severe winter weather conditions than the division's operations in the Southeast and Southwest. Additionally, significant amounts of rainfall can adversely affect shipments, production and profitability.

The Corporation's operations in the southeastern and Gulf Coast regions of the United States and the Bahamas are at risk for hurricane activity. During 2004, aggregates ship-

ments in the Corporation’s southeastern and Gulf Coast markets were adversely affected by four hurricanes. The Corporation’s Bahamas facility took two direct hits with limited physical damage. However, power was down for five weeks after the storms, resulting in no production and limited shipments during that time.

Cost Structure

Due to the high fixed costs associated with aggregates production, the Corporation’s operating leverage can be substantial. Generally, the top five categories of cost of sales for the Aggregates division are labor and related benefits; depreciation, depletion and amortization; repairs; freight on transported material (excluding freight billed directly to customers); and energy. In 2004, these categories represented approximately 70% of the Aggregates division’s total cost of sales. The Corporation began a process improvement program in 1999 whereby teams consisting of personnel from different backgrounds completed reviews of operational effectiveness on a location-by-location basis. Plant and mobile fleet modernization and sizing, completed as a result of these reviews, coupled with continuous cost improvement, have contributed to an improved cost structure.



Cost of Sales by Category — Aggregates Division

2004	
Category	Percent
Labor & Related Benefits	27%
Energy	11%
Repairs	11%
Depreciation, Depletion & Amortization	10%
Freight on Transported Material	11%
Other	30%

Source: Corporation data

Wage inflation and the resulting increase in labor costs may be somewhat mitigated by increases in productivity in an expanding economy. Rising health care costs have increased total labor costs in recent years and are expected to continue to negatively affect labor costs in the near term. The Corporation’s pension plan contributions and improved returns on plan assets have lessened the impact of rising pension costs.

Generally, when the Corporation incurs higher capital costs to replace facilities and equipment, increased capacity and productivity offset increased depreciation costs. However, when aggregates demand is soft, the increased productivity and related efficiencies may not be fully realized, resulting in the underabsorption of fixed costs.

The impact of inflation on the Corporation’s businesses has become less significant with the benefit of continued moderate inflation rates. However, the Corporation has been negatively affected by increases in several cost areas. Notably, energy sector inflation affects, among other things, the costs of operating mobile equipment used in quarry operations, waterborne transportation of aggregates materials and asphalt production. Accordingly, increases in energy costs can have a significant negative impact on the Corporation’s results of operations.

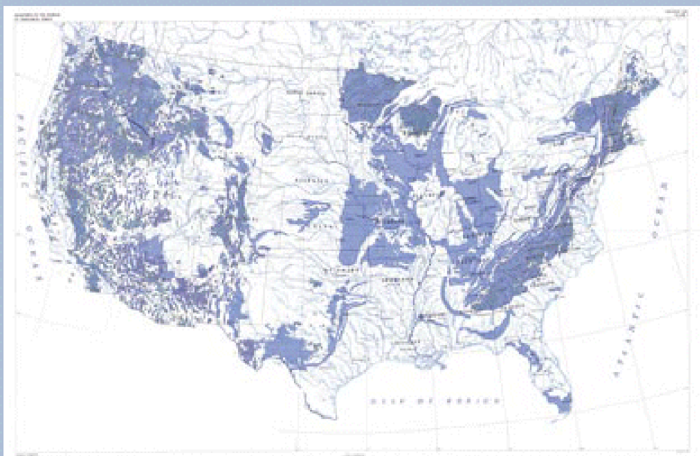
Selling, general and administrative costs have increased for 2004 due to increased incentive compensation and regulatory compliance costs. In an effort to control overhead costs, management efficiency and cost reduction initiatives were implemented in the Aggregates division in both 2004 and 2003.

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

Transportation Exposure

The geological map of the United States prepared by the U.S. Department of the Interior shows the possible sources of indigenous surface rock. The map illustrates the limited supply of indigenous surface rock in the coastal areas of the United States from Virginia to Texas.

With population migration into the southeastern and southwestern United States, local crushed stone supplies must be supplemented, or in some cases, supplied from inland and offshore quarries. The Corporation’s strategic focus includes expanding inland and offshore capacity and acquiring distribution terminal and port locations to offload transported material. In 1994, the Corporation had 7 distribution terminals. Today, with 79 distribution terminals, a growing percentage of the Corporation’s aggregates shipments are being moved by rail or water through this network. The Corporation’s acquisition of the construction aggregates business of Dravo Corporation in 1995 expanded its waterborne capabilities, both by



barge and oceangoing ship, which were enhanced by the 1995 acquisition of a deepwater quarry in Nova Scotia, while the 1998 acquisition of Redland Stone Products Company and the 2001 acquisition of Meridian Aggregates Company increased its rail-based distribution network. In 2001, the Corporation brought additional capacity on line at the Bahamas location, and in 2004, the Corporation boosted potential output at the Nova Scotia location from 3.2 million to 4.8 million tons annually. As the Corporation continues to move more aggregates by rail and water, embedded freight costs have eroded profit margins. The freight costs for aggregates products often equal or exceed the selling price of the underlying aggregates products. The Corporation administers freight costs principally in three ways:

Option 1: The customer supplies transportation.

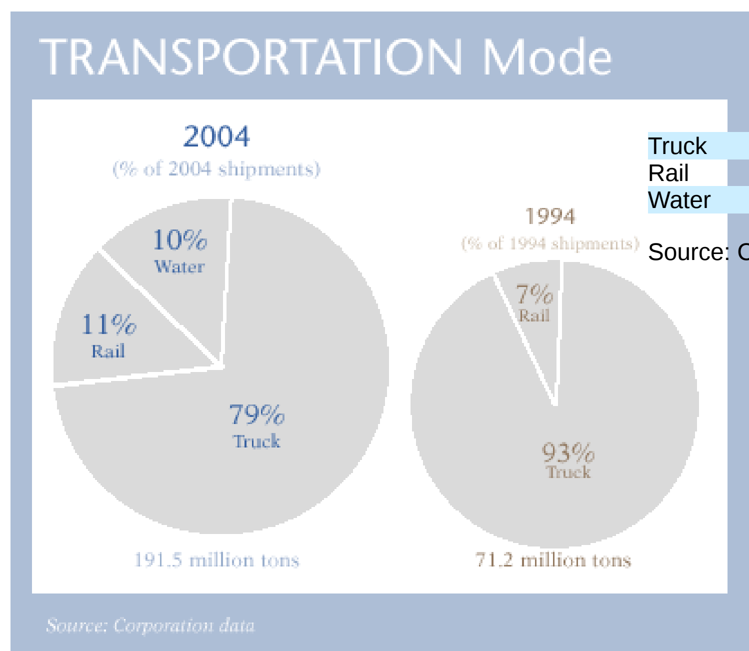
Option 2: The Corporation arranges for a third party carrier to deliver aggregates and specifically passes the freight costs through to the customer. These freight and delivery revenues and costs are presented in the Corporation's consolidated statements of earnings as required by Emerging Issues Task Force Issue No. 00-10, *Accounting For Shipping and Handling Fees and Costs.* These freight and delivery revenues and costs were $208.3 million, $208.4 million and $188.2 million in 2004, 2003 and 2002, respectively.

Option 3: The Corporation transports, either by rail or water, aggregates from a production location to a distribution terminal. The selling price at the distribution terminal includes the freight component to transport the product to the distribution location. These freight costs are included in costs of sales and were $125.8 million, $123.8 million and $123.2 million for 2004, 2003 and 2002, respectively. Transportation costs from the distribution location to the customer are accounted for as described above in options 1 or 2, as applicable.

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

In 1994, 93% of the Corporation's aggregates shipments were moved by truck while the balance was moved by rail. In contrast, in 2004, the Corporation's aggregates shipments moved 79% by truck, 11% by rail and 10% by water (see section *Analysis of Margins* on pages 39 and 40). The Corporation's increased dependence on rail shipments has further exposed it to railroad performance, including track congestion, crew and power availability, and the ability to renegotiate favorable railroad shipping contracts. During 2004, the Corporation experienced significant rail transportation shortages in Texas and parts of the Southeast. These shortages resulted from the downsizing of personnel and equipment made by certain railroads during

the recent economic downturn. Management is reviewing alternatives to address these shortages. Further, in response to these issues, rail transportation providers have focused on increasing the volume of cars related to transportation contracts and are generally enticing customers, through the freight rate structure, to accommodate unit train unloadings. Certain of the Corporation's sales yards in the Southwest have the system capabilities to meet the unit train requirement. Additionally, the Corporation is considering capital investments that would increase these capabilities at certain of these sales yards.



Transportation Mode

	2004 (% of 2004 shipments)	1994 (% of 1994 shipments)
Truck	79%	93%
Rail	11%	7%
Water	10%	—

Source: Corporation data

The waterborne distribution network increases the Corporation's exposure to certain risks, including, among other items, the ability to negotiate favorable shipping contracts demurrage costs, fuel costs, barge or ship availability and weather disruptions. In 2004, the Corporation signed a long-term agreement that provides additional dedicated shipping capacity from its Bahamas and Nova Scotia operations to its coastal ports.

Management expects the multiple transportation modes that have been developed with various rail carriers and via deepwater ship should provide the Corporation with the flexibility to effectively serve customers in the Southwest and Southeast.

Internal Expansion and Integration of Acquisitions

The Corporation's capital expansion, acquisition and greensite programs are focused on taking advantage of construction market growth through investment in both permanent and portable quarrying operations. Recently, the Corporation completed the most extensive array of plant modernization and capacity expansion projects in its history. While such projects generally increase capacity, lower production costs and improve product quality, they experience start-up costs in early years. Additionally, it may take time to increase shipments and absorb the increased depreciation and other fixed costs, particularly in a slow economy. In addition, pricing may be negatively affected by the additional volume available in the market. Therefore, the full economic benefit of a capital project may not be realized immediately subsequent to its completion.

The Corporation's management believes the overall long-term trend for the construction aggregates industry continues to be one of consolidation. Approximately 49% of the Corporation's 2004 net sales were derived from acquisitions that have occurred since January 1, 1995. However, the Corporation's acquisition activity in 2004 and 2003 has been lower than levels experienced in prior years due to the declining number of attractive opportunities in targeted markets. During 2004, the Corporation completed the buyout of the remaining interest in an LLC from a majority member. Additionally, effective January 1, 2005, the Corporation entered into a joint venture with Hunt Midwest in the Kansas City area.

When acquired, new locations generally do not satisfy the Corporation's internal safety, maintenance and pit development standards. In these cases, additional resources must be invested prior to the Corporation realizing the potential benefits of the acquisitions. The initial focus on acquired locations is safety. Additionally, the first repair and maintenance cycle, which normally occurs in the first quarter of each calendar year during the slowest sales and production volumes of the year, requires greater investment to upgrade the machinery and equipment to match the Corporation's operational standards. With any new operation, there is a risk regarding the ability to integrate the operations and achieve expected profitability.

The Corporation's aggregates reserves on the average exceed 50 years of production based on current levels of activity. However, some locations have more limited reserves and may not be able to expand.

Environmental Regulation and Litigation

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

The Clean Air Act, originally passed in 1963 and periodically updated by amendments, is the United States' national air pollution control program that granted the Environmental Protection Agency ("EPA") the authority to set limits on the level of various air pollutants. A defined geographic area must be below the limits set for six pollutants to be in compliance with national ambient air quality standards. Recently, environmental groups have been successful in lawsuits against the federal and certain state departments of transportation, asserting that highway construction in a municipal area should be delayed until the municipality is in compliance with the Clean Air Act. The EPA designates geographic areas as nonattainment areas when the level of air pollutants has exceeded the national standard. Nonattainment areas receive deadlines to reduce air pollutants by instituting various control strategies or face fines or control by the EPA. Included in the nonattainment areas are several major metropolitan areas in the Corporation's markets, including Charlotte, North Carolina; Greensboro/Winston-Salem/High Point, North Carolina; Raleigh/Durham/Chapel Hill, North Carolina; Atlanta, Georgia; Macon, Georgia; Indianapolis, Indiana; Houston/Galveston, Texas; Dallas/Fort Worth, Texas; and San Antonio, Texas. Federal transportation funding through TEA-21 was directly tied to compliance with the Clean Air Act. A successor federal highway bill may have similar provisions.

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

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

Environmental operating permits are, or may be, required for certain of the Corporation's operations, and such permits are subject to modification, renewal and revocation. New permits, which are generally required for opening new sites or for expansion at existing operations, can take up to several years to obtain. Rezoning and special purpose permits are becoming increasingly difficult to acquire. Once a permit is obtained, the location is required to generally operate in accordance with the approved site plan.

The Corporation is engaged in certain legal and administrative proceedings incidental to its normal business activities (see Notes A and N to the audited consolidated financial statements on pages 17 through 21 and pages 31 and 32, respectively).

Magnesia Specialties Business

Through its Magnesia Specialties business, the Corporation manufactures and markets magnesia-based chemicals products for industrial, agricultural and environmental applications, including wastewater treatment and acid neutralization, and dolomitic lime for use primarily in the steel industry. Given the high fixed costs associated with operating the business, low capacity utilization negatively affects its results of operations. Further, the production of certain magnesia chemical products and lime products requires the use of natural gas, coal and petroleum coke to fuel kilns. Changes in the prices of these fuels can have a significant effect on the profitability of the Magnesia Specialties business.

Magnesia Specialties' products used within the steel industry accounted for approximately 48% of the business's net sales for 2004. Accordingly, a portion of the product pricing structure is affected by current economic trends within the steel industry. The U.S. steel industry ran at a strong pace in 2004, which is expected to continue through at least the first half of 2005. However the long-term competitiveness of the U.S. steel industry remains in question.

Approximately 14% of Magnesia Specialties' revenues are derived from foreign jurisdictions, with no single country accounting for 10% or more of its revenues. Magnesia Specialties sells its products in the United States, Canada, Mexico, Europe, South America and the Pacific Rim. As a result of these foreign market sales, the business's financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the business distributes its products. To mitigate the short-term effects of changes in currency exchange rates on operations, the U.S. dollar is principally used as the functional currency in foreign transactions.

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

Structural Composite Products Business

The Corporation, through its wholly owned subsidiary, Martin Marietta Composites, Inc. ("MMC"), is engaged in developmental activities related to fiber-reinforced composite technology. MMC's fiber-reinforced polymer ("FRP") composite materials are manufactured from complex glass fabrics and polymer resins. The fabrics are folded and formed to the desired structural shape, impregnated with resins and drawn under heat and tension through a heated die. This produces an extremely hard structural shape that is cut to the desired length. The component shapes are then assembled with adhesives to construct components for structural applications. Composite technology and products offer weight reduction, corrosion resistance and other positive attributes compared with conventional materials.

MMC is targeting several industries for its FRP composite materials: infrastructure, which includes transportation, such as specialty trucks, truck trailers and railcar components; military applications; bridge decks; and general construction applications. As with any start-up opportunity, these activities are subject to uncertainty and risk, including development and implementation of the structural composites technological process and strategic products for specific market segments and market acceptance of these products.

In 2001, MMC entered into a licensing agreement with Composittrailer N.V. of Belgium under which it will manufacture and market commercial specialty truck trailers in North America, utilizing fiber-reinforced composite materials. The initial trailer models are an open-top van with, or without, a reciprocating slat floor and will target market segments including municipal solid waste, recycling materials, wood chips and agriculture. In future years, prototypes and models are expected to be produced for platform and refrigerated trailers. MMC also signed a licensing agreement related to a proprietary composite sandwich technology, which is expected to play an important role in the product line related to flat panel applications. The first composite trailer manufactured by MMC was completed in 2003.

MMC's line of DuraSpan® bridge decks offers several advantages over bridge decks made of conventional materials, including lighter weight and high strength; rapid installation that significantly reduces construction time and labor costs; and resistance to corrosion and fatigue that results in a longer life expectancy. To date, MMC has completed twenty-seven successful DuraSpan® installations in thirteen states and two foreign countries.

MMC has a 185,000 square foot facility in Sparta, North Carolina, which contains the assembly and manufacturing hub for composite structures. MMC is currently manufacturing bridge decks and composite sandwich flat panels and assembling specialty trailers at this facility. Product trials and commercialization continue to be the near-term focus of MMC. However, management believes that it is approximately six months behind in commercialization of the Structural Composite Products business. During 2004, the Corporation incurred a loss of
$10.7 million

from operations associated with developing this business. At December 31, 2004, this business had assets totaling approximately $15 million in addition to $7.5 million of off-balance sheet obligations, which were primarily lease obligations.

Internal Control and Accounting and Reporting Risk

In 2004, the Corporation devoted significant attention to establishing and documenting procedures and internal controls in compliance with Section 404 of the Sarbanes-Oxley Act. Section 404 requires management to assess the effectiveness of the Corporation's system of internal control over financial reporting and to document its conclusion on management's assessment on an annual basis, at a minimum. The Corporation's independent registered public accounting firm issued an unqualified opinion on management's assessment that the Corporation's internal controls as of December 31, 2004 were effective. A system of internal controls over financial reporting is designed to provide reasonable assurance, in a cost-effective manner, on the reliability of a company's financial reporting and the process for preparing and fairly presenting financial statements in accordance with generally accepted accounting principles. Further, a system of internal control over financial reporting, by its nature, should be dynamic and responsive to the changing risks of the underlying business. Changes in the system of internal control over financial reporting could increase the risk of occurrence of a significant deficiency or material weakness.

The compliance efforts related to the assessment of internal controls over financial reporting will continue in 2005 and beyond. In 2005, the Corporation expects to convert the financial accounting systems of the businesses acquired in the 1998 acquisition of Redland Stone Products Company, which are currently a part of the Southwest Division, and the Magnesia Specialties business to the Corporation's enterprise-wide information system solution. Management believes that the financial system conversion will provide a more centralized system of internal control over financial reporting for these businesses.

Accounting rule-making, which may come in the form of accounting standards, principles, interpretations or speeches, has become increasingly more complex and generally requires significant estimates and assumptions in their interpretation and application. Further, accounting principles generally accepted in the United States continue to be reviewed, updated and subject to change by various rule-making bodies, including the Financial Accounting Standards Board and the Securities and Exchange Commission ("SEC"). For example, the Emerging Issues Task Force ("EITF") has reached a tentative conclusion that pre-production and post-production stripping costs should be capitalized as an investment in the mine and attributed to proven and probable reserves benefited in a systematic and rational manner. However, the SEC has expressed serious concerns over the EITF's tentative consensus and plans to offer its recommendations. Further discussion is expected at the EITF's March 2005 meeting. The Corporation cannot predict whether the deliberations of the EITF will ultimately modify or otherwise result in new accounting standards or interpretations thereof that differ from the Corporation's current practices (see section *Application of Critical Accounting Policies* on pages 53 through 60).

Outlook 2005

Based on current forecasts and indications of business activity, management has a positive outlook for 2005. Aggregates shipments volume is expected to increase 2 percent to 4 percent, and aggregates pricing is expected to increase 3 percent to 4 percent. Management anticipates another strong year in the Magnesia Specialties business, with pretax earnings in the range of $18 million to $20 million. In the Structural Composite Products business, management's objective is to cut the 2004 start-up loss in half, and create a backlog of business that assures solid factory utilization and leads to profitability in 2006.

Under this scenario, management expects 2005 net earnings to range from $2.85 to $3.20 per diluted share. For the first quarter, earnings are expected to range from a net loss of $0.10 per diluted share to net earnings of $0.05 per diluted share.

OTHER FINANCIAL INFORMATION

Application of Critical Accounting Policies

The Corporation's audited consolidated financial statements include certain critical estimates regarding the effect of matters that are inherently uncertain. These estimates require management's subjective and complex judgments. Amounts reported in the Corporation's consolidated financial statements could differ materially if management had used different assumptions in making these estimates, resulting in actual results differing from those estimates. Methodologies used and assumptions selected by management in making these estimates, as well as the related disclosures, have been reviewed by and discussed with the Corporation's Audit Committee and independent auditors. Management's determination of the critical nature of accounting estimates and judgments may change from time to time depending on facts and circumstances that management cannot currently predict.

Impairment Review of Goodwill

Goodwill is required to be tested at least annually for impairment using fair value measurement techniques prescribed by FAS 142, including present value of discounted cash flow techniques. The impairment evaluation of intangible assets is a critical accounting estimate because goodwill represents 49% of the Corporation's total shareholders' equity at December 31, 2004, the evaluation requires the selection of assumptions that are inherently volatile and an impairment charge could be material to the Corporation's financial condition and its results of operations.

There is no goodwill associated with the Specialty Products segment. Management determined the reporting units of the Corporation's Aggregates division, which represent the level at which goodwill is tested for impairment under FAS 142, were as follows:

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

In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* disclosures for the aforementioned reporting units are consolidated for financial reporting purposes as they meet the aggregation criteria. The road paving business was acquired as complementary operations to aggregates and asphalt acquisition opportunities. This business has not been integrated into the core aggregates business and has had limited growth. During 2004, the Corporation disposed of its road paving operations in the Shreveport, Louisiana market. There is no goodwill associated with the road paving business due to the write-off upon adoption of FAS 142. Any impact on reporting units resulting from organizational changes made by management is reflected in the succeeding evaluation.

Goodwill for each of the reporting units was tested for impairment by comparing the reporting unit's fair value to its carrying value, which represents step 1 of a two-step approach required by FAS 142. If the fair value of a reporting unit exceeds its carrying value, no further calculation is necessary. A reporting unit with a carrying value in excess of its fair value constitutes a step 1 failure and leads to a step 2 evaluation to determine the goodwill write off. If a step 1 failure occurs, the excess of the carrying value over the fair value does not equal the amount of the goodwill write off. Step 2 requires the calculation of the implied fair value of goodwill by allocating the fair value of the reporting unit to its tangible and intangible assets, other than goodwill, similar to the purchase price allocation prescribed under Statement of Financial Accounting Standards No. 141, *Business Combinations.* The remaining unallocated fair value represents the implied fair value of the goodwill. If the implied fair value of goodwill exceeds

its carrying amount, there is no impairment. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded for the difference. Further, when performing step 2 and allocating a reporting unit's fair value, assets having a higher fair value as compared to book value increase any possible write off of impaired goodwill.

In 2004, the impairment evaluation was performed as of October 1, which represents the ongoing annual evaluation date. The fair values of the reporting units were determined using a 15-year discounted cash flow model. Key assumptions included management's estimates of future profitability, capital requirements, a 10% discount rate and a 2% terminal growth rate. The implied fair values for each reporting unit exceeded its respective carrying value.

The term of the discounted cash flow model is a significant factor in determining the fair value of the reporting units. A 15-year term was selected based on management's judgment supported by quantitative factors, including the Corporation's strong financial position, long history of earnings growth and the remaining life of underlying mineral reserves, currently estimated at over 50 years at current production rates. Additional consideration was given to qualitative factors, including the Corporation's industry leadership position and the lack of obsolescence risks related to the Aggregates division.

Future profitability and capital requirements are, by their nature, estimates. The profitability estimates utilized in the evaluation were generally consistent with the five-year operating plan prepared by management and reviewed by the Board of Directors. The succeeding ten years (2009 to 2018) of profitability were estimated using assumptions for price, cost and volume increases. These future price and cost assumptions were selected based on a review of these trends during a recent fifteen-year period. Volume increases were capped when shipments reached the current production capacity, although additional capacity can be gained through increases in operating hours and capital infusion. Capital requirements were estimated based on expected recapitalization needs of the reporting units.

The assumed discount rate was higher than the Corporation's weighted-average cost of capital, which has been estimated to be approximately 7.0% to 7.5%. Further, recent historical data would support a terminal growth rate in the range of 3% to 4%. However, a discount rate of 10% and a terminal growth rate of 2% were selected to better match the fair value of the reporting units to the Corporation's enterprise value at the time of the evaluation. Management will continue to evaluate these assumptions in future evaluations based on the Corporation's enterprise value. A higher market price of the Corporation's common stock will increase the enterprise value.

Price, cost and volume increases, profitability of acquired operations, efficiency improvements, the discount rate and the terminal growth rate are significant assumptions in performing the impairment test. These assumptions are interdependent and have a significant impact on the results of the test.

The Southwest reporting unit is significant to the evaluation as $309 million of the Corporation's goodwill at December 31, 2004 is attributable to this reporting unit. During 2004, management made changes to the reporting unit's cost structure that will improve operating results. For the 2004 evaluation, the excess of fair value over carrying value was $30 million. This reporting unit is the most sensitive evaluation as evidenced by the following scenarios:

- An increase in the discount rate to 11% would have resulted in a step 1 failure.
- A decrease in the discount rate to 9% would have resulted in the fair value exceeding the carrying value by $122 million.
- If the present value of projected future cash flows were 5% less than currently forecasted, the reporting unit would have failed step 1.

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

Management believes that all assumptions used were reasonable based on historical operating results and expected future trends. However, if future operating results are unfavorable as compared with forecasts, the results of future FAS 142 evaluations could be negatively affected. Additionally, mineral reserves, which represent the underlying assets producing the reporting units' cash flows, are depleting assets by their nature. The reporting

units' future cash flows will be updated as required based on expected future cash flow trends. Management does not expect significant changes to the valuation term, but will continue to evaluate the discount rate and growth rate for the 2005 evaluation. Future annual evaluations and any potential write off of goodwill represent a risk to the Corporation.

Pension Expense-Selection of Assumptions

The Corporation sponsors noncontributory defined benefit retirement plans that cover substantially all employees and a Supplemental Excess Retirement Plan ("SERP") for certain retirees (see Note J to the audited consolidated financial statements on pages 26 through 29). These benefit plans are accounted for in accordance with Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("FAS 87"). In accordance with FAS 87, annual pension expense (inclusive of SERP expense) consists of several components:

- *Service Cost,* which represents the present value of benefits attributed to services rendered in the current year, measured by expected future salary levels.

- *Interest Cost,* which represents the accretion cost on the liability that has been discounted back to its present value.

- *Expected Return on Assets,* which represents the expected investment return on pension fund assets.

- *Amortization of Prior Service Cost and Actuarial Gains and Losses,* which represents components that are recognized over time rather than immediately, in accordance with FAS 87. Prior service cost represents credit given to employees for years of service prior to plan inception. Actuarial gains and losses arise from changes in assumptions regarding future events or when actual returns on assets differ from expected returns. At December 31, 2004, the net unrecognized actuarial loss and unrecognized prior service cost were $54.7 million and $4.0 million, respectively. Assuming the December 31, 2004 projected benefit obligation, approximately $2.5 million of amortization of these amounts will be a component of 2005 annual pension expense. Any change in pension accounting may require immediate recognition of these unrecognized actuarial losses and prior service costs.

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

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

- The *discount rate* is the rate used to present value the pension obligation and represents the current rate at which the pension obligations could be effectively settled.

- The *rate of increase in future compensation levels* is used to project the pay-related pension benefit formula and should estimate actual future compensation levels.

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

Management's selection of the discount rate is based on the current rate of return for high quality, fixed-income investments with maturities matching the payment of pension benefits that could be purchased to settle the obligations. The recent decline in the interest rate on high-quality corporate bonds has resulted in a lower discount rate in 2004. Of the three key assumptions, the discount rate is generally the most volatile and sensitive estimate. Accordingly, a change in this assumption would have the most significant impact on the annual expense.

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

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

Assumptions are selected on December 31 for the succeeding year's expense. For the 2004 pension expense, the assumptions selected at December 31, 2003, were as follow:

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

Using these assumptions, the 2004 pension expense was $11.5 million. A change in the assumptions would have had the following impact on the 2004 expense:

- A change of 25 basis points in the discount rate would have changed 2004 expense by approximately $1.2 million.
- A change of 25 basis points in the expected long-term rate of return on assets would have changed the 2004 expense by approximately $0.5 million.

For the 2005 pension expense, the assumptions selected were as follow:

Discount rate	6.00%
Rate of increase in future compensation levels	5.00%
Expected long-term rate of return on assets	8.25%

Using these assumptions, the 2005 pension expense is expected to be approximately $12.9 million based on current demographics and structure of the plans. Changes in the underlying assumptions would have the following estimated impact on the 2005 expense:

- A change of 25 basis points in the discount rate would change the 2005 expense by approximately $1.3 million.
- A change of 25 basis points in the expected long-term rate of return on assets would change the 2005 expense by approximately $0.5 million.

The recent recessionary economy and its impact on actual returns on assets have resulted in the Corporation's pension plans being underfunded by $48.1 million at December 31, 2004. Although an underfunded plan indicates a need for cash contributions, the Employee Retirement Income Security Act of 1974 (ERISA) and, more recently, Congressional changes in the timing and calculation of pension plan funding generally allow companies several years to make the required contributions. During this period, improvements in actual returns on assets may decrease or eliminate the need for cash contributions. The Corporation made voluntary pension plan contributions of $51 million in 2004 and total plan contributions of $21 million in 2003, of which $10 million was a voluntary contribution.

Estimated Effective Income Tax Rate

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

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

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

in higher current income tax expense for financial reporting purposes, with the difference between these methods resulting in the establishment of a deferred tax liability.

The Corporation has deferred tax liabilities, primarily for property, plant and equipment and goodwill. The deferred tax liabilities attributable to property, plant and equipment relate to accelerated depreciation and depletion methods used for income tax purposes as compared to straight-line and units of production methods used for financial reporting purposes. These temporary differences will reverse over the remaining useful lives of the related assets. The deferred tax liabilities attributable to goodwill arise as a result of amortizing goodwill for income tax purposes but not for financial reporting purposes. This temporary difference reverses when goodwill is written off for financial reporting purposes, either through divestitures or an impairment charge. The timing of such events cannot be estimated.

The Corporation has deferred tax assets, primarily for employee pension and postretirement benefits, valuation reserves, inventories and net operating loss carryforwards. The deferred tax assets attributable to pension and postretirement benefits relate to deductions as plans are funded for income tax purposes as compared to deductions for financial reporting purposes that are based on accounting standards. The reversal of these differences will depend on the timing of the Corporation's contributions to the related benefit plans as compared to the annual expense for financial reporting purposes. The deferred tax assets attributable to valuation reserves and inventories relate to the deduction of estimated cost reserves and various period expenses for financial reporting purposes that are deductible in a later period for income tax purposes. The reversal of these differences will depend on facts and circumstances, including the timing of deduction for income tax purposes for reserves previously established and the establishment of additional reserves for financial reporting purposes. At December 31, 2004, the Corporation had state net operating loss carryforwards of $103.2 million and related deferred tax assets of $6.9 million that have varying expiration dates. These deferred tax assets have a valuation allowance of $5.7 million, which was established based on the uncertainty of generating future taxable income in certain states during the limited period that the net operating loss carryforwards can be carried forward.

The Corporation's estimated ETR reflects adjustments to financial reporting income for permanent differences. Permanent differences reflect revenues or expenses that are recognized in determining either financial reporting income or taxable income, but not both. An example of a material permanent difference that affects the Corporation's estimated ETR is tax depletion in excess of basis for mineral reserves. For income tax purposes, the depletion deduction is calculated as a percent of sales, subject to certain limitations. As a result, the Corporation may continue to claim tax depletion deductions exceeding the cost basis of the mineral reserves, whereas the depletion expense for book purposes ceases once the value of the mineral reserves is fully amortized. The continuing depletion for tax purposes is treated as a permanent difference. Another example of a permanent difference is goodwill established for book purposes from an acquisition of another company's stock. This book goodwill has no basis for income tax purposes. If the goodwill is subsequently written off as a result of divestitures or impairment losses, the book deduction is treated as a permanent difference. Permanent differences either increase or decrease income tax expense with no offset in deferred tax liability, thereby affecting the ETR.

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

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

Each quarter, management updates the estimated ETR for the current year based on events that occur during the quarter. For example, changes to forecasts of annual sales and related earnings, purchases and sales of business units and product mix subject to different percentage depletion rates are reflected in the quarterly estimate of the annual ETR. As required by FAS 109, some events may be treated as discrete events and the tax impact is fully recorded in the quarter in which the discrete event occurs. During 2004, the estimated ETR was changed in the third quarter primarily to reflect the filing of the 2003 federal and state income tax returns that adjusted prior estimates of permanent and temporary differences and the evaluation of the deferred tax balances and the related valuation allowances. At the end of the fourth quarter, certain estimates were adjusted to reflect actual reported annual sales and related earnings, filing of the remaining 2003 state income tax returns and any changes in permanent differences. Historically, the Corporation’s adjustment of prior estimates of permanent and temporary differences has not been material to its results of operations or total tax expense.

All income tax filings are subject to examination by federal, state and local regulatory agencies, generally within three years of the filing date. Since these examinations could result in adjustments to income tax expense, it is the Corporation’s policy to establish reserves for taxes that may become payable in future years as a result of an examination by the tax authorities. Reserves for tax contingencies related to open years are estimated based upon management’s assessment of risk associated with differences in interpretation of the tax laws between management and the tax authorities. These reserves contain estimated permanent differences and interest expense applied to both permanent and temporary contingencies. The tax reserves are analyzed quarterly and adjusted accordingly based on underlying facts and circumstances. The tax reserves are recorded in current income taxes payable. The Corporation’s open tax years that are subject to examination are 2001 through 2004, including 2000 for certain state and foreign tax jurisdictions.

The Corporation has established $14.2 million in reserves for taxes at December 31, 2004 that may become payable in future years as a result of an examination by tax authorities. The reserves are calculated based on probable exposures to additional tax payments related primarily to federal tax treatment of percentage depletion deductions, acquisition and legal entity transaction structuring and transfer pricing; and state tax treatment of federal bonus depreciation deductions and certain transaction gains. If the open tax years are not examined by federal or state tax authorities, then the tax reserves will be reversed in the period in which the statute of limitations expires for the applicable tax year and recorded as a discrete event. Of the total tax reserve, $6.3 million may reverse into earnings, as a discrete event, during the third quarter of 2005 if an examination of those returns is not begun within the statute of limitations or upon completion of an audit by state or federal tax authorities.

For 2004, an estimated overall ETR of 31.2% was used to calculate the provision for income taxes, a portion of which was allocated to discontinued operations. The estimated ETR is sensitive given that changes in the rate can have a significant impact on annual earnings. A change of 100 basis points in the estimated ETR would affect the 2004 tax provision expense by $1.9 million.

The American Jobs Creation Act of 2004, signed by the President on October 22, 2004, enacted a variety of new business tax incentives that will benefit a broad spectrum of taxpayers, including U.S. manufacturers. The primary piece of the legislation that benefits the Corporation is the tax relief for U.S. based manufacturing activities. This tax benefit, the Production Activities Deduction, provides for a nine percent deduction (fully-phased in over five years) for a very broadly defined category of domestic production activities, subject to certain limitations. The Corporation estimates the production deduction benefit of the legislation will reduce income tax expense by approximately $1.0 million to $2.0 million in 2005, subject to further technical interpretations to be issued in 2005.

Property, Plant and Equipment

Property, plant and equipment is a critical accounting policy due to the net balance representing 45% of total assets at December 31, 2004. Useful lives of the assets can vary depending on factors including production levels, portability and maintenance practices. Additionally, inclement weather can reduce the useful life of an asset. Historically,

the Corporation has not recognized significant losses on the disposal or retirement of fixed assets.

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

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

Well-ordered subsurface sampling of the underlying deposit is basic to determining reserves at any location. This subsurface sampling usually involves one or more types of drilling, determined by the nature of the material to be sampled and the particular objective of the sampling. The Corporation's objectives are to insure that the underlying deposit meets aggregate specifications and the total reserves on site are sufficient for mining. Locations underlain with hard rock deposits, such as granite and limestone, are drilled using the diamond core method, which provides the most useful and accurate samples of the deposit. Selected core samples are tested for soundness, abrasion resistance and other physical properties relevant to the aggregates industry. The number of holes and their depth are determined by the size of the site and the complexity of the site-specific geology. Geological factors that may affect the number and depth of holes include faults, folds, chemical irregularities, clay pockets, thickness of formations and weathering. A typical spacing of core holes on the area to be tested is one hole for every four acres, but wider spacing may be justified if the deposit is homogeneous.

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

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

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

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

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

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

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

The Corporation uses proven and probable reserves as the denominator in its units-of-production calculation to amortize fee ownership mineral deposits. During 2004, depletion expense was $6.0 million.

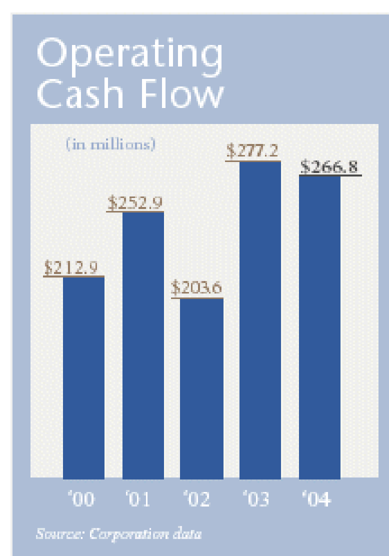
Inventory Standards

The Corporation values its finished goods inventories under the first-in, first-out methodology, using standard costs that are updated annually during the fourth quarter. For quarries, the standards are developed using production costs for a twelve-month period, in addition to complying with the principle of lower of cost or market and adjusting, if necessary, for normal capacity levels and abnormal costs. For sales yards, in addition to production costs, the standards include a freight component for the cost of transporting the inventory from a quarry to the sales yard and materials handling costs. Preoperating start-up costs are expensed and are not capitalized as part of inventory costs. These standards are generally used to determine inventory values for the succeeding year.

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

Liquidity and Cash Flows

Operating Activities



Operating Cash Flow (in millions)

2004	$266.8
2003	$277.2
2002	$203.6
2001	$252.9
2000	$212.9

Source: Corporation data

The primary source of the Corporation's liquidity during the past three years has been cash generated from its operating activities. Cash provided by its operations was $266.8 million in 2004, as compared with $277.2 million in 2003 and $203.6 million in 2002. These cash flows were derived, substantially, from net earnings before deduction of certain noncash charges for depreciation, depletion and amortization of its properties and intangible assets. Depreciation, depletion and amortization were as follow:

years ended December 31 (add 000)	**2004**	2003	2002
Depreciation	**$121,477**	$126,829	$125,817
Depletion	**6,019**	6,261	6,109
Amortization	**5,363**	6,516	6,770
Total	**$132,859**	$139,606	$138,696

The decrease of $10.3 million in cash provided by operating activities in 2004 as compared with 2003 was, among other things, due to the Corporation making contributions of $51.2 million to its pension plan in 2004, compared with $21.1 million in 2003, both of which reduced operating cash flow. During 2003, cash was positively affected by a significant reduction in inventory levels. During 2004, a reduction in accounts receivable as a result of a focus on collection and an increase in accounts payable due to timing of capital purchases both positively contributed to cash flow.

The increase in cash provided by operating activities in 2003 as compared with 2002 of $73.6 million was, among other things, due to working capital control measures implemented in 2003 that resulted in a reduction of inventories and relatively flat accounts receivable despite an increase in net sales. These provided a net source of cash compared with a use of cash in 2002. Additionally, while 2003 earnings before the cumulative effect of the accounting change were comparable to 2002, the 2003 earnings included a pretax gain on divestitures and the sale of assets of $4.4 million, compared with $24.2 million in 2002. In accordance with generally accepted accounting principles, these gains on divestitures are deducted from earnings in determining net cash provided by operating activities. Further, the 2002 divestitures included the write-off of nondeductible goodwill, which resulted in higher income tax payments in 2002. Accounts payable were a source of funds in 2003 compared with a use of funds in 2002. These factors were partially offset by a $21.1 million increase in pension plan contributions in 2003 compared with the prior year.

Investing Activities

Net cash used for investing activities was $123.3 million in 2004, $99.8 million in 2003 and $102.9 million in 2002.

The increase in 2004 as compared with 2003 was the result of increased capital expenditures related to plant modernization and mobile fleet expansion. Additions to property, plant and equipment, excluding acquisitions, increased to $163.4 million in 2004 from $120.6 million in 2003. 2002 capital expenditures were $152.7 million. Additionally, in 2004, the Corporation entered into operating leases with commitments of $7.4 million, primarily for mobile equipment in the ordinary course of business. The Obligations for these operating leases are included under the section *Contractual and Off Balance Sheet Obligations* on pages 63 and 64. Spending for property, plant and equipment, exclusive of acquisitions, is expected to approximate $195.0 million in 2005.

The Corporation used $5.6 million in 2004 and $8.6 million in 2003 primarily for the purchase of the remaining interest in a limited liability company in each year. In 2002, the Corporation used $48.0 million for six acquisitions. All acquisitions have been Aggregates division related. The Corporation's acquisition and capital expenditures reflect planned strategic and capital spending activities that are consistent with management's strategy for investment and expansion within the consolidating aggregates industry.

Proceeds from divestitures of assets include the cash from the sale of surplus land and equipment and primarily the divestitures of several Aggregates division operations. The divestitures contributed pretax cash of $45.7 million, $29.5 million and $97.7 million in 2004, 2003 and 2002, respectively.

Financing Activities

$107.0 million, $66.8 million and $109.7 million of cash was used for financing activities during 2004, 2003 and 2002, respectively.

The Corporation repaid net indebtedness of $1.1 million in 2004 and $29.9 million in 2003, both excluding the impact of the interest rate of swaps. In 2002, the Corporation repaid indebtedness of $74.7 million. Net cash from financing activities excludes the debt obligations assumed in connection with acquisitions of $7.5 million in 2002, which are reflected under the section *Investing Activities* on this page.

In May 2003, the Corporation terminated the interest rate swap agreements entered into in May 2002 and received a cash payment of $12.6 million, which represented the fair value of the swaps on the date of termination. Additional information is contained in Note G to the audited consolidated financial statements on pages 23 and 24.

In 2004, the Board of Directors approved total cash dividends on the Corporation's common stock of $0.76 a share. Regular quarterly dividends were authorized and paid by the Corporation at a rate of $0.18 a share for the first and second quarters and at a rate of $0.20 a share for the third and fourth quarters. Total cash dividends were $36.5 million in 2004 and $33.7 million in 2003.

During 2004, the Corporation continued its common stock repurchase plan through open market purchases pursuant to authority granted by its Board of Directors. In 2004, the Corporation repurchased 1,522,200 shares at an aggregate price of $74.6 million as compared with 331,100 shares at an aggregate price of $15.0 million in 2003. There were no shares repurchased in 2002.

During 2004, the Corporation issued stock under its stock-based award plans, providing $3.8 million in cash. Comparable cash provided by issuance of common stock was $1.0 million and $0.6 million in 2003 and 2002, respectively. The Corporation did not issue any shares of common stock for acquisitions in 2004 and 2003. During 2002, the Corporation issued approximately 244,300 shares of common stock for acquisitions.

Capital Structure and Resources

Long-term debt, including current maturities of long-term debt and commercial paper, decreased to $714.6 million at the end of 2004, from $718.1 million at the end of 2003. The Corporation's debt at December 31, 2004 was principally in the form of publicly issued long-term, fixed-rate notes and debentures. The fair value of the interest rate swaps in effect, $1.0 million and $1.4 million at December 31, 2004 and 2003, respectively, is included in the long-term debt balance. Additionally, the unamortized portion of unwound swaps, $9.3 million and $11.4 million, is included in the December 31, 2004 and 2003 balance, respectively. Net of available cash, which includes escrowed cash, and the effect of interest rate swaps, the Corporation's debt-to-capitalization ratio was 32% at December 31, 2004 as compared with 34% at December 31, 2003 and is calculated as follows:

December 31 (add 000)	**2004**	2003
Total Debt	**$ 714,631**	$ 718,141
Adjusted for:		
Effect of fair value of interest rate swaps	**(10,235)**	(12,830)
Net cash in banks	**(152,093)**	(113,869)
Cash held in escrow	**(7,520)**	(10,440)
Adjusted debt	**544,783**	581,002
Shareholders' equity	**1,153,427**	1,129,847
Total capital	**$1,698,210**	$1,710,849
Debt-to-capital capitalization, net of available cash	**32%**	34%

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

In August 2003, the Corporation entered into new interest rate swap agreements related to $100 million of the $200 million in principal amount of 5.875% Notes due in 2008. The Corporation receives a fixed annual interest rate of 5.875% and pays a variable annual interest rate based on six-month LIBOR plus 1.50%. The swap agreements terminate concurrently with the maturity of the Notes. The Corporation is required to record the fair value of the swap agreements and the change in the fair value of the related Notes in its consolidated balance sheet. In accordance with accounting guidance, no net gain or loss is recorded for the change in fair values of the swap agreements or the Notes. At December 31, 2004, the fair value of the swap agreements was $1.0 million.

Shareholders' equity increased to $1.153 billion at December 31, 2004 from $1.130 billion at December 31, 2003. The Corporation had a minimum pension liability at December 31, 2004 and 2003, respectively. This liability resulted from unfavorable investment returns on pension plan assets in 2002, 2001 and 2000, coupled with a decrease in the discount rate. In accordance with generally accepted accounting principles, a direct charge to shareholders' equity of $0.3 million and $1.3 million was recorded as other comprehensive loss at December 31, 2004 and 2003, respectively.

At December 31, 2004, the Corporation had $161.6 million in cash and cash equivalents. This cash, along with the Corporation's internal cash flows and availability of financing resources, including its access to capital markets, both debt and equity, and its commercial paper program and revolving credit agreement, are expected to continue to be sufficient to provide the capital resources

necessary to support anticipated operating needs, cover debt service requirements, meet capital expenditures and discretionary investment needs and allow for payment of dividends for the foreseeable future. The Corporation’s ability to borrow or issue securities is dependent upon, among other things, prevailing economic, financial and market conditions.

The Corporation’s senior unsecured debt has been rated “BBB+” by Standard & Poor’s and “A3” by Moody’s. The Corporation’s $275 million commercial paper program is rated “A-2” by Standard & Poor’s and “P-2” by Moody’s. In May 2004, Standard & Poor’s lowered its rating on the Corporation’s senior unsecured debt from “A-” to “BBB+”. At the same time, Standard and Poor’s revised its outlook for the Corporation to stable from negative. 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.

At December 31, 2004, the Corporation was authorized to repurchase up to approximately 3.8 million shares of its common stock for issuance under its stock award plans. Management will consider repurchasing shares of its common stock from time to time as deemed appropriate. The timing of such repurchases will be dependent upon availability of shares, the prevailing market prices and any other considerations that may, in the opinion of management, affect the advisability of purchasing the stock.

Contractual and Off Balance Sheet Obligation

In addition to long-term debt, the Corporation has a $275 million revolving five-year credit facility, syndicated through a group of commercial domestic and foreign banks, which supports a $275 million United States commercial paper program. The five-year agreement expires in August 2006 (see Note G to the audited consolidated financial statements on pages 23 and 24). No borrowings were outstanding under the revolving credit agreement or commercial paper program at December 31, 2004.

The Corporation, through its Magnesia Specialties business, is a 50% member of a limited liability company. Each of the two members of the limited liability company has guaranteed 50% of its debt, each up to a maximum of $7.5 million based on repayment obligations under a loan facility. At December 31, 2004, the Corporation recorded a liability of $4.8 million, which reflects its expected future contributions to the limited liability company to repay the debt and is included in the table of contractual obligations. In connection with the limited liability company, Magnesia Specialties entered into a long-term supply agreement under which it will supply processed brine to the other member at a market rate.

At December 31, 2004, the Corporation’s recorded benefit obligation related to postretirement benefits totaled $58.9 million. These benefits will be paid from the Corporation’s assets. The obligation, if any, for retiree medical payments is subject to the terms of the plan.

The Corporation is a minority member of an LLC whereby the majority member is paid preferred returns. The Corporation does not have the right to acquire the remaining interest of the LLC until 2010.

In connection with normal, ongoing operations, the Corporation enters into market-rate leases for property, plant and equipment and royalty commitments principally associated with leased land. Additionally, the Corporation enters into equipment rentals to meet shorter-term, nonrecurring and intermittent needs. Amounts due under operating leases and royalty agreements are expensed in the period incurred. Management anticipates that in the ordinary course of business, the Corporation will enter into additional operating leases for certain mobile and other equipment, as well as royalty agreements for land and mineral reserves during 2005.

The Corporation has purchase commitments for property, plant and equipment, which were $19.6 million as of December 31, 2004. The Corporation also has other purchase obligations related to energy and service contracts, which totaled $26.7 million as of December 31, 2004.

In January 2005, the Corporation repurchased 200,000 shares of its common stock at an aggregate cost of $10.2 million pursuant to an agreement that was entered into in 2004.

The Corporation's contractual commitments as of December 31, 2004 are as follow:

(add 000)	Total	< 1 yr.	1-3 yrs.	3-5 yrs.	> 5 yrs.
ON BALANCE SHEET:					
Long-term debt	$ 704,396	$ 970	$126,817	$200,602	$376,007
Debt guarantee payments to LLC	4,800	1,200	2,400	1,200	—
Postretirement benefits	58,896	3,858	7,980	8,505	38,553
OFF BALANCE SHEET:					
Preferred payments to LLC majority member	5,244	707	1,414	1,414	1,709
Operating leases	127,137	34,069	56,686	28,718	7,664
Royalty agreements	68,307	9,661	16,057	11,361	31,228
Purchase commitments-capital	19,621	19,621	—	—	—
Other commitments - -energy and services	26,765	17,176	9,589	—	—
Repurchases of common stock	10,230	10,230	—	—	—
Total	$1,025,396	$97,492	$220,943	$251,800	$455,161

Notes A, G, J, L and N to the audited consolidated financial statements on pages 17 through 21; 23 and 24; 26 through 29; 30; and 31 and 32, respectively, contain additional information regarding these commitments and should be read in conjunction with the above table.

Contingent Liabilities and Commitments

The Corporation has entered into standby letter of credit agreements relating to workers' compensation and automobile and general liability self-insurance. On December 31, 2004, the Corporation had contingent liabilities guaranteeing its own performance under these outstanding letters of credit of approximately $24.6 million.

In the normal course of business, at December 31, 2004, the Corporation was contingently liable for $129.8 million in surety bonds that guarantee its own performance and are required by certain states and municipalities and their related agencies. The bonds are principally for certain construction contracts, reclamation obligations and mining permits. Four of these bonds, totaling $44.1 million, or 34% of all outstanding surety bonds, relate to specific performance for road projects currently underway. The Corporation has indemnified the underwriting insurance company against any exposure under the surety bonds. In the Corporation's past experience, no material claims have been made against these financial instruments.

Quantitative and Qualitative Disclosures about Market Risk

As discussed earlier, the Corporation's operations are highly dependent upon the interest rate-sensitive construction and steelmaking industries. Consequently, these marketplaces could experience lower levels of economic activity in an environment of rising interest rates or escalating costs (see *Business Environment* section on pages 41 and 42). Aside from these inherent risks from within its operations, the Corporation's earnings are affected also by changes in short-term interest rates, as a result of its temporary cash investments, including money market funds and overnight investments in Eurodollars; interest rate swaps; any outstanding commercial paper obligations; and defined benefit pension plans.

Interest Rate Swaps

In August 2003, the Corporation entered into interest rate swap agreements (the "Swaps") for interest related to $100 million of the $200 million Notes due in 2008 to increase the percentage of its long-term debt that bears interest at a variable rate. The Swaps are fair value hedges designed to hedge against changes in the fair value of the Notes due to changes in LIBOR, the designated benchmark interest rate. The terms of the Swaps include the Corporation receiving a fixed annual interest rate of 5.875% and paying a variable annual interest rate based on six-month LIBOR plus 1.50%.

The Corporation is required to record the fair value of the Swaps and the change in the fair value of the related Notes in its consolidated balance sheet. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* no gain or loss is recorded for the changes in fair values. At December 31, 2004, the fair market value of the Swaps was $1.0 million.

As a result of the Swaps, the Corporation has increased interest rate risk associated with changes in the LIBOR rate. A hypothetical change in interest rates of 1% would change annual interest expense by $1.0 million and also change the fair market value of the debt covered by the Swaps by approximately $4 million.

Commercial Paper Obligations

The Corporation has a $275 million commercial paper program in which borrowings bear interest at a variable rate based on LIBOR. At December 31, 2004, there were no outstanding commercial paper borrowings.

Pension Expense

The Corporation's results of operations are affected by its pension expense. Assumptions that affect this expense include the discount rate and, for the defined benefit pension plans only, the expected long-term rate of return on assets. Therefore, the Corporation has interest rate risk associated with these factors. The impact of hypothetical changes in these assumptions on the Corporation's annual pension expense is discussed in the section *Application of Critical Accounting Policies* on pages 53 through 60.

Aggregate Interest Rate Risk

The pension expense for 2005 is calculated based on assumptions selected at December 31, 2004. Therefore, interest rate risk in 2005 is limited to the potential effect related to the interest rate swaps and outstanding commercial paper. Assuming no commercial paper is outstanding, which is consistent with the balance at December 31, 2004, the aggregate effect of a hypothetical 1% increase in interest rates would increase interest expense and decrease pretax earnings by $1.0 million.

FORWARD-LOOKING STATEMENTS — SAFE HARBOR PROVISIONS

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

Investors are cautioned that all statements in this annual report that relate to the future are forward-looking statement within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and involve risk and uncertainties, and are based on assumptions that the Corporation believes in good faith are reasonable but which may be materially different from actual results. Forward-looking statements give the investor our expectations or forecasts of future events. You can identify these statements by the fact that they do not relate only to historical or current facts. They may use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words of similar meaning in connection with future events or future operating or financial performance. Any or all our forward-looking statements here and in other publication may turn out to be wrong.

Factors that the Corporation currently believes could cause actual results to differ materially from the forward-looking statements in this annual report include, but are not limited to, business and economic conditions and trends in the markets the Corporation serves; the level and timing of federal and state transportation funding; levels of construction spending in the markets the Corporation serves; unfavorable weather conditions; changes in environmental and other governmental regulations; ability to recognize increased sales and quantifiable savings from internal expansion projects; ability to successfully integrate acquisitions quickly and in a cost-effective manner and achieve anticipated profitability; energy costs; rail and water transportation availability and costs, and their effect on the Corporation's ability to improve its margins as a result of its distribution network; continued strength in the steel industry markets served by the Corporation's Magnesia Specialties business; successful development and implementation of the structural composite technological process and strategic products for specific market segments and market acceptance of these products; unanticipated costs or other adverse effects associated with structural composite revenue levels, products pricing, and cost associated with manufacturing ramp-up; the Corporation's reevaluation of the viability of the Structural Composite Products business; possible disruption in commercial activities related to terrorist activity and armed conflict, such as reduced end-user purchases relative to expectations; and other risk factors listed from time to time found in the Corporation's filings with the Securities and Exchange Commission. Other factors besides those listed here may also adversely affect the Corporation and may be material to the Corporation. The Corporation assumes no obligation to update any forward-looking statements.

For a discussion identifying some important factors that could cause actual results to very materially from those anticipated in the forward-looking statements, see the Corporation's Securities and Exchange Commission filings including, but not limited to, the discussion of "Competition" in the Corporation's Annual Report on Form 10-K,"Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 34 through 65 of the 2004 Annual Report and "Note A: Accounting Policies" and " Note N: Commitments and Contingencies" of the "Notes to Financial Statements" on pages 17 through 21 and pages 31 and 32, respectively, of the audited consolidated financial statements included in the 2004 Annual Report.

QUARTERLY PERFORMANCE

(unaudited)

(add 000, except per share)

	Total Revenues		Net Sales		Gross Profit		Earnings (Loss) before Cumulative Effect of Accounting Change		Net Earnings (Loss)	
Quarter	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
First	**$ 344,871**	$ 310,287	**$ 302,211**	$ 270,030	**$ 34,306**	$ 22,717	**$ (6,545)**	$ (14,018)	**$ (6,545)**	$(20,892)
Second	**467,547**	449,225	**412,462**	394,881	**104,817**	99,591	**44,715**	39,650	**44,715**	39,650
Third	**503,187**	494,037	**445,679**	433,265	**110,766**	103,349	**54,003**	45,520	**54,003**	45,520
Fourth	**444,008**	430,999	**390,975**	377,970	**92,301**	83,872	**36,990**	29,345	**36,990**	29,345
Totals	**$1,759,613**	$1,684,548	**$1,551,327**	$1,476,146	**$342,190**	$309,529	**$129,163**	$100,497	**$129,163**	$ 93,623

	Per Common Share									
							Stock Prices			
	Basic Earnings		Diluted Earnings		Dividends Paid		High	Low	High	Low
Quarter	**2004**	2003[1]	**2004**	2003[1]	**2004**	2003	2004		2003	
First	**$(0.14)**	$(0.29)	**$(0.14)**	$(0.29)	**$0.18**	$0.15	**$50.69**	**$43.84**	$32.01	$26.10
Second	**0.93**	0.81	**0.92**	0.81	**0.18**	0.18	**$47.41**	**$41.31**	$38.05	$27.36
Third	**1.12**	0.93	**1.11**	0.93	**0.20**	0.18	**$46.41**	**$41.27**	$39.97	$33.10
Fourth	**0.77**	0.60	**0.77**	0.60	**0.20**	0.18	**$53.91**	**$43.36**	$48.00	$36.45
Totals	**$ 2.68**	$ 2.05	**$ 2.66**	$ 2.05	**$0.76**	$0.69				

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

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

(add 000, except per share)

	Total Revenues		Net Sales		Net Earnings (Loss)		Earnings (Loss) per Diluted Share	
Quarter	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
First	**$ 7,356**	$14,080	**$ 6,685**	$13,282	**$(179)**	$(2,309)	**$ 0.00**	$ (0.05)
Second	**3,520**	23,110	**3,311**	21,711	**(196)**	(74)	**0.00**	(0.00)
Third	**4,136**	23,459	**3,878**	22,463	**485**	(309)	**0.01**	(0.01)
Fourth	**1,963**	5,097	**1,916**	4,267	**874**	(4,052)	**0.01**	(0.08)
Totals	**$16,975**	$65,746	**$15,790**	$61,723	**$ 984**	$(6,744)	**$ 0.02**	$ (0.14)

FIVE YEAR SUMMARY
(add 000, except per share)

	2004	2003	2002	2001	2000
Consolidated Operating Results					
Net sales	**$1,551,327**	$1,476,146	$1,400,386	$1,375,391	$1,211,287
Freight and delivery revenues	**208,286**	208,402	188,167	197,682	170,841
Total revenues	**1,759,613**	1,684,548	1,588,553	1,573,073	1,382,128
Cost of sales, other costs and expenses	**1,337,704**	1,287,769	1,226,604	1,180,601	1,018,658
Freight and delivery costs	**208,286**	208,402	188,167	197,682	170,841
Cost of operations	**1,545,990**	1,496,171	1,414,771	1,378,283	1,189,499
	213,623	188,377	173,782	194,790	192,629
Other operating (income) and expenses, net	**(12,969)**	(7,078)	(4,709)	(12,077)	(4,583)
Earnings from Operations	**226,592**	195,455	178,491	206,867	197,212
Interest expense	**42,954**	42,587	44,028	46,792	41,895
Other nonoperating (income) and expenses, net	**(1,084)**	429	11,476	3,777	(3,991)
Earnings from continuing operations before taxes on income and cumulative effect of change in accounting principle	**184,722**	152,439	122,987	156,298	159,308
Taxes on income	**56,543**	45,198	32,161	53,094	53,846
Earnings from continuing operations before cumulative effect of change in accounting principle	**128,179**	107,241	90,826	103,204	105,462
Discontinued operations, net of taxes	**984**	(6,744)	6,989	2,158	6,565
Earnings before cumulative effect of change in accounting principle	**129,163**	100,497	97,815	105,362	112,027
Cumulative effect of change in accounting for asset retirement obligations	—	(6,874)	—	—	—
Cumulative effect of change in accounting for intangible assets	—	—	(11,510)	—	—
Net Earnings	**$ 129,163**	$ 93,623	$ 86,305	$ 105,362	$ 112,027
Basic Earnings Per Common Share:					
Earnings from continuing operations before cumulative effect of change in accounting principle	**$ 2.66**	$ 2.19	$ 1.87	$ 2.16	$ 2.26
Discontinued operations	**0.02**	(0.14)	0.14	0.04	0.14
Earnings before cumulative effect of change in accounting principle	**2.68**	2.05	2.01	2.20	2.40
Cumulative effect of change in accounting principle	—	(0.14)	(0.24)	—	—
Basic Earnings Per Common Share	**$ 2.68**	$ 1.91	$ 1.77	$ 2.20	$ 2.40
Diluted Earnings Per Common Share:					
Earnings from continuing operations before cumulative effect of change in accounting principle	**$ 2.64**	$ 2.19	$ 1.86	$ 2.15	$ 2.25
Discontinued operations	**0.02**	(0.14)	0.14	0.04	0.14
Earnings before cumulative effect of change in accounting principle	**2.66**	2.05	2.00	2.19	2.39
Cumulative effect of change in accounting principle	—	(0.14)	(0.23)	—	—
Diluted Earnings Per Common Share	**$ 2.66**	$ 1.91	$ 1.77	$ 2.19	$ 2.39
Pro forma earnings, assuming nonamoritization of goodwill provision of FAS 142 adopted on January 1, 2000:					
Net earnings				$ 124,612	$ 127,094
Earnings per diluted share				$ 2.59	$ 2.71
Cash Dividends Per Common Share	**$ 0.76**	$ 0.69	$ 0.58	$ 0.56	$ 0.54
Condensed Consolidated Balance Sheet Data					
Current deferred income tax benefits	**$ 5,750**	$ 21,603	$ 21,387	$ 19,696	$ 16,750
Current assets - other	**618,503**	589,048	511,782	491,949	412,277
Property, plant and equipment, net	**1,065,215**	1,042,432	1,067,576	1,082,189	914,072
Goodwill, net	**567,495**	577,586	577,449	571,186	374,994
Other intangibles, net	**18,642**	25,142	31,972	35,782	34,462
Other noncurrent assets	**80,247**	63,414	55,384	39,191	92,910
Total	**$2,355,852**	$2,319,225	$2,265,550	$2,239,993	$1,845,465
Current liabilities - other	**$ 202,843**	$ 221,683	$ 200,936	$ 209,765	$ 154,377
Current maturities of long-term debt and commercial paper	**970**	1,068	11,389	4,490	45,155
Long-term debt and commercial paper	**713,661**	717,073	733,471	797,385	601,580
Pension and postretirement benefits	**88,241**	76,917	101,796	81,650	84,950
Noncurrent deferred income taxes	**139,179**	116,647	101,018	95,859	80,170
Other noncurrent liabilities	**57,531**	55,990	33,930	28,632	15,947
Shareholders' equity	**1,153,427**	1,129,847	1,083,010	1,022,212	863,286
Total	**$2,355,852**	$2,319,225	$2,265,550	$2,239,993	$1,845,465

Data for “2004 Aggregates Division Net Sales by State of Destination” on page 43

Aggregates Production and Sales

Location	% of Net Sales
Alabama	3%
Arkansas	3%
Bahamas	< 1%
California	< 1%
Florida	5%
Georgia	8%
Illinois	1%
Indiana	5%
Iowa	6%
Kansas	2%
Kentucky	< 1%
Louisiana	4%
Maryland	< 1%
Minnesota	1%
Mississippi	1%
Missouri	1%
Nebraska	2%
Nevada	< 1%
North Carolina	19%
Nova Scotia	< 1%
Ohio	5%
Oklahoma	2%
South Carolina	5%
Tennessee	< 1%
Texas	19%
Virginia	2%
Washington	< 1%
West Virginia	2%
Wisconsin	< 1%
Wyoming	< 1%

Aggregates Sales

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

Data for “2004 and 2003 State Economies” on page 44

State Economies

Location	2004	2003
Alabama	Flat	Recession
Arkansas	Flat	Flat
Arizona	Expanding	Flat
California	Expanding	Flat
Colorado	Flat	Recession
Connecticut	Flat	Recession
Delaware	Expanding	Recession
Florida	Expanding	Expanding
Georgia	Flat	Recession
Idaho	Expanding	Flat
Illinois	Flat	Recession
Indiana	Flat	Recession
Iowa	Flat	Flat
Kansas	Flat	Flat
Kentucky	Flat	Flat
Louisiana	Flat	Recession
Maine	Expanding	Recession
Maryland	Expanding	Expanding
Massachusetts	Flat	Recession
Michigan	Recession	Recession
Minnesota	Expanding	Recession
Mississippi	Flat	Flat
Missouri	Flat	Flat
Montana	Expanding	Flat
Nebraska	Flat	Recession
Nevada	Expanding	Expanding
New Hampshire	Expanding	Flat
New Jersey	Expanding	Flat
New Mexico	Expanding	Expanding
New York	Flat	Recession
North Carolina	Flat	Recession
North Dakota	Expanding	Flat
Ohio	Flat	Recession
Oklahoma	Flat	Flat
Oregon	Expanding	Recession
Pennsylvania	Flat	Recession
Rhode Island	Expanding	Expanding
South Carolina	Flat	Recession
South Dakota	Expanding	Flat
Tennessee	Flat	Flat
Texas	Flat	Flat
Utah	Expanding	Flat
Vermont	Expanding	Flat
Virginia	Expanding	Flat
Washington	Flat	Flat
West Virginia	Flat	Recession
Wisconsin	Flat	Recession
Wyoming	Expanding	Expanding

EXHIBIT 18.01

PREFERABILITY LETTER

February 21, 2005

Board of Directors
Martin Marietta Materials, Inc.
2710 Wycliff Road
Raleigh, NC 27622-0013

Ladies and Gentlemen:

Note J to the Consolidated Financial Statements of Martin Marietta Materials, Inc. included in its annual report on Form 10-K for the year ended December 31, 2004 describes a change in the measurement date for its pension and postretirement plans from year-end to November 30. Management believes that the change in measurement date is preferable in the circumstances because it (i) improves the Corporation's control procedures by allowing additional time for management to review the completeness and accuracy of the actuarial pension and postretirement measurements and (ii) allows the Corporation to fully address this matter before the Corporation's staff is immersed in the year-end financial statement close process and the conclusion of the initial evaluation of internal controls over financial reporting. The Corporation has stated that the new measurement date will allow the Corporation adequate time to review its pension and postretirement plans' calculations prior to future Securities and Exchange Commission accelerated filing requirements. In accordance with your request, we have reviewed and discussed with Corporation officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, based on our review and discussion and with reliance on management's business judgment, we concur that the change in measurement date is preferable in the Corporation's circumstances.

Very truly yours,

Ernst & Young LLP

EXHIBIT 21.01

SUBSIDIARIES OF MARTIN MARIETTA MATERIALS, INC.
AS OF FEBRUARY 18, 2005

Name of Subsidiary	Percent Owned
Alamo Gulf Coast Railroad Company, a Texas corporation	99.5%[1]
Alamo North Texas Railroad Company, a Texas corporation	99.5%[2]
American Aggregates Corporation, a Delaware corporation	100%
American Stone Company, a North Carolina corporation	50%[3]
Bahama Rock Limited, a Bahamas corporation	100%
Central Rock Company, a North Carolina corporation	100%
City Wide Rock & Excavating Co., a Nebraska corporation	100%
Fredonia Valley Railroad, Inc., a Delaware corporation	100%
Granite Canyon Quarry, a Wyoming joint venture	51%[4]
Harding Street Corporation, a Delaware corporation	100%
Hunt Martin Materials, LLC, a Delaware limited liability company	50%[5]
J.W. Jones Materials, LLC, a Delaware limited liability company	99%[6]
Martin Marietta Composites, Inc., a Delaware corporation	100%
Martin Marietta Equipment Company, Inc., a Delaware corporation	100%

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

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

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

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

5 Hunt Martin Materials, LLC is owned 45% by Martin Marietta Materials, Inc. and 5% by Martin Marietta Materials of Missouri, Inc., a wholly owned subsidiary of Martin Marietta Materials, Inc.

6 Martin Marietta Materials, Inc. owns a 99% interest in J.W. Jones Materials, LLC.

Name of Subsidiary	Percent Owned
Martin Marietta Equipment Leasing, LLC, a Delaware limited liability company	100%[7]
Martin Marietta Magnesia Specialties, LLC, a Delaware limited liability company	100%
Martin Marietta Materials Canada Limited, a Nova Scotia, Canada corporation	100%
Martin Marietta Materials of Alabama, LLC, a Delaware limited liability company	100%[8]
Martin Marietta Materials of Florida, LLC, a Delaware limited liability company	100%
Martin Marietta Materials of Louisiana, Inc., a Delaware corporation	100%
Martin Marietta Materials of Missouri, Inc., a Delaware corporation	100%
Martin Marietta Materials Real Estate Investments, Inc., a Delaware corporation	100%
Martin Marietta Materials Southwest, Ltd., a Texas limited partnership	100%[9]
Material Producers, Inc., an Oklahoma corporation	100%[10]
Meridian Aggregates Company, a Limited Partnership, a Delaware limited partnership	100%[11]
Meridian Aggregates Company Northwest, LLC, a Delaware limited liability company	100%[12]
Meridian Aggregates Company Southwest, LLC, a Delaware limited liability	100%[13]
Meridian Aggregates Investments, LLC, a Delaware limited liability company	100%[14]
Meridian Granite Company, a Delaware corporation	100%[15]

7 Martin Marietta Equipment Leasing, LLC is owned 99% by Martin Marietta Materials, Inc. The remaining 1% is owned by Martin Marietta Equipment Company, Inc.

8 Martin Marietta Materials of Alabama, LLC is a wholly owned subsidiary of American Aggregates Corporation.

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

10 Material Producers, Inc. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.

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

12 Martin Marietta Materials, Inc. is the sole member of Meridian Aggregates Company Northwest, LLC.

13 Martin Marietta Materials Southwest, Ltd. is the sole member of Meridian Aggregates Company Southwest, LLC.

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

15 Meridian Granite Company is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership.

Name of Subsidiary	Percent Owned
Mid South-Weaver Joint Venture, a North Carolina joint venture	50%[16]
Mid-State Construction & Materials, Inc., an Arkansas corporation	100%[17]
MTD Pipeline LLC, a Delaware limited liability company	50%[18]
Norman Asphalt Co., an Oklahoma corporation	100%[19]
Powderly Transportation, Inc., a Delaware corporation	100%[20]
R&S Sand & Gravel, LLC, a Delaware limited liability company	100%[21]
Redland Park Development, Inc., a Texas corporation	100%[22]
Rocky Ridge, Inc., a Nevada corporation	100%
Sha-Neva, Inc., a Nevada corporation	100%
Southwest I, LLC, a Delaware limited liability company	100%
Southwest II, LLC, a Delaware limited liability company	100%
Superior Stone Company, a North Carolina corporation	100%
Theodore Holding, LLC, a Delaware limited liability company	60.7%[23]
Valley Stone LLC, a Virginia limited liability company	50%[24]

16 Mid South-Weaver Joint Venture is owned 50% by Central Rock Company.

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

18 Martin Marietta Magnesia Specialties, LLC, a wholly owned subsidiary of Martin Marietta Materials, Inc., owns a 50% interest in MTD Pipeline LLC.

19 Norman Asphalt Co. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.

20 Powderly Transportation, Inc. is a wholly owned subsidiary of Meridian Aggregates Company, a Limited Partnership.

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

22 Redland Park Development, Inc. is a wholly owned subsidiary of Martin Marietta Materials Southwest, Ltd.

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

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

EXHIBIT 23.01

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Martin Marietta Materials, Inc. of our reports dated February 21, 2005, with respect to the consolidated financial statements of Martin Marietta Materials, Inc., Martin Marietta Materials, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Martin Marietta Materials, Inc., included in the 2004 Annual Report to Shareholders of Martin Marietta Materials, Inc.

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

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-115918) pertaining to the Amended and Restated Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors, Martin Marietta Materials, Inc. Performance Sharing Plan, Martin Marietta Materials, Inc. Savings and Investment Plan for Hourly Employees, and Martin Marietta Materials, Inc. Southwest Division 401(k) Plan; Registration Statement (Form S-8 No. 333-85608) pertaining to the Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors; Registration Statement (Form S-8 No. 33-83516) pertaining to the Martin Marietta Materials, Inc. Omnibus Securities Award Plan, as amended; in the Registration Statement (Form S-8 No. 333-15429) pertaining to the Martin Marietta Materials, Inc. Common Stock Purchase Plan for Directors, Martin Marietta Materials, Inc. Performance Sharing Plan and the Martin Marietta Materials, Inc. Savings and Investment Plan for Hourly Employees; in the Registration Statement (Form S-8 No. 333-79039) pertaining to the Martin Marietta Materials, Inc. Stock-Based Award Plan, as amended; and in the Registration Statement (Form S-8 No. 333-37886) pertaining to the Martin Marietta Materials, Inc. Southwest Division 401(k) Plan, of our reports dated February 21, 2005, with respect to the consolidated financial statements of Martin Marietta Materials, Inc., Martin Marietta Materials, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Martin Marietta Materials, Inc. incorporated herein by reference and our report included in the preceding paragraph with respect to the financial statement schedule included in the Annual Report (Form 10-K) of Martin Marietta Materials, Inc. for the year ended December 31, 2004.

Ernst & Young, LLP

Raleigh, North Carolina
February 22, 2005

EXHIBIT 31.01

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

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Martin Marietta Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the

effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: February 22, 2005

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

EXHIBIT 31.02

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

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Martin Marietta Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the

effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: February 22, 2005

By: /s/ Janice K. Henry
Janice K. Henry
Chief Financial Officer

EXHIBIT 32.01

**WRITTEN STATEMENT PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the 2004 Annual Report on Form 10-K (the “Report”) of Martin Marietta Materials, Inc. (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Stephen P. Zelnak, Jr., the Chief Executive Officer of the Registrant, certify that:

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

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

/s/ Stephen P. Zelnak, Jr.
Stephen P. Zelnak, Jr.
Chief Executive Officer

Date: February 22, 2005

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

EXHIBIT 32.02

**WRITTEN STATEMENT PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the 2004 Annual Report on Form 10-K (the “Report”) of Martin Marietta Materials, Inc. (the “Registrant”), as filed with the Securities and Exchange Commission on the date hereof, I, Janice K. Henry, the Chief Financial Officer of the Registrant, certify that:

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

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

/s/ Janice K. Henry
Janice K. Henry
Chief Financial Officer

Date: February 22, 2005

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