

TESTED *by* TIME



GRANITE
CONSTRUCTION

SUMMARY
ANNUAL REPORT

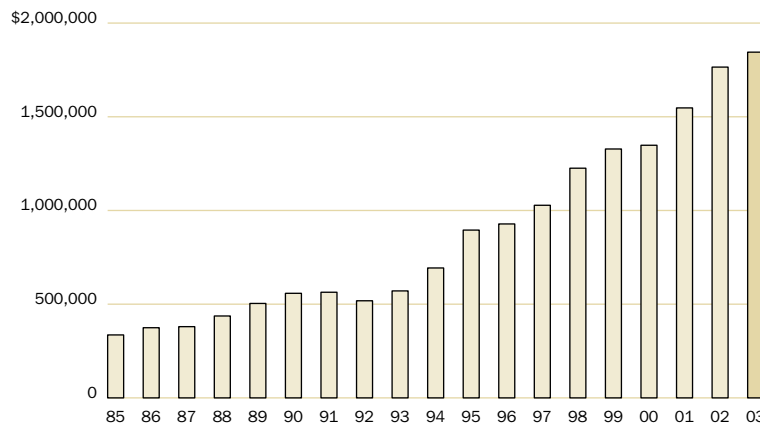
over

80

YEARS

1922-2003

GRANITE'S BUSINESS MODEL, tested by time for more than 80 years, has adapted well to ever-changing market conditions and has assured our steady growth and profitability. Starting as a small paving company in Central California, generations of committed people have built a well-earned reputation, which is respected throughout the heavy construction and materials industries. Over the years, the need for new transportation infrastructure and the repair and upgrade of existing roads, highways, railways, bridges, dams, tunnels and residential and commercial development have fueled a steadily growing demand for Granite's expanding capabilities.



GRANITE: 19 YEARS OF REVENUES
dollars in thousands

GRANITE'S STRONG BUSINESS MODEL

Today, Granite's business model is supporting the company through a world full of new challenges and opportunities. Unique among large construction companies, Granite remains connected to its roots as a contractor that began working on small jobs in local towns and cities. Granite's approach to its business embraces diversification of project type and size, geography and markets. It emphasizes developing a broad range of capabilities to accomplish those projects and choosing carefully among projects to ensure a fair return.

Investing in people is a central element and the model requires that every decision pass the scrutiny of Granite's time-honored core values. These values have served the Company well and can be traced back to the company's early history.

This fundamentally sound business model has helped ensure continuity as the Company moved through succeeding generations of leadership. Including the recent transition, Granite has had only five CEOs in its 82-year history. They have all recognized this model as the foundation for growing the Company in the changing world each encountered during his tenure.

ON THE COVER: *The expansion of HOWLAND HOOK MARINE TERMINAL is Granite Halmar's first major marine structure project. Granite Halmar's \$35 million contract involves extension of the north and south wharves including the addition of crane rails and the strengthening of nearly a thousand feet of the existing wharf. This contract is part of the Port Authority of New York and New Jersey's \$4 billion plan to upgrade New York's harbor port facilities.*

GRANITE





To Our SHAREHOLDERS

2003 was a terrific year for Granite. The resiliency of our business and the quality and commitment of our people came together to produce excellent results. In fact, our financial performance exceeded our expectations, despite the ongoing challenges we faced in many of our markets.

Starting the year with a record backlog of \$1.9 billion provided the foundation for improved performance from our Heavy Construction Division (HCD) business. Conversely, our outlook for the Branch Division in 2003 was guarded as we dealt with the ongoing uncertainty of an economic recovery, significant reductions in state transportation budgets and the reality of a fiscal budget crisis in California. We were anticipating a difficult year overall.

LEFT: *Granite has completed more than \$60 million in improvements to the RANCHO SAN CARLOS project on the Santa Lucia Preserve in the Carmel Valley foothills in California. This environmentally sensitive project includes numerous ponds, wooden and railcar bridges, a golf course, an equestrian center, 75 miles of roads and driveways, underground utilities and sitework.*



GRANITE CONSTRUCTION COMPANY HEADQUARTERS 1920s

IN ANY BUSINESS CLIMATE, OUR SOURCE OF
STRENGTH AND SUPPORT COMES FROM THE DEDICATION
AND COMMITMENT THAT OUR TEAM OF GRANITE
EMPLOYEES BRINGS TO WORK EVERY DAY.

Our strong financial results reflect our ability to overcome many of these challenges while continuing to perform well. In 2003, net income increased, year over year, from \$49.3 million to a record \$60.5 million, however, operating income was down slightly to \$74.6 million from \$78.1 million in 2002.

We are also pleased to report that results were positively influenced by a one-time gain of \$18.4 million in pre-tax income from the sale of the State Road 91 toll road franchise in California. Granite completed construction of the \$60.4 million project in 1995 and has maintained an equity interest as a limited partner since the project's inception. We are very proud of this investment, as it is a great example of our ability to leverage our strong financial resources by investing in transportation-related ventures that provide an above-average return on our investment as well as capitalize on our construction capabilities.

Branch Division revenue was within 3% of the prior year, at \$1.15 billion, and operating income as a percent of revenue was a respectable 8%. Although short of expectations, HCD operating income increased 36% to \$26.2 million. This increase, in part, reflects improved operating performance by Granite Halmar, our New York-based subsidiary. HCD is entering 2004 with a high-quality backlog of over \$1.5 billion, up 12% from 2003. Our backlog provides us with a near-term window into our future, particularly in our HCD business, and we like the view.

While we are proud of our achievements in 2003, we know they were not accomplished by chance. Our Company is guided by a strong set of corporate values. Our first Code of Conduct was published by our founder in the 1940s. This one-page document is visible on the walls of many of our offices.

We will be publishing a third revision of our modern-day Code of Conduct early this year. This Code has guided our corporate governance policies throughout our history. The quality and independence of our Board, and our policies ensuring transparency, reflect these beliefs. Overall, these values are the foundation for how we do business and support many of the strategies that have helped us be successful for over 80 years.

We continue to refine our strategies, which include a transportation construction focus, selective bidding, geographic diversification, decentralized profit centers, ownership of aggregate reserves and working assets, accident prevention, dedication to quality and development of our employees. These strategies are intended to ensure profitability and growth, thereby creating value for you, our shareholders.

A crucial long-term driver of our business will be the reauthorization of the federal highway bill. Expectations are that the six-year Federal Transportation Funding legislation will be passed in 2004, but there is an ongoing debate in the Congress over the size of the bill and how it will be funded. Public funding for infrastructure is likely to continue to be under pressure, particularly in California as the state navigates its way out of a financial crisis. Along with industry representatives, we are working hard to urge state and federal lawmakers that public investment in infrastructure is an investment in a strong economy.

In any business climate, our source of strength and support comes from the dedication and commitment that our team of Granite employees brings to work every day. Managing a construction project or a construction company can sometimes be compared to coaching an athletic team. Typically the best-trained team with the best players wins. At Granite, we continue to recruit top prospects and coach them to reach their full potential. Our Employee Development Initiative has become an integral part of our management practices for nearly four years. This initiative is designed to help build the capacity of our Company by building the capabilities of our people. We believe we have the best team of committed and talented people in the industry and our team continues to get stronger.

We are fortunate at Granite to work with extraordinary employees, shareholders and customers who share a commitment to the success of our Company. While 2004, like 2003, may bring difficult challenges and new opportunities, we are confident in our team and look forward to the year ahead.



A handwritten signature of David H. Watts in dark ink.

DAVID H. WATTS

Chairman of the Board

A handwritten signature of William G. Dorey in dark ink.

WILLIAM G. DOREY

President and Chief Executive Officer

A NOTE FROM BILL DOREY:

This year's letter to our shareholders would be incomplete without acknowledging the dedication, leadership and dignity that Dave Watts brought to the position of CEO during his tenure at Granite. Dave is the epitome of a strong leader and winning coach. With his quiet yet determined style, Dave provided steady leadership and empowered Granite to accomplish things many of us, just a few years ago, never dreamed would have been possible. His values-based style and personal integrity served as a model for all of us. We are also very fortunate to have Dave continue on as Chairman of the Board. I am proud to say that with strong leadership distributed throughout the Company and with people regularly growing into new roles, this planned transition, involving many more people than just the two of us, is going very smoothly.







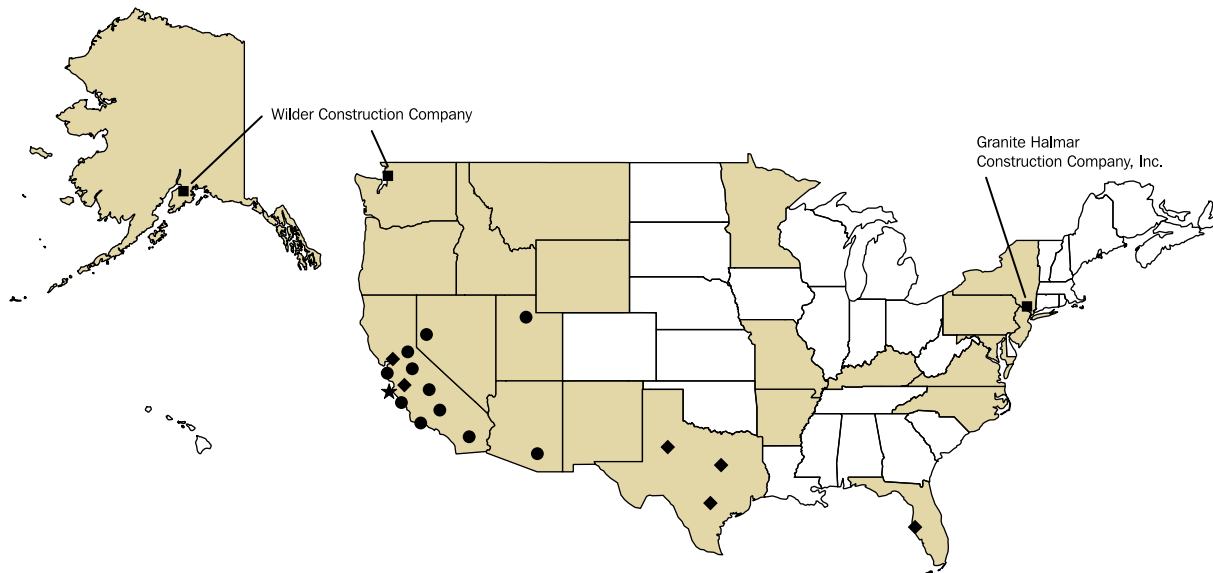
THE OAKLAND WYE, JOINT VENTURE, SAN FRANCISCO BAY AREA
RAPID TRANSIT, *Oakland, California 1967-1970*

PROJECT DIVERSITY is a fundamental element of Granite's business model. Granite builds driveways and airport runways, installs utility infrastructure and rail lines, places drainage under streets and sewage facilities under cities and constructs bridges, city streets and interstate highways. Granite's early ability to build small, quick-turn projects provided a foundation for the company to build ever-larger projects. By learning and adding new capabilities, Granite has gradually developed

the resources and knowledge to tackle a wide variety of heavy construction projects anywhere in the country. In 1985 Granite had revenues of \$336 million—most of which came from work performed in California. Today, the Company has a backlog approaching \$2 billion, 11 Branch offices in 6 Western states and 7 Heavy Construction Division regional and estimating offices. In 2003, the Company worked on and/or completed over 4,000 projects in 23 states.

In addition to building a wide variety of project types and the capability to work across the country, Granite has developed a broad customer base. State departments of transportation, towns, cities, counties, homeowners

LEFT: *Initiated in 2000 by the Minnesota DOT and Metropolitan Council, and due to be completed in 2004, the HIAWATHA LIGHT RAIL TRANSIT will serve the 11.4-mile Hiawatha Corridor between downtown Minneapolis and the Mall of America. A joint venture team led by Granite was selected for this \$291 million Design/Build contract, with Granite's portion approximating \$165 million.*



GRANITE LOCATIONS

■ Project States ★ Headquarters ◆ Heavy Construction Offices ● Branch Offices ■ Affiliates

and local developers employ Granite's Branch Division to build streets, roads and highways, bridges, utility infrastructure and recreational facilities like golf courses and bike trails. Similarly, cities, counties, and state and federal agencies employ Granite's Heavy Construction Division to build everything from commuter rail systems to airport runways and superhighways.

This unique project, geographic, and customer diversity helps smooth out fluctuations in the economic climate for both divisions. The Branch Division, which brings in over 60% of Granite's revenues, bases its business on smaller, quick-turn projects in the West while the Heavy Construction Division competes for larger, multi-year projects throughout the United States.

OVER
4,000
 PROJECTS IN
23
 STATES







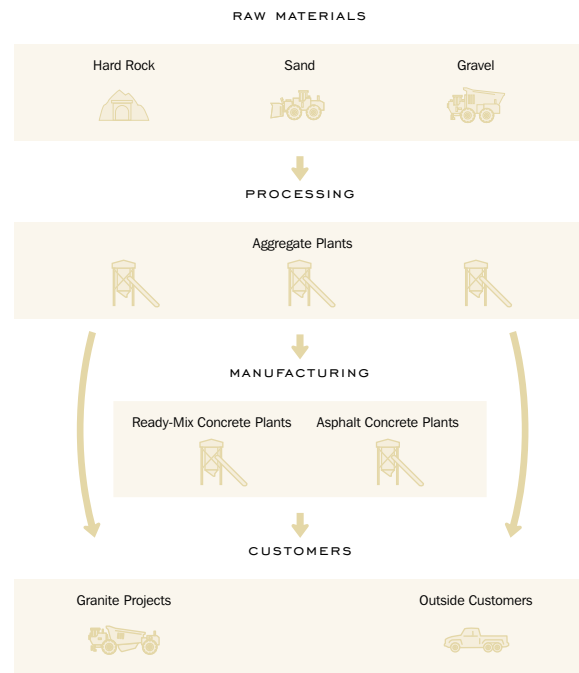
MATERIALS PLANT *Monterey, California, 1962*

SEEKING ONLY THOSE PROJECTS that will deliver a fair return is fundamental to Granite's business model. With a well-earned reputation as a quality contractor, Granite focuses significant attention on the accuracy of its estimating and the effectiveness of project management. To this end, Granite developed a proprietary estimating system that has been

RIGHT: SWAN ROAD AGGREGATE PLANT, near Tucson, produces approximately 900 tons of aggregates yearly. This plant supplies materials needed by Granite's nearby asphalt plant as well as concrete aggregates and other materials purchased by a number of outside customers. Swan Road also produces specialty sands such as mortar, plaster and trap sand.

used and continuously improved for over 20 years. Completed projects are compared to their estimates and variations are noted. Patterns are monitored and used to continually improve the estimating process. Disciplined adherence to job margin has resulted in a consistent record of meeting project budgets and delivering bottom-line performance.

In addition to its use of aggregate materials on the Central Coast in the 1940s, Granite experimented with vertical integration on a large job in Sacramento in the 1950s. By owning and providing its own aggregate materials, the Company was able to improve its margin, helping to ensure a fair return and reduce its risk. From that experiment, Granite's Sacramento branch was built. Sacramento became a model that Granite has replicated throughout its Branch operations in the West. Among 11 of its branch locations, the Company now owns and operates 158 materials processing plants, the majority of which mine sand, gravel and hard rock and manufacture aggregates, ready-mix and asphalt concrete. Today, in addition to providing materials for Granite jobs, these plants contribute to Granite's diversity of income sources as a significant portion of their production is sold to outside customers.



GRANITE'S MATERIALS MANUFACTURING AND SUPPLY PROCESS

I58

PROCESSING PLANTS

associated with 11 branch locations in the West





FOR PROJECTS AS SMALL AS A SINGLE DRIVEWAY TO LARGE INTERSTATE HIGHWAYS, Granite actively develops and nurtures a broad set of capabilities. Unique among large national contractors, the Company regularly adds new skills to tackle bigger and more complex projects while continuing to deliver high-quality small projects that are the roots from which its business model developed. As Granite continues to win increasingly large and more diverse projects, the risks and reward dynamics evolve, the complexity of projects increase

and the number of stakeholders expands. This requires the regular development of new capabilities.

For example, the challenge of working with large numbers of stakeholders on major construction projects led Granite to embrace the concept of “Partnering” with state departments of transportation. Using this approach, in the early stages of a contract, stake-



SAND MINING *north of Monterey, California, 1952*

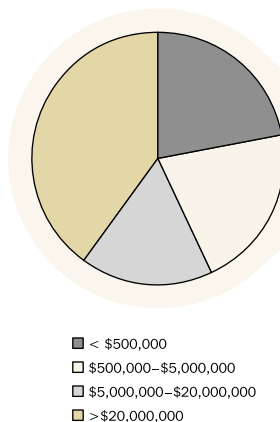
holders develop a common agenda and goals for a project. This methodology effectively ensures that, during the course of a project, problems are put on the table and resolved openly and quickly. It also ensures that everyone involved has the common focus of completing a high-quality project on time and within budget.

Design/Build contracts provide another opportunity for Granite to take basic construction capabilities to a new level. Responding to a need from customers to shorten delivery for large projects and to reduce costs, Granite developed sophisticated capabilities for managing projects at the design stage. As an early leader in this contract delivery method, Granite has enjoyed excellent success as Design/Build has become increasingly widespread in the industry. Granite currently has 11 Design/Build projects in its backlog. In 2003, Design/Build projects represented approximately 17% of total company revenues.

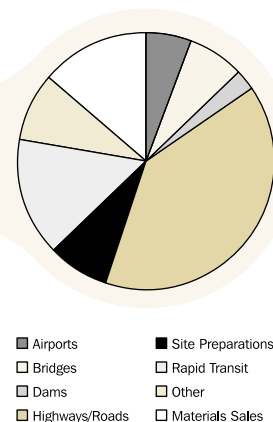
Always seeking new opportunities, the Company has the experience

and confidence to take on an ever-increasing variety of projects. This diversity includes not only different types and sizes of projects, but also different methods of managing the work. The ability to continuously develop, refine and build on new capabilities has contributed to Granite's steady growth.

DIVERSITY OF CONTRACT VALUE
as a percent of total revenue



DIVERSITY OF WORK TYPE
as a percent of total revenue

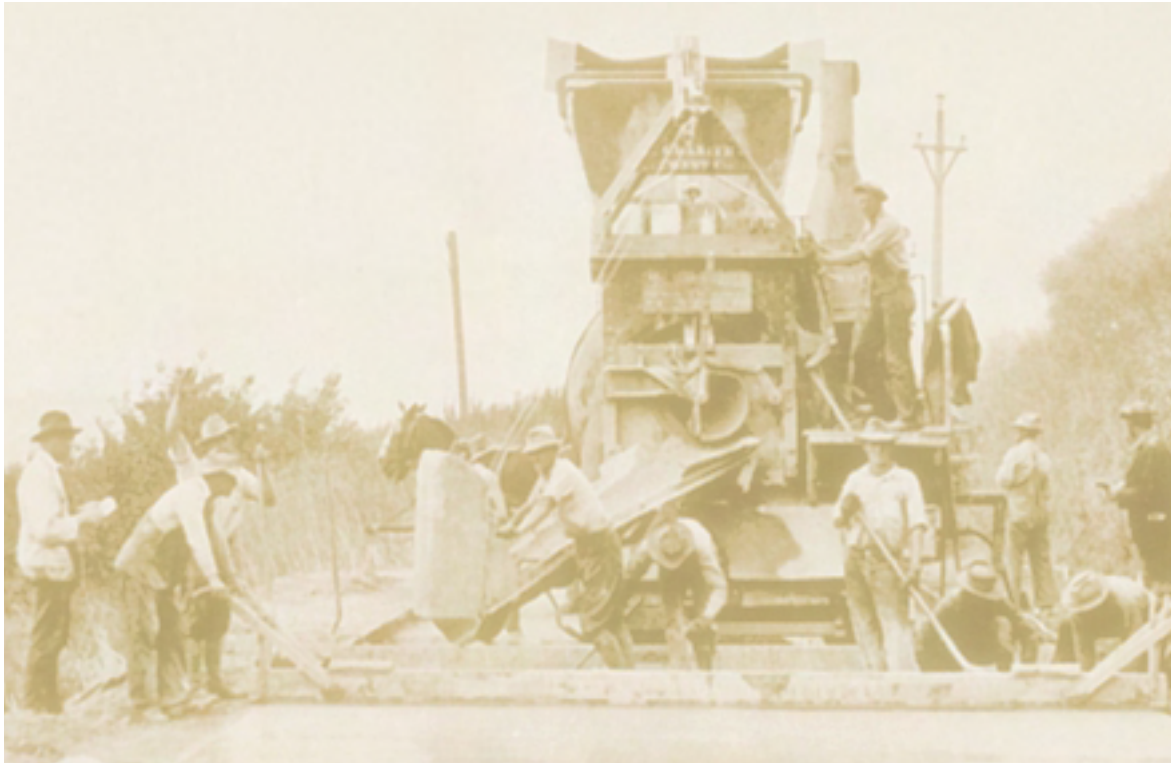


GRANITE'S BROAD PROJECT CAPABILITIES

RIGHT: During 2002 and 2003 Granite was awarded three major I-4 TRANSPORTATION INFRASTRUCTURE projects totaling approximately \$140 million for the Florida Department of Transportation. These contracts include the resurfacing of the St. John's River Bridge (photo) and the rebuilding of its access ramps, the construction and/or widening of 28 highway bridges, widening and repaving sections of I-4, and major improvements to a heavily traveled interchange in downtown Tampa.







PAVING HIGHWAY 129 near Watsonville, California, 1922

INCLUDED ON FORTUNE MAGAZINE'S 2004 LIST OF "THE 100 BEST COMPANIES TO WORK FOR," Granite emphasizes recruiting and retaining people who embody the Company's strong set of core values. In an environment of dispersed leadership, every Granite employee finds opportunities to influence the success of the Company. Granite's nearly four-year-old Employee Development Initiative (EDI) focuses on helping employees grow personally and professionally.

In addition, EDI has helped accelerate learning throughout the company by encouraging the creation of 32 learning communities that foster knowledge transfer and innovation.

Learning has been fundamental to Granite's steady growth over the last 82 years. Often, new skills grew out of necessity as Granite took on an increasingly diverse array of projects. By working with contractors who had experience in different types of work, Granite also added to its knowledge base. As a result, a company that began by doing roads, streets and sitework today also builds rapid-transit systems, highways and airports nationwide—and has been pioneering new ways of partnering with clients in order to more effectively satisfy quality, schedule and budget targets.

From its earliest days, Granite has attracted employees of strong character with the collective desire to build America's infrastructure. Granite's national reputation as one of America's most admired companies is a tribute to these men and women.



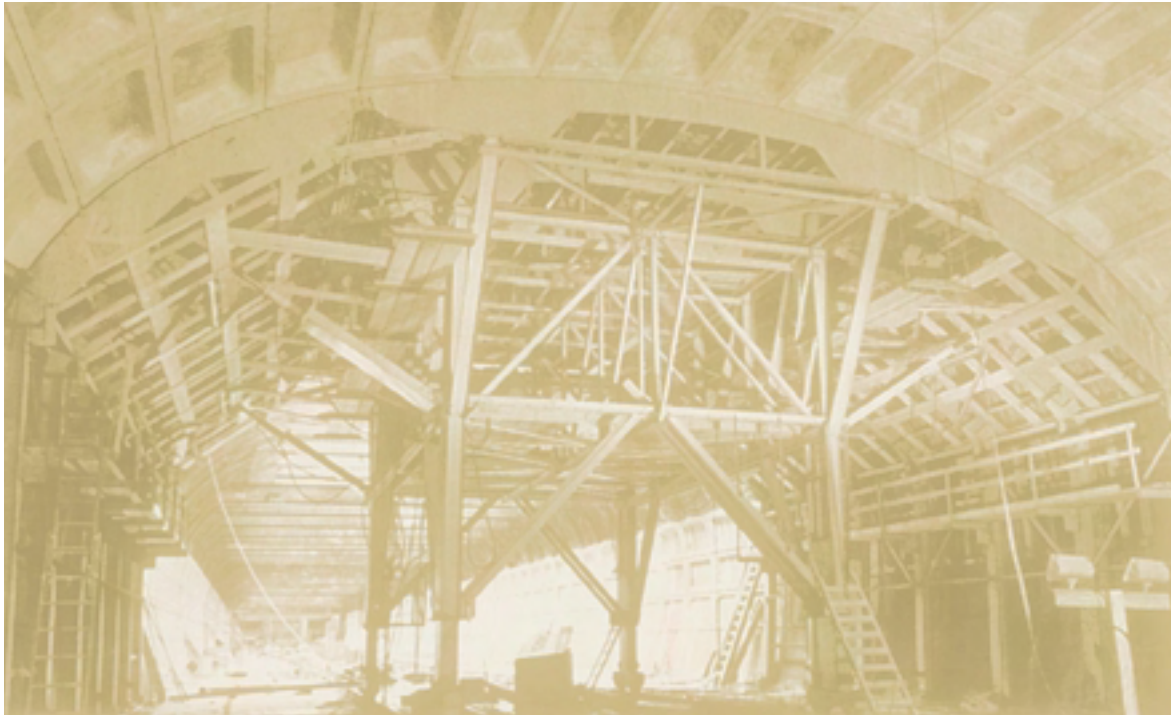
REPAVING MAIN STREET, *Watsonville, California, 1941*

FROM GRANITE'S EARLIEST DAYS, THE COMPANY HAS BUILT INTO ITS OPERATIONS AND CULTURE THE BELIEF THAT EVERY EMPLOYEE MATTERS AND THAT BY GROWING ITS PEOPLE BOTH PERSONALLY AND PROFESSIONALLY THE COMPANY WILL MOVE FORWARD.

RIGHT: *In May 2001, Granite began rehabilitation of 12 miles of the four-lane I-80 HIGHWAY in the Sierra Nevada mountains between Truckee and Floriston, California. The \$100 million project included the production of 350,000 tons of aggregate, sand and rip-rap from an on-site pit. Unique to this project were three 12' by 12' deer crossings built under the roadway to protect both deer and drivers.*







STADIUM-ARMORY TRANSIT STATION, *Washington, D.C., 1973*

GRANITE'S FOUNDERS incorporated a strong ethical core as a key element of their business model as well as an integral part of Granite's culture. The business model demands that managers and employees embrace and nurture these standards.

The recent national emphasis on ethical and transparent corporate governance highlights the value of Granite's time-

honored standards and corporate culture. In addition, Granite's emphasis on employee safety, partnering with customers and community service stems from its deeply embedded traditional values.

Granite's commitment to doing the right thing influences many of the actions and programs the Company undertakes. Three of these programs include safety, partnering and Granite's commitment to community service. For example, in 1990, Granite launched a major safety initiative that reduced accidents threefold, reinforcing its safety culture and improving protection of employees and the public.

Secondly, Granite's ability to pioneer new partnering approaches with customers depends, in large part, on trust. To be successful, it is helpful if each contracting agency believes that Granite will offer leadership that is likely to benefit all stakeholders.

Finally, Granite's long-term emphasis on corporate citizenship encourages employees to respond to the needs of their communities and provides resources and money for a wide range of community programs, projects and initiatives. Recently, for example, Granite helped fund a new Heavy/Civil Construction Laboratory at Cal Poly, while employees in Granite's

Tucson Branch responded to a letter from a young student at Dodge Middle School who requested help filling dangerous potholes in the school parking lot. (See letter below.)

Granite's strong traditional values have influenced the Company's growth and development in important ways. Because of these standards, Granite grows and prospers through the commitment of shareholders who maintain and increase their investment in the Company, loyal employees who contribute not only their time and energy but also their enthusiasm and

customers who return year after year with new contracts and new work.

RIGHT: Granite employees donated approximately 200 man-hours to reconstruct asphalt walkways at the CHAFFEE Zoo in Fresno, California. Granite and its local subcontractors and suppliers also donated all of the equipment and materials required to complete \$40,000 worth of walkway improvements. As a result, Granite is a finalist in the "Contribution to the Community" category for the 2004 California Associated General Contractor's (AGC) Constructor Awards.

BELOW: This letter, from a young student in Tucson, prompted a community action project by Granite.

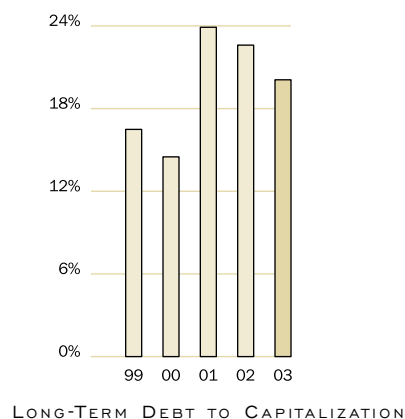
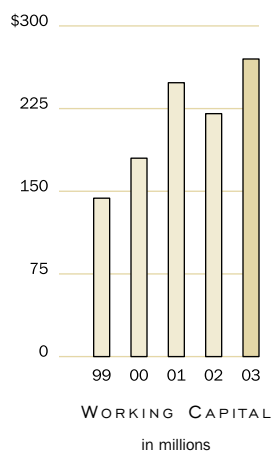
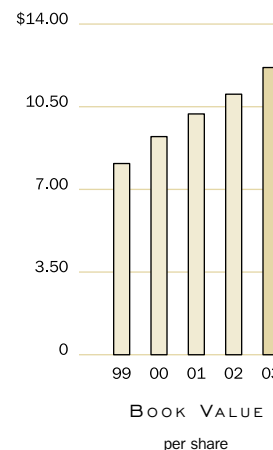
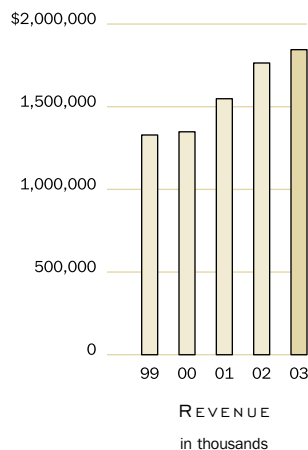


MONITE

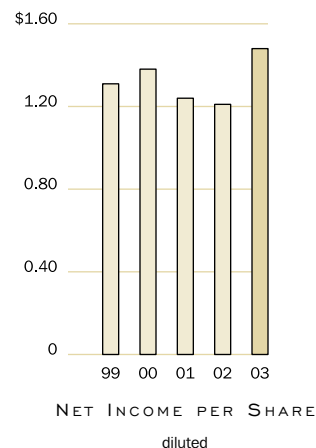




FINANCIAL HIGHLIGHTS



LEFT: Granite Construction is currently completing a four-mile MONORAIL SYSTEM in Las Vegas that includes five new stations and the retrofit of two existing stations. A new contract for phase two is expected to close project funding and begin design activities in 2004. Granite's financial strength and collaboration with an entrepreneurial city administration helped bring this project to reality.



SELECTED CONSOLIDATED FINANCIAL DATA

YEARS ENDED DECEMBER 31,	2003	2002	2001	2000	1999
<i>(In Thousands, Except Per Share Data)</i>					
OPERATING SUMMARY					
Revenue	\$ 1,844,491	\$ 1,764,742	\$ 1,547,994	\$ 1,348,325	\$ 1,328,774
Gross profit	226,450	224,584	183,616	190,618	179,201
As a percent of revenue	12.3%	12.7%	11.9%	14.1%	13.5%
General and administrative expenses	151,879	146,467	119,282	105,043	94,939
As a percent of revenue	8.2%	8.3%	7.7%	7.8%	7.1%
Net income	60,504	49,279	50,528	55,815	52,916
As a percent of revenue	3.3%	2.8%	3.3%	4.1%	4.0%
Net income per share:					
Basic	\$ 1.51	\$ 1.23	\$ 1.27	\$ 1.41	\$ 1.35
Diluted	1.48	1.21	1.24	1.38	1.31
Weighted average shares of common and common stock equivalents outstanding:					
Basic	40,175	40,016	39,794	39,584	39,087
Diluted	40,808	40,723	40,711	40,409	40,445
FINANCIAL POSITION SUMMARY					
Total assets	\$ 1,060,410	\$ 983,819	\$ 929,684	\$ 711,142	\$ 679,572
Cash, cash equivalents and marketable securities	201,985	182,694	193,233	100,731	108,077
Working capital	269,947	220,396	248,413	180,051	143,657
Current maturities of long-term debt	8,182	8,640	8,114	1,130	5,985
Long-term debt	126,708	132,380	131,391	63,891	64,853
Stockholders' equity	504,891	454,869	418,502	377,764	327,732
Book value per share	\$ 12.16	\$ 11.03	\$ 10.19	\$ 9.24	\$ 8.09
Dividends per share	0.40	0.32	0.32	0.29	0.27
Common shares outstanding	41,528	41,257	41,089	40,882	40,494
Backlog	\$ 1,985,788	\$ 1,856,451	\$ 1,377,172	\$ 1,120,481	\$ 793,256

Refer to the Granite 2003 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,	2003	2002	2001
<i>(In Thousands, Except Per Share Data)</i>			
Revenue:			
Construction	\$ 1,591,746	\$ 1,537,009	\$ 1,358,124
Material sales	252,745	227,733	189,870
Total revenue	1,844,491	1,764,742	1,547,994
Cost of revenue:			
Construction	1,413,538	1,351,570	1,209,968
Material sales	204,503	188,588	154,410
Total cost of revenue	1,618,041	1,540,158	1,364,378
Gross profit	226,450	224,584	183,616
General and administrative expenses	151,879	146,467	119,282
Operating income	74,571	78,117	64,334
Other income (expense):			
Interest income	6,422	10,048	10,806
Interest expense	(8,577)	(9,162)	(8,829)
Gain on sales of property and equipment	4,714	2,128	8,917
Equity in income of affiliates	17,657	3,366	5,289
Other, net	2,738	(1,758)	980
	22,954	4,622	17,163
Income before provision for income taxes and minority interest	97,525	82,739	81,497
Provision for income taxes	35,304	29,951	30,969
Income before minority interest	62,221	52,788	50,528
Minority interest in consolidated subsidiaries	(1,717)	(3,509)	—
Net income	\$ 60,504	\$ 49,279	\$ 50,528
Net income per share			
Basic	\$ 1.51	\$ 1.23	\$ 1.27
Diluted	\$ 1.48	\$ 1.21	\$ 1.24
Weighted average shares of common stock			
Basic	40,175	40,016	39,794
Diluted	40,808	40,723	40,711
Dividends per share	\$ 0.40	\$ 0.32	\$ 0.32

Refer to the Granite 2003 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statements.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	2003	2002
<i>(In Thousands, Except Share and Per Share Data)</i>		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 69,919	\$ 52,032
Short-term marketable securities	90,869	96,900
Accounts receivable, net	288,210	265,896
Costs and estimated earnings in excess of billings	31,189	42,966
Inventories	29,878	29,984
Deferred income taxes	22,421	23,056
Equity in construction joint ventures	42,250	24,329
Other current assets	43,915	12,732
Total current assets	618,651	547,895
Property and equipment, net	344,734	347,963
Long-term marketable securities	41,197	33,762
Investments in affiliates	18,295	18,970
Other assets	37,533	35,229
	\$ 1,060,410	\$ 983,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 8,182	\$ 8,640
Accounts payable	135,468	118,813
Billings in excess of costs and estimated earnings	99,337	105,725
Accrued expenses and other current liabilities	105,717	94,321
Total current liabilities	348,704	327,499
Long-term debt	126,708	132,380
Other long-term liabilities	24,938	13,742
Deferred income taxes	44,297	40,011
Commitments and contingencies		
Minority interest in consolidated subsidiaries	10,872	15,318
Stockholders' equity		
Preferred stock, \$0.01 par value, authorized 3,000,000 shares, none outstanding	—	—
Common stock, \$0.01 par value, authorized 100,000,000 shares; issued and outstanding		
41,528,317 shares in 2003 and 41,257,015 in 2002	415	413
Additional paid-in capital	73,651	69,390
Retained earnings	442,272	398,383
Accumulated other comprehensive income (loss)	76	(1,402)
	516,414	466,784
Unearned compensation	(11,523)	(11,915)
	504,891	454,869
	\$ 1,060,410	\$ 983,819

Refer to the Granite 2003 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2003	2002	2001
<i>(In Thousands)</i>			
OPERATING ACTIVITIES			
Net income	\$ 60,504	\$ 49,279	\$ 50,528
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	65,693	58,668	50,017
Gain on sales of property and equipment	(4,714)	(2,128)	(8,917)
Change in deferred income taxes	4,089	(3,311)	5,665
Amortization of unearned compensation	5,951	5,798	4,973
Common stock contributed to ESOP	—	3,989	—
Change in minority interest	1,717	3,509	—
Equity in income of affiliates	(17,657)	(3,366)	(5,289)
Gain on sale of investment	(1,853)	—	—
Changes in assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	(22,314)	21,882	(10,973)
Inventories	106	(1,352)	(2,999)
Equity in construction joint ventures	(17,921)	(1,256)	2,078
Other assets	(29,708)	(616)	1,929
Accounts payable	16,655	(23,113)	(4,773)
Billings in excess of costs and estimated earnings, net	5,389	(6,204)	37,432
Accrued expenses and other liabilities	11,652	2,266	4,960
Net cash provided by operating activities	77,589	104,045	124,631
INVESTING ACTIVITIES			
Purchases of marketable securities	(190,957)	(494,633)	(139,092)
Maturities of marketable securities	191,863	430,549	113,295
Additions to property and equipment	(62,805)	(57,415)	(65,265)
Proceeds from sales of property and equipment	8,498	6,029	14,790
Proceeds from sales of equity investment	6,033	13,051	—
Distributions from (investment in) affiliates, net	14,152	2,447	(7,753)
Acquisition of businesses, net of cash received	—	(36,034)	(11,400)
Other investing activities	177	1,896	(1,698)
Net cash used by investing activities	(33,039)	(134,110)	(97,123)
FINANCING ACTIVITIES			
Proceeds from long-term debt	20,480	5,547	103,000
Repayments of long-term debt	(31,511)	(25,195)	(48,048)
Stock options exercised	43	75	—
Repurchase of common stock	(1,316)	(11,755)	(2,455)
Dividends paid	(15,763)	(13,197)	(12,590)
Proceeds from exercise of warrants	—	2,878	—
Other financing activities	1,404	(1,430)	—
Net cash provided (used) by financing activities	(26,663)	(43,077)	39,907
Increase (decrease) in cash and cash equivalents	17,887	(73,142)	67,415
Cash and cash equivalents at beginning of year	52,032	125,174	57,759
Cash and cash equivalents at end of year	\$ 69,919	\$ 52,032	\$ 125,174
SUPPLEMENTARY INFORMATION			
Cash paid during the period for:			
Interest	\$ 8,935	\$ 9,604	\$ 6,709
Income taxes	30,096	28,599	25,071
Non-cash investing and financing activity:			
Restricted stock issued for services, net	\$ 5,206	\$ 6,144	\$ 6,582
Dividends accrued but not paid	4,153	3,301	3,289
Financed acquisition of assets	4,004	—	—
Subsidiary preferred stock exchanged for subsidiary common stock	—	3,299	—
Subsidiary notes payable issued in exchange for redemption of subsidiary common stock	897	1,868	—

Refer to the Granite 2003 Annual Report on Form 10-K for a complete set of consolidated financial statements and their accompanying notes that are an integral part of the above financial statements.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Granite Construction Incorporated:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Granite Construction Incorporated and its subsidiaries as of December 31, 2003 and December 31, 2002, and the related consolidated statements of income, of stockholders' equity (not presented herein) and of cash flows for each of the three years in the period ended December 31, 2003; and in our report dated March 11, 2004, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying consolidated balance sheets, statements of income and cash flows are fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.



PRICEWATERHOUSECOOPERS LLP
San Jose, California
March 11, 2004

REPORT OF MANAGEMENT

To the Stockholders of Granite Construction Incorporated:

The accompanying consolidated financial statements of Granite Construction Incorporated and its subsidiaries have been prepared by management who are responsible for their integrity and objectivity. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit/Compliance Committee ("the Committee") reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. In addition, the Director of Internal Audit has direct access and meets regularly with the Committee to discuss the results of internal audits and the quality of internal controls.

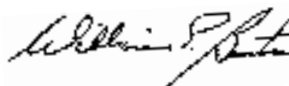
The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Company including the matters in the written disclosures and the letter from the independent auditors required by the Independence Standards Board, Standard No. 1.

The financial statements have been audited by PricewaterhouseCoopers, independent certified public accountants. Their audit was conducted in accordance with generally accepted auditing standards and included a review of internal controls and selective tests of transactions. The Report of Independent Auditors appears on the previous page.

The Committee is composed of five outside directors who have been determined to be independent under the rules of the New York Stock Exchange and the U.S. Securities and Exchange Commission. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examination, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.



WILLIAM G. DOREY
President and Chief Executive Officer



WILLIAM E. BARTON
Senior Vice President and Chief Financial Officer

CORPORATE INFORMATION

ANNUAL STOCKHOLDERS' MEETING

Annual report and proxy statements are mailed on or about April 19, 2004. Granite's annual meeting of stockholders will be held at 10:30 a.m. on May 24, 2004, at the Embassy Suites, 1441 Canyon Del Rey, Seaside, California.

COMMON STOCK INFORMATION

At March 5, 2004, there were 41.4 million shares outstanding and approximately 963 stockholders of record of Granite's common stock. On March 5, 2004, the last reported sale of common stock was \$24.18.

DIVIDEND POLICY

The Company expects to pay a quarterly cash dividend of \$0.10 per share of common stock payable on April 15, 2004 to stockholders of record March 31, 2004. Declaration and payment of dividends is

within the sole discretion of the Company's Board of Directors, subject to limitations imposed by Delaware law, and will depend on the Company's earnings, capital requirements, and financial condition and other such factors as the Board deems relevant.

COMPANY CONTACTS

Jacqueline Underdown
Investor Relations Manager
(831) 761-4741
Jacque.Underdown@gcinc.com

REGISTRAR AND TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
(800) 368-5948
www.rtco.com

FORM 10-K

A copy of the Form 10-K, which is filed with the Securities and Exchange Commission, is available on our website or upon written request to:

Investor Relations
Granite Construction Incorporated
Box 50085
Watsonville, CA 95077-5085

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Ten Almaden Blvd., Suite 1600
San Jose, CA 95113

INTERNET

An electronic version of this report can also be found on Granite's website located at www.graniteconstruction.com.

DESIGNED AND PRODUCED BY AKA, PALO ALTO, CA
PHOTOGRAPHY BY GEORGE FRY

FORWARD-LOOKING DISCLOSURE

This Annual Report contains "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995 regarding future events and the future results of Granite that are based on current expectations, estimates, forecasts, and projects as well as the beliefs and assumptions of Granite's management. Words such as "outlook," "believes," "expects," "appears," "may," "will," "should," "anticipates" or the negative thereof or comparable terminology, are intended to identify such forward-looking statements. These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this Report under the section entitled "Risk Factors" in the Company's most recently filed report on Form 10-K with the Securities and Exchange Commission. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. Granite undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

BOARD OF DIRECTORS



FROM LEFT TO RIGHT: *Joseph J. Barclay, Richard M. Brooks, Rebecca A. McDonald, David H. Kelsey, Raymond E. Miles, David H. Watts, William G. Dorey, Brian C. Kelly, J. Fernando Niebla, Linda Griego, and George B. Searle*

DAVID H. WATTS
Chairman of the Board

WILLIAM G. DOREY
President and Chief Executive Officer
Granite Construction Incorporated

JOSEPH J. BARCLAY
Former Chairman of the Board,
President and Chief Executive Officer,
Cascade Corporation

RICHARD M. BROOKS
Financial Consultant

LINDA GRIEGO
President and Chief Executive Officer,
Griego Enterprises, Inc.

BRIAN C. KELLY
Construction Consultant

DAVID H. KELSEY
Vice President and Chief Financial Officer,
Sealed Air Corporation

REBECCA A. McDONALD
President, Gas & Power BHP Billiton

RAYMOND E. MILES
Trefethen Professor Emeritus and
former Dean,
Walter A. Haas School of Business,
University of California, Berkeley

J. FERNANDO NIEBLA
President, International Technology
Partners L.L.C.

GEORGE B. SEARLE
President, Searle Associates, Inc.

CORPORATE OFFICERS

DAVID H. WATTS
Chairman of the Board

WILLIAM G. DOREY
President and Chief Executive Officer

MARK E. BOITANO
Executive Vice President and
Chief Operating Officer
Manager, Branch Division

PATRICK M. COSTANZO
Senior Vice President and Manager,
Heavy Construction Division

WILLIAM E. BARTON
Senior Vice President and
Chief Financial Officer

ROXANE C. ALLBRITTON
Vice President and Treasurer

MICHAEL FUTCH
Vice President, General Counsel and
Secretary

MICHAEL F. DONNINO
Vice President and Assistant Manager,
Heavy Construction Division

JAMES H. ROBERTS
Vice President and Assistant Manager,
Branch Division

MICHAEL L. THOMAS
Vice President and Director of
Human Resources and
Corporate Social Responsibility

DAVID R. GRAZIAN
Director of Corporate Taxation and
Assistant Secretary

MARY MCCANN-JENNI
Controller and Assistant Secretary



GRANITE CONSTRUCTION INCORPORATED

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Box 50085
Watsonville, CA 95077-5085
(831) 724-1011
www.graniteconstruction.com

BRANCH DIVISION

ARIZONA

4115 E. Illinois Street
Tucson, AZ 85714
(520) 748-8000

BAKERSFIELD

3000 James Road
Bakersfield, CA 93308
(661) 399-3361

CENTRAL VALLEY

2716 Granite Court
Fresno, CA 93706
(559) 441-5700

MONTEREY BAY

580 W. Beach Street
Watsonville, CA 95076
(831) 763-6100

NEVADA

1900 Glendale Avenue
Sparks, NV 89431
(775) 358-8792

NORTHERN CALIFORNIA

4001 Bradshaw Road
Sacramento, CA 95827
(916) 855-4400

SAN JOSE

120 Granite Rock Way
San Jose, CA 95136
(408) 224-4124

SANTA BARBARA

5335 Debbie Lane
Santa Barbara, CA 93111
(805) 964-9951

SOUTHERN CALIFORNIA

38000 Monroe Street
Indio, CA 92203
(760) 775-7500

STOCKTON

10500 S. Harlan Road
French Camp, CA 95231
(209) 982-4750

UTAH

1000 N. Warm Springs Road
Salt Lake City, UT 84116
(801) 526-6000

AFFILIATES

WILDER CONSTRUCTION COMPANY

1525 East Marine View Drive
Everett, WA 98201
(425) 551-3100

GRANITE LAND COMPANY

8950 Cal Center Drive, Suite 201
Sacramento, CA 95826
(916) 362-8844

*For a complete listing of all affiliates, please visit the
Company's website at www.graniteconstruction.com.*

HEAVY CONSTRUCTION DIVISION

NATIONAL OFFICE

585 W. Beach Street
Watsonville, CA 95076
(831) 722-2716

LUBBOCK AREA OFFICE

8802 Ash Avenue
Lubbock, TX 79404
(806) 748-9170

TEXAS REGIONAL OFFICE

701 E. Main Street
Lewisville, TX 75057
(972) 874-8724

AUSTIN ESTIMATING OFFICE

1106 Clayton Lane, #130E
Austin, TX 78723
(512) 451-8545

TAMPA ESTIMATING OFFICE

6215 E. Sligh Avenue
Tampa, FL 33617
(813) 623-5877

WESTERN REGIONAL OFFICE

202 Cousteau Place, Suite 105
Davis, CA 95616
(530) 297-3100

GRANITE HALMAR

160 W. Lincoln Avenue
Mount Vernon, NY 10550
(914) 668-9500

GRANITE

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