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A Year of Bold Action and Record Profit



Lone Star Industries, Inc.
1979 Annual Report

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Lone Star Industries, Inc.
1979 Annual Report

Lone Star is America's leading producer of cement, concrete, sand and gravel, and a major producer of crushed stone and precast products. In 1979, we acted boldly to focus our resources and energies on these products, so essential to the nation's $230 billion construction industry and its 10 million employees, and we achieved record profits.

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Highlights

Corporate Strategy Redirected...building centers operations were sold, realizing $152 million to accelerate growth in cement, aggregates and related products.

Record Earnings Per Share Achieved for the Fourth Consecutive Year...a 48% increase to $5.95 per share. Continuing operations advanced 91% to $5.15 per share.

Dividend Rate Raised to $1.65 for 1980...the fifth consecutive year of higher dividends.

Return on Equity Posted Strong Gain...advanced to 18.9% from 14.5% in 1978.

Portland Cement Company of Utah Acquired...a well-managed company with newly expanded plant in Salt Lake City, serving a growing market.

San-Vel Concrete Corporation Acquired...a leading U.S. producer of prestressed products, including concrete railroad crossties.

Santa Cruz Expansion Continued...to create a virtually new energy-efficient plant, nearly doubled in size to meet growing demand in northern California.

Maryneal Plant Converted from Natural Gas to Coal ...energy-saving and cost-reduction programs continue at all plants.

Miami Plant Capital Improvement Program Launched ...profit turnaround of 1978 acquisition continues as profits nearly triple.

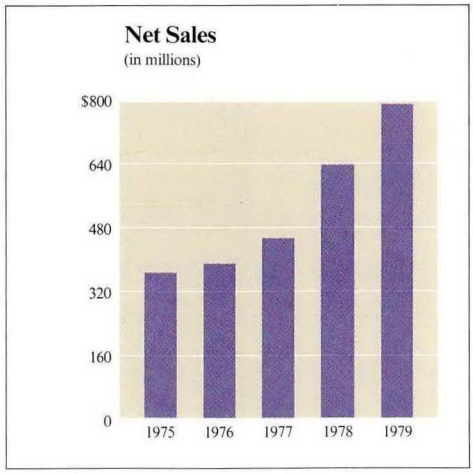
Brazilian Interests Consolidated with Lafarge...joint venture is building new plant at Cantagalo to serve in the State of Rio de Janeiro.

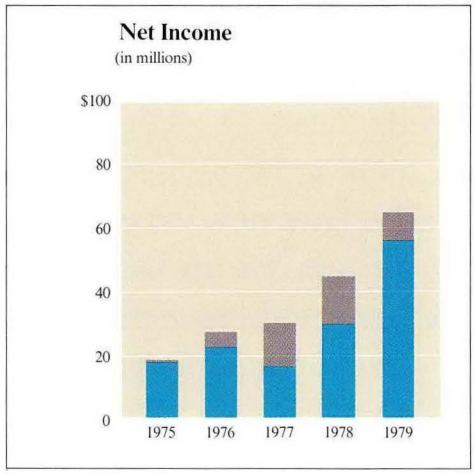
Pryor, Oklahoma and Dixon, Illinois Plant Purchase Agreements Signed...to add 1,325,000 tons of coal-fired cement-producing capacity.

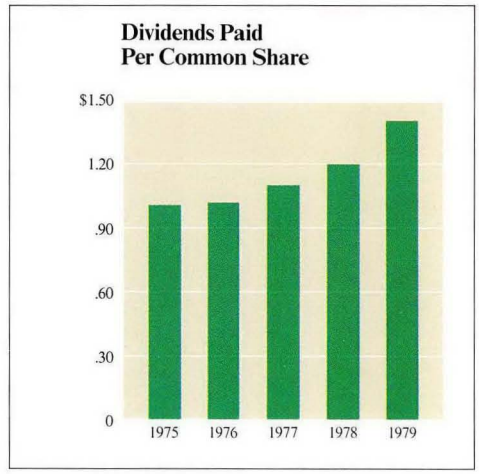
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Financial Highlights

(Dollars in thousands except per share amounts)	1979	1978	Increase (decrease)
Net sales	**$792,508**	$638,276	24%
Income from continuing operations	**$ 56,039**	$ 30,440	84%
Income from discontinued operations	**$ 8,702**	$ 14,938	(42%)
Net income	**$ 64,741**	$ 45,378	43%
Shareholders' equity	**$356,492**	$330,154	8%
Capital expenditures	**$ 83,778**	$ 62,336	34%
Dividends paid on common shares	**$ 15,158**	$ 13,409	13%
Per common share			
Income from continuing operations:			
Primary	**$5.15**	$2.69	91%
Fully diluted	**$4.73**	$2.49	90%
Net income:			
Primary	**$5.95**	$4.02	48%
Fully diluted	**$5.45**	$3.68	48%
Dividends	**$1.40**	$1.20	17%
Shareholders' equity	**$34.15**	$29.24	17%







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To Our Shareholders

The year 1979 was one of bold action...a year in which we developed a new strategy for the challenging 1980's, redirecting our energies and resources into cement, aggregates and related products. That strategy, and that challenge, are the principal subjects of this year's Annual Report.

It was also an outstanding year for profits.

We earned $5.95 per share vs. $4.02 the year before, a rise of 48% and our fourth consecutive year of record performance. The 1979 earnings included 39¢ per share from discontinued operations and a 41¢ gain on their sale. Profit from continuing operations alone, $5.15 per share, exceeded our total 1978 earnings by 28%.

A gain to 18.9% in return on shareholders' equity, over the 14.5% of 1978, was also a significant achievement.

The 1980 dividend rate was raised 18% to $1.65 per share—the fifth consecutive year of increase.

The U.S. cement industry has arrived at a new era of great promise and opportunity—an era of new dynamics:

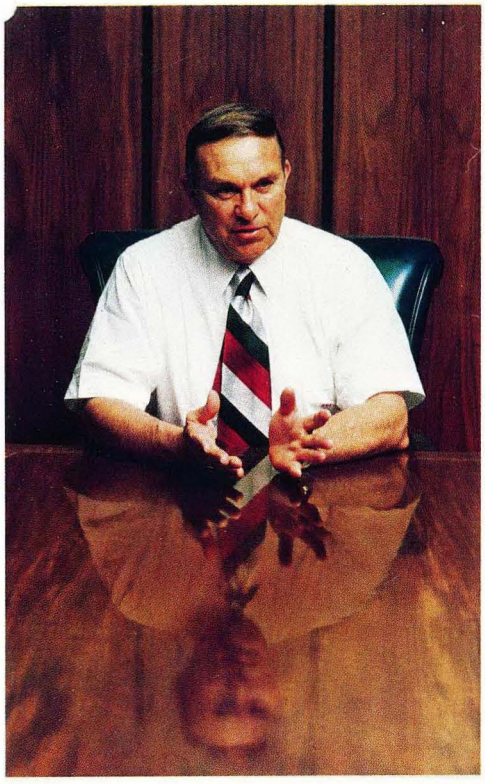
...*pent-up demand* for safer highways, bridges and airport runways, better water and sewage treatment systems, smoother railroad trackbeds and many other needs.

...*limited supply,* caused by a prolonged period of inadequate new investment in the cement industry and aggravated by an increasing number of retirements of old and inefficient plants.

...*new capital formation goals,* achievable by those companies that can generate funds internally and find innovative ways to access capital markets.

...*changing distribution patterns,* with rail and barge shipments challenging the high costs of truck hauling and ocean shipping.

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James E. Stewart

...fuel-saving technologies to lower costs dramatically in cement manufacture through preheaters, precalciners, roller mills and other innovations.

...and perhaps above all, the dynamics of public opinion, rallying against the economic effects of over-regulation and excessive environmentalism.

Lone Star moved swiftly and boldly in early 1979 to meet the challenges of these new dynamics by concentrating upon them all of its skills and resources.

Through disposition of our building centers operations in the second quarter of the year, we realized $152 million, primarily for redeployment into our basic businesses of cement, aggregates and related products.

The company's organization was restructured to more effectively carry out this new strategy. Donald M. Halsted, Jr., formerly head of Atlantic Cement Company, joined Lone Star as President and Chief Operating Officer, and Carmine J. Muratore, formerly Senior Vice President in the investment firm of Blyth Eastman Dillon & Co., joined the company as Executive Vice President—Staff.

Expansion of production capacity was accelerated. The company completed the acquisition of Portland Cement Company of Utah and San-Vel Concrete Corporation and continued its successful turnaround of the operations acquired in Florida in 1978.

Agreements have been reached to acquire additional cement plant operations in Illinois and Oklahoma.

Expansion of our Santa Cruz plant in the San Francisco Bay area is well underway to virtually double production and greatly improve operating efficiency, particularly in the use of energy.

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Our operations in Argentina and Uruguay produced outstanding results during the year. In Brazil, we combined our interests with those of Lafarge of France in a new joint venture, leading to groundbreaking for a 770,000-ton plant to serve Rio de Janeiro and its surrounding markets.

Lone Star repurchased 1,250,000 shares of common stock at $25.50 a share...and has arranged for its shares to be traded on the Frankfurt Stock Exchange.

We have endeavored to alert the government, our industry and the investment community in the U.S. and abroad to the problems and the promise of the cement industry today in terms of limited domestic capacity, increased dependence on foreign imports and rising costs. Our position is presented on the following pages.

The outlook for Lone Star in 1980—despite varying forecasts for the U.S. economy—is for another year of growth in sales and earnings and for further progress in responding to the new dynamics of our industry.

The eventful and significant year just concluded was Lone Star's 60th year in business. We are proud of the achievements brought about in the recent succession of record-breaking years—and view them as the foundation for even more exciting growth in the years ahead.

I am deeply obligated to all of Lone Star's employees, whose dedication and professionalism have brought about these results.



James E. Stewart
Chairman and Chief Executive Officer

March 7, 1980

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"Cement is Turning to Oil"

(Excerpts from recent Lone Star presentations to industry and investment groups in the United States and Europe.)

Cement is used in more than 90% of all construction in America—a $230 billion industry giving employment to some 10 million people.

Cement thus plays a basic role in our lives and economy, but cement supplies have become tight in many areas.

It is now an economic certainty that cement will become even more scarce and therefore more valuable in the future. If oil is "black gold," cement is certainly "gray gold."

Cement, in a manner of speaking, is turning to oil.

In recent years cement was being allocated in tight supply areas—just like oil—on a percentage basis to established customers. New orders often could not be filled, or new customers accepted. Large construction projects had to be postponed or stretched out, affecting jobs and local economies.

Such tight supply situations are becoming chronic in many markets, and may well last through most of the 1980's.

The cement industry may soon face the same public criticisms being made against the oil companies in the United States.

The fact is that the lack of adequate capital formation incentives and excessive government regulations have made it difficult to expand national cement capacity.

One effect of the growing pressure on domestic capacity was a 47% increase in the amount of cement that was imported into the United States last year.

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Meanwhile, the energy supply of the entire world is being questioned and challenged. Events in the Middle East require that every nation's sources and energy uses be rethought.

For cement producers outside the U.S., the practice of importing costly oil to make cement for the U.S. market will no longer be viable.

Future uses of oil must be channeled into industries that require less energy and contribute more to the growth of local economies.

That means that less cement will be available for import, and it means that the U.S. must think in terms of producing more cement for its own use.

Meanwhile, the pressures that increasing demand will have on a limited cement supply in America will be relentless.

In spite of these pressures, some may question whether this is the right time to launch any major expansion program, because of varying economic forecasts of recession.

But meeting the nation's need for cement is a long-term program.

It takes up to 3 years just to obtain the necessary environmental permits to build or expand a cement plant. And once the 2 to 3 year construction phase is completed, the plant will operate for at least 25 years.

Because the product is so vital to the whole construction industry—being by far the least expensive, most versatile and essential building material—we must look well down the road in planning for its continued availability.

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We do not have the luxury of waiting for what might be the exact moment in time to get started. The exact moment is *now.*

Furthermore, new plants with new technology will produce more economically—and older plants must eventually fall by the wayside.

But this plant replacement process is being impeded by excessive government controls, the burden of bureaucratic paperwork and costly and time-consuming regulatory procedures.

What is needed at this critical juncture is the *understanding* of our government agencies—their cooperation, encouragement and assistance in our efforts to meet the national need and serve the national interest.

How do we see the cement industry in the U.S. for the next ten years?

First—1980 will be a *good* year.

Second—From 1981 to 1986 every ton of U.S.-produced cement will be utilized in our domestic market.

Third—The world-wide squeeze on oil and energy will change world trade patterns, including cement.

Fourth—From 1981 to 1989, a great number of outdated high-BTU-using cement plants will be shut down.

Fifth—After 1990, only new plants, those which have been converted to the new technology, and only a few others, will survive.

That's the way we see it—a scenario that will soon change an *"unappreciated"* industry into one that is fully recognized as vital to the national interest.

Something like oil.

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Lone Star at a Glance

Domestic Operations

Cement Plants

	Location	Annual Rated Capacity (12/31/79) (In thousand tons)	Primary Fuel	Process [1]
Northeast Region	Nazareth, Pa.	658	Coal	Dry
Central Region	Greencastle, Ind.	752	Coal	Wet
	Bonner Springs, Kansas	451	Coal	Wet
Southeast Region	Roanoke, Va.	1,200	Coal	Dry
Southwest Region	Houston, Tex.	526	Gas	Wet
	Maryneal, Tex.	545	Coal	Dry
	New Orleans, La.	414	Gas	Wet
Pacific Region	Santa Cruz, Calif.	395/750[2]	Gas/Coal[2]	Dry
	Seattle, Wash.	752	Coal	Wet
Florida	Miami, Fla.	1,200	Gas/Coal[3]	Wet
Portland of Utah	Salt Lake City, Utah	420	Coal	Wet
San-Vel	Littleton, Mass.			
Totals		11 cement plants—7,313 Tons		

International Operations

Argentina	Sierras Bayas	1,100	Gas/Oil	Dry
	Paraná	210	Oil	Wet
Uruguay	Sayago	320	Oil	Wet
Brazil (Joint Venture)	Guaxindiba	490	Oil	Wet
	Aratú	484	Oil	Wet
	Belo Horizonte	900	Oil	Wet/Dry
	Arcos	140	Oil	Wet
Totals		7 cement plants—3,644 Tons		

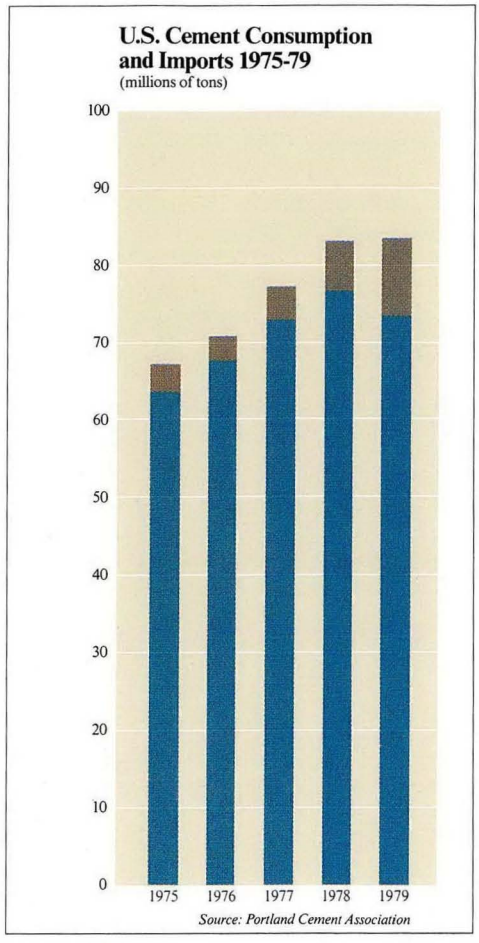
1) In the dry process raw materials are fed to the kiln in a dry state whereas in the wet process materials are delivered mixed with water in the form of slurry.
2) Will be expanded to coal fired 750M tons in 1980.
3) Conversion to coal scheduled for late 1980.

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Other Operations	1979 in Brief
3 aggregates plants and quarries	□ Sales $50.6 million, up 19%. □ Cement sales up 29% due to higher shipments and improved prices. □ Aggregates sales up 11%. □ Impact of New York harbor strike on aggregates business minimized by record truck shipments during the strike and record barge loadings after. □ Announced shutdowns of competitive plants should tighten supply.
portable ready-mix plant	□ Sales $55.8 million, up 16%. □ Greencastle still is the most energy-efficient wet process cement plant in the U.S. □ Rehabilitation program at Bonner Springs added capacity and increased energy efficiency.
12 aggregates plants and quarries, 10 ready-mix plants, 4 concrete block plants, 2 concrete pipe plants, prestressed concrete plant, precast concrete plant	□ Sales $111.5 million, up 13%. □ Despite a ready-mix truck driver strike, ready-mix concrete sales up 5%. □ Aggregates sales 14% higher, a new regional record. □ Other concrete product sales up 26%. □ New aggregates capacity at Chester, Virginia will contribute to the Company's performance in 1980.
12 aggregates plants and quarries, 12 ready-mix plants	□ Sales $155.3 million, up 18%. □ Cement sales 12% higher on stronger volume and improved prices. □ Aggregates sales up 35%. □ Ready-mix concrete sales up 20%. □ Record cement consumption in Texas. □ Continues to be one of the strongest growth regions in the country.
14 aggregates plants and quarries, 6 ready-mix plants	□ Sales $137.2 million, up 16%. □ Cement production supplemented by imports of cement and clinker produced a 16% increase in cement sales. □ Aggregates sales up 15%. □ Ready-mix concrete sales up 20%. □ Other concrete products sales up 16%. □ Shortage of commercial office space in San Francisco and Seattle will contribute to increased demand in this region.
ggregates quarry, 25 ready-mix plants, 8 concrete block plants, prestressed concrete plant	□ Sales $106.8 million, up 55%. □ Turnaround of this joint venture formed in February 1978 continues. □ All product lines benefited by strong performance of Florida's economy in 1979.
	□ This efficient, well-managed operation acquired in September 1979 is strategically located in the fast growing InterMountain region and will contribute significantly to 1980 performance.
aggregates plant, ready-mix plant, prestressed concrete plant, precast concrete plant	□ Company, acquired in June, 1979, manufactures concrete railroad ties in addition to a wide range of prestressed and precast concrete products.
43 aggregates plants and quarries, 55 ready-mix plants, 12 concrete block plants, 2 concrete pipe plants, 3 concrete pre-stressed plants, 2 concrete precast plants	
2 ready-mix plants	□ Sales up 48%. □ Strong local demand increased cement volume to new records for both plants. □ Prices were drastically higher in this highly inflated economy. □ Cement is being imported to meet growing demand.
	□ Sales up 26%. □ Cement sales stronger due to increasing demand. □ Restrictions on cement prices removed early in the year.
	□ Lone Star and Lafarge combined all Brazilian operations early in 1979. (Lone Star: 48%, Lafarge: 52%). □ Combined company constructing a 770,000-ton cement plant at Cantagalo to serve the Rio de Janeiro market. Completion expected during 1982.
2 ready-mix plants	

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Review of Operations



The widely predicted 1979 recession did not arrive, and the construction market remained strong throughout the year.

Shipments by the U.S. portland cement industry were 83.3 million tons, making 1979 the second best year in history. Demand pressures on the industry's cement plant system caused total imports to reach a record level of 9.4 million tons, up from 6.4 million tons imported in 1978.

Lone Star's domestic portland cement shipments increased 5.7%, outperforming the industry. The increase came from technological improvements and higher production, with several Lone Star plants again establishing new all-time records, and from expansions, acquisitions and imports.

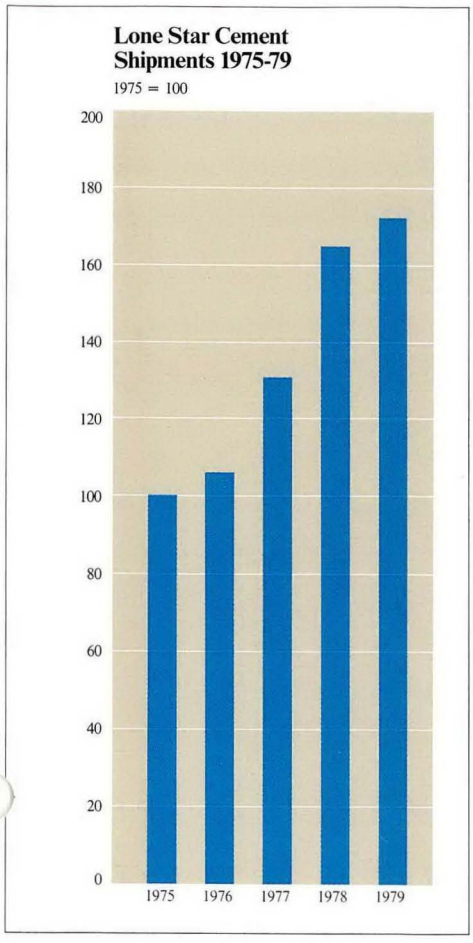
In order to accelerate the company's growth and development in its basic business of cement and related products, the building centers operations—distributors and retailers of building materials—were disposed of during the second quarter of 1979.

These dispositions generated a pretax profit to Lone Star of $8.3 million. Total funds of approximately $152 million were realized primarily for reinvestment in the basic business.

In June, the San-Vel Concrete Corporation in Littleton, Massachusetts, was purchased for $8.5 million. San-Vel is a leading producer of precast, prestressed concrete products. The company is presently participating in a $50 million contract to supply concrete railroad crossties to the Amtrak Northeast Corridor Improvement Program.

The Portland Cement Company of Utah was acquired in September for $38 million in cash. This company has a long history of excellent management and fine service to Salt Lake City and surrounding markets. An

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expansion of its plant to 420,000 tons was completed during 1979.

Lone Star has agreed to acquire the Pryor, Oklahoma cement plant of OKC Corp. and the Dixon, Illinois plant of Medusa Corporation. These facilities would add 1,325,000 tons to Lone Star's rated capacity at a total cost of approximately $94 million. The Pryor acquisition is subject to a number of required approvals.

Turnaround of the Lone Star Florida operations, acquired in 1978, has continued and accelerated, with nearly $4 million contributed to net income in 1979. The first phase of a planned modernization and expansion program is now in progress at the cement plant, involving the upgrading of certain production operations, increased storage capacity, a new packhouse, and conversion of the kiln fuel from natural gas to coal.

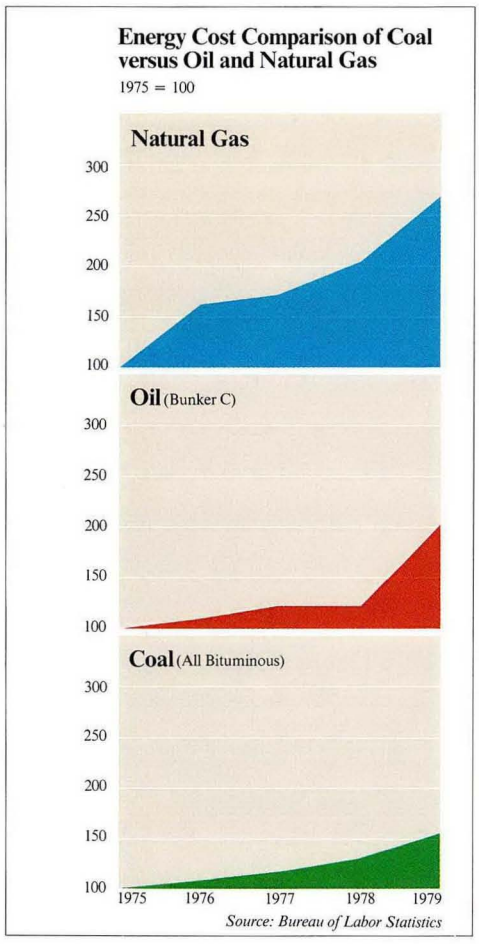
Following the combination of Lone Star's Brazilian interests with Lafarge early in 1979, a new plant project was launched at Cantagalo, to serve the State of Rio de Janeiro. This 770,000-ton facility is being financed by the joint venture, primarily through a $75 million Eurodollar loan from a syndicate of banks.

Excellent results are being achieved by Lone Star's subsidiaries in Argentina and Uruguay, aided by continuing strong demand.

Capital Expenditures at New High

Lone Star's capital expenditures increased for the fifth year in a row, reaching a record $84 million. Today, it takes more than $2 million a year, on average, for needed replacements and additions just to maintain an existing cement plant. This excludes any profit improvement measures like coal conversion or minor additions to capacity.

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A major capital allocation was made in 1979 to the Santa Cruz expansion project in California. Productive capacity there is being increased from 395,000 tons per year to a virtually all new 750,000 tons, and through new technology with conversion to coal, fuel consumption per ton will be greatly reduced.

Energy conservation measures by Lone Star have reduced its BTU consumption per ton of cement produced by 11% over the past five years.

Capital funds continue to be directed to the conversion of other Lone Star cement plants from oil and natural gas to coal: Maryneal in 1979, and currently the Santa Cruz plant, with Miami to follow. Nearly 90% of Lone Star's productive capacity will be fired by coal, on completion of these programs.

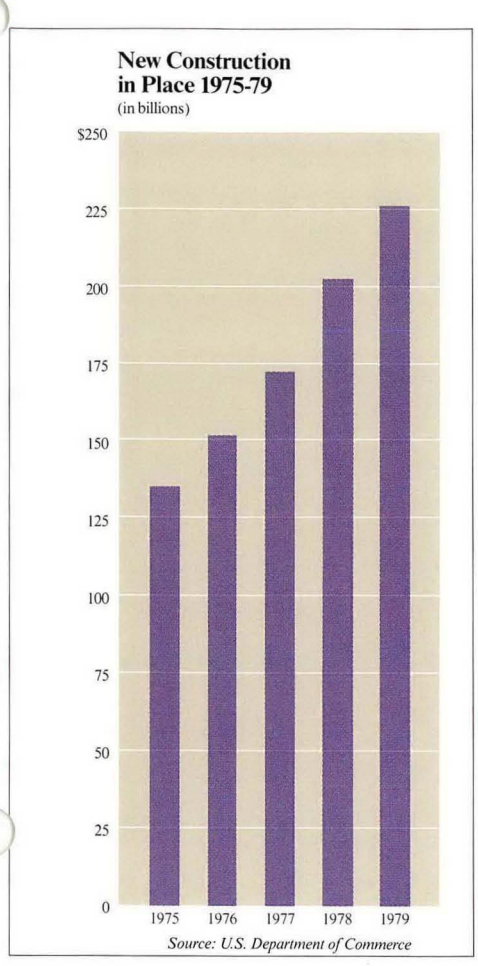
Lone Star's expansion and improvement programs are being financed both through internally generated funds and through innovative approaches to the capital markets.

The company is currently arranging the private placement of $41 million of cumulative preferred stock, and also expects to dedicate a portion of future production of limestone from quarries located adjacent to three of its cement plants for $50 million. The company intends to pursue additional financing during the year, including $38.5 million of borrowings related to the Pryor, Oklahoma plant acquisition.

The Importance of Aggregates

In addition to being the Number One U.S. producer of cement with 7.3 million tons of rated capacity, Lone Star is also the Number One producer of sand and gravel. Last year the company mined, processed and sold some 38 million tons of aggregrates from 43 major sand and

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gravel deposits and stone quarries in 8 states.

The aggregates business complements the cement business, and Lone Star's leadership position in these products is one of the company's real strengths. Approximately 21% of the company's operating profit is now derived from these important, increasingly valuable and profitable materials.

As construction demand grows, the availability of good deposits of aggregates in major metropolitan areas has become restricted.

As an example, rock for construction purposes is not available within 100 miles of Houston. Construction sand is scarce in New York; and in Sacramento, Lone Star has just built a new plant on the last known major deposit of sand and gravel near the city.

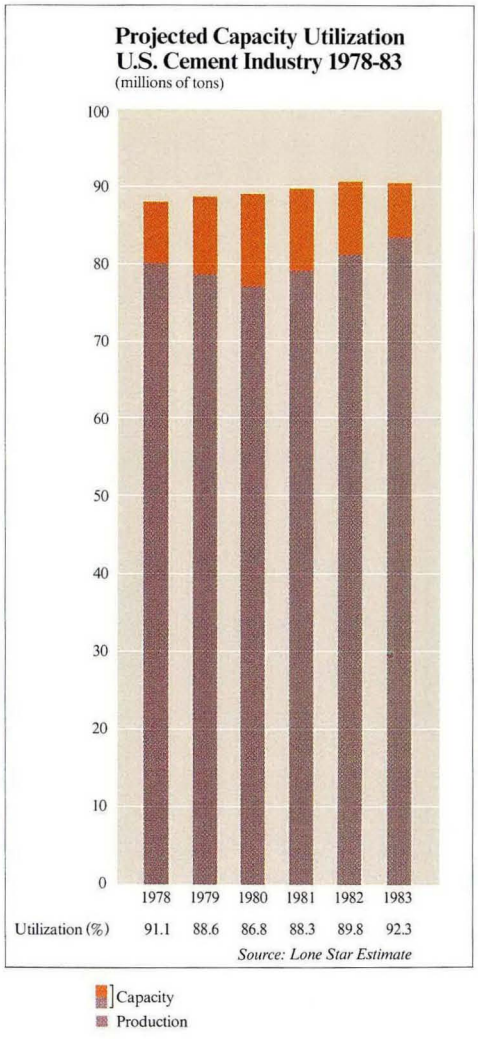
Lone Star has assured itself of many years of aggregates supply, and is adding to those reserves as favorable opportunities arise.

It is very much in the nation's interest for public policy to recognize the importance of such irreplaceable assets, and to protect their use from being foreclosed by environmental regulations or restrictive zoning.

The company is also the leader in ready-mixed concrete, currently producing and marketing approximately 4 million cubic yards of ready-mix annually, delivered by our fleet of 750 ready-mix trucks to job sites in 8 states. In addition, Lone Star produces more than 35 million concrete blocks annually.

Lone Star Hawaii Inc. had an excellent year, recording $20 million in sales and $6.5 million in operating profit. Major developments there include a light industrial park near Pearl Harbor and developments of townhouses and single-family homes on the windward side of Oahu.

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The New Dynamics of Cement

Far-reaching changes in the economics of cement production, distribution and use have brought the industry to a new era of challenge and opportunity.

As an energy-intensive industry, cement makers must:

...find and apply new technologies to save energy,

...resolve distribution problems to save motor fuel,

...accept that imports will dwindle, because no oil-poor nation can afford to buy expensive oil to make inexpensive cement for export, and

...find ways of meeting pent-up U.S. public demand for clean water, efficient sewage disposal, safer highways and bridges, and all the construction needs and demands of our way of life.

The issue, and Lone Star's mission, is to be of significant service to the nation's construction industry by meeting the growing demand for the materials essential to our country's economic growth.

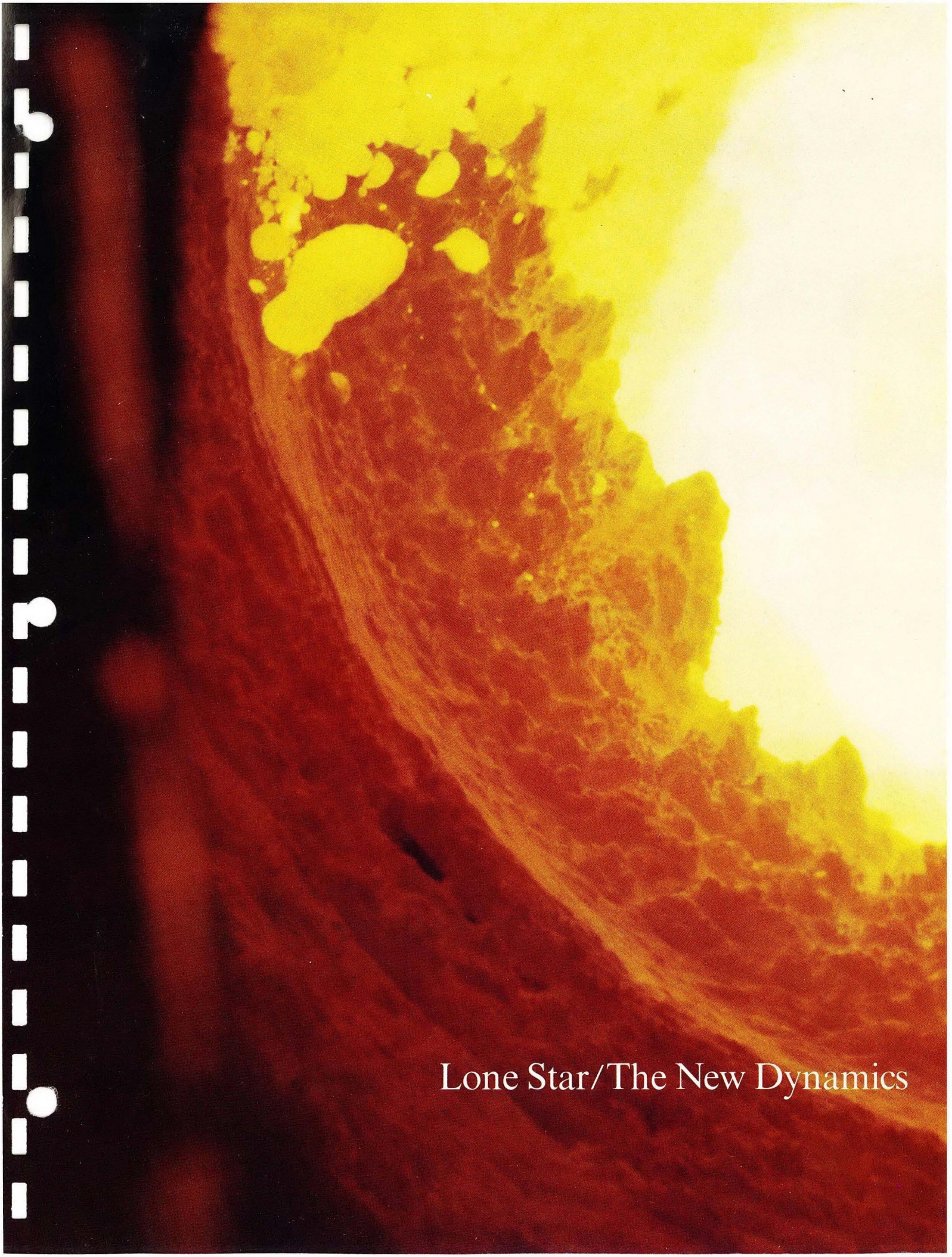
Lone Star has the ability to generate adequate capital for the job, it has the human resources for the task in an experienced workforce and sound management organization, and it has a basic framework of production and distribution facilities on which to build. We are the company that has "put it all together."

We are committed to leadership and participation in the industry's dynamic changes in the 1980's—changes which will be beneficial to the nation, to the construction industry, to the company and to its shareholders.

The following pages illustrate some of Lone Star's capabilities and achievements in keeping pace with these new dynamics.

Inferno-like interior of a giant rotary kiln where raw materials are calcined at 2700° Fahrenheit.

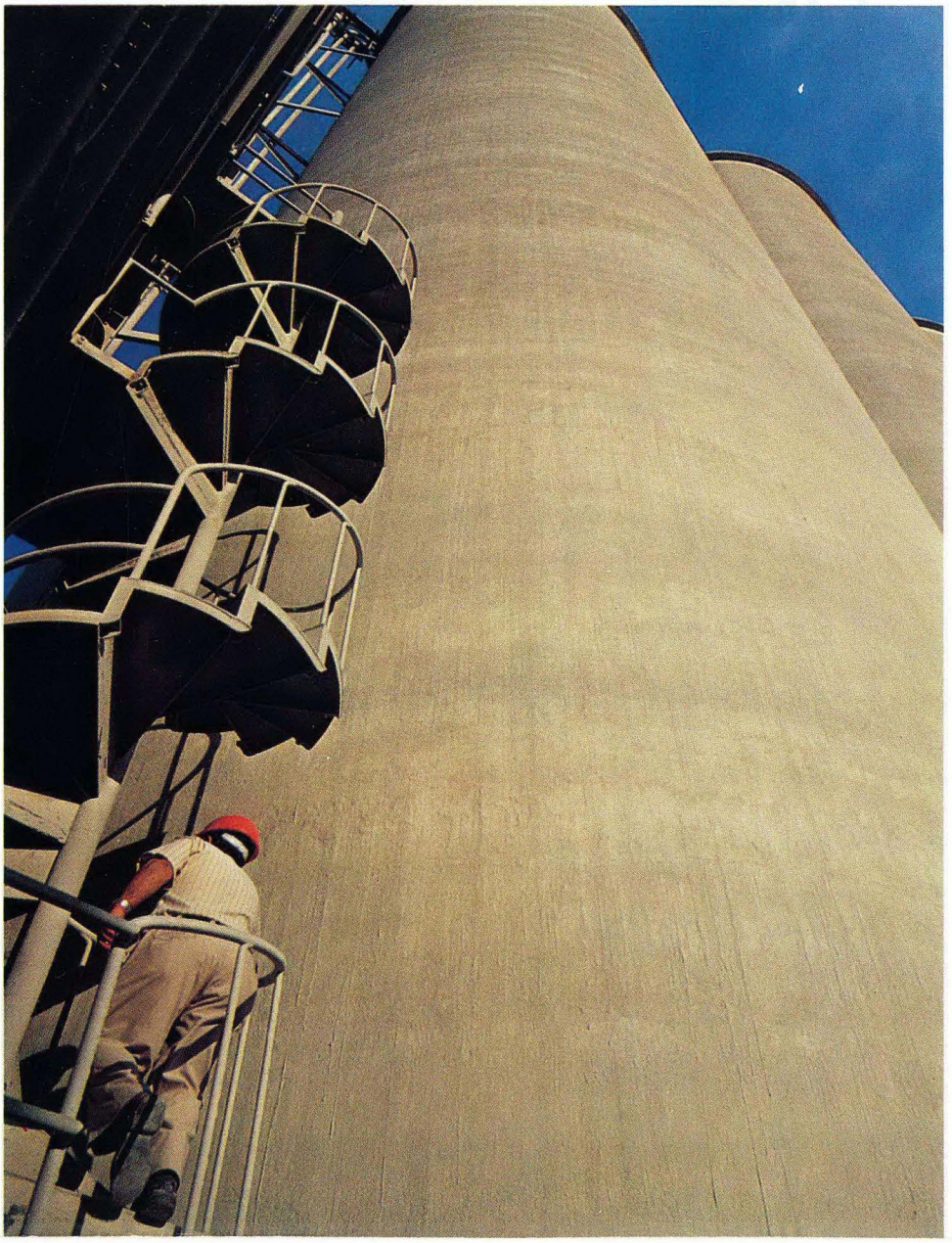
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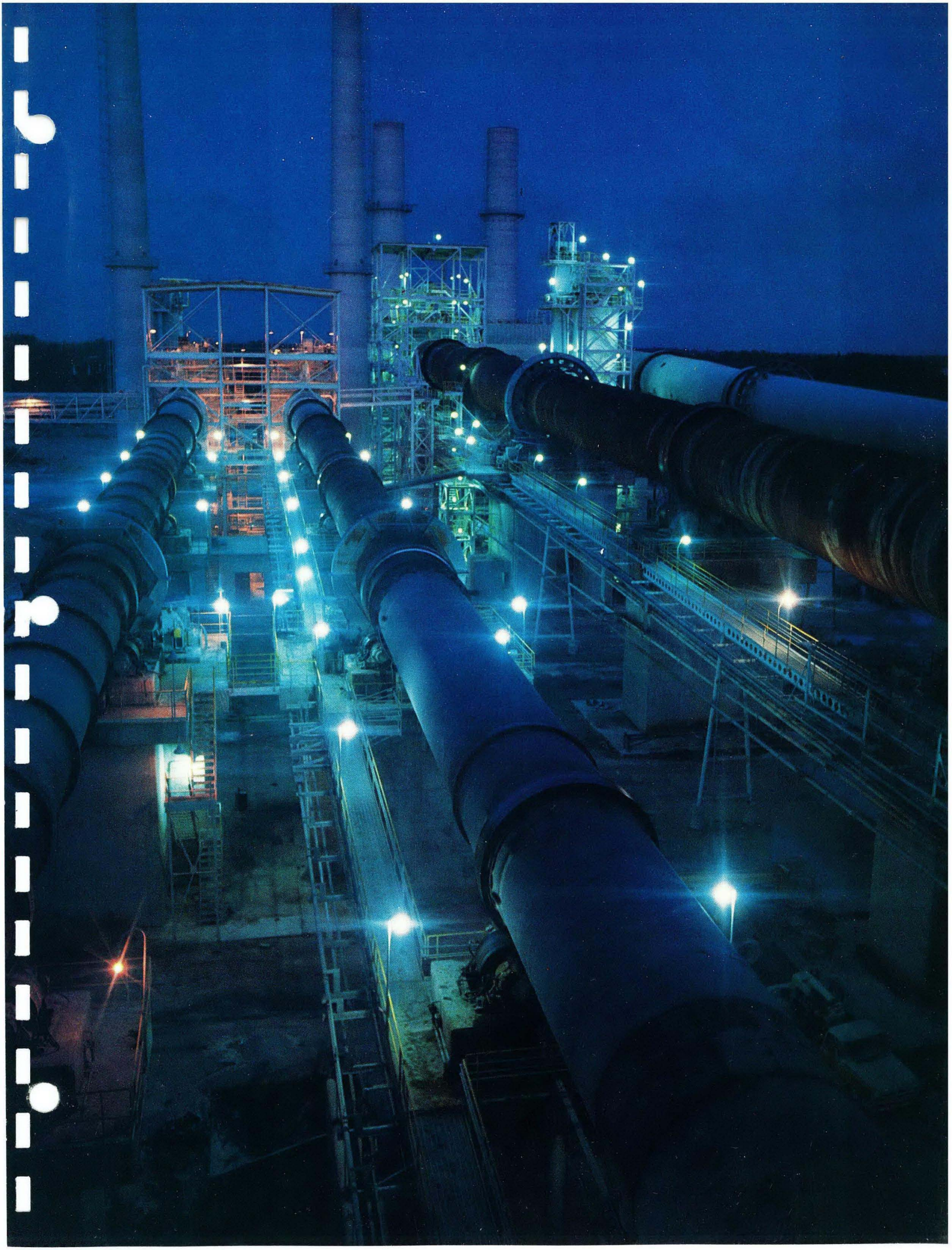
The dynamics of technology

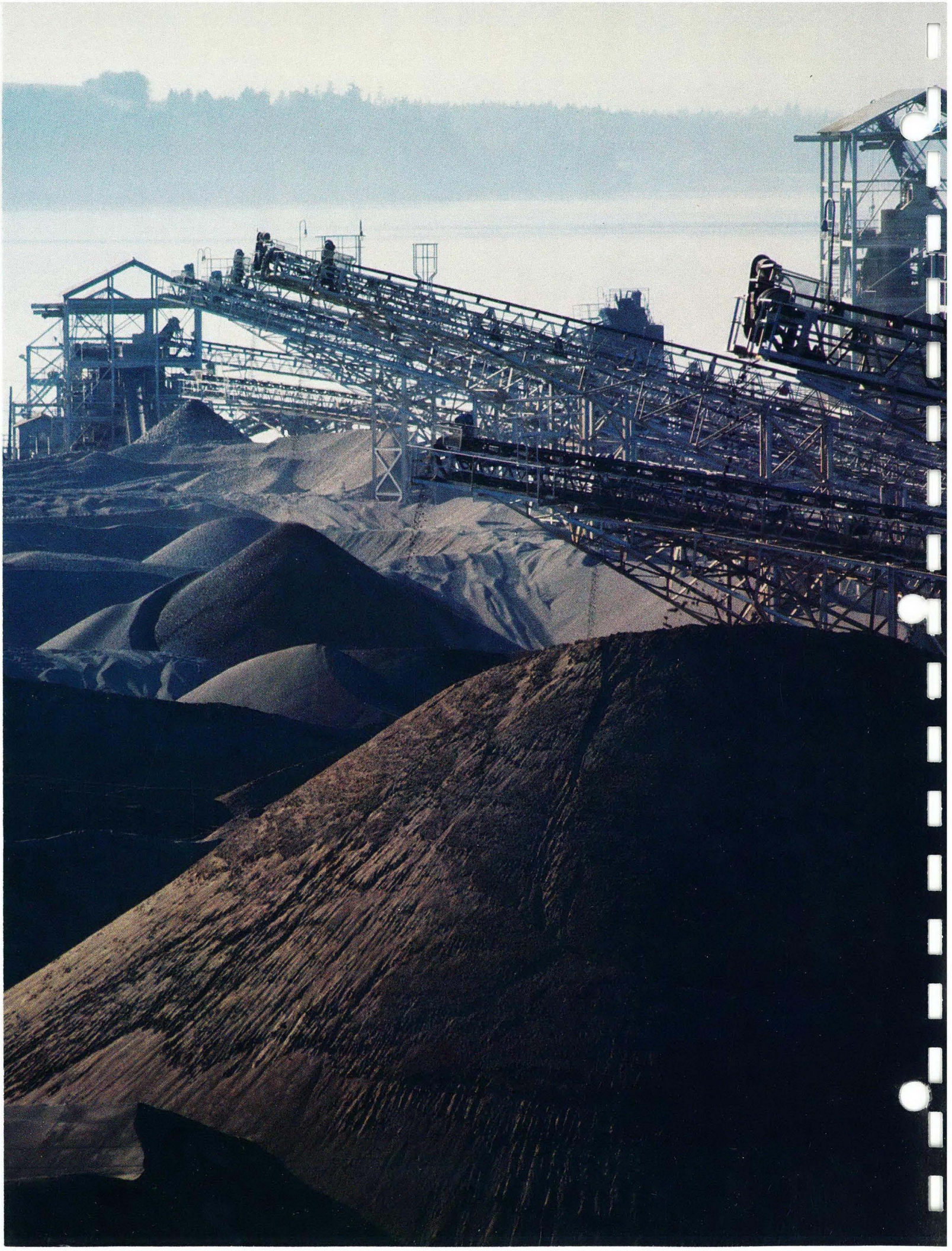
Cement-making is non-stop. Giant silos of raw materials feed rotary kilns—the largest moving machines in any industry—24 hours a day, 7 days a week. The technological challenge is to build and maintain plants that conserve power and fuel, run smoothly, and produce a product of uniform high quality. The pay-off: lower costs, higher margins.



Lonestar Florida operations near Miami.

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The dynamics of aggregates

The mining of sand, gravel and stone close to metropolitan areas has diminished these resources and made them increasingly valuable. As the nation's largest producer of construction sand and gravel, and one of the largest suppliers of crushed stone, Lone Star benefits from well-established operations and substantial reserves.



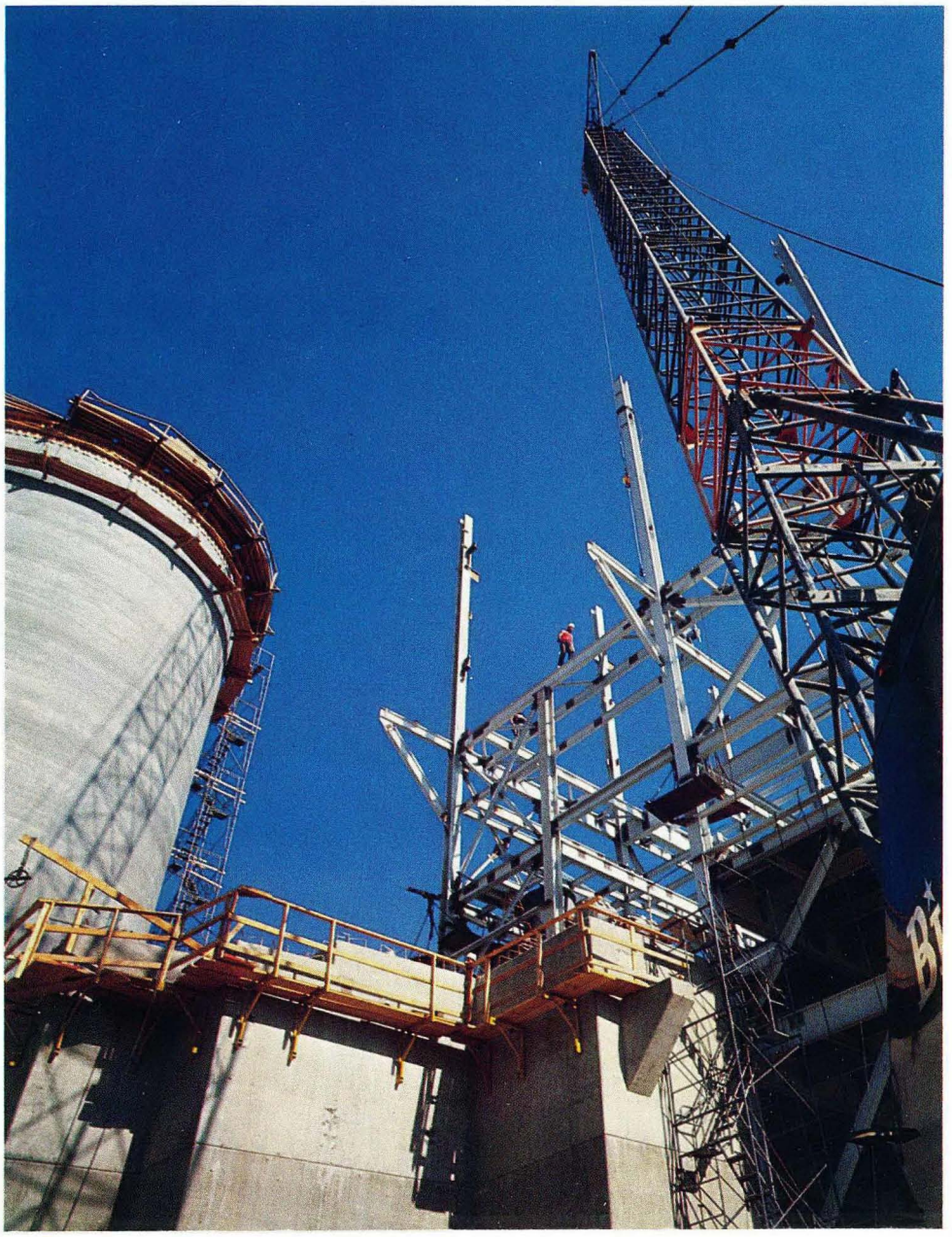
Above:
Loading barges at Clinton Point, near Poughkeepsie, N.Y.

Left:
Steilacoom sand and gravel deposit, near Tacoma, Wash.

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The dynamics of growth

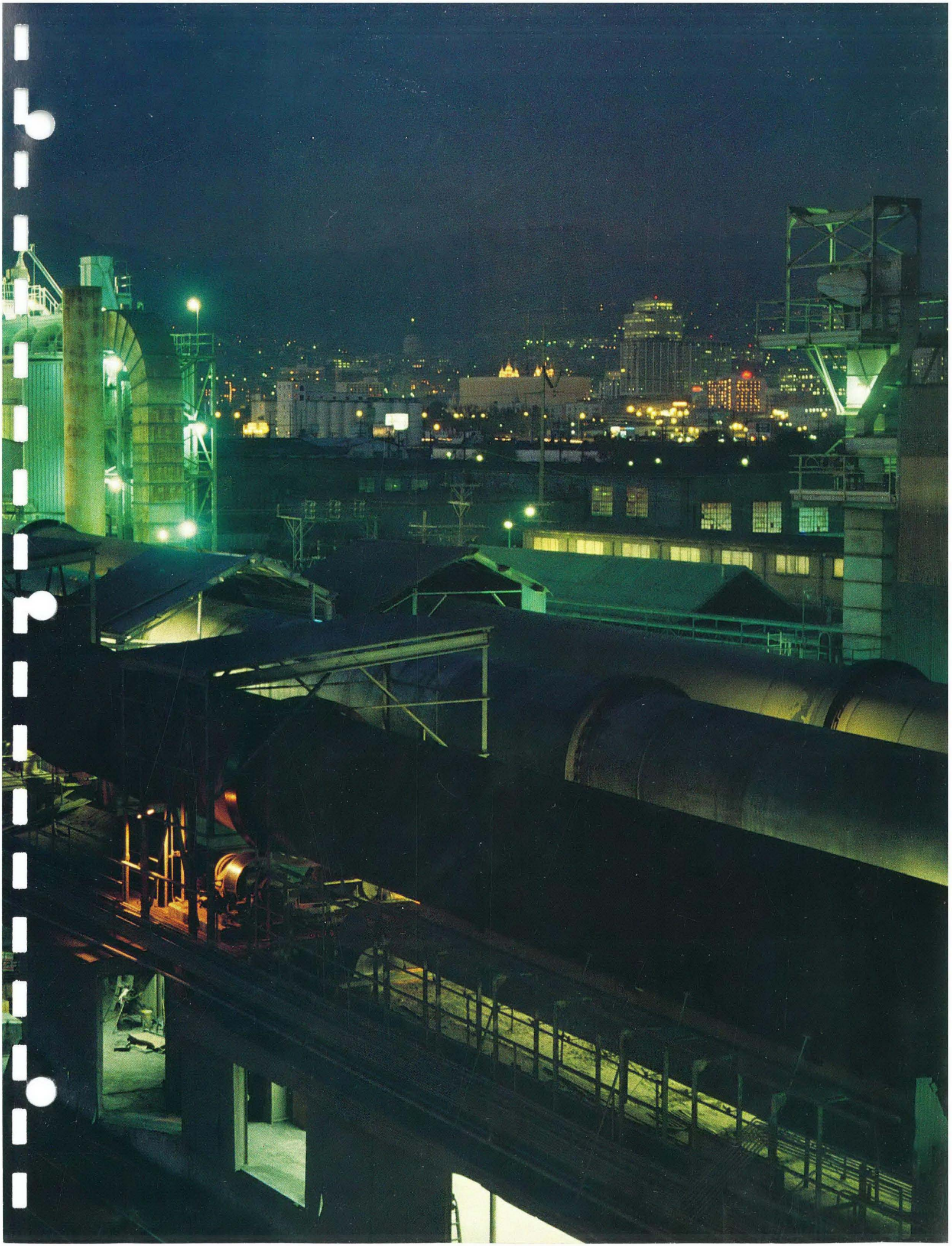
Additional cement capacity is urgently needed to meet the constantly growing U.S. demand—but at today's cost of $150 million or more for a new million-ton plant, few such projects are being announced. Lone Star is broadening its capacity at minimum capital cost and at attractive returns on investment.



Left:
Expansion at Santa Cruz, California

Right:
Portland Cement Company of Utah, acquired in 1979

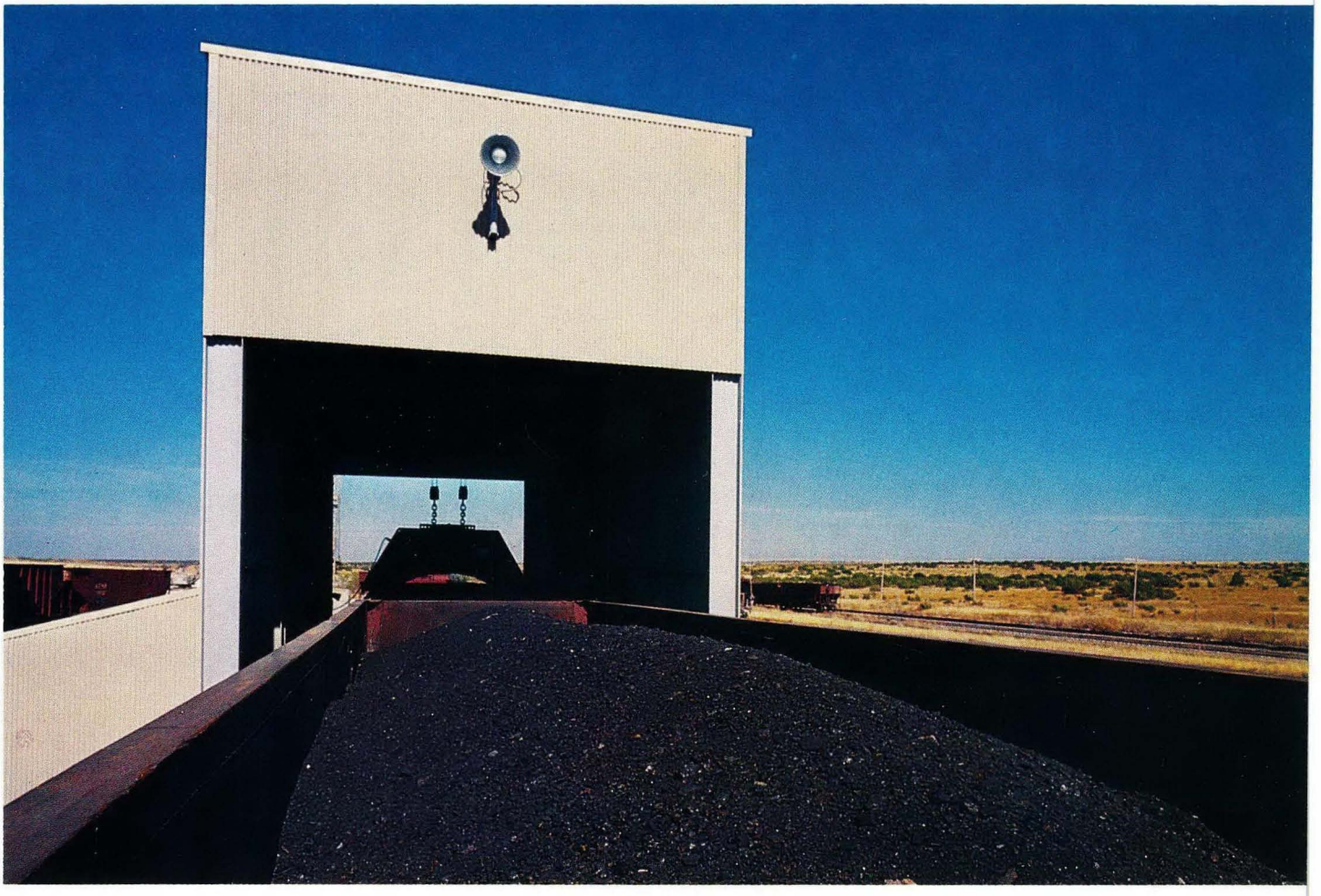
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The dynamics of energy conservation

Conserving oil and gas is not only a national priority, it also reduces costs in the energy-intensive cement industry. By the end of this year, Lone Star will be 88% on coal, and moving toward 100% as rapidly as possible. System-wide, Lone Star's energy use per ton has been reduced 11% over the past five years.

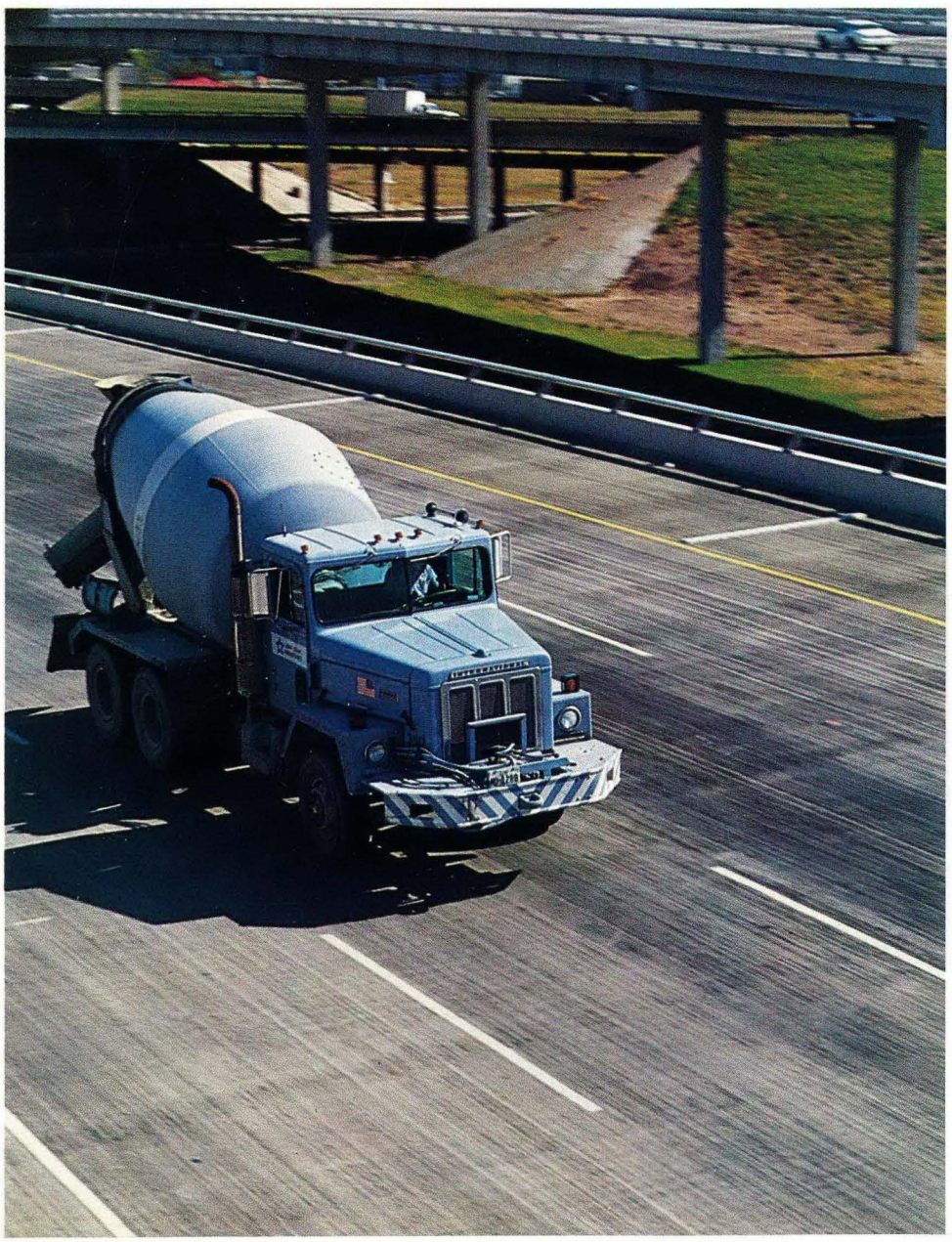


Preheaters (left) and coal-handling facility (above) at Maryneal, Texas

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The dynamics of distribution

Lone Star's extensive distribution system includes the ownership or leasing of railroad hopper cars, barges, tugboats and distribution terminals. In the future, larger plant sizes and the soaring cost of highway transportation can be expected to increase the use of distribution terminals served by energy-efficient rail and barge transportation.



Left:
Lone Star ready-mixed concrete truck on a Dallas freeway

Right:
Marine aggregates operations on the Hudson River.

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Amtrak
817

The dynamics of precast/prestressed concrete

High-speed, efficient railroad systems demand welded railroad tracks and a roadbed system based on concrete railroad crossties, as other nations have proved with their high-speed trains. The construction of urgently needed water-supply and sewage-disposal systems is speeded by use of precast concrete products. The versatility of concrete finds new expression every year, creating new markets. Lone Star is a leader in the technology of these new developments and products.



Above:
Concrete mains precast at Charleston, S. C.

Left:
A section of Amtrak's Northeast Corridor featuring concrete railroad crossties.

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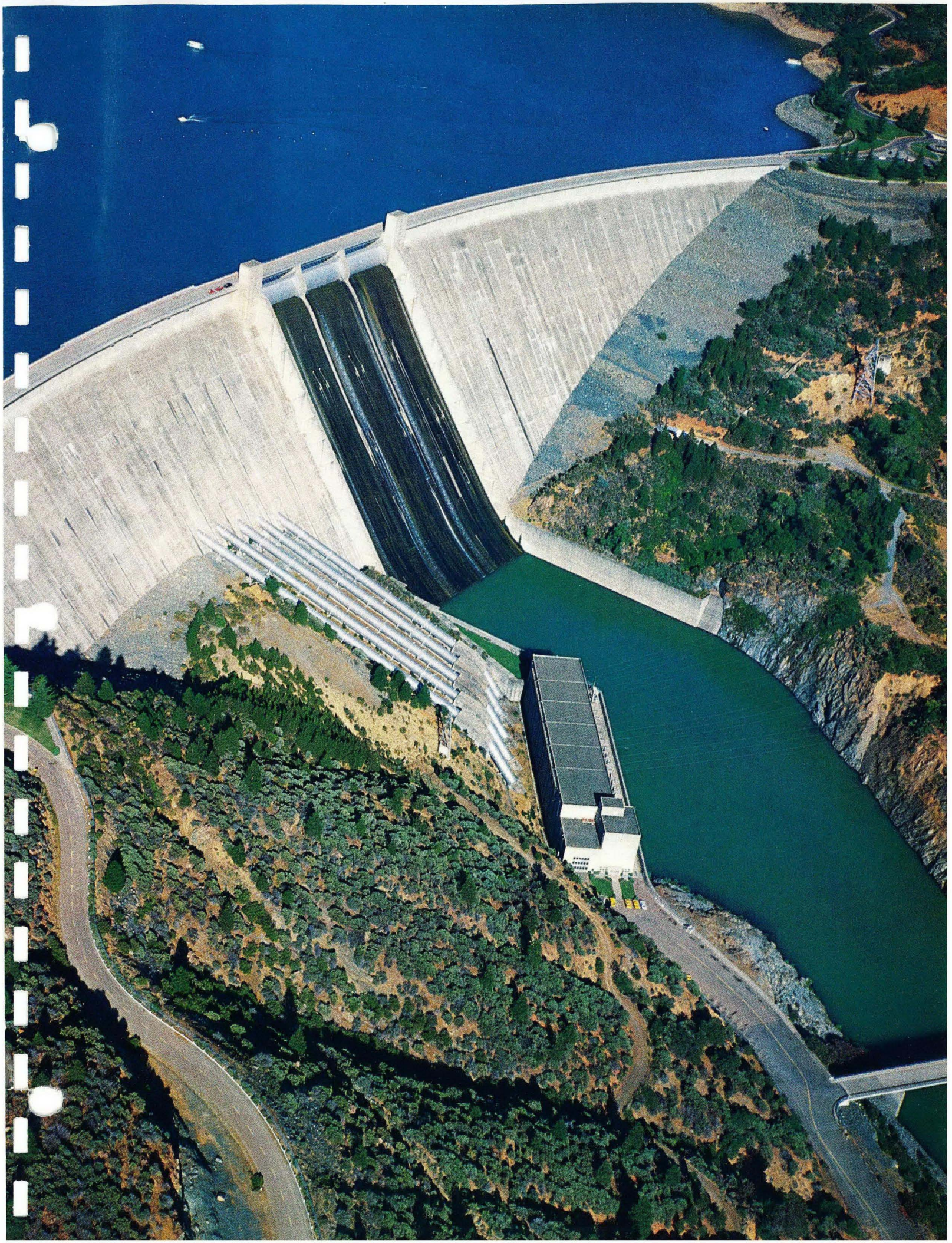
The dynamics of pent-up demand

Government spending for public works projects has been grossly inadequate, actually *declining* 15% since 1975 in real terms. Government agencies have identified thousands of unsafe bridges across the nation and hundreds of unsafe dams. Airport runways and municipal sewage systems are overburdened. The pent-up demand for public construction is a powerful force; playing "catch-up" will place enormous stress on construction materials capabilities.



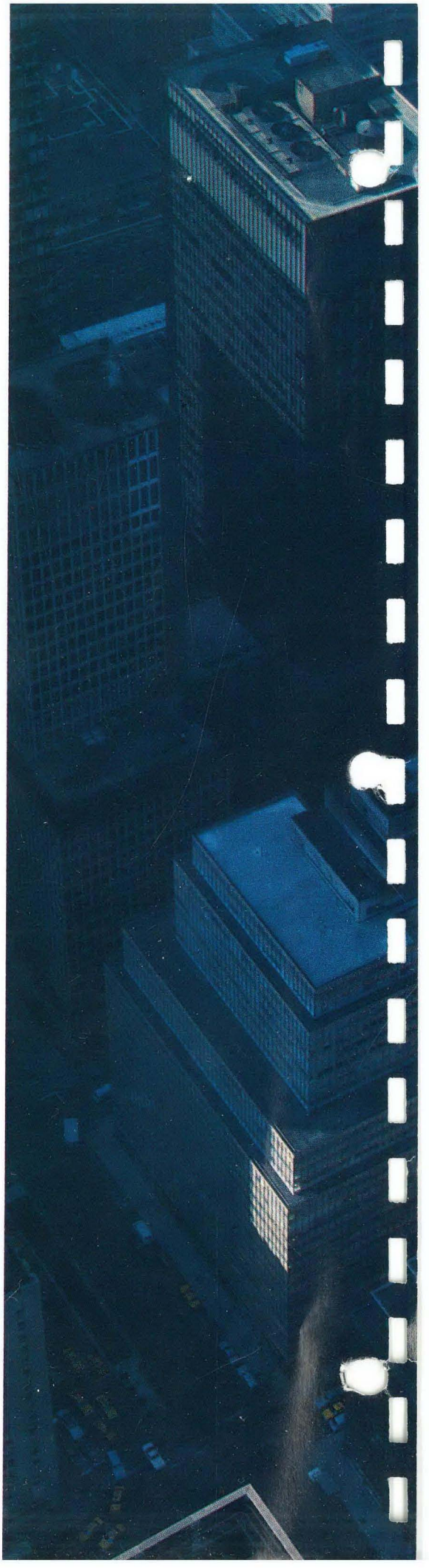
Bridges and dams are among the essential public works projects requiring large amounts of cement and aggregates.

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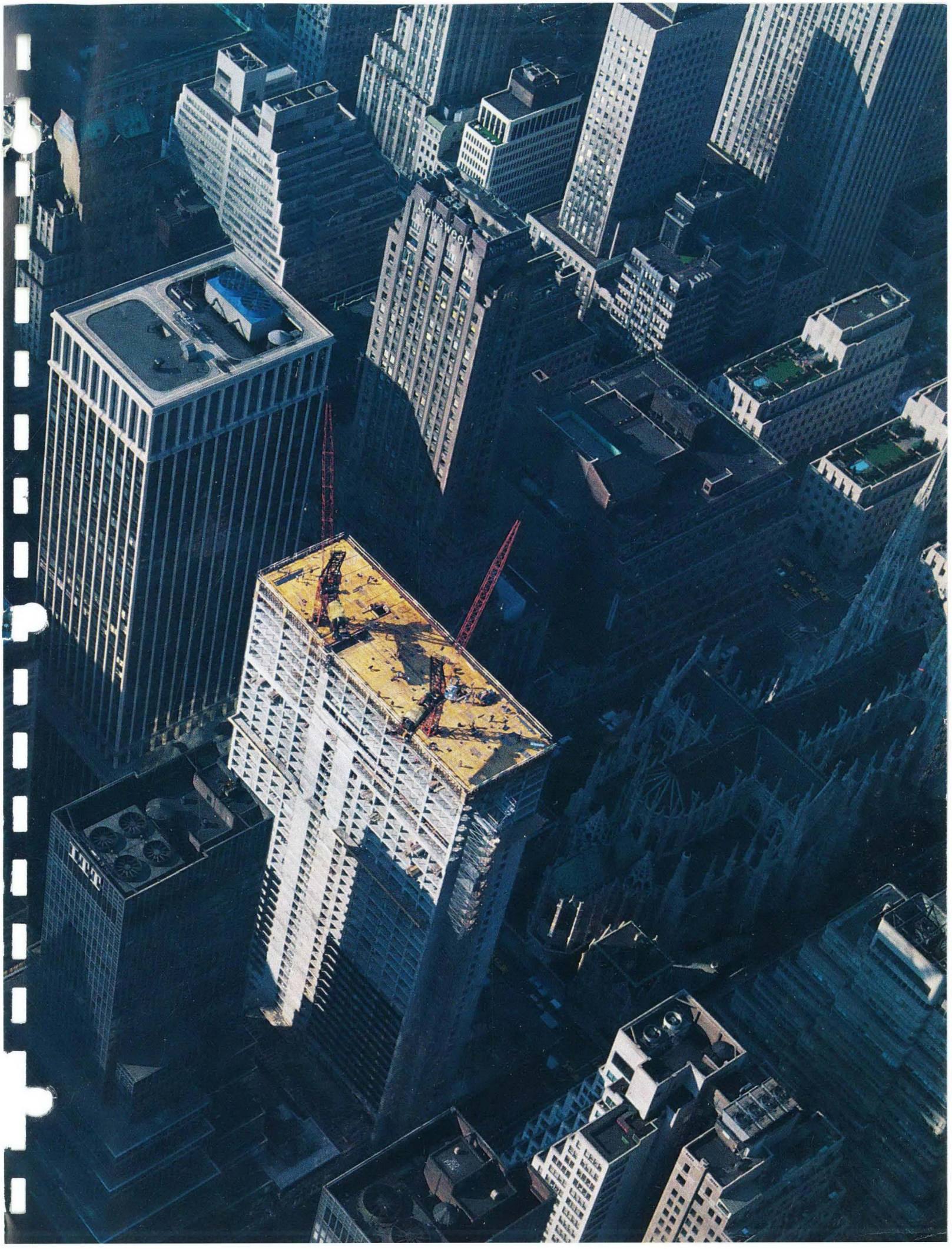
The dynamics of the future

What is civilization without cement? ...Each generation determines its own needs, sets its own priorities; but civilization and living standards move relentlessly forward. Construction in America, commanding some 10% of the gross national product and indirectly influencing at least another 10%, is currently supported by $230 *billion* in spending, provides employment for an estimated 10 million people, and is *absolutely dependent* on the relatively small cement and aggregates industries. Our nation's future will require more and more of these basic products, for which no economic substitutes are even remotely in sight.



New York's Palace Hotel under construction—first use in the city of new high-strength concrete, made with Lone Star cement and aggregates.

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Financial Review and Statements

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Rotary kiln at Miami plant, newly relined with refractory brick. A total rebricking program would require as many as 150,000 bricks.

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Industry Segment Data

The present operations of the company consist of the following segments:

1. The cement and related products segment includes the production and distribution of portland, masonry and other types of cement, and the manufacture and distribution of ready-mixed concrete and concrete products. International cement and related products results are derived from South America and represent all of the company's operations outside the United States.

2. The construction aggregates segment includes the mining, processing and distribution of sand, gravel and crushed stone. This segment sells aggregates to the cement and related products segment at list prices. These intersegment sales are not included below and consist of the following (in millions): 1979, $23.9; 1978, $20.4; 1977, $16.7; 1976, $13.7; and 1975, $16.0.

3. The other segments include real estate operations, wholesale lumber operations, and the sale of other construction materials.

The company's major joint ventures include: Lonestar Florida Pennsuco, Inc., a diversified producer of cement, aggregates and related products; Companhia Nacional de Cimento Portland, S.A., a Brazilian producer of cement; and Lone Star Minerals, Inc., a producer of roofing granules and abrasives.

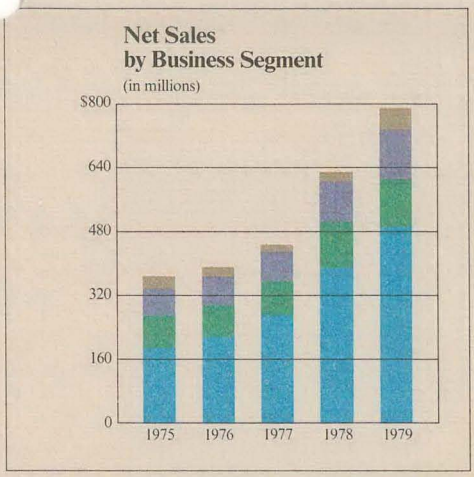
Corporate and unallocated expenses include corporate administrative expenses, securities income (net of related foreign currency translation losses) and minority interest.

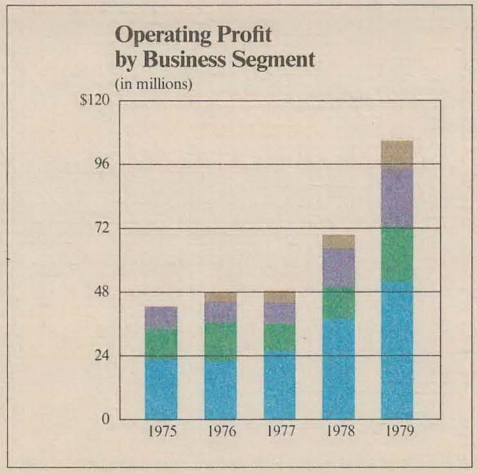
During 1979, the company disposed of its Building Centers operations, which had marketed lumber and building materials. Prior years' segment data have been reclassified to reflect the disposition.

Identifiable assets are those assets that are used in the company's industry segments. Corporate and unallocated assets consist primarily of cash, marketable securities (including foreign), and other assets not specifically identified with a segment.

(Dollars in millions)	**1979**	1978	1977	1976	1975
Net Sales					
Cement and related products					
Domestic	**$491.5**	$388.6	$270.2	$214.9	$192.0
International	**118.4**	114.1	88.7	77.1	76.9
Total	**609.9**	502.7	358.9	292.0	268.9
Construction aggregates	**127.2**	105.0	75.8	71.0	69.8
Other segments	**55.4**	30.6	20.5	32.4	28.6
Total net sales	**$792.5**	$638.3	$455.2	$395.4	$367.3
Net Income					
Operating Profits from Continuing Operations					
Cement and related products					
Domestic	**$ 53.0**	$ 38.8	$ 26.8	$ 22.7	$ 23.7
International	**20.4**	11.8	10.1	14.2	12.0
Total	**73.4**	50.6	36.9	36.9	35.7
Construction aggregates	**21.8**	15.8	7.4	7.8	7.9
Other segments	**9.8**	3.7	4.2	3.2	(0.3)
Total operating profits from continuing operations	**105.0**	70.1	48.5	47.9	43.3
Plus: Joint ventures and unconsolidated subsidiary	**5.9**	2.1	0.2	2.8	5.3
Less: Interest expense	**(19.2)**	(19.8)	(19.3)	(14.2)	(15.4)
Corporate and unallocated expenses	**(15.3)**	(14.7)	(10.6)	(11.3)	(6.7)
Income taxes	**(20.4)**	(7.2)	(1.6)	(3.1)	(7.6)
Income from continuing operations	**56.0**	30.5	17.2	22.1	18.9
Discontinued operations (net of tax)					
Earnings from Building Centers operations	**4.3**	14.9	12.5	5.1	0.4
Gain on disposal of Building Centers	**4.4**	—	—	—	—
Total	**8.7**	14.9	12.5	5.1	0.4
Net income	**$ 64.7**	$ 45.4	$ 29.7	$ 27.2	$ 19.3

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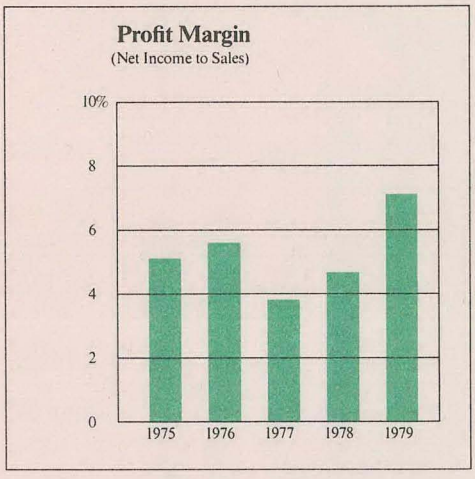
(Dollars in millions)	1979	1978	1977	1976	1975
Identifiable Assets					
Cement and related products					
Domestic	**$416.8**	$291.9	$262.5	$194.3	$180.8
International	**44.7**	80.1	70.8	64.0	58.1
Total	**461.5**	372.0	333.3	258.3	238.9
Construction aggregates	**129.1**	116.8	104.4	97.1	100.9
Other segments	**45.6**	33.6	32.5	36.8	47.3
Total identifiable assets	**636.2**	522.4	470.2	392.2	387.1
Joint ventures and unconsolidated subsidiary	**69.8**	12.0	6.8	28.2	23.4
Corporate and unallocated items	**33.3**	22.2	30.6	29.5	21.4
Discontinued operations	**–**	181.7	159.9	150.4	131.1
Total assets	**$739.3**	$738.3	$667.5	$600.3	$563.0
Capital Expenditures					
Cement and related products					
Domestic	**$ 52.1**	$ 26.5	$ 13.5	$ 18.5	$ 13.4
International	**8.2**	6.8	7.0	8.0	4.0
Total	**60.3**	33.3	20.5	26.5	17.4
Construction aggregates	**18.1**	16.8	14.7	9.5	11.8
Other	**1.1**	2.5	0.3	0.6	1.3
Discontinued operations	**4.3**	9.7	6.5	3.2	3.4
Total capital expenditures	**$ 83.8**	$ 62.3	$ 42.0	$ 39.8	$ 33.9
Depreciation and Depletion					
Cement and related products					
Domestic	**$ 13.9**	$ 11.6	$ 10.7	$ 9.1	$ 8.9
International	**3.7**	4.5	2.9	2.7	2.7
Total	**17.6**	16.1	13.6	11.8	11.6
Construction aggregates	**8.2**	7.7	7.2	7.3	6.8
Other	**0.8**	0.6	0.7	1.1	1.0
Total depreciation and depletion	**$ 26.6**	$ 24.4	$ 21.5	$ 20.2	$ 19.4

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Management's Discussion and Analysis of the Summary of Operations

Consolidated Results

Lone Star's sales from continuing operations established a new record of $792.5 million in 1979, an increase of $154.2 million or 24.2% over 1978. A major portion of the increase was attributable to the domestic cement and related products operations primarily reflecting the institution of price increases, a continued strong performance by the Florida operations, and the acquisition of the Portland Cement Company of Utah and San-Vel Concrete Corporation. Lone Star experienced an increase in domestic sales and shipments throughout its major product lines.



Consolidated net income also achieved a record $64.7 million in 1979, an increase of $19.3 million or 42.5% above the 1978 record. Net income from continuing operations alone surpassed the total 1978 amount by over 20%. This increase was broad-based; all of the company's domestic and foreign operations and major product lines, including real estate operations, contributed increased operating profits over 1978. Portland of Utah contributed almost $3.0 million in operating profit, following its acquisition in September. Consolidated results were partially offset by higher income taxes. Income from joint ventures more than doubled as Lonestar Florida Pennsuco contributed $3.8 million in profits, almost three times last year's results.

Net income from discontinued Building Centers operations, disposed of during the second quarter of 1979, was $4.3 million. The after-tax gain on the sale was an additional $4.4 million.

Net Sales Reach New High

Cement and Related Products

Sales of the cement and related products segment increased $107.2 million to $609.9 million in 1979, 21.3% over 1978.

Domestic Cement Sales

Domestic cement sales increased $48.5 million or 20.1% as a result of increased shipments and higher prices in all regional markets, along with the inclusion of $6.5 million in sales from the newly acquired Portland of Utah operation. A tight supply situation existed during much of the year with a higher level of imports necessary to meet demand in some coastal markets. Regional price increases, ranging from 10% to 16%, were realized during the year. Shipments, excluding cement used in the company's concrete operations, increased 6.7% over 1978.

Lonestar Florida, a wholly-owned subsidiary of the company that began operations in early 1978, had 1979 cement sales and shipments increase 65% and 46%, respectively, over 1978. Lonestar Florida purchases and resells all the production of the Lonestar Florida Pennsuco joint venture. Northeast Region cement sales increased $5.6 million or 29%, with shipments increasing 12% in a stronger construction market. Pacific Region cement sales increased $8.8 million over 1978 and used imports to meet rising demand pending completion of the expansion of Lone Star's Santa Cruz, California cement plant. Cement sales also increased in the other domestic regions, primarily due to improved prices.

International Cement Sales

In Lone Star's international operations, cement sales increased $1.2 million to $109.3 million on increased sales in Argentina and Uruguay, partially offset by the exclusion of sales in Brazil resulting from the contribution of Lone Star's Brazilian operations to a new joint venture with Lafarge. Sales increased $25.0 million in Argentina to $77.4 million on increased selling prices and higher volumes. The growing Argentine economy resulted in an 8% increase in cement consumption in 1979, and tight supply conditions continued. Both of Lone Star's cement plants achieved record production and reached practical capacity. Prices have kept pace with the high inflation rate while devaluations have lagged well behind, resulting in a favorable translation of sales in local currency to dollars.

Sales at Lone Star's Brazilian operations, included only up to the April, 1979 formation of the joint venture, were $14.1 million as compared with $41.7 million for the full year 1978. Sales

Net Sales of Cement and Related Products Segment

In millions	**1979**	1978	1977	1976	1975
Cement:					
Domestic.....	**$290.0**	$241.5	$185.0	$143.4	$121.4
International.....	**109.3**	108.1	85.3	74.5	72.5
	399.3	349.6	270.3	217.9	193.9
Concrete and Concrete Products:					
Domestic.....	**201.5**	147.1	85.2	71.5	70.[illegible]
International.....	**9.1**	6.0	3.4	2.6	4.4
	210.6	153.1	88.6	74.1	75.0
Total...	**$609.9**	$502.7	$358.9	$292.0	$268.9

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increased $3.7 million to $17.7 million in Uruguay on improved prices. Demand from the country's construction industry increased as a result of a higher inflow of Argentine capital, with cement being in short supply much of the year. Cement prices were decontrolled early in the year, which allowed the company to keep pace with accelerating inflation. Devaluations have also lagged in Uruguay, resulting in a favorable translation of sales in local currency to dollars.

Concrete and Concrete Products Sales

Domestic sales of ready-mixed concrete increased 26.5% in 1979. Sales were higher in all regions due to improved prices and the acquisition of San-Vel. Lonestar Florida concrete sales advanced 41.6%, primarily due to strong demand in the commercial and condominium markets. Sales of concrete increased $3.2 million in international operations on higher volumes and prices in Argentina.

Sales of precast and prestressed concrete products increased 72.6% in 1979, primarily due to higher sales by Lonestar Florida and newly acquired San-Vel.

Construction Aggregates Sales

Sales of construction aggregates increased $22.2 million to $127.2 million in 1979, or 21.1% above 1978, with all regions showing improvement. Southwest Region aggregates sales accounted for 34% of the overall increase on improved prices and higher production and shipments, primarily due to a plant expansion in the North Texas market. Lonestar Florida sales increased $3.6 million due to strong demand for aggregates for highway resurfacing projects. Sales of aggregates in the Pacific Region increased $4.3 million as the modern Sacramento facility, opened in late 1978, contributed a full year's production.

Other Segments Sales

Net sales from the other business segments increased $24.8 million to $55.4 million in 1979 on higher sales of developed properties by Lone Star Hawaii and higher wholesale lumber operations sales.

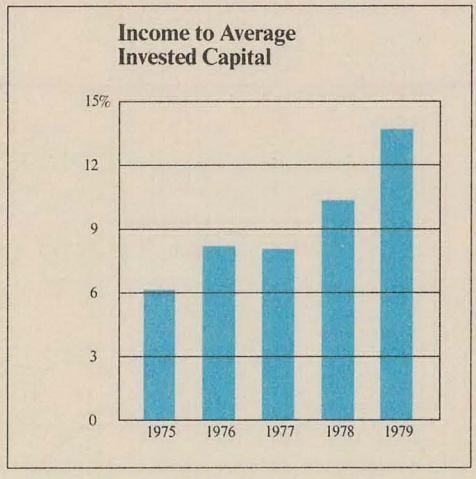
Operating Profits Exceed $100 Million

Consolidated operating profits from continuing operations increased $34.9 million to $105.0 million in 1979, an increase of 49.8% over 1978. Cement and related products, the company's largest segment, provided 69.9% of total operating profits from continuing operations.

Domestic operating profits from cement and related products increased $14.2 million on improved margins. Also contributing to the increase were the operating profits of the newly acquired San-Vel and Portland of Utah, which provided operating profits of $1.1 and $3.0 million, respectively, for the periods owned. Operating profits in the international operations increased 72.9% to $20.4 million on strong results in Argentina, as higher sales volumes and increased prices more than offset the effects of increased operating costs.

Operating profits for 1979 from construction aggregates were $21.8 million, or 38.0% above 1978, on higher volumes and improved margins. Higher volumes were primarily due to the expansion of the company's crushed stone operations in North Texas and the contribution of a full year's operations at the Sacramento facility in California.

Operating profits from other business segments increased $6.1 million to $9.8 million primarily on increased sales of developed properties by Lone Star Hawaii.



Joint Ventures

Income from joint ventures and unconsolidated subsidiaries increased $3.8 million in 1979 to $5.9 million as a result of greater income from Lonestar Florida Pennsuco and Lone Star Minerals.

Lonestar Florida Pennsuco contributed $3.8 million to venture income, representing an increase of $2.4 million, due to strong demand from commercial and condominium markets and highway resurfacing projects. Lone Star holds all of the outstanding common stock in the venture and thus records all venture profit after deducting preferred dividends. See Note 5 of Notes to Financial Statements on page 50 for summarized comparative financial information and a further discussion of the venture.

Lone Star Minerals, Inc., a 50% owned joint venture formed in July, 1978, contributed $1.5 million to venture income for 1979. The company produces and markets specialty aggregates and roofing granules.

In April, 1979, Lone Star and Lafarge, the largest cement company in France, combined substantially all of their cement operations in Brazil to form a new joint venture, with Lone Star obtaining a 48% interest. The venture operated at approximately a break-even level during its first eight months of operations. The Brazilian economy has experienced high inflation due to high imported energy costs and low agricultural output due to adverse weather. As a result, a tight monetary policy has been instituted, which has caused construction cutbacks, hampering the new venture's operations. The venture currently operates four cement plants and is in the process of building a new 770,000 ton plant in Cantagalo, northeast of Rio de Janeiro. See Note 6 of Notes to Financial Statements on page 51 for a further discussion of the venture's formation, including summary financial information.

Interest Expense

Interest expense declined 3% in 1979 to $19.2 million, as a portion of the cash obtained from the sale of Building Centers was used to reduce short-term debt during the year. This reduction was partially offset by higher interest rates on the short-term financing utilized. The daily weighted average interest rate on Lone Star's short-term borrowings increased from 14.3% to 16.7%, reflecting the general rise in interest rates during the year.

During 1979, Lone Star chose not to elect early implementation of Statement of Financial Accounting Standards No. 34 relating to capitalization of interest costs. It is estimated that capitalization of interest in accordance with this statement would have increased reported primary earnings per share by $0.05 for 1979.

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Corporate and Unallocated Expenses

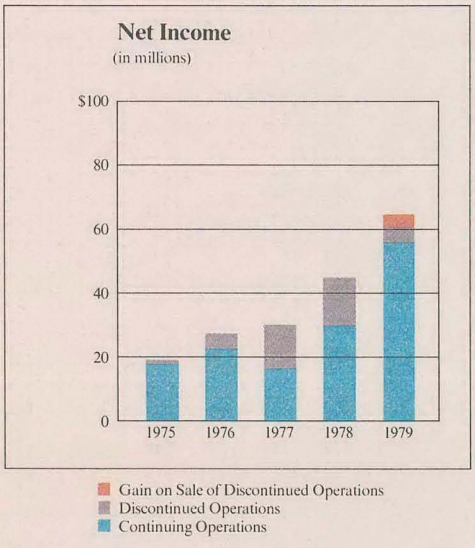
Corporate and unallocated net expenses include corporate administrative expenses, securities income (net of related foreign currency translation losses) and minority interest. These expenses showed an increase of $0.6 million in 1979 to $15.3 million, primarily reflecting the effects of inflation on salaries, benefits and other administrative expenses, partially offset by an increase in income from marketable securities.

Income Taxes

Federal, foreign and other income taxes increased $13.2 million, almost three times the 1978 level, reflecting the higher pre-tax earnings and a higher effective corporate tax rate. The higher effective tax rate is attributable to increased operating profits, which rose at a greater rate than percentage depletion deductions and investment tax credits.

Record Net Income

Lone Star's income from continuing operations in 1979 was a record $56.0 million, 84.2%, or $25.6 million above the previous record level of $30.4 million established in 1978 and 23.5% above total net income for 1978. The increase



in earnings is attributable to higher sales and operating profits in essentially all segments of the company's operations.

During 1979, Lone Star sold its Building Centers operations. These operations included wholesale lumber, distribution facilities, combination retail/contractor building materials outlets and retail home care centers. Although the Building Centers operations were profitable, the company felt that the increasing capital requirements in both the building centers and cement industries made it necessary to choose between them to maintain its growth and leadership. After reviewing the current and prospective return on investment in both businesses, the company decided the outlook favored cement, aggregates and related products where strong market conditions are seen for some time to come.

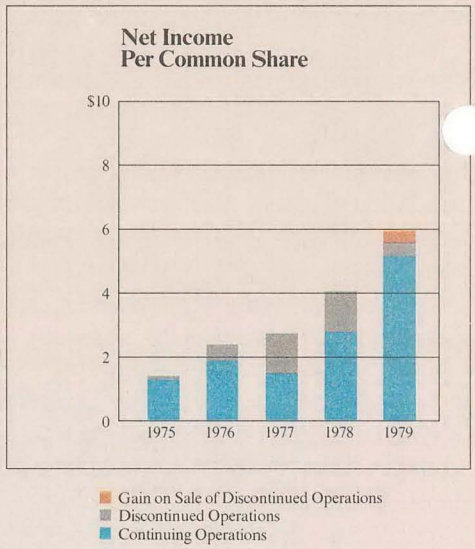
The sale of Building Centers involved eight separate transactions, yielding an after-tax profit of $4.4 million. Prior to its sale, Building Centers had 1979 after-tax income of $4.3 million.

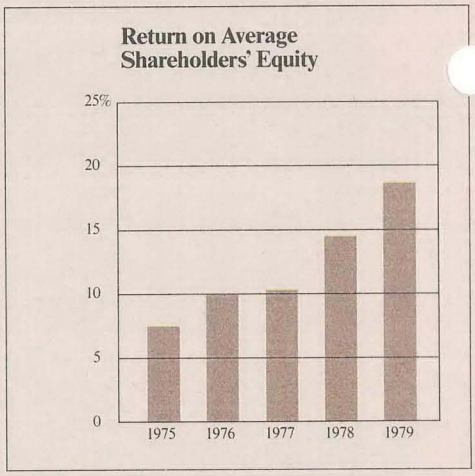
Lone Star's net income in 1979 reached a record $64.7 million, or 42.7% above the previous record set in 1978. Income from continuing operations of $56.0 million exceeded the 1978 record earnings from all operations by $10.7 million. The increased earnings are attributable to higher sales and operating profits of continuing operations segments, the earnings and gain on disposal of the Building Centers operations, and increased sales and operating profits in real estate development operations, all offset in part by a higher effective income tax rate.

Earnings per Share

In 1979, Lone Star earned $5.95 per share of common stock after deducting dividends on preferred stock, compared with $4.02 per share in 1978, a new high for the fourth consecutive year. Earnings per share from continuing operations achieved a record level of $5.15 in 1979, almost double 1978's $2.69 per share. Earnings per share from discontinued operations were $0.39 in 1979 as compared to $1.33 in 1978, the decrease reflecting the sale of Building Centers during 1979. The gain on this sale contributed $0.41 to 1979 earnings per share.

Primary net income per share is based on 10.8 million and 11.2 million weighted average shares outstanding in 1979 and 1978, respectively. The declining number of shares outstanding resulted from the company's purchase of 1,250,000 shares in July 1979, partially offset by 413,039 shares issued in connection with the conversion of debentures and preferred stock and the exercise of stock options. The purchase of shares had a total cost of $32.2 million and is reflected as treasury stock on the balance sheet. These transactions had the overall net effect of increasing earnings per share for the year by $0.24, or 4% on a primary basis.





The purchase of shares alone had the effect of increasing earnings per share for the year by $0.30, or 5.3% on a primary basis, and $0.25 or 4.8% on a fully diluted basis. Earnings per share from continuing operations was increased by $0.26, or 5.3% on a primary basis, and $0.22, or 4.9% on a fully diluted basis.

Other Income—Net

Other income—net, increased $8.2 million, primarily due to higher joint venture income as explained under "Joint Ventures" on page 39, higher securities income, and lower foreign exchange losses. Securities income increased $2.5 million primarily due to an increase in

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short-term investments. Foreign exchange losses decreased $1.3 million, primarily due to the formation of the Brazilian joint venture which is accounted for on the equity basis.

Costs of Sales; Selling, General & Administrative Expenses and Depreciation

Cost of sales increased 22.1% in 1979 as operating costs reflected the higher power, fuel, labor and maintenance costs associated with increased production and sales levels. Additional increases in power and fuel were attributable to increased utility rates and higher fuel prices. Labor costs increased due to wage rate and benefit increases. Repairs and maintenance expenses rose due to extensive kiln repairs, reflecting continued high production and high prices for replacement parts.

Lone Star's domestic cement, aggregates and related products operations had a 25% cost of sales increase to $504.5 million due to higher sales and operating costs in all regions and Lonestar Florida, and the effect of the acquisition of San-Vel and Portland of Utah.

Cost of sales decreased in Lone Star's international operations by $4.3 million, primarily reflecting the change in accounting method for the Brazilian operation from a consolidated basis to the equity basis upon the combining of interests with Lafarge. Cost of sales increased in Argentina and Uruguay, primarily due to high inflation.

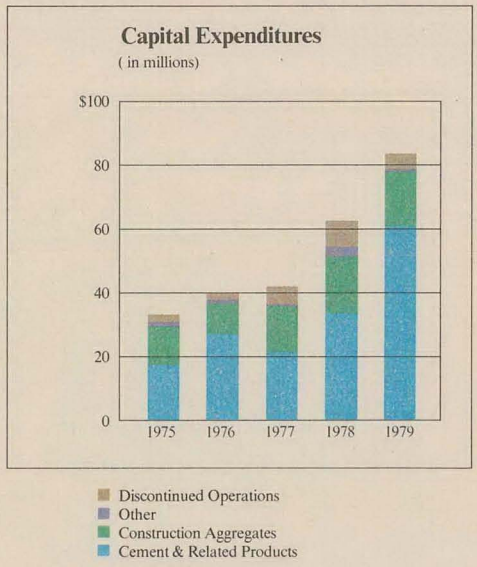
Cost of sales increased in Lone Star's other segments, reflecting increased sales of properties in the company's real estate development operations.

Selling, general and administrative expenses declined as a percentage of net sales to 8.8% in 1979 from 9.2% in 1978. These costs increased $11.1 million, or 18.8% in 1979, as a result of increased sales activity in the cement and related products and construction aggregates operations, as well as selling, general and administrative expenses incurred by San-Vel and Portland of Utah after their acquisition, and the effects of inflation on wages, benefits and other cost components.

Depreciation and depletion expense increased $2.2 million or 8.9% to $26.6 million in 1979, primarily because of the increase in total depreciable assets arising from capital expenditures of $83.8 million and the acquisition of the fixed assets of San-Vel and Portland of Utah.

Capital Expenditures Increased

Lone Star's capital expenditures were $83.8 million in 1979, representing an increase of 34.5% over 1978. Domestic capital expenditures were $75.6 million, an increase of $20.1 million, while capital expenditures in the international operations were $8.2 million.



The expansion and modernization of the Santa Cruz, California cement plant continued with 1979 expenditures of $23.8 million. This project is designed to increase capacity to 750,000 tons annually and reduce per-ton energy consumption. The company spent $2.7 million for a new one million ton crushed stone plant near Richmond, Virginia. During the year, Lone Star also spent $15.5 million for major repairs and replacements of mobile equipment, $6.7 million for the purchase of quarry land adjacent to the Florida operations, $2.1 million for pollution control devices, and $1.5 million for completion of a cost-saving coal conversion at the Maryneal, Texas plant. The remaining domestic expenditures were primarily related to major repairs and replacements to upgrade existing facilities.

In the company's international operations $5.7 million was spent in Argentina and a lesser amount in Uruguay to maintain and modernize existing facilities. The funds were provided from the financial resources of the subsidiaries located in each country.

Further additions were made to gross property, plant, and equipment due to the acquisitions of Portland of Utah ($23.4 million) and San-Vel ($15.4 million).

Major Acquisitions

In June, Lone Star acquired all of the outstanding stock of San-Vel Concrete Corporation, a leading Massachusetts manufacturer of precast/prestressed concrete products for $8.5 million in cash and notes. San-Vel's primary market area centers in greater Boston and includes much of New England. San-Vel, through a joint venture, also has a contract to provide 1.1 million prestressed concrete railroad crossties for the Amtrak Northeast Corridor Improvement Program. San-Vel has contributed sales and operating profit of $12.5 million and $1.1 million, respectively, to the consolidated totals.

Lone Star acquired all of the outstanding stock of the Portland Cement Company of Utah in September for $38.1 million in cash. It serves Salt Lake City and the surrounding market with a newly expanded 420,000-ton capacity cement plant. Portland of Utah contributed sales and operating profits of $6.5 million and $3.0 million, respectively, to the company's 1979 consolidated totals.

In December, 1979 Lone Star agreed to acquire the Dixon, Illinois cement plant of Medusa Corporation, a subsidiary of Crane Co. Under the terms of the agreement, Lone Star will purchase the plant, terminal facilities and a quarry for $10.0 million and will also purchase the plant's inventories at a price to be determined at the time the acquisition is completed. The Dixon plant has a rated capacity of approximately 600,000 tons of cement a year.

In February, 1980, Lone Star and OKC Corp. reached an agreement for the sale of OKC's Pryor, Oklahoma cement facility and certain land near Ocala, Florida to Lone Star for $87.3 million. In addition, Lone Star agreed to purchase certain other assets, including inventories, substantially on a cost basis. Lone Star is negotiating with OKC's lenders to borrow $38.5 million at the time of the closing. The Pryor plant currently has a rated capacity of 450,000 tons of cement per year; a nearly completed expansion program will increase rated capacity to 725,000 tons.

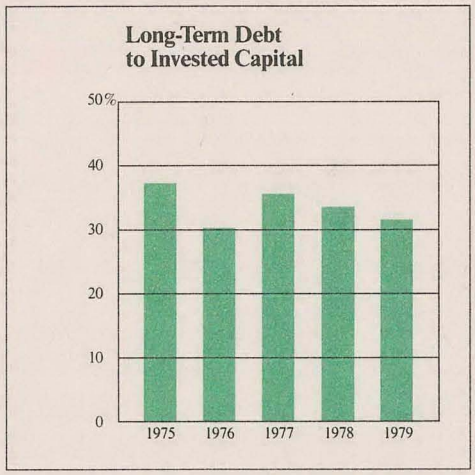
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Dividend Increased

In 1979, Lone Star raised the dividend on its common stock to $1.40 per share as the company completed its 45th consecutive year of uninterrupted quarterly dividends on common stock. Cash dividends of $0.35 per share were paid to holders of common stock in each quarter of 1979 and $0.30 per share were paid in each quarter of 1978. The company paid cash dividends of $1.125 per share in each quarter of both years on its preferred stock. Total cash dividends on common shares were $15.2 million and $13.4 million in 1979 and 1978, respectively. Dividends paid to preferred shareholders were $176,000 in 1979 and $232,000 in 1978. The variations from 1978 reflect the per share increase and the conversion of debentures and preferred shares into common shares, partially offset by the company's 1,250,000 common share purchase in July, 1979. In January, 1980, Lone Star's Board of Directors raised the quarterly cash dividend on common stock to $0.4125 per share, and announced its intention to make payments totalling $1.65 per share for the year.

Financial Position Highlights

During 1979, the proportion of Lone Star's non-current assets to total assets increased as a result of several major transactions during the year. The sale of Building Centers retail/wholesale operations with high working capital needs resulted in a large decrease in inventories and receivables. As detailed earlier, most of the proceeds were used to increase the company's fixed investment in its cement, construction aggregates and related products operations through acquisitions or modernization and renovation of existing facilities, and a cash contribution of $14.8 million to the company's Brazilian joint venture with Lafarge. In addition, the company purchased 1,250,000 of its common shares in July for $32.2 million. Because of these events, and in order to finance acquisitions and meet the needs of the company's capital spending program, internally generated funds are being supplemented by entry into the capital markets. Lone Star is currently arranging the private placement of $41.0 million of cumulative preferred stock. The company expects to sell a portion of future production for $50 million from a limestone quarry located adjacent to one of its cement plants and from the two limestone quarries involved in the 1976 production payment as described in Note 10 of Notes to Financial Statements on page 52. Lone Star will pursue additional financing during the year, including $38.5 million of borrowings related to the Pryor, Oklahoma plant acquisition.



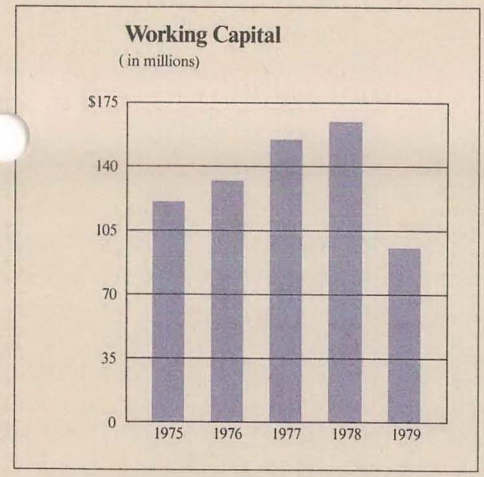
Lone Star's current assets decreased $94.5 million to $197.7 million in 1979, primarily due to the sale of Building Centers, which had current assets of $130.5 million at December 31, 1978. This was only partially offset by an increase in current assets resulting from the acquisition of Portland of Utah and San-Vel, by higher receivables balances due to increased sales, and by higher inventory balances due to higher costs. Current liabilities decreased $27.8 million, reflecting the sale of the Building Centers operations, which caused a decrease of $27.7 million, partially offset by the current liabilities acquired with San-Vel and Portland of Utah. As a result of these events, working capital and the current ratio declined to $95.7 million and 1.9 to 1, respectively, in 1979 from $162.4 million and 2.3 to 1, respectively, in 1978.

Stock Prices

The following table shows the quarterly high and low prices of Lone Star's common stock and preferred stock for 1979 and 1978 as reported in the Wall Street Journal. Lone Star's common shares are listed on the New York, Boston and Pacific Stock Exchanges and are open to trading on the Midwest and Philadelphia Exchanges. Certificates representing Lone Star's common shares are traded on the Amsterdam Stock Exchange and arrangements were made during the year for listing on the Frankfurt Stock Exchange, to be effective in early 1980.

	Common Stock		Preferred Stock	
	High	Low	High	Low
1979 Quarters				
First	**$24¼**	$20⅞	**$ 90**	$ 87
Second	**25⅜**	21⅛	**100**	87
Third	**26⅞**	23	**105**	96
Fourth	**29⅜**	22¼	**113**	96
1978 Quarters				
First	**$19⅞**	$17¼	**$ 75**	$ 74
Second	**21¾**	18	**81**	81
Third	**27⅛**	19	**105**	82½
Fourth	**27**	18⅝	**105**	103

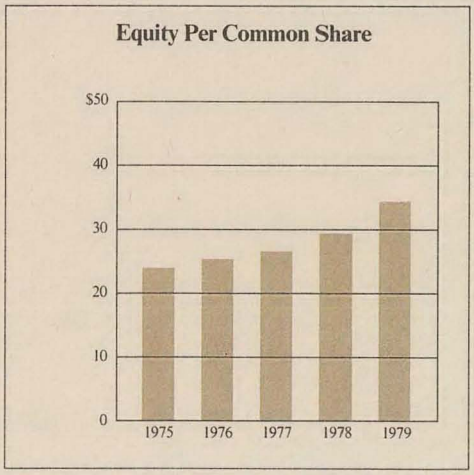
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Net property, plant and equipment increased $16.2 million in 1979 as a result of the acquisition of Portland of Utah and San-Vel and capital expenditures, partially offset by the disposition of the Building Centers operations and the contribution of Lone Star's Brazilian operations to the new joint venture with Lafarge.

Lone Star's investment in joint ventures and unconsolidated subsidiaries increased $57.8 million, primarily as a result of the company's investment in the new Brazilian joint venture, which had a carrying value of $46.9 million at December 31, 1979.

Cost in excess of net assets of businesses acquired increased $19.6 million during the year, primarily resulting from the acquisitions of Portland of Utah and San-Vel.



Shareholders' equity increased $26.3 million, or 8.0%, primarily due to 1979 net income of $64.7 million. In addition, equity was increased $9.1 million by the conversion of 5⅛% subordinated debentures, the conversion of preferred stock and the exercise of stock options. Equity was reduced by the purchase of common shares for $32.2 million and dividend payments of $15.3 million. Equity per common share increased 16.8% to $34.15 at the end of 1979, as compared with $29.24 at the end of 1978. Return on average equity increased significantly, from 14.5% in 1978 to 18.9% in 1979.

Comparison of 1978 and 1977 Results

Net sales rose in 1978 to $638.3 million, an increase of $183.0 million or 40.2% above 1977. The major portion of the increase was attributable to the company's cement, construction aggregates and related products operations, reflecting the continued growth of construction activity, particularly in the Pacific and Southwest Regions. The 1978 results also included sales beginning in February 1978 of $69.0 million by Lonestar Florida, Inc. Sales in the cement and related products segment of $502.7 million accounted for 78.8% of the total and represented an increase of 40.1% over 1977. This gain was primarily attributable to higher domestic cement sales volume resulting from greater construction activity in the United States, as well as the implementation of necessary price increases. International operations sales increased by $25.4 million or 28.6% reflecting higher cement prices, particularly in Argentina. Sales of construction aggregates, led by the Pacific Region, increased 38.5%, reflecting strong construction activity and improved pricing.

Cost of sales increased 42.4% in 1978 on higher net sales and higher costs along with the inclusion of the operations of Lonestar Florida, Inc. The increase in operating costs was primarily a result of higher power, fuel, labor and maintenance costs associated with increased production, and higher rates. In order to meet the substantial demand for cement in coastal areas, Lone Star purchased increased quantities of cement and clinker from abroad.

Selling, general and administrative expenses declined as a percent of net sales from 10.0% in 1977 to 9.2% in 1978. These costs increased by $13.1 million, or 28.8% in 1978 from 1977, principally reflecting the effects of increased sales activity.

Depreciation and depletion expense of $24.4 million in 1978 increased $2.9 million, or 13.3% from 1977. This increase resulted primarily from the increase in total depreciable assets for continuing operations from $522.8 million in 1977 to $559.4 million in 1978.

Consolidated operating profits from continuing operations were $70.1 million, an increase of $21.6 million or 44.5% from 1977, as sales increased at a greater rate than production costs. Operating profits for cement and related products increased $13.7 million and construction aggregates profits increased $8.4 million, as increased sales volumes and favorable unit prices more than offset higher costs for fuel, power, labor and maintenance.

Income taxes for continuing operations increased in 1978 to $7.2 million from $1.6 million in 1977 as a result of higher pre-tax earnings in 1978 and a higher effective tax rate. The higher effective tax rate is attributable to increased operating profits, which rose at a greater rate than percentage depletion and investment tax credits. Income from continuing operations of $30.4 million was 76.7% higher than 1977. The increase is attributable to increased sales and operating profits, partially offset by higher income taxes.

Income from Building Centers operations, discontinued in 1979, increased $2.4 million or 19.2% in 1978 to $14.9 million. These results reflected increased sales and operating profits, due primarily to strong markets in Southern Florida and Minneapolis-St. Paul, partially offset by higher income taxes.

Lone Star's consolidated net income reached a record $45.4 million in 1978, a 52.9% increase over the previous record set in 1977. This earnings gain was primarily attributable to greater sales and operating profits in the company's cement and related products and construction aggregates businesses, partially offset by higher income taxes.

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Quarterly Financial Data

Lone Star Industries, Inc. and Consolidated Subsidiaries

(Unaudited)

(Dollars in millions except per share amounts)

1979	Three Months Ended Mar. 31(3)	June 30	Sept. 30	Dec. 31	Total
Net sales	$146.6	$195.8	$227.6	$222.5	$792.5
Gross profit(1)	$ 17.8	$ 40.1	$ 48.0	$ 46.7	$152.6
Gross profit percentage	12.1%	20.5%	21.1%	21.0%	19.3%
Income from continuing operations	$ (0.7)	$ 16.5	$ 23.9	$ 16.3	$ 56.0
Income from discontinued operations:					
Earnings from Building Centers operations	2.7	1.6	—	—	4.3
Gain on disposal of Building Centers	—	4.4	—	—	4.4
Net income	$ 2.0	$ 22.5	$ 23.9	$ 16.3	$ 64.7
Per Common Share(2)					
Primary:					
Continuing operations	$ (0.06)	$ 1.46	$ 2.28	$ 1.57	$ 5.15
Discontinued operations:					
Earnings from Building Centers operations	0.24	0.14	—	—	0.39
Gain on disposal of Building Centers	—	0.39	—	—	0.41
Net income per common share	$ 0.18	$ 1.99	$ 2.28	$ 1.57	$ 5.95
Fully diluted:					
Continuing operations	$ (0.03)	$ 1.33	$ 2.09	$ 1.46	$ 4.73
Discontinued operations:					
Earnings from Building Centers operations	0.21	0.13	—	—	0.35
Gain on disposal of Building Centers	—	0.35	—	—	0.37
Net income per common share	$ 0.18	$ 1.81	$ 2.09	$ 1.46	$ 5.45

1978(3)	Three Months Ended Mar. 31	June 30	Sept. 30	Dec. 31	Total
Net sales	$ 99.3	$183.8	$180.2	$175.0	$638.3
Gross profit(1)	$ 12.5	$ 34.0	$ 33.7	$ 31.0	$111.2
Gross profit percentage	12.6%	18.5%	18.7%	17.7%	17.4%
Income from continuing operations	$ (2.6)	$ 11.7	$ 12.7	$ 8.7	$ 30.5
Income from discontinued operations	2.9	4.3	3.8	3.9	14.9
Net income	$ 0.3	$ 16.0	$ 16.5	$ 12.6	$ 45.4
Per Common Share(2)					
Primary:					
Continuing operations	$ (0.24)	$ 1.04	$ 1.13	$ 0.77	$ 2.69
Discontinued operations	0.26	0.38	0.34	0.34	1.33
Net income per common share	$ 0.02	$ 1.42	$ 1.47	$ 1.11	$ 4.02
Fully diluted:					
Continuing operations	$ (0.22)	$ 0.95	$ 1.03	$ 0.71	$ 2.49
Discontinued operations	0.24	0.34	0.30	0.31	1.19
Net income per common share	$ 0.02	$ 1.29	$ 1.33	$ 1.02	$ 3.68

(1) After deducting annual depreciation expense relating to cost of sales of $25.7 and $23.9 in 1979 and 1978, respectively.

(2) Earnings per share is computed independently for each of the quarters and the years presented. Therefore the sum of the quarterly earnings per share does not equal the total for the year, because of the stock transactions which occurred during the periods as described in Note 13 of Notes to Financial Statements. Fully diluted earnings per share computations for the first quarter of 1979 and 1978 do not reflect the anti-dilutive effect of preferred stock, convertible debentures and stock options.

(3) Reclassified to reflect the disposition of Building Centers operations. The restatement did not change net income or related per share amounts.

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Financial Ratios and Statistics

Lone Star Industries, Inc. and Consolidated Subsidiaries

(In thousands except per share amounts)

	1979	1978	1977	1976	1975
Invested capital:					
Long-term debt	**$174,143**	$178,195	$175,105	$125,813	$165,000
Minority interest	**117**	9,467	9,546	9,371	7,523
Shareholders' equity	**356,492**	330,154	297,205	279,892	264,282
Total invested capital	**$530,752**	$517,816	$481,856	$415,076	$436,805
Long-term debt to invested capital	**32.8%**	34.4%	36.3%	30.3%	37.8%
Income to average invested capital(1)	**13.8%**	10.4%	8.1%	8.3%	6.1%
Return on shareholders' average equity	**18.9%**	14.5%	10.3%	10.0%	7.4%
Operating profit as a percentage of average identifiable assets:					
Cement and related products:					
Domestic	**15.0%**	14.0%	11.7%	12.1%	13.4%
International	**32.7%**	15.6%	15.0%	23.3%	23.9%
Construction aggregates	**17.7%**	14.3%	7.3%	7.9%	8.1%
Net income to net sales (2)	**7.1%**	4.8%	3.8%	5.6%	5.1%
Pre-tax income to net sales (2)	**9.6%**	5.9%	4.1%	6.4%	7.2%
Operating profit to net sales (2)	**13.2%**	11.0%	10.7%	12.1%	11.8%
Cash dividends paid:					
Common shares	**$ 15,158**	$ 13,409	$ 12,202	$ 11,346	$ 10,938
Preferred shares	**$ 176**	$ 232	$ 253	$ 275	$ 416
Dividends per common share	**$ 1.40**	$ 1.20	$ 1.10	$ 1.025	$ 1.00
Percentage of earnings returned to shareholders	**23.7%**	30.1%	41.9%	42.7%	58.8%
Weighted average shares outstanding	**10,849**	11,232	11,091	11,068	10,889
Common shares outstanding at year-end	**10,418**	11,255	11,096	11,073	11,061
Net sales per weighted average Common share outstanding (2)	**$ 73.05**	$ 56.83	$ 41.05	$ 35.73	$ 33.70
Capital spending per weighted average Common share outstanding	**$ 7.72**	$ 5.55	$ 3.79	$ 3.60	$ 3.11
Working capital	**$ 95,693**	$162,366	$157,086	$134,712	$122,758
Current assets to current liabilities	**1.9**	2.3	2.6	2.3	2.4
Number of employees at year-end (2)	**7,826**	8,047	7,756	7,442	7,886
Price ranges of common stock—high	**$29⅜**	$27⅛	$23⅝	$22¾	$19½
low	**$20⅞**	$17¼	$16¾	$14	$ 9⅜
Price/earnings ratio—high (3)	**4.9**	6.7	8.9	9.3	11.2
low (3)	**3.5**	4.3	6.3	5.7	5.4
Equity per common share	**$34.15**	$29.24	$26.67	$25.16	$23.76

(1) Income represents net income, minority interest and interest expense, net of income taxes.
(2) Continuing operations.
(3) Computed utilizing high and low stock prices divided by net income per common share.

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Statement of Significant Accounting Policies

Consolidation—The financial statements include all subsidiaries and joint ventures. Joint ventures and a domestic finance subsidiary are included on the equity method.

Marketable Securities are stated at the lower of cost or market.

Inventories are stated at the lower of cost or market, with cost generally determined for manufacturing inventories on an average basis. The company determined the lower of cost or market for retail merchandise inventories of the discontinued Building Centers operations utilizing the retail method. Other discontinued operations' merchandise inventories, principally lumber, were valued on a first-in, first-out basis.

Real Estate Activities—Income from residential sales is recognized when homes are completed, title passes and the purchase price is received. Income from commercial real estate development is recognized when the contract is signed, a substantial down payment is received and other income recognition criteria are satisfied. Costs attendant to land under development are capitalized as part of the project.

Property, Plant and Equipment is stated at cost and depreciated over the estimated useful lives of the assets on the straight-line method. Significant expenditures which extend the useful lives of existing assets are capitalized. Maintenance and repair costs are charged to current earnings. Cost depletion is calculated on the units of production method. The cost of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any gains or losses are reflected in current earnings.

Income Taxes—Deferred federal income taxes are provided for timing differences between financial accounting and taxable income. Provision is made for appropriate taxes on the unremitted earnings of joint ventures and foreign subsidiaries which are not considered to be permanently invested or restricted. Investment tax credits are recognized on the "flow-through" method.

Pension Plans—The company and certain of its subsidiaries have various pension plans, the cost of which is computed on the basis of actuarial methods, with costs for service prior to the establishment or amendment of the plans amortized over twenty-five or thirty years. The company's policy is to fund pension cost accrued.

Income Per Common Share—Primary income per common share is based on the weighted average number of shares outstanding in each year after providing for preferred dividends. Fully diluted income per common share assumes that preferred stock and convertible debentures had been converted and dilutive stock options had been exercised at the beginning of each year.

Foreign Exchange—The company translates cash, receivables and liabilities at year-end exchange rates and other accounts at historical rates of exchange. Income and expense items are translated at average rates of exchange prevailing during the year, except that inventories charged to cost of sales and depreciation and depletion are translated at historical rates of exchange.

Capitalized Interest—The company capitalizes interest on indebtedness identifiable with certain capital projects under construction and interest attendant to real estate under development. Such interest is subsequently amortized over the life of the projects when they become operational or is charged to expense when real estate is sold.

Cost in Excess of Net Assets of Businesses Acquired—The excess of the cost of purchased businesses over the fair value of net assets at dates of acquisition is amortized using the straight line method over periods not to exceed 40 years.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of Lone Star Industries, Inc.:

We have examined the consolidated balance sheets of Lone Star Industries, Inc. and Consolidated Subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the foreign subsidiaries and joint venture which financial statements reflect total assets of 14% and 12% of the consolidated assets for 1979 and 1978, respectively, and total revenues of 15% and 18% of the consolidated revenues from continuing operations for 1979 and 1978, respectively. These financial statements were examined by other public accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for foreign subsidiaries and joint venture, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other public accountants, the financial statements referred to above present fairly the consolidated financial position of Lone Star Industries, Inc. and Consolidated Subsidiaries at December 31, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Three Landmark Square, Stamford, Connecticut 06901
February 12, 1980, except for Note 21 as to which the date is February 26, 1980.

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Consolidated Statements of Income and Retained Earnings

(Dollars in thousands except per share amounts)

	For the Years Ended December 31	
	1979	1978
Consolidated Income		
Revenue:		
Net sales	**$792,508**	$638,276
Other income, net	**13,652**	5,409
	806,160	643,685
Deductions from revenue:		
Cost of sales	**614,218**	503,165
Selling, general and administrative expense	**69,774**	58,718
Depreciation and depletion	**26,557**	24,376
Interest	**19,172**	19,767
	729,721	606,026
Income from continuing operations before income taxes	**76,439**	37,659
Provisions for income taxes	**20,400**	7,219
Income from continuing operations	**56,039**	30,440
Discontinued operations:		
Earnings from Building Centers operations (net of applicable income taxes of $4,100 in 1979 and $14,081 in 1978)	**4,293**	14,938
Gain on disposal of Building Centers (net of applicable income taxes of $3,900)	**4,409**	—
Income from discontinued operations	**8,702**	14,938
Net income	**$ 64,741**	$ 45,378
Income Per Common Share		
Primary:		
Continuing operations	**$ 5.15**	$ 2.69
Discontinued operations:		
Building Centers operations	**0.39**	1.33
Gain on disposal of Building Centers	**0.41**	—
Discontinued operations	**0.80**	1.33
Net income	**$ 5.95**	$ 4.02
Fully diluted:		
Continuing operations	**$ 4.73**	$ 2.49
Discontinued operations:		
Building Centers operations	**0.35**	1.19
Gain on disposal of Building Centers	**0.37**	—
Discontinued operations	**0.72**	1.19
Net income	**$ 5.45**	$ 3.68
Consolidated Retained Earnings		
Retained earnings, beginning of year	**$262,145**	$230,408
Net income	**64,741**	45,378
Cash dividends:		
Common shares (per share: 1979, $1.40; 1978, $1.20)	**15,158**	13,409
Preferred shares (per share: $4.50)	**176**	232
	15,334	13,641
Retained earnings, end of year	**$311,552**	$262,145

The accompanying Statement of Significant Accounting Policies and Notes to Financial Statements are integral parts of the Financial Statements.

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Consolidated Balance Sheets

Lone Star Industries, Inc. and Consolidated Subsidiaries

(Dollars in thousands)

	As of December 31	
	1979	1978
Assets		
Current assets		
Cash	**$ 3,895**	$ 4,954
Marketable securities	**15,409**	18,459
Notes and accounts receivable	**92,940**	113,019
Less allowance for doubtful accounts	**6,963**	6,851
	85,977	106,168
Inventories	**88,928**	158,607
Other current assets	**3,472**	4,011
Total current assets	**197,681**	292,199
Real estate for development and sale	**17,794**	20,515
Property, plant and equipment	**686,243**	694,474
Less allowances for depreciation and depletion	**278,275**	302,716
	407,968	391,758
Joint ventures and unconsolidated subsidiary	**69,780**	11,976
Cost in excess of net assets of businesses acquired	**21,697**	2,104
Other assets and deferred charges	**24,353**	19,706
Total assets	**$739,273**	$738,258
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**$ 31,481**	$ 61,848
Accrued expenses	**36,243**	35,392
Federal and other income taxes	**14,696**	21,792
Notes payable to banks	**11,071**	1,614
Other current liabilities	**8,497**	9,187
Total current liabilities	**101,988**	129,833
Long-term debt	**174,143**	178,195
Deferred income taxes	**69,672**	52,384
Production payment	**33,000**	37,000
Other liabilities	**3,861**	1,225
Minority interest	**117**	9,467
Total liabilities	**382,781**	408,104
Shareholders' equity		
Preferred stock (involuntary liquidating value, 1979, $3,247)	**731**	1,054
Common stock	**12,161**	11,765
Capital surplus	**75,166**	66,542
Retained earnings	**311,552**	262,145
	399,610	341,506
Less treasury stock	**43,118**	11,352
Total shareholders' equity	**356,492**	330,154
Total liabilities and shareholders' equity	**$739,273**	$738,258

The accompanying Statement of Significant Accounting Policies and Notes to Financial Statements are integral parts of the Financial Statements.

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Consolidated Statements of Changes in Financial Position

)llars in thousands)

	For the Years Ended December 31	
	1979	1978
Funds Provided By		
Income from continuing operations	**$ 56,039**	$ 30,440
Items not requiring working capital:		
Depreciation and depletion	**26,557**	24,376
Deferred income taxes	**13,508**	7,288
Equity in joint ventures and unconsolidated subsidiary	**(5,884)**	(2,084)
Other, net	**(1,514)**	(315)
Funds provided by continuing operations	**88,706**	59,705
Funds provided by discontinued Building Centers operations	**6,105**	19,253
Total funds provided by operations	**94,811**	78,958
Disposal of Building Centers non-current assets including a gain of $4,409	**50,377**	—
Contribution of net non-current assets to the Brazilian joint venture	**9,365**	—
Issuance of common stock for conversion of long-term debt	**8,808**	—
Long-term debt	**8,311**	7,044
Other, net	**2,777**	(1,087)
	174,449	84,915
Funds Used For		
Capital expenditures	**83,778**	62,336
Net non-current assets acquired with Portland of Utah and San-Vel	**47,076**	—
Investment in Brazilian joint venture	**46,976**	—
Purchase of common stock	**32,151**	—
Reduction of long-term debt	**15,807**	3,658
Payment of dividends	**15,334**	13,641
	241,122	79,635
Increase (Decrease) in Working Capital	**$ (66,673)**	$ 5,280
Changes in Working Capital		
Increase (decrease) in current assets:		
Cash and marketable securities	**$ (4,109)**	$ 1,418
Notes and accounts receivable, net	**(20,191)**	25,741
Inventories	**(69,679)**	10,552
Other current assets	**(539)**	(654)
	(94,518)	37,057
Decrease (increase) in current liabilities:		
Accounts payable and accrued expenses	**29,516**	(27,997)
Notes payable to banks	**(9,457)**	1,875
Federal and other income taxes	**7,096**	(3,219)
Other current liabilities	**690**	(2,436)
	27,845	(31,777)
Increase (Decrease) in Working Capital	**$ (66,673)**	$ 5,280

The accompanying Statement of Significant Accounting Policies and Notes to Financial Statements are integral parts of the Financial Statements.

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Notes to Financial Statements

1. Inventories

Inventories consist of the following (in thousands):

	1979	1978
Finished goods	**$ 36,392**	$108,666
Work in process and raw materials	**12,785**	11,766
Supplies and fuel	**39,751**	38,175
	$ 88,928	$158,607

2. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	1979	1978
Land	**$ 57,484**	$ 57,599
Buildings and equipment	**537,065**	554,011
Construction in progress	**42,086**	21,992
Automobiles and trucks	**40,107**	45,629
Other	**9,501**	15,243
	$686,243	$694,474

3. Foreign Subsidiaries and Joint Venture

The financial statements include the following with respect to the company's foreign operations in Argentina, Brazil and Uruguay (in thousands):

	1979	1978
Current assets	**$ 39,512**	$ 43,407
Property, plant and equipment (net)	**18,975**	42,079
Investment in joint venture	**46,889**	–
Other assets	**267**	5,818
Current liabilities	**(14,007)**	(14,923)
Long-term debt and other liabilities	**(360)**	(6,579)
Minority interest	**–**	(9,363)
Net assets	**$ 91,276**	$ 60,439
Net sales	**$118,404**	$114,069
Pre-tax income	**$ 23,432**	$ 12,460
Contribution to net income	**$ 13,104**	$ 6,276

See Note 6 for additional information concerning the formation of a joint venture in Brazil in April, 1979.

Local laws limit the amount of accumulated earnings of these operations available for remittance to the company in the form of dividends. At December 31, 1979, subject to local government approval, approximately $18,700,000 of accumulated earnings was available for distribution to the company.

4. Acquisitions

In September 1979, the company acquired all of the outstanding shares of Portland Cement Company of Utah for cash. The acquisition has been accounted for as a purchase and the net assets and results of operations of Portland of Utah since the date of acquisition are included in the consolidated financial statements. The total acquisition cost of $38,135,000 exceeded the fair value of net tangible assets acquired by $15,947,000. This excess is being amortized over 40 years. Unaudited pro forma consolidated condensed results of operations for the years ended December 31, 1979 and 1978, as though Portland of Utah had been acquired as of January 1, 1978, are as follows (in thousands, except per share amounts):

	1979	1978
Net sales	**$802,684**	$652,170
Income from continuing operations	**58,420**	33,452
Net income	**67,122**	48,390
Per Common Share:		
Income from continuing operations	**$5.37**	$2.96
Net income	**$6.17**	$4.29

The above amounts reflect adjustments for amortization of the excess of acquisition cost over the fair value of net tangible assets acquired and depreciation on revalued purchased assets.

In June 1979, the company acquired all of the stock of San-Vel Concrete Corporation, a producer of precast/prestressed concrete products, for $8,450,000 in cash and notes. The acquisition has been accounted for as a purchase, and net assets and operating results of San-Vel, which are not material to the consolidated financial statements, have been included therein since the date of acquisition. Total acquisition costs exceeded the fair value of net tangible assets acquired by $5,193,000, which is being amortized over 40 years.

On December 10, 1979, the company agreed to acquire a cement plant in Dixon, Illinois, from Medusa Corporation, a subsidiary of Crane Co. Under the terms of the agreement, the company will acquire the plant, which has a rated capacity of approximately 600,000 tons of cement a year, terminal facilities and a quarry for $10,000,000. The company will also acquire the plant's inventories at a price to be determined at the time the acquisition is completed.

See Note 21 for information concerning the proposed acquisition of a cement plant located in Pryor, Oklahoma, from OKC Corp.

5. Joint Ventures and Unconsolidated Subsidiary

The company's investment in and advances to joint ventures and an unconsolidated domestic finance subsidiary are as follows (in thousands):

	1979	1978
Brazilian joint venture	**$46,889**	$ –
Other joint ventures	**18,362**	9,195
Domestic finance subsidiary	**4,529**	2,781
	$69,780	$11,976

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1 1979, the company and Lafarge formed a joint venture, combining substantially all of their Brazilian operations. See Note 6 for additional information concerning this venture.

In 1978, the company and General Electric Credit Corporation formed a joint venture, Lonestar Florida Pennsuco, Inc., to purchase the operating assets of Maule Industries Inc., a cement, aggregates and concrete producer in Florida. The company acquired all of the outstanding common stock, and General Electric Credit acquired all of the preferred stock, with each class having equal voting rights. The joint venture is being accounted for on the equity basis.

Pennsuco's total indebtedness to General Electric Credit of $42,801,000 as of December 31, 1979, is payable in annual installments through 1988. During the term of this indebtedness, the company may be required to advance to Pennsuco up to $18,000,000, or, if lower, the amount of the then-outstanding indebtedness, for the purpose of maintaining the net worth of Pennsuco at $2,000,000, or to cure any default under the indebtedness. As of December 31, 1979, the company had made advances to Pennsuco of $11,039,000.

In 1978, the company also formed a wholly owned subsidiary, Lonestar Florida, Inc., to purchase and resell all the production of the joint venture. Purchases from the joint venture are set by contractual formulas at prices that approximate market price discounted for certain of Lonestar Florida's sell-ng costs. Lonestar Florida sales of $106,782,000 and 68,953,000 are included in the company's consolidated net sales for the years ended December 31, 1979 and 1978, respectively. As of December 31, 1979, Lonestar Florida had accounts payable to Pennsuco of $9,195,000 for production purchased.

Summarized financial information relating to Pennsuco is as follows (in thousands):

	1979	1978
Current assets	**$ 15,516**	$ 12,109
Property, plant and equipment (net)	**49,246**	43,673
Other assets	**283**	734
(Payable to) Receivable from Lone Star (net)	**(1,844)**	2,694
Current liabilities	**(12,171)**	(10,120)
Long-term debt	**(41,506)**	(44,954)
Other liabilities	**(2,411)**	(794)
Net worth	**$ 7,113**	$ 3,342
Net sales	**$106,776**	$ 68,472
Net income	**$ 3,816**	$ 1,384
Less Preferred dividend	**(45)**	(41)
Equity in Pennsuco net income	**$ 3,771**	$ 1,343

6. Brazilian Joint Venture

In April 1979, the company and Lafarge, combined substantially all of their Brazilian operations. In addition, the company contributed to the joint venture $14,815,000 in cash and Lafarge contributed $12,480,000 in cash at the time of its formation. The combined entity is being operated under the name of Lone Star's former subsidiary, Companhia Nacional de Cimento Portland (CNCP), with Lone Star holding a 48% interest and Lafarge a 52% interest. On December 31, 1979, the carrying value of the company's investment in CNCP, which is accounted for on the equity basis, was $46,889,000. Lone Star's Brazilian operations included a cement plant in Guaxindiba and a 53% ownership of a cement plant in Aratu. Lafarge's holdings in Brazil included two cement plants near the city of Belo Horizonte. Cimento Maua (Maua), a wholly owned subsidiary of CNCP, has retained a builder to construct a new 770,000 ton cement plant in Cantagalo, northeast of Rio de Janeiro. If the new plant does not meet certain performance criteria according to a specified timetable, Lone Star and Lafarge are severally obligated to reimburse Maua for the project costs. The cost of the new cement plant project, including working capital and interest during construction, is estimated at $125,000,000, to be financed by $50,000,000 contributed by CNCP and a $75,000,000 Eurodollar borrowing of Maua. The loan agreement contains restrictions on CNCP with respect to the maintenance of working capital, tangible net worth, issuance of additional debt, and the payment of dividends. Current interest payments only will be guaranteed, severally, by Lafarge and the company.

Summarized financial information, based on financial statements of CNCP as of December 31, 1979, and for the eight months then ended, is as follows (in thousands):

	1979
Working capital	**$ 9,942**
Property, plant and equipment, net	**86,780**
Special funds and other investments	**79,944**
Other assets	**3,713**
Long-term debt	**(90,432)**
Other liabilities	**(15,420)**
Net assets	**$ 74,527**
Net sales	**$ 51,969**
Income before income taxes	**$ 699**
Net loss	**$ 14**

At December 31, 1979, the excess of the investment by Lone Star over its share of the underlying net tangible assets of CNCP is $11,352,000 and is being amortized over 25 years.

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7. Capitalized Interest

Interest capitalized during 1979 and 1978, was $1,350,000 and $998,000, respectively. If capitalized interest had been expensed by the company as accrued, reported net income would have been reduced by $651,000 in 1979 and $464,000 in 1978.

8. Notes Payable to Banks

The company has a Revolving Credit and Term Loan Agreement with no borrowings outstanding at December 31, 1979 or 1978. The agreement permits the company to borrow up to $67,000,000 through June 1, 1980, at a specified bank's prime rate of interest plus a ½% per annum commitment fee payable on the average daily unused amount. At maturity, the company can convert any or all borrowings under this agreement to a term loan, repayable over a four-year period.

The company had other domestic short-term borrowings of $11,000,000 and $750,000 outstanding at December 31, 1979 and 1978, respectively, at approximately the prime rate of interest. The company maintains compensating balances, or the equivalent, with various banks at an average of 10% to 20% of credit lines depending upon usage and measured over an extended period of time.

The company's short-term foreign borrowings were $71,000 and $864,000 at December 31, 1979 and 1978, respectively. These borrowings were at various terms.

The maximum aggregate notes payable to banks at any month-end were $49,800,000 and $46,200,000 during 1979 and 1978, respectively; the average borrowings were $13,500,000 and $18,000,000 during 1979 and 1978, respectively; and the daily weighted average interest rate on aggregate borrowings was 16.7% and 14.3% during 1979 and 1978, respectively (16.1% and 11.6% on domestic borrowings).

9. Long-term Debt

Long-term debt consists of the following (in thousands):

	1979	1978
4⅞% Sinking Fund Debentures, due 1990	**$ 23,128**	$ 26,433
5⅛% Convertible Subordinated Debentures, due 1993	**18,444**	28,288
8% Sinking Fund Debentures, due 1997	**50,000**	50,000
8½% Promissory Notes, due 1981-1984	**20,000**	20,000
10¼% Pollution Control and Industrial Development Revenue Bonds, due 1980-1992	**26,308**	28,500
Various notes, due through 2008	**36,263**	24,974
	$174,143	$178,195

The 5⅛% Convertible Subordinated Debentures are convertible into common stock of the company at the rate of 38.462 shares of common stock for each $1,000 principal amount of debentures.

Sinking fund requirements to and including 1980 under th 4⅞% debenture agreement have been met by purchases in the open market. As of December 31, 1979, sinking fund requirements under the 5⅛% debenture agreement were satisfied for approximately nine years by conversions and purchases in the open market. Sinking fund requirements for the 8% debentures begin in 1983.

The indentures relating to the debentures and certain of the notes and related agreements restrict the amount of payment of cash dividends, stock repurchases, and certain other activities. The amount of retained earnings free of these restrictions at December 31, 1979, was approximately $65,755,000.

As of December 31, 1979, maturities of long-term debt were as follows: 1980–$5,950,000; 1981–$9,607,000; 1982–$14,064,000; 1983–$13,743,000; 1984–$11,368,000; and the balance of $125,361,000 through 2008.

10. Production Payment

The proceeds from the sale of a portion of future production from limestone quarries located adjacent to two of the company's cement plants have been deferred and are being reflected in income through 1988, together with related costs and expenses, as the minerals are produced and sold. The company expects to remit $2,000,000 of proceeds within one year and, accordingly, this amount is classified as a current liability. An amount equivalent to interest is payable by the company primarily at a rate of 10%.

11. Leases

Rental expense from continuing operations in 1979 and 1978 was approximately $6,424,000 and $4,889,000 respectively. Minimum rental commitments under all noncancellable leases principally pertaining to land, buildings, and equipment are as follows: 1980, $3,263,000; 1981, $2,723,000; 1982, $2,399,000; 1983, $1,865,000; 1984, $1,209,000; after 1984, $5,733,000. Certain leases include options for renewal or purchase of leased property.

12. Stock Options

At December 31, 1979, under all stock option plans, options were outstanding to purchase 257,769 shares (138,883 exercisable) of the company's common stock at $14.25 to $25.69 per share (market value at dates of grant). During 1979, options for 65,000 shares were granted and options for 41,748 shares expired or were cancelled and options to purchase 16,878 shares were exercised at $14.25 to $24.50 per share. At December 31, 1979, options to purchase 349,884 shares were available for grant.

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3. Capital Stock and Capital Surplus

Authorized: 2,000,000 shares Preferred Stock-par value $1.00 per share (Stated value $22.50 per share)
20,000,000 shares Common Stock-par value $1.00 per share

Transactions in capital stock and capital surplus accounts are as follows (dollars in thousands):

	Preferred		Common			Treasury Common	
	Shares	Stated Value	Shares	Par Value	Capital Surplus	Shares	Cost
Balance, December 31, 1977	55,456	$1,248	11,730,399	$11,730	$68,864	633,912	$14,107
Conversion of preferred stock	(8,638)	(194)	34,552	35	159	—	—
Pooling of interests	—	—	—	—	(2,451)	(120,000)	(2,670)
Exercise of stock options	—	—	—	—	(30)	(3,825)	(85)
Balance, December 31, 1978	46,818	1,054	11,764,951	11,765	66,542	510,087	11,352
Conversion of preferred stock	(14,347)	(323)	57,388	57	266	—	—
Conversion of 5⅛% Convertible Subordinated Debentures	—	—	338,773	339	8,469	—	—
Purchase of Shares	—	—	—	—	—	1,250,000	32,151
Exercise of stock options	—	—	—	—	(111)	(16,878)	(385)
Balance, December 31, 1979	32,471	$ 731	12,161,112	$12,161	$75,166	1,743,209	$43,118

Each share of $4.50 Cumulative Preferred Stock is convertible into four shares of common stock. Such stock is redeemable at the option of the company, or entitled upon involuntary liquidation, at $100 per share or a total of $3,247,000, which is $2,516,000 in excess of the total stated value.

On July 16, 1979, the company purchased 1,250,000 shares of its common stock at $25.50 per share. Expenses and fees relating to the tender offer were $276,000.

The company has reserved 1,446,930 shares of its authorized but unissued common stock for possible future issuance in connection with conversions of preferred stock (129,884 shares) and debentures (709,393 shares) and the exercise of stock options (607,653 shares).

14. Other Income–Net

Other income–net, consists of the following (in thousands):

	1979	1978
Securities income (includes foreign)	**$ 7,730**	$ 5,191
Foreign exchange losses	**(3,241)**	(4,569)
Income from joint ventures and unconsolidated subsidiary	**5,884**	2,084
Gains on sale of assets	**1,346**	1,115
Other	**1,933**	1,588
	$13,652	$ 5,409

15. Pension Plans

Pension expense connected with the company's plans for 1979 and 1978 for continuing operations was approximately $8,100,000 and $6,600,000 respectively. The higher pension expense in 1979 resulted primarily from amendments to several of the plans, which increased the level of benefits provided. The actuarially computed value of vested benefits for certain plans at 1980 valuation dates exceeded the total of the pension funds and accrued contributions by approximately $24,500,000.

16. Income Taxes

Provisions for income taxes for continuing operations consist of the following (in thousands):

	1979	1978
Federal:		
Current	**$ (554)**	$(4,711)
Deferred:		
Excess of tax over book depreciation	**4,378**	5,029
Investment tax credits	**1,365**	1,008
Subsidiary separate return net operating loss carryforward	**2,340**	1,329
Tax on unremitted foreign earnings	**2,029**	—
Other	**993**	(78)
Total Federal	**10,551**	2,577
Foreign:		
Current	**5,896**	4,376
Deferred tax on unremitted foreign earnings	**2,403**	—
Total Foreign	**8,299**	4,376
State and Local	**1,550**	266
	$20,400	$ 7,219

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In 1979, $3,780,000 was reclassified in the balance sheet from current income taxes payable to deferred income taxes payable, reflecting the net effect of prior years' tax filings, the disposition of Building Centers operations, income taxes on unremitted foreign earnings, and taxes not due currently.

A subsidiary has net operating loss carryforwards and investment tax credit carryforwards for federal income tax purposes from separate return taxable periods of approximately $1,700,000 and $6,200,000, respectively, which expire at various dates from 1980 to 1983 and are available for application against future taxable income of the subsidiary. These carryforwards have been previously recognized for financial statement purposes.

The following is a reconciliation of income taxes for continuing operations computed at the U.S. statutory rate to the provisions for income taxes (in thousands):

	1979	1978
Taxes computed at statutory rates on income before income taxes	**$35,162**	$18,076
Decreases (increases) resulting from:		
Investment tax credits	**7,500**	5,300
Percentage depletion	**5,100**	4,800
Joint ventures	**2,241**	911
Other, net	**(79)**	(154)
	$20,400	$ 7,219

17. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1979 and 1978 appear on page 44 of this report.

18. Industry Segments and Geographic Areas

Sales, operating profits, identifiable assets, capital expenditures, and depreciation and depletion for the company's industry segment and geographic areas for the years ended December 31, 1979 and 1978, appear on pages 36- 37 of this report.

19. Litigation

Beginning in late 1976, a series of substantially similar class actions, now pending in the United States District Court for the District of Arizona was brought against the Portland Cement Association and almost all United States cement producers, including the company. Since 1976, additional, substantially similar class actions have been filed by a number of states and business entities in various Federal District Courts, and all of these have been, or are expected to be, consolidated for pretrial purposes in the Arizona Court. The company and certain of its subsidiaries are defendants in most of these actions. All of the actions allege that a nationwide combination and conspiracy existed in violation of the antitrust laws to fix, maintain and stabilize cement prices from on or before 1958 to the dates of commencement of the various actions. None of the actions alleges a specific amount of damages, but they seek, in addition to other relief, money damages equal to treble the damages allegedly sustained by the plaintiffs. The actions have not progressed beyond the preliminary pretrial stage. The Arizona Court has certified the classes sought by plaintiffs to include purchasers of cement and cement containing products. Management denies that it has entered into any such alleged combination or conspiracy, believes that the alleged violations are without foundation and intends to vigorously contest all of the actions in which the company is involved. While the outcome of this litigation cannot be predicted with certainty, management believes it should not have a material adverse effect on the company's financial position.

20. Discontinued Operations

During 1979, the company disposed of its Building Centers operations. These operations included wholesale lumber distribution facilities, combination retail-contractor building materials outlets, and retail home care centers. Effective June 30, 1979, such operations have been reported as discontinued operations. Accordingly, the Consolidated Statement of Income, Consolidated Statement of Changes in Financial Position and the related notes thereto for 1978 have been reclassified to present Building Centers as discontinued operations.

The net proceeds realized from the sale of the Building Centers operations through eight separate sale transactions to various purchasers were approximately $152,000,000. Building Centers operations accounted for net sales of $199,356,000 and $453,539,000 for the years ended December 31, 1979 and 1978, respectively.

21. Subsequent Events

On February 26, 1980, the company reached an agreement with OKC Corp. for the acquisition of OKC's Pryor, Oklahoma cement facility and certain land near Ocala, Florida for $87,300,000. Lone Star also is negotiating with OKC's lenders to borrow $38,500,000 at an interest rate of 12¾% at the time of the closing. In addition, Lone Star agreed to purchase certain other assets including inventories substantially on a cost basis. The Pryor plant currently has a rated capacity of 450,000 tons of cement per year, and a nearly-completed expansion program will increase rated capacity to 725,000 tons. This acquisition, which is subject to certain regulatory and governmental approvals, is scheduled for the first half of 1980 and will be accounted for as a purchase.

In 1980, the company expects to sell a portion of future production for $50,000,000 from a limestone quarry located adjacent to one of its cement plants and from the two limestone quarries involved in the 1976 production payment as described in Note 10.

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Supplemental Information on Effects of Changing Prices

(Unaudited)

During 1979, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 33, which requires the company to report for the first time the effects of changing prices on its business.

It must be recognized that at present the effects of inflation and changing prices on a business enterprise cannot be quantified with accuracy. The methods required by SFAS No. 33 are experimental in nature and will be refined as more experience is gained.

Statement of Income from Continuing Operations Adjusted for General Inflation

Year Ended December 31, 1979

In thousands except per share amounts	As Reported	Adjusted for General Inflation
Net sales and other income	$806,160	$806,160
Cost of sales	614,218	626,054
Selling, general and administrative expense	69,774	69,774
Depreciation and depletion	26,557	40,714
Interest	19,172	19,172
Provision for taxes	20,400	20,400
	750,121	776,114
Income from continuing operations	$ 56,039	$ 30,046
Income per common share from continuing operations:		
Primary	$5.15	$2.75
Fully diluted	$4.73	$2.57
Net assets at year-end	$356,492	$565,909
Net assets per share	$34.15	$54.25
Purchasing power gain on net monetary liabilities		$ 34,771

The information provided above presents historical information which has been adjusted for changes in the general purchasing power of the dollar as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Income from continuing operations "Adjusted for General Inflation" was derived by restating cost of sales and depreciation and depletion to dollars with purchasing power equivalent to the average purchasing power of the dollar for the year ended December 31, 1979. All other elements of revenue and expense were not required to be adjusted as they are considered to have been stated in average 1979 dollars in the primary financial statements.

The historical costs of property, plant and equipment were restated into average 1979 dollars based on their year of acquisition and appropriate CPI-U. These revised amounts were used to calculate adjusted depreciation and depletion for the year. Depreciation and depletion were calculated using the same estimated useful lives, salvage values, and depreciation and depletion methods as used in the primary financial statements.

The purchasing power gain on net monetary liabilities results, since during periods of inflation net monetary liabilities will be paid off in dollars of diminished purchasing power. Monetary items are either claims to receive sums of money or obligations to pay sums of money in amounts which are fixed or determinable without reference to future prices of specific goods or services.

Current Replacement Cost Information (Unaudited)

Estimated current replacement cost information for inventories and productive capacity as of December 31, 1979 and 1978, and the related effects on cost of sales and depreciation expense for the year are disclosed in the company's annual report on Form 10-K to be filed with the Securities and Exchange Commission.

Each element presented in the table below is restated in dollars presumed to have the same general purchasing power using the average CPI-U for 1979. For example, assuming that the CPI-U reflects the declining purchasing power of the dollar, the data below indicate that the historically reported 1978 Net Sales and Other Income of $643,685,000 is equivalent to $716,157,000 of purchasing power in 1979 dollars.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of General Inflation

In thousands except per share amounts	Years Ended December 31 1979	1978	1977	1976	1975
Net sales and other income	$806,160	$716,157	$549,307	$510,417	$511,570
Cash dividends per common share	$1.40	$1.34	$1.32	$1.31	$1.35
Market price per common share at year-end	$27.06	$22.63	$22.63	$27.60	$18.30
Average consumer price index (1967 = 100)	217.4	195.4	181.5	170.5	161.2

1.113

1.198

1.275

1.349

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Ten-Year Summary of Operations[1]

(In thousands except per share amounts)

For the Years Ended December 31,	1979	1978	1977
Revenue:			
Net sales	**$ 792,508**	$ 638,276	$ 455,245
Other income—net	**13,652**	5,409	3,353
	806,160	643,685	458,598
Deductions from revenue:			
Cost of sales	**614,218**	503,165	353,367
Selling, general and administrative expense	**69,774**	58,718	45,599
Depreciation and depletion	**26,557**	24,376	21,510
Interest	**19,172**	19,767	19,253
	729,721	606,026	439,729
Income from continuing operations before income taxes and extraordinary charge	**76,439**	37,659	18,869
Provisions for income taxes	**20,400**	7,219	1,648
Income from continuing operations	**56,039**	30,440	17,221
Income from discontinued operations before income taxes[2]	**16,702**	29,019	22,441
Provisions for income taxes—discontinued operations[2]	**8,000**	14,081	9,952
Income from discontinued operations	**8,702**	14,938	12,489
Income before extraordinary charge	**64,741**	45,378	29,710
Extraordinary charge, net of taxes	**—**	—	—
Net Income	**64,741**	45,378	29,710
Provisions for preferred dividends	**176**	232	25
Net income applicable to common stock	**$ 64,565**	$ 45,146	$ 29,457
Per Common Share[3]			
Continuing operations	**$5.15**	$2.69	$1.53
Discontinued operations[2]	**0.80**	1.33	1.13
Income before extraordinary charge	**5.95**	4.02	2.66
Extraordinary charge	**—**	—	—
Net income per common share	**$5.95**	$4.02	$2.66
Per Common Share Assuming Full Dilution[3]			
Continuing operations	**$4.73**	$2.49	$1.44
Discontinued operations[2]	**0.72**	1.19	1.01
Income before extraordinary charge	**5.45**	3.68	2.45
Extraordinary charge	**—**	—	—
Net income per common share	**$5.45**	$3.68	$2.45
Weighted average common shares outstanding[4]	**10,849**	11,232	11,091
Dividends per common share	**$1.40**	$1.20	$1.10

Notes (dollars in thousands except per share amounts):

(1) The years prior to 1979 have been reclassified to reflect the disposition during 1979 of Building Centers operations. The reclassification did not change net income or related per share amounts.

(2) Amounts for 1979 include a gain of $4,409, net of applicable taxes of $3,900, on the sale of Building Centers. Related per share amounts were $0.41 primary and $0.37 fully diluted.

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1976	1975	1974	1973	1972	1971	1970
$ 395,435	$ 367,299	$ 371,878	$ 379,621	$ 324,999	$ 296,847	$ 273,353
4,869	12,025	11,352	2,923	3,669	2,854	1,513
400,304	379,324	383,230	382,544	328,668	299,701	274,866
299,444	278,992	280,650	280,449	239,216	211,212	190,240
41,264	38,961	39,944	43,717	34,412	37,259	38,143
20,171	19,413	18,858	19,499	19,110	17,768	16,634
14,151	15,443	15,770	12,984	10,255	7,396	7,812
375,030	352,809	355,222	356,649	302,993	273,635	252,829
25,274	26,515	28,008	25,895	25,675	26,066	22,037
3,097	7,640	8,825	8,251	7,129	6,809	6,127
22,177	18,875	19,183	17,644	18,546	19,257	15,910
9,354	488	9,412	17,465	9,534	5,067	4,002
4,303	49	4,275	8,466	4,585	2,420	1,987
5,051	439	5,137	8,999	4,949	2,647	2,015
27,228	19,314	24,320	26,643	23,495	21,904	17,925
—	—	—	—	—	2,500	—
27,228	19,314	24,320	26,643	23,495	19,404	17,925
275	416	560	586	636	750	909
$ 26,953	$ 18,898	$ 23,760	$ 26,057	$ 22,859	$ 18,654	$ 17,016
$1.98	$1.70	$1.73	$1.58	$1.65	$1.74	$1.45
0.46	0.04	0.47	0.84	0.45	0.25	0.20
2.44	1.74	2.20	2.42	2.10	1.99	1.65
—	—	—	—	—	.23	—
$2.44	$1.74	$2.20	$2.42	$2.10	$1.76	$1.65
$1.84	$1.59	$1.61	$1.48	$1.53	$1.60	$1.35
0.41	0.03	0.41	0.72	0.39	0.21	0.16
2.25	1.62	2.02	2.20	1.92	1.81	1.51
—	—	—	—	—	.20	—
$2.25	$1.62	$2.02	$2.20	$1.92	$1.61	$1.51
11,068	**10,889**	**10,800**	**10,785**	**10,875**	**10,599**	**10,328**
$1.025	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00

(3) Income per common share is based on the weighted average number of shares outstanding in each year after allowing for preferred dividends. Fully diluted income per common share assumes that preferred stock and convertible debentures had been converted and dilutive stock options had been exercised at the beginning of each year.

(4) On July 16, 1979, the company purchased 1,250,000 shares of its common stock at $25.50 per share. In addition, 57,000 shares and 339,000 shares of common stock were issued during 1979 in connection with the conversion of the company's $4.50 Cumulative Preferred Stock and 5⅛% Convertible Debentures, respectively.

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Principal Operations

Cement Plants

Domestic

California: Santa Cruz
Florida: Miami
Indiana: Greencastle
Kansas: Bonner Springs
Louisiana: New Orleans
Pennsylvania: Nazareth
Texas: Houston
Maryneal
Utah: Salt Lake City
Virginia: Roanoke
Washington: Seattle

International

Argentina:
Paraná
(Entre Rios Province)
Sierra Bayas
(Buenos Aires Province)

**Brazil:*
Aratú
(Salvador, Bahia)
Guaxindiba
(State of Rio de Janeiro)
Belo Horizonte
(State of Minas Gerais)
Arcos
(State of Minas Gerais)

Uruguay:
Sayago
(Montevideo)

*Joint venture with Lafarge

Regional Offices

Central Region
2511 East 46th Street
Indianapolis, Indiana 46205

Northeast Region
162 Old Mill Road
West Nyack, New York 10994

Pacific Region
2800 Campus Drive
San Mateo, California 94403

Southeast Region
977 Norfolk Square
Norfolk, Virginia 23502

Southwest Region
9250 Amberton Parkway
Dallas, Texas 75243

Lonestar Florida, Inc.
6451 North Federal Highway
Fort Lauderdale, Florida 33308

Lone Star Lafarge, Inc.
18 Kroger Executive Center
Norfolk, Virginia 23502

Other Operations

Lone Star Hawaii Inc.
Pacific Trade Center
190 S. King Street
Honolulu, Hawaii 96813

Lone Star Minerals, Inc.
8149-C Kennedy Avenue
Highland, Indiana 46322

Lone Star Mining & Exploration Co., Ltd.
2222 South Sheridan Way
Building 1, Unit 2
Mississauga, Ontario L5J 2M4

Lone Star Properties, Inc.
8204 Elmbrook Drive
Suite 140
Dallas, Texas 75247

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Oahu
Hawaiian Islands
Domestic Operations
Cement Plants
Ready-Mix Operations
Precast Concrete Products
Aggregates Operations
Specialty Aggregates
Distribution Terminals
Real Estate Development

Directors

James E. Stewart
Chairman and Chief Executive Officer, Lone Star Industries, Inc.

Mr. Stewart became a Director and Chairman of the Executive Committee of Lone Star in 1971. Elected Chairman of the Board in 1973, he became President and Chief Executive Officer in 1978.

Mr. Stewart is Vice Chairman of the Board and Chairman of the Executive Committee of Bangor Punta Corporation and a Director of Piper Aircraft, a Bangor Punta subsidiary.

Dwayne O. Andreas
Chairman of the Board and Chief Executive, Archer-Daniels-Midland Company

Archer-Daniels-Midland is an agricultural products processing and milling company that ranks well up in Fortune magazine's list of the 500 largest industrial corporations. In the decade 1965-1975, it ranked No. 2 in total returns to stockholders and No. 13 in growth rate. Throughout this period, Mr. Andreas was a senior executive of the company, becoming Chief Executive in 1970 and Chairman of the Board in 1972. He is a Director of Dart Industries, Inc., Los Angeles, California and White Motor Corporation, Eastlake, Ohio. He is a Trustee of the U.S. Naval Academy Foundation and a Director of the Foreign Policy Association.

He has been a Director since 1975.

Rex D. Cross
Chairman of the Board and Chief Executive Officer of Pomeroy, Inc.

Pomeroy is a producer of prefabricated building components and hardware for the construction and home building industries, headquartered in Stamford, Connecticut.

Mr. Cross joined Pomeroy in 1957 as Executive Vice President, becoming President and Chief Executive Officer in 1960 and Chairman of the Board in 1965. He is a Director of Ames Iron Works, Oswego, N.Y., and Fitzgibbons Boiler Co. Inc., New York, N.Y. He was educated at the Gulf Coast Military Academy and Tulane University.

Pomeroy's builders hardware group products are manufactured in the United States, Canada, England, Australia and Brazil.

He has been a Director since 1978.

Stephen Galle
Executive Vice President of Bangor Punta Corporation

Mr. Galle joined Bangor Punta in 1961, became Vice President in 1975, Senior Vice President and Chief Financial Officer in 1968 and assumed his present position early in 1978.

Educated at the Pazmany Peter University of Budapest in both law and public accounting, he was associated with the chemical industry of Hungary until he emigrated to the U.S. in 1956.

He is a Director of Bangor Punta and Piper Aircraft Corporation and Producers Cotton Oil Company, both subsidiaries of Bangor Punta.

He has been a Director since 1978.

Frank Gard Jameson
Chairman of the Board of Glenair Inc.

Mr. Jameson has been closely associated with space programs for the past twenty years, founding and managing a number of companies in the fields of missile electronics and electronic equipment. Glenair is a West Coast manufacturer of electronic cables and connectors. In recent years, he has served as President of Teledyne Ryan Aeronautical Company, Vice President of Douglas Aircraft and Senior Corporate Vice President of Rockwell International. He holds two Navy Distinguished Public Service Awards and currently serves as Chairman of the Board of Directors of the Freedoms Foundation at Valley Forge. He was educated at Webb Preparatory School, the U.S. Naval Academy, the California Institute of Technology and Stanford University, from which he received a B.S. degree.

He has been a Director since 1977.

Sheldon Kaplan
Partner in the Minneapolis law firm of Maslon, Kaplan, Edelman, Borman, Brand & McNulty

A native of Minneapolis, Mr. Kaplan is a B.A. graduate of the University of Minnesota (Phi Beta Kappa), and has his LL.B. from Columbia University Law School, where he served as editor and decisions editor of the Columbia Law Review. Admitted to the New York bar in 1940, he is currently a member of the Hennepin County and the Minnesota State Bar Associations.

Mr. Kaplan served as a Captain in U.S. Army Ordnance during World War II, becoming Chief of the Legal Division, Cleveland Ordnance District, in 1946, before leaving the service and joining his present firm. His other Board memberships currently include the Bangor Punta Corporation, Bangor Punta's Piper Aircraft subsidiary, North American Life and Casualty Company and the Minnesota Vikings Football Team.

He has been a Director since 1978.

Joseph V. McKee, Jr.
Chairman, National Union Electric Corporation

In 1949, Mr. McKee joined National Union Radio Corp., which changed its name in 1954 to National Union Electric—the same year he became Vice President, Treasurer and a Director. He became Executive Vice President in 1966 and assumed his present post in September 1977. National Union ranks in Fortune magazine's second 500 in sales and well up in the first 500 for return on equity and growth in earnings.

He is a graduate of Princeton University and has a law degree from Columbia University. He is a Director of St. Joe Minerals Corporation and A. B. Electrolux, Stockholm, Sweden, and a Trustee of the Woods Hole Oceanographic Institute and The Greenwich Hospital.

He has been a Director since 1975.

Allen E. Puckett
Chairman and Chief Executive Officer of Hughes Aircraft Company

Dr. Puckett was previously President of Hughes and has held a number of senior management positions in the Weapons Systems and Aerospace groups since joining the company in 1949.

A member of the National Academy of Engineering and the National Academy of Sciences, he is the author of numerous works on high-speed aerodynamics. A graduate of Harvard University with a Ph.D. from the California Institute of Technology, Dr. Puckett has served as Chairman of the NASA Research Advisory Committee on Control, Guidance and Navigation, as Vice Chairman of the Defense Science Board, and as President of the American Institute of Aeronautics and Astronautics. He was Chairman of the Board of Aerospace Industries Association this past year.

He has been a Director since 1976.

Willard F. Rockwell, Jr.
Chairman of the Executive Committee of Rockwell International Corporation

Mr. Rockwell, who served as Chairman of the Board of Rockwell International from 1967 until 1979, had served as President and Chief Executive Officer of various predecessor companies for more than 30 years.

A registered professional engineer, he was graduated from Penn State University and served seven years on its Board of Trustees. Currently a Trustee of the University of

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Southern California and the Carnegie Institute of Pittsburgh, he is a Director of several large companies including El Paso Company, Magic Chef, Inc., Planning Research Corporation, Mellon National Corporation and Mellon Bank, N.A. He is the recipient of many civic awards and honorary degrees and is Chairman of the Executive Committee of the Tax Foundation.

He has been a Director since 1973.

John P. Schroeder
Retired Vice Chairman, J. P. Morgan & Co., Incorporated, and Morgan Guaranty Trust Co. of New York

A graduate of Phillips Exeter Academy and Yale University, Mr. Schroeder joined J. P. Morgan & Co., Incorporated in 1945, becoming Vice President in 1953 and Executive Vice President in charge of the National Banking Division in 1971. He became Vice Chairman and a Director of both the bank and J. P. Morgan & Co. in 1976, and retired at the end of 1978. Mr. Schroeder is a Director of Phelps Dodge Corporation, Johns-Manville Corporation and Gould, Inc., as well as a member of the Directors' Advisory Council of J. P. Morgan and Morgan Guaranty.

He has been a Director since 1973.

David W. Wallace
Chairman, President and Chief Executive Officer, Bangor Punta Corporation

Mr. Wallace joined Bangor Punta in 1967 as President and Chief Operating Officer. He began his career with White & Case in New York and is a member of the Bar of New York State and the Bar of the United States Supreme Court. In 1954, he joined the Alleghany Corp., where he subsequently became Executive Vice President, a Director and a member of the Executive Committee, followed by a similar position with United Brands.

He holds a B.S. degree in engineering from Yale University and a Doctor of Jurisprudence degree from Harvard Law School.

Mr. Wallace is a Director of Bangor Punta and Piper Aircraft Corporation and Producers Cotton Oil Company, both Bangor Punta subsidiaries. He is also Vice President and Trustee of the Robert R. Young Charitable Foundation, a Governor of New York Hospital and a member of Lloyd's of London.

He has been a Director since 1970.

Sitting:
Sheldon Kaplan
Dwayne O. Andreas
James E. Stewart, Chairman
Willard F. Rockwell, Jr.
Rex D. Cross

Standing:
John P. Schroeder
David W. Wallace
Allen E. Puckett
Frank Gard Jameson
Stephen Galle
Joseph V. McKee, Jr.

Executive Committee
James E. Stewart (Chairman)
Rex D. Cross
Sheldon Kaplan
Joseph V. McKee, Jr.
David W. Wallace

Audit Committee
David W. Wallace (Chairman)
Frank G. Jameson
Joseph V. McKee, Jr.

Compensation and Stock Option Committee
Joseph V. McKee, Jr. (Chairman)
Sheldon Kaplan
Willard F. Rockwell, Jr.
David W. Wallace

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Officers

*James E. Stewart
Chairman of the Board and
Chief Executive Officer

*Donald M. Halsted, Jr.
President and
Chief Operating Officer

Robert W. Hutton
Vice Chairman of the Corporation

*Carmine J. Muratore
Executive Vice President—Staff

*John H. Davies
Executive Vice President—Operations

*Jerome Bennett
Senior Vice President and
Chief Financial Officer

Herbert B. Greene
Senior Vice President and
Assistant to the Chairman

F. Eugene Purcell
Senior Vice President—
Public Affairs

Alfred M. Sperry
Senior Vice President—
International Operations

Gordon A. Fox
Vice President and Treasurer

Conrad J. Gordon
Vice President and Controller

James M. Grogan
Vice President

Robert F. Kizer
Vice President—Domestic Operations

Joseph S. LaGambina
Vice President—Administration

John J. Martin
Vice President, General Counsel
and Secretary

William L. Read
Vice President—
Construction Management

James E. Rosecrans
Vice President—Employee Relations

B. B. Smith, Jr.
Vice President—Marketing and Sales

**Member of the*
Corporate Executive Office

Lone Star Industries, Inc.

One Greenwich Plaza
Greenwich, Connecticut 06830
Telephone: (203) 661-3100

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Thursday, May 1, 1980 at the Hotel Utah, Salt Lake City, Utah.

10-K Report

A copy of the company's annual report on Form 10-K to the Securities and Exchange Commission is available without charge upon request to the Vice President—Administration at the address above.

Stock Listings

Lone Star common shares are listed on the New York Stock Exchange (symbol LCE), Boston Stock Exchange and Pacific Stock Exchange and are open to trading on the Midwest and Philadelphia Stock Exchanges. Certificates representing Lone Star shares are traded on the Amsterdam Stock Exchange. Arrangements were made during the year for listing on the Frankfurt Stock Exchange, effective in early 1980.

Auditors

Coopers & Lybrand
Price Waterhouse & Co.
(for International Division)

Transfer Agent and Registrar for Common and Preferred Stock

The Chase Manhattan Bank, N.A.

Printed in the U.S.A.

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LONE STAR INDUSTRIES, INC. AND CONSOLIDATED SUBSIDIARIES
ADDITIONAL FINANCIAL DATA
December 31, 1979 and 1978

Additional Subsequent Event

In addition to the events set forth in Note 21 of Notes to Financial Statements appearing on page 54 of the company's 1979 Annual Report incorporated herein by reference, on March 21, 1980 the company completed the purchase of the Dixon, Illinois cement plant from Medusa Corporation, a subsidiary of Crane Co. The terms of the purchase are described in Note 4 of Notes to Financial Statements appearing on page 50 of the company's 1979 Annual Report incorporated herein by reference.

Notes and Accounts Receivable

Receivables consist of the following (in thousands):

	December 31, 1979	December 31, 1978
Trade	$87,576	$107,289
Other	5,364	5,730
	$92,940	$113,019

Inventories

Inventory amounts entering into the determination of cost of sales from continuing operations for the respective years are (in thousands):

December 31,	
1977	$31,712
1978	$34,345
1979	$49,177

The cost of inventories is determined under the following methods (in thousands):

	December 31, 1979	December 31, 1978
Average	$74,241	$ 90,985
First-in, first-out	12,923	40,046
Retail	-	26,551
Other	1,764	1,025
	$88,928	$158,607

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Property, Plant and Equipment

Because of varying estimated useful lives at the company's various facilities, it is impractical to state the individual rates used in computing depreciation, depletion and amortization. However, the useful life expectancies generally fall within the following ranges:

	Years
Buildings	5 - 50
Machinery and equipment	3 - 27
Furniture and fixtures	2 - 15
Automobiles and trucks	2 - 10

Joint Ventures and Unconsolidated Subsidiary

The amount of unremitted earnings of joint ventures and an unconsolidated subsidiary included in consolidated retained earnings at December 31, 1979, amounted to $7,631,000.

Accounts Payable

Accounts payable consist of the following (in thousands):

	December 31, 1979	December 31, 1978
Trade	$25,414	$51,271
Other	6,067	10,577
	$31,481	$61,848

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 1979	December 31, 1978
Accrued payroll and vacation pay	$ 4,268	$ 6,370
Accrued pensions	4,578	7,515
Accrued interest	3,067	3,304
Accrued taxes other than income taxes	6,504	5,378
Accrued expense - other	17,826	12,825
	$36,243	$35,392

Long-term Debt

Amounts authorized by indentures relating to the 8%, 4-7/8%, and 5-1/8% debentures are $50,000,000, $50,000,000 and $30,000,000, respectively. None of such debentures are held by the issuer.

Capital Stock and Capital Surplus

In the opinion of counsel, the existence of involuntary liquidating preferences on the $4.50 cumulative convertible preferred stock in excess of its stated value did not create any restriction on the payment of dividends from retained earnings. Each share of the $4.50 cumulative preferred stock is entitled to one vote.

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Pension Plans

The aggregate unfunded prior service cost, which is computed on the basis of actuarial methods and amortized over 25 or 30 years, was approximately $60,100,000 at December 31, 1979.

Stock Option Plans, Stock Purchase Plan, Performance Award Plan, and Management Incentive Compensation Program

In 1976, the shareholders approved the 1976 Stock Option and Performance Award Plan. The plan is administered by the Compensation and Stock Option Committee (the committee) appointed by the Board of Directors from members of the Board who are not eligible to participate in the plan. Awards under the plan can be in the form of stock options or cash awards, or both, to key management employees, including officers, as follows:

(a) Under the plan, 500,000 shares of the company's common stock have been reserved for grants of either qualified or non-qualified options. All options granted are at a price which is not less than the fair market value of the stock on the date of grant and have maximum terms of five and ten years for qualified and non-qualified options, respectively. The dates at which options become exercisable are determined at the discretion of the committee at the date of grant. Options granted to date have been granted at market value on date of grant and are exercisable in cumulative installments to the extent of 25% of shares granted in each of the second to fifth years.

(b) Under the performance award portion of the plan, cash awards will be paid upon achievement of corporate performance goals as determined by the committee. The award is payable at the end of the award period, which ranges from two to five years, and shall not exceed an employee's annual base salary at the beginning of the award period. No performance award grants have been made since 1977 and the committee has indicated its intention to make no performance award grants in the future.

Under the Management Incentive Compensation Program of the company, key management personnel are named annually for participation in the Program. Cash bonuses may be awarded each year based upon the achievement of performance goals established by the committee.

Aggregate amounts accrued for continuing operations under the Performance Award Plan and the Management Incentive Compensation Program were $2,301,000 and $2,615,000 for 1979 and 1978, respectively.

In 1971, the shareholders approved the 1971 Stock Option Incentive Plan. Options granted are exercisable in cumulative installments to the extent of 25% of shares granted in each of the second to fifth years. Qualified options have a term of five years; non-qualified, ten years.

In 1969, the shareholders approved a Stock Incentive Program under which 100,000 shares of the company's common stock were reserved for issuance to officers and key employees. The program was terminated on March 25, 1979.

At December 31, 1979 and 1978, options to purchase 349,884 and 409,776 shares, respectively, were available for grant under all plans.

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When options are exercised, the difference between the option price and the par value of the stock issued or the average cost of treasury stock reissued is charged or credited to capital surplus; there are no charges to expense in connection with the options.

In 1972, the company instituted an Employees Stock Purchase Plan. Under the Plan, eligible employees may contribute up to 6% of their base salary which will be matched to the extent of 25% by company contributions. Effective February, 1980, the company increased its contribution to 50%. The resulting funds are used to purchase shares of common stock of the company on the New York Stock Exchange.

A summary of options outstanding at December 31, 1979, under all plans and option transactions for the two years then ended is as follows (dollars in thousands, except per share amounts):

	No. of Shares	Option Price		Market Value*	
		Per Share	Total	Per Share	Total
Options outstanding: **					
1971 Plan (granted Dec. 1971 to May 1976)	110,895	$14.25 and $24.50	$2,456	$14.25 and $24.50	$2,456
1976 Plan (granted Dec. 1976 to Aug. 1979)	146,874	$19.125 to $25.6875	$3,230	$19.125 to $25.6875	$3,230
Options granted:					
1979	65,000	$22.0625 to $25.6875	$1,565	$22.0625 to $25.6875	$1,565
1978	60,816	$19.125	$1,163	$19.125	$1,163
Options which became exercisable:					
1979	38,350	$14.25 to $22.065	$ 708	$21.125 to $26.375	$ 855
1978	23,791	$14.25 and $22.065	$ 431	$19.00 to $21.25	$ 474
Options exercised:					
1979	16,878	$14.25 to $24.50	$ 274	$21.375 to $26.875	$ 394
1978	3,825	$14.25	$ 55	$18.125 to $25.75	$ 81
Options expired:					
1979	41,748	$14.25 to $24.50	$ 898		
1978	9,094	$14.25 and $24.50	$ 191		

* On dates options were granted, became exercisable or were exercised.
** 138,883 exercisable.

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Supplementary Income Statement Information

Supplementary income statement information is as follows (in thousands):

	(Charged to costs and expenses) Years Ended December 31, 1979	1978*
Maintenance and repairs	$53,720	$47,788
Social security taxes	$12,343	$ 9,787
Sundry sales taxes	6,019	7,210
Various other taxes	6,527	6,043
Total taxes other than income taxes	$24,889	$23,040

* Restated to reflect the disposition during 1979 of Building Centers operations.

Current Replacement Cost Information (Unaudited)

The accompanying current replacement cost information is computed on an estimated basis and is limited to data relative to inventories and productive capacity and related cost of sales and depreciation expense. The Securities and Exchange Commission cautions against simplistic use of the data presented and intentionally did not require the disclosure of the effect on net income of calculating cost of sales and depreciation on a current replacement cost basis because there are substantial theoretical problems in determining an income effect and because it did not believe that users should be encouraged to collect the data into a single revised net income amount. Also, due to the subjective judgments and many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation.

The estimated replacement cost information is based on the hypothetical assumption that the company would replace all of its inventories and productive capacity on December 31, 1979 and 1978, whether or not adequate funding was available. Accordingly, the information given should not be interpreted to indicate that the company actually has present plans to replace such assets or that any such replacement would take place in the manner assumed in developing these estimates. The information is based on management's estimates and assumptions as of December 31, 1979 and 1978, which may differ significantly from actual costs if such assets were to be replaced, and does not necessarily represent the current market value of these assets.

Amounts shown for cost of sales and depreciation expense in 1978 have been restated to exclude amounts related to the discontinued Building Centers operations. However, the estimated replacement cost of inventories, productive capacity and real estate for development and sale as of December 31, 1978 have not been restated to exclude such amounts. Estimated replacement cost and historical cost amounts as of December 31, 1979 and 1978 are as follows (in thousands):

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	1979		1978	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Inventories	$ 100,000	$ 88,928	$ 169,000	$158,607
Property, plant and equipment	$1,574,000	$569,355	$1,570,000	$596,766
Less: allowance for depreciation	736,000	260,631	786,000	285,276
	$ 838,000	$308,724	$ 784,000	$311,490
Real estate for development and sale	$ 18,000	$ 11,725	$ 16,000	$ 13,708
Cost of sales (exclusive of depreciation expense)	$ 639,000	$611,798	$ 514,000	$498,740
Depreciation expense	$ 73,000	$ 26,166	$ 65,000	$ 23,909

The following tables reconcile the historical cost amounts for which replacement cost information is provided to the related totals shown in the consolidated balance sheet for December 31, 1979 and 1978 (in thousands):

	Property, Plant and Equipment		Allowance for Depreciation & Depletion		Real Estate for Development & Sale	
	1979	1978	1979	1978	1979	1978
Historical amounts for which replacement cost data have been provided	$569,355	$596,766	$260,631	$285,276	$11,725	$13,708
Amounts for which replacement cost data have not been provided:						
Assets which will not be replaced at the end of their useful lives	27,017	20,392	9,733	9,688	6,069	6,807
Land and certain other assets	47,785	55,324	7,911	7,752	-	-
Construction in progress	42,086	21,992	-	-	-	-
Total	$686,243	$694,474	$278,275	$302,716	$17,794	$20,515

Replacement cost data has not been provided for historical cost of sales and depreciation expense related to assets which will not be replaced at the end of their useful lives.

The estimated replacement cost information presented above was determined in the following manner:

Inventories - The replacement cost of the company's merchandise inventories was estimated by applying an appropriate wholesale price index to historical amounts based on an

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estimated turnover rate. Estimates for replacement cost of manufactured inventories were determined by applying an estimated unit cost per ton, updated where necessary for year-end prices, to the number of units in ending inventory, and by adjusting depreciation included in inventory to a replacement cost basis. The replacement cost of other inventories, including supplies and fuel, was estimated by applying prevailing year-end prices to materials purchased frequently during the year and an appropriate commodities price index to other items based on an estimated turnover rate.

Property, Plant and Equipment - The replacement cost of productive capacity was estimated assuming that present productive capacity would be replaced at December 31, 1979 and 1978 at the lowest amount that would have to be paid in the normal course of business to obtain a new asset of equivalent operating or productive capability, incorporating the latest available technological advances that the company would find economically justifiable. In those instances where the existing plant would be replaced with a larger, more economical unit, the replacement cost was based upon the cost of the larger unit scaled down to present plant capacity.

The estimated replacement cost of the productive capacity of the company's domestic cement plants, two plants in Argentina and a plant in Uruguay, was derived from data compiled by the Portland Cement Association and adapted to each location by engineering estimates. Replacement cost for the productive capacity of the two cement plants in Brazil (1978 only) were based on a recent engineering estimate for a new plant currently under construction in Brazil. Estimated replacement costs for other manufacturing assets were obtained primarily by a reengineering of present facilities incorporating latest technology and applying vendor quotations and price lists for 1976 and indexed to 1979 cost levels by applying an industrial commodity price index. For 1978, the replacement cost of the company's merchandising facilities was determined by applying an estimated cost per square foot considering geographic differences in construction costs to the number of square feet estimated to be required to support the present volume of business. Replacement cost for various other assets was estimated on the basis of current market prices or by applying an appropriate wholesale price index to historical costs based on the year of acquisition.

Allowance for Depreciation - The allowance for depreciation related to replacement cost of existing productive capacity was estimated by the relationship of expired service lives to total service lives of existing facilities applied to the estimated replacement cost of such productive capacity. The asset lives were not adjusted to reflect technological improvements.

Real Estate for Development and Sale - The replacement cost of real estate for development and sale was based on the estimated market prices for equivalent parcels of real estate at the same stage of development.

Cost of Sales - Replacement cost of sales (exclusive of depreciation expense) was estimated by applying an applicable price index to the average time lags between incurring inventory costs and their subsequent conversions into sales revenues during the year.

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Depreciation Expense - Replacement cost depreciation expense was calculated on the straight-line method using the historical depreciation rates for existing facilities, exclusive of fully depreciated assets, applied to the average estimated replacement cost of productive capacity. The replacement cost of fully depreciated assets still in use at December 31, 1979 and 1978 is approximately $335 million and $331 million, respectively. If these assets were still being depreciated, the related replacement cost depreciation expense would be approximately $22 million higher for both 1979 and 1978 based on the composite depreciation rate for productive capacity, exclusive of fully depreciated assets.

The replacement cost for South American inventories and productive capacity was computed in the local currency and translated at year-end exchange rates except for productive capacity of the Argentine cement plant which was computed in dollars using estimates provided by the Portland Cement Association. The replacement cost of South American costs and expenses was computed in the local currency and translated at the average exchange rate for the year.

The gross and net book value of costs capitalized in the acquisition, exploration and development of mineral properties as of December 31, 1979 was $12.8 million and $8.1 million, respectively. The gross and net book value of these costs as of December 31, 1978 was $11.7 million and $9.6 million, respectively. The estimated replacement cost of these assets has been excluded from the replacement cost data since such data is not required by the Securities and Exchange Commission. Total costs incurred in 1979 in the acquisition, exploration and development of mineral properties was approximately $5.0 million of which $1.6 million was expensed currently. The company estimates the future cost to acquire mineral properties will increase at a rate slightly higher than inflation in future years.

The estimated replacement cost data does not reflect any operating cost savings which may result from the replacement of existing assets with new assets of improved technology. Although these anticipated cost savings cannot be accurately quantified, the company estimates that the current level of operating costs, other than depreciation, would be substantially reduced and that the annual operating cost savings, principally in fuel and labor costs, would be approximately $69 million and $73 million at December 31, 1979 and 1978, respectively.

The estimated replacement cost information also does not reflect the effect of inflation and other economic factors on other elements of the company's financial statements and does not recognize the customary relationships between cost changes and changes in selling prices. However, the company pursues a policy of increasing its sales prices, where feasible, as production costs increase in order to maintain its profit margins.

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LONE STAR INDUSTRIES, INC., AND CONSOLIDATED SUBSIDIARIES
SCHEDULES III, IV AND X - INVESTMENTS IN, EQUITY IN EARNINGS OF, DIVIDENDS RECEIVED FROM, AND INDEBTEDNESS OF (TO) AFFILIATES
For the Years Ended December 31, 1979 and 1978
(In Thousands of Dollars)

	Schedule III					Schedule IV and X	
		Additions				Indebtedness of (to) Affiliates	
Name of Issuer and Description of Investments (1)	Investments at Beginning of Period	Equity Taken Up In Earnings of Affiliates and Other Persons(2)	Other(3)	Deductions	Investments at End of Period	Beginning of Period	End of Period(4)
1979							
Unconsolidated Subsidiary	$ 4,832	$ 267	-	-	$ 5,099	$(2,051)	$ (570)
Joint Ventures:							
CNCP	-	(101)	$46,976	-	46,875	-	14
Other	8,381	5,374	724	585	13,894	814	4,468
	$13,213	$ 5,540	$47,700	$ 585	$65,868	$(1,237)	$ 3,912
1978							
Unconsolidated Subsidiary	$ 4,593	$ 239	-	-	$ 4,832	$(2,276)	$(2,051)
Joint Ventures	1,028	1,745	5,728	120	8,381	3,494	814
	$ 5,621	$ 1,984	$ 5,728	$ 120	$13,213	$ 1,218	$(1,237)

Notes:

(1) There was no change in percentage of ownership of existing joint ventures in 1979 and 1978.

(2) Income from joint ventures and an unconsolidated subsidiary as reported in Note 14 of the Notes to Financial Statements:

	1979	1978
Equity in earnings	$ 5,540	$ 1,984
Amortization of the excess of the company's equity in net assets over cost	344	100
Income from joint ventures and unconsolidated subsidiary	$ 5,884	$ 2,084

(3) "Other additions" consist of:

	1979	1978
Initial investment in CNCP	$46,976	$ -
Additional capital investment in other joint ventures	380	1,805
Initial investment in Lonestar Florida Pennsuco	-	1,250
Net book value of assets contributed to Lone Star Minerals	-	2,573
Amortization of the excess of the company's equity in net assets of joint venture over its cost	344	100
	$47,700	$ 5,728

(4) The change from prior year's ending balance represents regular and recurring transactions with affiliates.

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LONE STAR INDUSTRIES, INC. AND CONSOLIDATED SUBSIDIARIES
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978
(In Thousands of Dollars)

Classification	Balance Beginning of Year	Additions at Cost	Retirements	Other(1) Changes	Balance End of Year
1979					
Land	$ 57,599	$ 10,023	$ 219	$ (9,919)	$ 57,484
Buildings and equipment	554,011	46,684	7,220	(56,410)	537,065
Construction in progress	21,992	19,584	164	674	42,086
Automobiles and trucks	45,629	7,238	1,460	(11,300)	40,107
Other, principally stripping costs and property rights	15,243	249	531	(5,460)	9,501
	$694,474	$ 83,778	$ 9,594	$(82,415)	$686,243
1978					
Land	$ 51,978	$ 7,091	$ 1,470	$ -	$ 57,599
Buildings and equipment	517,761	46,637	10,387	-	554,011
Construction in progress	20,540	1,452	-	-	21,992
Automobiles and trucks	40,202	5,800	373	-	45,629
Other, principally stripping costs and property rights	16,317	1,356	2,430	-	15,243
	$646,798	$ 62,336	$14,660	$ -	$694,474

(1) Other changes in 1979 are comprised of the following:

	Dispositions		Acquisitions		Reclassifications	Total
	Building Centers	Brazil	San-Vel	Portland of Utah		
Land	$(15,584)	$ (952)	$ 5,000	$ 2,250	$ (633)	$ (9,919)
Buildings and equipment	(34,214)	(46,507)	9,753	14,558	-	(56,410)
Construction in progress	(1,331)	(4,337)	-	6,342	-	674
Automobiles and trucks	(11,438)	(321)	459	-	-	(11,300)
Other	(5,880)	(213)	-	-	633	(5,460)
	$(68,447)	$(52,330)	$15,212	$ 23,150	$ -	$(82,415)

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LONE STAR INDUSTRIES, INC. AND CONSOLIDATED SUBSIDIARIES
SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
For the years ended Deember 31, 1979 and 1978
(In Thousands of Dollars)

	Balance Beginning of Year	Additions(1) Charged to Costs and Expenses	Retirements	Other(2) Changes	Balance End of Year
1979					
Accumulated for:					
Depreciation of buildings and equipment	$264,534	$ 22,980	$ 6,037	$(36,085)	$245,392
Depreciation of automobiles and trucks	25,784	4,428	1,271	(6,801)	22,140
	290,318	27,408	7,308	(42,886)	267,532
Depletion of mining properties	8,254	298	-	(918)	7,634
Amortization of other, principally stripping costs and property rights	4,144	624	28	(1,631)	3,109
	$302,716	$ 28,330	$ 7,336	$(45,435)	$278,275
1978					
Accumulated for:					
Depreciation of buildings and equipment	$250,044	$ 22,813	$ 8,323	$ -	$264,534
Depreciation of automobiles and trucks	22,356	4,265	837	-	25,784
	272,400	27,078	9,160	-	290,318
Depletion of mining properties	7,892	366	4	-	8,254
Amortization of other, principally stripping costs and property rights	5,044	699	1,599	-	4,144
	$285,336	$ 28,143	$10,763	$ -	$302,716

(1) Includes charges related to discontinued operations of $1,773 and $3,767 in 1979 and 1978, respectively.

(2) Other changes in 1979 are comprised of the following:

	Dispositions		Reclassifications	Total
	Building Centers	Brazil		
Accumulated for:				
Depreciation of buildings and equipment	$(11,849)	$(24,272)	$ 36	$(36,085)
Depreciation of Automobiles and trucks	(6,642)	(159)	-	(6,801)
	(18,491)	(24,431)	36	(42,886)
Depletion of mining properties	-	(274)	(644)	(918)
Amortization of other, principally stripping costs and property rights	(2,239)	-	608	(1,631)
	$(20,730)	$(24,705)	$ -	$(45,435)

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LONE STAR INDUSTRIES, INC. AND CONSOLIDATED SUBSIDIARIES
SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978
(In Thousands of Dollars)

Column A	Column B	Column C Additions		Column D	Column E
		(1)	(2)		
Description	Balance at Beginning of Year	Charged to Costs and Expenses(A)	Charged to Other Accounts(B)	Deductions(C)	Balance at End of Year
Year ended December 31, 1979:					
Allowance for doubtful accounts deducted from notes and accounts receivable.....	$ 6,851	$ 2,995	$ 440	$ 3,323	$ 6,963
Year ended December 31, 1978:					
Allowance for doubtful accounts deducted from notes and accounts receivable.....	$ 4,428	$ 2,661	$1,419	$ 1,657	$ 6,851

(A) Includes charges related to discontinued operations of $1,901 and $938 in 1979 and 1978, respectively.

(B) Represents reserves acquired from Portland of Utah and San-Vel of $215 and $225, respectively, in 1979 (See Note 4 of the Notes to Financial Statements) and reserves of $1,419 acquired from Lonestar Florida Pennsuco, Inc. in 1978 (See Note 5 of the Notes to Financial Statements).

(C) Deductions in 1979 and 1978 are comprised of the following:

	1979	1978
Uncollectible accounts charged off	$2,789	$1,958
Reserves included in the disposition of Building Centers operations	680	-
Reserves contributed to the Brazilian joint venture	47	-
Less: recoveries on accounts previously charged off	(193)	(301)
	$3,323	$1,657

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Brazilian Joint Venture

Companhia Nacional de Cimento Portland, (CNCP) the Brazilian joint venture with Lafarge (see Note 6 of Notes to Financial Statements appearing on page 51 of the company's 1979 Annual Report incorporated herein by reference) constitutes a fifty percent or less owned entity which is individually significant under the criteria of the Securities and Exchange Commission. Accordingly, the separate company financial statements of CNCP are included in this Form 10-K on pages G-2 to G-15. Since CNCP is a Brazilian company, the primary financial statements of CNCP are stated in cruzeiros and in accordance with generally accepted accounting principles in Brazil.

Note 3 to CNCP's financial statements sets forth the effect of differences between generally accepted accounting principles in Brazil and in the United States. When adjusted for these differences, the portion of the results reported in the CNCP financial statements which relates to the period after the formation of the joint venture in April, 1979 amounted to a net loss of $14,000 when translated into U.S. dollars in accordance with Financial Accounting Standards Board (FASB) Statement No. 8. Lone Star's 48 percent share of this net loss was adjusted by the amortization of the excess of the investment by Lone Star over its share of the underlying net tangible assets of CNCP and several items aggregating an amount of lesser significance in computing the amount of joint venture income included in the Lone Star financial statements.

CNCP's net assets, after adjustment for the differences between Brazilian and U.S. generally accepted accounting principles and translated into U.S. dollars according to FASB Statement No. 8, amounted to $74,527,000 at December 31, 1979. The principal reason for the difference between 48 percent of this amount and the carrying value of Lone Star's investment in CNCP is the excess of investment by Lone Star over its share of the underlying net tangible assets, which is described in Note 6 of Notes to Financial Statements appearing on page 51 of the company's 1979 Annual Report incorporated herein by reference.

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COMPANHIA NACIONAL DE CIMENTO PORTLAND

CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 1979

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Opinion of independent accountants

Exhibit I - Consolidated balance sheet

Exhibit II - Consolidated statement of income and reserves and retained earnings

Exhibit III - Consolidated statement of changes in financial position

Notes to the consolidated financial statements

Abbreviations used

CR$	- Brazilian cruzeiros
US$	- United States dollars
CNCP	- Companhia Nacional de Cimento Portland
COMINCI	- Companhia Mineira de Cimento Portland
PAINS	- Cimento Portland Pains S. A.
ARATU	- Cimento Aratu S. A.
MAUA	- Cimento Maua S. A.
LOUÇASUL	- Companhia Louça Sanitária do Sul

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Price Waterhouse
AUDITORES INDEPENDENTES

AV. RIO BRANCO, 138-16º AND.
CAIXA POSTAL, 949-ZC-00
20000 RIO DE JANEIRO, RJ-BRASIL
TELEFONE (021) 224-6112
TELEX (021) 23283

January 23, 1980

To the Board of Directors
Companhia Nacional de Cimento Portland

We have examined the consolidated balance sheet of Companhia Nacional de Cimento Portland as of December 31, 1979 and the related consolidated statements of income and reserves and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements examined by us present fairly the consolidated financial position of Companhia Nacional de Cimento Portland at December 31, 1979 and the consolidated results of its operations and of changes in its financial position for the year then ended in conformity with accounting principles generally accepted in Brazil applied on a basis consistent with that of the preceding year.

Price Waterhouse
PRICE WATERHOUSE
Auditores Independentes
CRC-RJ-4

Douglas H. Woods
Accountant
CRC-SP-101.652-S-RJ

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EXHIBIT I

COMPANHIA NACIONAL DE CIMENTO PORTLAND

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1979

A S S E T S	Cr$(000)
CURRENT ASSETS	
Cash	45.100
Short-term investments	49.578
Notes and accounts receivable, net	298.722
Inventories	404.092
Other current assets	41.924
Total current assets	839.416
PROPERTY, PLANT AND EQUIPMENT, NET	2.170.742
SPECIAL FUNDS AND OTHER INVESTMENTS	3.254.593
OTHER ASSETS AND DEFERRED CHARGES	817.533
	7.082.284

LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Notes payable banks	43.647
Current installments of long-term debt	176.816
Accounts payable	226.459
Accrued expenses	132.931
Income tax	285
Total current liabilities	580.138
LONG TERM DEBT	3.831.019
LONG TERM PAYABLES	127.198
MINORITY INTEREST	412.612
SHAREHOLDERS' EQUITY	
Capital stock	1.049.193
Reserves and retained earnings	1.082.124
Total shareholders' equity	2.131.317
	7.082.284

The accompanying notes are an integral part of the financial statements.

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EXHIBIT II

COMPANHIA NACIONAL DE CIMENTO PORTLAND

CONSOLIDATED STATEMENT OF INCOME AND
RESERVES AND RETAINED EARNINGS FOR
THE YEAR ENDED DECEMBER 31, 1979

	Cr$(000)
CONSOLIDATED INCOME	
Net sales	1.424.382
Other income, net	106.156
	1.530.538
DEDUCTION FROM REVENUE	
Cost of sales	1.105.565
Selling, general and administrative expenses	168.492
Depreciation, depletion and amortization	127.006
Interest	101.776
Loss on foreign exchange	60.410
	1.563.249
OTHER INCOME	
Price-level restatement, net	29.894
Reversion of provision for income tax	29.977
Adjustment of investments to the equity method	129.744
	189.615
NET INCOME BEFORE MINORITY INTEREST AND INCOME TAXES	156.904
MINORITY INTEREST	12.178
INCOME BEFORE INCOME TAXES	144.726
PROVISION FOR INCOME TAXES	88.209
NET INCOME	56.517
CONSOLIDATED RESERVES AND RETAINED EARNINGS	
At beginning of year	574.454
Reserves from merger with Cominci-Pains group	22.644
Price-level restatement, net	619.498
Capitalization of reserves and retained earnings	(209.790)
Dividends	(8.570)
Reduction in minority interests	16.408
Other	10.963
	1.082.124

The accompanying notes are an integral part of the financial statements.

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EXHIBIT III

COMPANHIA NACIONAL DE CIMENTO PORTLAND

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1979

	Cr$(000)
Funds provided by	
Current operations	
Net income	56.517
Items not requiring working capital	
Depreciation and depletion	114.148
Amortization of pre-operating expenses	12.858
Price-level restatements, net	(29.894)
Adjustment of the investment to the equity method	(129.744)
Other	
Funds provided by operations	23.885
Sales of property, plant and equipment	5.860
Reduction in special funds and other investments	(2.998.369)
Increase in long-term payables	127.198
Increase in minority interest	196.390
Increase in long-term debt	3.537.098
Capital increase	6.154
Increase in income tax incentives	11.172
Increase arising on merger	
Stockholders' equity	53.488
Long-term debt	167.616
Investments	753.273
	1.883.765
Funds used for	
Capital expenditures	343.231
Dividends	8.570
Increase in other assets and deferred charges	623.660
Adjustment - prior year	46.142
Increase arising on merger	
Property, plant and equipment	727.995
Special funds and other investments	115.661
Other assets and deferred charges	68.956
	1.934.215
Decrease in working capital	(50.450)
Changes in working capital	
Increase (decrease) in current assets	
Cash	40.081
Short-term investments	(111.019)
Notes and accounts receivable net	193.919
Investments	237.103
Other current assets	36.297
	396.381
(Increase) decrease in current liabilities	
Notes payable banks	(24.128)
Current installments of long-term debt	(163.521)
Accounts payable	(164.735)
Accrued expenses	(94.249)
Income tax	(153)
	(446.831)
Decrease in working capital	(50.450)

The accompanying notes are an integral part of the financial statements.

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COMPANHIA NACIONAL DE CIMENTO PORTLAND

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS
AT DECEMBER 31, 1979

NOTE 1 - ACQUISITIONS AND MERGERS

Effective April 30, 1979 the stockholders of Companhia Nacional de Cimento Portland (CNCP) and of Companhia Mineira de Cimento Portland (COMINCI) and Cimento Portland Pains S. A. (PAINS) entered into an agreement whereby as a result of the exchange of shareholdings all outstanding shares in COMINCI-PAINS were transferred to CNCP. As a result of the above transactions effective ownership of the company is now, as follows:

	%
Lafarge S. A.	52
Lone Star Industries Inc.	48

In September 1979 COMINCI and PAINS were merged with CNCP (the surviving company). The accompanying consolidated statement of income and reserves and retained earnings expressed in cruzeiros include the operations of the CNCP group for the year and the COMINCI-PAINS group for the three months ended December 31, 1979 (from the date of merger). Although the results of the COMINCI-PAINS group for the first nine months are effectively included as the investment was recorded on the equity method up to the date of merger.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the company's subsidiaries, Cimento Maua S. A. (wholly owned), Cimento Aratu S. A. (53.12 percent owned), and Companhia Louça Sanitária do Sul (56.6 percent owned). All significant intercompany transactions have been eliminated.

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b) Short-term investments

Short-term investments are stated at cost plus price-level restatements and accrued interest which approximates market value.

c) Allowance for doubful accounts

The allowance for doubtful accounts of the company is based on 3 percent of receivables plus 50% of bankruptcy claims and is the maximum deduction allowed for Brazilian income tax purposes. The allowance is considered adequate to cover any possible losses.

d) Inventories

Inventories are stated at the lower of average cost or market.

e) Property, plant and equipment

Property, plant and equipment are carried at cost plus price-level restatements. Depreciation is based on the estimated useful lives of the assets on the straight-line method. Significant expenditures which extend the useful lives of existing assets are capitalized. Maintenance and repair costs are expensed as incurred.

f) Other assets and deferred charges

Other assets and deferred charges are stated at cost plus price-level restatements where appropriate. Expenses of pre-operating projects in progress are accumulated until completion. Expenses of completed projects are amortized over ten years on a straight-line basis.

g) Special funds and other investments

Special funds and other investments are shown at cost plus price-level restatements or at historical values as deemed appropriate.

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h) Stockholders' equity

Stockholders' equity accounts are stated at historical values plus price-level restatements.

i) Legal reserve

The legal reserve is based on 5% of net income.

j) Taxes on income

Taxes on income are calculated at the standard rate of 35% on the first Cr$30.000.000 of taxable income and at 40% on the excess.

A subsidiary in the NE of Brazil has the right to a 50% reduction in income tax. The full theoretical income tax is provided by a charge to income and the reduction recorded by a credit to a capital reserve.

k) Price-level restatement of the financial statements

In accordance with current Brazilian legislation the effects of inflation are to some extent recognized through the price-level restatements of fixed assets, investments, deferred charges and stockholders' equity accounts with a corresponding net charge or credit to income. The official index for 1979 was 47% compared to internal inflation of some 78%.

NOTE 3 - DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN BRAZIL AND U. S. A.

Significant differences affecting net income and reserves and retained earnings include:

a) Under accounting principles generally accepted in the United States of America COMINCI-PAINS are considered the purchaser and CNCP the acquired company. Therefore, in giving effect to the translation procedures adopted by the company, adjustments have been made to eliminate four months of old CNCP group net income (Cr$790.000).

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b) As mentioned in Note 2 k above, the financial statements have been restated to reflect price-level changes and the following adjustments were made

	Cr$(000)
Increase in property, plant and equipment and related depreciation - net	470.259
Increase in deferred charges	160.989
Increase in investments	289.795
Restatement of shareholders' equity (credit to capital reserve)	(811.149)
	(29.984)

c) The following credits or charges would have no equivalent under U. S. generally accepted accounting principles:

. a credit of Cr$129.744.000 to reflect investments in accordance with Brazilian law and the equity method;

. a similar credit of Cr$29.977.000 to reverse a tax provision made for PAINS prior to April 30, 1979;

. the capitalization of Cr$209.790.000 of reserves and retained earnings.

NOTE 4 - NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable consist of the following:

	Cr$(000)
Notes and accounts receivable	376.017
Less	
Discounted	(68.050)
Allowance for doubtful accounts	(9.245)
	298.722

NOTE 5 - INVENTORIES

Inventories consist of the following:

	Cr$(000)
Finished goods and work in process	81.991
Raw materials	53.224
Supplies and fuel	268.877
	404.092

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NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Cost plus price-level restatements Cr$(000)
Land	162.749
Buildings and equipment	3.552.590
Construction in progress	637.757
Automobilies and trucks	82.640
Other	9.426
	4.445.162
Less - Accumulated depreciation	2.274.420
	2.170.742

Buildings and equipment in the value of Cr$729.058.000 are subject to accelerated depreciation in order to reduce these assets to their estimated net realizable value by 1985, at which date raw material reserves at the related plant are expected to be exhausted.

NOTE 7 - SPECIAL FUNDS AND OTHER INVESTMENTS

Special funds and other investments consist of the following:

	Cr$(000)
Funds relating to the long-term debt held by the Central Bank - US$70,925,000 (Note 10)	3.002.255
Compulsory investments, loans and deposits - Federal Power Co.	114.815
Investment in Cimentinvest, an associated company	41.899
Investment in other associated companies less provision of Cr$4.494.000	13.937
Reforestation investments	26.478
Investments, other	33.345
Other	21.864
	3.254.593

Under a recent change in Brazilian legislation the proceeds of foreign currency loans which have been lodged with the Central Bank may only be drawn down under

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certain conditions, one of which is for investment in a government approved project. The company has such a project and expects to draw some US$30,000,000 of the loan during 1980 to meet construction payments.

. Compulsory investments, loans and deposits - Federal power company bear interest and, in the case of loans made since 1977, are subject to price-level restatement. They are repayable at various dates up to 1999.

NOTE 8 - OTHER ASSETS AND DEFERRED CHARGES

	Cr$(000)
Preoperating	
At beginning of year	8.624
Additions	697.029
Price-level restatements	117.873
Amortization	(12.858)
At end of year	810.668
Other	6.685
	817.533

NOTE 9 - ACCRUED EXPENSES

Accrued expenses consist of the following:

	Cr$(000)
Value added tax	41.138
Excise tax	25.058
Payroll and vacation	22.294
Social security	21.897
Interest	9.164
Mineral tax	3.814
Other	9.566
	132.931

NOTE 10 - LONG TERM DEBT

Long term debt consists of the following:

	Current		Long term	
	US$(000)	Cr$(000)	US$(000)	Cr$(000)
U. S. dollar loans				
Project loan with Citicorp International and Credit Commercial			75,000	3.147.750
Other	1,963	83.499	9,660	410.844
		83.499		3.558.594
Local currency loans		93.317		272.425
		176.816		3.831.019

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certain conditions, one of which is for investment in a government approved project. The company has such a project and expects to draw some US$30,000,000 of the loan during 1980 to meet construction payments.

. Compulsory investments, loans and deposits - Federal power company bear interest and, in the case of loans made since 1977, are subject to price-level restatement. They are repayable at various dates up to 1999.

NOTE 8 - OTHER ASSETS AND DEFERRED CHARGES

	Cr$(000)
Preoperating	
At beginning of year	8.624
Additions	697.029
Price-level restatements	117.873
Amortization	(12.858)
At end of year	810.668
Other	6.685
	817.533

NOTE 9 - ACCRUED EXPENSES

Accrued expenses consist of the following:

	Cr$(000)
Value added tax	41.138
Excise tax	25.058
Payroll and vacation	22.294
Social security	21.897
Interest	9.164
Mineral tax	3.814
Other	9.566
	132.931

NOTE 10 - LONG TERM DEBT

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	US$(000)	Cr$(000)	US$(000)	Cr$(000)
U. S. dollar loans				
Project loan with Citicorp International and Credit Commercial			75,000	3.147.750
Other	1,963	83.499	9,660	410.844
		83.499		3.558.594
Local currency loans		93.317		272.425
		176.816		3.831.019

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The project loan bears annual interest of 1 1/4% over the London Interbank Offered Rate (LIBOR) during the first two years and 1 3/8% thereafter. Interest is payable quarterly. The loan is repayable by June 27, 1989 in 12 consecutive semi-annual installments of increasing amounts from US$4,500,000 to US$7,500,000 commencing December 27, 1983

Other U. S. dollar loans bear interest of between a fixed 8.6% and 4% a year above LIBOR and are repayable in installments through 1984.

The local currency loans are mainly subject to price-level restatement plus interest of up to 8.2%.

NOTE 11 - LONG TERM PAYABLES

Long term payables consist of the following:

	Cr$(000)
Contractual retentions	60.929
Deferred income taxes on price-level restatements	64.869
Other	1.400
	127.198

Contractual retentions relating to the construction of a new cement plant will be released on the satisfactory start up of the plant in late 1981 or after this date. The deferred tax on price-level restatements relates to tax on the net credits arising on the price-level restatement of the financial statements. The company has the option to defer the payment of such tax until such time as the assets subject to the price-level restatement are sold, depreciated, amortized or otherwise disposed of.

NOTE 12 - MINORITY INTERESTS

The minority interests comprise interests in the following subsidiaries:

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	Interest %	Net assets Cr$(000)	Interest in Income before taxes Cr$(000)
Cimento Aratu S. A.	46.88	378.342	34.184
Companhia Louça Sanitária do Sul S. A.	43.4	34.270	(22.006)
		412.612	12.178

The calculation of the company's interest in Louçasul includes its holding of preference shares in view of a shareholders agreement which permits the conversion of such shares to ordinary shares at the request of the company,

The company's capital stock was increased during the year from 205,438,236 to 1,150,723,372 shares of Cr$1 par value each by a subscription of capital of Cr$704,651.000 and the capitalization of reserves and retained earnings of Cr$209.790.000 and Cr$30.844.000.

Dividends paid or credited to non-residents are subject to a withholding tax of 25 percent provided that such dividends (net of the withholding tax) in a three year period do not exceed an annual average of 12 percent of the registered foreign capital

Remittances in excess of the 12 percent average are subject to supplementary withholding taxes ranging from 40-60 percent.

NOTE 13 - INCOME TAXES

Income tax expense is calculated in accordance with Brazilian legal requirements. The company and its subsidiaries file separate returns. The company has a tax loss of Cr$143.450.000 which may be carried forward four years.

The charge to income comprised:	Cr$(000)
Tax on credit arising on the price-level restatement of financial statements	
Aratu (Note 11)	20.467
Maua (Note 11)	44.148
Tax on Aratu net income	23.316
Tax on Maua financial income	278
	88.209

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NOTE 14 - CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Under the terms of current legislation, tax and labor obligations are subject to review and final assessment during varying prescriptive periods.

The company is contingently liable for accounts receivable in the value of Cr$68.050.000 discounted with banks.

Management does not expect any significant loss to arise from the above contingencies.

A turnkey contract for the construction of a new cement plant in the value of Cr$1.418.000.000 plus contractual price escalations was signed in March 1979. Cr$468.176.000 of this amount was paid during 1979 (net of a 10% retention).

NOTE 15 - SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Cr $ (000)
Maintenance and repairs	141.980
Rent - leased properties	3.464
Advertising	1.873

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ITEM 14. EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of the executive officers of Lone Star, the position and offices with the Company held by each and the periods during which each has served as an executive officer are as follows:

Name (Age)	Office	Has Held Executive Office Since
James E. Stewart(58)	Chairman of the Board and Chief Executive Officer	February 22, 1973
Donald M. Halsted,Jr.(53)	President and Chief Operating Officer	March 15, 1979
Robert W. Hutton(58)	Vice Chairman of the Corporation	January 1, 1968
Carmine J. Muratore(45)	Executive Vice President - Staff	March 15, 1979
John H. Davies(56)	Executive Vice President - Operations	May 16, 1974
Jerome Bennett(57)	Senior Vice President and Chief Financial Officer	January 7, 1980
Herbert B. Greene(45)	Senior Vice President and Assistant to the Chairman	October 13, 1976
F. Eugene Purcell(48)	Senior Vice President-Public Affairs	March 1, 1971
Alfred M. Sperry(59)	Senior Vice President-International Operations	November 20, 1978
Gordon A. Fox(54)	Vice President and Treasurer	January 1, 1969
Conrad J. Gordon(42)	Vice President and Controller	August 10, 1976
James M. Grogan(57)	Vice President	October 6, 1976
Robert F. Kizer(45)	Vice President-Domestic Operations	July 19, 1979
Joseph S. LaGambina(45)	Vice President-Administration	July 19, 1979

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John J. Martin(48)	Vice President,General Counsel and Secretary	August 1, 1979
William L. Read(53)	Vice President-Construction Management	October 15, 1979
James E. Rosecrans(46)	Vice President-Employee Relations	May 20, 1976
B. B. Smith,Jr.(48)	Vice President-Marketing and Sales	July 19, 1979

All of the executive officers of Lone Star were elected at the annual meeting of the Board of Directors on May 17, 1979, except Messrs. Bennett, Hutton, Kizer, La Gambina, Martin, Read and Smith. Except for Mr. Hutton, their terms of office continue until the next annual meeting of the Board of Directors and until their successors shall have been elected and qualified. Mr. Hutton is employed as Vice Chairman of the Corporation for the period commencing March 20, 1978 and ending on April 30, 1983. Each of the executive officers has been employed by Lone Star as an officer or in an executive capacity for more than five years, except Messrs. Bennett, Greene, Grogan, Halsted, Kizer, Martin, Muratore and Read.

Mr. Jerome Bennett had been since 1979 Vice Chairman of White Motor Corporation, a manufacturer of trucks and farm equipment, previously serving as its President and Chief Operating Officer since 1976, and prior thereto since 1975 as its Executive Vice President and Chief Financial Officer. Prior thereto since prior to 1975 he had been Vice President and Controller of Xerox Corporation, a manufacturer of xerographic copiers and duplicators.

Mr. Herbert B. Greene had been since 1975 Vice President, General Counsel and Secretary of Carey Energy Corporation, a petroleum refining company.

Mr. James M. Grogan had been Vice President Operations of the Company's Building Centers Group since October 1975 and prior thereto since prior to 1975 he had been President of International Telephone and Telegraph Corporation's National Temperature Control Centers division, a wholesale distributor of heating, cooling and air conditioning components and parts.

Mr. Donald M. Halsted, Jr. had been since prior to 1975 President, Chief Executive Officer and a director of Newmont Mining Corporation's subsidiary Atlantic Cement Company, a producer of portland cement.

Prior to joining Lone Star in 1978, Mr. Robert F. Kizer had been since 1977 Executive Vice President of General Portland Inc., a producer of portland cement. Prior thereto since prior to 1975 he had been employed as Vice President, and President of the Cement Division, of Medusa Corporation, a producer of portland cement.

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John J. Martin, Esq. had been since prior to 1975 Vice President and Secretary of Bangor Punta Corporation, a diversified manufacturing company and operator of a West Coast agribusiness.

Mr. Carmine J. Muratore had been since prior to 1975 an officer and senior securities analyst specializing in the construction industry at Blyth Eastman Dillon & Co., a full service investment banking firm.

In 1979 Mr. William L. Read retired from active service in the United States Navy with the rank of Vice Admiral. Since 1977 he had been Commander Naval Surface Force, Atlantic Fleet. Prior thereto since prior to 1975 he had been Director, Ships Acquisition Division, Office of the Chief of Naval Operations.

PART II

Except for a portion of Item 14 concerning executive officers, Items 13, 14 and 15 have been omitted because since the close of the 1979 fiscal year the Company has filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A involving the election of directors.

SIGNATURES

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

LONE STAR INDUSTRIES, INC.

By /s/ John J. Martin
John J. Martin
Vice President, General
Counsel and Secretary

By /s/ Conrad J. Gordon
Conrad J. Gordon
Vice President and
Controller

Dated: March 31, 1980

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LONE STAR INDUSTRIES, INC.
COMPUTATION OF EARNINGS PER COMMON SHARE
(In Thousands except Per Share Amounts)

	1979	1978[1]	1977[1]	1976[1]	1975[1]
Per Share of Common Stock					
Weighted average shares outstanding during period[2]	10,849	11,232	11,091	11,068	10,889
Net income from continuing operations	$56,039	$30,440	$17,221	$22,177	$18,875
less: Preferred dividends	176	232	253	275	416
Net income from continuing operations applicable to common stock	55,863	30,208	16,968	21,902	18,459
Net income from discontinued operations[3]	8,702	14,938	12,489	5,051	439
Net income applicable to common stock	$64,565	$45,146	$29,457	$26,953	$18,898
Net Income per Common Share					
Continuing operations	$5.15	$2.69	$1.53	$1.98	$1.70
Discontinued operations[3]	0.80	1.33	1.13	0.46	0.04
Net income per common share	$5.95	$4.02	$2.66	$2.44	$1.74
Per Share of Common Stock Assuming Full Dilution					
Common shares outstanding at beginning of period	11,255	11,216[4]	11,073	11,061	10,802
Common shares reacquired during period[2]	(573)	-	-	-	-
Conversion of preferred shares outstanding at beginning of period	187	222	242	253	529
Conversion of $30 million debentures outstanding at beginning of period	1,088	1,088	1,088	1,088	1,088
Stock options and awards	60	22	15	23	-
Fully diluted shares outstanding	12,017	12,548	12,418	12,425	12,419
Net income from continuing operations	$56,039	$30,440	$17,221	$22,177	$18,875
add: Interest expense and amortization of debt issuance expense of the $30 million convertible debentures net of tax effect	794	765	765	765	765
Net income from continuing operations applicable to common stock	56,833	31,205	17,986	22,942	19,640
Net income from discontinued operations[3]	8,702	14,938	12,489	5,051	439
Net income applicable to common stock	$65,535	$46,143	$30,475	$27,993	$20,079
Net Income per Common Share Assuming Full Dilution					
Continuing operations	$4.73	$2.49	$1.44	$1.84	$1.59
Discontinued operations	0.72	1.19	1.01	0.41	0.03
Net income per common share	$5.45	$3.68	$2.45	$2.25	$1.62

[1] The years prior to 1979 have been reclassified to reflect the disposition of Lone Star Building Centers operations. The reclassification did not change net income or related per share amounts.

[2] On July 16, 1979, the company purchased 1,250,000 shares of its common stock.

[3] Amounts for 1979 include a net gain of $4,409 on the sale of Building Centers operations. Related per share amounts were $0.41 primary and $0.37 fully diluted.

[4] Includes 120,000 shares issued in a pooling of interests with Mineral Aggregates, Inc., in June 1978. Prior periods have not been restated, since the effect is not significant.

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Exhibit A