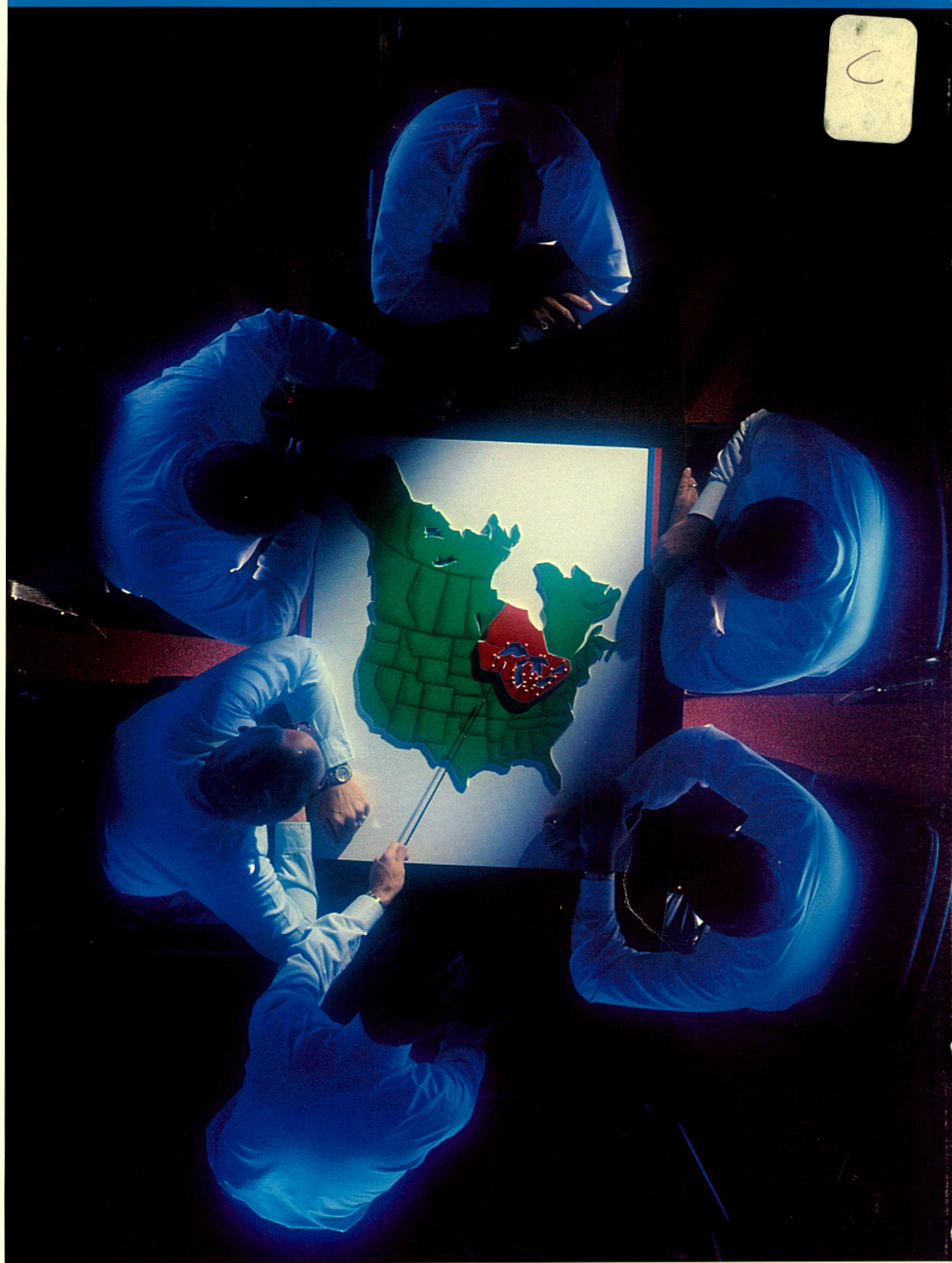


LAFARGE CORPORATION

Annual
Report
1986



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APR 6 1987

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Gary Gentles
Chairman of the Huron
Task Force



ON THE COVER

Cover picture: Huron Task Force studying a map of Great Lakes sales territory and facilities. Pictured at right are task force members, seated left to right: Bert Cadotte, H. L. Youngblood and Peter Herguth; senior management sponsors, standing left to right: David Lovett and Fred Koester



The 1986 acquisition of the Huron Cement Division facilities from National Gypsum Company created a need to develop a game plan to coordinate the marketing and distribution activities of the acquired operations with Lafarge Corporation's existing Canadian and U.S. cement organizations in the Great Lakes area. Months before the acquisition was completed, the Company established the Huron Task Force, pictured above, to ensure a successful transition.

This employee team, composed of executives from Lafarge Corporation's primary Canadian and U.S. subsidiaries, Canada Cement Lafarge Ltd. and General Portland Inc., and from Huron Cement, developed a plan to integrate the separate operations into a single, regional organization which was subsequently named the company's Great Lakes Region. The integrated international structure is intended to provide the fullest coordination of sales and utilization of the Company's assets in a network completely surrounding the Great Lakes. The network includes four cement plants, two in Ontario and one each in Michigan and Ohio, 21 distribution terminals of which 16 are located on deep water, a fleet of seven ships providing low-cost product delivery, and eight district sales offices.

This acquisition and operating plan encompass key aspects of our expansion, market positioning and capacity utilization strategies.

The cross-border, regional organization developed through the work of the Huron Task Force became the model for reorganizing the remainder of Lafarge Corporation's North American operations, as described more fully in the Executive Message of this Annual Report.

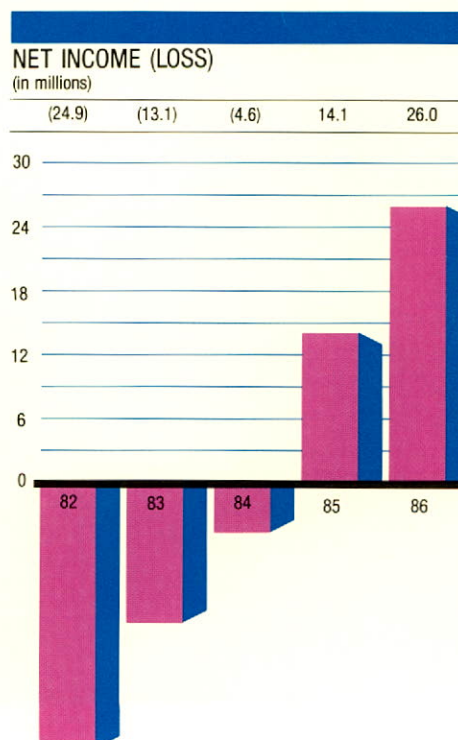
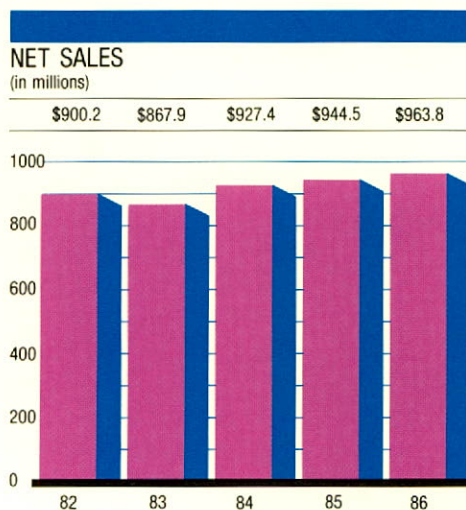
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CONSOLIDATED FINANCIAL HIGHLIGHTS

(In millions, except per share information)

Years Ended December 31	1986	1985	Percent Change
Operating Results			
Net sales	\$963.8	\$944.5	2
Income from operations	89.1	74.2	20
Working capital provided by operations	87.0	67.2	29
Net income	26.0	14.1	84
Information per Common Equity Share			
Net income	\$.58	\$.31	87
Working capital provided by operations	2.13	1.72	24
Dividends	.20	.20	—
Book value at year end	9.62	9.02	7
Financial Position at Year End			
Working capital	\$134.0	\$125.6	7
Total assets	976.5	990.7	(1)
Long-term debt	277.0	275.2	1
Shareholders' equity	491.1	377.1	30



John D. Redfern
Chairman of the Board

Bertrand Collomb
Vice Chairman and
Chief Executive Officer



EXECUTIVE MESSAGE

We are pleased to report that your Company, Lafarge Corporation, achieved record earnings in 1986. Net income increased to \$26.0 million, an 84 percent increase over 1985 earnings of \$14.1 million. Net income per share improved to \$.58, compared with \$.31 in 1985. Net sales of \$964 million were two percent higher than the prior year level. In addition, we implemented a number of strategic actions during the past year which we believe will benefit results in 1987 and beyond.

Review of Operating Results

The \$11.9 million earnings increase in 1986 resulted primarily from favorable cost and volume improvements in most of our cement and construction materials operations. These positive factors were sufficient enough to overcome, by a substantial margin, the severe decline in demand in our energy-based markets.

Cement operations produced mixed results in 1986, as strong construction activity on both sides of the Great Lakes, in Quebec, the northeastern and southeastern parts of the U.S. and southern California was offset by declining demand in Texas and Alberta. Overall, the Company's cement shipments increased by one percent over the 1985 level.

Our ongoing cost reduction efforts were successful in 1986, as the average unit cost of cement sold was reduced by two percent. Average cement selling prices, however, were three percent lower than the 1985 average. The net result was a five percent decline in cement operating income to \$62.0 million.

The Company's construction materials operations, concentrated mostly in Canada, had an outstanding year. Paced by the Standard

Industries division in Ontario, financial results improved in every region of Canada during 1986. On the other hand, income from aggregate operations in Texas was down substantially from 1985. In total, construction materials operating income increased 80 percent to \$52.9 million in 1986.

Strategic Actions

During 1986 we took significant action to implement strategies to position the Company for earnings growth in the future. Highlights of those actions include the following:

- In December, we completed the acquisition of National Gypsum Company's cement operations, which extend throughout the entire Great Lakes area.
- Reflecting the cross-border character of our business, we have initiated a restructuring of both corporate and operating functions which will totally integrate the management of the Company's operations throughout North America.
- In December, we acquired Systech Corporation, a company with which we have worked for many years in the development and expansion of our highly successful waste-derived fuels program.
- Four new aggregate operations were acquired or developed.
- In the fourth quarter, we realigned operations in Texas, not only to improve results in current market conditions, but also to provide a more flexible supply network for the future.
- We also invested in a number of significant plant improvement and product expansion projects in order to further reduce production costs and improve earnings potential.

During 1986, Lafarge Corporation invested a total of \$105 million, through acquisitions and capital expenditures, to improve the Company's future performance. With our strengthened financial condition, we are in a position and intend to pursue additional attractive expansion opportunities in cement, construction materials and related businesses.

Restructuring of the Organization

At its February meeting, the Board of Directors approved a reorganization of Lafarge Corporation's management and operations. We believe this action will provide a more integrated perspective of the Company's overall North American operations and facilitate the realization of available development opportunities. It is also intended to achieve greater efficiency in the utilization of our resources. The Board named a new corporate management group which integrates, from a functional point of view, Lafarge Corporation with its U.S. and Canadian subsidiaries. At the same time, the Company's operating units were restructured.

Cement manufacturing and marketing have been organized into four regional operating groups — three of which straddle the United States/Canada border, while the fourth includes the southern U.S. from the Atlantic coast to the Rocky Mountains. The fifth operating group encompasses all construction materials operations throughout North America.

John D. Redfern continues as Chairman of the Board of Directors. Jean François, who has served as President of the Company since February 1985, resigned that position in order to fully devote himself to his responsibilities as Vice Chairman and Chief Operating Officer of Lafarge Coppée S.A., our majority stockholder.

To lead the new organization, Bertrand Collomb was elected Vice Chairman and Chief Executive Officer. Since August 1985, Bertrand has served as President of General Portland, our principal U.S. subsidiary. He has been with the Lafarge Coppée Group for 11 years.

The Board also elected Robert W. Murdoch to the new post of President and Chief Operating Officer and nominated him for election to the Company's Board of Directors at the annual shareholders' meeting in April. Bob, who joined the Lafarge Coppée Group in 1967, will oversee the five newly established operating groups, as well as the technical staff function. He has been President of Canada Cement Lafarge since 1984.

In addition, Louis G. Munin was named Executive Vice President of the Company. In this position he will retain his prior responsibilities as Chief Financial Officer. Lou joined General Portland in 1966.

Each of Lafarge Corporation's operating groups will be headed by a group president who will also serve as a senior vice president of Lafarge Corporation. The officers directing our four regional cement operations, all of whom have extensive operating management experience in our industry, are:

- ◆ R. Gary Gentles, President — Northeastern Region, encompassing Quebec, the Atlantic Provinces and the northeastern and middle Atlantic states in the U.S. Gary has been serving as a Vice President of Canada Cement Lafarge;

◆ Fred W. Koester, President — Southern Region, covering the southern U.S. from the Atlantic coast to the Rocky Mountains. Fred was formerly Executive Vice President of General Portland;

◆ J. Richard Maze, President — Western Region, including the western portion of both Canada and the U.S. Dick has been serving as Senior Vice President of Canada Cement Lafarge for Western Canada;

◆ John M. Piecuch, President — Great Lakes Region, which includes Ontario and the U.S. Great Lakes area. Formerly President of the Cement Division of National Gypsum Company, John joined Lafarge Corporation in conjunction with our acquisition of the Huron Cement Division of National Gypsum.

The President of the Construction Materials Group is David F. G. Lovett. He was formerly a Senior Vice President of Canada Cement Lafarge, responsible for operations in eastern Canada, which included the Company's extensive construction materials operations in Ontario and Quebec.

Other corporate officers elected by the Board in restructuring the corporate staff were:

◆ Bruce S. Dryburgh, Senior Vice President — Corporate Planning and Strategy, formerly Senior Vice President of General Portland. Bruce joined General Portland in 1972;

◆ Jean-Louis Nicolas, Senior Vice President — Corporate Technical Services, formerly Senior Vice President — Technical Services of Canada Cement Lafarge and a fifteen-year veteran; and

◆ Thomas W. Tatum, Senior Vice President — Human Resources, who joined General Portland in 1968 and served as its Vice President — Employee Relations.

We are confident that this experienced and talented management team will guide the Company toward our goal of becoming the competitive leader in the cement and construction materials industries.

Outlook

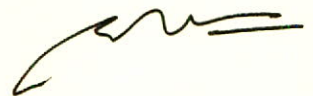
Reflecting on 1986, we are pleased with the continued improvement in our earnings, as it represents the success of our collective efforts to reduce costs, build flexibility into our cement supply network, expand profitable operations and strengthen the Company's financial condition. For 1987 we foresee a relatively high level of construction activity in most markets and further success in reducing costs. Also, we expect to see earnings contributions from the investments that we made in 1986. We remain confident that Lafarge Corporation can continue to improve.

We would like to direct the reader to a special report on Lafarge Corporation's strategic goals beginning on page 14. In recognition of our dedicated employee workforce, this Annual Report focuses photographically on a representative group of individuals who are involved in making our strategies work.

In addition to our employees, we wish to thank our shareholders and customers for their support during 1986.



John D. Redfern
Chairman
of the Board



Bertrand Collomb
Vice Chairman and
Chief Executive Officer

The Joint Integration Team was established in November 1986 to develop detailed recommendations for integrating the activities being carried on separately by Lafarge Corporation, Canada Cement Lafarge Ltd. and General Portland Inc. The team included 16 executives representing cement operations, construction materials operations, and the corporate human resources, technical, planning and finance functions. Meeting frequently during the ensuing two-and-a-half months and consulting with many colleagues throughout the organization, the task force produced a blueprint for a new organization structure which was approved by senior management and then by the Board of Directors in February 1987.

Members of the Joint Integration Team, seated front to back: Bernie Bonneau, Henry Boecker, Jim Scott, Bernard Lebras, Jeff Sautin, Bruce Dryburgh (co-chairman); standing left to right: Tom Tatum, Marcel Blais, Gil Mercier, Dick Aylmer, Jim Fowler, Phil Millington, Gordon Hawkett (co-chairman), Jean-Pierre Cloiseau; not pictured: Larry Waisanen, Pete Lysak.



Robert W. Murdoch
President and Chief
Operating Officer



OPERATIONS REVIEW

Cement Operations

The following table summarizes key statistics of the Company's cement operations (in millions of 1986 dollars).

Years Ended December 31	1986	1985	Percent Change
Net Sales*	\$589.0	\$600.2	(2)
Income from Operations	62.0	65.3	(5)
Assets Employed	613.8	610.1	1
Capital Investment	50.9	17.8	186

*Before intracompany eliminations

Lafarge Corporation markets cement throughout Canada and a major portion of the United States from a network of 16 full production cement plants, three grinding plants and more than 50 distribution terminals. A cement plant in Michigan and thirteen of the terminals were acquired in December 1986 from National Gypsum Company.

The broad diversity of our marketing areas is a strength which proved itself in 1986. Increased construction activity and cement demand in many of our Canadian and U.S. markets offset the severe decline in cement demand in our energy-based markets.

Cement Markets and Shipments

Cement consumption increased by five percent in Canada and four percent in the U.S. during 1986. The level of demand in the United States, 90.7 million tons, set a new record, while Canadian consumption rose for the third consecutive year, reaching 8.5 million tons.

In the United States, cement consumption increases approaching 10 percent or more were registered in several Lafarge Corporation regional markets, including New England, the

Great Lakes and middle Atlantic states, southern California and portions of the southeast. However, an 18 percent consumption decline in energy-based markets of the southwest reduced the overall U.S. gain to four percent.

In Canada, cement consumption trends also varied widely, as the industrial center of the country experienced strong growth, while shipments in the western and Atlantic regions, which are dependent on natural resources, either declined or remained at relatively low levels. Ontario displayed robust economic and construction growth, registering an increase in cement consumption of 18 percent over 1985. Demand in Quebec rose four percent. At the other end of the spectrum, demand for cement in western Canada fell eight percent due to an estimated 16 percent decline in Alberta.

Lafarge Corporation's cement shipments generally followed regional economic trends. Outside of the oil-based economies of Texas and Alberta, the Company's cement shipments increased 10 percent. On a companywide basis, shipments of cement increased by one percent during 1986.

Cement imports into the U.S. reached a new high of 16.3 million tons in 1986, representing 18 percent of the market. However, domestic suppliers further increased their share of imported cement sales. Lafarge Corporation imports cement into the U.S. along its northern border from our own plants in Canada, through New Orleans from both our St. Constant, Quebec plant and from a Lafarge Coppée affiliate, as well as through Miami and Tampa from unaffiliated producers. Our U.S. imports in 1986 totaled 1.9 million tons. We are currently planning to build import terminals in Houston and Los Angeles to provide sourcing flexibility in these markets.

Frank Murphy (left) is Regional Manager and David Bartlett is Sales Engineer for our New England cement marketing area. Through the efforts of Frank and Dave, Lafarge Corporation's position in this dynamic market has steadily grown in recent years. Cement for the New England market is shipped from our plant at St. Constant, Quebec either directly to customers or, until now, through a small distribution terminal near Boston. To accommodate increased sales volume, we recently completed construction of a larger, more efficient terminal at Lunenburg, 40 miles west of Boston.



For 1987, most construction forecasts anticipate a relatively high level of construction activity in the U.S. and moderate additional growth in Canada, especially in Ontario and Quebec.

Cement Selling Prices

Improvements in cement selling prices were limited to some, but not all, of the regions which experienced high levels of construction activity, including Ontario and the Great Lakes area, New England and parts of the southeastern United States. The increased volume of imported cement contributed to low pricing levels in certain coastal U.S. markets, while in the depressed energy-based markets, intense competition, excess production capacity and lower sales of premium-priced oil well cement caused lower average selling prices. On average, Lafarge Corporation's cement selling prices declined three percent from the 1985 level.

Imported cement prices remained stable in 1986. The U.S. dollar, which declined against many major currencies, did not fall relative to the currencies of most cement exporting countries.

Cement Cost

The Company's ongoing cost reduction program produced meaningful results in 1986, as 11 of the 14 full production plants which we operated all year reduced manufacturing costs per ton. Unit cost of sales, although penalized by plant shutdown costs, still improved by two percent compared with 1985. The central focuses of our efforts to be a competitive, low-cost supplier in an international environment have been energy costs, labor productivity and capacity utilization. We believe that we can continue to realize additional significant cost improvements in these and other areas.

During 1986 the Demopolis, Alabama cement plant became our fourth plant to utilize waste-derived supplemental fuel to fulfill part of its energy requirements. The acquisition in

December of Systech Corporation, with whom we have worked in developing our supplemental fuels program, should help accelerate the implementation of this program in additional Company plants in both the U.S. and Canada. Also during 1986, usage of lower cost solid fuels was increased in some of our Canadian plants.

The Company benefitted from improved labor productivity under more flexible work rules established during the last two years. There is still no labor contract at most of our U.S. cement plants.

The employee involvement program, initiated in 1985, is gaining momentum and examples of its success are beginning to multiply. This is a long-term process which should improve our ability to reduce costs and react to opportunities by fostering the fullest development and contribution of all our employees.

Greater production capacity utilization is being pursued through the development of flexible supply networks of cement plants and terminals. The Company has made substantial progress in developing such networks in the southeastern U.S. and in the Quebec/New England area with a combination of full production plants and import facilities. In addition, we now have a network of four manufacturing facilities and 21 distribution terminals supplying the Great Lakes areas of Canada and the United States. In Texas, where reduced demand led us to temporarily stop production in October at our Fort Worth plant, we are supplying the market from our two remaining plants, to be supplemented, when demand recovers, by a new import terminal planned for Houston. Also, the Company's Tampa operation is being modified to make it the most efficient import facility in Florida.

The highly efficient Demopolis, Alabama cement plant is the hub of Lafarge Corporation's cement supply network serving Louisiana, Mississippi, Alabama, Georgia and Tennessee. Eugene "Salt" Samuel joined the Company in 1969 as a Rock Feeder at the Demopolis plant before it was modernized. In the new plant, he now plays an important role controlling the automated manufacturing process from the plant's central control room.



Capital Investment

During 1986, Lafarge Corporation invested \$51 million in its cement operations, \$37 million of which was directed toward improvement and expansion of our distribution network and cost reduction. The most significant action was the acquisition of National Gypsum's cement facilities on the Great Lakes for \$24.4 million.

In addition, new distribution terminals were constructed in Ontario and Massachusetts, and the Fort Whyte, Manitoba shipping facility was modernized. Significant projects were also undertaken during 1986 to improve efficiency and increase production volume at a number of our cement plants.

Construction Materials Operations

The following table summarizes key statistics of the Company's construction materials operations (in millions of 1986 dollars).

Years Ended December 31	1986	1985	Percent Change
Net Sales*	\$465.6	\$418.5	11
Income from Operations	52.9	29.4	80
Assets Employed	239.3	207.4	15
Capital Investment	49.3	12.7	288

**Before intracompany eliminations*

Lafarge Corporation's construction materials businesses produce aggregates, ready-mix concrete, flyash, slag, paving stones, concrete brick, precast and prestressed concrete, asphalt and other concrete-related materials. At present, these operations are predominantly located in Canada; however, we intend to continue expanding such businesses in both the U.S. and Canada as attractive opportunities arise.

Operating Results

Earnings from our Canadian construction materials operations improved substantially in 1986. While the greatest increase was recorded in Ontario, construction materials results improved throughout Canada.

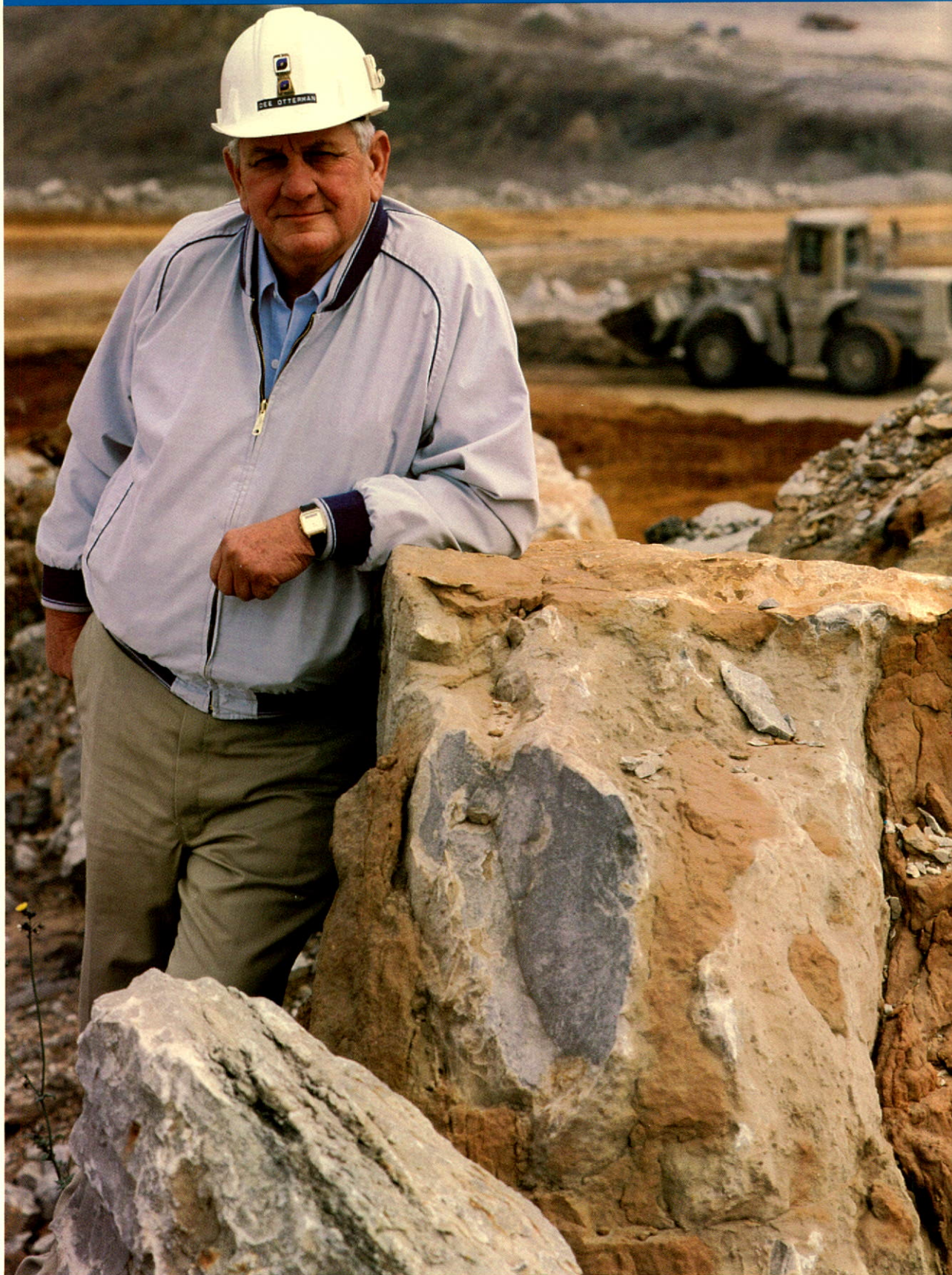
Led by a 23 percent surge in housing starts, higher construction activity in Ontario produced strong demand for all of the Company's products. The Standard Industries and Permanent Concrete divisions in Ontario both posted earnings improvements from 1985 levels. Profit improvement in aggregates resulted from higher volumes and margins, combined with contributions from two recently acquired aggregate operations and a newly developed quarry.

Ready-mix concrete volumes increased substantially in Quebec as a result of high levels of construction in Montreal and Quebec City. Housing starts in Quebec increased 40 percent from 1985 and commercial construction activity continued to improve.

In western Canada, significant progress has been made to improve profitability in the Alberta construction materials operations, despite the province's economic problems. Earnings improvement in 1986 resulted from profits contributed by several small ready-mix operations acquired during 1986, better margins and the divestment of unprofitable product lines.

Better results also were recorded in British Columbia in 1986. However, profitability in this area remains at an unacceptable level. Construction activity in 1986 remained near the 1985 level, which represents a historic low. Overcapacity in the marketplace has resulted in strong competitive pricing pressures that negatively impacted profit margins. We are currently restructuring and consolidating our British Columbia construction material operations to reduce costs and improve profitability.

When Lafarge Corporation acquired the assets of East Texas Stone Company in August 1986, Dee Otterman, a 19-year veteran of our aggregate business, was named Plant Superintendent. He successfully took on the challenge of upgrading the operation to our standards. The East Texas Stone acquisition was an important step in the expansion of Lafarge Corporation's aggregate business.



The Company's U.S. construction materials operations are mostly concentrated in Texas, Louisiana and New York. Lower earnings in 1986 from both the aggregate and flyash businesses generally reflected the weakened construction economy in Texas. We also incurred higher maintenance expense at our largest Texas aggregate plant.

Acquisition of the aggregate operations of East Texas Stone Company in August did not significantly impact 1986 results. However, with the recent completion of extensive upgrading of this facility, we expect a positive contribution in the future.

Moderate growth in construction activity is projected for Canada in 1987, with continuing strength in Ontario and Quebec. Such a trend should have a favorable impact on our extensive construction materials operations in these provinces. The economic environments in western Canada and Texas are not expected to improve substantially in 1987. However, we should benefit from operational improvements which have been and are being made.

Capital Investment

During 1986 Lafarge Corporation invested \$49 million in its construction materials business, of which \$24 million was for expansion. Significant investments included the acquisition of two existing aggregate operations in Ontario and one in Texas; development of additional aggregate production capacity in Ontario; acquisition of several small ready-mix companies in Canada, and construction of facilities in Toronto to produce concrete brick and decorative concrete stone.

Waste Recovery and Disposal

During the fourth quarter of 1986, the Company established its presence in the waste recovery and disposal business by acquiring Systech Corporation. Working together with General Portland, our principal U.S. subsidiary, Systech pioneered the use of waste-derived supplemental fuels for cement kilns in the late 1970s. Since then, four of our U.S. plants have installed facilities to store, blend and burn liquid, waste-derived fuels in an environmentally safe manner. As a result, we have realized outstanding cost savings while adding new revenue sources. In addition, the kilns at our Fredonia, Kansas plant were utilized to dispose of another manufacturer's waste water during 1986.

Cement kilns have a unique capacity for the safe disposal of various waste products. In the future there is expected to be an increasing demand for such environmentally secure facilities. In addition to kilns, the quarries associated with most cement plants offer additional waste disposal opportunities.

The union of Lafarge Corporation's resources, facilities and experience in chemistry and pyrotechnology with Systech's environmental and waste disposal expertise creates a number of attractive growth and profit possibilities within the Company and also through expansion of services to unaffiliated customers. This combination could lead us beyond simply the reduction of cement manufacturing cost, to the point where the utilization or disposal of waste products becomes an important source of profits in itself.

Systech will be managed as an independent subsidiary, retaining the entrepreneurial character that has made it a successful enterprise.

Russ Durham works as a Materials Handling Technician for Systech Corporation at the waste-derived fuel facility which supplies the Company's Fredonia, Kansas cement plant. During 1986 Lafarge Corporation acquired Systech in order to accelerate the implementation of our supplemental fuels program and to pursue other opportunities in the waste recovery and disposal business.



John D. Redfern
Chairman of the Board



STRATEGIC DIRECTION

Industry Environment

For Lafarge Corporation and the North American cement industry, the 1980s have been a period of transition — a decade which, when viewed from most perspectives, has been marked by turbulent change.

Cement Becomes an International Product

Perhaps the single most significant and pervasive influence in the North American cement market, approximately 90 percent of which is in the United States, has been the continuing internationalization of the product, the markets and the producers. Beginning in the 1970s and accelerating during the economic recovery from the severe recession of 1980-1982, two trends have emerged to signal that cement has become an international product.

First, imported cement has captured an increasing market share at the same time that construction growth in the United States was driving demand for the product toward a record level in 1986. Encouraged by sluggish home-country economies, the relatively high value of the U.S. dollar, low ocean transportation rates and, in some instances, home-country subsidies, offshore producers have become an increasing factor in serving U.S. demand for cement. Cement imports reached a record level in 1986, as 18 percent of the cement sold in the U.S. was produced outside the country.

Second, the North American cement industry, made up primarily of local and regional firms in the 1970s, began to restructure as less efficient plants were closed and the overall industry, both in the United States and in Canada, began to consolidate through mergers and acquisitions. These latter moves have increasingly involved major international cement

producers, to the extent that more than 50 percent of the U.S. cement production capacity and 85 percent of Canadian capacity is now owned or controlled by firms headquartered outside the North American continent — primarily in Europe.

These international producers, experienced in world cement trade, have taken a positive view of the opportunities available in the North American market, while some domestic producers were choosing not to continue in the changed environment. This allowed the international players to invest in the North American cement industry rather than remaining outside, supplying the market from offshore. They bring with them the experience, money and commitment necessary to restructure the domestic cement industry and make it competitive.

Lafarge Corporation, of course, has been an industry forerunner in both of the internationalization trends. The Company evolved from the 1981 union of the largest cement producer in Canada and the second largest U.S. producer. Today, Lafarge Corporation is majority-owned by French-based Lafarge Coppée, the world's third largest cement producer with more than 150 years of experience in the industry. Lafarge Coppée's presence in North America has been steadily increasing since 1956 when they built a cement plant at Richmond, British Columbia.

During 1985 Lafarge Corporation became the largest importer of cement and clinker into the U.S. for a combination of reasons, including market expansion, cost reduction and improved supply flexibility. In 1986, the Company's U.S. imports increased to 1.9 million tons.

As Office Equipment Coordinator in the Management Information Systems Department, Chris Reynolds manages the word processing systems at our corporate and regional offices in Dallas, as well as training users of all word processing systems in the Company's other U.S. offices. During 1986 she also coordinated the installation of and training for a new communications system in the Dallas office. Chris is active in our employee involvement program as a member of the Corporate Office Action Team.



Cement Prices Depressed

Another result of the internationalization of the American cement market has been downward pressure on prices. Because of the ready availability of imported product in many coastal markets, much of which is sold at dumped prices, the traditional domestic demand/price relationship has changed. Even in the face of substantial increases in demand to historically high levels over the past several years, prices have generally trended lower.

Thus, the market forces prevalent in the 1980s have placed a particular premium on cost-competitiveness. Throughout its system, Lafarge Corporation has worked diligently to make its cement operations the most cost-effective in the industry — involving employees and management at all levels in the search for savings. While there have been significant cost improvements to date, there is still ample room for, and we are committed to achieve, additional savings. Also, many of the actions already implemented to reduce costs involve a learning and growing process, potentially increasing our savings over time.

Cement's Future in North America: Fewer, Larger, Stronger Competitors

As we position Lafarge Corporation for the future, our assessment of the environment in which we will be operating is in general agreement with most cement industry analysts and observers who believe that further consolidation of the North American cement industry will continue into the 1990s — creating fewer, larger and stronger companies. It is also believed that the international character of the industry will increase with major international

players continuing to stake out growing positions. Imports, on the other hand, are forecast to increase only moderately from current levels. Finally, these trends imply that a longer-term perspective could emerge in the domestic cement industry and that improved returns on investment may become possible.

Strategically Positioning Lafarge for the 1990s

It is from this platform — and from a continuing commitment to our belief in the future of the cement industry and those construction materials businesses closely related to it — that Lafarge Corporation's management has developed four basic strategic thrusts.

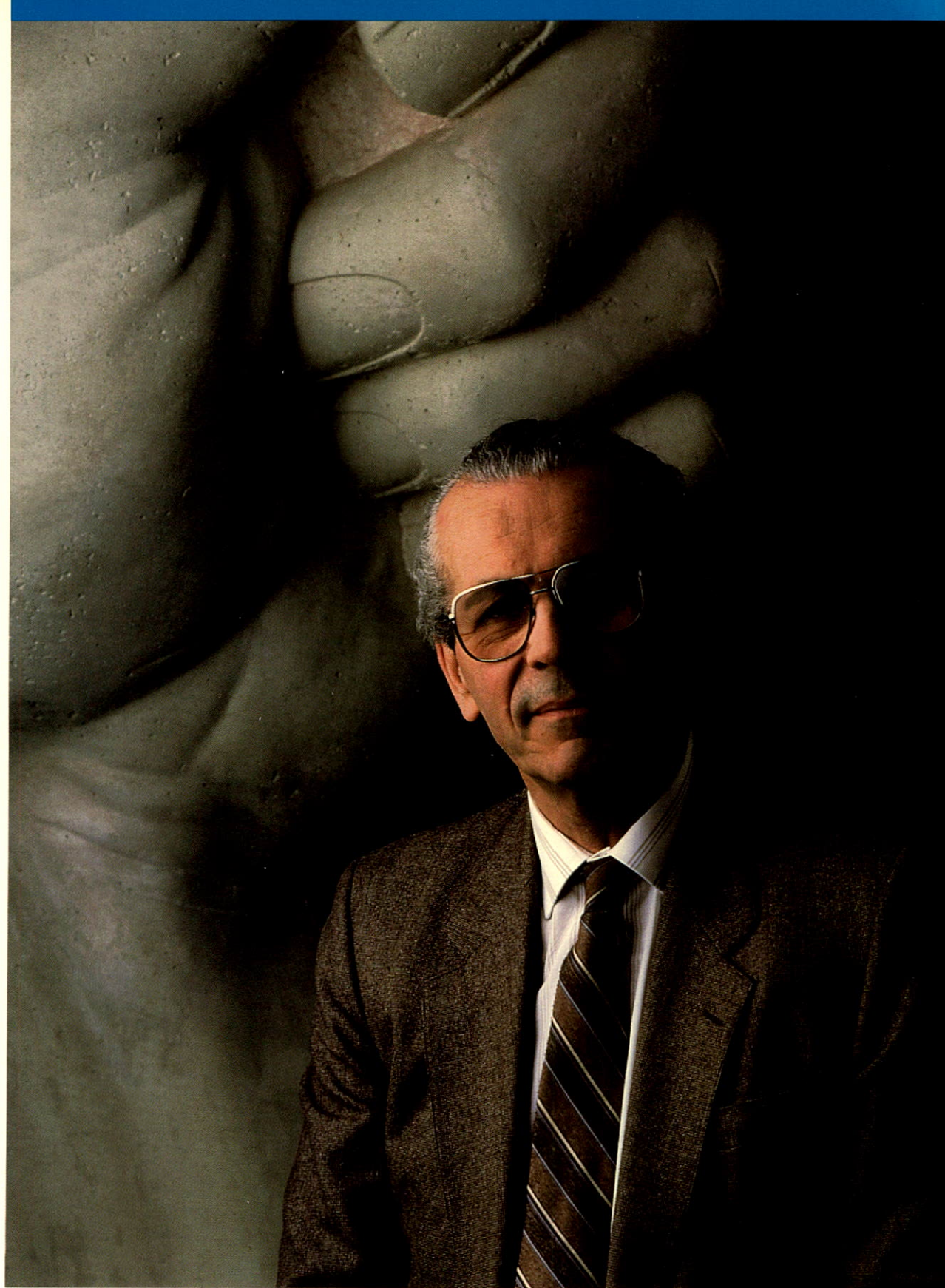
These are:

- Build Strong Market Positions
- Reduce Costs/Improve Productivity
- Expand Related Business Interests
- Increase Financial Flexibility

Strong Market Positions

Continuing the strategy which we have been implementing over the past several years, Lafarge Corporation will build upon and strengthen its cement supply network, featuring low-cost production plants and efficient distribution systems, supplemented by cement import facilities. This combination provides us with a spectrum of alternatives for serving each market with competitively-priced, quality products from the most cost-effective source — whether our choice be to do so with product manufactured by one or more of our own cement plants, by affiliates, or by other companies.

Henri Isabelle directs the Cement and Concrete staff at the Company's new Research and Technical Centre in Montreal. He is pictured here in front of a statue at the Centre which strikingly demonstrates the versatility of concrete. In addition to performing research on new products, Henri's department provides technical and quality control assistance to our cement plants and construction materials operations, as well as to customers. The Research and Technical Centre is the largest private laboratory in the North American cement industry. It is representative of Lafarge Corporation's commitment to technical leadership in product quality, cost and innovation.



We plan to expand our business, concentrating on opportunities that offer excellent returns. Our focus on profitability could also mean the closing of marginal operations and selected divestments.

Expansion of our cement business will be implemented primarily through the construction of strategically located terminals, such as those planned for Houston and Los Angeles, and through acquisitions similar to our recent purchase of the Huron cement facilities from National Gypsum. That key purchase, which has the potential of adding as much as two million tons of incremental cement volume to our annual sales, puts the supply network strategy discussed above into place all around the Great Lakes. Capacity utilization for our four cement plants serving the area will be maximized by our extensive chain of distribution terminals and a low-cost marine transportation system.

As the cement industry in North America continues to consolidate, there will be additional opportunities for us to pursue growth through acquisition.

Reduce Costs and Improve Productivity

Lafarge Corporation's ongoing cost reduction program has concentrated for some time on energy cost and labor efficiency with favorable results. We will, of course, continue to seek innovative, low cost methods and procedures for reducing these costs. An important benefit of our employee involvement program is expected to be cost improvement, as each member of the Company's work force is encouraged and challenged to find better ways to manufacture and distribute our products.

To date, our most successful innovation has been the utilization of waste-derived fuels to reduce the cost of manufacturing cement in four of our plants. The acquisition of Systech Corporation, described more fully in the Operations Review, should facilitate the

implementation of this program at additional Company facilities.

We have recently identified a number of projects that, with an investment of capital, have the potential to accelerate our cost reduction progress. During 1987 we will carry out such projects at a number of our plants.

At Lafarge Corporation, we believe that we are the technical leaders of the North American cement industry. Additionally, within the Lafarge Coppée Group there is a depth of experience and talent, supported by outstanding research and development facilities, which is available to our Company to improve the competitive position of our cement plants.

Lafarge Corporation's goal is to become more competitive, not just in North America, but in the global market, with a position of leadership as the lowest-cost supplier in our various markets.

Expand in Profitable Related Businesses

Our experience as a major supplier of ready-mix concrete, concrete products and aggregates in Canada and as a supplier of aggregates in the United States has encouraged us to pursue the development of these businesses. Acquired this past year were: East Texas Stone Company; Manitoulin Dolomite on Lake Huron; the Leblanc quarry operations in Ottawa; several ready mix companies in western Canada; and additional aggregate reserves in the U.S. and Canada. In the Toronto area, we began producing from a recently developed aggregate quarry and constructed two new concrete product facilities, one to manufacture concrete brick and the other to produce decorative concrete stone. The growth of our construction materials operations in recent years has brought about a better balance of earnings relative to our cement operations.

The Standard Aggregates division, based in Markham, Ontario, produces and supplies construction aggregates in the growing Ontario market. In the face of product demand that was surpassing supply, Brian Buckley (left) and Bob Albrough led a dedicated employee team which, within five very long weeks, completed construction of a new aggregate crushing and washing plant near Toronto. Because the project was initiated late in the shipping season, rapid completion was crucial to making a profit contribution during 1986. Brian, who is Properties Manager for Standard, and Bob, Operations Manager, are examples of the successful entrepreneurial spirit in our construction materials operations.



Lafarge Corporation will also invest in opportunities with profit potential outside the traditional building materials industry through selected acquisitions and joint ventures that are related to our ongoing operations. An example of this type of growth and diversification is the recent acquisition of Systech which is currently engaged primarily in locating, obtaining and testing liquid industrial waste for environmentally-safe disposal as fuel in cement kilns. Most analysts and industry observers agree that waste recovery and disposal hold increasing promise for growth, not just in North America, but throughout the world. Our acquisition of Systech is an important step into the field.

Such diversification into businesses which are familiar to us will be directed toward high return investments with the potential to complement our construction activities.

Improve Profit Performance and Financial Flexibility

Progress toward higher profit levels has been consistent since the formation of the Company, improving from a net loss of \$13 million in 1983 to net income of \$26 million this past year. Our goal is to accelerate the pace of earnings growth up to a level which exceeds a 15 percent return on equity. Our return on average equity in 1986 was six percent.

We believe that implementation of the three major strategies described previously should result in the achievement of this profitability goal. Our market positioning, plant improve-

ment and business expansion programs, of necessity, require the Company to invest opportunistically. Therefore, as a fourth major thrust, we are committed to the maintenance of a strong financial condition to provide Lafarge Corporation with the financial capacity and flexibility to pursue its operating strategies and react to profitable opportunities.

During the 1983-1986 period, we emphasized the development of our financial capacity. Net indebtedness was reduced by \$186 million and our percentage of long-term debt to total capitalization declined from 46 percent to 33 percent. Over the last year, we have begun to take advantage of our financial capacity, significantly increasing the level of investment and capital spending to accelerate the implementation of our three major operating thrusts.

Summary

We know the key to our success is to build long-term competitive positions through actions within our control. For Lafarge Corporation, our market positioning, cost structure and choice of product lines are ultimately controllable. It takes time to build the strategic direction of a company and to realize the benefits. Our direction and progress in recent years have been visible and, with our increased level of high-return investment and the improved efficiency of an integrated organization structure, we believe the momentum will grow.

SELECTED CONSOLIDATED FINANCIAL DATA

(In millions, except as indicated by an *)

Years Ended December 31	1986	1985	1984	1983	1982	1981	1980	1979
Operating Results								
Net sales	\$963.8	\$944.5	\$927.4	\$867.9	\$900.2	\$ 764.2	\$608.3	\$527.6
Income before the following items	89.1	74.2	53.8	50.5	40.3	80.0	50.2	68.5
Interest expense, net	(30.5)	(32.8)	(39.3)	(47.0)	(66.7)	(28.0)	(14.6)	(15.6)
Income tax (expense) benefit	(31.2)	(23.0)	(13.9)	(8.3)	7.7	(23.3)	(19.0)	(21.0)
Dividends on preference shares of subsidiary	(1.4)	(4.3)	(5.2)	(5.8)	(5.7)	(5.9)	(4.4)	(1.0)
Minority interest	—	—	—	(2.5)	(.5)	(2.3)	(1.9)	(.7)
Net income (loss)	26.0	14.1	(4.6)	(13.1)	(24.9)	20.5	10.3	30.2
Depreciation and depletion	62.4	60.8	63.9	58.2	52.6	38.5	29.0	25.1
Other items not affecting working capital	(1.4)	(7.7)	(4.5)	5.7	.5	15.5	8.6	9.1
Working capital provided by operations	\$ 87.0	\$ 67.2	\$ 54.8	\$ 50.8	\$ 28.2	\$ 74.5	\$ 47.9	\$ 64.4
Financial Condition at Year End								
Working capital	\$134.0	\$125.6	\$142.3	\$170.1	\$191.7	\$ 203.7	\$ 85.5	\$ 77.4
Property, plant and equipment, net	616.9	586.0	631.9	679.1	726.4	777.7	464.8	371.0
Other assets	83.8	69.1	75.0	69.4	70.1	66.6	24.6	44.5
Total net assets	\$834.7	\$780.7	\$849.2	\$918.6	\$988.2	\$1,048.0	\$574.9	\$492.9
Long-term debt	\$277.0	\$275.2	\$326.2	\$348.2	\$459.4	\$ 473.1	\$156.3	\$145.0
Deferred credits	66.6	67.5	81.9	90.1	91.8	97.5	79.2	74.9
Minority interest	—	—	—	—	12.5	17.8	16.1	4.9
Preference shares of subsidiary	—	60.9	60.9	76.1	77.2	78.3	78.3	15.2
Shareholders' equity	491.1	377.1	380.2	404.2	347.3	381.3	245.0	252.9
Total capitalization	\$834.7	\$780.7	\$849.2	\$918.6	\$988.2	\$1,048.0	\$574.9	\$492.9
Common Equity Share Information								
Net income (loss)*	\$.58	\$.31	\$ (.20)	\$ (.41)	\$ (.79)	\$.92	\$.55	\$ 1.60
Working capital provided by operations*	\$ 2.13	\$ 1.72	\$ 1.41	\$ 1.58	\$.90	\$ 3.37	\$ 2.55	\$ 3.43
Dividends*	\$.20	\$.20	\$.20	\$.18	\$.24	\$.67	\$.68	\$.60
Book value at year end*	\$ 9.62	\$ 9.02	\$ 9.26	\$ 9.99	\$10.92	\$ 12.22	\$13.03	\$13.45
Average shares outstanding	39.3	37.5	37.0	32.2	31.5	22.1	18.8	18.8
Shares outstanding at year end	40.7	37.9	37.2	36.9	31.8	31.2	18.8	18.8
Number of shareholders at year end*	6,100	6,300	6,900	7,600	5,900	6,100	6,300	6,500
Statistical Data								
Capital expenditures	\$ 59.9	\$ 30.5	\$ 39.8	\$ 24.1	\$ 39.6	\$ 43.5	\$ 88.4	\$ 63.8
Net income (loss) as a percentage of net sales*	2.7%	1.5%	(.5)%	(1.5)%	(2.8)%	2.7%	1.7%	5.7%
Return on average shareholders' equity*	6.0%	3.7%	(1.2)%	(3.5)%	(6.8)%	6.5%	4.1%	12.6%
Long-term debt as a percentage of total capitalization*	33.2%	35.3%	38.4 %	37.9 %	46.5 %	45.1%	27.2%	29.4%
Number of employees at year end*	5,800	6,000	6,000	6,100	6,200	7,800	3,300	4,200
Exchange rate at year end (Cdn. to U.S.)*	.724	.715	.757	.804	.813	.843	.837	.856
Average exchange rate for year (Cdn. to U.S.)*	.720	.733	.772	.811	.810	.834	.855	.853

This financial data includes General Portland's balances and results subsequent to November 1981, when it was acquired by the Company.



Louis G. Munin
Executive Vice
President and Chief
Financial Officer

FINANCIAL REVIEW

Management's discussion and analysis of Lafarge Corporation's consolidated Operating Results begins on this page. The discussion of Lafarge Corporation's Financial Condition, Liquidity and Shareholders' Equity is presented on pages 26, 28 and 30. This discussion and analysis relates to the Consolidated Financial Statements and the Notes to Consolidated Financial Statements on pages 25, 27, 29, 31 and 32 through 40.

Operating Results

Net Income

In 1986, the Company earned \$26.0 million, or \$.58 per common equity share, which represented an improvement of \$11.8 million, or \$.27 per share, over 1985's net income. This increase in earnings was primarily attributable to higher profits from the construction materials operations throughout Canada and increased cement earnings on both sides of the Great Lakes, and from the northeastern and southeastern U.S. and southern California. These improved results offset the negative effect of lower average cement prices and a severe decline in demand in the energy-dependent markets of Alberta and the southwestern U.S. The Company's 1986 earnings, compared with 1985, also reflect lower interest expense, a \$2.4 million reduction in net Canadian pension costs due to the adoption of new pension accounting rules effective January 1, 1986, and lower dividends on preference shares of subsidiary as a result of the April 1986 redemption and conversion of Canada Cement Lafarge's Series A \$1.17 Convertible Redeemable Preference Shares (the "CCL Series A Shares"). Income taxes were higher due to a significant increase in Canadian earnings.

The net income for 1985 of \$14.1 million, or \$.31 per common equity share, was \$18.7 million, or \$.51 per share, better than the net loss reported for 1984. This improvement was due to higher profits from both the Canadian and U.S. operations, a decrease in interest expense and increased gains from the divestment of surplus property. In addition, the Company's 1985 net earnings reflected a \$3.1 million reduction in net U.S. pension costs due to the adoption of new pension accounting rules effective January 1, 1985. The effect of these favorable items was partially offset by lower U.S. cement prices, a five percent decline in the average value of Canadian currency and higher income taxes, which included a one-time charge of \$6.0 million for withholding taxes on an intercompany transfer of U.S. assets from Canada Cement Lafarge to Lafarge Corporation.

Net Sales

The following table compares the Company's net sales for 1986, 1985 and 1984 by product line (in millions). The effect of exchange rate fluctuations on the Company's Canadian dollar denominated net sales has been separately identified.

Years Ended December 31	1986	1985	1984
Cement	\$589.0	\$600.2	\$559.7
Construction materials	465.6	418.5	399.7
Effect of exchange rate changes	—	9.6	36.0
Eliminations	(90.8)	(83.8)	(68.0)
Total net sales	\$963.8	\$944.5	\$927.4

In 1986, net sales were \$19.3 million, or two percent, higher than in 1985, as an 11 percent increase in sales of construction materials offset a reduction in cement sales and a two percent currency decline on Lafarge Corporation's significant Canadian net sales. Net cement sales for 1986, compared with 1985, decreased \$11.2 million, or two percent, primarily due to 21 percent lower cement shipments and a seven percent reduction in average selling prices, from the combined Texas and Alberta markets. On average, all of the Company's other cement operations experienced a 10 percent improvement in sales volume and only a one percent decline in selling prices. Sales from the construction materials operations in Canada during 1986 were 16 percent higher than in 1985, with the greatest improvement experienced by the Company's Toronto-based Standard Industries division. Net sales from the U.S. construction materials segment were eight percent lower than last year due to a severe decline in construction activity in Texas. The increase in eliminations in both 1986 and 1985, compared with the prior year, primarily reflected higher levels of sales activity between the Company's Canadian product lines.

In 1985, net sales were \$17.1 million, or two percent, higher than in 1984, despite the negative effect of a five percent currency decline. Net cement sales for 1985, compared with 1984, increased \$40.5 million, or seven percent, due to nine percent higher cement shipments in both the Company's Canadian and U.S. markets and one percent higher average Canadian cement prices. The favorable effect of these factors was reduced by three percent lower average cement prices in the U.S. Sales from the construction materials segment were also higher, due to the increased demand for construction products, primarily in Ontario, Alberta and North Texas.

The following table summarizes the Company's previously discussed cement shipments by country for 1986, 1985 and 1984 (in millions of tons):

Years Ended December 31	1986	1985	1984
Cement shipments			
United States	6.51	6.63	6.07
Canada	3.02	2.81	2.59
Total cement shipments	9.53	9.44	8.66

Gross Profit

The following table reflects the Company's gross profit by product line for 1986, 1985 and 1984 (in millions). The effect of exchange rate fluctuations on the Company's Canadian dollar denominated gross profits has been separately identified.

Years Ended December 31	1986	1985	1984
Cement	\$ 94.3	\$ 94.7	\$ 77.2
Construction materials	71.5	51.2	47.2
Effect of exchange rate changes	—	1.8	6.2
Total gross profit	\$165.8	\$147.7	\$130.6

Lafarge Corporation's gross profit in 1986 increased \$18.1 million, or 12 percent, compared with 1985, primarily due to increased sales and profit margins from most of the Canadian construction materials operations, with the greatest improvement from the Standard Industries' operations located in Ontario. The overall cement gross profit in 1986 was slightly less than 1985, due to the negative impact of lower sales volumes and prices resulting from depressed construction activity in Texas and Alberta. Offsetting these unfavorable variances were higher earnings from most of the Company's other cement operations, due to sales volume and cost improvements. Overall unit cement cost of goods sold declined by two percent in both Canada and the U.S. due to the expanded use of waste-derived fuels, improved labor productivity and equipment efficiencies and the utilization of cost-effective product sourcing. The overall increase in construction materials profits resulted from a substantial improvement from the Canadian operations, partially offset by significantly lower U.S. earnings due to a reduction in aggregates sales volume and higher maintenance costs.

The Company's total gross profit for 1985 increased \$17.1 million over 1984 due to improvements in both the cement and construction materials product lines, partially offset by a five percent currency decline. The increased cement contribution for 1985 reflected the effect of higher sales volume, improvements in production efficiencies related to labor and fuel costs, the increased use of low-cost imported cement, slightly better prices in Canada and the absence in 1985 of costs incurred during 1984 related to extended labor strikes in the U.S. The Company's unit cement cost of goods sold for 1985, compared with 1984, decreased five percent and two percent in the U.S. and Canada, respectively, due to the previously noted factors. The increase in construction materials profits for 1985 over 1984, reflected higher sales activity, primarily in Ontario, Alberta and North Texas.

The following table summarizes the Company's cement production and purchases of cement from third parties for 1986, 1985 and 1984 (in millions of tons):

Years Ended December 31	1986	1985	1984
Production			
United States	5.10	5.30	4.96
Canada	3.78	3.28	3.18
Total production	8.88	8.58	8.14
Purchases	.70	.78	.51
Total cement production and purchases	9.58	9.36	8.65

The Company's 1986 cement production was three percent greater than in 1985. U.S. cement production decreased four percent, due to a significant reduction in cement requirements in the Texas market, partially offset by four percent higher cement production from the other U.S. plants. Due to the substantial decline in construction demand in Texas, the Fort Worth cement plant was closed during the fourth quarter of 1986. Canadian cement production increased by 15 percent in 1986, versus 1985, as a result of substantially higher production required to supply the high levels of construction activity in Ontario, Quebec and the northeastern U.S. In addition to cement purchases from third parties, General Portland acquired 661 thousand tons of cement from Canada Cement Lafarge during 1986 for its northeast and Gulf Coast U.S. markets. General Portland also acquired 538 thousand tons of low-cost imported clinker, primarily to replace production from the Tampa clinker-burning facilities, which remained closed during 1986.

The Company's total cement production increased five percent in 1985, compared with 1984. Cement production in the Canadian plants increased three percent. U.S. cement production during 1985 increased seven percent over 1984. The Company supplemented its produced cement with purchased products to meet sales requirements in both Canada and the U.S. and to take advantage of low-cost imported cement in the U.S. In addition to cement purchases from third parties, General Portland acquired 664 thousand tons of cement from Canada Cement Lafarge during 1985 for its northeast and Gulf Coast oilwell cement markets in the U.S. During 1985, General Portland also acquired 488 thousand tons of low-cost imported clinker, primarily as a result of the closure of the Tampa plant's clinker-burning facilities in early 1985.

Selling and Administrative Expense

Selling and administrative expense during 1986 was \$91.9 million, or \$4.2 million higher than 1985. This five percent increase reflected higher sales activity and increased personnel and insurance expenses. In 1985, selling and administrative expense was \$87.7 million, or \$2.0 million higher than the amount recorded in 1984. This two percent increase was generally attributable to the same factors affecting the comparison of 1986 and 1985.

Interest Expense

Net interest expense for 1986 was \$30.5 million, or \$2.3 million lower than 1985 due to a decrease in U.S. interest rates. In 1985 net interest expense was \$32.8 million, or \$6.5 million lower than 1984. This decrease resulted from lower debt levels and a decline in both U.S. and Canadian interest rates.

Other Income

Other miscellaneous income in 1986 was \$1.0 million higher than 1985, primarily due to an increase in income from unconsolidated subsidiaries. Other income in 1985 increased \$5.3 million over 1984, as a result of higher gains from the sale of surplus property.

Income Taxes

The Company's U.S. operations have extensive net operating loss carryforwards and, therefore, do not currently pay any federal income taxes. In Canada the Company does pay income taxes. The increase in the consolidated tax provision during both 1986 and 1985, compared with the prior year, primarily relates to the increase in Canadian pre-tax earnings. In addition, the 1985 tax expense includes a \$6.0 million one-time charge for withholding taxes related to an intercompany transfer of U.S. assets from Canada Cement Lafarge to Lafarge Corporation. For further information on the Company's tax situation and the expected impact of the 1986 Tax Reform Act, refer to Income Taxes in the Notes to Consolidated Financial Statements on page 37.

Dividends on Preference Shares of Subsidiary

The dividends included in this caption on the Company's Consolidated Statements of Income (Loss) were paid to holders of Canada Cement Lafarge's preference shares. These dividend payments were at fixed rates, and the reduction in both 1986 and 1985, compared with the prior year, reflects the redemption and conversion of the CCL Series A Shares in April 1986 and the redemption of the First Preference Shares of Canada Cement Lafarge in August 1984.

Quarterly Data

The following table summarizes financial data by quarter for 1986 and 1985 (in millions, except per share information):

	Net Sales	Gross Profit	Net Income (Loss)	
			Amount	Per Common Equity Share
1986 Quarters				
First	\$156.8	\$ 7.3	\$(17.3)	\$(.48)
Second	252.1	48.5	12.2	.29
Third	310.7	71.9	26.0	*
Fourth	244.2	38.1	5.1	.10
Total Year	\$963.8	\$165.8	\$ 26.0	\$.58
1985 Quarters				
First	\$141.2	\$ (5.3)	\$(26.2)	\$(.72)
Second	255.2	45.5	11.2	.28
Third	315.3	67.6	23.5	*
Fourth	232.8	39.9	5.6	.13
Total Year	\$944.5	\$147.7	\$ 14.1	\$.31

*The effect on net income (loss) per common equity share of including the potential dilution from convertible preferred shares was not required except for the third quarter of 1986 and 1985, when primary and fully diluted net income per common equity share were \$.64 and \$.61, and \$.56 and \$.54, respectively.

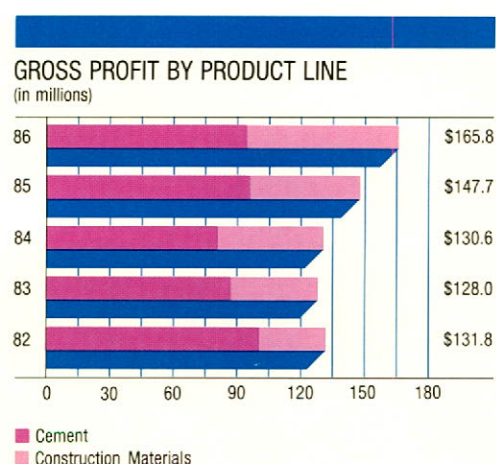
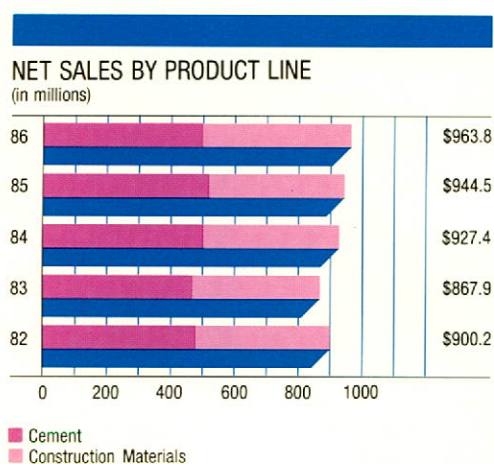
The significant net losses recorded for the first quarter of both 1986 and 1985 reflected the normal pattern of seasonally low sales volume and high maintenance charges.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share amounts)

Years Ended December 31	1986	1985	1984
Net sales	\$963,799	\$944,524	\$927,396
Costs and expenses			
Cost of goods sold	798,010	796,785	796,846
Selling and administrative	91,949	87,748	85,772
Interest expense, net	30,531	32,814	39,275
Other income, net	(15,301)	(14,306)	(9,032)
Total costs and expenses	905,189	903,041	912,861
Pre-tax income	58,610	41,483	14,535
Income taxes	31,250	23,000	13,950
Income before following item	27,360	18,483	585
Dividends on preference shares of subsidiary	(1,405)	(4,345)	(5,171)
Net Income (Loss)	\$ 25,955	\$ 14,138	\$ (4,586)
Net Income (Loss) Per Common Equity Share	\$.58	\$.31	\$ (.20)
Dividends Per Common Equity Share	\$.20	\$.20	\$.20
Average Number of Common Equity Shares Outstanding	39,334	37,493	37,018

See Notes to Consolidated Financial Statements.



FINANCIAL REVIEW

Financial Condition

Working Capital

During 1986, working capital increased by \$8.4 million to \$134.0 million at year end. This increase in working capital primarily reflects \$4.6 million of purchased working capital related to acquisitions made during 1986, a decrease in income taxes payable and a one percent increase in the year-end value of Canadian currency at December 31, 1986, compared with the end of 1985.

The unusual changes in cash and short-term investments, short-term borrowings and the current portion of long-term debt reflects a nonrecurring situation at December 31, 1985, that is discussed on page 28. The changes in the balances of receivables, inventories and accounts payable and accrued liabilities primarily reflect higher year-end operating activity in Canada. The decrease in income taxes payable from an abnormally high position at December 31, 1985, was due to the payment of various tax liabilities recorded in connection with the intercompany transfer of all the U.S. assets of Canada Cement Lafarge to Lafarge Corporation.

Property, Plant and Equipment

Property, plant and equipment increased by \$30.8 million during 1986, due to the excess of capital expenditures over depreciation and depletion. Capital expenditures are discussed more fully on page 28.

Excess of Cost over Net Assets of Businesses Acquired

This caption on the Company's Consolidated Balance Sheets primarily reflects the excess of the Company's cost to acquire General Portland in 1981 over the fair value of the underlying net assets that were purchased. During 1986 this balance increased as a result of the \$3.5 million premium paid to redeem the CCL Series A Shares and from several acquisitions, partially offset by a decrease of \$1.3 million due to current year amortization.

Other Assets

Other long-term assets increased \$8.6 million during 1986, due to a growth in both long-term receivables and investments in unconsolidated affiliated companies.

Capitalization

The following table summarizes the components of the Company's total capitalization at the end of 1986, 1985 and 1984:

December 31	1986	1985	1984
Long-term debt	33.2%	35.3%	38.4%
Deferred credits	8.0	8.6	9.6
Preference shares of subsidiary	—	7.8	7.2
Shareholders' equity	58.8	48.3	44.8
Total capitalization	100.0%	100.0%	100.0%

The overall improvement in the percentage of long-term debt to total capitalization since December 31, 1984, reflects the Company's successful reduction of long-term debt and the growth in shareholders' equity. Financing cash flows are discussed more fully on page 28. A discussion of changes in shareholders' equity is included on page 30.

The following table summarizes, by currency denomination, the fixed and floating rate total long-term debt of the Company at December 31, 1986 and 1985 (in millions of U.S. dollars) and the 1986 and 1985 total year weighted average prime bank lending rates in Canada and the U.S.:

	1986 Debt Denominated in		1985 Debt Denominated in	
	Cdn. Dollars	U.S. Dollars	Cdn. Dollars	U.S. Dollars
Fixed rate debt	\$ 48.0	\$ 71.1	\$ 51.1	\$104.4
Floating rate debt covered by interest rate guarantee contracts and swaps	62.4	62.4	50.0	50.0
Floating rate debt	15.2	26.1	29.8	12.8
Total debt	\$125.6	\$159.6	\$130.9	\$167.2
Weighted average prime lending rate	10.56%	8.33%	10.60%	9.93%

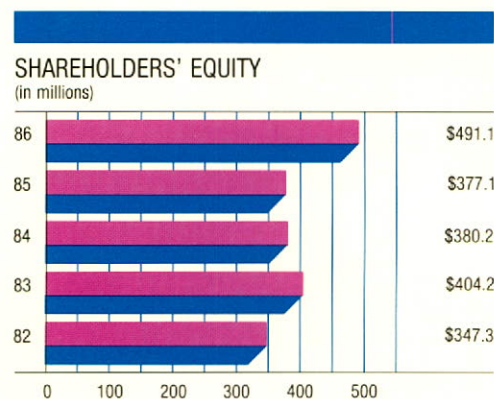
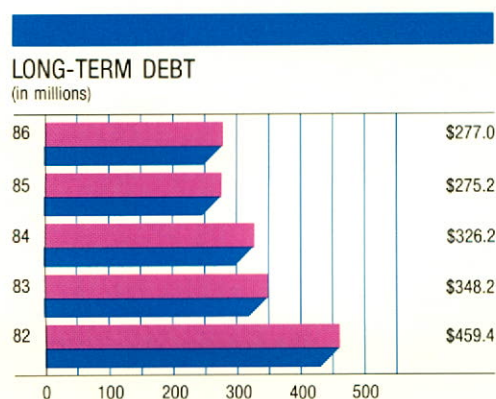
During 1984, the Company entered into interest rate guarantee contracts covering \$100 million for up to three years, with \$25 million and \$75 million expiring in 1986 and 1987, respectively. During 1986, the Company entered into interest rate swaps covering \$49.8 million of debt. These interest rate swaps expire in 1991 (\$26.8 million) and 1996 (\$23.0 million).

CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31	1986	1985
Assets		
Cash and short-term investments	\$ 5,154	\$ 66,119
Receivables, net	140,773	137,277
Inventories	126,365	128,226
Other current assets	3,522	3,957
Total current assets	275,814	335,579
Property, plant and equipment, net	616,859	586,027
Excess of cost over net assets of businesses acquired, net	39,231	33,118
Other assets	44,559	35,986
Total Assets	\$976,463	\$990,710
Liabilities and Shareholders' Equity		
Short-term borrowings	\$ —	\$ 45,000
Accounts payable and accrued liabilities	118,944	112,688
Income taxes payable	14,659	29,386
Current portion of long-term debt	8,170	22,906
Total current liabilities	141,773	209,980
Long-term debt	276,986	275,243
Deferred credits	66,619	67,491
Total liabilities	485,378	552,714
Preference shares of subsidiary	—	60,877
Preferred stock	9,003	6,603
Common equity interests	103,109	85,387
Additional paid-in capital	271,633	203,707
Retained earnings	126,119	111,344
Foreign currency translation adjustments	(18,779)	(29,922)
Total shareholders' equity	491,085	377,119
Total Liabilities and Shareholders' Equity	\$976,463	\$990,710

See Notes to Consolidated Financial Statements.



FINANCIAL REVIEW

Liquidity

The 1986 and 1985 changes in cash and short-term investments, and the related variances in short-term borrowings, resulted primarily from the absence of inter-company borrowing of excess cash by the parent company from General Portland at December 31, 1985. In February 1986 the parent company resumed inter-company borrowing from General Portland and repaid \$62 million of short-term borrowings and current maturities of long-term debt.

Working Capital Provided by Operations

Working capital provided by operations increased during both 1986 and 1985, compared with the prior year, primarily due to higher operating results. The negative effect of the deferred income tax provision on working capital provided by operations was primarily due to the payment of Canadian deferred tax liabilities established in prior years.

Capital Expenditures

Capital expenditures during 1986 were significantly higher than in 1985 or 1984, due to a substantial increase in discretionary capital spending. Capital expenditures during 1985 and 1984 primarily reflect only sustaining expenditures, which were limited to enable the Company to reduce long-term debt.

Changes in Working Capital Items

Working capital increased during 1986, primarily as a result of the payment of income taxes that were accrued at December 31, 1985. The significant decline in working capital during 1985 and 1984, reflects lower inventory levels and an increase in current liabilities due to higher year-end operating activity and greater income taxes payable. Another contributing factor was a decline in the year-end value of Canadian currency at both December 31, 1985 and 1984, compared with the end of the previous year. Working capital is also discussed on page 26.

Financing Cash Flow

The level of net indebtedness (current and long-term borrowing less cash and short-term investments) remained relatively stable during 1986, despite substantial capital expenditures and acquisitions. The cash flow requirements during 1986 were supplied by internal cash generation and the issuance of new equity securities. Net indebtedness decreased by \$51.6 million during 1985, due to the repayment of debt with cash generated from operations and the effect of currency translation of the Company's Canadian dollar denominated debt.

During 1986, all of the CCL Series A Shares were either redeemed or converted into Exchangeable Preference Shares of Canada Cement Lafarge (the "CCL Exchangeable Shares"). Canada Cement Lafarge's First Preference Shares were redeemed in August 1984.

The issuance of equity shares during 1986 included \$60.0 million from a new issue of \$1.88 Convertible Preferred Shares and \$28.0 million of common equity shares. The new common equity shares were issued for an acquisition, the conversion of CCL Series A Shares and the issuance of shares pursuant to dividend reinvestment plans. The issuance of equity securities in 1985 and 1984 was pursuant to the Company's dividend reinvestment plan. These transactions are discussed further on page 30.

Acquisitions

During 1986, the Company invested \$45.5 million in various acquisitions that expanded Lafarge Corporation's markets and product lines. Equity financing was utilized for \$25.0 million of this total amount. The Company issued \$20.0 million of its \$1.88 Convertible Preferred Shares in connection with the purchase of National Gypsum Company's Huron Cement Division ("Huron") in the Great Lakes area. Common Shares valued at \$5.0 million were issued to acquire Systech Corporation ("Systech"), which is involved in locating and obtaining liquid waste materials for disposal as supplemental fuel in cement kilns.

Impact of Inflation

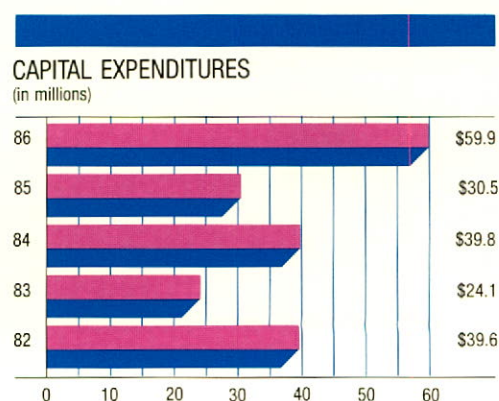
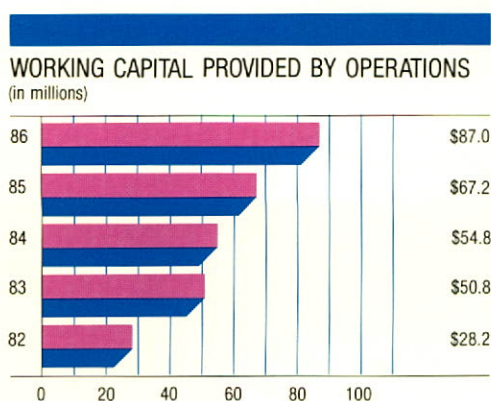
The Company's costs and expenses have increased as a result of inflation, as have those of the cement industry in general. The Company continually attempts to offset the effect of inflation by improving operating efficiencies, especially in the areas of productivity and energy costs. Due to excess domestic production capacity and substantial foreign cement imports into the U.S., the Company's selling prices have not kept pace with inflationary cost increases.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands)

Years Ended December 31	1986	1985	1984
Funds Generated from Operations			
Net income (loss)	\$ 25,955	\$ 14,138	\$ (4,586)
Items not affecting working capital			
Depreciation and depletion	62,404	60,774	63,860
Deferred income taxes	(2,975)	(9,457)	(5,833)
Other	1,571	1,758	1,311
Working capital provided by operations	86,955	67,213	54,752
Capital expenditures	(59,851)	(30,504)	(39,771)
Property, plant and equipment dispositions, net	3,223	3,503	3,162
Changes in working capital items (see below)	(3,779)	12,974	19,024
Other	(1,363)	(1,189)	(9,453)
Funds generated from operations	25,185	51,997	27,714
Funds Obtained from or (Used for) Financing			
Additional long-term borrowing	34,100	22,754	55,144
Repayment of long-term debt (includes current portion)	(50,476)	(49,626)	(69,070)
Increase (decrease) in short-term borrowings	(45,000)	45,000	—
Redemption of preference shares of subsidiary	(38,505)	—	(11,422)
Conversion of preference shares of subsidiary	(17,678)	—	—
Issuance of equity securities	88,048	4,799	3,221
Net funds obtained from or (used for) financing	(29,511)	22,927	(22,127)
Funds Used for Acquisitions	(45,459)	(2,710)	(662)
Funds Used for Dividends	(11,180)	(10,105)	(10,085)
Increase (Decrease) in Cash and Short-Term Investments	\$ (60,965)	\$ 62,109	\$ (5,160)
Analysis of Changes in Working Capital Items			
Receivables, net	\$ (1,614)	\$ (1,789)	\$(11,210)
Inventories	3,501	4,327	9,491
Other current assets	997	(226)	4,173
Accounts payable and accrued liabilities	4,883	4,713	13,413
Income taxes payable	(12,596)	10,984	9,292
Effect of exchange rate changes	1,050	(5,035)	(6,135)
Changes in Working Capital Items	\$ (3,779)	\$ 12,974	\$ 19,024

See Notes to Consolidated Financial Statements.



FINANCIAL REVIEW

Shareholders' Equity

Shareholders' equity was \$491.1 million at December 31, 1986. This amount reflected a \$114.0 million increase during 1986, as a result of the issuance of \$88.0 million of new equity shares, the \$14.8 million excess of current year earnings over dividend payments and favorable foreign currency translation adjustments. Shareholders' equity declined by \$3.1 million during 1985, due to the negative effect of a six percent decline in the year-end value of the Company's Canadian net assets expressed in U.S. currency.

Preferred Stock

On September 17, 1986, the Company issued 1.6 million \$1.88 Convertible Preferred Shares to Lafarge Coppée for cash at a market value, determined by an independent investment banking firm, of \$40.0 million. An additional 800,000 of these shares were acquired by Lafarge Coppée from National Gypsum on December 2, 1986, in connection with the Huron acquisition.

Common Equity Interests

The caption "Common equity interests" on the Consolidated Balance Sheets includes the Company's Common Shares and the CCL Exchangeable Shares. The Company's Common Shares are traded on the New York Stock Exchange, under the ticker symbol "LAF", and also on The Toronto Stock Exchange and the Montreal Exchange. The CCL Exchangeable Shares are traded on the Montreal Exchange and The Toronto Stock Exchange.

During 1986, common equity interests increased primarily as a result of the issuance of Common Shares to acquire Systech, the reinvestment of cash dividends under the Company's dividend reinvestment plan and the conversion of CCL Series A Shares into CCL Exchangeable Shares. During 1985, the only significant change in common equity interests involved the reinvestment of cash dividends under the Company's dividend reinvestment plan.

The following table reflects the range of high and low selling prices of the Company's Common Shares by quarter for 1986 and 1985. This information is based on prices quoted on the New York Stock Exchange.

Quarter Ended	March 31	June 30	September 30	December 31
1986 Stock Prices				
High	\$11.88	\$11.75	\$10.38	\$9.75
Low	8.13	10.50	9.50	9.25
1985 Stock Prices				
High	\$ 9.50	\$ 7.75	\$ 8.25	\$8.63
Low	7.00	6.88	7.00	6.75

Dividends

The following table summarizes the Company's common equity and preferred share dividend payments and the related dividend reinvestments through the Company's dividend reinvestment plans during 1986, 1985 and 1984 (in thousands, except per share amounts):

Years Ended December 31	1986	1985	1984
Common equity dividends	\$ 7,870	\$ 7,415	\$ 7,395
Preferred dividends	3,310	2,690	2,690
Less dividend reinvestments	(5,417)	(4,799)	(3,221)
Net cash dividend payments	\$ 5,763	\$ 5,306	\$ 6,864
Common equity dividends per share	\$.20	\$.20	\$.20

The increase in net cash dividend payments in 1986, compared with 1985, was primarily due to the increase in common equity shares outstanding and the dividend payments on the Company's new \$1.88 Convertible Preferred Shares, which were issued in September 1986. The increase in dividend reinvestments in both 1986 and 1985, compared with 1984, reflected a higher level of dividend reinvestment by the Lafarge Coppée Group.

Foreign Currency Translation Adjustments

The Company's Canadian assets and liabilities are translated into U.S. currency at the exchange rate prevailing at the balance sheet date. Foreign currency translation adjustments are disclosed as a separate item in shareholders' equity. The significant decrease in these adjustments during 1986 resulted primarily from the redemption and conversion of CCLs Series A Shares at current exchange rates, which were lower than the historical rates at which these shares were reflected prior to retirement. In addition, the exchange rate of Canadian dollars was one percent higher at the end of 1986, compared with December 31, 1985. The substantial increase in translation adjustments during 1985 and 1984 resulted from a six percent decline in the year-end exchange rate of Canadian currency at both December 31, 1985 and 1984, compared with the previous year-end rate.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

Years Ended December 31	1986		1985		1984	
	Amount	Shares	Amount	Shares	Amount	Shares
Preferred Stock						
Balance at January 1	\$ 6,603	6,603	\$ 6,603	6,603	\$ 6,603	6,603
Issuance of \$1.88 Convertible Preferred Shares	2,400	2,400	—	—	—	—
Balance at December 31	\$ 9,003	9,003	\$ 6,603	6,603	\$ 6,603	6,603
Common Equity Interests						
Balance at January 1	\$ 85,387	37,869	\$ 84,922	37,226	\$ 84,875	36,860
Issuance of Common Shares for acquisition	526	526	—	—	—	—
Issuance of shares pursuant to dividend reinvestment plans	637	580	643	643	361	361
Exchange of CCL Exchangeable Shares	(1,122)	—	(178)	—	(373)	—
Exercise of stock options	3	3	—	—	—	—
Conversion of CCL Series A Shares	17,678	1,720	—	—	59	5
Balance at December 31	\$103,109	40,698	\$ 85,387	37,869	\$ 84,922	37,226
Additional Paid-In Capital						
Balance at January 1	\$203,707		\$199,373		\$196,140	
Issuance of \$1.88 Convertible Preferred Shares	57,527		—		—	
Issuance of Common Shares for acquisition	4,474		—		—	
Issuance of shares pursuant to dividend reinvestment plans	4,780		4,156		2,860	
Exchange of CCL Exchangeable Shares	1,122		178		373	
Exercise of stock options	23		—		—	
Balance at December 31	\$271,633		\$203,707		\$199,373	
Retained Earnings						
Balance at January 1	\$111,344		\$107,311		\$121,982	
Net income (loss)	25,955		14,138		(4,586)	
Dividends — common equity interests	(7,870)		(7,415)		(7,395)	
— preferred stock	(3,310)		(2,690)		(2,690)	
Balance at December 31	\$126,119		\$111,344		\$107,311	
Foreign Currency Translation Adjustments						
Balance at January 1	\$ (29,922)		\$ (17,997)		\$ (5,426)	
Translation adjustments	2,932		(11,925)		(12,571)	
Effect of redemption and conversion of preference shares of subsidiary	8,211		—		—	
Balance at December 31	\$ (18,779)		\$ (29,922)		\$ (17,997)	
Total Shareholders' Equity	\$491,085		\$377,119		\$380,212	

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lafarge Corporation (the "Company"), a Maryland corporation, is the parent company of Canada Cement Lafarge Ltd. in Canada and General Portland Inc. in the United States. Lafarge Coppée S.A., a French corporation, and certain of its affiliates (the "Lafarge Coppée Group") own a majority of the voting securities of the Company.

Acquisition of Huron Assets

During December 1986, the Company purchased substantially all of the assets of National Gypsum Company's Huron Cement Division ("Huron") for consideration totaling approximately \$24.4 million. These assets, the acquisition of which was accounted for as a purchase, include a cement manufacturing plant in Alpena, Michigan, certain inventories and 13 cement terminals and related distribution facilities located around the Great Lakes. The total acquisition cost was allocated to property, plant and equipment and inventories.

In consideration for this purchase, the Company paid \$4.4 million of cash and issued 800,000 shares of its \$1.88 Convertible Preferred Shares, with a value of \$20.0 million, to National Gypsum. These shares are more fully described in the separate note on Preferred Stock. On December 2, 1986, National Gypsum transferred these \$1.88 Convertible Preferred Shares and certain other assets to Lafarge Coppée in exchange for shares of Lafarge Coppée common stock.

The inclusion of Huron's earnings from the purchase date did not have a material effect on the net income recorded by the Company for the year ended December 31, 1986. Assuming the Huron asset purchase was effected on January 1, 1985, with similar financing, the unaudited pro forma consolidated operating results of the Company for the years ended December 31, 1986 and 1985 would have been as follows (in millions, except per share amounts):

Years Ended December 31	1986	1985
Net sales	\$1,085.3	\$1,062.0
Net income	\$ 35.4	\$ 25.7
Net income per common equity share	\$.79	\$.57

Accounting and Financial Reporting Policies

Basis of Presentation

The Company's accounting and reporting policies conform to generally accepted accounting principles and industry practices in the U.S. and are applied on a consistent basis between periods, except for the change in the method of accounting for pension costs in accordance with Statement of Financial Accounting Standards No. 87. Statement No. 87 was adopted for the Company's Canadian and U.S. pension plans effective January 1, 1986 and 1985, respectively.

Certain minor reclassifications to the prior year financial statements have been made to conform to the 1986 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries, after the elimination of intercompany transactions and balances. Investments in unconsolidated affiliates are generally accounted for by the equity method.

Foreign Currency Translation

Assets and liabilities of the Company's Canadian subsidiary are translated at the exchange rate prevailing at the balance sheet date. Revenue and expense accounts for this subsidiary are translated using the weighted average exchange rate during the period. Foreign currency translation adjustments, net of related income tax expenses (benefits) of \$(.6) million, \$2.0 million and \$2.2 million for 1986, 1985 and 1984, respectively, are disclosed as a separate item in shareholders' equity.

Revenue Recognition

Revenue from the sale of cement, concrete products and aggregates is recorded at the time the products are shipped. Revenue from highway and street construction contracts is recognized on the basis of units of work completed, while revenue from indivisible lump sum contracts is recognized using the percentage-of-completion method.

Research and Development

The Company is committed to improving its manufacturing process, maintaining product quality and meeting existing and future customer needs. These objectives are pursued through various programs. Research and development costs, which are charged to expense as incurred, were \$4.9 million, \$4.7 million and \$4.0 million for 1986, 1985 and 1984, respectively.

Income Taxes

Deferred income taxes result from timing differences in the recognition of revenues and expenses reported for financial accounting and income tax reporting purposes. The Company does not provide for U.S. income taxes on undistributed earnings of its Canadian subsidiary. Such earnings when remitted would not result in significant U.S. income taxes because of tax planning alternatives and the availability of tax credits under current U.S. income tax laws. At December 31, 1986, cumulative undistributed earnings of the Canadian subsidiary were \$193.3 million. Canadian investment tax credits are recorded by the flow-through method of accounting whereby the credits are applied as a reduction of income tax expense when utilized.

Retirement Plans

The Company has adopted the pension accounting provisions of Statement of Financial Accounting Standards No. 87 in determining the annual retirement cost and footnote disclosures for its Canadian pension plans (effective January 1, 1986) and U.S. pension plans (effective January 1, 1985). The effect of these changes was to increase the Company's net income for 1986 and 1985 by \$2.4 million, or \$.07 per common equity share, and \$3.1 million, or \$.08 per common equity share, respectively. For the Company, the significant differences between the application of Statement No. 87 and the previous pension accounting rules were the utilization of a new actuarial method for its U.S. plans (the projected unit credit method), the periodic amortization of the excess of the Canadian and U.S. pension plan assets over the related projected pension obligations as of the effective adoption dates and more rapid amortization of annual variations from actuarial assumptions.

Short-term Investments

Short-term investments consist of certificates of deposit and other marketable securities, which are stated at the lower of cost or market value. The cost of the short-term investments is substantially the same as market value.

Inventories

Inventories are valued at the lower of cost or market. Substantially all of the Company's U.S. inventories, other than maintenance and operating supplies, are stated at last-in, first-out ("LIFO") cost and all other inventories are valued at average cost.

Property, Plant and Equipment

Depreciation of property, plant and equipment is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. These lives range from three years on light mobile equipment to 40 years on certain buildings. Management periodically reviews the remaining useful lives of the Company's assets and adjusts them as necessary. Land and mineral deposits includes depletable raw material reserves on which depletion is recorded using a units-of-production method.

Excess of Cost Over Net Assets of Businesses Acquired

The excess of the cost over the fair value of net assets of businesses acquired is amortized on a straight-line basis over periods not exceeding 40 years. The amortization recorded for 1986, 1985 and 1984 was \$1.3 million, \$1.0 million and \$1.0 million, respectively. Accumulated amortization at December 31, 1986, 1985 and 1984, was \$7.0 million, \$5.7 million and \$4.7 million, respectively.

Interest

No interest was capitalized during 1986, 1985 or 1984. Interest income from short-term investments of \$1.8 million, \$3.2 million and \$1.2 million has been applied against interest expense for these three years.

Net Income (Loss) Per Common Equity Share

The calculation of net income (loss) per common equity share is based on the weighted average number of the Company's Common Shares and the Exchangeable Preference Shares of Canada Cement Lafarge (the "CCL Exchangeable Shares") outstanding in each period and the net income (loss) applicable to these shareholders after the adjustment for preferred stock dividends paid to the holders of the Company's \$2.44 Convertible Preferred Shares and \$1.88 Convertible Preferred Shares. The effect of including other potentially dilutive securities is antidilutive, so these items have been excluded.

Receivables

Receivables consist of the following (in thousands):

December 31	1986	1985
Trade receivables	\$146,215	\$142,543
Retainage on long-term contracts	5,673	5,597
Allowances	(11,115)	(10,863)
Total receivables, net	\$140,773	\$137,277

Inventories

Inventories consist of the following (in thousands):

December 31	1986	1985
Finished products	\$ 51,381	\$ 50,325
Work in process	16,723	21,646
Raw materials and fuel	26,824	23,979
Maintenance and operating supplies	31,437	32,276
Total inventories	\$126,365	\$128,226

Included in the finished products, work in process and raw materials and fuel categories are inventories valued on the LIFO method of \$36.6 million and \$34.7 million at December 31, 1986 and 1985, respectively. If these inventories were valued using the average cost method, such inventories would have increased by \$1.0 million and \$2.2 million. Due to the application of purchase accounting for the General Portland acquisition in 1981, LIFO inventories for financial reporting purposes exceed the tax basis by approximately \$4.6 million at the end of both 1986 and 1985.

Property, Plant and Equipment

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

December 31	1986	1985
Land and mineral deposits	\$ 109,453	\$ 105,435
Buildings, machinery and equipment	986,601	910,289
Construction in progress	13,285	5,612
Property, plant and equipment, at cost	1,109,339	1,021,336
Less accumulated depreciation and depletion	(492,480)	(435,309)
Total property, plant and equipment, net	\$ 616,859	\$ 586,027

Other Assets

Other assets consist of the following (in thousands):

December 31	1986	1985
Long-term receivables	\$15,736	\$11,648
Investments in unconsolidated affiliated companies	11,864	8,172
Restricted funds from industrial revenue bond financing	5,746	6,155
Other	11,213	10,011
Total other assets	\$44,559	\$35,986

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following (in thousands):

December 31	1986	1985
Trade accounts payable	\$ 68,922	\$ 57,726
Accrued payroll expense	16,612	20,996
Accrued interest expense	6,136	4,607
Other accrued expenses	27,274	29,359
Total accounts payable and accrued liabilities	\$118,944	\$112,688

Long-term Debt

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

December 31	1986	1985
Lafarge Corporation —		
Commercial paper and term bank loans repayable between 1987 and 1993 bearing interest at varying rates from 6.3 percent to 16.5 percent	\$148,258	\$168,797
Other debt	4,000	4,000
Canada Cement Lafarge Ltd. —		
Sinking fund debentures maturing in various amounts between 1987 and 1997, bearing interest at varying rates from 6.25 percent to 11.25 percent	45,828	50,143
Term bank loans bearing interest at varying rates up to a maximum of Canadian prime	36,337	1,352
General Portland Inc. —		
Notes maturing in annual installments not exceeding \$3.9 million through 1993, bearing interest at varying rates up to a maximum of 9.375 percent	15,710	38,750
Secured industrial revenue bonds maturing in various amounts between 1998 and 2010, bearing interest at varying rates up to a maximum of 66 percent of prime, with annual sinking fund requirements beginning in 1989	25,725	25,725
7.8 percent sinking fund debentures maturing in 1996	9,138	9,168
Other debt	160	214
Subtotal	285,156	298,149
Less current portion	(8,170)	(22,906)
Total long-term debt	\$276,986	\$275,243

At December 31, 1986, the Company and its subsidiaries had \$112.5 million of unused long-term revolving credit available under various credit facilities. The Company and its subsidiaries are required to pay annual commitment fees of up to .25 percent of the unused portion of the funds available for borrowing under these credit agreements.

Annual principal payment requirements on long-term debt for each of the five years in the period ending December 31, 1991, after the exclusion of bank loans for which anticipated refinancing is available, are as follows (in millions):

	1987	1988	1989	1990	1991
Repayments	\$8.2	\$12.4	\$6.0	\$15.7	\$13.5

Under the terms of various long-term debt agreements, General Portland must maintain a certain level of working capital and is also restricted, among other things, as to the payment of cash dividends. At December 31, 1986, under the most restrictive of the loan agreements, General Portland's working capital was approximately \$9.4 million in excess of the level required and only minimal dividend payments were allowable. The parent company and Canada Cement Lafarge have no such restrictions.

Deferred Credits

Deferred credits consist of the following (in thousands):

December 31	1986	1985
Income taxes	\$65,692	\$64,248
Other, primarily pension costs in 1985	927	3,243
Total deferred credits	\$66,619	\$67,491

Preference Shares of Subsidiary

The Company's Consolidated Statements of Income (Loss) reflect the dividends paid on the preference shares issued by Canada Cement Lafarge. The Canada Cement Lafarge Series A \$1.17 Convertible Redeemable Preference Shares (the "CCL Series A Shares") were entitled to a cumulative dividend of Cdn. \$1.17 per year and were convertible at the option of the holder into CCL Exchangeable Shares at a rate of 1.01 CCL Exchangeable Shares for each CCL Series A Share.

There were 5,064,675 CCL Series A Shares authorized and outstanding at the end of 1985 and 1984. On April 14, 1986, Canada Cement Lafarge redeemed all of its outstanding CCL Series A Shares for Cdn. \$15.75 per share plus accrued dividends. Approximately 3.4 million of the CCL Series A Shares were redeemed for \$38.5 million, and resulted in an excess of cost over recorded book value of \$3.5 million, which is reflected on the Company's Consolidated Balance Sheet as an increase to the caption "Excess of cost over net assets of businesses acquired, net", and is being amortized over 20 years. Prior to the redemption, the holders of approximately 1.7 million CCL Series A Shares elected to convert such shares into CCL Exchangeable Shares.

Preferred Stock

During each of the three years in the period ended December 31, 1986, there were 2,000 shares of the Company's \$1.00 par value per share First Preferred Stock and 6,875 shares of the Company's Second Preferred Stock authorized and outstanding. A subsidiary holds 1,900 of the shares of First Preferred Stock and all of the shares of Second Preferred Stock. The holders of the First Preferred Stock are entitled to one vote per share and to fixed cumulative annual dividends of \$60.00 per share. The First Preferred Stock ranks senior to all other classes of the Company's capital with respect to dividends and distributions in the event of liquidation, which distribution would amount to \$1,000 per share plus any accrued and unpaid dividends. Such shares are not redeemable at the option of the Company, but subject to certain limitations, any holder of First Preferred Stock may require the Company to redeem such shares for \$1,000 per share plus any accrued and unpaid dividends.

At December 31, 1986, 1985 and 1984, there were 9.0 million shares of the Company's Third Preferred Stock authorized, of which 5.5 million shares were outstanding. These shares, which were issued at par, are entitled to one vote per share and are held by and may be transferred only among members of the Lafarge Coppée Group. The shares have a par value of \$1.00 per share, are not entitled to any equity participation or dividends and have a redemption and liquidation value of \$.25 per share. The Third Preferred Stock may be redeemed, at the Company's option, 10 years after the date of original issue or at the holder's option at any time.

At December 31, 1986, 1985 and 1984, there were 1.1 million of the Company's \$2.44 Convertible Preferred Shares authorized and outstanding. These shares have a par value of \$1.00 per share and are entitled to fixed cumulative annual dividends of \$2.44 per share. Each \$2.44 Convertible Preferred Share is convertible, subject to adjustment in certain events, into 2.35 Common Shares. These shares are currently redeemable at the option of the Company for \$26.71 per share, declining to \$25.00 per share on and after November 30, 1993, plus in each case any accrued and unpaid dividends.

At December 31, 1986, there were 2.4 million shares of the Company's \$1.88 Convertible Preferred Shares authorized and outstanding. These shares, which are held by Lafarge Coppée, have a par value of \$1.00 per share and are entitled to fixed cumulative annual dividends of \$1.88 per share. Each \$1.88 Convertible Preferred Share is convertible, subject to adjustment in certain events, into 2.17 Common Shares. These shares are redeemable at the option of the Company commencing September 30, 1988, or earlier if the closing price of the Common Shares exceeds 150 percent of the then effective conversion price for at least 20 consecutive trading days. The redemption price will initially be \$26.88 per share and thereafter decline to \$25.00 per share on or after September 30, 1996, plus in each case accrued and unpaid dividends.

Common Equity Interests

Common equity interests consist of the following (in thousands):

December 31	1986		1985	
	Amount	Shares	Amount	Shares
CCL Exchangeable Shares	\$ 74,455	12,044	\$58,054	10,536
Common Shares	28,654	28,654	27,333	27,333
Total common equity interests	\$103,109	40,698	\$85,387	37,869

The increase in common equity interests during 1986 was due to the conversion of CCL Series A Shares, the issuance of shares pursuant to the Company's dividend reinvestment plans and the issuance of Common Shares to acquire Systech Corporation ("Systech") in December 1986. Systech is primarily engaged in locating, obtaining and testing liquid industrial waste materials for environmentally-safe disposal as supplemental fuel in cement kilns. The Systech acquisition, which was accounted for as a purchase, resulted in the issuance of 526,418 Common Shares with a total value of \$5.0 million. The excess of the consideration given over the fair value of Systech's net assets was allocated to the caption "Excess of cost over net assets of businesses acquired, net", and will be amortized over 10 years. Pro forma information has not been included for this acquisition since Systech's operations are not material to the Company's consolidated amounts.

At December 31, 1986, 1985 and 1984, there were 24.3 million CCL Exchangeable Shares authorized with no par or stated value. Holders of CCL Exchangeable Shares have voting, dividend and liquidation rights which parallel those of holders of the Company's Common Shares. The CCL Exchangeable Shares are exchangeable into the Company's Common Shares on a one-for-one basis. Dividends on the CCL Exchangeable Shares are cumulative and payable at the same time as any dividends declared on the Company's Common Shares. The

Company has agreed not to pay dividends on its Common Shares without causing Canada Cement Lafarge to declare an equivalent dividend in Canadian dollars on the CCL Exchangeable Shares. Dividend payments and the exchange rate on the CCL Exchangeable Shares are subject to adjustment from time to time to take into account certain dilutive events.

The Company has agreed, for the benefit of the holders of CCL Exchangeable Shares, to provide Canada Cement Lafarge such funds as may be necessary to enable it to pay any dividends payable on the CCL Exchangeable Shares, and in the event of liquidation of Canada Cement Lafarge to pay or otherwise satisfy the liquidation value to which the holders of such shares are entitled. At the option of the Company, and in lieu of providing funds to Canada Cement Lafarge, the Company may satisfy its obligation with respect to the payment of the liquidation value of the CCL Exchangeable Shares by issuing to each holder thereof the number of the Company's Common Shares for which such holder is then entitled upon exchange.

There were 97.6 million Common Shares authorized at December 31, 1986, compared with 100.0 million at December 31, 1985 and 1984. These shares have a par value of \$1.00 per share and the holders are entitled to one vote per share. At December 31, 1986, the Company had reserved for issuance approximately 15.6 million Common Shares to allow for the exchange of outstanding CCL Exchangeable Shares. Additional common equity shares are reserved to cover grants under the Company's stock option program (2.7 million), conversion of the \$2.44 Convertible Preferred Shares (2.6 million) and the \$1.88 Convertible Preferred Shares (5.2 million) and issuances pursuant to the Company's dividend reinvestment plans (1.1 million).

Optional Stock Dividend Plan

The Company has an optional stock dividend plan which permits holders of record of Common Shares and both the \$2.44 and \$1.88 Convertible Preferred Shares to elect to receive new Common Shares issued as stock dividends in lieu of cash dividends on such shares. The Common Shares are issued under the plan at 95 percent of the average market price, as defined in the plan. Holders of CCL Exchangeable Shares can participate in Canada Cement Lafarge's dividend reinvestment plan, which is comparable to the Company's plan.

Income Taxes

Pre-tax income (loss) is summarized by country in the following table (in thousands):

Years Ended December 31	1986	1985	1984
United States	\$(15,321)	\$ (3,882)	\$(19,250)
Canada	73,931	45,365	33,785
Pre-tax income	\$ 58,610	\$41,483	\$ 14,535

The provision for income taxes includes the following components (in thousands):

Years Ended December 31	1986	1985	1984
Current			
United States	\$ 2,200	\$ 8,502	\$ 3,102
Canada	32,025	23,955	16,681
Total current	34,225	32,457	19,783
Deferred			
United States	50	(2,191)	(750)
Canada	(3,025)	(7,266)	(5,083)
Total deferred	(2,975)	(9,457)	(5,833)
Total income taxes	\$31,250	\$23,000	\$13,950

Deferred income taxes result from timing differences in the recognition of revenues and expenses for tax return and financial reporting purposes. The sources of these differences and the tax effect of each are as follows (in thousands):

Years Ended December 31	1986	1985	1984
Tax depreciation less than book depreciation	\$(4,222)	\$(7,143)	\$(8,964)
Effect of tax benefit recognition	(1,458)	(4,385)	(379)
Canadian investment tax credits	1,129	439	5,771
Effect of prepaid pension funding	2,279	1,854	(551)
Other	(703)	(222)	(1,710)
Total deferred provision	\$(2,975)	\$(9,457)	\$(5,833)

A reconciliation of taxes at the U.S. federal income tax rate to the Company's actual income taxes is as follows (in millions):

Years Ended December 31	1986	1985	1984
Taxes at the U.S. federal income tax rate	\$27.0	\$19.1	\$ 6.7
Canadian tax incentives	(4.1)	(2.8)	(2.4)
State and Canadian provincial income taxes, net of federal benefit	2.7	2.1	1.7
Canadian investment tax credits	(1.3)	(.2)	(.3)
Tax effect of nondeductible items, primarily related to General Portland acquisition adjustments	2.2	3.5	3.2
Tax effect of certain U.S. operating losses	7.6	(.4)	7.2
Statutory depletion deductions	(1.1)	(1.0)	(.6)
Effect of non-taxable divestment gains in Canada	(1.6)	(2.1)	(.9)
Withholding taxes	1.2	6.0	—
Other items	(1.4)	(1.2)	(.7)
Actual income taxes	\$31.2	\$23.0	\$13.9

On January 2, 1986, the Company completed a transfer of the U.S. assets of Canada Cement Lafarge to Lafarge Corporation. This intercompany transaction, which was reflected as of December 31, 1985, is expected to result in a more efficient corporate structure for the Company and its subsidiaries. To effect this transfer of assets, the Company incurred Canadian withholding taxes of approximately \$6.0 million and utilized \$12.1 million of U.S. tax benefit carryforwards.

The 1986 tax provision includes \$1.2 million of Canadian withholding taxes related to a \$12.1 million cash dividend paid to Lafarge Corporation from Canada Cement Lafarge in January 1987.

At December 31, 1986, the Company had U.S. tax net operating loss and investment tax credit carryforwards of \$115.4 million and \$12.6 million, respectively, substantially all of which expire between 1992 and 2001. For financial statement purposes, the Company had approximately \$74.4 million in U.S. net operating loss carryforwards and \$11.0 million in U.S. investment tax credit carryforwards for which the related tax benefits have not been recorded. The Tax Reform Act of 1986 provides for a 35 percent reduction in investment tax credits carried over and applied against taxes due in years subsequent to 1987. This provision would reduce the Company's available investment tax credit carryforwards for tax and financial reporting purposes to \$8.2 million and \$7.1 million, respectively. The Company does not currently expect any other significant effect from the Tax Reform Act in the next few years.

Stock Option Plan

Options to purchase the Company's Common Shares and CCL Exchangeable Shares have been granted to key employees of the Company and its subsidiaries at option prices based on the market price of the securities at the date of grant. One-fourth of the options granted are exercisable at the end of each year following the date of grant, and all the options granted are exercisable in four years. The options expire 10 years from the date of grant. During 1985, options to purchase 172,900 shares of CCL Exchangeable Shares were cancelled. As the result of such cancellations, options to purchase a like number of the Company's Common Shares were granted. As of December 31, 1986, options to purchase 4,250 Common Shares had been exercised.

The following table summarizes activity for options related to both the Company's Common Shares and the CCL Exchangeable Shares.

	Common Shares		CCL Exchangeable Shares	
	Shares	Price U.S. \$	Shares	Price Cdn. \$
Balance outstanding at January 1, 1984	111,400	10.81	55,900	13.63
Options granted	125,200	11.25	60,500	15.88
Options cancelled	(4,500)	10.81	(2,000)	13.63
Balance outstanding at December 31, 1984	232,100	11.05*	114,400	14.82*
Options granted	219,100	8.48*	83,700	11.75
Conversion of options for CCL Exchangeable Shares to options for Common Shares	172,900	10.00*	(172,900)	13.43*
Options cancelled	(4,500)	10.81	(12,600)	14.61*
Balance outstanding at December 31, 1985	619,600	9.85*	12,600	13.76*
Options granted	427,950	8.38	—	—
Options exercised	(4,250)	9.19*	—	—
Options cancelled	(67,000)	10.11*	—	—
Balance outstanding at December 31, 1986	976,300	9.19*	12,600	13.76*
Options exercisable at December 31, 1986	236,625	10.32*	6,075	14.11*

*Weighted average price

During 1986, the number of Common Shares authorized for issuance under the Company's stock option plans was increased from 1.2 million to 2.7 million shares. There were 1,706,850 and 567,800 shares reserved for future stock option grants at December 31, 1986 and 1985, respectively.

Retirement Plans

The Company and its subsidiaries have several defined benefit and defined contribution retirement plans covering substantially all employees. Annual pension costs for the Company's defined benefit plans are actuarially determined. Benefits paid under the defined benefit plans are based generally either on years of service and the employee's compensation over the last few years of employment, or years of service multiplied by a contractual amount. In the past, the Company's policy has been to generally fund accrued pension costs. However, due to the adoption of the new pension accounting standards this will not necessarily be true in the future.

The total cost of all retirement plans for 1986, 1985 and 1984 is summarized in the following table by country (in millions):

Years Ended December 31	1986	1985	1984
United States	\$(.8)	\$.9	\$5.1
Canada	.9	4.1	4.6
Total cost	\$.1	\$5.0	\$9.7

The significant reduction in U.S. pension costs in 1986 and 1985, compared with 1984, reflects a change in actuarial assumptions (primarily an increase in the assumed earnings rate of pension plan assets) and the previously noted adoption of the new pension accounting rules of Statement of Financial Accounting Standards No. 87 for the U.S. plans, effective January 1, 1985. Statement No. 87 was adopted effective January 1, 1986, for the Canadian plans and accounts for the reduction in Canadian pension costs in 1986, compared with 1985 and 1984. Retirement plan information prior to the periods of adoption reflect the previous pension accounting methods.

The following table summarizes the funded status of the Company's U.S. and Canadian plans and provides a reconciliation to the net deferred U.S. and Canadian pension asset (liability) recorded on the Company's Balance Sheets at December 31, 1986 and 1985 (in millions). Information for the Canadian plans is reported in Canadian currency. The assumed settlement interest rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected pension obligations were estimated to be 9.0 percent and 7.5 percent, respectively. The expected long-term rate of investment return on pension assets is estimated to be 9.0 percent.

	U.S. Plans		Canadian Plans*
December 31	1986	1985	1986
Actuarial present value of current accumulated pension obligations, including vested benefits of \$61.9, \$58.3 and Cdn. \$115.5, respectively	\$ (66.9)	\$(64.1)	\$(129.4)
Actuarial present value of accumulated pension obligations, adjusted for assumptions regarding future compensation levels	\$ (81.6)	\$(74.2)	\$(162.4)
Pension assets at market value, primarily listed stocks, fixed income securities and real estate	112.6	99.6	195.5
Excess of pension assets over projected pension obligations	31.0	25.4	33.1
Unrecognized net gain from pension plan experience (including favorable investment performance)	(17.7)	(12.7)	(5.1)
Unrecognized prior service costs	—	—	1.7
Unrecognized excess of pension assets over the related pension obligations at transition to Statement No. 87 that is being amortized over the average remaining service period of the employee work force (approximately 10 years and 15 years in the U.S. and Canada, respectively)	(12.1)	(13.6)	(28.9)
Deferred pension asset (liability)	\$ 1.2	\$ (.9)	\$.8**

*Amounts in Canadian currency.

**Represents approximately \$.6 million in U.S. currency.

Net U.S. and Canadian retirement cost (income) for 1986 and 1985 included the following components (in millions). This table is a disclosure required by Statement No. 87 and no comparable information prior to the periods of adoption is available.

	U.S. Plans		Canadian Plans*
Years Ended December 31	1986	1985	1986
Defined benefit plan costs			
Pension costs for benefits earned during the current year	\$ 2.1	\$ 1.9	\$ 5.6
Annual interest cost on projected pension obligations	6.8	6.5	13.2
Actual investment earnings on pension assets	(18.1)	(19.9)	(20.6)
Deferral of excess of actual pension investment earnings over the expected return	9.4	12.7	5.1
Annual amortization of previously deferred pension investment earnings which were in excess of the expected return	(.8)	—	—
Annual amortization of the excess of pension assets over the related pension obligations at transition to Statement No. 87	(1.5)	(1.5)	(2.1)
Subtotal	(2.1)	(.3)	1.2
Defined contribution plan costs	1.3	1.2	—
Net retirement cost (income)	\$ (.8)	\$.9	\$ 1.2**

*Amounts in Canadian currency.

**Represents approximately \$.9 million in U.S. currency.

Under the previous pension accounting standards, and as of the latest actuarial valuation date (generally 1983), the Company's 1985 disclosure for its Canadian pension plans reflected vested accumulated pension obligations of Cdn. \$92.3 million and non-vested accumulated pension obligations of Cdn. \$11.4 million, utilizing a 9.0 percent average discount rate. The market value of the Canadian pension assets, as of the same dates, totaled Cdn. \$147.0 million.

Post Retirement Benefits

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized generally as expense when claims are paid. These costs totaled \$1.8 million, \$1.7 million and \$1.3 million during 1986, 1985 and 1984, respectively.

Segment Information

The Company's single business segment includes the manufacture and sale of cement, ready-mix concrete, precast and prestressed concrete components, concrete blocks and pipes, aggregates, asphalt and reinforcing steel. In addition, the Company is engaged in road building and other construction utilizing many of its own products.

Sales between the United States and Canada are accounted for at fair market value. Financial information by country is as follows for the years ended December 31, 1986, 1985 and 1984 (in millions):

Years Ended December 31	1986	1985	1984
Net sales			
Canada	\$555.3	\$510.5	\$509.5
United States	408.5	434.0	417.9
Total	\$963.8	\$944.5	\$927.4
Income before interest and taxes			
Canada	\$ 82.6	\$ 54.3	\$ 45.8
United States	6.5	19.9	8.0
Total	\$ 89.1	\$ 74.2	\$ 53.8
Identifiable assets at year end			
Canada	\$501.3	\$459.0	\$484.7
United States	475.2	531.7	494.6
Total	\$976.5	\$990.7	\$979.3

Commitments and Contingencies

The Company leases office space and certain equipment. Total rental expenses for 1986, 1985 and 1984 were \$9.1 million, \$8.3 million and \$6.0 million, respectively. There were no material noncapitalized financing leases.

Future minimum annual rental commitments for all non-cancelable leases are as follows for each of the five years in the period ended December 31, 1991 (in millions):

	1987	1988	1989	1990	1991
Commitments	\$6.9	\$6.5	\$5.1	\$4.1	\$3.8

On April 27, 1983, Canadian National Railways filed suit in the Quebec Superior Court, Montreal District, against a Canada Cement Lafarge affiliate for damages arising out of alleged defects in railroad ties manufactured and sold by the affiliate between 1974 and 1980. The damages claimed total approximately Cdn. \$34.4 million. The Company has denied the allegations and its insurance carriers have assumed the defense of the lawsuit.

The Company is involved in certain other legal actions and claims. It is the opinion of management that all such matters will be resolved without material effect on the Company's consolidated financial statements.

In connection with the acquisition of Systech, the Company granted the Systech shareholders the right to receive additional Common Shares or cash, contingent on Systech attaining certain specified operating results during a four-year period beginning on December 29, 1986. The maximum amount required would be \$5.0 million of additional Common Shares or cash.

The Company is also required to pay National Gypsum approximately \$9.8 million during March 1987 for cement inventories. This purchase is in connection with the Huron asset acquisition.

Related Party Transactions

Certain of the Company's operating subsidiaries purchase various products from each other. These intercompany transactions have been eliminated in consolidation. The Company's major shareholder, Lafarge Coppée, provides certain technical and research assistance to Canada Cement Lafarge and General Portland. The expenses accrued for these services were \$2.9 million, \$2.9 million and \$3.0 million during 1986, 1985 and 1984, respectively. In addition, the Company's operating subsidiaries purchase various products from affiliates of the Lafarge Coppée Group. Such purchases totaled \$5.6 million, \$5.8 million and \$1.6 million during 1986, 1985 and 1984, respectively.

During 1986, the Company and its affiliates purchased certain assets, as described in the separate note on Acquisition of Huron Assets, from National Gypsum Company. Lafarge Coppée owns 36.5 percent of Aancor Holdings, Inc., the parent company of National Gypsum.

On September 17, 1986, the Company issued 1.6 million \$1.88 Convertible Preferred Shares to Lafarge Coppée for cash at a market value, determined by an independent investment banking firm, of \$40.0 million. As described in the separate note on Acquisition of Huron Assets, an additional 800,000 shares of \$1.88 Convertible Preferred Shares were received by Lafarge Coppée on December 2, 1986. These shares are more fully discussed in the separate note on Preferred Stock.

AUDITORS' REPORT

To the Shareholders and Directors of Lafarge Corporation:

We have examined the Consolidated Balance Sheets of Lafarge Corporation (a Maryland corporation) and subsidiaries as of December 31, 1986 and 1985, and the related Consolidated Statements of Income (Loss), Changes in Financial Position and Shareholders' Equity for each of the three years in the period ended December 31, 1986. 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.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lafarge Corporation and subsidiaries as of December 31, 1986 and 1985, and the results of their operations and

changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles which, except for the changes (with which we concur) in the method of accounting for its Canadian and U.S. pension costs in 1986 and 1985, respectively, in accordance with Statement of Financial Accounting Standards No. 87 as more fully described in the Notes to Consolidated Financial Statements, were applied on a consistent basis.



Arthur Andersen & Co.
Dallas, Texas,
January 29, 1987.

MANAGEMENT'S REPORT ON FINANCIAL REPORTING RESPONSIBILITY

Management is responsible for the preparation and integrity of the consolidated financial statements of Lafarge Corporation and subsidiaries and all other information contained in this Annual Report. This responsibility includes the selection of accounting procedures and practices, which are in accordance with generally accepted accounting principles. The consolidated financial statements have been prepared in conformity with these procedures and practices applied on a consistent basis, except for the changes in the method of accounting for the Canadian and U.S. pension costs in 1986 and 1985, respectively, in accordance with Financial Accounting Standards No. 87. These consolidated financial statements reflect informed judgments and estimates, which management believes to be reasonable in the determination of certain data used in the accounting and reporting process.

The Company maintains an effective system of internal accounting controls, which is periodically modified and improved to correspond with changes in the Company's operations. An important element of the system is an ongoing internal audit function, which has direct access to the Audit Committee of the Board of Directors. The internal audit staff coordinates its audit activities with the Company's independent public accountants, Arthur Andersen & Co., to maximize audit effectiveness.

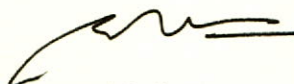
The Board of Directors, acting through its Audit Committee, monitors the accounting affairs of the Company and has approved the consolidated financial statements. The Audit Committee, consisting of four outside directors, reviews audit plans and results as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal control systems and recommends to the Board of Directors the appointment of the independent public accountants. The Audit Committee meets periodically and privately with management, internal auditors and the independent public accountants to assure that each is carrying out its responsibilities.



John D. Redfern
Chairman of the Board



Louis G. Munin
Executive Vice President and
Chief Financial Officer



Bertrand Collomb
Vice Chairman and
Chief Executive Officer



Philip A. Millington
Controller

January 29, 1987

DIRECTORS AND OFFICERS

Board of Directors

James G. Affleck
Retired Chairman of
the Board of American
Cyanamid Company
East Dorset, Vermont

Bertrand Collomb
Vice Chairman and
Chief Executive
Officer of the Company
Dallas, Texas

R. Fraser Elliott
Senior Partner of
Stikeman, Elliott
Toronto, Ontario

Jean François
Vice-Chairman and
Chief Operating
Officer of Lafarge
Coppée
Paris, France

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Chairman and Chief
Executive Officer of
American Western
Realty Co.
Los Angeles,
California

Samuel M. Kinney, Jr.
Counsel to Hannoeh,
Weisman
Roseland, New Jersey

Charles E. Kuhn
Consultant
Los Angeles,
California

Olivier Lecerf
Chairman and Chief
Executive Officer of
Lafarge Coppée
Paris, France

Jacques Lefèvre
Executive Vice
President and Chief
Financial Officer of
Lafarge Coppée
Paris, France

James B. Lendrum
Chairman of the
Board of General
Portland Inc.
Downingtown,
Pennsylvania

Alonzo L. McDonald
Chairman and Chief
Executive Officer of
Avenir Group, Inc.
Bloomfield Hills,
Michigan

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President of Ashburton
Investments (1984) Limited
Montreal, Quebec

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President and Chief
Executive Officer of
Alberta Energy Company
Ltd.
Calgary, Alberta

John D. Redfern
Chairman of the
Company and Chairman
of Canada Cement
Lafarge Ltd.
Montreal, Quebec

Ronald D. Southern
Deputy Chairman and
Chief Executive
Officer of ATCO Ltd.
Calgary, Alberta

H. Richard Whittall
Chairman of Placer
Development Limited
Vancouver,
British Columbia

Committees of the Board

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Samuel M. Kinney, Jr.*
Charles E. Kuhn
Peter M. McEntyre

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Jean François
James B. Lendrum
Peter M. McEntyre
John D. Redfern*

Finance Committee
Jean François
Jacques Lefèvre*
Louis G. Munin
Frédéric G. Webel

**Management Development &
Compensation Committee**
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James B. Lendrum
Alonzo L. McDonald*
Peter M. McEntyre
H. Richard Whittall

Nominating Committee
James G. Affleck
Olivier Lecerf*
James B. Lendrum
John D. Redfern
H. Richard Whittall

Pension Committee
James G. Affleck
Carl C. Gregory*
Peter M. McEntyre
H. Richard Whittall

Stock Option Committee
Samuel M. Kinney, Jr.
James B. Lendrum
Alonzo L. McDonald
Peter M. McEntyre*
H. Richard Whittall

**Strategy & Development
Committee**
James G. Affleck
Bertrand Collomb
Jean François*
Olivier Lecerf
Alonzo L. McDonald
David E. Mitchell
John D. Redfern
Ronald D. Southern

*Committee Chairman

Executive Officers

John D. Redfern
Chairman of the Board

Bertrand Collomb
Vice Chairman and
Chief Executive Officer

Robert W. Murdoch
President and Chief
Operating Officer

Louis G. Munin
Executive Vice
President and Chief
Financial Officer

Operations Senior Vice Presidents

R. Gary Gentles
President – Northeastern
Region

Fred W. Koester
President – Southern
Region

David F. G. Lovett
President – Construction
Materials Group

J. Richard Maze
President – Western
Region

John M. Piecuch
President – Great
Lakes Region

Corporate Senior Vice Presidents

Bruce S. Dryburgh
Senior Vice President –
Corporate Planning and
Strategy

Jean-Louis Nicolas
Senior Vice President –
Corporate Technical
Services

Thomas W. Tatum
Senior Vice President –
Human Resources

Other Corporate Officers

Jean-Pierre Cloiseau
Vice President and
Treasurer

Tom C. Hardy, Jr.
Corporate Secretary

Philip A. Millington
Controller

CORPORATE INFORMATION

Corporate Headquarters

Lafarge Corporation
12801 North Central Expressway
North Central Plaza III
Suite 1700
Dallas, TX 75243
214-934-7400

Mailing Address

P.O. Box 361
Dallas, TX 75221

Stock Trading Information

Lafarge Corporation

Common Shares:

New York Stock Exchange
The Toronto Stock Exchange
Montreal Exchange

Canada Cement Lafarge Ltd.

Exchangeable Preference Shares:

The Toronto Stock Exchange
Montreal Exchange

Lafarge Corporation

\$2.44 Convertible Preferred Shares:

New York Stock Exchange

Dividend Reinvestment Plans

Holders of the Company's Common and Convertible Preferred Shares have a convenient opportunity for automatic reinvestment of cash dividends at a five percent discount from the market price through enrollment in the Lafarge Corporation Optional Stock Dividend Plan. For information write to the Company's mailing address.

Holders of Exchangeable Preference shares have a similar reinvestment opportunity. For information write to Canada Cement Lafarge Ltd., 606 Cathcart Street, Montreal, Quebec H3B 1L7, Canada.

Legal Counsel

Thompson & Knight
Dallas, Texas

Auditors

Arthur Andersen & Co.
Dallas, Texas

Investor Relations

Inquiries may be directed to Louis G. Munin, Executive Vice President and Chief Financial Officer, at Corporate Headquarters.

Form 10-K

The Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge, upon written request.

Annual Shareholders' Meeting

The annual meeting of shareholders for Lafarge Corporation will be held at the Crescent Court Hotel in Dallas at 9:00 a.m. on April 29, 1987.

ABOUT THE COMPANY

Headquartered in Dallas, Texas, Lafarge Corporation was organized in 1983 as the parent company for the established operations of Canada's largest cement producer, Canada Cement Lafarge Ltd., and the second largest producer in the U.S., General Portland Inc.

As one of North America's largest cement and construction material producers, the Company currently operates 16 full production cement facilities with a combined rated annual capacity of 12 million tons, supplemented by three cement grinding plants and three deep-water import terminals. The Company's principal markets are spread throughout Canada and a major portion of the United States. In addition to cement operations, the Company is also a significant supplier of concrete-related construction materials, especially in Canada where Lafarge Corporation is the largest supplier of ready-mix concrete and aggregates.

Lafarge Corporation benefits from its affiliation with French-based Lafarge Coppee, which has 150 years of experience in the cement business and is one of the world's largest cement producers.

Lafarge Corporation's Common Shares are traded on the New York Stock Exchange under the symbol "LAF" and on the Montreal Exchange and The Toronto Stock Exchange.



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