CARIBBEAN CEMENT COMPANY 1997

REVIEW OF OPERATIONS

The year 1997 was an extremely challenging one for the Company, but despite this the demand for high-quality cement was effectively met.

SALES

Sales on the domestic market were 575,323 tonnes, which was a marginal increase (9,933 tonnes or 1.8%) over sales of 565,390 tonnes for 1996. This represented the highest domestic sales ever in the history of the Company.

The growth in sales however was not as vibrant as anticipated because of problems in the financial sector, which resulted in a reduction of available mortgage financing and development loans. This in turn had a negative effect on the construction industry and cement sales during the last quarter of the year.

Distribution of bagged cement from the Montego Bay Depot to western parishes was 105,106 tonnes, compared to 107,888 tonnes in 1996, a decline of 2.6%.

The Company exported 16,013 tonnes of cement to Guyana, St. Lucia, Cuba and Grenada. This compares with 8,779 tonnes exported in 1996.

Total sales for 1997 are given in the table below:

	1997	1996	Increase/(Decrease)

Domestic Sales	Tonnes	Tonnes	Tonnes	%
Bagged				
- Palletized	452,140	437,858	14,282	
- Non-Palletized	69,094	74,173	(5,079)	
Bulk	54,089	53,359	730	
Sub-Total	575,323	565,390	9,933	1.8
Exports	16,013	8,779	7,234	82.4
Total	591,336	574,169	17,167	2.9

On March 21, 1998, the Company honoured its cement distributors who achieved high standards in 1997. The Top Distributor (National) was Hendriks & Co. Ltd., and the Top Contractor (National) was Redimix Concrete Ltd. Special awards were also presented to the Most Improved Distributor, Columbus Supplies Ltd., and the Most Improved Contractor, Jamaica Pre-Mix Ltd.

PRODUCTION

Cement production totalled 591,182 tonnes, compared to 555,125 tonnes produced in 1996.

Clinker production in 1997 totalled 456,891 tonnes, compared to 521,601 tonnes in 1996. Production was supplemented by the importation of approximately 80,000 tonnes of clinker.

From March to September, clinker production was affected by the following factors:

a) Industrial action taken by the hourly-paid production employees in March/April;

b) Severe problems associated with the rehabilitation and re-commissioning of the No. 4 Kiln.

These factors resulted in clinker production being at a lower level than in 1996 and in a considerable reduction in profitability. Production, however, improved in the last quarter of the year and the trend has continued into 1998. It is expected that the Company will achieve higher production levels and greater efficiency in 1998.

QUALITY

Cement, produced by the Company, continued to be of high quality, with continuous monitoring from the raw material stage through to the finished product, satisfying the specification (JS32: 1974) stipulated by the Jamaica Bureau of Standards.

The specifications of the American Society for Testing and Materials (A.S.T.M.) C-150 were also satisfied for cement exported to our overseas markets.

PERSONNEL & INDUSTRIAL RELATIONS

The industrial relations climate remained relatively stable during 1997. However, in the early part of the year, a work-to-rule by hourly-paid employees represented by the National Workers Union (NWU), greatly affected the operations of the Company. The matter was settled at the level of the Industrial Disputes Tribunal.

Contracts with the NWU and the Union of Clerical Administrative and Supervisory Employees (UCASE) expired in June and December 1997 respectively. Negotiations with the NWU commenced in September and settlement was reached and an agreement signed in July 1998. An agreement with UCASE was also signed in the same month.

Employees continued to benefit from training programmes organized both internally and externally to upgrade skills and competence in various areas. Worthy of note was the introduction of a week-long training programme in "Organizational Awareness," a collaborative effort of the NWU and the Company, to which all employees are being exposed. During the year, five courses in this series were held.

Twenty employees, induding union delegates of all the bargaining units and five of the employees of the month, benefitted from visits to Cemex plants in Mexico, where they observed modern, high-efficiency plants in operation. Their experience was shared by a union officer who also participated in this exercise.

Through its scholarship programme, the Company continued to assist employees' children attending high schools and tertiary institutions.

At year-end the number of permanent employees stood at 176 monthly and 224

hourly-paid.

SAFETY

As a result of the Company's vigorous pursuit of the highest safety standards, lost time due to accidents has been considerably reduced.

JAMAICA GYPSUM & QUARRIES LIMITED

The production of gypsum and anhydrite for the year 1997 amounted to 263,225 tonnes, compared to the previous year's production of 338,829 tonnes.

Production of shale, which is mainly sold to CCC, amounted to 106,104 tonnes, in comparison to the previous year's production of 124,556 tonnes.

Sales of gypsum and anhydrite for 1997 amounted to 211,894 tonnes, compared to 238,947 tonnes in 1996. This included exports of 160,967 tonnes (1996: 202,496 tonnes). Anhydrite sales of 61,450 tonnes represented approximately 38% of total exports (1996: 62,467 tonnes).

This Company performed below expectations during 1997 and incurred a loss of $108.683 million. Plans are being made to put this Company into a profitable position.

ROCKFORT MINERAL BATH COMPLEX LIMITED

The Rockfort Mineral Spa, operated by the Rockfort Mineral Bath Complex Ltd., continued to offer quiet, refreshing and relaxing facilities, and patronage at both the main pool and the private baths increased during the period under review.

A number of entertainment events were held at the Complex during the year, and this activity has the potential for further development.

This subsidiary enjoyed improved performance during 1997 and reflected a small loss of S1.203 million.

THE ENVIRONMENT

The Company continued its preventative and remedial programmes to decrease the

impact of its operations on the environment. In this regard, a satisfactory schedule of measurement and control of its processes, in keeping with internal and world standards, was maintained.

COMMUNITY RELATIONS

The Company continued its support of development efforts in inner city communities through the MultiCare Foundation, in partnership with the Mechala Group Jamaica Limited and Cable & Wireless Jamaica Limited.

FINANCE

The Group recorded a net loss of S491.513 in 1997, compared to a net profit of S281.623 million in 1996. The loss was primarily due to the following:

A decline in revenues resulting from reductions in the price of cement. It may be recalled that in i996 there were two price reductions, amounting to S22 per bag, which were effected based on improved efficiencies in operations. With the expectation of continued operational improvements in 1997, a further reduction of $10 per bag was made on March 3, 1997. Later in the year, however, based on movements in the exchange rates and on certain increases in operational costs, price increases of $ 12 and S 10 per bag were effected on November 3, 1997 and December 30, 1997, respectively. The net effect of these price changes was a reduction in revenue of approximately S150 million during 1997.

.Loss of production due to industrial action in March/April

.Loss of production due to the performance of the No. 4 Kiln. There were a number of unscheduled stoppages as a consequence of the delay in carrying out the upgrading works which were scheduled for March 1997. These were not carried out until August/September. In addition during the period of commissioning which normally follows a major upgrading work of this nature, i.e., the replacement of one quarter of the kiln shell, the kiln did not stabilize as was expected. A major cause of the instability was a change in the refractory bricks. This resulted in further production losses. These problems have since been corrected.

.Losses totalling $109.886 million which were incurred by the subsidiary companies, Rockfort Mineral Bath Complex Limited ($1.203 million) and Jamaica Gypsum & Quarries Limited (JGQ) ($108.683 million).

.A provision of $180.6 million for the possible loss of cash deposits held by the Caldon Finance Group Ltd., which is now in liquidation.

.Exchange losses of S58 million in 1997, compared to exchange gains of $113 million in 1996.

We regard these results as unsatisfactory, and the Company is focusing on achieving increased and consistent levels of production by the restructuring of its operations and that of its subsidiary, JGQ, and on a programme of debt refinancing, to restore the Company to a profitable position in 1998.

Production levels have already improved in 1998 and at the end of June clinker production was 281,466 tonnes, 24% over that for the same period in 1997. The first six months of 1998 have already shown a net profit of $107.07 million.

THE FUTURE

1998 Sales

Domestic sales for 1998 are budgeted at 595,000 tonnes and export sales at 20,000 tonnes, for total sales of 615,000 tonnes for 1998.

Plant Rehabilitation/Expansion

In 1994, the Company embarked on a capital programme to modernize the plant so as to improve its level of efficiency. This programme has resulted in increases in efficiency levels from 75% in 1996 to 83% at the end of March 1998. This programme has also resulted in the reduction in the workforce from 620 in 1994 to 450 in 1997, and further reductions are anticipated in 1998. Tonnes of cement produced per employee have moved from 719 tonnes in 1994 to 1,314 tonnes in 1997. The Company has set a plant efficient target of 90 per cent to be achieved by the year 1999.

Terminals

During 1997, CCC continued its efforts to establish storage and distribution terminals in Guyana, St. Lucia and Montego Bay. The process of obtaining the necessary approvals is nearly complete in St. Lucia and Montego Bay. It is expected that construction of the Montego Bay Terminal will commence in 1999.

Mobile Silos

In February 1997, CCC launched a programme to increase the use of bulk cement by its customers by providing mobile silos for use in their operations. Target customers include block manufacturers, pre-mixed concrete operators and building contractors. The objective of this programme is to encourage the larger users of bagged cement to purchase in bulk, thereby creating savings for both CCC and the users. Advantages include increased security and better control over cement inventory; lower cost of transportation; more accurate measurement of cement; and improved environmental conditions.

Jamaica Gypsum & Quarries Limited (JGQ)

As a result of the continued losses suffered by JGQ, a decision was taken to suspend mining operations on January 31, 1998 and make the staff redundant. This action formed part of a strategy to reorganize the company and redefine the way it conducts its business. Specific objectives have been set, which include:

.Drastically reducing operating costs;

.Establishing reliable export markets;

.Restructuring of the Company's Balance Sheet, thereby strengthening its capital base;

.Creating a viable economic unit which would be a net contributor of foreign exchange.

A study was commissioned by JRG Engineering, Inc. of Florida, U.S.A, and preliminary findings indicate that Jamaica Gypsum & Quarries Ltd. can resume mining operations in the third quarter of 1998, with a significantly reduced

workforce and with a direct cost of production of one third of previous costs.

During the closure of the mines, JGQ continues to supply gypsum from its inventory and has maintained a positive relationship with all its customers. JGQ is currently making preparations to reopen the mines.

The year was also marked by the settlement of the dispute which had existed in respect of lands at Harbour Head that had been leased by the Government to both JGQ and a third party. Representations to successive government administrations were not successful and the matter was eventually placed before the courts to establish the Company's rights to the entire parcel of land.

During 1997, through negotiation with the third party, JGQ finally obtained exclusive leasehold rights to the lands for a consideration of $75 million. The leasehold rights have been valued at $87 million based on the remaining lease period of 58 years.

The entire property which consists of 29 acres now has the potential for considerable economic development. The scrap metal and other contaminating items have been removed and with deep water facilities of more than 25 feet along the shoreline, there is room for the extension of the existing deep water pier and development of a wide range of activities which could include shipyard repairs, the establishment of a marina with recreational activities, and general tourist attractions.

Caldon Finance Group

Loan Agreements between CCC and certain financial institutions require the Company to maintain a current assets/current liabilities ratio of at least 0.9:1. Since 1993, the Company has from time to time obtained financing from various institutions, including Caldon Finance Merchant Bank Limited and Caldon Finance Group Limited, to maintain this ratio.

In addition, these Caldon entities have provided financing for other purposes. In December 1992, Caldon Finance Merchant Bank Limited arranged syndication of lease financing for CCC in the amount of S90 million. In December 1993, Caldon Finance Group Ltd. arranged funding of S92 million for the procurement of assets. At December 31, 1993, Caldon Finance Merchant Bank Limited had also loaned CCC $30.5 million.

During 1994, both the Caldon Finance Merchant Bank Limited and the Caldon Finance Group Limited provided $116.1 million to allow CCC to meet its obligations to other lenders in 1995 and to have a positive ratio for 1994. (This was reported in CCC's 1994 Financial Statements.

In 1995, Caldon Finance Group Limited entered into an agreement with CCC indicating it would obtain loans during 1996 totalling S200 million (evidenced by promissory notes) to repay loans and suppliers' balances. (This was reported in CCC's 1995 Financial Statements). This allowed CCC to meet the stipulated current assets/current liabilities ratio for 1995. Caldon Finance Group Limited requested that CCC provide security deposits in light of the support that it had been providing to CCC. As at December 31, 1995, CCC's security deposits with Caldon Finance Group Limited were S72.3 million. Deposits at this time with other financial institutions made on a similar basis, totalled $190.557 million.

During 1996, and pursuant to the above-mentioned agreement to provide funding of S200 million, Caldon Finance Group Limited, on this occasion acting as a broker, at no fee, accessed funds from a third party to enable the Company to meet the necessary ratios.

At December 31, 1996, loans to the Company through Caldon Finance Group Limited were $140.012 million and deposits with Caldon Finance Group Limited were $174 million.

As CCC had been maintaining deposits with Caldon Finance Group Limited, CCC in 1997 requested Caldon Finance Group Limited to structure the promissory notes, so that there would be a right to set-off the borrowings against the deposits, and this was done. The arrangements continued into 1998 as Caldon Finance Group Limited had indicated that it would continue to provide the necessary support to facilitate the meeting of the current assets/current liabilities ratio.

Caldon Finance Group Limited announced voluntary liquidation on February 16, 1998, which subsequently became a creditor's liquidation on March 12, 1998, and at that tune CCC had $180.6 million on deposit. Although CCC had the right to set-off its promissory notes indebtedness against its deposits, having regard to these notes being endorsed to a third party, and to the implications for the commercial paper market, CCC took the decision not to set-off the amounts but to seek recovery through the liquidation process.

The financial position of Caldon Finance Group Limited is uncertain and the Company has had to make provision for possible losses on the deposits maintained with Caldon Finance Group Limited. However, the Company is working closely with the liquidator and is hopeful of some recovery as the liquidator intends to pursue the liquidation in the courts.

Rights Issue

The cost of the Company's plant rehabilitation and expansion programme as previously outlined was funded primarily by short term commercial paper as the Company was unable, in the prevailing market conditions, to access long term funds. The amount borrowed is approximately $2.5 billion all of which was used for capital expenditure. The Company's previous proposal to offer a Rights Issue in 1996/97 to alleviate the situation had to be postponed because of the unfavourable conditions existing in the equity market. However, there is need to repay a substantial portion of the short term debt and put the current assets/current liabilities ratio in line with international standards. In this regard, the Company now proposes to offer a Rights Issue during the last quarter of 1998.

With increased capital, further restructuring of operations and improved efficiencies, the Company expects to return to profitability in 1998.

Amendments to the Memorandum & Articles of Association

The Government has requested the Company to remove the 10% ownership and voting restrictions on the shares and as a result, the appropriate resolutions for amending the Memorandum & Articles of Association have been included in the Notice for the Annual General Meeting sent out with this report.

The opportunity will also be taken to amend Article 35 based on a request from the Jamaica Stock Exchange that transferees should no longer be required to sign instruments of transfer.

We take this opportunity to thank our fellow Directors, the Management Team and all the employees for the efforts that have been made in meeting the challenges of the year, and we look forward to the continuing commitment of all towards achieving the goals set for the Company.

Patrick H.O. Rousseau, OJ.
Chairman

Compton N. Rodney
President & Chief Executive Officer