CHAIRMAN'S REPORT

Mr. Vickram Oditt, A.A.

*G*uysuco performed with great credit in 1998. We experienced the worst drought to visit the country - the *El Nino* phenomenon - since rainfall records began, yet production for the year was maintained at the remarkably high level of 254,000 tonnes compared with 276,000 tonnes in 1997. Careful planning and expert management of scarce water resources meant that the drought's impact was greatly reduced. Guysuco's management and employees are to be congratulated. As I have always said, our human resources are our greatest asset and 1998 saw further proof of this.

Fulfilling Marketing Commitments

As Guysuco expands, nothing will be more important than preserving our current valuable marketing arrangements in the European Union and the U.S.A. and developing new markets in Caricom and close neighbouring countries. I am therefore particularly happy to report that, even in a very difficult production year, Guysuco in 1998 met all its commitments in the EU and US quota markets, filled its share of shortfalls allocated from countries which failed to meet their own commitments and continued to develop marketing outlets in a number of Caricom countries. Thus a potentially serious setback to our marketing strategy was avoided. Establishing an outstanding reputation as reliable suppliers of high quality sugar will be increasingly important in the years ahead.

Maintaining Profitability

In 1998 Guysuco achieved an operating profit of \$2.86 billion compared with \$2.7 billion in 1997. An operating profit of nearly $3 billion in a drought-affected year demonstrates the Corporation's strong financial position. No other enterprise in Guyana, private or public, approaches Guysuco in revenue flow, foreign exchange earnings and profit generation.

Reducing Costs

The urgent need to reduce costs to safeguard the future when prices will decline significantly is fully appreciated by all in Guysuco. We have put in place on-going, intensive efforts to streamline administration, reduce overheads and improve the efficiency of every single operation on the estates and centrally. In 1998 the cost of production was held to 20.85 US cents per lb. compared with 21.1 US cents per lb. in 1997. A significantly better result would have been achieved if normal production had not been reduced by the drought. The high incidence of fixed costs in the industry can and should accommodate higher levels of production which means that increases in production translate at once into lower unit costs.

The Strategic Plan

In fulfilling the long term vision which we in Guysuco have of developing the nation's sugar industry, no activity in 1998 was more important than the formulation of our Strategic Plan and no policy decision more vital than the acceptance by Government of the Strategic Plan as a blueprint for the industry's future. We in Guysuco are encouraged by the government's vote of confidence in the plan. It will enable the sugar industry to continue to play the vital role it is now playing in the country's economy.

The plan is ambitious in that it aims at levels of production never before attained in the 350-year old history of the sugar industry in Guyana. It is also eminently practical in that it seeks to secure the future of the industry and those it employs in a world where increased competitiveness will be the key to survival and prosperity.

The plan calls for production rising to half a million tonnes. It charts a course of rehabilitation, expansion, modernisation, technological improvement and diversification of sugar products leading to substantially increased production, significantly improved productivity, enhanced earnings and a level of competitiveness which will sustain the industry well into the new millennium.

The plan proposes to:

> Increase production on existing estates by significantly improving yields in the field and factory recoveries.
>
> Concentrate investment on expanding production in Berbice by utilising additional land of proven high productivity.
>
> Develop larger processing facilities which will benefit from economies of scale and up-to-date technology.
>
> Establish co-generation facilities as part of the new and larger processing facilities in Berbice to supply electricity for the national grid.
>
> Add value to the basic production of raw sugar by establishing a sugar refinery to supply the local and Caricom markets, a distillery to convert molasses to alcohol, and facilities to produce special Demerara brand sugars.

There is some suspicion that Guysuco's Strategic Plan and its cost-cutting objectives threaten the welfare of sugar workers. This is far from the case. Indeed, one high priority objective of the plan is to ensure that employees in sugar continue to enjoy improving benefits and a secure future. Any objective analysis will disclose the tremendous advance in sugar workers' wages and benefits in the 1990s when production rose dramatically from the low point of 130,000 tonnes in 1990 compared with the terrible deterioration in sugar workers' wages and benefits which took place in the contraction of the industry in the 1980s.

Now in planning for the new millennium we would be unambitious indeed not only for the industry and the country but for the sugar workers themselves if we opted for limited investment and a contraction of production reminiscent of the 1980s. It bears emphasising that the expansion and technological improvements envisaged in Guysuco's Strategic Plan will make available an abundance of new employment opportunities requiring higher level skills both for agricultural and industrial workers.

I wish to repeat a fundamental point which I have made in previous statements and speeches: "It is a simple fact that the greatest contribution any company or industry can make to the welfare of its workers is to maintain viability and assure profitability. Unless this is achieved, improvements in how employees work and how they live cannot continue. I cannot emphasise enough this too often forgotten point. It is a fact which workers and the

The Secretary General of ACP Group Mr. Mg'Andu Peter Mugande fourth from left was special guest at a dinner/reception hosted by GUYSUCO Chairman Mr. Vic Oditt at Herdmanston House. The ACP official came to discuss the new agreement, for the Group of sugar- producing countries, to be negotiated with the European Union.

unions representing them and the Board and management must equally recognise. Putting the industry into a position of sustainable competitiveness cannot be a subject of contention. There is no "us" and "them" in the common endeavour to reduce hindrances to improved productivity and lasting profitability. If there is one lesson in the world today it is that confrontation between workers and management can play no part in any successful modern industry or company."

I am convinced that the vision of an industry transformed which the Strategic Plan contains will serve to excite the imagination and enlist the commitment of all those who work in sugar. What will be achieved will benefit not only the sugar industry and those it employs but the nation as a whole. That also is one of our aims.

Setting the Record Straight

Perhaps because sugar has such a high profile in Guyana's historical record or perhaps because it continues to loom so large as the most important contributor to Guyana's economic and social well-being, whatever the reason, sugar attracts a considerable volume of comment, often critical comment, in the national media. In these comments there have lately been a number of misconceptions and errors which I believe it would be helpful to correct.

i) The Remuneration of Sugar Workers

It has been asserted that sugar workers are badly paid, even that "a significant number of sugar workers continue to live in absolute poverty." This is far from the truth. In 1998 sugar workers (excluding supervisory and management grades) on average were earning $500,000 annually. These earnings do not include the medical services, subsidised housing, community centre and sports facilities and Sugar Industry Welfare Fund benefits enjoyed by sugar workers and their families.

Guysuco gives a high priority to the current well-being of its workers. It also gives a high priority to putting aside enough money for rehabilitation, modernisation and expansion so that the future means of providing a high level of workers' well-being is secured.

ii) "World Prices"

The "World Price" of sugar is quite commonly taken to be a fair indicator of what average economic performance should be in any sugar industry. This is a complete fallacy. The "world market" price for sugar is a residual price for dumped sugar and is not a benchmark which bears any sort of relation to total production costs. Currently, for instance, the "world price" is about 6 US cents per lb. while the average cost of production around the world is over 18 US cents per lb.

Guysuco is fully aware of these facts and our strategy is to reduce unit production costs - by increased productivity and expanded production - to a point where we can sell into a mix of markets in which we continue to obtain premium (though reduced) prices for bulk sugar and develop new markets in which we sell a variety of packaged sugars which add value to the basic product. This is the strategy of all successful sugar industries around the world. Guysuco intends to be among those successful industries.

" Spelling Bee " competitions sponsored by Corporation

ii) European Market Security

The considerable publicity surrounding the difficulties experienced by bananas, and more recently by rice and rum, in the European market has led to a general apprehension that sugar is in the same leaky, if not sinking, boat. Nobody would be so foolish as to deny that there may be threats to sugar's position in Europe in future. But it is important to appreciate how differently placed sugar is in Europe compared with bananas, rice and rum.

ACP, including Caribbean, sugar's main market in the European Union is entrenched in the Sugar Protocol negotiated in 1975 as an annexe to Lome but having a separate and enduring life of its own. The Sugar Protocol is a distinct trade instrument of unlimited duration and it cannot be unilaterally ended by any party. In addition, the ACP negotiated a substantial new market for its sugar in Europe which came into effect on 1st July, 1995, and which lasts until 30th June, 2001, at which time the arrangement can be renewed. The market stability sugar enjoys in the permanent Sugar Protocol and the additional Special Preferential Sugar agreement contrasts sharply with the serious uncertainties facing Caribbean bananas, rice and rum.

However, in making these facts clear I would not wish it to be thought that we in Guysuco are in any sense complacent about the future. That is very definitely not the case. We know that the road ahead will not be easy. For one thing, the basic price in Europe, which has not increased since 1986, we know will be declining in the next few years. We know also that there will be those who will seek to challenge the favourable long term trading sugar arrangements which we enjoy in Europe.

We are prepared for these challenges and will be taking every possible step, in consultation with our government and with our colleagues in the Caribbean and the ACP, to make sure that the marketing benefits we now enjoy are not dangerously eroded. We are also making good use of the time we have now to secure our long term viability by becoming much more competitive.

iv) Sugar Levy

The sugar levy has been the subject of considerable controversy. On the one hand there are those who see the levy as belonging solely to the sugar workers and criticise the fact that any of it is taken for Government revenue or reinvestment in the industry. On the other hand there are those who see the levy as a payment due to Guyana as a whole represented by the government because it should be viewed as a country subsidy derived from the variance between the preferential price under the Sugar Protocol and the prevailing world price. Both of these views are misguided.

The sugar levy was first introduced when prices in the residual world market rose to unprecedented levels in the early 1970s. It had nothing to do with any variance between the preferential price received under ACP Sugar Protocol and the prevailing world price. Nor has any ACP sugar industry, or the European Union, ever perceived such a variance providing recipient ACP governments with balance of payments support. The Sugar Protocol price is the same as the price obtained by EU sugar producers but neither EU sugar producers nor ACP sugar producers nor EU governments view the variance between this price and the residual world price as representing aid for EU sugar producers or foreign aid for ACP sugar producers. It is simply the price paid in a trading arrangement considered fair, reasonable and mutually beneficial by both sides.

Any well-run company or industry, whether private or public, will expect and indeed plan to balance the responsibilities it has to its employees (good wages and conditions of service), to its customers (good quality product reliably supplied at a reasonable price), to its shareholders (reasonable dividends and rising capital value through expansion and modernisation) and to the community in which it operates (payment of taxes and the maintenance of high standards of industrial welfare, safety, environmental protection, etc). Guysuco believes that it has got the balance of its responsibilities to its various stakeholders right.

In this context the sugar levy should be viewed partly as shareholders' dividend (the government is Guysuco's shareholder) and partly (that part remitted to Guysuco) as an amount ploughed back to increase capital value through renovation and expansion.

Canefields aback of Wales Estate

v) Modernisation

Sugar is often seen in the Caribbean, particularly by academics but sometimes even by politicians, as an industry which belongs to the past and has no place in the future. This view makes no sense in a world where the demand for sugar and products made with sugar is as strong as ever and keeps on growing as populations increase and countries get richer. Producing sugar is a modern business. Worldwide sugar production and consumption are steadily increasing. There are thousands of sugar companies in more than 100 countries around the world. A modern sugar company is just as much part of the modern world as a modern manufacturer

At the Guysuco Agricultural Research Unit

of cars or, indeed, of the latest computers. Sugar production is a business like any other and in sugar production there are winners and losers like in any other business. Guysuco firmly intends to be a winner.

vi) Diversification

Diversification is part of Guysuco's Strategic Plan, diversification in the form of co-generation of power (adding value by utilising surplus bagasse to generate electricity), sugar refining and the manufacture of speciality sugars, and distilling to add value to the molasses by-product. These are diversified activities which are properly Guysuco's business.

Diversification in the sense of diversification into other crops and businesses outside sugar - that diversification is for others to pursue and Guysuco would be the first to applaud success in such diversification. Guysuco has always advocated diversification in addition to, but not out of, sugar. Four or five new businesses as big and dynamic as Guysuco established in the next decade would be an excellent thing for Guyana. Of course such businesses would

An aerial view of GUYSUCOs largest estate, Albion, which, together with Rose Hall Estate form the East Berbice Estate in keeping with the Board's new 5-year Strategic plan to boost production and all - round efficiency.

have to convince those putting up the money for such developments, of their viability and profitability, just as Guysuco is doing in the case of its proposed expansion and modernisation as set out in its Strategic Plan.

We are confident that our case is strong. It is encouraging that the Jamaican sugar industry, with substantially higher cost of production than Guysuco, has recently been able to raise US$100 million for its rehabilitation.

An Exciting Future

In the last few years Guysuco has made remarkable progress in increasing production and improving efficiency. In 1998 we overcame extremely difficult conditions to achieve excellent results. 1999 is on track to be a year when the first crucial steps in implementing Guysuco's Strategic Plan are taken and production exceeds 300,000 tonnes. In future years I am confident that our vision of building a world-class and fully competitive sugar industry producing half a million tonnes will be realised. It is an inspiring vision which all of us in Guysuco have come to share.

I am grateful to my fellow Directors for the very great contributions they have made to the growing success of Guysuco. I also wish to thank and congratulate the workers and management for all that has been achieved. Guysuco cannot bring its plans to fruition without the whole-hearted support and commitment of everyone who works in the sugar industry. I am more confident than ever that this support and commitment will be forthcoming.

VICKRAM ODITT, A.A.
30th June, 1999.

FINANCE

The net profit before tax for 1998 was $860 million, an increase of 26% on 1997. The operating result before tax and levy represents a return of 21% on net assets, the same as 1997. The net margin, defined as profit before tax and levy as a percentage of turnover, was 14% (1997-13%). In spite of the reduced production, profits for the year were higher than in 1997 due to the average selling prices being higher and the expenditure being lower than in 1997.

Revenue And Expenditure

In 1998, the Corporation's revenue before sugar levy was $20.7 billion compared with $21 billion in 1997. The decrease was due to lower production and would have been greater if not for the higher selling prices resulting from the decline of the Guyana dollar against the US dollar. The average selling price of sugar in 1998 was $80,435 per tonne, $4,046 higher than the average selling price of sugar in 1997, but in US$ terms it decreased by 2.3%.

Expenditure was $17.8 billion compared with 18.3 billion in 1997. Employment costs amounted to $9.7 billion, 54% of total expenditure (1997 - $9.2 billion, 50% of expenditure). Cost of production in 1998 was 20.85 US cents per pound against 21.1 US cents per pound in 1997. The second crop was longer and more disrupted than expected and this increased costs of harvesting and planting. Currency depreciation had an effect on the costs of imported materials. The table below shows the breakdown of expenditure by type.

	1998	1998	1997	1997
	G$ Million	%	G$ Million	%
mployment Costs	9,718	54	9,231	50
laterials	4,099	23	4,998	27
ervices	1,448	08	1,459	08
ane Purchase	1,204	07	1,211	07
epreciation	1,390	08	1,411	08
otal Costs	17,859	100	18,310	100

Performance of Estates

The table below shows the comparative performance of the 7 estates during 1998. Revenue is apportioned on the basis of sugar produced. Albion heads the table in terms of best performance while EDE is at the bottom of the table. EDE is expected to perform better in 1999, since certain costs incurred in 1998 to facilitate the merger will not recur in 1999

	Sugar Produced	Revenue	Estate Expenditure	Profit before Central Costs
Tonnes	$M	$M	$M	$M
Skeldon	29,280	2,159	1,581	578
Albion	58,428	4,309	2,816	1,493
Rose Hall	33,747	2,489	2,209	280
Blairmont	32,421	2,391	1,688	703
E.D.E	43,315	3,195	3,539	(344)
Wales	28,159	2,077	1,716	361
Uitvlugt	28,521	2,103	1,745	358
Industry	253,871	18,723	15,294	3,429

Capital Expenditure

As in previous years, the Corporation's capital expenditure programme in 1998 continued the phased improvement of assets in field and factory. $2.7 billion was spent in 1998 on capital projects as shown below, entirely funded by the cashflow from operations.

	$ million
Factory Equipment	883
Buildings	277
Land Expansion	135
Roads	124
Bridges	90
Agricultural Equipment	285
Cane Punts	102
Transport	331
Drainage & Irrigation	97
Computer Equipment	60
Other	325
Total	2,709

Assets and Reserves

The Corporation's net assets and reserves increased to $13.9 billion, an increase of 6.6% over the previous year.

Earnings and Contributions to Government

The profit before tax and sugar levy was $2.9 billion in 1998 compared with $2.7 billion in 1997. Profit after current year's tax and sugar levy was $475 million compared with $228 million in 1997. Contributions to Government were almost $4 billion as follows:-

	1998 $ million	1997 $ million
Taxation and levies	2,384	2,486
Customs duties and Consumption tax	374	304
P.A.Y.E./N.I.S.	1,206	1,259

Local Sales Price

The price of brown sugar has remained unchanged since February 1991. With continuing inflation, the real value of sugar earnings in the domestic market has substantially reduced. The local price at $21.88 per pound is well below the cost of production of $31.91 per pound. The amount of this unrecovered cost in 1998 was $530 million compared with $406 million in 1997.

Farmers' Cane

When farmers' cane is processed, gross revenue per tonne sugar (before sugar levy) is shared 70% to the farmer and 30% to GuySuCo. No levy is deducted from the farmer's revenue, which implies that for every tonne of sugar produced from farmers'cane, there is a cost to the Corporation in addition to the purchase price of cane. The amount of this additional cost in 1998 was $197 million. In 1998, the average cost of cane produced by the Corporation was $3,938 per tonne while the average amount paid to the farmers' was $4,110 per tonne.

Taxation

During the year, the Corporation changed its accounting policy with respect to the treatment of deferred taxation in order to comply with the revised International Accounting Standard 12. The change in accounting policy has been accounted for

Guysuco went to Essequibo , birthplace of the sugar industry, to participate in the annual world food day exhibition. Here President Janet Jagan and Agriculture Minister Reepu Damnan Persaud and other officials are seen in this composite picture

retrospectively and the opening retained reserve at 1st January 1998 has been restated to conform to the changed policy. The change of accounting policy provides for deferred taxation on a full liability basis and adds $204 million to the tax charge. As a result the tax charge for the year at $589 million represents an effective tax rate of 68%.

Cost Reduction

As shown earlier, the Corporation purchased materials to a value of $4.1 billion in 1998 (1997 $5 billion) and paid $1.4 billion for services (1997 $1.4 billion), as well as meeting capital expenditure of $2.7 billion (1997 $2.2 billion). The Corporation's strict adherence to tendering procedures has shown up in the unit costs of major inputs in US$ terms, while subscribing to the code of ethics of the UK Chartered Institute of Purchasing and Supply. Other measures taken to decrease operating costs include the amalgamation of the administrations of contiguous estates and outsourcing where it is cost effective and strategically sound.

Y2K

The Corporation has a full programme in place to eliminate or reduce the effects arising from a failure of the Corporation's computers or equipment containing logic chips from date changes and also to minimize the disruptive effect of possible failure by key suppliers. All of the Corporation's hardware and software is, or will shortly be, fully Y2K compliant. Contingency plans are being developed to counteract possible failures by utilities, banks and suppliers of e key inputs. The Corporation has firewalls in place t prevent the introduction of computer viruses or oth unauthorised access to its data files.

AGRICULTURE

Operations

In 1998 the Guyana sugar industry produced 253,87 tonnes of sugar which was 22,521 tonnes less than th produced in 1997. The relative contributions c Guysuco estates and farmers were in line with th trend of the past two years. That is 91.6% or 232,50 tonnes sugar from estate cane and 8.4% or 21,36 tonnes from private farmers.

The year was characterised by two contrastin harvesting seasons. The first crop which ended in th first week of May was dominated by the continuatio of the *El Niño* influenced drought which persiste from the second half of 1997. Cane yields were thu depressed and a production of 90,135 tonnes of suga at an average of 4.97 tonnes of sugar per hectar resulted. The West Demerara Estates suffered th smallest yield depressions while Rose Hall endured severe attack of ***diatraea*** and the East Demerar Estate was forced to bring salt water into th navigation system to maintain water levels for can transport. A great deal of ingenuity was displayed i managing scarce water resources during the perio and estate staff are to be commended for this.

The second crop was characterised by wel distributed rainfall which impacted positively o cane yield. Ratoon yields in particular responded t increased soil water availability afforded by self mulching effects of the cracking clay soils whicl account for approximately 55% of sugar estate lands.

Cricket advisor Joe Solomon hands over cricket gear to Ms Rachael Coniff, head of the Mahaica Children's Home.

Cane yields improved on estates to an average productivity of 76.37 tonnes cane per hectare with the Wales cane yield of 96.10 tonnes cane per hectare outstanding. 152,892 tonnes of sugar at an average 7.07 tonnes per hectare were produced, making this one of the best second crops in recent years.

Weather

The mean annual rainfall was 1,736 mm or 88% of the 42 year average. The months January to March were strongly influenced by the intense *El Niño*/Southern Oscillation (ENSO) event which commenced in July 1997 and resulted in the most prolonged and severe drought on record.

Punts Loaded with freshly-cut, ripened sugar cane waiting at the Uitvlugt / Leonora factory on the West Coast of Demerara to be offloaded.

Rainfall from May 1998 was well distributed throughout the remainder of the year. There was no pronounced dry period in October.

Land Preparation, Planting and Variety Extension

Tillage was restricted during the first crop despite the dry conditions because of the lack of available land. Rainfall from mid-April and persistent showers during the second crop further restricted tillage resulting in only 3,061 hectares of land being tilled or 34.8% of the budget. Much of the tillage was done on "new" lands and lands that were being brought back into cultivation after extended periods of being temporarily abandoned.

This significant underachievement of tillage implies that there would be insufficient land under fallow to guarantee the attainment of a 20% replant target in 1999 which puts at risk the planned steady yield enhancement programme for the next five years. In anticipation of this, steps were taken to intensify internal drainage and crop husbandry in ratoon crops to arrest potential yield decline. The effectiveness of these measures were evident in the high productivity of older cycles in the second crop.

The relative success of tillage programmes in previous years ensured that there was sufficient available land under fallow to partially offset the impact of the poor tillage attainment. By the end of the year, 6,159 hectares were planted or 70% of the budgetted programme. The predominant variety planted was DB 7869, the new industry standard. The early maturing and productive D 8415 was the second most extensively planted variety. Emphasis was also placed on bulking up D 89138 and D 7661 for commercial extension. The acreage under the former industry standard DB 66113 is being steadily reduced. At the end of the year DB 7869 occupied 29.7% of the cane area and this variety is programmed to increase to 40% over the next five years. The only other variety to show a significant increase in area cultivated was D 8415 which now occupies 9.7% of the area under cane.

All fields were planted by the high density mode. The first commercial plant cane yield data by this procedure was obtained in the second crop of 1998. The performance of these fields confirmed the crop husbandry advantages and demonstrated the potential for superior cane yields provided the important criteria of good quality land preparation and adequate in-field drainage are met.

The bond at Uitvlugt Estate where chemicals for the industry are safely stored far away from other activities and personnel of that location.

Cane Ripener Application

Cane ripener technology has become firmly established as an industry practice. Of the 39,907 hectares harvested for the mill, 31,092 hectares or 78% were treated with ripeners across the industry. 6,871 hectares were treated with Fusilade Super and the remainder with glyphosate ripeners. Houston estate and George Baijnauth of Skeldon adopted the use of cane ripeners as pre-harvest treatments. Both have seen significant benefits in improved cane quality as a result. Other farmers will be encouraged to follow suit provided the restrictions on boundaries for aircraft operation can be satisfied.

Environmental Management

The Agrochemical Safety Committee maintained its critical appraisal of the Corporation's pesticide policies and monitored standards of agrochemical management on all locations. This programme has led to improved awareness on estates of both effectiveness and hazards associated with agro-chemical use.

Mr Greg Guyette, Satloc Technology Instructor, briefs GUYSUCO Pilots and Engineers on the use of the new system being introduced in Guyana by GUYSUCO.

The Central Laboratory continued to monitor water quality in estate drainage, and navigation systems. The evidence collected to date would imply that discharges (including factory discharges) are of low environmental load.

The Aircraft Department commenced using the Sentinel Treatment Plant for the decontamination of agriculture aircraft washings. Central laboratory conducted physio-chemical analysis to monitor plant effectiveness in collaboration with the Environmental Protection Agency.

Mechanised Loading

Five Bell loaders were acquired in 1998 and were put into operation during the second crop in addition to the one previously acquired at Rose Hall. The fleet of six machines was used for system development of a commercial operation.

43,560 tonnes of cane were loaded by the Bell machine fleet during the second crop. The operation was at times disrupted by weather and unfortunately industrial action by operators of the machines and cane transport. The main cause of dispute was over output based payment.

Positive features of the first commercial Bell loading operation were the ready acceptance by cane harvesters of the system of cut and stack and the facility with which operators adapted to handling the machines. Clear development needs were indicated for field modifications to facilitate the machine operations, machine fleet management and cane transport coordination. There also remains much work in developing an equitable system for rewards and incentives.

RESEARCH

General

The new Agriculture Research Facility at LBI estate was completed and occupied by July 1998. With Breeding, Selection and Plant Protection forming the core of this new facility, the Guyana sugar industry has developed the foundation for a fully integrated Research and Development Centre with the Analytical Services, Agronomy, Agriculture Engineering and the Guysuco Agricultural Research Unit (GARU) departments.

Varieties

Moderate to heavy flowering facilitated the achievement of 413 crosses in an eleven-week period. It is anticipated that over 70,000 seedlings will be generated from the D'98 programme. This is in sharp contrast to the disappointing D'97 programme.

The emphasis in Breeding has shifted in 1998 from Base-broadening to the high quality recurrent selection programme. The Base Broadening programme has been very successful and has to date generated seventeen stage IV varieties and one hundred and twenty six Stage III clones.

Promising new varieties D 89138, D 8190 and DB 83119 have been placed in a formal trial to assess their response to cane ripeners as a precursor to determining their commercial potential. One very promising variety is now at Stage IV. D 94461 has been entered in a yield comparison trial against the industry standard. This variety has displayed very superior growth characteristics at plant and early ratoon stages.

For the first time in the Demerara Breeding programme a Stage IV variety expressed a brix value in excess of 24.0%. DB 9233 is the first generation progeny of the Demerara bred variety D 74144 exported to Barbados in the early 1980s.

Plant Protection

There was no major disease outbreak during 1998. However, concerns over higher than average smut infestation on D 8415 in sections of Blairmont prompted the setting down of a smut race trial to ascertain whether a different bio-type of the causal organism ***Ustilago scitaminea*** exists.

The biocontrol programme for ***Diatraea sp.*** using ***Cotesia flavipes*** showed satisfactory progress during the year. Laboratory parasitism has improved from 25% in 1997 to 33% in 1998. Field recoveries continue to indicate field establishment of the parasitoid. A reported increase in ***D. saccharalis*** in relation to ***D. centrella*** at Skeldon estate prompted the need to assess the levels of the field established Amazon fly which has successfully controlled ***Diatraea saccharalis*** over the years. Industry wide surveys indicated that the Amazon is well established on all estates except Skeldon where field parasitism is down to 6.5%. The reasons for this phenomenon are under investigation.

Rodent infestation levels remained below threshold across the industry. However there was an overall increase in infestation as recorded by fresh stalk damage data since 1997. Berbice estates reported general higher infestation levels than the Demerara estates.

Emphasis in weed management continued to focus on an integrated approach. During the first crop there was a general reduction in herbicide use, partially due to the drought. The programme of gradual phasing out of handweeding continued with no observable negative impact.

The acquisition of the new Turbine Thrush aircraft has increased the extent to which aerial application could be utilised. In the West Demerara estates 80% of the cultivation were covered by the aircraft for at least one round of weed control.

The first half of the recent five yearly weed survey has shown evidence of a shift in the weed spectrum to a predominance of broadleaved weeds and sedges. This can be attributed to the effectiveness of the new generation of graminicides.

Analytical Chemistry

The Central Laboratory analysed 8,688 soil, foliar, sugar and other samples yielding 34,808 analyses compared with 11,433 samples and 45,178 analyses in 1997. The lower production was caused by a two month closure of the laboratory while relocating to LBI.

Collaborative analyses continued with the International Plant Analytical Exchange, coordinated by the University of Waginingen tissue analyses and the Sugar Association of London. Research on NIR polarimetry was continued. A study on the formation of colorant in sugar cane tops using HPLC and UV spectrophotometric methods was initiated during the year. The laboratory also collaborated in a study involving chemical transformations in cane following the application of ripener chemicals.

The laboratory acquired a radiometer automatic titration system which will be used to study the charge characteristics of colloidal systems including clays and organic matter. A new water purification system to produce high quality water for high pressure liquid chromatography and trace metal analyses was also acquired.

Soils, Plant Nutrition and Physiology

Nitrogen efficiency and uptake trials continued. Data at the 2nd ratoon stage continued to show generally low fertiliser uptake efficiencies and no responses to applied N greater than 106 kg N/ha. Commercial trials have been initiated to test the effectiveness of lower N application rates in the plant cycles where uptake efficiency is lowest. The effectiveness of supplementary N applications were evaluated from commercial field results and paired plot trials. These indicated that supplementary applications will be more effective when based on foliar analyses.

Plant and 1st ratoon data were obtained for commercial potassium trials on soils not traditionally amended with potassium fertilisers. No responses were obtained in the plant crops. However, data from Rose Hall showed a clear response in yield and uptake at the 1st ratoon stage.

A University of Guyana final year student under the department's supervision, participated in a laboratory study which confirmed that gypsum could be effective as a salinity ameliorant and for aggregate stabilisation in Whittaker Series subsoils.

Trials with Ethrel as a tiller stimulant indicated that Ethrel was not effective when applied to healthy plants with well established root systems. A number of plant growth regulators are being evaluated for effectiveness on cane yield but no apparent benefit from any of the chemicals tested has been noted.

Agriculture Engineering

Research and development activities aimed at identifying appropriate levels of mechanisation on cambered beds continued to be the central focus.

Semi-mechanical planting and mechanical herbicide application were conducted with satisfactory results on cambered beds in East Demerara Estates.

Land management studies in the area of tillage were conducted with a wheeled tractor performing activities in an operation sequence that involved ploughing, harrowing and Spring tine cultivating on "English" cambered beds. This exercise demonstrated the camber-building properties of the disc plough and the increased output of the wheeled tractor in comparison with the crawler tractor.

Conceptual designs for the Skeldon expansion were developed. These included the proposed field and cultivation layouts and irrigation method. To arrive at these proposals the crop water requirement was determined using historical climatic data. The total crop water requirements using overhead sprinkler irrigation and flood irrigation were also compared and this included losses from the navigation canals. The implication was that an overhead system would improve water use efficiency by a factor of two.

A study of the drainage capacity at Rose Hall estate was completed and it was recommended that the Kittimate aqueduct be reactivated and four check sluices be installed to isolate the low-lying areas. This will also optimise the effectiveness of the drainage pumps.

Aircraft Operations

The Guysuco Aircraft Department completed its relocation to its new hanger in January 1998. The Turbine Thrush a new turbine powered agricultural aircraft was acquired in February 1998 and was put

Agri Operations- New Turbo Thrush Commander

into operation in May. The increased benefit i productivity from this higher capacity aircraft wa immediately apparent. Output from agricultura spraying with the new aircraft exceeds 125 hectare per hour compared with 85 hectares per hour with th piston powered Thrush Commander. The Turbin Thrush also has twice the range and is more fue efficient than the piston aircraft.

In July 1998 the Thrush Commander was fitted wit the SATLOC GPS navigation aid. This equipmen has facilitated greater precision in material placemen and has eliminated the requirement for the presence o flagmen during agrochemical application with this aircraft.

Cleaning of Juice Pipes

FACTORY OPERATIONS

The drought affected 1st and 2nd crops yielded 90,178 tonnes and 163,693 tonnes respectively giving a total of 253,871 tonnes of sugar for the year. This was a reduction of 8% compared to 1997. This was produced from 2,966,436 tonnes of cane giving a TC/TS ratio of 11.68. The adverse weather conditions at the start of the 2nd crop meant a delayed start at some factories. Consequently several factories were grinding up to Christmas day. Pol % cane for the industry was 10.56%, a reduction of 4.9% compared to the 1997 result. Mixed Juice Purity was slightly reduced from 1997 due mainly to the wet conditions that prevailed towards the end of the 2nd crop when harvesting and transport difficulties extended the "burn to grind" interval.

Despite the lower than budgeted production for the industry, daily production records were broken at

Blairmont and Albion with 280 ts and 471 ts respectively. Albion weekly sugar production record was also broken with 2,665 tonnes produced in the last week of November.

Actual Pol Extraction for the industry improved form 90.68% to 91.21%. This improvement has largely stemmed from improvement in the degree of cane preparation prior to milling. Albion, Uitvlugt and Rose Hall factories all benefitted from capital expended in the pre-milling plant and equipment. Focus at other factories has been on knife maintenance and the use of Domite cutting tips.

Boiling House Recovery dropped by 0.43 units to 87.07% compared to 1998. This was largely due to increased impurities in the cane. Rose Hall in particular was adversely affected by very high ash levels in the cane.

The Overall Recovery for the industry was slightly lower in 1998 by 0.1% compared to 1997. This was mainly related to cane quality. Albion Factory produced the best overall recovery for the year (82.44%). Very good performances were achieved at Uitvlugt and Blairmont with overall recoveries of 82.20% and 80.65% respectively.

Factory time efficiency for the industry was marginally worse in 1998 compared to 1997. This average was affected by the poor time efficiencies at Wales due to the failure of the turbo alternator and steam related problems. At LBI the time efficiency was affected by a roller problem at No. 4 Mill with resultant steam supply problems. The problem at LBI has been rectified and capital for new boiler plant and additional turbo alternator capacity has been allocated for Wales in 1999. Blairmont completed the year with a very creditable 96.31% factory time efficiency.

	1997	1998	% Change
Cane Crushed (tonnes)	3,073,905	2,966,457	(3.5)
Sugar Made (tonnes)	276,392	253,871	(8.1)
Rendement	8.99	8.56	(4.8)
Pol % Cane	11.10	10.56	(4.9)
Fibre % Cane	17.42	17.08	(1.9)
Mixed Juice Purity	81.34	80.56	(0.96)
Overall recovery	79.35	79.26	(0.1)
Factory Time Efficiency	86.76	89.53	(0.23)

MARKETING

The El Nino weather phenomenon affected production in 1998. Production in 1998 was 253,871 tonnes compared to 276,392 tonnes in 1997. Despite this, Guysuco's marketing position remained stable in 1998. Total exports in 1998 were 236,772 tonnes compared to 247,058 tonnes in 1997. Of this 201,881 tonnes or 85 percent was exported to the EU. This market continues to be the mainstay of our earnings.

The Sugar Protocol price in ECUs agreed annually remained frozen at ECU523.7 per tonne. There has been no increase since 1986. The Special Preferential Sugar price is approximately 85% of the Sugar Protocol price. Guysuco's preferential markets are sound in the foreseeable future but must continue to lobby at all forums.

USA and Caricom sales declined slightly in 1998. Sales to the local market remained stable.

EU Market

Guyana met its full commitment of approximately 167,613 tonnes under the Sugar Protocol for the quota period ending 30th June, 1998. Guyana was also able to supply shortfalls of other ACP countries. The Sugar Protocol price received in 1998 was $90,447 per tonne compared to $83,570 per tonne in 1997. The increase arose from a depreciation of the Guyana dollar.

Under the Special Preferential Sugar (SPS) Agreement between the ACP and EU refiners, Guysuco shipped 41,055 tonnes of sugar in 1998 compared with 27,249 tonnes shipped in 1997. Guysuco's SPS shipments in 1998 included shortfalls from other ACP countries which could not meet their commitments. The revenue from SPS sales was $73,623 per tonne in 1998 compared to $67,393 per tonne in 1997, the increase again being due to the depreciation of the Guyana dollar.

US Market

Guyana's basic US quota is 12,000 tonnes. However, in the last few years this has been increased through re-allocations declared by the United States Department of Agriculture. In 1998, 17,474 tonnes of US quota sugar were shipped compared with 23,272 tonnes in 1997. The price received for US quota shipped in

Turbo Alternator Set

Mrs. Bibi Zainool Mohamed receives her husband's posthumous award from Chairman Vickram Oditt

1998 was $65,451 per tonne compared with $62,772 per tonne in 1997.

Guyana would like to see a Quota established for Caricom countries to ensure that any shortfalls within Caricom are re-allocated to member countries rather than not being supplied at all.

Caricom Market

The Caricom Heads of Governments have agreed that the region's requirements for brown sugar should be supplied from within the region as far as possible. The common external tariff of 40% on brown sugar imported from outside the region continues to be applicable in most Caricom countries.

In 1998, sales to Caricom were 17,397 tonnes compared with 20,430 tonnes in 1997 due to a decline in sales in the Suriname market. The average price received in 1998 was $56,443 per tonne compared with $53,028 per tonne in 1997.

Guysuco is committed to supplying on a reliable basis good quality brown sugar to Caricom countries at economically fair prices.

In addition to expanding our current Caricom Markets, Guysuco continues to look at the possibility of developing markets in Venezuela, Haiti and North Brazil.

Local Market

Sales of brown sugar for domestic use were 23,996 tonnes in 1998 compared with 24,617 tonnes in 1997. The producer's price for brown sugar sold locally is $21.91 per lb ($48,202 per tonne). The price has remained unchanged since February, 1991, and the real value of sales in this market therefore continues to be eroded.

In 1998, Guysuco sold 1,662 tonnes of imported refined white sugar at world price to small manufacturers who use this grade of sugar in their manufacturing process. This compares with 1,147 tonnes sold in 1997. Banks DIH and DDL, the main users of refined sugar, import their own requirements.

World Market

In 1998, Guysuco did not sell sugar on the world market. World sugar prices as quoted in the international futures market are characterized by two basic features: volatility and a price level far below average cost of production. World market sugar prices are not an appropriate benchmark for determining economically "fair" prices for sugar because the world price represents the market only for residual production and/or residual demand.
Even with Guysuco's expected increased level of production, the secure preferential market in the EU coupled with re-allocations from shortfalls and sales planned to expand in Caricom it is unlikely that Guyana will sell sugar on the world market in the period 1999 - 2000.

Demerara Sugar Terminal
Modifications to Accommodate Larger Ships

Guysuco's ocean transport of sugar has been dependent on bulk carriers and general cargo vessels that are becoming increasingly obsolete. The trend will continue and accelerate. Given these developments in the freight market, Guysuco decided to modify its bulk sugar loading terminal in 1998 to accommodate larger vessels which can lift larger tonnages of bulk sugar. It is envisaged that given the right type of vessel and conditions, DST can now load approximately 14,000/16,000 tonnes or more per shipment.

Turbines in power house generate electricity to power the estate's needs and later, our economy's.

Sugar Terminals- Rehabilitation Work

Prospects

The Sugar Protocol and the SPS Agreement are under no immediate threat. Under the Sugar Protocol, the ACP countries which produce sugar for export are assured of a market in the EU for specific quantities at guaranteed prices for an indefinite period. In addition, the ACP has a substantial quota under the SPS Agreement which came into effect on 1st July, 1995 and which lasts until 30th June, 2001 at which time the arrangement can be renewed. Both the Sugar Protocol and the SPS Agreement are WTO compatible.

However, the pressure to reduce prices in Guysuco's EU market will continue and grow stronger. Planning must therefore be done on the basis that there will be a significant price decline in this market over the next 5/6 years. In such circumstances it is imperative that costs are reduced to match these expected price reductions.

HUMAN RESOURCES

Training And Staff Development

Guyana School of Agriculture (GSA)
Four employees were selected for sponsorship to pursue studies at the Guyana School of Agriculture.

University of Guyana/Cadetship
Twenty-six cadets are currently pursuing studies at universities in Guyana (11), Australia (4), Canada (4), the United Kingdom (6), and the United States of America (1).

Industrial Training
Four students from the University of Guyana completed one year industrial attachments in Electrical and Mechanical Engineering and Information Systems.

SSEE Bursaries
One hundred Bursary Awards were given to the children of workers who qualified by virtue of good performance at the SSEE examination.

Turning the sod- Guysuco gets land for establishment of Caricom Headquarters in Liliendal

Guysuco Training Centre/Port Mourant

Thirty-six Apprentices gained entry to the school during the year, while fifty-five others completed fundamental training and progressed to the second year in the following specialisations:

Fitting and Machining	16
Agricultural Mechanics/Auto Electrics	20
Instrument Studies	10
Electrical Installation	09
	55

The Centre achieved a success rate of ninety-nine percent (99%) at the Guyana Technical Education Examination held in June.

The thirty-seventh Annual Graduation Exercise was held on July 22, 1998 in which forty-seven persons graduated. Apprentice K. Williams of the East Berbice Estate was the recipient of the Watson Memorial Award.

Sports

The Corporation sponsored the Veterans' Table Tennis competition and the National Juniors Track and Field Championships, thereby demonstrating its continued commitment to the development of sports in the country.

Our employees participated and represented the country at the World Relay Championship in Brazil, the Shell Caribbean Cup Football in Trinidad and Tobago and Beach Volleyball in Venezuela. Mr. Seon Glasgow of Blairmont captained the Guyana Team at the Caribbean Senior Volleyball competition.

Productivity Statistics

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Ton Sugar (Industry	164,800	129,920	159,690	243,010	242,640	252,615	249,840	275,705	272,039	253,871
Tons Sugar per Employee	7.03	5.08	5.71	8.65	8.71	10.33	10.49	13.45	14.10	13.45
Mandays per Ton Sugar	24.31	32.48	30.92	20.89	20.51	18.61	17.74	14.61	13.50	14.69

Medical Health Services

The Health Services Unit continued to work assiduously to provide quality health care to clients while striving for reduced costs. Attendance to Health Centres in 1998 was 196,886 compared to 206,201 in 1997. The new Rose Hall Diagnostic Centre was commissioned during the year.

	1997	1998
(a) Total attendance at Health Centres a decrease of 4%.	206,201	196,886
(b) Cost per attendance at Health Centres a decrease of 18%.	146	119

Disease Trend

The year witnessed a change in the ranking order of the ten most prevalent ailments which affect patients. Whereas in 1997 Heart Disease was the second most prevalent disease, this was relegated to number 7 in 1998. This achievement was due no doubt in part to the successful health promotion and education programmes continued by the medical staff. The three most prevalent diseases in 1998 were High Blood Pressure, Respiratory Tract Infection and Diabetes Mellitus.

Industrial Relations

Work Stoppages

There were further improvements in the Industrial Relations climate during the year. Two hundred and sixty one strikes were recorded for the year; the lowest for the decade.

Compared to 1997, the number of strikes fell by 5% and the Mandays lost per strike were reduced by 17%.

Production Incentives

A total of 118 days taxfree pay was awarded as Weekly Production Incentive; 49 in the First Crop and 69 in the second. An average Annual Production Incentive of 18 days pay was paid to each employee.

Strikes by Causation

Causes	YEAR				
	1994	1995	1996	1997	1998
Pricing	325	293	159	178	130
Acceptability of Work	94	91	138	81	94
Disciplinary Issues	18	16	18	8	14
Safety Issues	-	-	-	-	8
Wages & Incentives	-	-	-	-	9
Others	9	12	5	7	6
Total	**446**	**412**	**320**	**274**	**261**

Wages and Salaries

Wages and salaries were increased by 9% across the board for unionised employees and Merit Increment ranging from 1 - 5% to time rated workers.

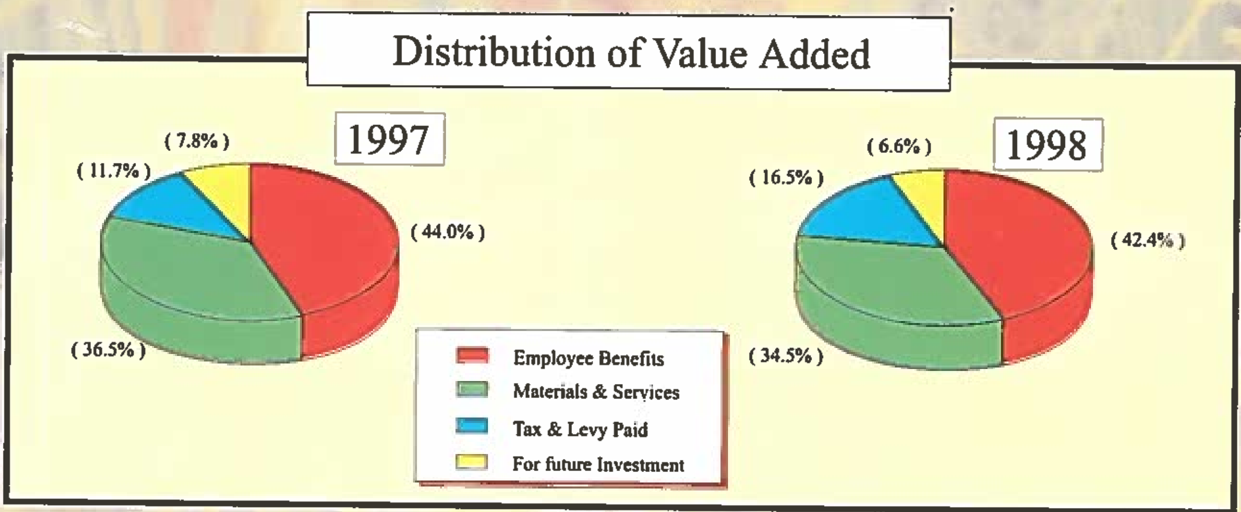
CHIEF EXECUTIVE'S REPORT

Ten Year Summary

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Hectares harvested	36,670	38,824	39,646	42,444	41,701	44,474	44,863	41,042	46,349	39,908
Tonnes Cane milled ('000)	2,589	2,051	2,330	3,130	3,223	3,199	2,956	3,222	3,074	2,966
Yields										
Tonne Cane/Hectare	70.60	52.84	58.76	73.75	77.28	71.94	65.88	78.53	66.33	67.00
Tonne Cane/Tonne Sugar	15.46	15.54	14.36	12.68	13.07	12.47	11.64	11.51	11.12	11.68
Tonne Sugar/Hectare	4.57	3.40	4.09	5.82	5.91	5.77	5.66	6.83	5.96	6.36
Production (tonnes)										
Sugar	167,437	131,999	162,245	246,898	246,522	256,657	253,837	280,116	276,392	253,871
Molasses	99,405	74,184	86,397	121,168	124,853	117,618	122,183	131,422	123,881	117,939
Home Consumption:										
Sugar	28,967	28,052	24,257	20,233	23,664	21,800	22,993	23,599	24,616	23,996
Molasses	90,076	68,281	68,281	86,397	116,241	111,709	109,653	112,446	108,379	59,140
Export:										
Sugar	163,555	131,843	161,981	236,434	222,598	239,424	225,420	255,527	247,058	236,773
Molasses	7,849	5,858	0	4,248	8,573	5,909	12,530	18,976	15,543	61,320
Sales:										
Local Sugar (G$M)	173	406	1,049	984	1,143	1,053	1,111	1,142	1,189	1,157
Average Price/Tonne (G$)	5,972	14,473	43,245	48,633	48,301	48,303	48,319	48,392	48,302	48,216
Export Sugar (G$M)	2,309	3,265	11,973	15,965	14,971	16,812	18,310	21,920	19,284	19,818
Average Price/Tonne (G$)	14,118	24,764	73,916	67,524	67,256	70,219	81,226	85,783	78,055	83,700
Average Price/Tonne (US$)	518	635	619	540	531	508	595	611	557	547
Molasses (G$M)	42	70	293	384	398	607	732	818	453	580
Average Price/Tonne (G$)	422	943	3,391	3,169	3,188	5,161	5,991	6,224	3,656	4,815
Expenditure (G$M)										
Employment Cost	515	980	2,703	4,873	6,041	7,092	7,892	8,764	9,230	9,718
Materials and Other Services	1,225	2,062	6,071	6,954	6,415	6,732	8,504	9,676	8,484	8,266
Profit before tax	35	38	58	394	761	1,101	702	674	680	860
Avg Mid Market Exchange Rate (G$/US$)	27.25	39.00	119.45	124.95	126.66	138.20	136.50	140.50	140.13	152.94

STATEMENT OF EMPLOYMENT & COMMUNITY COSTS

	1995 G$M	1996 G$M	1997 G$M	1998 G$M
DIRECT EMPLOYMENT BENEFITS				
Wages and Salaries	5,563	5,521	5,899	6,323
Incentive Payments	1,447	1,380	1,410	1,559
Other Employment Benefits	1,940	1,863	1,921	1,838
Labour Transport Costs	487	442	420	448
	9,437	9,206	9,650	10,168
COMMUNITY COSTS				
Government Taxation and Levies	3,282	3,682	3,745	3,964
Local Government Rates and Taxes	34	22	38	73
Sugar Industry Special Funds	114	130	125	122
Community Services	41	45	52	61
	3,471	3,879	3,960	4,220
	12,908	13,085	13,610	14,388
Number of Employees	23,819	20,492	19,287	18,873
Tonnes Sugar Produced	253,837	280,116	276,392	253,872



REPORT OF THE DIRECTORS

The Directors submit their report for the year ended 31st December, 1998.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation were the growing of sugar cane and the conversion of its own and farmers' cane to sugar and its by-product, molasses.

SUGAR PRODUCTION/SALES

The sugar production data for 1998 compared with the previous year were:

	1998	1997	Change
Total hectares harvested	39,908	46,349	-13.9%
Tonnes cane per hectare	66.99	66.33	1%
Tonnes sugar (including Sugar from farmers' cane)	253,871	276,392	-8.1%

Sugar sales in 1998 amounted to $21 billion against $20.4 billion in 1997.

MOLASSES PRODUCTION/SALES

Molasses production in 1998 was 117,939 tonnes which was a 4.8% decrease over the 1997 production of 123,881 tonnes. Molasses sales in 1998 amounted to $580 million as against $453 million in 1997.

FINANCIAL RESULTS

The turnover for the year before export sales levy was $21.6 billion compared with $21 billion in 1997.

The net profit before taxation of $859.8 million ($680.5 million in 1997) represented a 26% increase over 1997, in a year in which the economy as a whole showed a negative growth of 1.8%. The profit was arrived at after making provision for:

	1998 $M	1997 $M
Directors' Remuneration (a)	0.36	0.45
Stock Provision	160	177
Depreciation	1,390	1,411
Audit Fees	5.4	5
Management fees and expenses	336	312
Net Interest Income	(126)	(147)
Net (Gain)/Loss on exchange	(45)	9

REPORT OF THE DIRECTORS

(A) Directors' remuneration is accounted for on a cash basis. In 1997 5 quarters' fees were paid: in 1998 4 quarters' fees were paid. There was no change in the rate of remuneration.

The charge for taxation was $588.6 million including deferred tax of $204.3 million compared with $494.2 million in 1997 (as restated on inclusion of deferred tax).

The net profit after taxation was $271 million compared with $186 million (as restated) in 1997.

RETAINED PROFIT

The profit carried forward to 1999 was $1.4 billion as against $1.1 billion in 1997.

CAPITAL EXPENDITURE

During the year $2.7 billion was expended on upgrading factory and field equipment and the infrastructure. This was financed entirely from the Corporation's cash flow.

CREDIT RISK POLICY

Credit risk represents the accounting loss which would be recognised at the reporting date if the counterparties fail to perform as contracted. The Corporation has exposure to credit buyers of sugar. The major buyers have consistently paid on time, as have smaller buyers, with one exception, as a result of which the Corporation no longer sells on a credit basis to that customer. To reduce exposure to credit risks, the Corporation carries out credit evaluations for potential credit customers but does not require collateral.

DIRECTORS

Directors throughout the year were Messrs. V. Oditt, R. Alli, E. Heyligar, D. Ramotar and B. Newton. Mr. P. Moffatt and Mr. G.N. Hilary, directors at the start of 1998 were replaced by Mr. D. Carter and Mr. B. Webb respectively as from 1 November, 1998.
There are three Board Sub Committees, the Central Tender and Lands Committees chaired by the Chairman Mr. Oditt, and the Audit Committee chaired by Mr. R. Alli.

By order of the Board
A.L. Lancaster - Secretary
16 June 1999.

Office of the Auditor General of Guyana

P. O. Box 1002
63 High Street
Kingston, Georgetown,
Guyana S. A.

Tel. No. 592-2-57592
Fax No. 592-2-67257
AG:111/99

29 June 1999

REPORT OF THE AUDITOR GENERAL TO THE MEMBERS OF GUYANA SUGAR CORPORATION INC. ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

Chartered Accountants, Deloitte and Touche, have audited on my behalf the financial statements of Guyana Sugar Corporation Inc. for the year ended 31 December 1998, as set out on pages 2 to 14. The audit was conducted in accordance with the Financial Administration and Audit (Amendment) Act 1993.

The preparation of the financial statements, including assertions relating to their completeness, accuracy and validity, and compliance with applicable laws, regulations and contractual obligations, is the responsibility of Management. My responsibility is to express an independent opinion on the statements based on these assertions and to report my opinion to you.

As required by the Financial Administration and Audit (Amendment) Act 1993, I have reviewed the audit plan and procedures, work papers, report and opinion of the Chartered Accountants. I have also had detailed discussions with the Chartered Accountants on all matters of significance to the audit. I concur with the opinion, as set out on page 1, of Chartered Accountants,Deloitte and Touche.

OFFICE OF THE AUDITOR GENERAL GUYANA

S A GOOLSARRAN
AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL
63, HIGH STREET
KINGSTON
GEORGETOWN
GUYANA

REPORT OF CHARTERED ACCOUNTANTS DELOITTE & TOUCHE TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF GUYANA SUGAR CORPORATION INC. FOR THE YEAR ENDED 31 DECEMBER 1998

We have audited the financial statements set out on pages 24 to 36 which are in agreement with the books of the Guyana Sugar Corporation Inc. and have obtained all the information and explanations we have required. These financial statements are the responsibility of the management of the Guyana Sugar Corporation Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with the Office of the Auditor General's auditing standards and other generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the state of affairs of the Corporation as at 31 December, 1998 and its results of operations and cash flows for the year then ended and have been prepared in accordance with the Companies Act 1991.

DELOITTE & TOUCHE
CHARTERED ACCOUNTANTS

77 Brickdam
Stabroek, Georgetown,
Guyana

6 May, 1999

PROFIT AND LOSS ACCOUNT

For the year ended 31 December, 1998

	Notes	G$000	1997 G$000 Restated
Sales	3	18,722,704	18,990,658
Net profit before taxation	4	859,728	680,471
Taxation	5	588,587	494,233
Retained profit for the year		271,141	186,238

Statement of Accumulated Earnings

At 1 January		1,979,452	1,751,429
Prior year deferred tax liability		(846,000)	(804,215)
As restated		1,133,452	947,214
Add: Retained profit for the year		271,141	186,238
At 31 December		1,404,593	1,133,452

"The accompanying notes form an integral part of these financial statements."

BALANCE SHEET

As at 31 December, 1998

	Notes	G$000	1997 G$000
Share Capital			
Authorised			
Ordinary shares of G$1 each		500,000	500,000
Issued and fully paid			
498,536,775 Ordinary shares of G$1 each		498,537	498,537
Capital Reserves	6	10,342,881	10,342,881
Accumulated Earnings		1,404,593	1,133,452
Shareholders Funds		12,246,011	11,974,870
Deferred Tax Liabilities		1,050,294	846,000
Debenture	10	143,636	143,636
		13,439,941	12,964,506
Represented by			
Fixed Assets	7	9,621,933	8,461,674
Investments	8	304	304
Net Current Assets	9	3,817,704	4,502,528
		13,439,941	12,964,506

On behalf of the Board:

Vickram H. Oditt
Director

Brian Webb
Director

"The accompanying notes form an integral part of these financial statements".

CASH FLOW STATEMENT

For the year ended 31 December, 1998

				1997
	G$000	G$000	G$000	G$000
Net cash inflow from operating activities. (Note a)		2,749,575		2,589,022
Returns on investments and servicing of finance				
Interest received	128,667		152,482	
Interest paid	(2,873)		(4,800)	
Net cash inflow from returns on investments and servicing of finance		125,794		147,682
Taxation				
Taxes paid		-		(485,913)
Investing activities				
Payments to acquire tangible fixed assets	(2,709,953)		(2,249,751)	
Receipts from sale of tangible fixed assets	162,965		52,394	
Net cash outflow from investing activities		(2,546,988)		(2,197,357)
Increase in cash and cash equivalents (Note b)		328,381		53,434

"The accompanying notes form an integral part of these financial statements"

NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities:

		1997
	G$000	G$000
Net profit before taxation	859,728	680,471
Interest (received) / paid net	(125,794)	(147,682)
Depreciation	1,390,305	1,411,312
(Profit) / loss on disposal of fixed assets	(3,576)	114,711
Decrease in inventories	52,135	658,269
(Increase) / decrease in sugar and molasses	198,889	(294,612)
(Increase) / decrease in debtors and prepayments	(915,101)	994,103
Increase/ (decrease) in creditors, accruals and export levy	1,292,989	(827,550)
Net cash inflow from operating activities	2,749,541	2,589,022

b) Analysis of changes in cash and cash equivalents during the year

Balance at 1 January	2,836,993	2,783,559
Net cash inflow	328,381	53,434
Balance at 31 December	3,165,374	2,836,993

c) Analysis of cash and cash equivalents as shown in the Balance Sheet

	1998 G$000	1997 G$000	Change in the year G$000
Cash on hand and at bank	3,165,374	2,836,993	328,381

NOTES ON THE ACCOUNTS

1.Significant accounting policies

(a) **Accounting convention**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain fixed assets and the accounting policies conform with International Accounting Standards.

(b) **Fixed assets and depreciation**

Fixed assets vested on 26 May 1976 are stated at the book values of the previous owners (which were in excess of compensation price) less provision for depreciation and amortisation computed on those values. All fixed assets acquired after that date are stated at cost less provision for depreciation and amortisation.

The excess of book values over compensation price referred to in the preceding paragraph was set up as the opening balance of the valuation reserve

No depreciation is provided on freehold land and capital work-in-progress.

State land is written off as and when the titles are relinquished.

Depreciation on other assets is provided on the straight line method calculated to write off each asset over its estimated useful life as follows:-

Buildings	-	Over 50 years
Leasehold properties	-	Over the lives of the leases
.		
Land expansion costs	-	From 5 to 10 years
Plant, machinery and Equipment	-	From 5 to 16 years
Motor Vehicles	-	Over 4 years
Aircraft	-	Over 3 years

Depreciation is provided from the date of acquisition and a full year's charge is taken in the year of disposal.

(c) **Inventories**

Inventories are valued at the lower of cost and net realisable value.

Sugar and molasses are valued at the lower of cost of production and estimated realisable value less deductions for sugar industry special funds contributions, shipping and selling expenses, where applicable. Where markets are identified for sugar and molasses, the net realisable value is used.

NOTES ON THE ACCOUNTS

Significant accounting policies - cont'd

(d) **Research and development**

Research and development expenditure is charged against revenue in the year in which it is incurred.

(e) **Foreign currency transactions**

Foreign currency transactions are recorded in Guyana Dollars at the rates of exchange ruling at the date of such transactions. At the balance sheet date, foreign currency assets and liabilities are translated at the rates of exchange ruling at that date and resulting gains and losses are recognised in the profit and loss account.

(f) **Sales**

Sales represent the amounts earned from the sale of sugar and molasses produced during the year, net of sugar industry special funds contributions, shipping and selling expenses and export sales levy.

(g) **Pension Scheme**

i) The company participates in two contributory pension schemes for its employees - Demerara Sandbach and Guyana Sugar and Trading Enterprises Pension Scheme. The contributions are held in trustee administered funds which are separate from the company's finances. The last acturial valuation done at 31 December 1992 for Demerara Sandbach Pension Scheme revealed that the Scheme was in deficit of $2.8 M.

The actuarial valuation done at 31 December 1995 for Guyana Sugar and Trading Enterprises Pension Scheme revealed a past service deficit of $314.2 M. To meet the deficit of the Scheme the actuaries recommended that the participating companies continue to pay contributions to the Scheme at the current rate of 7% of member's salaries up to $2,880,000 per annum plus 13% of member's salaries in excess of $2,880,000 per annum. At this rate of contribution, the deficit is expected to be funded with in 51/2 years of the valuation date (i.e by mid 2001). The corporation has implemented the actuaries recommendation. During the year the employer's contribution to the scheme was G$175,897,340.

The next actuarial valuation due at 31December 1998 has not yet been completed.

ii) Employees who have retired and are not members of the pension schemes are paid ex-gratia pensions which are partially recoverable from the Sugar Industry Price Stabilisation Fund. Amounts not considered to be recoverable are provided for in the profit and Loss account.

(h) **Deferred Tax**

Deferred tax liabilities are recognised in respect of corporation taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are recognised in respect of deductible temporary differences, unused tax losses and unused tax credits but only to the extent that it is possible that taxable profit will be available for offset.

2. Incorporation and activities

Guyana Sugar Corporation Limited was incorporated on the 21 May 1976 and is primarily involved in the cultivation and manufacture of sugar cane and the sale of sugar and molasses. On the 28 February 1996 the Corporation's name was changed to Guyana Sugar Corporation Inc.

NOTES ON THE ACCOUNTS

3. SALES AND EXPORT LEVY

		1997
	G$000	G$000
Sales		
Sugar and Molasses	20,722,704	20,990,658
Export sales levy		
Amount payable (provisional)	10,730,614	10,419,926
Remitted by Government	(8,730,614)	(8,419,926)
	2,000,000	2,000,000
Net Sales	18,722,704	18,990,658

Under section 6(1) of the Financial Administration and Audit Act, the Government of Guyana has agreed to remit G$8,730,614 (1997 G$8,419,926) of the Sugar Levy payable under the Sugar Levy Act of 1974 (as Amended)

4.

		1997
	G$000	G$000
NET PROFIT BEFORE TAXATION	859,728	680,471
(a) After charging -		
Directors' remuneration (Note (b))	360	450
Stock Provisions	159,592	177,149
Depreciation	1,390,305	1,411,312
Auditors' remuneration	5,400	5,100
Net loss on exchange	-	8,862
Interest expense	2,873	4,800
Management fees and expenses	335,800	312,071
And after crediting -		
Interest Income	128,667	152,482
Net gain on exchange	45,217	-
(b)Directors' remuneration		
Chairman	108	135
3 Other directors at $84,000 each	252	315
	360	450

NOTES ON THE ACCOUNTS

5. Taxation

		1997
	G$000	G$000
Corporation tax at 35%	191,892	269,285
Deferred tax	204,294	41,785
	396,186	311,070
Property tax	190,163	183,163
Capital gains tax	2,238	-
	588,587	494,233
Reconciliation of tax expenses and accounting profit		
Accounting profit	859,728	680,471
Corporation tax at 35%	300,905	238,165
Add:		
Tax effect of expenses not deductible in determining taxable profits		
Depreciation for accounting purposes	486,608	493,959
Provision for obsolescence	55,857	62,002
	843,370	794,126
Deduct tax effect of depreciation		
For tax purposes	(598,848)	(459,323)
Interest and dividend	(47,255)	(55,371)
Others (net)	(5,375)	(10,147)
	191,892	269,285
Deferred tax charge	204,294	41,785
	396,186	311,070

6. CAPITAL RESERVE

		1997
	G$000	G$000
(a) Rehabilitation & Development Fund	9,362,950	9,362,950
(b) Sugar Industry Rehabilitation Fund	24,766	24,766
(c) Valuation	47,435	47,435
(d) Other	907,730	907,730
	10,342,881	10,342,881

(a) An agreement was reached between the Ministry of Finance and the Corporation to set up a Rehabilitation and Development Fund from levies payable.

(b) This represents amounts received by Guyana Sugar Corporation Limited from the Sugar Industry special Funds for rehabilitation work done on the Corporation's factories.

(c) This amount represents the surplus of the net book values over the consideration paid for the acquisition of the corporation's assets on nationalisation in 1976 less disposals.

(d) i) G$15.76M represents monies received from the Guyana Government for the purpose of Financing projects in the Corporation's diversification programme.

ii) G$37.87M represent the value of the net assets of Demerara Sugar Terminals Limited. Demerara Sugar Terminals Limited ceased trading in 1991 but continued as a department of the Corporation.

iii) G$839.21M represent the value of loans and accrued interest assumed by the Government of Guyana.

iv) G$1.32M and G$13.57M represent the value of the net assets of Guyana Agricultural Products Corporation and Demerara Sugar Company Limited which were acquired by the Government and the assets transferred to Guyana Sugar Corporation Inc.

7. FIXED ASSETS

	Land & Buildings Freehold G$000	Leasehold G$000	State Land And land Expansion Cost G$000	Plant Machinery And Equipment G$000	Work In Progress G$000	Totals G$000
Cost or valuation						
at 1 January 1998	875,085	4,316	165,826	11,200,385	1,751,810	13,997,422
Additions	228,465			1,114,965	1,366,523	2,709,953
Disposals				(83,226)	(149,956)	(233,182)
Transfers	419,438			674,526	(1,093,964)	0
At 31 December 1998	1,522,988	4,316	165,826	12,906,650	1,874,413	16,474,193
Depreciation						
At 1 January, 1998	60,716	3,453	32,919	5,438,660		5,535,748
Charge for the year	20,866	91	28,341	1,340,987		1,390,305
Retired on disposals				(73,793)		(73,793)
At 31 December 1998	81,602	3,544	61,260	6,705,854	0	6,852,260
Net book values						
At 31 December 1998	1,441,386	772	104,566	6,200,796	1,874,413	9,621,933
At 31 December 1997	814,369	863	132,907	5,761,725	1,751,810	8,461,674

8. INVESTMENTS	G$000	1997 G$000
Lochaber Limited (Note (a))	23	23
Cane Farming Development Corporation Limited	31	31
Livestock Development Company Limited	50	50
National Bank of Industry and Commerce Limited	200	200
	304	304

(a) The Corporation has a 36.8% holding in Lochaber Limited. As at 31 December 1998 the reserves of Lochaber Limited were $90 million.

9. NET CURRENT ASSETS

		1997
	G$000	G$000
Current Assets		
Inventories (Note (a))	3,504,243	3,558,965
Cattle	15,023	12,436
Sugar and Molasses	639,556	838,445
Trade debtors	1,438,616	1,315,467
Other debtors and prepayments	1,068,199	276,247
Cash on hand and at bank	3,165,374	2,836,993
	9,831,011	8,838,553
Current Liabilities		
Trade creditors	114,306	119,695
Other creditors and accruals	2,938,026	1,639,648
Exports sales levy	2,000,000	2,000,000
Loans repayable within one year	0	0
Taxation	960,975	576,682
Bank overdrafts (unsecured)	0	0
	6,013,307	4,336,025
Net Current Assets	3,817,704	4,502,528
Inventories		
Gross	4,148,254	4,040,797
Less: Provisions for obsolesence	628,988	469,396
Net	3,519,266	3,571,401

In accordance with the Corporation's policy for ongoing obsolescence due to development of new equipment and technology, a further provision of $160 million was made during 1998 (1997-$177 million).

NOTES ON THE ACCOUNTS

10. Debenture

		1997
	G$000	G$000
2% Government of Guyana debenture redeemable in the year 2000	143,636	143,636

11. Prior Year Adjustment	846,000	804,215

This represents provision for deferred tax liability in respect of prior years. As a result, certain prior year balances were restated.

12.Capital Commitments And Contingent Liabilities

		1997
	G$000	G$000
Expenditure authorised by the Directors but not committed	7,056,000	8,261,000
Letters of credit	562,614	-

13. Currency And Interest Rate Exposure

At the reporting date the Corporation had assets in foreign exchange consisting of cash and trade accounts receivable, and liabilities consisting of trade accounts payable. The foreign exchange assets considerably exceeded the foreign exchange liabilities as is normal throughout the year, and there is therefore no exchange risk.

The Corporation has no interest-bearing liabilities except for Government debentures.
The rate of interest on the Government debentures is fixed and there is therefore no interest rate risk.

14. **The Corporation is at present being managed by Booker Tate Limited.**

15. Pending Litigation

There were several actions for which the liability of the Corporation, if any, has not been determined.