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PRESS RELEASE

FSC's Path to Transformation: Paving the Way for Prosperity in Fiji's Sugar Industry

Lautoka, Fiji - Since 2021, the Fiji Sugar Corporation Limited (FSC) has been undergoing a profound transformation journey, led by Mr Pradeep Lal as Chairman, along with dedicated board members and management team. FSC's ambitious and innovative approach, based on five strategic pillars of transformation, has set the stage for the Corporation's revival and positioned it as a catalyst for positive change within Fiji's sugar industry.

The Five Pillars of Transformation

Pillar 1: Balance Sheet Restructure

A comprehensive Balance Sheet Restructure initiative was undertaken, showcasing commitment to achieving financial stability and flexibility. One such initiative was the conversion of Government debt amounting to \$200.2 million into Equity, a measure duly endorsed by Parliament in March 2020. Consequently, FSC's overall debt burden will reduce substantially from \$485.9 million as at 31st May 2023 to \$285 million.

It's imperative to emphasise that these financial obligations primarily constitute legacy debts, and their successful reduction marks a pivotal step towards bolstering the Corporation's financial viability. Complementing these debt management efforts, FSC has also taken a comprehensive inventory of its properties and facilities, carefully divesting underperforming assets to alleviate the loan obligations further. These strategic financial moves highlight FSC's dedication to prudent fiscal management and responsibility.

Pillar 2: Milling Efficiencies

With a remarkable legacy of over 130 years old infrastructure, FSC continues to embrace progress. Over the past five years, the Corporation has spent over \$70 million towards the upkeep of its ageing mills, ensuring their smooth operation with minimal disruption.

This commitment to excellence extends to targeted investments in the sugar mills to enhance reliability and optimise throughput. FSC is dedicated to achieving efficient milling operations, focusing on reducing breakdowns, increasing sugar recovery rates, implementing industry-leading Good Manufacturing and Hygiene Practices, and elevating sugar quality to the highest standards.

Moreover, FSC is implementing a Structured Capital Works and Preventative Maintenance Program, underscoring a proactive approach to sustainably maintaining the facilities. These

strategic investments are a testament to our dedication to providing the best possible outcomes for the stakeholders and the industry as a whole.

Pillar 3: Revenue Optimisation and Cost Reduction

In the realm of corporate performance, there is a notable upward trajectory in FSC's sales, marked by significant improvements. This achievement reflects a meticulous review by the board and management, who diligently scrutinised potential export markets for sugar. The strategic evaluation identified export destinations that embrace FSC's products and yield the maximum value for the offerings. The results have been exceedingly positive, with each market proving profitable for selling sugars of Fiji. This was evident with total sales reaching \$209.7 million for 2023 financial year, the highest in the last nine years and FSC share of proceeds reaching \$64.3 million, the most favourable in the last 16 years.

This factor has contributed to the reduction in Government's support for the guaranteed cane price of \$85 per tonne of cane. On average, the government has allocated approximately \$41.5 million annually for the guaranteed price since 2018 season, with specific amounts allocated as follows: \$52.5 million in 2018, \$50.9 million in 2019, \$42.9 million in 2020, \$18.9 million in 2021, and zero funding in 2022 season. Furthermore, it is projected that no contribution will be required from the Government for 2023 season.

FSC's commitment to expanding its market presence is exemplified by the focus on tapping into new markets, including several emerging ones. Despite the largest United Kingdom market, the U.S. market has been a resounding success. Additionally, FSC has successfully established its presence in regional and Pacific markets, offering proximity and convenience to the customers.

FSC has diligently worked towards optimising its operations to attain a sustainable financial equilibrium. Today, through a concerted commitment to efficiency and cost-effectiveness, the operating cost have been prudently reduced to an average of about \$59 million from over \$90 million in 2016, highlighting a substantial 34% reduction in operating costs.

Together with these cost-effective measures, the Corporation has substantially lowered the breakeven point to a crop of 1.6 million metric tonnes, an improvement from the previous benchmark of 2.4 million metric tonnes. These achievements underline FSC's dedication to embracing best practices and operating efficiently.

Over the last two decades, FSC has encountered financial challenges, with only a handful of years – approximately 4 to 5 – where the Corporation recorded net profits. It's worth noting that among these profitable years, three were marked by the reversal of impairments, and in one instance, a government grant of \$50 million played a pivotal role. Of the past 25 years, genuine profit was realised in just two years. Even during the peak production year when FSC harvested approximately 4 million tonnes of cane, the average profit margin stood at a modest \$4 million despite the preferential price obtained from the European Union.

The Corporation's financial success is underlined by its impressive positive Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA), of \$17.9 million for financial year 2023, is a turnaround from the negative \$6.7 million recorded in the preceding year, an improvement of \$24.6 million. FSC further envisage a record positive EBITDA of \$31.6 million for coming financial year with a crop of only 1.66 million.

FSC's commitment to financial prudence also extends to a strategic focus on the core operations, complemented by a dedicated effort to divest non-core operations. In particular, the optimisation of the fleet, including trucks, harvesters, and tractors, to ensure operational efficiency and cost-effectiveness.

These combined endeavours signify FSC's commitment to financial soundness, prudent fiscal management, and a positive trajectory towards long-term sustainability and success.

Pillar 4: Crop Rehabilitation

FSC is actively promoting and supporting growers in adopting best farming practices. To facilitate this, the Corporation has expanded the field staffing to provide comprehensive education to growers about the highly effective Ratoon Management Program. These efforts have yielded tangible results, with per-hectare improvements positively impacting the financials. These achievements demonstrate that FSC is firmly on the path to progress.

Through implementing contemporary farming methodologies and innovative technologies to enhance agricultural productivity. The immediate outcome of this became evident last season when a noteworthy increase in yield, measured in Tons per Hectare (TpHa), was observed. The yield escalated from 42 in the previous season to 47 in the last season from an area of 34,897 Ha with around 10,872 active farmers. This has been achievable despite many challenges faced by the growers.

Over the course of the past 25 years, it is worth noting that only on four occasions did the yield exceed the 50 TpHa threshold. Concurrently, there has been over 50% reduction in area under cane from 73,312 Ha, along with a corresponding decrease in active farmers from 20,524 to 10,872, a decrease of over 47%. FSC remains adamant and focused that TpHa from 47 to 55 is an attainable goal, which will give an incremental gain of 280,000 tons of cane from an area of 35,000 hectares. The average cane yield per grower has remained relatively constant at approximately 150 tonnes, a level that has been consistent over the past 25 years.

The significance of the sugar industry cannot be overstated, and the board and management sincerely appreciate the support provided by the previous and current governments. These challenges highlight the industry's resilience and the need for transformation, which FSC is committed to achieving.

Pillar 5: People

The cornerstone of success for any organisation lies in the commitment to its workforce. At FSC, the Corporation recognises this fundamental truth and prioritises human capital. Central to the human resource strategy is the Apprenticeship Scheme, a testament to the dedication to cultivating talent and nurturing future professionals. The Corporation was able to achieve a significant reduction in payroll cost, a reduction of \$10M (30%) from \$34M in 2018 to \$24M for 2022.

Great pride is taken in the enduring support of the National Apprenticeship Scheme, which has thrived for an impressive six decades. Recently, the Fiji National University honoured FSC for its 60 years of empowering young individuals, fostering their skills, and making a meaningful contribution to the growth of the sugar industry.

The Apprenticeship Scheme is cherished in the corporate ethos, representing the belief in the transformative power of education, comprehensive training, and dedicated mentorship. This

commitment adds significance as the Corporation navigates the ever-evolving skill development landscape. The belief remains that investing in the holistic development of individuals not only drives positive change, uplifts communities, and ensures a brighter future for all.

Three New Pillars

The five pillars represent ongoing endeavours, and three additional pillars in the early stages are introduced in collaboration with stakeholders to implement.

1. State-of-the-Art Mill

One of the new pillars entails the transformation of an existing mill into a state-of-the-art facility, encompassing ethanol, cogeneration, and refinery components. FSC's enduring factories, having served for over a century, exhibit structural vulnerabilities and outdated machinery, necessitating substantial technological intervention for streamlined operation.

This initiative holds numerous benefits and a promising vision for FSC.

- **Enhanced Efficiency:** Automation diminishes manual intervention, optimising processes and improving productivity.
- **Value-Added Facilities:** Incorporating ethanol production, cogeneration, and refinery components augments the value within the sugarcane processing cycle.
- **Sustainability:** The substantial investment spearheads a modern, eco-friendly, and innovative approach to sugarcane processing.

Notably, the TCTS (Tons of Cane to Tons of Sugar) ratio is anticipated to undergo a significant reduction. Presently, the TCTS stands at 10.5; however, following the introduction of the new mill, it is projected to improve to approximately 7.5 – internationally best practice. This accomplishment reflects a strategic leap toward enhanced operational efficiency.

2. Railway Network

In the past, the railway network was the primary conduit for delivering 70 percent of the cane to the mills. However, the utilisation of the railway network has diminished to approximately 10 percent. Hence, a pressing imperative exists to undertake comprehensive upgrades to revitalise this crucial transportation infrastructure.

This much-needed overhaul has several significant advantages:

- **Restoration of Operational Efficiency:** The upgrade will breathe new life into the railway network, revitalising its functionality and enhancing its operational efficiency.
- **Cost Reduction:** A direct consequence of this improvement will be a substantial cost reduction, significantly alleviating the financial burden on farmers.
- **Exploration of Sustainable Transportation Applications:** The revamped railway network will pave the way for exploring sustainable and efficient transportation solutions that benefit all stakeholders.

The vision for this initiative is not merely to restore a historical transportation system but to establish a modern, efficient, and eco-friendly network that underpins the sustainability and success of the industry.

3. Award Consultation

Although the Master Award has effectively served its purpose for three decades, it is worth noting that certain aspects of the award structure no longer align with the contemporary direction FSC aspires to pursue. Consequently, there is an intention to engage all essential stakeholders in a comprehensive consultation process.

The path to this achievement was paved by the proactive actions taken by the FSC Board. These actions include the establishment of board subcommittees and adherence to internationally recognised governance standards, which have been tailored to suit the evolving requirements of the Corporation. Each of the Board Committees operates under a clearly defined Charter.

- The Finance & Audit Committee is responsible for scrutinising the financial reporting process, the internal control system, the management of financial risks, the audit process, and the Corporation's mechanisms for ensuring compliance with pertinent laws and regulations. The Sub-committee has ensured that Accounts are prepared and signed within a month of the financial year-end.
- The Remuneration & Nomination Committee oversees the Corporation's Human Resource strategy. This oversight encompasses the organisational structure, remuneration policies, performance management, succession planning, and development. It also extends to monitoring all matters related to the terms and conditions of staff employment and remuneration.
- The Governance & Risk Committee has been established to aid the board in fulfilling its duties. Its purview includes supervising the enterprise risk management, control, and compliance framework defined by both the board and management. Additionally, it handles the formulation and review of company policies and insurance, governance policies and framework, compliance with company policies, and the development and monitoring of codes of conduct, focusing on addressing any reported code breaches.
- The Property Committee is responsible for managing the sale of non-core assets, a crucial measure to bolster the Corporation's cash flow.
- The Cane Development Committee has been formed to enhance sugarcane production and improve grower-related services.
- Furthermore, a dedicated Sales & Marketing Committee has been established to ensure optimal returns realised from sugar and molasses.

The formation of these board subcommittees underscores FSC's commitment to governance best practices and reaffirms its dedication to delivering value to stakeholders.

FSC's transformation journey is not merely a corporate endeavour but a testament to its belief in the transformative power of education, training, and mentorship. It is a commitment to uplifting communities, driving positive change, and ensuring a prosperous future for all stakeholders. As we continue on this transformative path, we are firm in our dedication to success, sustainability, and progress.

FSC extends its heartfelt gratitude to all stakeholders, including shareholders, dedicated employees, growers and invaluable partners, for their support throughout these challenging

but transformative years. Together, FSC remains dedicated to building a brighter future for the Corporation and the entire Fijian sugar industry.

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