

## **FSC 2017 AGM**

# **CHAIRMAN MR VISHNU MOHAN ADDRESS**

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2017 heralded in a significant new era of transformation for the Fiji Sugar Corporation, which started at the Board and Executive Management level.

In August 2016 when I became Chairman of the Board my key objective was to instill the disciplines required to return FSC to profitability; and to a sustainable and viable future. I therefore recognized the need to develop a new platform for FSC based on good corporate governance supported by sound and effective Board oversight to ensure FSC's long term viability.

Following the departure of the previous Executive Chairman and CEO in October 2016, new board appointments were announced.

In November 2016, Mr Pradeep Lal, Chief Executive Officer of Vodafone Fiji Limited and a highly respected corporate executive was elected to the Board. This was followed by the appointments of well-known businessman Mr Hari Raniga and Mr Ariff Ali the then Deputy Governor, and now Governor of the Reserve Bank of Fiji, in January 2017.

These appointments brought significant business expertise and a much needed independent and wise counsel to the Board's governance framework; on the back of a clear vision, robust business strategies followed by short, medium and long term goals to achieve them. I thank the new Directors and also those remaining directors for accepting the challenge of positively re-shaping the future of the Corporation.

Crucial to the adoption and implementation of the Board's objectives was the appointment of key and experienced Executive Management.

In January this year, Mr Graham Clark, of Australian/South African nationality, was appointed as the new Chief Executive Officer (CEO). Mr Clark has over thirty five years of very successful sugar industry experience acquired with large and well known companies across Africa. Following that, in March, Mr Navin Chandra, a Fijian with significant international supply chain management experience was appointed as Chief Operating Officer.

Later in June, Mr Manoj Ram an experienced financial executive was appointed to the position of Chief Financial Officer. And in August, Mr Kameli Batiweti, a senior and experienced Human Resources practitioner was appointed to the position of General Manager Corporate Services.

A comprehensive five year (2018 – 2022) Strategic Plan has been established and has set out a restructuring plan focusing on cane production, as the platform for cash generation leading to FSC's turnaround.

FSC's financial results for the financial year 2017 largely reflect the impact of TC Winston. The 2017 turnover declined by 38%, however, the net loss improved by 18.5% compared to 2016

financial year. The decrease in turnover for FY2017 was mainly due to reduced production due to the impact of TC Winston on cane production, quality of cane and hence reduced sugar make.

The Corporation's share of proceeds in financial year 2017 was FJD43 million compared to FJD58.7 million in the previous year. The trading loss for the FY2017 was FJD18.5 million whilst loss from operations was FJD39.6 million compared to a loss of FJD7.7 million and FJD26.1 million, respectively for the previous year. The operating loss for 2017 was FJD45 million compared to a loss of FJD53.4 million in the previous year, which includes a FJD10.2 million impairment loss on capital works in progress and an adjustment as required by International Financial Reporting Standards, for impairment of property, plant and equipment of FJD24 million. No impairment adjustment was required for the 2017 financial year.

The Corporation is forecasting a significant reduction in net loss for financial year 2018. This is due to improvements in operational factory efficiencies and a rigorous approach to cost control.

We would like to acknowledge Government's continuous support to FSC and sugar cane farmers, especially the reimbursement of the top-up payment of FJD17.2 million paid to the farmers with the 4<sup>th</sup> Cane payment for the 2014 season. As the reimbursement was not received in the financial year, a provision was made in 2015. The reimbursement was subsequently received and the provision was accordingly reversed, instead of being offset against the Government loans as mentioned in the previous AGM.

The FSC Board is committed to maintaining a high standard of integrity and transparency in its governance of the Corporation.

The Board comprises eight members. There have been seven meetings of the Board this year. In addition to the Board meetings, Nominated Directors also attend subcommittee meetings. Following a Strategic Plan Workshop on 12 May 2017, the Board appointed subcommittees in order to strengthen governance and board efficiency; and to ensure that specific issues are handled with relevant expertise.

There are three board subcommittees with specific duties and authorities set out in Terms of Reference and Subcommittee Charters. The Board subcommittees are Finance & Audit, Remuneration & Nomination and Governance & Risk. At each Board meeting the Chairman of each subcommittee presents a report and reports to the Board on committee deliberations.

In addition to the Board subcommittees, Directors have been appointed individually to support management in areas relevant to their expertise. These include external communication, funding, land issues, grower issues and branding & marketing.

In respect to the current crop year, I would like to update shareholders as follows:

Adverse weather conditions have drastically impacted cane development and subsequently reduced cane production in 2017. As a result, our initial target of 2 Million tonnes of cane had to be revised downwards and we finally crushed 1.63 million tonnes of cane for 2017.

Additionally, the prolonged drought has affected the Growers' planting schedule for next year's crop. FSC will be working closely with the Sugar Research Institute of Fiji to ensure we get the most optimal yield possible. Cane development remains our most critical area of focus going

forward, but the adverse impact of the weather in 2017 will impact negatively on our plans to grow our cane supply for 2018.

We are pleased to note that this year, following improved management focus under the new FSC team, our sugar factories registered significant improvements in their manufacturing results compared to last year, notably at Lautoka and Rarawai. All key indicators showed improvements – more cane was crushed, mill breakdowns were reduced; waiting times at the mills were lower; cane dumping has ceased and mill stoppages have largely become a non-issue.

This resulted in improved efficiency levels at Lautoka which recorded a 32% reduction in mill breakdowns, with Rarawai achieving a 37% reduction in the same period. Overall, cane supply stoppages reduced by 17%. Performance at Labasa was however not as settled as last season.

Sugar recoveries were also better than 2016, with tonnes of cane per tonne of sugar (TCTS) reducing by 9% to 9.1 for the year. Sugar production of 180,169 tonnes was achieved, compared to 139,531 tonnes manufactured in 2016 - an increase year on year of just over 29%.

A full independent factory technical review has been completed for all factories, and works on upgrading factory facilities are underway. This will include major refurbishment of the Lautoka diffuser, boilers and power station, new sugar processing equipment for Rarawai; and upgrading of the shredder and milling equipment at Labasa. Further improvements in factory performance are expected next season following this work.

FSC is focused on optimising sales revenue to protect returns to growers; and this includes identifying new markets outside Europe. Leveraging from Fiji's geographical advantage, we also have great opportunities for marketing "Sugars of Fiji" both locally and regionally within the South Pacific and into Far East markets. FSC has commenced discussions with new customers in Japan, Taiwan, Hong Kong and New Zealand to potentially begin supply in 2018.

We are in the process of formulating concrete plans including financing arrangements to refurbish and upgrade the mills; to further mechanise harvesting and to improve cane transport by refurbishing the long neglected rail network system complemented by the manufacture of new cage bins for rail cartage of cane.

Early next year, FSC will commence the ordering and purchase of mechanical harvesters, tractors and implements; and also new trucks. These will be deployed by FSC to help farmers reduce costs of producing cane. In addition, FSC has concluded a trial for rail cage bins. This was very successful and well received by farmers. FSC will scale up the manufacture of cage bins to significantly increase their availability for farmers in 2018.

As a step towards addressing its future financing needs, the Corporation has opened negotiations on the sale of various properties in their portfolio. This should inject fresh cash inflows to assist cash planning from March 2018. The provision in May 2017, of an increase in Government guarantee facilities to FJD322 million for FSC, provides great comfort and reassurance to debt providers. EXIM Bank of India has offered fresh funding facilities to FSC which will be used for strategic capital projects. Similarly, Fiji Development Bank advanced a new facility to FSC during the year. These banking relations are examples of institutions who have confidence in FSC going forward and support FSC's strategic plans with solid facilities. ANZ Bank continues to support us with our working capital needs. We are grateful to all these institutions.

The Corporation has engaged the Fiji Government to consider and implement the conversion of current Government loans of \$173,816,930 to shares in FSC and furthermore, to propose the acquisition of minority shares. FSC has also engaged consultants to carry out a capital optimization review to reduce current debts; and to source additional capital as equity or hybrid debt instruments for FSC. Shareholders will be advised as these corporate initiatives are progressed.

We will continue to keep you updated of our progress through our regular roadshows and town hall meetings, meanwhile, I want to assure you that the Board has every confidence in the new Executive Management ably led by Mr Clark and is totally committed to ensuring the future viability of FSC.

I take this opportunity to also acknowledge and thank Mr Mikaele Biukoto, who was Acting CEO between the period October 2016 to January 2017, for leading FSC during what was a very challenging period following the departure of the previous CEO.

I wish to thank the shareholders for their support and confidence in the new Board; and also thank the management and staff of FSC for their passion, continued hard work and commitment.

We have at this morning's Board meeting agreed to pay all staff other than senior management, a 5% wage increase effective 1<sup>st</sup> December 2017. It should be noted that the last increase was in 2014.

I am also very grateful for the efforts and support of the growers and together with my fellow directors, I look forward to working with them for further enhancement of the cane output.