



PRESS RELEASE

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FSC CUTS BACK COSTS

The Fiji Sugar Corporation Limited today announced that it has embarked on major cost-cutting measures, in recognition of its tight financial situation.

In making this announcement, FSC Chief Executive Officer, Mr Deo Saran said that the mills have now been upgraded and have the capacity to crush over 4 million tonnes of cane, annually. FSC has invested \$150 million in its Mill Upgrade Program. However, the current level of cane production is around 2 million tonnes which is 50% of the mill throughput requirement.

In addition, the EU sugar price has declined by 36% effective from 1 October 2009 following reform of the EU Sugar Regime.

Coupled with the above, the 2009 season did not perform to expectations resulting in operating loss of around \$30 million.

The diversification projects such as cogeneration and ethanol had to be delayed, following delays in the Mill Upgrade Program and reduced cane production.

The above factors have caused FSC severe financial difficulties to the extent that it now requires tough cost-cutting measures together with restructuring its financials to ensure on-going viability.

The following cost-cutting measures have been put into place with immediate effect:

1. **Budgetary Control**

An aggressive Operating Budget has been set for the 2010/11 financial year. The Budget provides for a reduction of \$16.3 million, representing 20% of expenditure when compared to the previous year.

To achieve this level of cost reduction, it is imperative that crushing operations run smoothly. Interrupted crushing operations, regardless of its cause, whether breakdown in mills or inadequate cane supply, will have repercussions on expenditure levels.

2. **Wage Costs**

Wages cost total \$33 million and form a significant part of the operating expenditure. The following strategies are put in place to reduce wage costs:

- **Manpower Rationalisation**

FSC has already embarked on a manpower rationalization which has resulted in reduction of its employees from 2,623 to 2,015 in the crushing season, a reduction of 23% over the previous year.

Measures are in place to further reduce the workforce to 1,200 during off-season and 1,500 during crushing season. This would see manpower numbers reduce by around 40% over the next 18 months.

Initiatives required to achieve this level of reduction would include organizational restructure, outsourcing of non-core functions, streamlining of processes and centralizing finance, human resources and technical support functions.

- **Overtime Payments**

Payment of overtime be eliminated, however, employees will be entitled to take time-off instead.

- **Other Measures**

In addition to these, other measures necessary to bring wage cost in line with Industry Best Practices will continue to be explored.

3. Motor Vehicle Rationalization

A major motor vehicle rationalization program has been put in place which will result in reduction in vehicles by 35%, effective from 1 July and surplus vehicles will be disposed. This would be achieved through pooling of motor vehicles at all operating centres.

REVENUE MEASURES

In addition to the above cost-cutting measures FSC will put in place the following measures to supplement its revenue stream:

- **Disposal of Non-Core Assets**

Wherever practicable all non-core assets such as surplus land, plant and equipment that have become surplus following the Mill Upgrade Program, decommissioned railway lines and all available scrap metal, will be disposed within the next twelve months.

- **Review of Electricity Rates**

FSC has been generating electricity and supplying to FEA for the national grid since 1992 for which it gets paid 8.8 cents per unit. These rates have not been reviewed to date. The Commerce Commission has recently announced that the power produced by IPPs and sold to the national grid be affixed at 23 cents per unit. FSC has taken this matter up with the FEA with a view to review the rates to an equitable level.

CANE PRODUCTION

In addition to the above cost-cutting measures and the supplementary revenue generating initiatives, from a business point of view, the real issue that remains to be addressed is the increase in cane production to meet the mills' throughput requirements.

With the support of Government a number of initiatives are being implemented to increase cane production. These include measures to address land issues such as the Land Reform Program and making land available for cane planting through the efforts of the Committee for Better Utilisation of Land. Government has provided a grant of \$6 million towards land preparation for the 2010 planting season which has a target of 6,000 hectares. In addition to this, Government has extended \$19.6 million in subsidies to the South Pacific Fertilizers over the last two years to enable farmers to obtain fertilizer at an affordable price.

While the 2010 planting program is an increase of around 75% over the previous year, this will not be sufficient to meet FSC's mills throughput requirements. FSC is working with Government and the Industry Stakeholders to undertake major cane rehabilitation program over the next two years, bearing in mind that the current crop only accounts for 50% of the cane required by the mills to optimize its efficiencies.

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