

CHAPTER 3

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RISK ANALYSIS ON BUSINESS PERFORMANCE AND TARGET ACHIEVEMENTS



Operation risks

Phu My Fertilizer Plant, the main production plant of PVFCCo, has been operating for over 15 years. Despite having regular and heavy maintenance, it has entered an age where mechanical wear and tear posed more risks. The potential operational problems may cause the production downtime. As a result, the downtime may significantly affect production efficiency, input costs and revenue and profit targets. In addition, the problems at the factory may pollute the environment, impact the employees and increase the maintenance cost. In 2019, during the connection and operation process of existing plants and the NH₃ Revamp - Phu My NPK Complex, there was a halt of operations to handle an incident which lasted 72 days, causing a sharp decline in Urea production output.

Although only recently going into operation, the Phu My NPK Plant is still subject to risks of stability and maximum operating capacity.



Input price risks

Gas is the key production input for Urea and it takes a major portion of cost of goods sold. Although gas supply is assured by the Government of Vietnam, the price is set by the market with annual transportation costs depending on gas sources approved by the competent authorities. And the market price fluctuates widely and affects input cost and in turn profitability. In addition to this, since natural gas is considered a limited resource with unstable sources in the long term, mobilizing gas from different sources can often be subject to fluctuations in transportation costs.



Market risks

At present, the total domestic demand of Urea is about 2 million tons, while the total domestic production capacity exceeds 2.6 million tons. In recent years, despite strong competition from domestic producers, they have not reached full production capacity as yet. Admittedly, Phu My Urea is a strong brand and all its production has been sold at an optimal market price. However, there is always a possibility of losing its market share and having to conduct price cutting, especially after the production capacity and operational efficiency of other producers have improved. There is also the threat from Urea imports.

As for Phu My NPK products, it is now positioned as high-end products with high quality, suitable for high value customers and crops with large investment levels. As a result, the production and market share are at risk of decline due to falls in agricultural product prices.

In addition to this, risks of climate change, natural disasters, extreme and unusual weather, and the spread of counterfeit goods also pose major threats to the fertilizer industry, and especially to a prestigious brand like Phu My Fertilizer.



Financial and restructuring risks

The Corporation has several long-term investments in non-core business. Some of these investments are under performing, such as, VNPOLY (PVTEX) and PVC Mekong. According to the restructuring plan, PVFCCo has set a target date to divest these investments, in spite of great difficulty. Although the Corporation has provided for investment loss, it has plans to improve the performance of these companies so as to attract potential investors at a higher valuation. These supports may expose other costs for the Corporation.

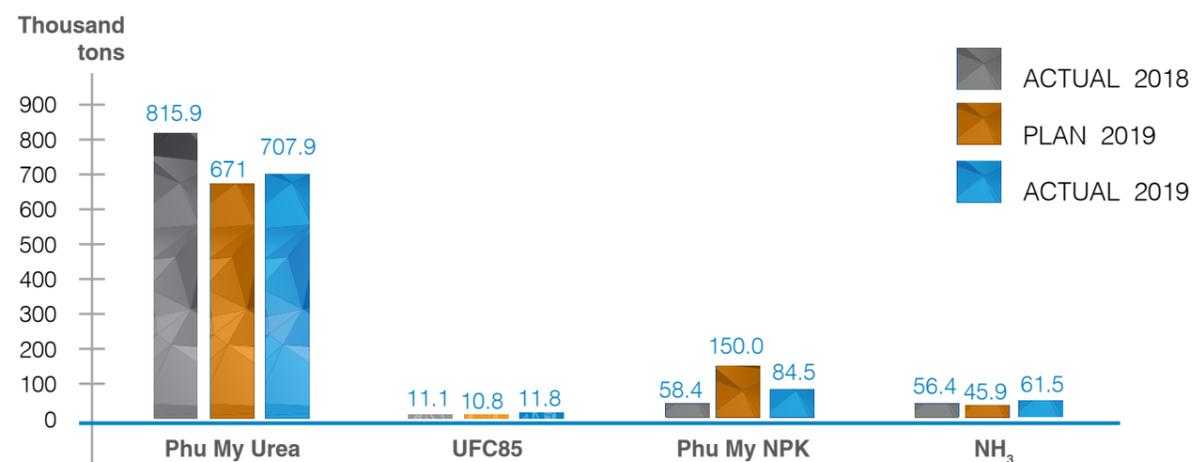
BUSINESS PERFORMANCE

Summary on business performance 2019

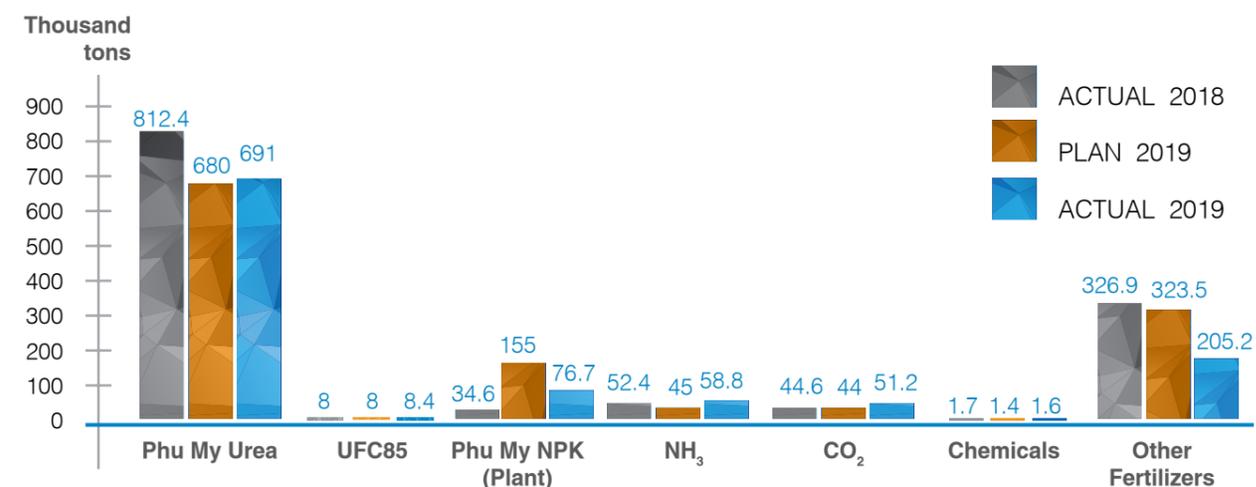
No.	ITEM	ACTUAL 2018	PLAN 2019	ACTUAL 2019	RATIO COMPARED WITH 2018 (%)	PLAN COMPLETION RATE (%)
A	B	1	2	3	4=3/1	5=3/2
1	PRODUCTION (Thousand tons)					
	Phu My Urea	815.9	671.0	707.9	87%	106%
	UFC85	11.1	10.8	11.8	106%	109%
	NPK	58.4	150.0	84.5	145%	56%
	NH ₃ (for trading)	56.4	45.9	61.5	109%	134%
2	SALES VOLUME (Thousand tons)					
	Phu My Urea	812.4	680.0	691.0	85%	102%
	NPK	34.6	155.0	76.7	222%	50%
	Other fertilizers	326.9	232.5	205.2	63%	88%
	UFC85	8.0	8.0	8.4	105%	105%
	NH ₃ (for trading)	52.4	45.0	58.8	112%	131%
	CO ₂	44.6	44.0	51.2	115%	116%
	Chemicals	1.7	1.4	1.6	94%	116%
3	CONSOLIDATED FINANCIAL INDICATORS (Billion VND)					
	Total revenue	9,438.6	8,645	7,831	83%	91%
	Profit before Tax	870.6	205	467	54%	228%
	Profit after Tax	712	170	389	55%	229%
	Budget payable	304.3	206	170	56%	83%

No.	ITEM	ACTUAL 2018	PLAN 2019	ACTUAL 2019	RATIO COMPARED WITH 2018 (%)	PLAN COMPLETION RATE (%)
A	B	1	2	3	4=3/1	5=3/2
4	PARENT COMPANY'S FINANCIAL INDICATORS (Billion VND)					
	Owner's equity	8,132.2	7,560	8,041	99%	106%
	In which: Charter capital	3,914.0	3,914	3,914	100%	100%
	Total revenue	9,017.3	8,400	7,006	78%	83%
	Profit before Tax	863.2	190	436	50%	229%
	Profit after Tax	715.2	163	370	52%	227%
	Ratio of Profit after tax/Charter capital	18.3%	4%	9.46%	52%	237%
	Budget payable	276.7	188.3	150.0	54%	80%
5	INVESTMENT (Billion VND)					
a.	Total investment	909.6	772	116.3	13%	15%
	Basic construction Investment	831.0	692	100	12%	14%
	Equipment procurement	78.5	80	16.3	21%	20%
	Capital investment					
b.	Capital investment source	909.6	772	116.3	13%	15%
	Owner's equity	341.9	498	41.8	12%	8%
	Loans and others	567.7	274	74.5	13%	27%

Fertilizer and chemicals production in 2019



Fertilizer and chemicals sales volume in 2019



Major changes in business strategy, revenue, profit, expenses, market, products and supplies - The reasons

In 2019, the world and domestic economy continues to face many difficulties, causing significant impacts on production and business activities of domestic enterprises in general and fertilizer enterprises in particular - including PVFCCo. However, with outstanding efforts, PVFCCo continues to strengthen its leading position in the fertilizer and chemical industry, fulfilling and exceeding important targets that have been approved by the General Meeting of Shareholders. The year 2019 continues to be a milestone year for the scale of production and business as the NH₃/NPK project contributes to the increasing growth of the Corporation.

Regarding the outstanding factors that can cause difficulties in production and business activities in 2019, it can be evaluated as follows:

- › The market: Cheap and abundant imported fertilizer volume affects the consumption situation of domestic fertilizer enterprises. The selling price of agricultural products which depend on NPK and Urea fertilizer, such as pepper, coffee, rubber and rice reduced sharply, which greatly affected the ability to invest/re-invest in fertilizer. Some regions even reduced cultivation areas and abandoned fields.
- › Hot and dry weather in Southwest and North Central regions, along with floods in the Central Highlands during the main seasons of fertilization led to a sharp decrease in fertilizer demand which was estimated to have decreased by 20%-30% compared to the previous year.
- › The Plant underwent a 72-day maintenance period, resulting in decreased production output and corresponding reductions in sales volume. The Plant's machinery and equipment has been operating for many years, with increasing maintenance costs along with increasing high risk of incidents.
- › The NH₃ Revamp - Phu My NPK Complex was in a maintenance period, undergoing the process of acceptance and settlement, and had to halt operations for repair and maintenance, causing the investment disbursement and output to stay low.
- › Gas transportation costs increased (40% higher than previous schedule) while the average selling price of fertilizer and chemical products decreased compared to the previous year.
- › Low efficiency of investment in affiliates.

Production and business analysis



Production

The Phu My Fertilizer Plant fulfilled its production plan 15 days early with the total production of 708,000 tons, up 6% when compared to the plan, which means they have met production targets before the deadline for 13 consecutive years.



Revenue

Revenue reached VND 7,831 billion, achieving 91% of the plan in 2019, but decreasing 17% yoy. This was mainly due to the long-term maintenance period of the Plant and unfavorable market movements, causing output and selling price to decrease.



Business

With a sales volume of nearly 1 million tons of fertilizer (691,000 tons of Phu My Urea; nearly 77,000 tons of Phu My NPK; 205,000 tons of other fertilizer) and 120,000 tons of chemical, along with activities such as:

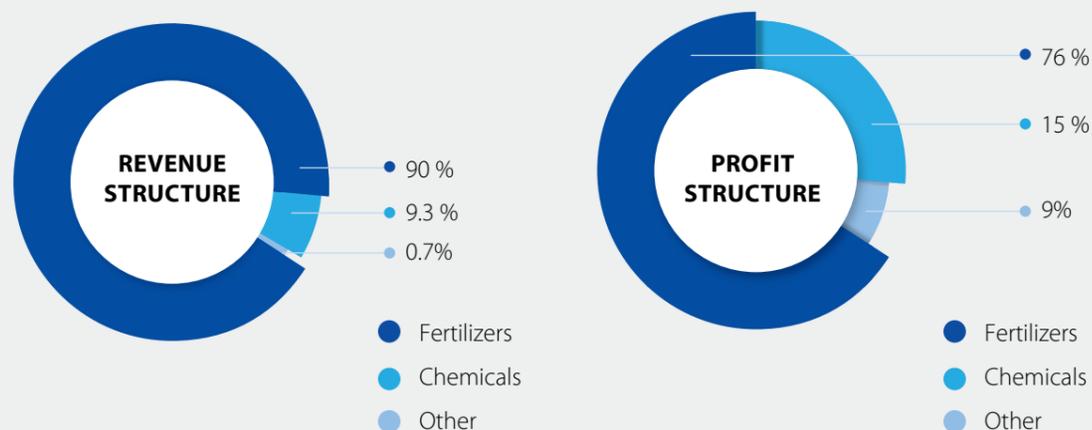
- › Periodic maintenance and preventative maintenance for production equipment were properly carried out, a crucial factor in minimizing machine breakdown and ensuring stable, safe and efficient operation.
- › Phu My Urea remained the leading brand of fertilizer.
- › Phu My NPK began to affirm brand name, total business results in 2019 reached 76 thousand tons.
- › The quality of Phu My fertilizer product sets continued to be affirmed as Phu My Urea products achieved the title of Vietnamese High-Quality Goods for the 16th consecutive time; the Corporation received the title of "Most Popular Agricultural Product" for the 5th consecutive time.
- › As chemical sales volume increased by 12% over the previous year and reached 120 thousand tons - the highest level ever, fulfilling ~122% of the plan, somewhat affirming the development of the Corporation in the production and business field of chemicals and petrochemicals.



Profit

Profit before tax reached VND 467 billion - achieving 228% of the plan in 2019. Revenue did not meet the plan but profit exceeded the plan in 2019, mainly due to sharp decline in gas prices during Quarter 4, making the annual average price fall by 2% compared to the plan, resulting in lower prices and higher sales volume of Phu My Urea compared to the plan. Apart from this factor, interest expenses decreased due to projects with slow disbursement and increased profits from other activities (transportation, warehouse and office leasing, asset sales) compared to the plan. In addition, the reduction of selling expenses, management and energy savings in the operation of Phu My Fertilizer Plant have all contributed to improving the operating profit.

Revenue and profit structure of fertilizers and chemicals in 2019



PROJECT AND OTHER INVESTMENT

According to the 2019 plan, total capital for investment in construction and procurement was VND 772 billion.

A major project was being operated in 2019 is the NH₃ Revamp - Phu My NPK Complex. This project is designed to increase the current capacity of the NH₃ Plant at the Phu My Fertilizer Plant by 90,000 tons per year (an increase of about 20% on existing capacity) and build a factory producing 250,000 tons of NPK per year using chemical technology.

The total investment for the project complex is almost VND 5,000 billion. The project is highly feasible because the demand for NPK high quality in the country requires more than 2 million tons of high quality products each year while the current technology only meets about 5-10% of that need. The Complex was put into commercial operation with a sales volume of 59,000 tons; sales volume and production output of NPK Plant reached nearly 85,000 tons and 77,000 tons, respectively,

contributing around VND 1,045 billion to the total revenue in 2019.

In 2019, PVFCCo disbursed VND 133 billion, achieving 17% of the plan. This was due to the last milestones of 2 EPC contracts for NH₃ Revamp - Phu My NPK Complex, in which the contractor has not completed the payment documents; In addition, there are some items arising that have not been agreed between the investor and the contractor.

Return on capital

(Summary report on the performance of subsidiaries and capital contributors)

Unit: Billion VND

No.	ITEM	EQUITY TO TOTAL CHARTER CAPITAL RATIO	MARKET VALUE OF TOTAL INVESTED CAPITAL	CHARTER CAPITAL	PROFIT AFTER TAX (PAT)	PAT TO CHARTER CAPITAL RATIO	2019 DIVIDEND
I	Investment in subsidiaries		386.25	515.00	44.63		33.15
1	PVFCCo North	75.00%	90.00	120.00	12.18	10%	9.00
2	PVFCCo Central	75.00%	75.00	100.00	15.57	16%	9.00
3	PVFCCo SE	75.00%	93.75	125.00	10.89	9%	7.50
4	PVFCCo SW	75.00%	127.50	170.00	5.99	4%	7.65
II	Investment in joint venture companies		680.90	2,487.80	(614.59)		3.09
1	PVTEX	25.99%	562.70	2,165.11	(605.95)		-
2	PVC Mekong	35.63%	100.00	280.69	(12.55)		-
3	PVFCCo Packaging	43.34%	18.20	42.00	3.91	9%	3.09
III	Other long-term investments		20.50	396.35	5.03		0.11
1	PAIC	8.50%	3.60	42.35	2.27	5%	0.11
2	Ut Xi Aquatic Products Processing Corporation	6.78%	16.90	354.00	2.76	0.5%	
TOTAL			1,087.65	3,399.15	(564.93)		36.35

THE CORPORATION'S FINANCIAL PERFORMANCE

Assets and capital

Unit: Billion VND

ITEM	31/12/2018	31/12/2019	% INCREASE (DECREASE)
Total assets	11,134	11,440	3%
Current assets	5,172	5,944	15%
Non-current asset	5,962	5,496	-8%
Total resources	11,134	11,440	3%
Liabilities	2,879	3,279	14%
Owner's equity	8,255	8,161	-1%
Charter capital	3,914	3,914	%
Total revenue	9,439	7,831	-17%
Total cost	8,571	7,366	-14%
Interest	62.6	106.9	171%
EBIT	933	574	-38%
Profit before tax	871	467	-46%
Profit after tax	712	389	-45%
Profit after tax of minority shareholders	13	11	-15%
Profit after tax of parent company	700	378	-46%

Financial indicators

ITEM	2018	2019
Liquidity ratios		
Current ratio	3.42	2.88
Quick ratio	2.32	2.23
Solvency ratios		
Total debt/total assets	25.86%	28.66%
Total debt/total equity	34.88%	40.18%
Operational capacity ratios		
Inventory turnover	5.13	4.17
Net revenue/total assets	83.50%	67.16%
Profitability ratios		
Net profit after tax/Net revenue	7.66%	5.06%
Profit before tax/Total revenue	9.22%	5.96%
ROE	8.74%	4.74%
ROA	6.66%	3.45%

After 17 years of establishment and 13 years of operation as a joint stock company, PVFCCo has been increasingly growing, developing and improving its sustainable values. The Corporation is inspired by past experiences to promote human resource development in line with dynamic changes in organization structure, management, and business operations. In 2019, despite facing many challenges and difficulties, the Corporation has strived to achieve certain results in production and business activities to create premise for its development in the coming years.

IN GENERAL

In order to achieve the important targets assigned by the General Meeting of Shareholders in 2019, the Corporation has taken advantages of and overcome the following main difficulties:

Advantages

- › The input supply of gas is ensured and fully meets the operational demands of the Phu My Fertilizer Plant.
- › Phu My brand has created its prestige with customers.
- › The distribution system has been deployed deeply and widely to the consumption regions.
- › Funds are sufficiently and promptly secured for production and business activities.

Disadvantages

- › The fiercely competitive market and the abundance of imported goods negatively affects domestic consumption;
- › During its maintenance period, Phu My Fertilizer Plant had identified that after being commissioned and put into operation, the HTER equipment of the NH₃ Revamp project had damaged its refractory concrete layer, which required a lot of time to repair and recover. Therefore, the Plant's downtime was prolonged, affecting the production and business situation of the Corporation.
- › Phu My NPK is a new product, and as a result requires some time to completely implement production and achieve stable operation.
- › Climate change has seriously affected agricultural production.
- › Falling agricultural product prices affect investment in agriculture.
- › Fertilizer and chemical prices have fallen since the second half of 2019.
- › The spread of counterfeit and poor-quality products on the fertilizer market are still not controlled closely.
- › Gas transportation cost is higher than the set schedule.



PRODUCTION AND BUSINESS PERFORMANCE

For details, please refer to the Business Performance Report in 2019 on page 46 to 47.

Progress achieved in the year

› Production

With the experience accumulated in periodic maintenance, in 2019, PVFCCo continued to actively and promptly clear up problems that arose and effectively carry out periodic and preventative maintenance for production equipment, a crucial factor in minimizing machine breakdowns. The review, adjustment, and application of these norms were obviously effective, resulting in the total energy consumption of production workshops in 2019 being lower than targets, and the total energy saving costs in the production sector reached VND 85 billion.

› Business

Phu My Urea brand remains its solid position in the domestic market amid fierce competition from cheap imported fertilizers. In addition, it has created a foothold in the market with the quality of Phu My NPK, MOP, DAP, and continues to develop chemical production and business activities.

› Capital construction investment and procurement projects

Total disbursement for investment and procurement projects is VND 133 billion.

The NH₃ Revamp - Phu My NPK Complex: The projects of increasing the capacity of the NH₃ production workshop at the Phu My Fertilizer Plant by 90,000 tons/years (20% higher than the existing capacity) and constructing the plant which utilized the NH₃ source made by chemical technology, to produce 250,000 tons of NPK fertilizer per year has been put into operation. In 2019, the Complex project continued to contribute about VND 1,045 billion in revenue, equivalent to more than 13% of total revenue of the Corporation.

› Research & Development

Research studies continue to focus on applied research. In 2019, PVFCCo's test product of Kebo 6SiO₂ + TE Urea received positive reviews from customers, and PVFCCo is currently preparing the next steps required to eventually introduce commercial products to the market.

› Human Resources

The Projects of Remuneration Policy Improvement and KPI have provided motivation for employees to promote creativity and improvement in their work and help the Corporation to retain the high-qualified staff.

However, there's a need to fix some remaining issues:

- › The project progress is behind schedule.
- › Management and personnel structure need further streamlined.
- › Financial investment (joint venture) was not efficient.

FINANCIAL ANALYSIS

Assets and Liabilities

Total assets as at 31/12/2019 was VND 11,440 billion, increase of 3% from the beginning of the year (VND 11,440/11,134 billion). Cash and cash equivalents increased by 73% from the beginning of the year (VND 2,977/1,717 billion).

In 2019, loss provisions amounted to VND 131 million for Ut Xi Aquatic Products Processing Corporation, as per the instructions from the Ministry of Finance.



Liabilities

PVFCCo's 2019 liabilities were VND 3,279 billion, up 14% as compared to the beginning of the year (VND 3,279/2,879 billion).

Total liability to total assets ratio and total liability to equity ratio increased compared to those of 2018, but current ratio and quick ratio in 2019 were remained higher than 1. This shows the ability to pay the debts well, and the Corporation does not have any pressure on due debt, ensuring good production and business activities.

Given the closing balance of Cash and Cash equivalents at VND2,977 billion, there is sufficient funding for manufacturing, trading and investment projects as planned.

Profitability

Profitability ratios of PVFCCo such as ROE, ROA decreased significantly compared to those in 2018.



Top 50



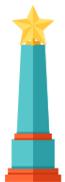
PVFCO was ranked among Top 50 best listed companies in Vietnam (voted by Forbes Vietnam).

Top 40



Phu My Fertilizer brand is among the Top 40 most valuable trademarks in Vietnam (voted by Forbes).

Top 5



PVFCO ranked among Top 5 large-cap listed companies and was awarded with Best corporate governance companies award (jointly organized by Ho Chi Minh City Stock Exchange & Hanoi Stock Exchange).

Top 3



DPM ranked among Top 3 Midcap listed companies with the best IR practices (organized by vietstock.vn, an online website on economic and financial news).

Top 30



PVFCO received the "Top 30 listed large-cap companies with Best Annual Reports" award.

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Phu My Fertilizer won the title of High Quality Vietnamese Goods for the 16th consecutive time.

Top 500



PVFCO is in the Top 500 largest enterprises in Vietnam (VNR500) for the 12th consecutive time.

5



"Most Popular Agricultural Product" for the 5th consecutive time voted by the Central Committee of Vietnam Farmers' Union.