

Statement from the Executive Chairman and Chief Executive Officer

A record year for trading

2019 was another successful and profitable year for the business, giving us confidence in a rapidly changing world.



Jeremy Weir
Executive Chairman and
Chief Executive Officer

It gives me great pleasure to present the 2019 Annual Report from the Trafigura Group, which describes another successful and profitable year for our company.

We live in volatile and uncertain times, not least in respect of international trade and the role of natural resources. These times demand qualities of resilience, discipline and adaptability in companies seeking to build a long-term position serving consumers and producers in global commodity markets. One message that emerges strongly from these pages is that Trafigura possesses these qualities and has this year prospered by deploying them to service our customers and partners.

Record trading performance

Trafigura's two core trading divisions, Oil and Petroleum Products and Metals and Minerals, delivered a record performance in 2019, as measured by Group gross profit and EBITDA. Gross profit was USD2,978 million, a 25 percent increase on 2018, while EBITDA was up 24 percent at USD2,129 million. Gross profit from oil trading was up by 64 percent, showing the benefits of our restructuring of the division in 2018 and of its focus on the most profitable flows, notably from the US. Metals and Minerals matched its strong performance in 2018. Overall gross trading margin was 1.7 percent compared to 1.3 percent last year. Trading volume on both sides of the business also increased, with total volume up by four percent to 389 million tonnes and oil volumes up by six percent to a daily average of 6.07 million barrels.

Net profit for the year, by contrast, was steady at USD867.8 million. This is a satisfactory result and in line with performance in each of the two previous years. The fact that it does not fully reflect the excellent trading performance is due to financial impairments and write-offs related to some of our industrial assets and investments. These adjustments in themselves demonstrate our disciplined and conservative approach to asset evaluation. We will continue to invest in assets in a prudent and disciplined way where it supports our trading business.

In oil, the emergence of the US as the world's leading producer has effectively re-engineered the global market, with barrels now moving predominantly from west to east. Trafigura is a leading player in exports of crude and of other products such as liquefied natural gas from the US, and has built an unrivalled network of relationships with producers, refiners and end-users around the world. We are a leading supplier of the materials required in the transition to a lower-carbon economy, including aluminium, cobalt, copper and nickel.

Trafigura Group's core strategy is to provide logistical services to producers and consumers of energy and industrial raw materials. Our business relies on managing global supply chains of such commodities in the most efficient and reliable manner. These services are in particular demand now as a result of trade conflicts, geopolitical tensions and radical changes in commodity flows.

Mixed picture in asset investments

The third pillar of our diversified business model is investment in assets relevant to our commodities trading business. It remains our strategy to address bottlenecks in the supply chain even if it results in short-term costs. In 2019, the picture was mixed. On the positive side, we made a significant gain as a result of two important transactions with leading ship owners Frontline Ltd. and Scorpio Tankers Inc. to exchange long-term leasing obligations with purchase options on a total of 29 oil tankers for equity in those companies.

This gain was however more than offset by impairments elsewhere, including write-downs related to Nyrstar N.V., following financial restructuring of that company. We also saw further adjustment in the value of other infrastructure assets and investments. The financial impairments and value adjustments taken in 2019 demonstrate that Trafigura is making progress in addressing under-performing assets. This applies to our 49 percent holding in Puma Energy, where management is on course to achieve a turnaround.

The Nyrstar transaction was an important event during the year for us. Nyrstar owns world-class assets on three continents, but ran into financial distress as a result of an excessive debt burden through overexpansion. It has the potential to return to profitability. In addressing Nyrstar's problems, Trafigura has assisted in safeguarding thousands of jobs and given a company with a distinguished past a viable future.

We will continue to invest in assets and form partnerships in a prudent and disciplined way where it supports our trading business. An example realised in 2018 is our joint venture with IFM Investors to manage a number of Impala Terminals operations handling non-ferrous concentrates and other logistical assets previously operated by Impala Terminals. This venture is performing well. Another promising development is our investment in downstream and retail oil assets in Argentina, which is making good progress despite a turbulent political and economic environment. Our portfolio of mining assets also continues to perform well with a robust outlook for 2020.

Compliance

Trafigura has for a number of years now been focused on developing effective and robust compliance practices and this has continued over the year. Our practices address the need to be compliant and also how our business is adapting and growing. To highlight some key developments:

- We have eliminated the practice of using intermediaries or agents for business origination and development purposes.
- We are increasingly utilising technology to review, monitor, identify and flag high-risk counterparties and activities faster and more accurately.
- We continue to enforce strong, systemised, controls on expenses and conflicts of interest.
- We continue to develop our programme of customised, frequent and mandatory compliance training across our company in accordance with our Code of Business Conduct.

We will continue to reassess our compliance programme while working with industry on improvements as technology, regulations and stakeholder expectations evolve.

Outlook: confidence in a rapidly changing world

We are confident that 2020 will be another good year for us. The reasons for this include:

- The market volatility and political and economic uncertainty experienced this year are unlikely to diminish in the next 12 months. This will reinforce the need for flexible, risk-aware and resilient global platforms in the commodities business.
- The market is already preparing for changes in the global shipping and oil businesses as a result of the IMO 2020 rule change that is aimed at reducing sulphur emissions from ships. Trafigura is well positioned to help the industry cope with these changes and to build its position in the bunker fuel market via a newly-established bunkering joint venture with ship owners Frontline and Golden Ocean.
- We see our long-term asset investments making progress and contributing to our bottom line. We see further upside, for example, in our mining operations and the shipping market. Nyrstar, with its global footprint of production across Europe, Asia-Pacific and the US, should over time contribute to our EBITDA.

We also see many opportunities related to the wider changes underway in the world. The most important of these changes is undoubtedly the growing recognition that climate change needs to be addressed and that to do so, entire energy and transportation economies need to change. By virtue of our global footprint, financial resources and talented people, Trafigura is well positioned to make a positive contribution.

We are intensely focused on the opportunities that addressing climate change will bring to our business. Trafigura is already, for example, extensively involved in the supply chain of materials required for batteries. Through our newly created Power and Renewables trading division, our power trading activities are developing, as are investment opportunities in renewable energy.

Trafigura remains a major trader in energy and fuels. We are taking action to reduce emissions and we contribute towards industry change, including the need for greater actions to curb emissions from shipping. Our Responsibility Report provides information on the steps we are taking to reduce these emissions.

In considering these possibilities, we have the advantage of not being heavily exposed to ownership of resources in the ground. Instead, we aim to apply our trading skills to assisting with the commodities transition, for example, by harnessing our existing expertise in commodity trading to provide new services to power generation. We also continue to refine our global trading platform, through the growing use of artificial intelligence, bringing further efficiencies to commodity markets. These are all subjects I hope to report on more in next year's Annual Report.

Jeremy Weir

Executive Chairman and Chief Executive Officer