

Risk Management System

KEY RISKS

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Markets and prices

Volatility in commodity prices, spreads, interest and exchange rates.

Fluctuations in the supply of, or demand for, commodities that we trade.



Finance, liquidity and credit



Compliance, internal controls and sanctions



Legal, taxation and regulation

Changes in taxation arrangements in various territories.

Collateral effects of changes in financial regulatory frameworks.



Counterparty, country and credit



Operational and Environmental, Social and Corporate Governance (ESG)



Digital infrastructure/cyber-security

MITIGATION AND ACTIONS

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- Trafigura's policy is to hedge all index price exposure related to physical transactions on a deal-by-deal basis.
- All stock is at all times either pre-sold or the index price is hedged.
- Despite such hedging, Trafigura remains exposed to basis risk, i.e., the risk of changes in the difference between the price of the commodity being hedged and the hedging instrument. The Group carefully monitors its hedging positions on a daily basis to avoid excessive basis risk resulting from these imperfect correlations.
- The majority of sales and purchases are denominated in US dollars. Exposure to other currencies is hedged and financing raised in currencies other than US dollars is generally swapped into US dollars.
- Our policy is to borrow short-term working capital at floating rates, with any rate changes passed through to our customers, and to fix rates for medium- and long-term financing via the swaps market.
- Freight costs are hedged by our Shipping and Chartering Desk via Forward Freight Agreements and bunker costs.

- Trafigura relies on a deep pool of financing from banks and investors for working capital to support its business, consisting of three pillars: (i) Trade finance, (ii) securitisation and (iii) unsecured committed revolving credit facilities.
- For longer-term capital needs, we raise funds on public bond markets or through private placements with institutional investors. We follow a strict policy of matching the maturity of our assets and liabilities with longer-term assets supported by longer-term borrowings.
- We take a conservative approach to managing our funding liquidity, with more than one-third of committed facilities unutilised at all times under normal market conditions, and immediately available cash of at least USD500 million always on hand.
- Our transactional financing base allows the underlying assets to be entirely marked-to-market, matching liquidity needs for any related margin calls.

- Trafigura's Compliance Department oversees Group activities in partnership with front office functions to ensure that we operate appropriately and that our controls are relevant and robust. It focuses on promoting a sound compliance culture across the organisation in which everyone recognises their personal responsibility for meeting our compliance objectives. The team adopts a risk-based approach, allocating energy and resources to the issues that matter most to our core business and our stakeholders.
- The Department's activities include counterparty due diligence (KYC); anti-money laundering; sanctions and trade restrictions; anti-bribery and corruption and financial market conduct.
- The Group ensures that all obligations with regard to international sanctions are respected across all our business activities and that we fulfil the undertakings on sanctions that we give as part of our credit facilities. This is a key focus for the trading desks with support from the Compliance Department, as well as Legal and Finance departments.

- Trafigura is focused on managing legal, taxation and regulatory risks across the multiple jurisdictions in which it operates. The Group adheres to all applicable local and international tax laws, including legislation on transfer pricing.
- We continue to follow the ongoing discussions surrounding the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Pillar One and Pillar Two blueprints. Once a concrete and final direction is determined, we will respond accordingly.
- We are also following closely the discussions about potential new forms of regulation that may be imposed on commodities trading firms. We have made representations to the appropriate authorities about the risks and unnecessary costs of introducing position limits in commodity derivatives markets and of imposing regulatory capital requirements on commodity trading firms.

- Trafigura uses internal credit limits established by the Credit Department to reduce counterparty and credit risk. The Group prides itself on having had an extremely low incidence of credit losses throughout its history.
- Trafigura reduces political risk in relation to countries below a certain risk rating as gauged by Dun & Bradstreet by purchasing political risk insurance.
- Credit limits reflect Trafigura's own appetite for risk and are based on a credit analysis of the client as well as the size of the relevant transaction when compared to Trafigura's balance sheet.
- In light of lower commodity prices in 2020, we paid particular attention to screening our portfolio of prepayment agreements with producers for credit risk.
- Exposures in excess of a credit limit are covered through the insurance or bank markets.

- Our Corporate Responsibility Policy and Business Principles articulate the leadership team's priorities and commitments for social and environmental governance. At the operational level, they outline what is expected from everyone in the Group, its divisions and operating companies.
- Each division and operating company is required to supplement the Policy and Principles with relevant, sector-specific standards and procedures to manage the impacts of their operations.
- The HSEC Steering Committee requires all divisions and operating companies to maintain a material risk register describing the key issues they need to manage and mitigate.
- All HSEC incidents are recorded and categorised for severity on Safeguard, the Group's HSEC data management system.
- Incidents registered as levels 3, 4 or 5, involving significant spills or single or multiple fatalities, as well as high-potential near misses are investigated and the results and remedial actions are presented to the HSEC Steering Committee.
- We engage actively with leading industry forums, including the UN Global Compact, the EITI, the World Economic Forum Global Battery Alliance, OECD and Responsible Minerals Initiative.

- Trafigura invests in state-of-the-art systems to protect the integrity of its IT architecture and processes against the threat of fraud or other potential damage from cyber-attack.