

Statement from the Executive Chairman and Chief Executive Officer

A strong result in a volatile year

In an extraordinary period for global commodity markets, Trafigura Group delivered exceptional customer service and a strong overall commercial and financial performance.



Jeremy Weir
Executive Chairman and
Chief Executive Officer

I am pleased to present Trafigura Group's 2020 Annual Report, covering our performance and progress in what by any standard was a challenging and volatile year for the global economy and for commodity markets, as a result of the COVID-19 pandemic.

It was a year in which commodity supply chains were significantly disrupted, not only by the virus and by government measures to curb it, but also by changing trade policies and geopolitics. Amidst unprecedented market conditions, our expertise in physical commodity trading, risk management and logistics was called upon to an exceptional degree.

I am proud to say that our people around the world rose to the challenge, working professionally with resourcefulness, discipline and in difficult circumstances to address our customers' supply issues, deliver reliable service and maintain operational performance. I am also pleased to report that our Foundation, employees and businesses supported a range of community and charitable initiatives to help those most affected by the pandemic. I would like to thank every individual who contributed to these collaborative efforts, from our commercial staff to our support and operational employees.

Our financial result, including a net profit for the year of USD1,599 million, reflects an excellent performance from our core trading divisions, Oil and Petroleum Products, and Metals and Minerals, both of which delivered record gross profit and EBITDA.

At the same time, our industrial assets were adversely impacted by COVID-19 and the consequent economic downturn. Despite further improvements in our health, safety and environmental performance this year, I am saddened to report the death of an Impala Terminals employee in Colombia, and two further fatalities at our MATSA mining joint venture in Spain. These incidents underline the work still needed to achieve the excellence in health and safety to which we aspire.

Changing market dynamics

Trafigura Group's core strategy is to advance trade efficiently and responsibly, using its global scale, cross-commodity reach and in-depth market knowledge to connect producers and consumers of energy and industrial raw materials around the world. Our success this year was a reflection of this core strategy, as well as the investments we have made over several years in recruiting and developing talent and in establishing world-class trading infrastructure, IT and risk control systems.

The teamwork across our global office network ensured that we were quick to understand the rapidly changing and highly variable market dynamics across the commodity spectrum as the virus spread, and to deploy work from home procedures rapidly and smoothly. Our platform could react to price signals by shifting large volumes of commodities between geographical regions to where they were needed most or into storage when supply outstripped demand – the fundamental function of physical commodities traders in volatile conditions.

We were on hand to provide support to our counterparties, helping minimise the impact of COVID-19 and volatile market conditions on their operations. This strong focus on customer service and flexibility further strengthened our long-term relationships.

Margins were boosted by understanding the rapidly changing market environment and by commercialising arbitrage opportunities, resulting in a gross trading margin for the Group of 4.6 percent, a significant step-up when compared to 1.7 percent in FY2019 and 1.3 percent the year before. Consolidation was evident across the trade commodity sector, as competitors refocused business models and smaller players suffered from a reduction in credit availability.

Our metals volumes grew in both relative and absolute terms. In oil, monthly volumes reflected the volatile market conditions and, despite peak volumes in April, were broadly flat overall compared to the previous year, while our global bunker fuel footprint expanded with the successful start of our fast-growing joint venture, TFG Marine.

Financial discipline

Our commercial performance was robust, however, we were not immune to the economic downturn. Our industrial assets in all regions suffered from the contraction in demand and restrictions in the movement of goods and people caused by the pandemic.

The Group took a conservative approach to assessing the value of its fixed assets and maintained a disciplined approach to investment. The fuel distribution and retailing business, Puma Energy, made a loss during the year and its equity value was adjusted downwards on our balance sheet. The Nyrstar zinc and lead smelting business, of which Trafigura took control in 2019, is in the midst of a turnaround, but made a loss. The value of the Colombian port and logistics venture operated by our Impala Terminals subsidiary was also impaired.

This financial year, I am pleased to say that our total capital expenditure – principally focused on maintaining and upgrading Nyrstar's smelting assets after years of under investment – was largely offset by realisations from asset disposals via our profitable sale of equity stakes in shipowners Scorpio Tankers and Frontline.

Transparency and governance

We believe that transparency, responsibility and good governance are vital in building trust, in securing long-term relationships with our stakeholders and in developing and growing our business. Our efforts over recent years to drive greater transparency within the commodities trading sector have contributed to improved international reporting standards, such as those developed by the Extractive Industries Transparency Initiative (EITI), including new sector transparency guidelines launched in 2020. As a Board Member of EITI, Trafigura is committed to uphold industry-leading standards in reporting transparently, engaging constructively and encouraging greater participation.

Similarly, we are progressing various initiatives to improve the transparency of global supply chains and to ensure responsible sourcing, in particular of the metals and minerals we supply, in line with increasing demands from customers, consumers, financiers and regulators. Our Responsible Sourcing programme has been embedded into the business over the past several years. Through it, we aim to identify key risks, engage suppliers, customers and financiers in risk mitigation efforts and provide assurance to key stakeholders that the ores and concentrates we supply are produced in accordance with global standards, including applicable OECD guidelines.

Managing compliance remains a priority. Following the significant steps taken in 2019, including eliminating the practice of using intermediaries for business origination and development across our global operations, we continued to extend and rigorously enforce our robust compliance programme in 2020. This has resulted in systemised processes and significantly strengthened controls related to vessel screening, counterparty due diligence, and the closer oversight of higher-risk third party service providers.

Positioned for a changing world

The world that emerges from the COVID-19 pandemic will differ in important aspects. Efforts to reduce carbon emissions in order to address the problem of climate change, already gathering pace before the pandemic, will accelerate further. Renewable energy will supply an ever-increasing share of the world's power supply, and electric and hydrogen-fuelled vehicles will account for an expanding proportion of the global automobile fleet. New technologies and new environmental regulations will likely result in market disruptions, but also provide business opportunities.

At the end of 2020, Trafigura is in an excellent position to navigate and benefit from these trends. As a leading trader in non-ferrous metals, we have significant and growing exposure to a sector where demand – for copper, cobalt, aluminium, nickel and other products – is set to expand substantially as a result of electrification and renewable energy technologies.

As a leading trader in oil and gas, and metals and minerals, we are playing our part in the energy transition. Whilst oil will remain important and required for many years and we will continue to build market share, we are providing cleaner fuels and alternative energy sources and investing in new technologies such as storage systems and hydrogen.

This year, we set out to enhance these activities by establishing a third trading division focused on power and renewables. We believe that an electricity market that is growing and experiencing significant disruption offers opportunity to apply our commercial and risk-control skills, and I fully expect this new division to take its place alongside energy and metals as a core Trafigura business over the next few years.

As a major charterer and supplier of shipping and as an operator of industrial assets, we are also conscious of the need to reduce the carbon emissions for which we are responsible. This year, we have set ambitious but realistic targets to curb greenhouse gas emissions from our own operations in the next three years. We are also setting out a path to reduce emissions indirectly attributable to our activities over time. The details of these targets and our other environmental, social and governance ambitions, initiatives and performance will be published in our 2020 Responsibility Report.

For Trafigura Group, this was a year that proved and improved the strength of our business. We emerge from it with a stronger balance sheet, an improving asset portfolio and an enhanced and increasingly diversified trading platform that we believe is well placed to adapt to and to assist the accelerated global transition to a lower-carbon world.

These are all reasons to be excited about the prospects for Trafigura Group, not merely to prosper from renewed growth in the global economy following the travails of 2020, but also to play a key role in building a better future.