Financial review

Remarkable trading performance drives record profit

Strong margins and cash-flow generation enabled Trafigura to significantly strengthen its balance sheet, leading to a material reduction of its leverage metrics in the 2020 financial year.

Christophe Salmon
Group Chief Financial Officer

	2020	2019
Group revenue $147.0bn	147.0	171.5
Total assets $57.0bn	57.0	54.2
Gross profit $6.8bn	6.8	2.9
Group equity $7.8bn	7.8	6.8
Gross profit margin 4.6%	4.6	1.7
EBITDA[1] $6.0bn	6.0	2.1
Net profit $1.6bn	1.6	0.9
Adjusted debt 0.35x	0.35x	0.78x

[1] EBITDA (earnings before interest, tax, depreciation and amortisation) is operating profit excluding the share in results of equity-accounted investees, depreciation and amortisation, gains/losses on divestments of subsidiaries, equity-accounted investees and other investments, impairment losses and other non-operating income and expenses.

The 2020 financial year saw the best business performance in Trafigura Group's 27 year history. The company generated record gross profit, EBITDA and cash flow, while profit for the year, at USD1,599 million, was surpassed only by the result in 2013, which included various exceptional, non-cash items.

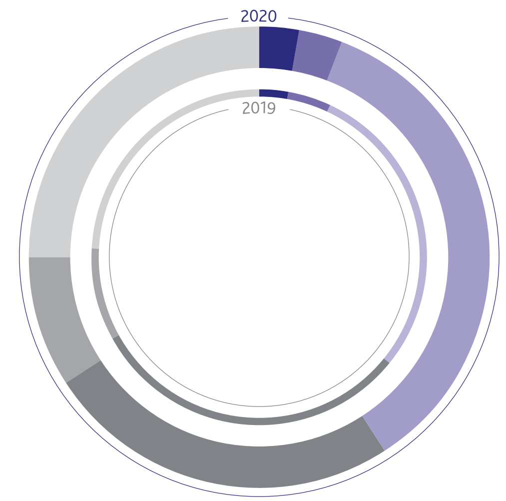
Profit for the year was 84 percent higher than the figure of USD868 million achieved in FY2019. Gross profit, at USD6,795 million, was approximately 2.4 times the FY2019 level (2.0 times on a like-for-like basis). EBITDA at USD6,064 million was 2.8 times last year's total of USD2,129 million (2.3 times on a like-for-like basis). Our overall trading margin was 4.6 percent, likewise a significant multiple of the margins achieved in recent years and nearly three times the level in FY2019.

These figures reflect an outstanding performance by both core trading divisions, Oil and Petroleum Products and Metals and Minerals, in the volatile markets, which were mainly created by the COVID-19 pandemic. The strong profit for the year came despite losses and substantial value impairments in relation to some of our industrial assets as a result of the economic downturn caused by the virus.

Strong earnings and cash flows enabled us to significantly strengthen our balance sheet during the year, with total Group equity rising 14 percent to a record USD7,790 million as at 30 September 2020, from USD6,805 million a year earlier. The valuation of our fixed assets led to significant impairments, which has contributed to improving the solidity and resilience of our balance sheet.

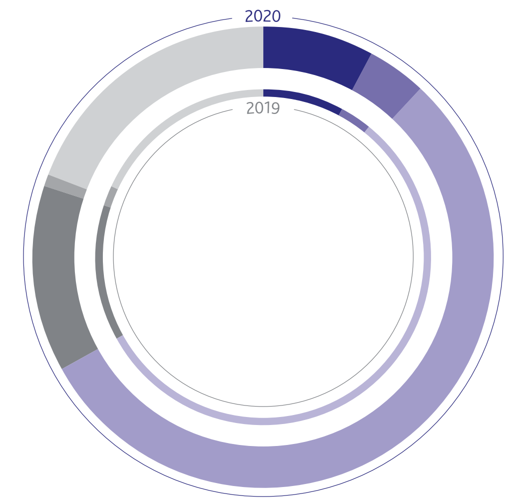
Our financial leverage was sharply reduced, with the ratio of adjusted debt to net equity falling to 0.35x from 0.78x a year earlier, substantially below our medium-term target of 1x. All this was achieved despite a five percent increase in total assets to USD57 billion, mainly driven by the growth in commodity inventories in support of our trading activity during the year and the implementation of IFRS 16.

Oil and Petroleum Products Revenue by geography (%)



	2020	2019
Middle East	3%	3%
Africa	3%	4%
Asia & Australia	35%	29%
Europe	25%	31%
Latin America	9%	9%
North America	25%	24%

Metals and Minerals Revenue by geography (%)



	2020	2019
Middle East	8%	8%
Africa	4%	3%
Asia & Australia	55%	56%
Europe	13%	13%
Latin America	1%	2%
North America	19%	18%

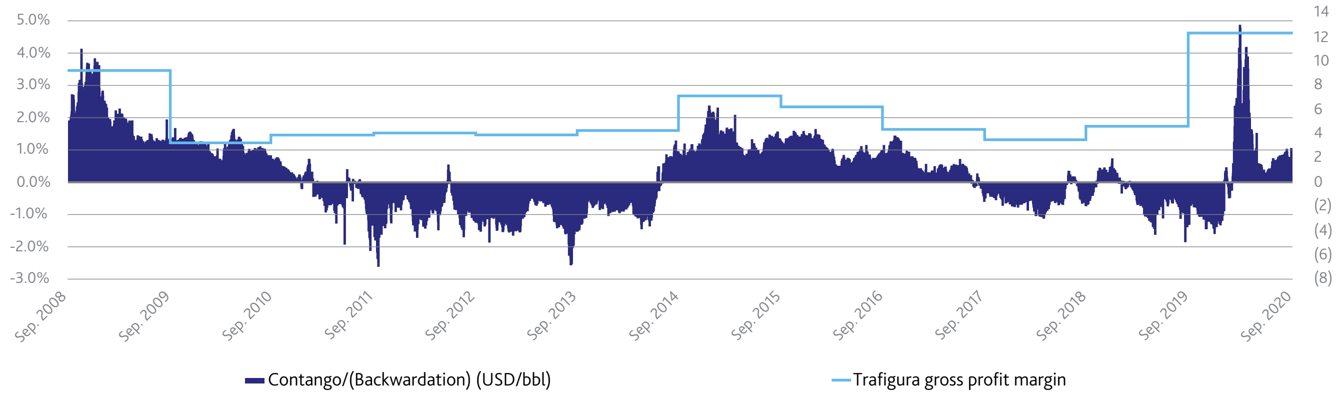
I am pleased to report that we maintained a disciplined approach to capital expenditure during the year, with net cash used in investing activities standing at USD264 million, well within our stated USD500 million envelope for the year. The increase in "acquisition of property, plant and equipment" compared to 2019 relates to Nyrstar's maintenance capital expenditures of USD252 million (Nyrstar was consolidated into the Trafigura Group in July 2019). This additional expenditure was largely offset by a USD374 million cash inflow from the profitable disposal of our non-core shareholdings in shipowners Frontline and Scorpio Tankers.

As a result of our performance and our transparent approach to communication with financial stakeholders, we maintained access to abundant funding throughout the year. We were able to refinance all of the Group's committed unsecured syndicated lines at similar levels. We accessed the debt capital markets with a bond issue in September 2020, showing that Trafigura continues to benefit from a flight to quality in commodity finance in the face of difficulties encountered by some smaller players during the year. We also continued to diversify our sources of funding – for example arranging a "low-carbon aluminium" financing facility at preferential rates.

IFRS 16 reporting

Like-for-like comparisons between FY2020 and FY2019 results are complicated by the fact that FY2020 results incorporate for the first time the new IFRS 16 reporting requirement on lease arrangements (see Note 4, page 64). All the FY2020 figures in this statement, unless otherwise indicated, include the effect of IFRS 16, the detail of which is set out in the consolidated financial statements. The comparable FY2019 figures are presented as reported in the 2019 Annual Report. The net impact of this reporting requirement resulted in a reduction in the profit for the period (after taxes) of USD26 million compared to what it would have been in the absence of IFRS 16, as well as an increase in gross profit of USD997 million and an increase in EBITDA of USD1,194 million. In addition, the requirement resulted in an increase of USD2,258 million in our total assets and a corresponding increase in total group equity and liabilities.

Maintaining profitability through the oil price cycle



Source: Company information and public market data. Contango/(Backwardation) graph is calculated by subtracting CO1 (Generic 1st 'CO' Brent Future) from CO6 (Generic 6th 'CO' Brent Future)

Income

Both our Oil and Petroleum Products and our Metals and Minerals businesses contributed to the marked increase in gross profit in FY2020, benefitting from extraordinary volatility and the emergence of contango forward price curves during the year. Gross profit in Oil and Petroleum Products was USD5,259.0 million (FY2019: USD1,681.4 million) or 75 percent of the Group total. Metals and Minerals brought in gross profit of USD1,535.4 million (FY2019: USD1,188.4 million) equal to 25 percent of the Group total.

The Oil and Petroleum Products division benefited in particular from the unprecedented market volatility, with April 2020 entering the record books as the most volatile month in history for the oil market. Our Oil and Petroleum Products traders were able to take advantage of the elevated volatility while deploying our deep understanding of physical oil flows along with our world-class risk management systems to adapt to the spread of the COVID-19 pandemic in the first half of the calendar year.

Metals and Minerals, meanwhile, maintained the trend of the last few years, steadily growing their customer base and expanding their market share of a consolidating non-ferrous metals market.

Once again, Trafigura benefits from the contribution of these two divisions, Metals and Mining and Oil and Petroleum Products, serving markets with distinct and largely uncorrelated business cycles.

Total Group revenue in FY2020 was USD146,994 million, 14 percent less than the USD171,474 million recorded for the previous year. While our overall trading volumes remained relatively flat compared to 2019, generally lower commodity prices led to a net reduction in revenue.

The total volume of commodities traded dropped marginally by 1.8 percent to 365.3 million metric tonnes, from 372.1 million metric tonnes in FY2019. Oil and Petroleum Products volumes reduced by three percent to 267.7 million metric tonnes, representing an average daily volume of 5.6 million barrels in a market that suffered a slump in demand as a result of the COVID-19 pandemic. Metals and Minerals volumes remained consistent with FY2019 at 97.6 million metric tonnes.

General and administrative expenses rose to USD2,155 million from USD1,049 million, mainly due to the implementation of IFRS16. Net financing costs were somewhat lower than in FY2019 at USD658 million as a result of the softening of interest rates this year. Income tax was USD292 million, compared to USD124 million in FY2019.

Impairments, meanwhile, jumped to a multiple of their levels last year, partly reflecting the economic impact of the pandemic on our industrial assets, including our holding in Puma Energy. The three impairment lines of the statement of income contributed a loss of USD1,568 million, compared to just USD104 million in FY2019. The largest adjustments occurred in relation to our Impala Terminals businesses in Colombia, our holding in Indian refiner Nayara Energy and our stake in Puma Energy. An itemised list of these impairments and losses can be found in Note 11 on page 69.

Balance sheet

Total assets amounted to USD56,985 million as at 30 September 2020. Non-current assets were little changed at USD11,116 million compared to USD10,777 million, despite the implementation of IFRS 16 which requires booking leasing arrangements as "right of use" assets, leading to a new non-current asset of USD2,092 million as at 30 September 2020. The current assets grew by six percent to USD45,867 million from USD43,372 million and within that number inventories rose by 50 percent to USD20,178 million. Inventories significantly rose due to an increase in volumes (51 percent for each of Oil and Petroleum Products and Metals and Minerals divisions) and movements in average prices (Brent price decreased by 34 percent and refined copper increased by 15 percent over the year). The oil contango market structure and the increase in metals prices were key drivers in the overall increase. It is worth noting that the oil inventories of 138 million barrels represent less than two days of world consumption of circa 100 million barrels per day. In accordance with Trafigura policy, 100 percent of these stocks are hedged or pre-sold.

Cash flow

The powerful performance of our trading divisions generated exceptionally strong cash flows, with operating cash flow before working capital changes of USD6,118 million, three times the figure of USD1,993 million for FY2019. Trafigura believes this operating cash flow metric is the most reliable measure of its financial performance, since the level of working capital is predominantly driven by prevailing commodity prices and price variations are financed under the Group's self-liquidating finance lines.

The growth of inventories necessitated a significant increase in working capital, meaning that net cash used in operating activities was USD658 million, compared with a net release of USD4,270 million in FY2019. This increase in working capital needs is partially matched by an increase in the use of short-term bank lines.

Investing activities resulted in a net cash use of USD265 million, compared to a net use of USD285 million in FY2019. The normal, ongoing maintenance capital expenditures of Nyrstar's plants and equipment represented USD252 million and was the principal item of the Group's capital expenditure during the year. The net cash from financing activities was a net inflow of USD413 million, compared to a net use of USD3,074 million in FY2019.

The overall balance of cash and cash equivalents as at 30 September 2020 was USD5,757 million, compared to USD6,267 million a year earlier.

Liquidity and financing

Trafigura maintained wide access to liquidity throughout the year with credit lines of USD61 billion from a network of around 135 financial institutions. The majority of our day-to-day trading activity is financed through uncommitted, self-liquidating trade finance facilities, while we use corporate credit facilities to finance other short-term liquidity requirements, such as margin calls.

This funding model gives us the necessary flexibility to cope with periods of enhanced price volatility as utilisation of the trade finance facilities increases or decreases to reflect the volumes traded and underlying prices. Trafigura also maintains an active programme of issuance on debt capital markets to secure longer-term finance in support of our investments.

During the course of the 2020 financial year, the Group completed a number of important transactions in the syndicated bank loans market, securitisation markets (notably through innovative financing solutions) and bond markets (public and private). Trafigura Group demonstrated its strong access to committed sources of funding across the globe despite unprecedented volatility throughout the period as a result of the COVID-19 pandemic. It was a strong vote of confidence in the quality of the credit and in the strength of the company's business. The Group also benefitted from a flight to quality in turbulent times for banks active in the commodity trading sector.

In October 2019, Trafigura refinanced its Asian Revolving Credit Facility (RCF) and Term Loan Facilities (TLF) at USD1,505 million-equivalent with the support of 27 banks. The transaction comprised a 365-day US dollar revolving credit facility, a one-year Chinese yuan renminbi term loan facility and a three-year US dollar term loan facility. This facility was upsized by USD130 million-equivalent post-closing via the accordion feature.

In February 2020, Trafigura completed the second phase of its USD450 million Inventory Securitisation Programme launched in November 2017. This was achieved mainly by adding the US as an eligible jurisdiction, following an amendment process with the six financial institutions participating in the platform. This improvement allowed programme utilisation to reach record levels and paves the way for the implementation of the next phase: seeking committed term financing in the asset-backed securitisation markets.

In March 2020, Trafigura simultaneously refinanced two core credit facilities and issued notes with long-dated maturities. The company refinanced its flagship 365-day European multi-currency syndicated RCF at USD1,895 million. The facility initially launched at USD1,500 million and closed substantially oversubscribed, allowing the facility to be upsized. In addition, the company decided to exercise the second extension option available on the three-year tranche of its 2018 ERCF, thereby extending the facility by 365 days and maintaining a three-year tenor. Those tranches were subsequently upsized by USD135 million in aggregate via the accordion feature.

In a separate transaction, Trafigura returned for the fifth time to the Japanese domestic syndicated bank loan market and raised JPY76.8 billion (USD720 million equivalent at spot rate) via a JPY denominated term loan. In addition to the three-year tranche, which Trafigura has refinanced every two years since 2012, Trafigura introduced an inaugural five-year tranche. Twenty Japanese financial institutions supported the Samurai Loan, demonstrating the continued interest of domestic lenders in Trafigura's credit. Five new institutions joined the syndicate, while the majority of existing lenders continued to participate and increased their amount invested.

In March 2020, Trafigura Funding SA, a dedicated funding vehicle of the company, issued USD203 million of notes in the US Private Placement (USPP) market with tenors of five, seven and ten years. For its fifth issuance in the USPP market, Trafigura achieved its tightest ever all-in financing level. Proceeds were used to refinance USD51.5 million of maturing USPP notes and to support the refinancing of Trafigura's EUR550 million bond repaid in April 2020.

Key financing milestones in FY2020:

Oct. 19	Asian RCF Refinancing (post accordion)	USD1,635 million
Mar. 20	European RCF Refinancing (post accordion)	USD1,965 million
	Japanese Samurai Loan Refinancing	JPY76,800 million
	US Private Placement	USD203 million
May. 20	Non-traditional Receivables Securitisation Programme	USD295 million
Sep. 20	USD Senior Bond	USD400 million
	Low Carbon Aluminium Financing Platform	USD500 million

In May 2020, Trafigura put in place an innovative securitisation programme to finance its receivables currently not eligible for its current Trafigura Securitisation Finance (TSF) securitisation programme. This USD295 million programme is enhanced by an insurance policy and syndicated with three financial institutions. As per the other securitisation programmes, the main purpose is to ultimately syndicate this product with institutional investors in order to continue the diversification of funding sources.

In September 2020, Trafigura Funding S.A. successfully returned to the international debt capital markets with an issuance of a USD400 million senior bond. The bond was priced at 5.875 percent, 50 basis points tighter than the Initial Price Talk thanks to very strong support from institutional investors and private banks. This issuance was marked by the quality of the order book reflected by the range and geographical diversity of investors participating in the transaction, with approximately 90 investors distributed across Asia and Europe. The various public and private debt market transactions have allowed the Group to extend its debt maturity profile.

In September 2020, Trafigura established a "low-carbon aluminium" financing platform of USD500 million, with two financial institutions supporting the design and structuring of this instrument. This is further proof that Trafigura is at the forefront of financial innovation. As the first financing of its kind for Trafigura and for the wider market, the facility was designed to meet growing demand from downstream manufacturers for low-carbon aluminium and to support upstream producers in accelerating their transition to low-carbon technologies. The platform enables Trafigura to access financing at a preferential interest rate and, in turn, to pay a premium to low carbon aluminium producers. It follows Trafigura's establishment of a low carbon aluminium-trading desk in FY2019, the first commodity trader to do so. Through this facility, Trafigura is committed to facilitating the transition towards a sustainable aluminium supply chain.

After the financial year-end, in October 2020, Trafigura refinanced its Asian RCF and TLF at USD1.6 billion-equivalent, with 24 banks participating in the transaction. The new facilities comprised of a 365-day USD revolving credit facility (USD730 million), a 1-year CNH term loan facility (c. USD590 million equivalent) and a 3-year USD term loan facility (USD278 million). The new facilities were used to refinance the maturing 3-year term loan tranche from 2017 and the maturing 1-year USD and 1-year CNH tranches from 2019, as well as for general corporate purposes.

The syndication of the Asian RCF was supported by Trafigura's strong business and financial performance during this period and its partnership-driven approach with its financing partners, which resulted in a closing amount above last year's level. Moreover, the record level reached under the CNH tranche has confirmed Trafigura's front-rank position among commodity traders in the offshore Renminbi centres and demonstrated the benefit of our financial diversification strategy.

Public ratings

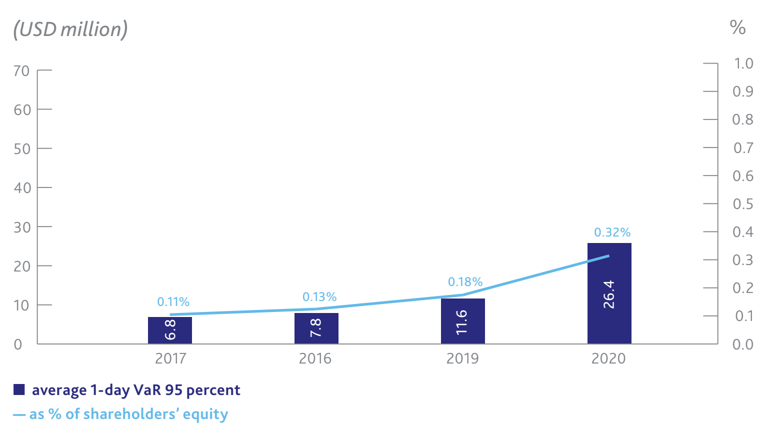
Trafigura does not hold a public credit rating and does not seek to obtain one. There are a number of reasons for this, including the fact that Trafigura's strategy has always been to obtain funding from stakeholders that understand its business model, rather than making investment decisions on the basis of a credit rating. In addition, holding a credit rating could cause Trafigura to take more short-term focused decisions in order to maintain a particular credit rating level. This would conflict with the Group's focus on long-term value creation and maintenance of a strong balance sheet. Trafigura has been highly successful in securing funding without a public credit rating. Financial discipline is inherent to the company's business and finance model due to its reliance on debt markets for capital and liquidity.

Trafigura's significant expansion of its sources of financing over the years has been achieved on the basis of the Group maintaining an acceptable and sustainable credit standing, consistent with an investment grade profile. The Group's financial discipline is reinforced by the financial covenants provided to unsecured lenders and is underlined by the strong support we receive from our banking group and investors.

Value at risk

The Value at Risk (VaR) metric is one of the various risk management tools that Trafigura uses to monitor and limit its market risk exposure.

Trafigura uses an integrated VaR model which captures risk, including commodity prices, interest rates, equity prices and currency rates (see further details in Note 35). During 2020, the average 95 percent one-day VaR for derivative positions was USD26.4 million (2019: USD11.6 million), which represented less than one percent of Group equity.



Shareholder structure

Trafigura is owned by its management and circa 850 of its senior employees, who are focused on the long-term success of the business, promoting management depth and stability, and encouraging prudent risk management. The decision as to which employees may become shareholders is discretionary based on individual performance, seniority and expected future contribution to the Group.

Trafigura has significantly built up its shareholders' equity since its inception in 1993 and the Group retains profits to further increase its capital base. Any discretionary buy-backs are subject to sufficient liquidity being available and to the company remaining compliant with financial covenants.

Leverage and adjusted debt

As a physical trading group, Trafigura relies on a specific funding model. As a result, it is not appropriate to apply the same financial analysis framework as for typical industrial companies.

For Trafigura, banks and investors have historically considered financial leverage after excluding some specific balance sheet items (e.g. inventories securitisation programmes), resulting in the use of adjusted debt as an overall leverage metric. Adjusted debt corresponds to the company's total non-current and current debt less cash, fully hedged readily marketable inventories (including purchased and pre-paid inventories which are being released), debt related to the Group's receivables securitisation programmes and the non-recourse portion of loans from third parties. This metric is a better measure of the Group's financial leverage than a simple gross debt metric.

In particular, the following adjustments are made:

- The receivables securitisation programmes are taken out on the basis that they are entirely distinct legal entities from Trafigura with no recourse to the Group and are only consolidated into the financial statements in accordance with the Group's accounting rules.
- Cash and short-term deposits are deducted from debt.
- Pre-sold or hedged stock, including purchased and pre-paid inventories which are being released, are deducted from debt. This reflects the great liquidity of the stock and the ease at which it could be converted to cash. As noted above, Trafigura's policy is to have 100 percent of stock hedged or pre-sold at all times.
- Non-recourse invoice discounting or specific portion of loans (for example, non-recourse portions of bank lines used to extend prepayments to counterparties) are deducted from debt.

As at 30 September 2020, the ratio of adjusted debt to Group equity stood at 0.35x, down from 0.78x at 30 September 2019. This reduction principally reflected the exceptionally strong retained earnings during the year. Whilst the ratio of adjusted debt to Group equity was particularly strong this year, our intention is to maintain this ratio to a level of 1x. Any upwards fluctuation of this ratio to 1x in the future should not be considered as a sign of Trafigura relaxing its disciplined effort to maintain a solid credit standing.

The Company's adjusted debt to equity ratio at the end of the reporting period is calculated as follows:

	2020	2019
	USD'M	USD'M
Non-current loans and borrowings	**7,070.1**	8,492.1
Current loans and borrowings	**25,783.5**	22,455.5
Total debt	**32,853.6**	30,947.6
Adjustments		
Cash and cash equivalents	**5,757.0**	6,267.2
Deposits	**466.0**	374.2
Inventories (including purchased and pre-paid inventories)	**20,921.8**	14,137.2
Receivables securitisation debt	**2,750.6**	4,422.1
Non-recourse debt	**198.4**	437.2
Adjusted total debt	**2,759.9**	5,309.7
Group equity	**7,789.9**	6,804.7
Adjusted debt to Group equity ratio at the end of the period	**0.35**	0.78

Taxation

Trafigura operates in a multitude of jurisdictions and adheres to applicable local and international tax law, including legislation on transfer pricing, in the countries in which it operates. The Group's tax policy is to pay appropriate tax according to work carried out in each jurisdiction, as determined by a functional analysis of operations using standard measures wherever possible, underpinned by reports prepared to fulfil local transfer pricing requirements. The Group's effective tax rate – the average rate at which consolidated pre-tax profits are taxed – varies from year to year according to circumstances, and in FY2020 it was 15.4 percent (or USD292 million) compared to 12.5 percent (or USD124 million) in FY2019.

Outlook

Trafigura's FY2020 financial performance has demonstrated the Group's ability to thrive in the most extreme market conditions and the most difficult working environments.

Even when the most acute effects of COVID-19 start to recede, volatility will continue to prevail in the oil market for the foreseeable future and is also likely to increase in metals as the supply-demand balance tightens for commodities such as copper. With both of our trading divisions having deepened their customer base and demonstrated their dedication to customer service, we are confident that profits can continue on a somewhat higher plane than the average of the last five years. The Group is well positioned to operate profitably under a more normalised geopolitical, health and economic environment.

In addition, the strengthening of our balance sheet during the year has made our company even more resilient to face the vicissitudes of the post-COVID-19 recovery. Our disciplined and focused approach to capital expenditure reinforces this. Equally important, is a stronger balance sheet, coupled with the already diversified nature of our business, has created a platform for a new chapter of growth in the company's history, focused on a concerted push into the power and renewables markets and investment in the accelerating energy transition.