

# 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 as appropriate 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 and bunker 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 to support its business. This infrastructure has three pillars:
  - Trade finance
  - Securisation
  - 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 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, which receive support from the Compliance, 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 certain countries below a certain risk rating by purchasing political risk insurance.
- Credit limits reflect Trafigura's appetite for credit 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.
- We pay particular attention to screening our portfolio of prepayment agreements with producers for credit risk.
- Trafigura manages certain exposure credit through coverage in 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 takes responsibility for and is required to supplement the Policy and Principles with relevant, sector-specific standards and procedures to manage the impacts of their operations.
- Operators are responsible for ensuring that industry, environmental, safety and internal policies and procedures are complied with at all times. Detailed procedure manuals are implemented throughout the Group and all operators receive regular training on environmental policies and legislation. This ensures that operators are kept up to date with procedural, legal, regulatory and industry changes.
- The Operational 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 4 and 5, involving significant spills or single or multiple fatalities, are investigated and the results and remedial actions are presented to the Operational HSEC Steering Committee.

- Trafigura has invested significantly in state-of-the-art scalable and resilient systems residing on highly available and disaster recovery resilient infrastructure. Our applications are architected for front-to-back processing, with integrated controls and reporting.
- The commodities industry is a focus for sophisticated cyber threat actors ranging from nation states to high-tech criminal gangs. Motivations range from fraud to data theft. The impact of a breach in our corporate or industrial digital infrastructure has the potential to seriously disrupt our operations.
- To counter any cyber threat we actively manage the risk by deploying and continuously upgrading state-of-the-art cyber defences. We employ multiple layers of advanced threat detection mechanisms, together with active automated countermeasures. We run regular exercises in partnership with the most sophisticated industry specialists to test our detection and response capability to cyber-attacks.
- Management has paid particular attention to promoting a culture of security awareness. Cyber-security is a mandatory and on-going component of staff training, underpinned by a comprehensive set of defined Technology and Security Policies.