Funding model

Finance to meet diverse business needs

Our funding strategy matches sources of funding to financing requirements. We have developed diverse financing strategies that maximise scalability, flexibility and business resilience.

Continued access to capital

Trafigura's activities require substantial amounts of capital.

We source, store, blend and deliver commodities around the globe.

We invest in terminals, logistics and physical infrastructure to improve the efficiency of our trading operations.

Our diversified funding model allows us to continue to operate effectively and successfully in all market conditions. Its scalability and structure protects the business from market shocks and provides flexibility and the ability to capitalise on opportunities as they arise.

We have put in place a global programme of flexible, short-term facilities to finance our day-to-day operations and a programme of longer-term, corporate facilities to finance our asset acquisition and other corporate requirements.

Available funding exceeds our everyday requirements. This provides headroom for unusual market conditions. We also maintain substantial cash balances to ensure that we will always meet day-to-day capital commitments, even in unexpected circumstances.

Our approach to funding

Diversification improves competitiveness and access to capital

We diversify both the sources and the structure of our financing to minimise risk and maximise operational effectiveness.

We raise funds in a variety of markets in the US, Europe and Asia-Pacific. We have lending arrangements in place with 140 banks around the world. We are therefore not constrained by credit restrictions for specific financial institutions, sectors or regions.

We raise capital with a range of repayment schedules, from very short-term facilities to maturities greater than 10 years. This spreads our exposure across the yield curve.

Match-funded, collateralised lending reduces credit risk

As a matter of policy, we match the type of financing to the business requirement. We have established a three-pillar funding structure to put this into practice.

We use short-term financing for trading. These loans are secured against the underlying physical commodities. Lines are marked-to-market each week so the level of financing tracks the value of the underlying collateral as prices change. We raise longer-term debt to finance fixed assets and investments.

Transparency promotes stability

As a private company relying on debt to finance its operations, Trafigura's performance is closely scrutinised by a large group of banks and investors worldwide. We comply with the financial covenants attached to our syndicated bank facilities. Members of the finance team regularly meet with our lenders' representatives. These meetings often include operationally focused personnel (from Credit, Compliance and Trading Desks) who provide additional insight into our business model. As an issuer of publicly listed debt, we also meet the transparency requirements of our bond investors. Our interim and full-year reports are published online. We hold regular calls and presentations to update investors and to respond to specific queries directly.

Trafigura funding model

Transactional facilities

Securitisation programme

Corporate credit facilities

Our three-pillar funding structure

1. Transactional facilities

All transaction-based lending is fully collateralised. We fund day-to-day trading mostly through one-to-one (i.e. bilateral) agreements with individual banks and borrowing bases with syndicates of banks. Most transactions start with a bank issuing a letter of credit on behalf of Trafigura in favour of a commodity supplier to secure due payment. The bank takes security over the physical commodity being purchased. When payment is due, Trafigura draws on a transactional loan to pay the supplier, such loan being secured against the commodity. The loan is marked-to-market weekly until maturity so that the amount being financed always corresponds to the value of the underlying commodity.

Once the commodity is sold to the end-buyer, a receivable is created and assigned to the bank until the cash settlement is used to repay the secured loan. Alternatively, the loan can be repaid earlier if the receivable is sold to one of the trade receivables securitisation programmes sponsored by Trafigura.

2. Securitisation programme

Trafigura manages two trade receivables securitisation programmes through separately capitalised special purpose vehicles: TSF and Argonaut. The programmes further diversify Trafigura's funding sources and, thanks to TSF's investment-grade ratings from Moody's and S&P, are cost-effective financing mechanisms. Most trades are financed on a trade-by-trade basis with transactional secured loans, but Trafigura can fund an eligible receivable once an invoice has been issued by selling it to a programme. Securitising our receivables accelerates the rotation of existing credit lines, since transactional secured loans can be repaid faster with the programmes' proceeds.

3. Corporate credit facilities

Trafigura invests in fixed assets to support its trading activity. We finance these with long-term debt adhering to our policy of matching assets with liabilities. We issue debt securities and negotiate lending facilities in diverse markets. Funding sources include bonds, perpetual bonds, revolving credit facilities, private placements and term loans.

Public credit ratings

Trafigura does not hold a public rating and does not seek to obtain one. The Group focuses on strengthening its balance sheet through long-term value creation.

We obtain our funding from stakeholders who understand our business model in detail and whose investment decisions are not driven by ratings. We have significantly expanded our sources of financing over the years by maintaining a sustainable credit standing that is consistent with an investment-grade profile.

Likewise, the absence of a rating means that Trafigura's business and investment decisions are not taken on the basis of maintaining a particular rating level, something which becomes particularly important at times of high market volatility.

Trade financing example

to explain funding mechanism

	Purchase and sale agreements	Taking delivery from supplier	Transportation	Pricing and delivery to customer	Customer payment
Transaction component	Day 1 Purchase and sale agreements	Day 5 Taking delivery	Days 6>19 Transportation	Day 20 Pricing and delivery	Day 50 Customer payment
Brent crude oil price	$60	$59	$55	$55	$60
Dubai crude oil price	$59	$59	$55	$55	$58
Physical trade	• Trafigura agrees to purchase 1 million barrels @ Brent minus $1/barrel, based on Brent price at delivery date • Trafigura asks a bank to issue an a letter of credit for $59 million to the benefit of the supplier, against sight of an acceptable contract, in order to guarantee payment to the supplier, using a **transactional credit facility** • Trafigura agrees to sell 1 million barrels @ Dubai plus $2/barrel, based on Dubai price at delivery • Transaction costs (interest cost, insurance, transport, storage, control, inspection, taxes, etc.) expected at $0.5 million	• Trafigura is invoiced $58 million by the supplier ($59-$1) x 1 million • Trafigura asks the bank to pay 95%* of cargo value (95% x $58 = $55 million) to supplier (and cancel letter of credit) against security over title of the cargo, using **transactional credit facility** • Trafigura draws the difference ($58-$55 = $3 million) from the **RCF** *percentage financed, depends on each transaction, usually 90-100%		• Trafigura invoices $57 million to customer ($55+$2) x 1 million • Trafigura sells the receivable (if eligible) to its receivables **securitisation programme** at face value, receiving payment of $57 million • Trafigura repays $55 million of the **transactional credit facility** • Trafigura uses remaining $2 million ($57-$55) to repay the **RCF** and build up **cash** • Trafigura pays $0.5 million transaction costs (interest cost, insurance, transport, storage, control, inspection, taxes, etc.) using **cash**	• **Securitisation programme** receives payment of $57 million from customer and repays funding
Hedging purchase leg	• Trafigura purchases 1 million barrels equiv. of Brent futures @ $60/barrel • Trafigura pays initial margin of $1 million using the **RCF**	• Trafigura sells 1 million barrels equiv. of Brent futures @ $59/barrel, paying net amount of $1 million using the **RCF** ($59-$60) x 1 million • Trafigura recovers $1 million initial margin and repays the **RCF**			
Hedging sale leg	• Trafigura sells 1 million barrels equiv. of Dubai futures @ $59/barrel • Trafigura pays initial margin of $1 million using the **RCF**		• Trafigura receives payment of $4 million (margin call) and repays the **RCF** ($59-$55) x 1 million	• Trafigura purchases 1 million barrels equiv. of Dubai futures @ $55/barrel • No further margin call since price stable • Trafigura recovers $1 million initial margin going to **cash**	
Transactional credit facility utilisation	59	55	55	–	–
Letter of credit utilisation	59	Cancelled	–	–	–
Drawn amount	–	55	55	Repaid	–
RCF utilisation	2	5	1	–	–
Drawn amount	1+1=2	2+3+1-1=5	5-4=1	Repaid	–
Securitisation utilisation	–	–	–	57	–
Drawn amount	–	–	–	57	Repaid
Cash position	–	–	–	1.5	1.5
Outstanding cash	–	–	–	1-0.5+1=1.5	1.5