Claude Dauphin
Trafigura, Chairman

CONNECTING

SUPPLY AND DEMAND FOR THE LONG TERM

This has been a year of reappraisal in the commodities markets. The signals from the economy have been mixed, as a fragile recovery in the US and still-sluggish performance in Europe accompanied a sudden slowdown of growth in China.

GROUP TURNOVER

$133.0bn
(2012: USD120.4 billion)

NET PROFIT

$2.2bn
(2012: USD1.0 billion)

A YEAR OF REAPPRAISAL

Slower growth in global industrial production provided a significant headwind for commodity prices. And many resource markets appeared to be moving into surplus, with global growth looking insufficient to absorb continued increases in supply.

As a result, the conventional wisdom about commodities has become distinctly bearish. While equity markets around the globe continued to rally strongly for much of the year on the back of accommodative monetary policies, commodity prices decoupled from stocks. The collapse in prices of gold and silver were particularly marked.

So negative has the mood become that some financial analysts have gone so far as to pronounce the end of the so-called 'commodity super-cycle' – the prolonged market boom that saw a doubling of prices between the end of the 20th century and the financial crisis at the end of the last decade. Falling prices, increasing supply, major write-downs on mining projects, significant withdrawals of investor funds from the sector – all combined to suggest to some the end of a golden era for commodities.

AN INEVITABLE ADJUSTMENT

At Trafigura, we take a different view. We see the developments of the past year as an inevitable adjustment in a market that had become overheated. We see supply surpluses as a short-term consequence of past over-investment. We see asset valuations as having declined from excessive levels to realistic ones – and in some cases to levels that look attractive to us as investors.

Most importantly for our business and for the thousands of clients we serve around the globe on both supply and demand sides, we see the fundamentals of the market to be still strong and likely to remain so for many years to come.

Why do we take such a view, and how does this influence the way we manage our business? We are governed not by short-term market fluctuations but by the long-term forces of supply and demand and the fundamental economic drivers behind them.

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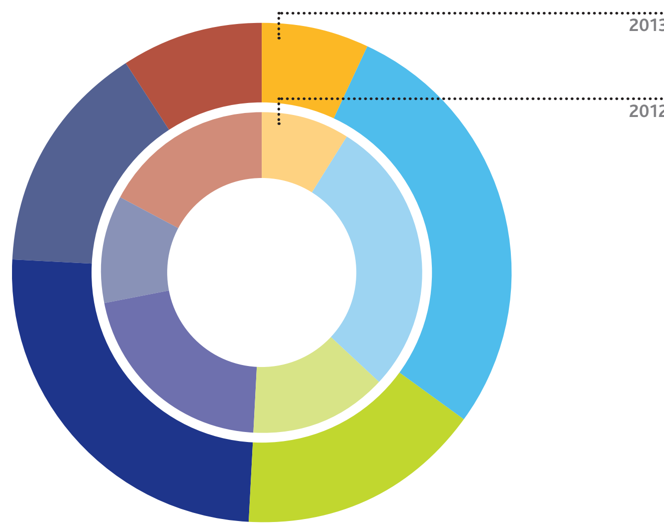
Trafigura's business model is essentially indifferent to price – indeed, one of our principal roles is to hedge price risk so that we can profitably deliver services regardless of the absolute level or direction of prices. What we are focused on is satisfying growing global demand over the medium to long term for the products we trade in and serving our customers by connecting supply and demand.

MARKET OUTLOOK

In these respects, the outlook is far from gloomy. Indeed, we would argue that it has not changed in any very significant way from the one that prevailed before the financial bubble burst in 2008.

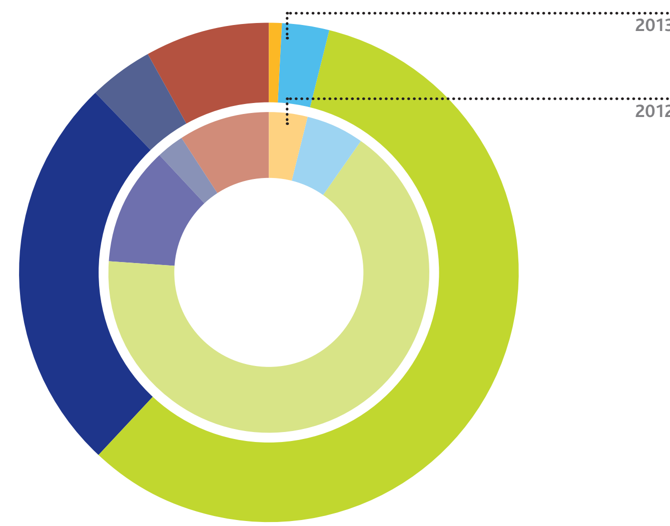
Consider China, for example. There has been much excited comment in recent months about the observable reduction of growth in this most important of the emerging economies. But it seems to us that some of this analysis lacks a sense of perspective. Chinese GDP is still growing at an annual rate of 7.7 percent, and next year growth could recover to 8 percent. These are not insignificant numbers by any standard, and they have so far translated into firm demand for commodities throughout the year. Slowdowns in other important economies such as India could also turn out to be temporary blips in a longer-term growth story. And even if some markets slow, others are picking up momentum: some African economies are now among the world's fastest-growing.

OIL AND PETROLEUM PRODUCTS
net turnover by geography (%)



Region*	2013	2012
Middle East	**7%**	8%
Africa	**28%**	30%
Asia & Australia	**16%**	13%
Europe	**25%**	19%
Latin America	**15%**	15%
North America	**10%**	15%

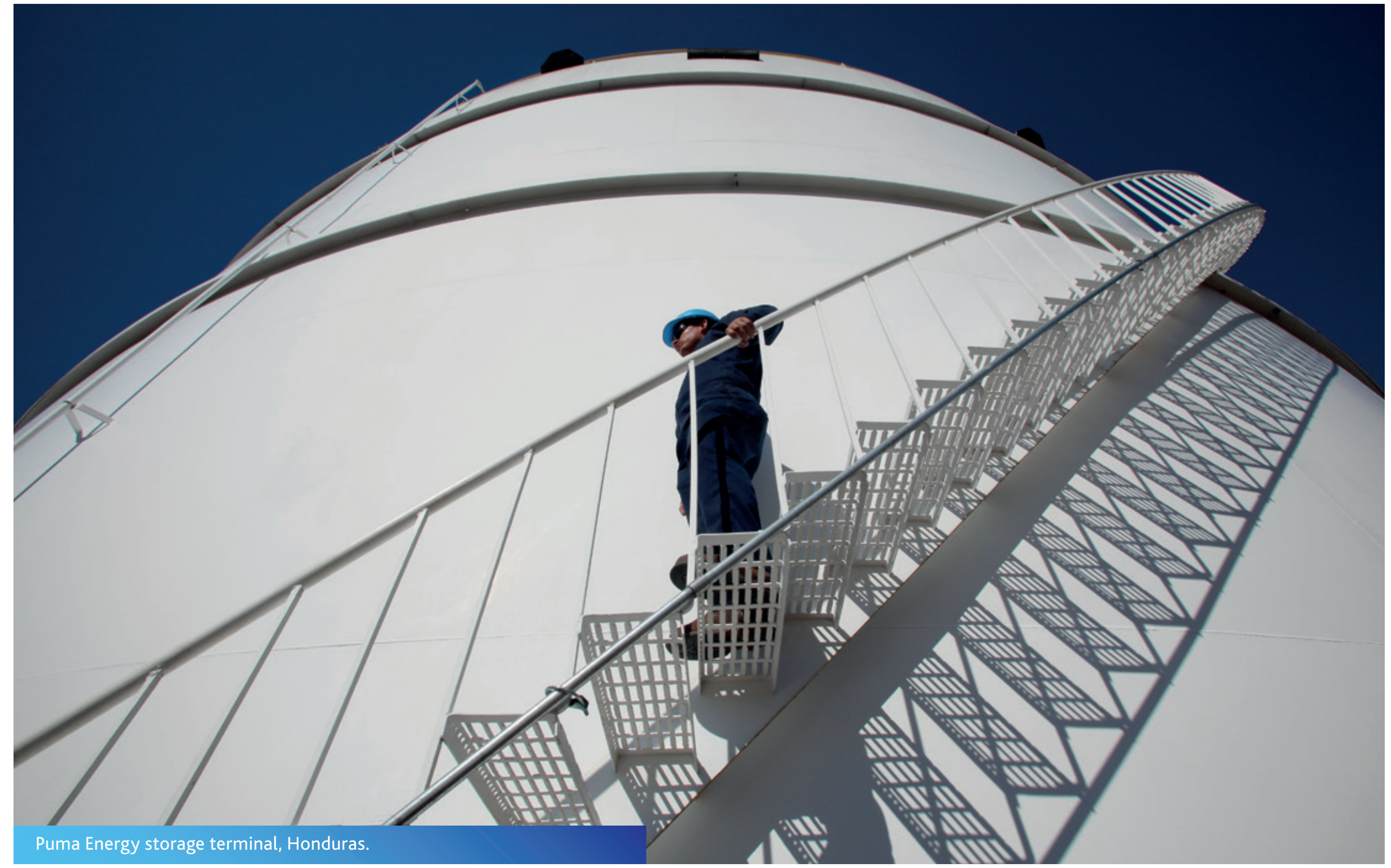
NON-FERROUS AND BULK COMMODITIES
net turnover by geography (%)



Region*	2013	2012
Middle East	**1%**	4%
Africa	**3%**	6%
Asia & Australia	**58%**	67%
Europe	**27%**	12%
Latin America	**4%**	3%
North America	**8%**	8%

*Figures rounded to the nearest full number.

Impala's warehousing operation in Ndola, Zambia.



Puma Energy storage terminal, Honduras.

EMERGING OPPORTUNITIES

We should not lose sight of what this means in terms of the bigger picture: some three billion new middle-class consumers emerging between now and 2030; a doubling of the global car fleet in the same period; and soaring demand for urban infrastructure, with all the additional energy and industrial materials that it will require. As a leading trader in oil, gas and petroleum products on the one hand and non-ferrous concentrates, metals, iron ore and coal on the other, Trafigura can thus afford to look beyond the near-term ups and downs of financial markets and focus confidently on the longer view inherent to the world of physical trade.

Our task, in a real sense, is advancing trade. We source, store, blend and deliver the fuel and raw materials that drive global growth, providing essential marketing, procurement and risk management services for customers. The questions our managers and traders ask themselves every day concern how to improve those services continuously and how to position the company to do so profitably for decades to come.

PROFITABLE GROWTH

This Annual Report, the first that Trafigura has published to an audience beyond its immediate circle of stakeholders and financial partners, aims to demonstrate how we are going about this task.

The two key priorities are profitable volume growth and long-term investment in infrastructure. In 2013 the Trafigura Group has expanded into significant new markets such as Russia and Australia. But it also stepped up its overall pace of investment. We are investing in creating world-class systems and processes to knit together our 167 offices* in 58 countries to deliver service in a seamless, resilient, compliant, responsive and responsible manner. We also have a growing programme of long-term investment in infrastructure and logistical capabilities.

Infrastructure assets are increasingly integral to our ability to provide end-to-end customer service around the world. If there are bottlenecks impeding the flow of a commodity from a source of supply to a centre of demand, we are ready to invest to remove them – thus connecting new suppliers to global markets. An important current example is the work we are doing to develop a multi-modal transport system based around the Magdalena River in Colombia.

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Likewise, when changes occur in global commodity flows that require new infrastructure to ensure products reach a market – as is happening in the US as a result of the shale oil and gas revolution – we stand ready to provide it. That is exactly what is at stake in our investments to develop a major dock and storage terminal complex in Corpus Christi, Texas, the principal outlet for oil and products from the Eagle Ford shale formation, and a large coal export terminal that our Impala subsidiary is building on the Mississippi River at Burnside, Louisiana. Both sites are set to become significant new components of the US's national energy infrastructure over the next few months.

Such investments require financial depth and a strong balance sheet – and enhancing our resilience in this respect has been another key priority for the Trafigura Group in 2013. We have increased the number of banks with which we do business and enhanced our ability to borrow at the longer end from the capital markets and institutional investors.

ADVANCING TRADE

Even more important, we have transformed our financial position by deconsolidating Puma Energy from the Trafigura Group accounts. Puma Energy now stands on its own feet as a significant midstream and downstream energy company focused on growth markets, backed by Trafigura as the largest shareholder but able to raise capital from the capital markets in its own right. That allows both Puma Energy and Trafigura to continue their profitable growth trajectories while maintaining a balanced financial strategy.

It also enables Trafigura to remain what it has always been: a private company owned by its employees. We believe this is the best ownership model for our core trading business, but we can also see the benefit of opening up the capital of industrial subsidiaries to external partners to enable them to grow larger, stronger and better able to support the growth of our trading business and our service offering.

In effect, we believe we have created a distinctive business model, with trading services at the core and commercial infrastructure investments working in support. The investments enable the Group to deliver superior, specialised service, and demonstrate long-term commitment to the markets in which we operate. They also give us reason for confidence in the durability and sustainability of our business.

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Whatever fashionable opinion says about the 'super-cycle' in commodities, we have no doubt that demand will continue to grow for the services we provide alongside growth in the global economy and urbanisation in the developing world. And whatever happens in the short term to prices and the supply-demand balance, we will remain committed to the business of advancing our customers' trade for the long haul.

*Office defined as a permanent or semi-permanent physical structure in which the Trafigura Group (Including Puma Energy) houses more than two full or part time employees to conduct their day-to-day duties on the year of counting. Offices do not include Puma Energy retail stations but do include terminals or warehouses owned and/or managed and staffed by more than two Group employees.