A YEAR OF BROADENING AND DEEPENING

JEREMY WEIR
Chief Executive Officer

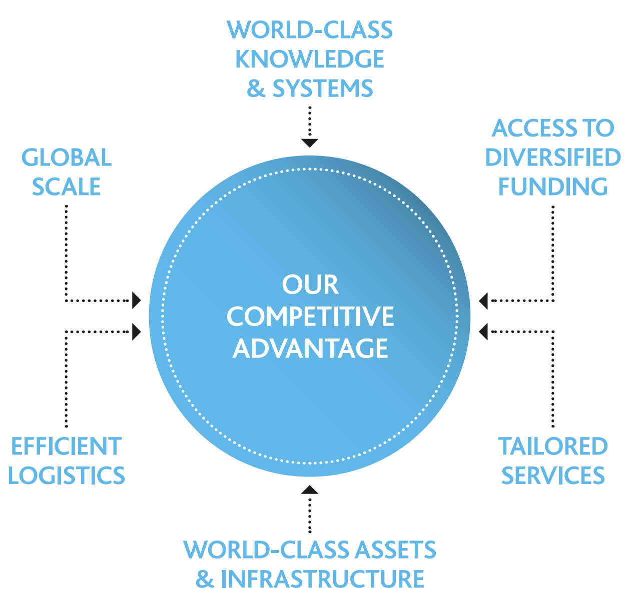
Through continuing profitable growth and investment, we are creating a company that is not only robust and responsible – but also nimble, flexible and adaptable.

For Trafigura, 2014 was a year of broadening and deepening.

The Group broadened its activity through profitable volume growth in both trading divisions; by expanding newer business lines as well as long-established ones; by entering new territories from Brazil to Papua New Guinea; and by exploring and executing new investment projects in infrastructure and logistics.

It deepened its capacity by further strengthening its balance sheet, equity base and credit worthiness; by realising significant value from its investments; and by further demonstrating the resilience of a business model based on independence and efficient use of capital.

KEY DIFFERENTIATORS OF TRAFIGURA'S BUSINESS MODEL



GROWING VOLUMES IN A COMPETITIVE MARKETPLACE

Revenue in 2014 totalled USD127.6 billion, a decrease of 0.4 percent from the figure of USD128.1 billion recorded in 2013 on a like-for-like basis. The like-for-like comparison excludes in both years significant divestments of previously consolidated subsidiaries and the related revaluation gains following their deconsolidation. On this basis, gross profit rose by 14 percent to USD2,045 million from USD1,788 million in 2013. EBITDA (earnings before interest, tax, depreciation and amortisation) was USD1,309 million, compared to USD1,155 million the previous year, a like-for-like increase of 13 percent.

Trading achievements during 2014 included:

- Continuing growth in our Oil and Petroleum Products book, which is now trading more than 2.5 million barrels per day (bpd) (2013: 2.4 million bpd); establishment of unrivalled market positions in products such as gasoline, naphtha and distillates; and market leadership in the relatively new segment of spot liquefied natural gas (LNG) trading.
- A strong year despite difficult conditions in Metals and Minerals, where we maintained our leading position in copper concentrates and refined metals.
- A rapid increase in coal flows, where we are now a top three player in the global trade.
- A gross profit margin of 1.6 percent against a figure calculated on the same basis for 2013 of 1.4 percent.

This was a creditable trading performance in a challenging market environment. Increasing competition and relatively low volatility continue to compress margins for the commodities trading sector. Additional challenges in 2014 included a softening rate of economic growth and a credit crunch in the vital end-user markets of China; geopolitical uncertainty in important oil producing regions; increasing regulatory pressures of various kinds; and emerging conditions of over-supply in several energy and industrial commodities.

Primary crusher at Trafigura's MATSA mine, Seville, Spain.

A RESILIENT BUSINESS MODEL

Trafigura's response to these challenges remains the same as it has been throughout its more than two decades of growth: to concentrate on creating a business diversified by geography, product, customers and financing that is resilient and delivers reliable and efficient service to our customers in the widest variety of economic and business circumstances.

In markets characterised by over-supply, we know we have to work harder to deliver value. In 2014, this involved five main areas of strategic focus.

INVESTING IN INFRASTRUCTURE

First, we combined growth in trade flows with a continued programme of targeted investments in logistics and infrastructure. Jointly with our partners in the Abu Dhabi sovereign wealth fund Mubadala, our Impala Terminals subsidiary acquired a controlling interest in a world-class iron ore export facility at Porto Sudeste in Brazil's Rio de Janeiro state. From early 2015, the port will be at the service of the mining industry in the so-called Iron Quadrangle of Minas Gerais, with an initial annual export capacity of 50 million tonnes and potential capacity of 100 million tonnes.

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This was the largest of a large array of infrastructure investment and construction projects around the world and around the Group. In Colombia, Impala Terminals' multimodal transport system centred on the Magdalena River and, on the Pacific Coast, the FDP railway is ramping-up operations. In Peru, Impala Terminals completed a major upgrade and expansion programme at its metals storage, blending and export terminal in the Port of Callao.

In Africa, Impala Terminals and other Group companies worked on a number of infrastructure improvement projects in support of Trafigura trading flows. In Spain's southern province of Andalucía, our MATSA mine completed a significant expansion programme including installation of a new treatment plant, and embarked on creation of a new export facility at the Port of Huelva.

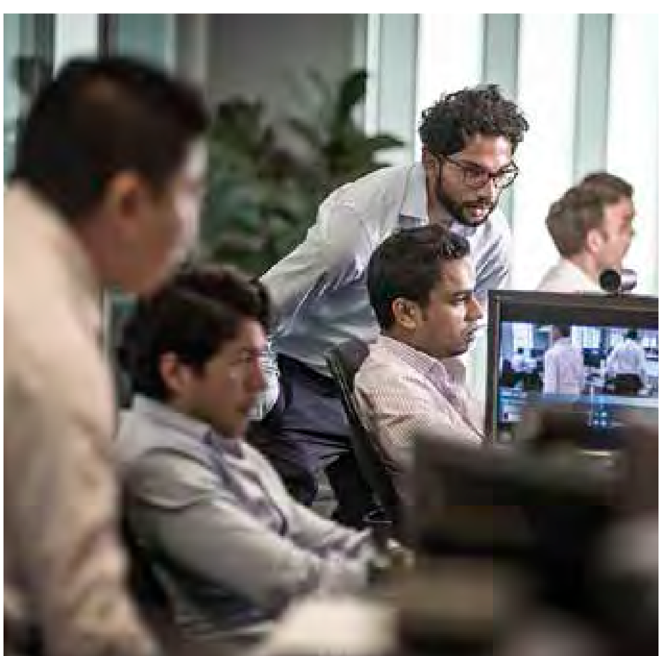
IMPROVING OPERATIONAL EFFICIENCY

The Group's second area of strategic focus was reducing cost by investing in efficient systems and processes that enhance the benefits of operating at scale. We have established three Global Service centres in Shanghai, Mumbai and Montevideo with the task of providing concentrated mid- and back-office support for trading activities in each time-zone and region. This created considerable efficiencies in administration and operations and allowed us to sustain rapid growth.

ACCESS TO CAPITAL

Our third strategic focus involved strengthening our financial resources while exercising tight discipline in allocating capital and in recycling funds from mature investment projects into new ones. At a time of acute financial and market uncertainty, we believe access to capital is itself a competitive advantage for a commodity trading firm, not least because of the observable 'flight to quality' on the part of lenders to the sector. More than ever, we need to ensure we have the ability to fund our working capital requirements.

So we further increased our access to banking liquidity to maximise our resilience. In addition, we significantly strengthened the balance sheet by deepening and broadening our pool of longer-dated (12-month-plus) financing, increasing the equity base and restructuring our pre-payment offering.



Trafigura's Singapore trading floor.

Recently, we have broken new ground in addressing the corporate responsibility agenda by becoming the first commodities trader to join the Extractive Industries Transparency Initiative (EITI), a global coalition of governments and companies working together to improve openness and accountability in management of revenues from natural resources.

A key highlight of the year that shows our disciplined capital allocation process at work was the continued investment in energy infrastructure assets in Corpus Christi and surrounding regions of South Texas, and the realisation of a gain through the sale of an 80 percent interest in those assets to Buckeye Partners L.P. in September, 2014. As a result of this transaction, Trafigura recognised an after-tax gain of USD316 million.

In selling this interest we freed up capital invested in the Corpus Christi port and storage terminal and built a new partnership with a well-established US infrastructure provider, at the same time as maintaining full commercial rights for our trading operation to use the terminal's storage, terminal, wharf and fractionation services under seven- and ten-year commercial agreements. Increasing volumes of Trafigura-owned crude oil, naphtha and liquefied petroleum gas (LPG) flowed into these facilities during the year as production from the nearby Eagle Ford Shale formation continued on its rapid growth curve – a trend that we fully expect to continue and accelerate throughout 2015.

ADDING VALUE WITH INTEGRATED SOLUTIONS

Our fourth strategic focus was on adding value for customers through integrated solutions using trading, finance, infrastructure investment and risk management. We believe this to be a key element in Trafigura's competitive offering. In over-supplied markets, the ability to establish significant relationships on the supply and demand side is a crucial success factor. Hence the continued importance of the close relationship between Trafigura's Oil and Petroleum Products Trading division and Puma Energy, which is expanding rapidly as a mid-stream and down-stream fuel provider in fast-growing consumer and industrial markets – most recently via its acquisition of the largest retail network and a refinery in Papua New Guinea. Trafigura's efficient global supply network is a vital source of product for Puma Energy; equally, Puma Energy purchases constitute valuable and stable building blocks for the Trafigura trading book.

In Metals and Minerals, our decision to invest in a new Chinese smelter as described by our Executive Chairman (see page 06) shows how long-term partnership can help grow trading volumes, while our offering to iron ore miners in Brazil includes everything from financial solutions to global logistics.

Impala Terminals' multimodal terminal at the Port of Callao, Peru.

At a time when the world's banks are in retreat from lending to some of the more exotic geographical risks, Trafigura's ability to structure innovative financial solutions for resource producers is more needed than ever. And at a time when emerging economies face severe challenges in financing or executing infrastructure development, so is the Group's expertise in and action-oriented approach to infrastructure projects.

STRENGTHENING OUR STATUS AS A RESPONSIBLE OPERATOR

Last, and certainly not least in terms of Trafigura Group's strategic focus in 2014, was the task of improving our control framework and further enhancing our reputation as a responsible and reliable operator. This has become an evermore central mission for the company as our global activity and our physical footprint have grown.

We have invested and continue to invest heavily in risk management systems to handle the multiplicity of operational, performance, financial and event risks we face on a daily basis. Our approach to Compliance and to management of Health, Safety, Environment and Communities issues is among the best in the commodities trading sector and is being developed further.

Recently, we have broken new ground in addressing the corporate responsibility agenda by becoming the first commodities trader to join the Extractive Industries Transparency Initiative (EITI), a global coalition of governments and companies working together to improve openness and accountability in management of revenues from natural resources (see page 72). We also joined the World Business Council for Sustainable Development and sought membership of the UN Global Compact, two broad-based corporate responsibility initiatives. And we took the lead in explaining our company's economic contribution and demystifying our sector by commissioning White Papers on a variety of themes including the economics of commodities trading firms and infrastructure investment in emerging markets (see pages 36 and 46).

We see leadership in these areas as a positive differentiator for the company, and the feedback we have received from counterparties, business partners and stakeholders so far serves to confirm that view.

By doing all these things, we believe we are creating a company that is robust and responsible – but also as nimble, flexible and adaptable as a business focused on finding attractive commodity trading opportunities needs to be. That means we will be able to sustain continuing rapid growth without compromising our independence or our focus on sensible and conservative risk management – and while avoiding the necessity of tapping external equity capital at Group level.

It is our aim to continue on that path so as to ensure that our next decade is at least as successful as our first two have been.

Jeremy Weir,
Chief Executive Officer

Scan for an interview with Jeremy Weir, discussing Trafigura's performance or visit www.trafigura.com/financials/2014-annual-report/