

The background of the entire page is a photograph of an industrial facility, likely a refinery or chemical plant. Large, silver-colored pipes run horizontally across the foreground and middle ground. In the background, a worker wearing a hard hat and safety gear is visible, standing near some equipment. The sky is a mix of blue and orange, suggesting a sunrise or sunset. A large, semi-transparent white circle is overlaid on the center of the image, serving as a backdrop for the title text.

# 2016 ANNUAL REPORT

.....

TRAFIGURA GROUP PTE. LTD.

*ADVANCING  
TRADE*

# FINANCIAL AND BUSINESS HIGHLIGHTS\*

**\$98.1bn**

Group revenue  
(2015: USD97.2 billion)

**264.4mmt**

Combined volume  
of commodities traded\*\*  
(2015: 198.4mmt)

**\$2.3bn**

Gross profit  
(2015: USD2.6 billion)

**\$41.2bn**

Total assets  
(2015: USD39.1 billion)

**65%**

Oil and Petroleum Products revenue  
as a percentage of Group revenue  
(2015: 67 percent)

**205.4mmt**

Oil and Petroleum Products  
total volume traded  
(2015: 146.3mmt)

**2.3%**

Gross profit margin  
(2015: 2.7 percent)

**\$8.5bn**

Total non-current assets  
(2015: USD8.4 billion)

**35%**

Metals and Minerals revenue  
as a percentage of Group revenue  
(2015: 33 percent)

**14.9mmt**

Metals total volume traded  
(2015: 12.8mmt)

**\$0.975bn**

Net profit  
(2015: USD1.1 billion)

**\$5.5bn**

Shareholders' equity  
(2015: USD5.6 billion)

**44.1mmt**

Minerals total volume traded  
(2015: 39.3mmt)

**\$1.6bn**

EBITDA\*\*\*  
(2015: USD1.9 billion)

**4,107**

Average number of  
employees over year\*\*\*\*  
(2015: 5,248)

\* Trafigura's financial year runs from 1 October 2015 to 30 September 2016.

\*\* Million metric tonnes.

\*\*\* 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 operating income and expense.

\*\*\*\* Employee numbers exclude MATSA and Porto Sudeste employees as these assets are deconsolidated from Trafigura's balance sheet.

# ADVANCING TRADE

Without trade, countries cannot develop, economies cannot grow and international business cannot function. We help make trade happen.

We move physical commodities from places where they are plentiful to where they are most needed – reliably, efficiently and responsibly.

Trafigura has been connecting its customers to the global economy for more than two decades; we are growing prosperity by advancing trade.

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The 2016 Annual Report is complemented by the 2016 Responsibility Report which reflects on Trafigura's progress in implementing responsible business practices and sets out metrics assessing our performance in managing our Health, Safety, Environment and Communities (HSEC) impacts.

For further information please visit [www.trafigura.com/responsibility](http://www.trafigura.com/responsibility)

# TRAFIGURA AT A GLANCE

Trafigura's core business is physical trading and logistics; our assets and investments complement and enhance these activities. With 61 offices in 36 countries, Trafigura's network extends to every corner of the globe.

## TRADING ACTIVITIES

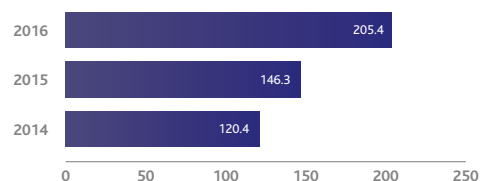
### Oil and Petroleum Products

In a fragmented market where no single company has a dominant position, we are one of the world's largest traders by volume of oil and petroleum products. Trafigura is one of the few oil and petroleum products traders with global presence and comprehensive coverage of all major markets. The Oil and Petroleum Products Division is supported by offices across the world including in Beijing, Calgary, Geneva, Houston, Johannesburg, Mexico City, Montevideo, Moscow, Mumbai and Singapore.

## 205.4mmt

Oil and Petroleum Products volume traded  
(2015: 146.3mmt)

#### DIVISIONAL PERFORMANCE



Oil and Petroleum Products volume traded (mmt)

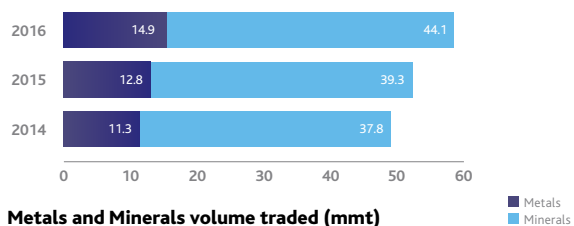
### Metals and Minerals

We are one of the world's largest metals and minerals traders. We negotiate offtake agreements with miners and smelters and invest in logistics through our subsidiary, Impala Terminals, to improve market access for our clients. The Metals and Minerals Division is supported by offices across the world including in Geneva, Johannesburg, Lima, Mexico City, Montevideo, Mumbai, Shanghai, Singapore and Stamford.

## 59.0mmt

Metals and Minerals volume traded  
(2015: 52.1mmt)

#### DIVISIONAL PERFORMANCE



Metals and Minerals volume traded (mmt)

### Shipping and Chartering\*

Our Shipping and Chartering desk is closely integrated into Trafigura's business model, providing freight services to commodity trading teams internally and trading freight externally in the professional market. Operations are based in regional offices in Athens, Geneva, Houston, Montevideo and Singapore. All post-fixture operations are managed from our Athens office.

## 3,878

Shipping and Chartering fixtures  
(2015: 2,744)

\* Financials relevant to Shipping and Chartering are consolidated within Oil and Petroleum Products/Metals and Minerals trading activities.



## INDUSTRIAL AND FINANCIAL ASSETS



### DT Group

DT Group is a business venture between Trafigura and Cochan Ltd. It develops markets in sub-Saharan Africa, with a particular focus on Angola. It works closely with international and local partners in the logistics, trading and natural resources sectors.



### Impala Terminals

Impala Terminals is a multimodal logistics provider focused on export-driven emerging markets. It owns and operates ports, port terminals, warehouses and transport assets. It has particular expertise in providing efficient logistic solutions in challenging environments and hard to reach locations.



### Mining Group

The Mining Group manages mining operations, develops projects, conducts technical audits of existing and potential partner projects and provides advisory and support services to Trafigura's trading desks, trading partners and Galena Asset Management.



### Galena Asset Management

Galena Asset Management provides investors with specialised alternative investment solutions through its commodity funds. It operates independently, but benefits from the Group's insights into the global supply and demand of commodities.

**50%**

ownership

**100%**

ownership

**100%**

ownership

**100%**

ownership

**83**

employees\*

**1,625**

employees

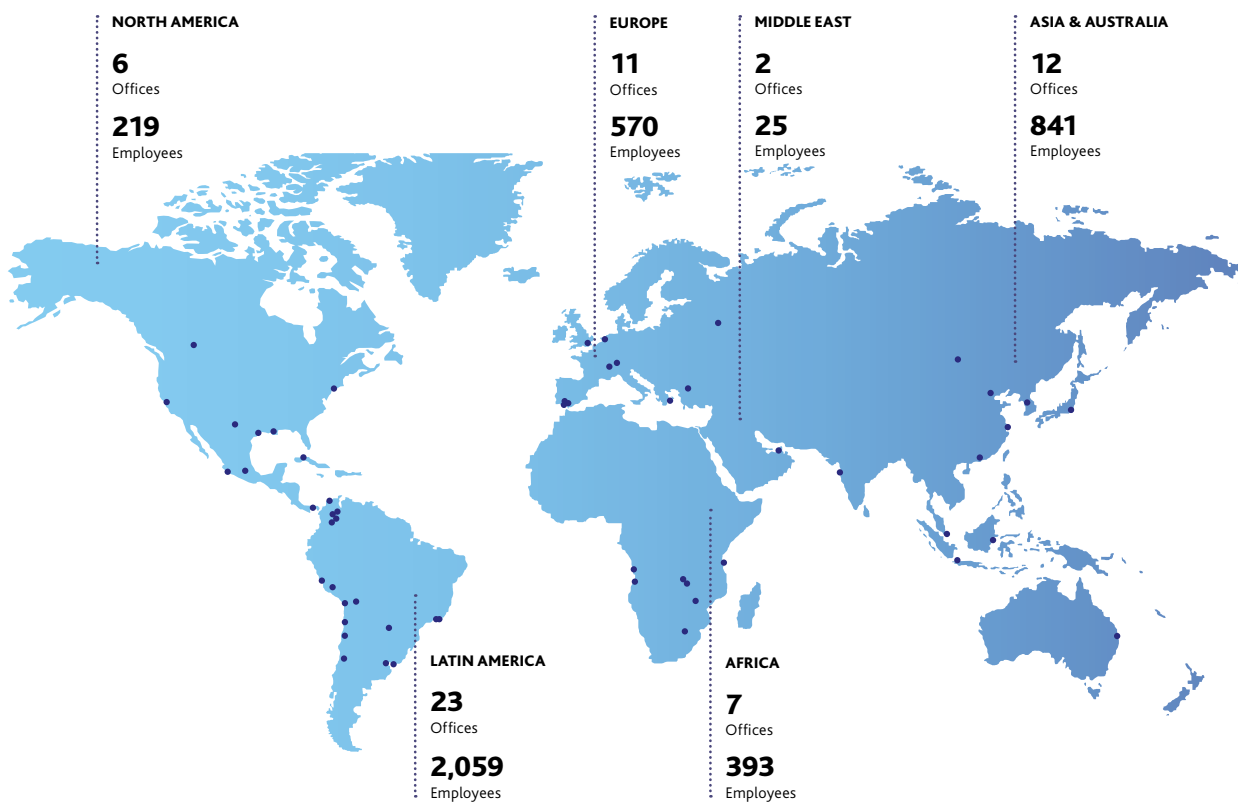
**473**

employees

**13**

years in operation

## REGIONAL INFORMATION



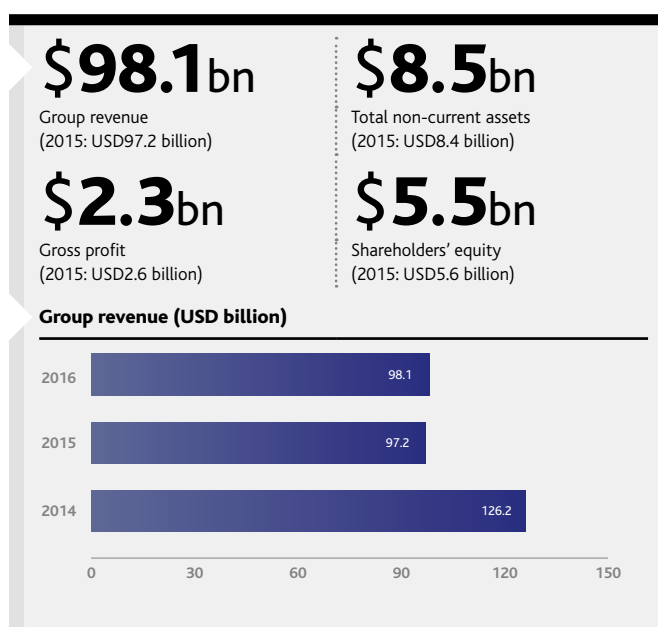
\* All employee numbers represent average annual totals.

# A ROBUST PERFORMANCE IN CHALLENGING MARKET CONDITIONS



JEREMY WEIR  
Chief Executive Officer

In its 2016 financial year, Trafigura Group once again demonstrated its resilience through the economic cycle, reporting growth in trading volumes, and profit slightly lower than in 2015.



Uncertainty and dynamic change were the watchwords for commodities markets throughout 2016, as mixed fortunes in the global economy found parts of the resources industry struggling with over-supply and depressed prices. Against this backdrop, Trafigura Group delivered a robust commercial and financial performance in the 12-month period to 30 September 2016, with significant growth in trading volumes and strong profitability, albeit somewhat reduced from the record trading result achieved in the 2015 financial year.

Net profit for the year was USD975 million, 12 percent lower than the figure of USD1,103 million in 2015. Gross profit was USD2,291 million, also 12 percent down year-on-year, while revenue was flat at USD98,098 million, compared to USD97,237 million in 2015. EBITDA, which we see as the most accurate measure of operating performance since it strips out investment gains and impairments, was USD1,628 million, down 13 percent on the 2015 figure of USD1,861 million.

Conditions remained broadly favourable for trading in the oil market, featuring sustained price volatility and over-supply. The metals market continued to present significant challenges, although some positive signs became visible in some segments in the second half of the year. We were able to build volumes in both our trading divisions, Oil and Petroleum Products and Metals and Minerals, thanks to our global reach, strong commercial relationships and an increasingly diversified global customer base. Competition was intense in all the markets in which we operate, reflected in a reduced gross margin of 2.3 percent from 2.7 percent in 2015.

At the same time, the depressed price environment had an adverse effect on our industrial assets, with the result that we decided to write down the balance-sheet value of certain assets. The sum of impairments we made in 2016 amounted to USD365 million, and was partially offset by USD244 million from reversing a prior-year impairment on another asset.

## GROWTH AND EFFICIENCY

Our strategy in 2016 was unchanged: to grow physical trading volumes and revenues by delivering excellent customer service while managing operational and financial risk and optimising efficiency.

Volumes grew strongly in the Oil and Petroleum Products Trading Division, which handled a daily average of 4.3 million barrels, 42 percent more than the daily average of 3.0 million barrels in 2015. This achievement was attributable to a number of factors, including the scale and scope of our presence, the globally integrated nature of our operation, the strong relationships we have built with producers and refiners and with our mid- and downstream investment, Puma Energy, and our expertise stretching right across the product spectrum from crude and fuel oil to liquefied natural gas.

These capabilities and relationships are vital factors for success in over-supplied markets, and positioned us well to benefit from increasing demand for crude, refined products and gas. They also enabled us to take maximum advantage of the dramatic changes in product flows and arbitrage opportunities arising, for example, from the emergence of the US as an exporter of crude and that of China as a major exporter of refined products. Growth was especially strong in Asia, which bodes well for the future since that region is home to the world's most promising growth markets for oil, such as India.

In Metals and Minerals Trading, prices were generally depressed, with the exceptions of coal, zinc and nickel as continuing structural adjustment in the Chinese economy dampened industry demand and producers came under increasing pressure. Yet here, too, Trafigura was able to grow volume across its Metals and Minerals book by 13 percent overall to 59.0 million tonnes from 52.1 million tonnes in 2015, further enhancing our already significant share of these markets.

Growth came both in segments where we are well-established such as non-ferrous concentrates and refined metals but also in our newer books, coal and iron ore. We continued to differentiate ourselves from the competition by offering our business relationships innovative solutions drawing on our strengths in operations, logistics and finance. We further extended strategic relationships to support our growth, for example with Nyrstar in Europe, in which Trafigura has a 24.6 percent shareholding, and with Chinese smelters including Jinchuan Group's new copper smelter in Fangchenggang where we own a 30 percent equity stake.

Key to our resilience were the efficiencies and improvements in risk management we have created by investing significant sums in information technology and in creating consolidated mid- and back-office support centres in Mumbai, Montevideo and Shanghai. These operations enable the business to scale up without a corresponding escalation in cost and thus provide sustainable support for the bottom line.

### REDUCING CAPITAL INVESTMENT

Another vital pillar of Trafigura's strategy is investing in industrial and infrastructure assets that support trading, principally through our Impala Terminals subsidiary. In 2016, this strategy reached an inflection point as a number of assets in which we had invested heavily in recent years moved from the construction phase to commercial operations.

In Brazil, the Porto Sudeste iron ore export terminal that Impala jointly controls with Mubadala Development Company built volume, though at a slower pace than anticipated owing to the depressed state of the global iron ore market: it handled about 7 million tonnes in 2016, a number that we expect to grow in 2017. To reflect the fact that the port is operating at a pace considerably below installed capacity, we wrote down its balance-sheet value by USD250 million at the year-end.

In Colombia, Impala's wet and dry barge fleet on the Magdalena River ramped-up commercial operations, exporting heavy crude, importing naphtha and handling container traffic to our inland port at Barrancabermeja. Elsewhere in the country Impala exited its involvement in the FDP railway, writing down its investment in that project by USD43 million.

As our cycle of asset investment reaches its natural conclusion, capital expenditure required to complete key projects dropped significantly to USD754 million in 2016, compared with USD1,223 million the previous year. We also made a start on reducing our leverage, partly thanks to the sale of some non-core shipping assets, and leverage reduction is a strategy we expect to continue through next year.

### LEADERSHIP AND TRANSPARENCY

We introduced some changes to Trafigura's management structure during 2016. In particular we established two new management committees, one to oversee trading and the other to supervise investments. The Trading Committee manages the group's trading activities within the financial and operating parameters established by the Board. The Investment Committee is responsible for defining and implementing an investment strategy, as well as the portfolio management and risk framework for the Group and its subsidiaries. Both these bodies have enabled us to promote talented individuals from the trading divisions to more senior positions and to start building the company's next generation of leaders.

We also continued to develop our strategies of corporate responsibility and transparency during the year. In addition to our second standalone Responsibility Report, we published a general-interest guide to trading and the role of trading firms in organising global supply chains, entitled 'Commodities Demystified', and a paper on the regulatory challenges facing trade finance. We see these activities as vital to building trust in our firm and our industry.

### LOOKING AHEAD

As we move into 2017, uncertainty and change seem likely to intensify, creating new challenges as well as opportunities for commodities trading. Indeed, after the political surprises of 2016, I cannot recall another moment in recent history at which the future seemed so unclear on such a range of subjects. The one sure prediction is that expectations about economic and monetary policy, currencies and geopolitical risk will continue to fluctuate, bringing the prospect of enhanced volatility and changes in supply and demand of key commodities.

At Trafigura Group we will continue to position ourselves to take advantage of the opportunities for further growth this environment will undoubtedly create, while maintaining our focus on resilience and responsible risk management. One transaction announced after our 2016 year-end is likely to be of particular importance in 2017 and after: our investment as a significant minority shareholder alongside Russia's Rosneft and investment group UCP in Mumbai-based Essar Oil Limited. This purchase will yield broad commercial benefits for Trafigura, giving us exposure to a world-class refining and infrastructure asset with a strategic position in the global oil market and one of its fastest-growing segments. Once it is concluded, Essar Oil will join a large and still-growing collection of third-party joint ventures and investments which together with our strong trading platform are driving our business forward.

**Jeremy Weir,**  
Chief Executive Officer

# PRICE MOVEMENTS AND SHIFTING GLOBAL FLOWS



**SAAD RAHIM**  
Chief Economist and  
Head of Analysis

The period from October 2015 to September 2016 featured solid economic growth and market uncertainties.

Our latest fiscal year was marked by significant price movements and quite a few surprises. China grew more strongly than most analysts had predicted; the Federal Reserve chose not to hike rates again after a single increase in December 2015; Britain voted to leave the EU; and oil supplies were resilient despite low prices, leading to an OPEC agreement to limit its production for the first time in eight years. In the markets we saw commodity prices as a whole fall to the lowest levels in 18 years<sup>1</sup>, only for them to rebound by anywhere from 20-80 percent just a few months later. Of note is the fact that these moves were fairly steady in either direction, meaning that daily volatility remained subdued despite the large overall changes. In this changing price environment, demand held up better than most expected, particularly in the oil sector but also in copper and zinc, while coal was the surprise winner in terms of price growth this year. Global flows have shifted, with the US becoming a major exporter of crude oil, and China a world-scale exporter of finished products, on both the oil (diesel and gasoline) and metals (steel, aluminium) side. We have also seen emerging markets becoming major centres of demand growth.

What these shifts tell us is that markets continue to be resilient in changing circumstances, with both demand and supply adjusting to meet the realities of the moment, and despite uncertainties ahead, we expect to see the volume of commodities traded globally continuing to increase.

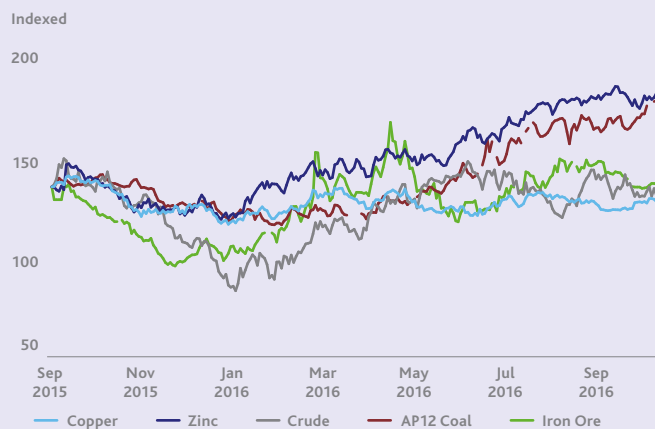
## MACROECONOMIC ENVIRONMENT

Overall the global economy held up well this past year, recording relatively solid if unspectacular growth. As has tended to be the case recently, the US led the way, as the employment sector continued to show strong job gains, which fed through into rising incomes and ultimately consumption. The US consumer remains the ultimate driving force in the global economy, accounting for just under one out of every 10 dollars spent on the planet, and as such a healthy US consumption rate has continued to lift the global economy. Low interest rates have given the economy room to run, as seen in the growth in real estate, vehicle sales and fuel consumption, all important sectors for Trafigura and the commodity sector at large.

However, despite decent strength, the US economy has been unable to fully break out of its tepid recent range, with the result that the Federal Reserve has been faced with a clouded outlook as it decides the pathway of monetary policy. The weakness in headline GDP, which is likely to show full-year 2016 growth of below 2 percent, would suggest that the Federal Reserve should be seeking to keep rates low for quite some time. On the other hand, inflation is beginning to pick up, in line with the robust employment picture and rising oil prices. The Fed's dilemma between heading off inflation and allowing the economy to continue strengthening has been one of the dominant themes in the market over the last year. Although a hike in December 2016 seems likely, the path forward into 2017 looks increasingly unclear, potentially causing volatility ahead. The incoming US administration's plans on taxation and spending are also a major factor in creating uncertainty, as there is a lack of clarity on which of the initiatives proposed to date may in fact be feasible.

## COMMODITIES INDEX

1 September 2015 – 27 October 2016



Source: Bloomberg Data, Trafigura Research.

<sup>1</sup>. Source: Bloomberg Commodity Index.



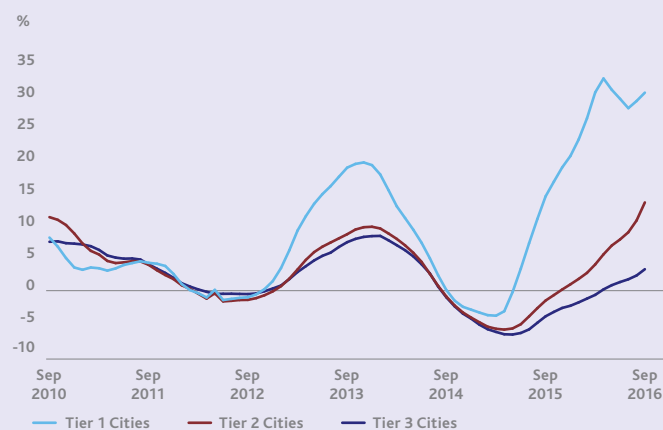
Regardless, the recent bias towards Fed tightening has combined with the likelihood of the Trump administration stoking inflation, together boosting the US dollar (USD) towards the end of the year. This has sent the Chinese RMB to a record low and weakened the British Pound (GBP) to levels not seen since the early 1980s (albeit the major part of this move was due to 'Brexit', the vote to leave the EU). The Euro has bounced around within a fairly narrow range, but has also come under pressure in recent months as policy has diverged between the US and EU, and also due to rising political risks including the upcoming elections in various EU member states. The stronger USD has in turn been a headwind for commodity prices, as production costs have fallen and consuming nations are finding it more expensive to import oil and metals.

Commodity markets are becoming used to the idea that Chinese growth is no longer the global force it once was, but the economy held up much better over the year than most projected. China's industrial slowdown did continue in the first part of the year, but saw a rebound starting in Q2 2016 due to government support. The Chinese authorities have supplied the economy with over USD2.1 trillion of additional liquidity, equivalent to the dollar value of the entire Indian economy. The infusion of funds boosted growth, particularly in the real estate sector, which saw a marked rebound across the board after suffering a severe contraction last year.

The strength in Chinese real estate and construction markets was the key story of the year in terms of metals demand. Housing prices started the move, rising first in the so-called Tier 1 cities (mainly coastal industrial hubs), but eventually seeing prices in Tier 2 and interior-located Tier 3 cities move back into positive territory as well. Rising prices led to a return of construction activity and land sales, creating a virtuous circle effect that boosted demand for copper, zinc and steel.

## CHINESE NEW BUILD HOUSE PRICES

Change year-on-year



Source: China National Bureau of Statistics.

Elsewhere, Europe has not yet suffered any real impacts as a result of the UK voting to leave the EU. Indeed, the UK itself has so far defied most projections by continuing to grow at a steady pace, although inflation is starting to creep upwards due to the fall in the GBP. Germany has continued to power the rest of Europe, as manufacturing and exports have recovered, albeit at a relatively slow pace. The European Central Bank has maintained its accommodative policies, continuing to purchase large quantities of corporate and sovereign bonds, keeping interest rates at record lows.

However, the eventual withdrawal of Central Bank stimulus measures is likely to be a dominant headline over the next fiscal year, both in Europe and globally. While Central Bank rate hikes are likely to remain muted, bond markets are already reacting to the possibility of the liquidity tap being turned off and are pushing rates higher. At the same time inflation is starting to inch higher in most key regions, reversing the trend of recent years, supporting the increase in rates and in turn potentially tightening credit. How markets handle this new environment will help define the next trading year.

## ENERGY MARKETS

In oil markets, a supportive macroeconomic environment has seen another year of solid demand growth, albeit a bit softer than 2015's 1.9 million barrel per day increment. However, even another year of demand growth has not been enough to address the issue of global oversupply, which continues to dominate the market. Throughout the year, the surplus has shifted between the crude side and refined products, meaning that from an overall hydrocarbons perspective, oversupply remained at record levels globally.

Despite the fall in US oil production at the beginning of the calendar year, overall supplies continued to build as various producers ramped-up production. Iran added approximately 700,000 barrels per day as it recovered from sanctions-enforced output curbs, while Saudi Arabia and Russia both hit record levels of production. These additional supplies more than offset disruptions in Nigeria and Canada, and ongoing declines in Venezuela and other Latin America producers. As a result, total hydrocarbon inventories rose to over 750 million barrels, over 500 million of which were in the OECD economies.

The issue of oversupply was not limited to crude however. Following last year's strong gasoline-led demand growth, refiners over-produced gasoline and other refined products, leading to significant stock builds in this area as well. As such, despite record levels of gasoline demand in the US this year, the market still saw gasoline inventories building at times when if the historical pattern had been followed, they should have been falling. The issue was not limited to gasoline, as distillate inventories also remained at very high levels throughout the year, although here the problem was weak demand more than oversupply. As a result of these elevated inventories, refining margins were not as strong as they were last year, but nonetheless were positive enough to incentivise refiners to maintain runs for the most part, adding to the global overhang.

As evidenced by refining margins holding up, demand overall continued to be healthy, with strong growth in particular in the US, China, India and Mexico. The composition of that demand has been led by gasoline, as diesel demand has remained soft. The divergence in the fortunes of the fuels has resulted from the relative strengthening of consumers globally, boosting gasoline, while industrial activity has stagnated, weakening diesel demand.

Towards the close of the year, OPEC member nations reached an agreement to limit their production, potentially lowering total volumes by 1.2 million barrels per day, in addition to up to 600,000 barrels per day from Non-OPEC members. If the organisation's members adhere to their agreed limits, we will start to see a tightening market next year. Yet compliance traditionally has been a major issue in this type of deal, and a higher price could lead to significant additional volumes being produced in the US, China, Latin America and elsewhere. It remains to be seen what the ultimate impact will be.

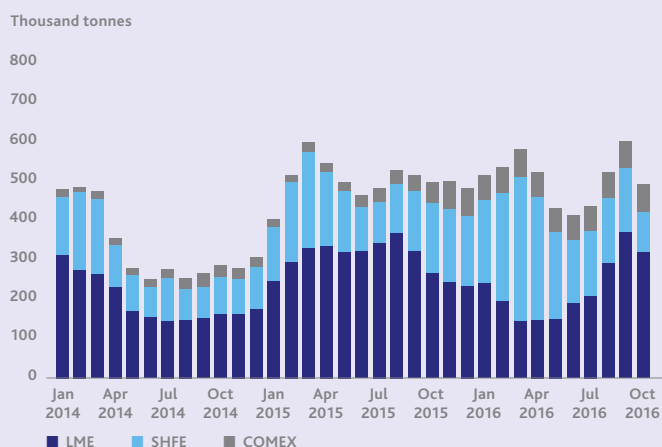
## MARKETPLACE REVIEW

### NON-FERROUS MARKETS

Metals markets this fiscal year were much more differentiated in their movements than they were in 2014-15. Divergent market fundamentals pushed zinc and nickel prices significantly higher and aluminium moderately higher, while copper, normally seen as the key bellwether of the global economy, remained essentially flat over the course of the year.

Copper began drifting lower in late 2015 along with the rest of the commodity complex, reaching a low of USD4,330 per tonne in January. Despite some increased mine outages towards the end of the year, mine supply generally was much less of an issue this year than in years past. Outages in Chile were balanced by a ramp-up in Peruvian output. Prices did not fall enough to force major mine closures, as many analysts had projected given the slide towards the low-USD4,000s. However, while outages per se were down, the issue of ore grade deterioration has led to the overall level of concentrate availability being impacted. This will be an area to watch in coming years as well.

### EXCHANGE INVENTORY OF REFINED COPPER



Source: IAI, Trafigura Research, November 2016.

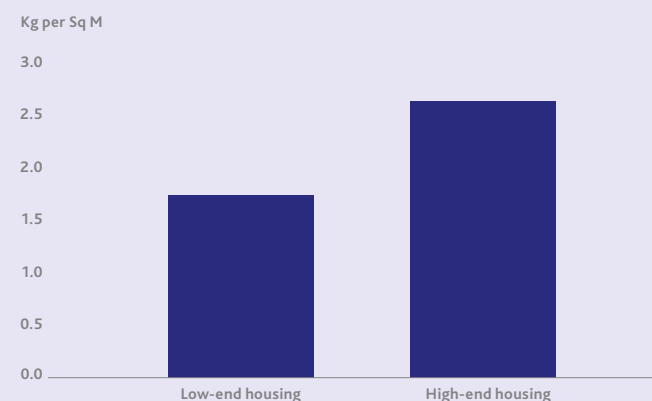
While copper concentrates availability remained robust, challenges emerged on the refined metal side. Overall, the balance did end up looking better than projected at the beginning of the year, as a rebound in China's real estate and vehicle sectors, combined with increased build-out of the national electricity grid, meant that demand growth stayed above 3 percent year-on-year. Other regions also contributed to demand growth as well, with India and other Asian economies (ex-Japan) performing better than in recent years, and Europe growing materially for the first time in five years. However, stronger than expected demand was still not enough to clean up the market, leaving a significant surplus of refined metal for the year, which weighed on prices. As a result, copper ended the fiscal year almost exactly where it began, around USD4,800 per tonne.

As was widely anticipated, supply dynamics in the zinc market drove prices significantly higher, reaching five-year highs. The closure of the Century Mine in Australia and Lisheen Mine in Ireland had been built into projections for some time, but the voluntary closure of two key mines by a major mining concern brought the deficit into even sharper relief. As the year progressed, the concentrates deficit made itself felt, resulting in a major price move higher. Demand also held up well, driven by galvanized steel, in turn a beneficiary of stronger infrastructure and real estate demand in China. Although prices hit a low of just under USD1,500 per tonne in January, they then marched

steadily upwards to just shy of USD2,500 per tonne by the end of the financial year. Although the supply picture is expected to improve somewhat over the coming year, it is likely not enough to rebalance the market, particularly if demand continues to remain strong.

Aluminium prices moved in a much narrower band than zinc, albeit still moving materially, falling to under USD1,450 in late 2015 before rebounding to nearly USD1,700. Prices remained range-bound despite strong demand growth, due to the significant capacity China has invested in over the last decade. Better integration of smelting capacity across the value chain, particularly with captive power generation, and falling energy costs have led to a lower and flatter cost curve, with Chinese companies now in a much more competitive position than previously. However, that shift did not prevent some reduction in capacity in 2016 when prices dipped to low levels. As a result of the capacity curtailments, the market has seen sharp declines in onshore aluminium stocks, potentially pointing to a move higher if demand continues to perform as it has done in recent years.

### CHINA ALUMINIUM CONSUMPTION IN CONSTRUCTION



Source: Wood Mackenzie.

The global demand picture for aluminium is being driven by rising intensity of use. As Chinese consumers have moved up the income chain and into higher-end housing, their consumption of aluminium used in construction has gone up by approximately 60 percent. Rising substitution in vehicles, with aluminium being increasingly favoured due to its weight-to-strength ratio, has seen aluminium consumption per vehicle sold in North America rise sharply from 100kg/vehicle in 2010 to 150kg/vehicle in 2015. This is expected to rise further in coming years, nearly doubling to 2030.

Nickel prices continued to slide coming into the start of our fiscal year, reaching a low of USD7,600 per tonne in February, but then remaining range-bound between USD8,200 – USD9,000 for most of the year. That changed in summer, when a new government in the Philippines instituted a stringent environmental audit, leading to mine closures and a significant impact on supply availability. Stocks of nickel ore are hovering at the lowest levels in four years, keeping prices above USD10,000 per tonne today. However, the market is adapting, with Indonesian suppliers starting to produce nickel pig iron, replacing some of the units lost after raw ore exports were banned at the start of 2014. Despite this offset, demand for stainless steel, which relies on nickel as an input, continues to rise on the back of the Chinese liquidity push, and therefore the market is likely to remain in deficit for some time to come.

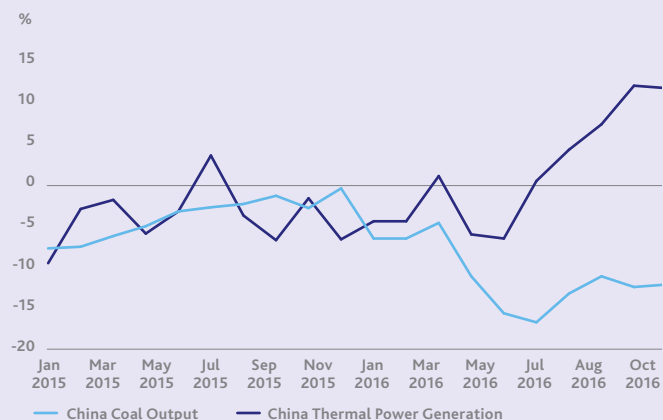


Staff at Trafigura's Singapore office.

### BULK MARKET

Coal was the big winner this year, essentially doubling from USD36.50/mt in February to over USD70/mt by year-end, the steepest rise on record. This was due primarily to government-enforced curtailments of mine production in China, as the country looked to reduce over capacity in loss-making sectors of the economy. The government has targeted closure of 500 million tonnes of production capacity in the next three to five years, and also sought to cut back available capacity by reducing the number of operating days from 300 to 276 days a year.

### CHINA COAL OUTPUT AND THERMAL POWER GENERATION, YEAR-ON-YEAR GROWTH



In the meantime, Chinese demand continued to march upwards, driven by economic activity, itself a result of the increased liquidity put into the economy earlier this year. Power generation grew by over four percent year-on-year, as industrial activity rebounded on the back of bank lending and overall demand growth. Rising Henry Hub prices and relatively stable LNG prices have also allowed coal prices to remain at elevated levels.

Iron ore benefited from rising steel demand, which in turn was driven by the liquidity push from the Chinese government, as well as strong growth globally in terms of vehicle sales and real estate. The run-up in coking coal prices towards the end of our fiscal year seems to have pushed iron ore prices higher as well, but it is unclear how long this effect might last. Unlike other markets such as zinc or crude, supply cutbacks by smaller producers were offset by significant increases from bigger players, as well as the start-up of large scale projects in Australia and Brazil. As with most of the other commodities, policy decisions in China are likely to play a major part in determining the forward path for iron ore.

### LOOKING AHEAD

Commodity markets are driven by a complex interplay of physical fundamentals, macroeconomic drivers, geopolitics and policy events, and as such remain ever-changing. The conventional wisdom at the start of our fiscal year was that markets would continue to slide indefinitely as China continued a sharp slowdown and overall supplies failed to adjust. Instead, we have seen better demand growth, driven by a robust global consumer class, and supplies impacted by producer cuts and policy initiatives. Overall, markets feel more balanced than they have over the last few years, and while significant question marks remain around Central Bank behaviour and government policies, a stronger global consumer should help propel markets forward.

# STRONG TRADING RESULT DRIVEN BY INCREASED VOLUMES



CHRISTOPHE SALMON  
Chief Financial Officer

The Trafigura Group continued its path of profitable expansion during the 2016 fiscal year, growing traded volumes but recording reduced net profit after write-downs on some industrial assets.

## Performance Indicators

**\$98.1bn**

Group revenue  
(2015: \$97.2 billion)

**\$2.3bn**

Gross profit  
(2015: \$2.6 billion)

**2.3%**

Gross profit margin  
(2015: 2.7 percent)

**\$0.975bn**

Net profit  
(2015: \$1.1 billion)

**\$8.5bn**

Total non-current assets  
(2015: \$8.4 billion)

**\$41.2bn**

Total assets  
(2015: \$39.1 billion)

**\$5.5bn**

Shareholders' equity  
(2015: \$5.6 billion)

**\$1.6bn**

EBITDA\*  
(2015: \$1.9 billion)

Despite a global commodities market characterised by significant stresses and headwinds, the Trafigura Group delivered a sound financial performance in 2016. The year had two key features: continued profitable volume growth in both trading divisions, Oil and Petroleum Products and Metals and Minerals; and write-downs on some of the Group's industrial and logistical assets, reflecting the impact of a more challenging business environment on the value of these assets. The net result was a profit for the year of USD975 million, a decrease of 12 percent from the figure of USD1,103 million recorded in 2015.

The 2016 performance is broadly in line with the levels seen over the past several years, albeit lower than the peak achieved in the exceptional market conditions of 2014-15. It demonstrates the strengths of a diversified business model that enables Trafigura to maintain strongly profitable operations in the widest variety of market conditions.

In 2016, both main trading divisions made a significant contribution to profit. A highlight of the year was a sharp increase in traded volume in the Oil and Petroleum Products Trading Division, which handled a daily average volume of 4.3 million barrels – a 42 percent increase from the daily average of 3.0 million barrels in 2015. Volume also increased in Metals and Minerals trading, to 59.0 million tonnes from 52.1 million tonnes in 2015. Our inventories in storage and in transit showed a correspondingly sharp increase, with our ability to finance this growth a key indication of Trafigura's financial strength.

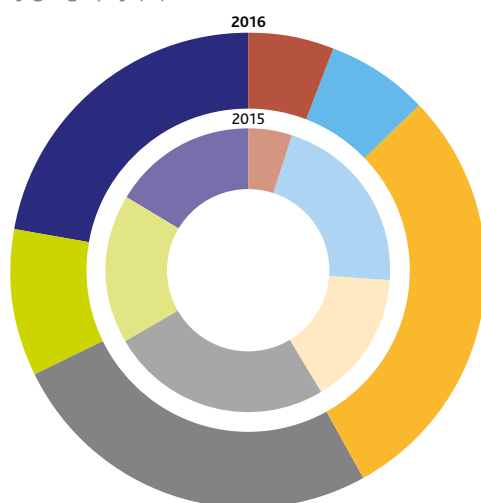
The year saw Trafigura complete a phase of intensive investment in infrastructure and logistical assets that support access to trade flows. A number of important capital investment projects ramped-up commercial operations, but faced challenging commodity market conditions. In consequence we took significant impairments on the value of certain assets, with total write-downs of USD365 million, partially offset by a USD244 million gain from reversing a prior-year impairment on another asset. At the same time, we made a start on reducing our leverage through the sale of non-core assets.

We demonstrated continued disciplined credit risk management over the year. With distress affecting increasing numbers of commodity producers, processors and refiners as well as large parts of the shipping industry, our ability to limit our exposure to credit events was crucial.

\* 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 operating income and expense.

**OIL AND PETROLEUM PRODUCTS**

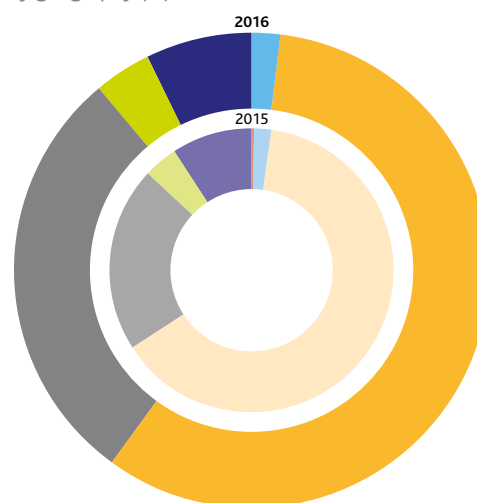
Revenue by geography (%)



Region	2016	2015
Middle East	6%	5%
Africa	7%	21%
Asia & Australia	29%	15%
Europe	26%	25%
Latin America	10%	17%
North America	22%	16%

**METALS AND MINERALS**

Revenue by geography (%)



Region	2016	2015
Middle East	–	0.3%
Africa	2%	2%
Asia & Australia	58%	64%
Europe	29%	21%
Latin America	4%	4%
North America	7%	9%

**PROFITABILITY**

Revenue in 2016 totalled USD98,098 million, broadly comparable with the USD97,237 million recorded in 2015, reflecting sharply increased volume offset by lower average prices. Total volume of commodities traded rose by 33 percent to 264.4 million tonnes from 198.4 million tonnes, with oil and petroleum products volumes rising 41 percent to 205.4 million tonnes and metals and minerals volumes increasing 13 percent to 59 million tonnes.

Gross profit was USD2,291 million, a decrease of 12 percent from the figure of USD2,600 million recorded in 2015. This represented a gross profit margin of 2.3 percent compared to the margin of 2.7 percent registered in 2015, reflecting a return to more normal business conditions. General and administrative expenses including staff costs were USD947 million, a 5 percent decrease from the 2015 figure of USD995 million despite the volume increases. This reflects in part the operating and scale efficiencies we have created by establishing consolidated mid- and back-office support centres in Mumbai, Montevideo and Shanghai.

In divisional terms, the gross profit figure reflected a 13 percent decrease in gross profit in oil and petroleum products to USD1,460 million and a 10 percent fall in gross profit in metals and minerals, with gross profit at USD831 million compared to USD920 million in 2015.

The 'other income/expense' line showed a significant negative impact from impairments of financial and non-financial assets and of equity-accounted investees. Impairments to financial assets totalled USD40 million. Impairments to non-financial assets totalled USD75 million. Of this USD43 million represented a write-off of Impala's investment in the FDP rail project in Colombia, management of which

has been transferred to a local operator. Impairments to equity-accounted investees were USD250 million, representing a write-down in the value of the Porto Sudeste iron ore export terminal in Brazil. These impairments were partially offset by the reversal of a USD244 million impairment that had been taken in 2015 on the value of the AEMR iron ore mining project in Angola. In our view the impairments taken in 2016 reflect a fair approach in view of the distressed conditions in commodity markets and their likely impact on our assets.

From an operating profit perspective, we believe that EBITDA is the appropriate indicator to assess our performance as the amount of depreciation and amortisation has steadily increased following the growth in our fixed asset portfolio. EBITDA in 2016 was USD1,628 million, compared to USD1,861 million the previous year, a decrease of 13 percent but still a very strong operating result in the market circumstances.

Net financing costs this year totalled USD121 million, less than half the 2015 level. This reduction is partly due to the fact that in 2015, USD49 million relating to the distributions on the perpetual capital securities was recorded as part of financing costs because these securities were not transferred to Trafigura Group Pte Ltd. from Trafigura Beheer B.V. until the end of 2015. In 2016, the capital securities and their associated distributions have been recorded as part of equity. The reduction in net financing costs also reflects the net effect of an increase in finance expense due to higher borrowings and a significant increase in finance income generated through our structured trade finance activity. Trafigura's financial income and expense line items include interest on cash balances and loans respectively, as well as interest from commercial operations.



## FINANCIAL REVIEW

### CAPITAL ALLOCATION

An important focus for the Trafigura Group in recent years has been investing in industrial and logistical assets that offer strong synergies with our physical trading business. In 2016, we reached the end of a period of intensive investment dating back to 2012 as our largest infrastructure investment projects were completed and we started commercial operations. Capital expenditure was USD754 million, significantly lower than the previous year's level of USD1,223 million. In 2017 and in subsequent years, we expect capital expenditure to continue to sharply reduce as no further major investments of this kind are currently planned.

### ASSETS

As at 30 September 2016, total assets amounted to USD41,230 million, an increase of 5 percent from the figure of USD39,087 million at the same date in 2015. Fixed and non-current assets were 2 percent higher at USD8,528 million, compared to USD8,357 million a year earlier. The variance reflects the net effect of a number of developments including Impala Terminals' investments in Colombia, Paraguay and elsewhere, the disposal of non-core assets including the sale-and-leaseback of six new medium-range oil tankers that had been previously purchased and various impairments to reflect the fair value of our fixed-asset investments. Equity-accounted investees rose by 9 percent to USD3,464 million from USD3,168 million, reflecting the net effect of additional corporate investments, income received from investments, disposals and impairments. Additions included Trafigura's contribution to a capital increase by Puma Energy, the equity investment in the copper smelting venture with China's Jinchuan Group, and the investment in Nyrstar. The impairment was the USD250 million write-down on Porto Sudeste described above.

Pre-financings and prepayments were broadly steady with a decrease in longer-term pre-financing activity offset by an increase in prepayments of 12 months or less duration. Loans receivable were

82 percent higher than last year at USD801 million, due principally to monies outstanding following the disposal of our interest in the AEMR iron ore mining project in Angola.

Current assets were 7 percent up at USD32,702 million from USD30,641 million in 2015. Inventories rose by more than 52 percent to USD11,538 million from USD7,614 million a year earlier, reflecting the significant growth in trading volumes during the year. Of the total inventories as of 30 September 2016, USD7,069 million were held in storage and USD4,456 million were in transit. In line with Trafigura's risk management policies, all stock was either presold or hedged at all times throughout the year. Group equity was USD5,847 million as of 30 September 2016, compared to USD5,658 million as at 30 September 2015. Current liabilities including short-term bank borrowings were up from the 2015 figure of USD25,629 million to USD27,652 million.

### CASH FLOW

Operating cash flow before working capital changes was USD1,615 million in 2016, down from the figure of USD1,886 million in 2015. Trafigura believes its financial performance is best assessed on the basis of cash flow before working capital changes, 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. Cash flow from operating activities after working capital changes was a net outflow of USD2,827 million compared with a net inflow of USD1,717 million in 2015. Investing activities resulted in a net cash use of USD67 million compared to a net use of USD2,198 million in 2015. Net cash generated from financing activities was USD2,502 million compared to USD345 million in 2015. The overall balance of cash and cash equivalents as of 30 September 2016 was USD3,142 million, a decrease of USD392 million from the figure of USD3,534 million at the same date the previous year.



MATSA mine near Seville, Spain.



Crude oil vessel at Corpus Christi terminal, Texas, US.

## PUBLIC RATINGS

Trafigura does not hold a public 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 who understand its business model, rather than make investment decisions on the basis of a rating. In addition, holding a rating could cause Trafigura to take more short-term focused decisions in order to maintain a particular 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 rating and had access to over USD45 billion, as at 30 September 2016, in credit facilities from diverse funding sources.

Financial discipline is inherent to Trafigura'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 our unsecured lenders and is underlined by the strong support we receive from our banking group and investors.

## BANK FINANCING

As a privately owned company, Trafigura funds itself primarily through the banking and debt capital markets, relying on a combination of diversified funding sources and strong banking relationships. For a number of years and throughout various commodity cycles and financial market environments, Trafigura has cemented strong relationships with its lending banks.

In spite of the challenges facing commodity markets, Trafigura's banking group remained stable and consisted, as at 30 September 2016, of 121 banks across the world. Cyclicity and volatility is a characteristic of many industries, not just commodities trading. Just as we rely on an open dialogue with our banking partners at times of increased stress or volatility within the banking market, likewise banks and investors rely on clear and comprehensive communication from Trafigura when increased commodity market volatility brings new questions to the fore.

As such, Trafigura has significantly and demonstrably increased its transparency over the past few years, with very positive feedback indeed from its main stakeholders.

Access to deep and constant liquidity is a key reason for Trafigura's leading competitive position and we see communication with banks, financial stakeholders and trading counterparties as instrumental to maintaining this position. Trafigura sources funding from a number of markets: syndicated bank loans, securitisation markets, bond markets and trade finance. Of total current lines of USD45 billion, there is approximately USD14.4 billion which remains unutilised, ensuring resilience during volatile markets.

As at 30 September 2016, the Group had USD8.0 billion (2015: USD7.8 billion) of committed revolving credit facilities of which USD3.2 billion (2015: USD3.2 billion) remained unutilised. The Group had USD2.0 billion (2015: USD1.8 billion) of immediately (same day) available cash in liquidity funds. The Group had immediate access to available liquidity balances from liquidity funds and corporate facilities in excess of USD5.2 billion (2015: USD4.9 billion). Over 2016, Trafigura refinanced both of its revolving credit facilities (RCFs) and Samurai loan, which altogether represent the cornerstone of Trafigura's unsecured funding as well as a large proportion of the Group's banking pool. In October 2015, Trafigura refinanced its Asian revolving credit facility which continues to be syndicated mostly with South Asian, Australian and Middle Eastern banks and closed at USD2.2 billion. As part of the transaction, the 2014 364-day USD and one-year CNH tranches were both refinanced, along with the maturing three-year USD tranche from 2012. Twenty-eight banks participated in the transaction of which six were newcomers to the facility.

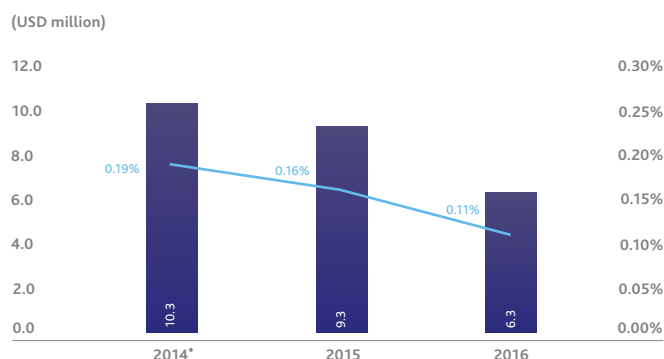
The Asian RCF closing was followed in early 2016 by the refinancing of the European RCF which closed on 24 March 2016. This facility was launched at USD4.3 billion, and closed substantially over-subscribed at USD5.1 billion with a total of 45 banks.

March 2016 was an eventful month for Trafigura when we also refinanced our Samurai loan, a Japanese Yen denominated loan placed with domestic Japanese banks. Trafigura has been accessing the Samurai

## FINANCIAL REVIEW

loan market since 2012 and has been able to increase the size of the facility on each of the three occasions that we have accessed the market. The March 2016 facility reached JPY50.5 billion (USD450 million), up from JPY26 billion (USD280 million at historical foreign exchange rates) in 2014. The deal also attracted nine new lenders, reaching a total lending bank pool of 15 Japanese financial institutions.

### VALUE AT RISK



■ Average 1-day VaR 95 percent

— % of Group equity

\* 2014 based on equity as reported TBBV consolidated accounts.

Basis: IFRS.

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 risks including commodity prices, interest rates, equity prices and currency rates (see further details in Note 27). During 2016, average 95 percent one day VaR for derivative positions was USD6.3 million (2015: USD9.3 million) which represented less than 1 percent of Group equity.

### SHAREHOLDER STRUCTURE

Trafigura is exclusively owned by its management and about 600 of its senior employees, who are therefore 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 upon management's evaluation of the individual's performance, seniority and future potential.

Trafigura has continuously built up its shareholders' equity since inception in 1993 and the Group retains profits to further increase its capital base. No dividend or profit distribution is paid other than through share buy-backs. Any share buy-backs are discretionary and each buy-back can be deferred indefinitely subject to sufficient liquidity being available/compliant with financial covenants.

### LEVERAGE AND ADJUSTED DEBT

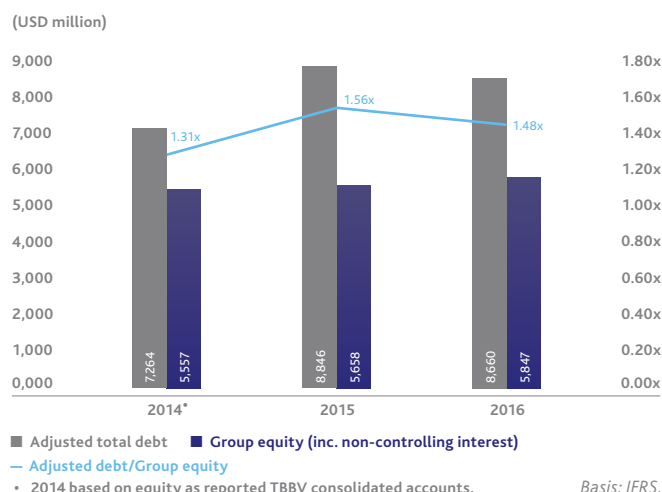
As a physical trading group, Trafigura relies on a specific funding model. As a result, one cannot apply the same financial analysis framework as for other, more typical industrial companies.

Banks and rating agencies have historically considered financial leverage after excluding some specific balance sheet items (e.g. inventories, securitisation), resulting in the use of adjusted debt as an overall leverage metric. The adjusted debt metric represents Trafigura's total long- and short-term debt less cash, deposits, readily marketable inventories, debt related to the Group's securitisation programme and the non-recourse portion of loans. 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 securitisation programme is taken out on the basis it is an entirely distinct legal entity from Trafigura with no recourse to the Group and is 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 is deducted from debt. This reflects the great liquidity of the stock and the ease at which this could be converted to cash. As previously described, Trafigura's policy is to have 100 percent of stock hedged or pre-sold at all times.
- Non-recourse invoice discountings or portion of loans (for example non-recourse portions of bank financings used to extend prepayments to counterparties) are deducted from debt.

As at 30 September 2016 the ratio of adjusted net debt to Group equity stood at 1.48x, down from 1.56x at 30 September 2015. The build-up of our fixed assets and infrastructure portfolio, initiated in 2012 and now complete, had weighted negatively on this ratio. We are now in a process of de-levering our balance sheet by pursuing multiple initiatives, such as disposing of non-core assets and committing to significantly reducing our capex programme over the years to come. We are thus committed to continuing to reduce the ratio in 2017.

### TRAFIGURA ADJUSTED DEBT



■ Adjusted total debt ■ Group equity (inc. non-controlling interest)

— Adjusted debt/Group equity

\* 2014 based on equity as reported TBBV consolidated accounts.

Basis: IFRS.

### TAXATION

Trafigura operates in a multitude of jurisdictions and adheres to applicable local and international tax law in the countries in which it operates, including legislation on transfer pricing. 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, but in 2016 it was 10.2 percent (2015: 11.3 percent).

### OUTLOOK

We expect challenging conditions to persist in commodities markets through 2017, with pressure increasing on producers and other players with large asset footprints. Accordingly Trafigura will continue to focus on running a resilient business focused on physical trading, logistics and risk management. As we stated last year, that involves three key priorities:





Impala Terminals and Mubadala's Porto Sudeste export facility, Brazil.

- First, we will ensure that our liquidity position remains robust even in conditions of extreme volatility and stress. To this end, we have developed close and trusting relationships with our many banking partners, and it is a high priority to maintain these by demonstrating maximum transparency on all our transactions.
- Second, we will focus intensely on maximising efficiency and minimising cost. Trading these markets will require greater agility and financial strength than ever. By the same token, they will offer significant opportunities to those firms that navigate them successfully.
- Third, we will continue to maintain a close eye on counterparty credit risk to minimise risk of losses or defaults.

Part and parcel of this conservative approach, is also to continue to reduce both our leverage and our capital expenditure as compared with the levels seen in previous years. It is worth reiterating that this key consideration also determined our approach to the landmark transaction we are in the process of completing to acquire a significant minority stake in Essar Oil Limited of India. This will be financed on a non-recourse basis, with a limited equity contribution from Trafigura that is well within our reduced capital expenditure level for 2017.

**Christophe Salmon,**  
Chief Financial Officer



Trade finance is part of the life blood of the global economy as well as a vital tool in commodities trading. But there is growing concern in the banking and trading community that changes in financial regulation could put that life blood at risk.

This concern prompted Trafigura to commission the economics firm Llewellyn Consulting to produce a study entitled

"Trade finance and regulation: the risk of unintended consequences". The study, written on the basis of interviews with policy-makers, banks and users of trade finance, suggests trade finance is often taken for granted as a well-functioning and liquid market driven by demand.

But it highlights how some of the detailed changes to banking rules now under discussion among regulators could call those assumptions into question. At worst, the paper argues, these changes could make trade finance more expensive for traders, producers and consumers, and even prompt some important trade finance banks to quit the market.

"Disruptions to trade finance, while infrequent, are highly damaging when they occur since one form or another of trade finance underpins around 90 percent of world trade," the authors argue. "All the data shows that trade finance is an inherently low-risk activity featuring very low historic credit losses, and as such it warrants being handled with care.

"But there is now growing concern over the possibility that trade finance could be adversely affected by over-heavy, insufficiently nuanced regulation, particularly in an area like commodity trade finance where policy-makers may perceive the risks involved to be greater than they are. In particular, it is important that separate regulations in the areas of capital, leverage and liquidity do not add up to more than the sum of their parts."

Trafigura has discussed the paper in recent months with leading regulators including the European Banking Authority, the European Commission and the European Central Bank. Our aim has been to impress on them the need to pay special attention to the impact on trade finance as they work with their global peers to finalise the next round of detailed rules.

# OUR BUSINESS MODEL CREATES VALUE

Our vision is of an increasingly interconnected and prosperous world in which commodities pass seamlessly from their points of origin to points of need.

## WHAT WE DO

We connect producers and end-users of commodities by performing transformations in space, time and form.

We use our market knowledge, logistics and infrastructure:

- to move physical commodities from places where they are abundant to where they are in demand (space).
- to store physical commodities while supply is unusually high and release inventories at times of high demand (time).
- to blend physical commodities to alter their quality or grade according to customer specifications (form).



## ADVANCING TRADE: HOW WE CREATE VALUE

### BY MAKING MARKETS WORK

We use our global network and market intelligence to connect supply and demand for commodities and ensure delivery in the right place, at the right time, to the right specification.

### BY OPTIMISING THE SUPPLY CHAIN

We have developed world-leading logistical capabilities enabling us to source, store, blend and deliver oil and petroleum products, metals and minerals reliably and efficiently anywhere in the world.

### BY MANAGING RISK

Our business model is resilient in the most volatile market conditions. We systematically hedge price risks and have created systems and processes that enable us to manage a complex range of operational and financial risks.

### BY INVESTING IN INFRASTRUCTURE

We have invested in high-quality infrastructure that supports our trade flows, such as oil storage facilities, warehouses, ports and transport.

### BY SUPPORTING OUR CLIENTS

Our strong financial resources give us the capacity to add value for our customers through integrated solutions incorporating trading, finance, infrastructure investment and risk management in the physical commodity sector.

### BY ACTING RESPONSIBLY

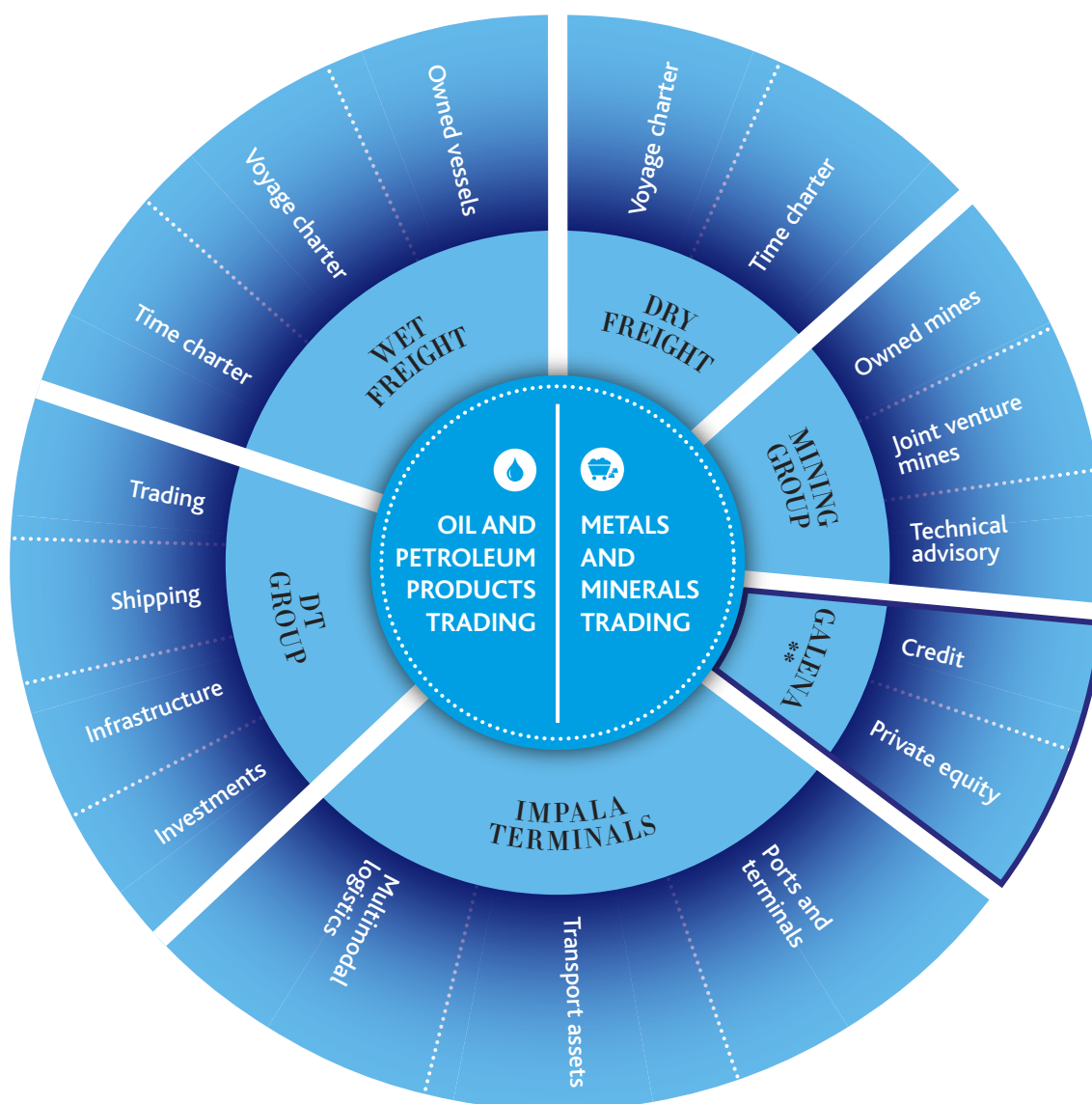
We are committed to operating and growing our business in a responsible and sustainable way. Responsible trade drives economic and social progress.



# OUR STRUCTURE DELIVERS VALUE

Trafigura's core business is physical trading and logistics. Strategic investments in industrial and financial assets complement and enhance this activity. We structure these investments as standalone businesses.\*

## TRADING ACTIVITIES



\* The size of each segment is not indicative of percentage of ownership or contribution to Trafigura's bottom line.

\*\* Galena Asset Management's teams operate wholly independently of Trafigura.

# OIL AND PETROLEUM PRODUCTS TRADING



**JOSÉ LAROCCA**  
Head of Oil and Petroleum  
Products Trading

Trafigura is one of the world's largest traders of crude oil, refined products and liquefied natural gas. In 2016, we traded record volumes of more than four million barrels daily and delivered a strong profit performance.

## HIGHLIGHTS

- Sales volumes of oil and petroleum products in Asia grow by 80 percent.
- Fuel oil volumes more than triple on last year.
- LNG volumes traded increase by 53 percent.

**65%**

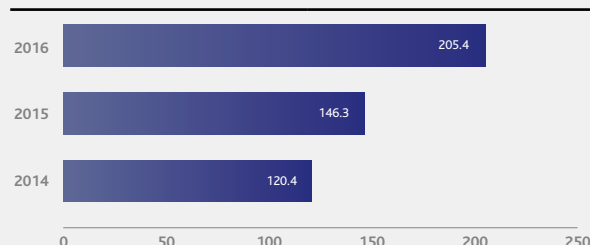
Contribution to global revenue  
(2015: 67 percent)

**205.4mmt**

Total volume traded  
(2015: 146.3mmt)

Oil and Petroleum Products volumes traded (mmt)	2016	2015
Biodiesel	0.6	0.4
Bitumen	1.0	0.8
Condensates	2.0	2.7
Crude oil	85.9	70.9
Fuel oil	33.0	9.4
Gasoline	22.0	17.2
Liquefied Natural Gas (LNG)	6.4	4.2
Liquefied Petroleum Gas (LPG)	4.1	2.6
Middle distillates	36.4	29.0
Naphtha	14.0	9.3
<b>Total</b>	<b>205.4</b>	<b>146.3</b>

## Oil and Petroleum Products total volume traded (mmt)



## MARKET ENVIRONMENT AND PERFORMANCE

The global markets for crude oil, refined products and natural gas presented an exceptionally dynamic picture in 2016. This was a near-ideal environment for a physical trading firm like Trafigura, with global reach and with expertise stretching right across the product spectrum.

It was a year characterised by over-supply in almost every product category, as the surplus of crude yielded strong refining margins and incentivised refineries to transform crude into surpluses of refined products. But it was also a year of rising demand and, even more importantly for trading, of dramatic changes in product flows and arbitrage opportunities, underpinned by historically low freight rates.

Indeed, the trends over the past year have been precisely the reverse of those predicted by conventional wisdom in previous years. It was a world of abundant, not tightening, supply; a market favouring lighter, not heavier, crudes; of global and not just Asian demand growth, including a resurgence in demand in OECD countries; and one where gasoline was the favoured fuel, rather than diesel. Other significant and unexpected developments include the emergence of the US as a major crude exporter and of China as a major exporter of refined products, alongside the liberalisation of the Chinese refining business.

As these trends have played out, trading in more and more refined product categories has become truly and consistently global, rather than regional or seasonal. This broad transformation played to Trafigura's strengths as a nimble and flexible global trading firm well-positioned to address sudden market dislocations and narrow and changing windows of opportunity.

Our business grew significantly during the year. Daily volumes handled rose 42 percent from 3 million barrels per day (bpd) in 2015 to 4.3 million bpd by the end of 2016. This marks the continuation of a four-year run of growth which has more than doubled the size of Trafigura's oil and petroleum products book since 2012. The biggest regional highlight was Asia, where our sales volumes grew 80 percent year-on-year. In terms of growth in individual products fuel oil was a stand-out and the LNG desk continued its market-leading expansion, while adding capacity to trade natural gas in the US and Europe. Most gratifying to report is the fact that all of our product lines without exception generated a positive net profit, making Trafigura's oil business the most thoroughly diversified in the industry.



Crude oil vessel at Corpus Christi terminal, Texas, US.

The key events of the year were the end of the US ban on crude exports in December and the emergence of Chinese private-sector refiners as international players, in the first instance as purchasers of crude. In both cases Trafigura was at the leading edge. We built on our strong market position in southern US shale fields and our unrivalled access to infrastructure in the US, Europe and further afield to export significant volumes of US crude. We also built strong relationships with the Chinese refiners in addition to the state-owned oil majors, and grew our Chinese business significantly.

The year saw us taking our origination business to a new level featuring increased geographical and product diversification. Our purchases increased significantly from Russia, North America and the Middle East among other regions, thanks to strong relationships with producers. We have also developed an increasingly strong set of commercial relationships with refiners in the US, Europe and Asia. We devoted considerable effort to strengthening our business development team in India in order to capitalise on increasing pace of growth in Indian oil demand.

Two important strengths of our operation in 2016, as in previous years, were the quality of our people and our culture of global collaboration and teamwork – both within and between individual trading desks. We saw significant progression of key talent to leadership positions, drawing on our deep bench-strength and developing the next generation of senior managers. These movements have helped foster an environment in which the collective result is of paramount importance, and where communication and information sharing between trading hubs in different regions are incentivised. Trafigura sees this culture as a significant competitive advantage.

Looking ahead, we expect crude and product markets to continue to struggle with over-supply and prices to remain volatile, with sentiment torn between bearish fundamentals and OPEC efforts to put a floor under the crude market. It remains unclear what effect the agreement by the producer cartel in December to limit production will have on the market in 2017, to what extent output will in reality be curbed, and therefore when the much anticipated balancing of the market and commencement of stock drawdowns will occur.

We will continue to focus on being constantly alive to rapid changes in the market and best positioned to identify new trading opportunities. In particular we will be looking to strengthen our position further in key growth markets such as India and China and to enhance our relationships with the world's refiners.

#### CRUDE OIL

The dominant story in the global crude market in 2016 was one of over-supply and a continued build-up of stocks despite output declines in some key production centres such as the US. Saudi Arabia's 2015 decision to maintain production in order to win back market share continued to play out. Iran's return to international markets following the partial lifting of sanctions added new supplies, as did the ending of the US ban on crude exports. Strong refining margins for much of the year kept demand strong, though they eroded somewhat in the second half prompting some trimming of refinery runs. As a result, the much-anticipated balancing of the market and commencement of stock drawdowns remained elusive at year-end. OPEC's protracted discussions on curbing production remained a wild card, but the practical implications of the cartel's December





Fuel storage at Corpus Christi terminal, Texas, US.

agreement to establish a production ceiling will only become clear as the market has the chance to assess compliance with the proposed output cuts in the coming weeks and months.

Against this backdrop Trafigura's crude oil trading team had another strong year, featuring increased volumes, intense activity in all important pricing centres, and sustained profitability after the record performance in 2015. The fall in tanker rates to historic lows helped to incentivise increased global arbitrage business. At the same time we continued to build our already strong customer relationships among producers and refiners to increase access to and placement of barrels. Russian crude remained an important component of the book, thanks to our developing commercial relationship with Rosneft. A highlight of the year was the performance of our US business and the development of European refining to take US exported crude. This was complemented by our unrivalled access to port and storage infrastructure in Corpus Christi (Texas), St James (Louisiana), Milford Haven (UK) and Ashkelon and Eilat (Israel). We maintained volumes gathered from the Eagle Ford shale despite declining production and added new barrels from the Permian basin further inland. In consequence we were able to take a leading position in the revived US crude export trade, shipping regular cargoes to refineries in Europe and beyond.

On the demand side, the most important developments were in China, where we saw increased business with the state-owned oil corporations and a surge in purchases by private-sector refineries newly licensed to import crude. These refineries constituted an important new market and we reinforced our team in China to establish strong relationships with them, via a dedicated new office in Qingdao.

Looking forward, we expect a volatile crude market to continue to offer significant trading opportunities. In a market that will remain highly competitive, our competitive strengths are our access to global infrastructure and our culture of efficient communication and information sharing between the different pricing centres, which between them give us truly global reach. Our priorities will include working to extend our presence in arbitrage flows from the US and Latin America into Asia. Having built a strong origination structure, we are looking to develop even closer relationships with refineries in order to increase our coverage of the main crude shorts.

#### **GASOLINE**

The global gasoline market presented a number of challenges in 2016, of which the most notable was a growing surplus of supplies and build-up of stocks. Refinery margins were strong for much of the year on the back of the over-supplied crude oil market, incentivising increased gasoline production. Refineries added to the glut by switching yields in favour of gasoline at the expense of diesel in the first quarter. The surplus was further exacerbated by a sharp increase in gasoline exports from China. In consequence gasoline remained in a low flat price environment for much of the year. This had the positive effect of stimulating healthy demand growth in key consumption markets such as the US where demand grew between 2 and 3 percent year-on-year, but demand was still insufficient to absorb additional supplies and even in the peak summer season market structures remained weak.

Trafigura's gasoline trading book remained dynamic throughout the year and turned in a strong performance with increased volume. Key strengths in this volatile market were our large storage footprint around the world and our carefully managed global system of physical short positions centred on third parties and the trading relationship with downstream investment, Puma Energy. One of our top priorities was growing markets East of Suez. We built our presence in both China and India, shifted some key personnel to hubs with especially high growth potential such as Singapore, and significantly increased physical volumes in the rapidly evolving Far East market. In addition we shifted the focus of our US activity towards the East Coast in order to maximise our exposure to increasing US gasoline consumption. Both of these examples stem from our belief in a global portfolio and therefore solid, stable strength of earnings in an evolving global market. We continued to develop strategic relationships with key producers and consumers, conscious of the need to add value for producers that increasingly market their own product and to provide top-level service and performance for consumers.

Looking ahead, the forward curve of refinery margins suggests we will see increasing pressure on the refining sector in 2017. The key question in assessing the prospects for supply and demand is how the global crude oil balance plays out and whether rising crude prices will compress refining margins and lead to run cuts. Another key development is the global trend towards low-sulphur fuel as the US shifts to a 10 ppm standard from January 2017. We expect this to have a strong impact on flows and valuations and believe we are well positioned to benefit.

## FUEL OIL

The global fuel oil market continues to experience significant changes in supply and demand dynamics, and overall tightened in 2016, in large part due to a decrease in Russian exports. The market recently traded into backwardation despite other oil markets remaining in contango, reflecting the improving fundamentals.

Trafigura's fuel oil trading team set high expectations for the year both in terms of volume growth and profitability. It achieved its targets, growing volumes fourfold and hiring a number of additional traders to capitalise on expanding opportunities. The team has built an effective global arbitrage culture, a significant and sustainable feedstocks business, and is developing closer ties to end-users in the bunker market. Russia, Singapore, the Arabian Gulf and US West Coast were significant growth areas while we struggled to achieve our goals in the Caribbean market.

Looking forward, we continue to see new opportunities. Although fuel oil is a declining product overall, given improving efficiency in the global shipping fleet and a focus in refining on higher-value products, we are still seeing some new sources of demand, notably in power generation where fuel oil can offer more competitive logistics than LNG and coal in certain locations. We expect the market to remain tight in 2017 as the global refining industry continues to upgrade and thus produce less fuel oil. Our focus will be to consolidate our business after a year of rapid growth and ensure we capture the full value of our market position.

## MIDDLE DISTILLATES

The most significant change shaping global Middle Distillates markets in 2016 was China's progress towards implementing a low-sulphur fuel standard. China, which has historically allowed sulphur content of up to 500 ppm, is due to reduce this to 10 ppm in January 2017. To prepare for this change the Chinese oil majors have been progressively upgrading their refineries in the last 18 months to produce lower-sulphur fuel with increasing consistency.

The new standard is similar to those in Europe and other western markets, and the result of the change, together with a dip in manufacturing demand in China, has been to create an exportable surplus of diesel which added to global over-supply. Overall global demand was steady during the year. In India, a hot summer caused a spike in consumption and a reduction in exports, while Indonesia moved from net importer to balanced.

For Trafigura, these developments played to our strengths by turning what had been a largely regional low-sulphur business featuring seasonal arbitrage opportunities into a truly global market year round, in which our global arbitrage model can operate to best effect. Trafigura's Middle Distillates team is a top-three player, operating a global network which can react quickly to shifts in supply and demand from our hubs in Singapore, Geneva and Houston.

Our response to the emergence of significant Chinese exports was to add trading strength in Singapore and to lease additional storage capacity in Asia in the first half of the financial year, when the market was in steep contango. Volume handled by the desk grew by more than 25 percent year-on-year, with exports from China and increasing flows from Russia making up significant parts of the increase. The growth in trade and margins were also significantly supported by the weak state of freight markets.

Over the coming year we expect the market to remain over-supplied, as exports from China's private refineries progressively add to the flow from the state-owned oil majors. Demand will also grow, driven by urbanisation in developing countries, while low freight costs will continue to provide support for the business. We intend to pay increasing attention in the coming months to building our position in jet fuel, building on the significant footprint established in this market by Puma Energy.

## NAPHTHA

Trafigura is the world's leading independent naphtha trader and grew volumes to an all-time high in 2016, a 50 percent year-on-year increase. The global market was driven by a significant reduction in Asian net arbitrage demand – the first reduction of the net Asian naphtha short in more than five years – as a result of structural changes in the Asian petrochemicals and refining business. These included the growth of LPG as a competing feedstock in the petrochemical complex, increased domestic supplies from Chinese refineries, and new production coming on stream from splitters in north-east Asia, Singapore and the Arabian Gulf.

With the east absorbing significantly lower volumes, western markets were long, but rising western consumption of gasoline drove increased use of naphtha as a blending component that helped to absorb the surplus. The Americas became more of a self-contained regional market as naphtha production from US shale formations plateaued, and decreased in certain regions. These volumes went into gasoline demand and other regional applications.

These changing trade patterns placed a premium on teamwork both within our naphtha desk and with other Trafigura trading teams. Our naphtha traders worked especially closely with the gasoline desk in order to understand and react nimbly to changes in the relative value of different blending components. We also added trading capacity in Houston in order to derive maximum benefit from the continuing expansion of our footprint in south Texas, where Trafigura has throughput rights and a 20 percent stake in Buckeye's Corpus Christi storage and export terminal.





The Golar Ice and Golar Crystal conducting an open water ship-to-ship transfer of LNG in Gibraltar. Both vessels were under Trafigura control during this operation.

Looking forward, we expect naphtha to continue to lose ground in the petrochemical complex to other feedstocks such as LPG and ethane, with new ethane crackers coming online in the US and elsewhere. Key to success will be finding ways of maximising other uses of naphtha into gasoline blending, splitting, or as a diluent for crude oil. Our strategy will therefore focus on ensuring maximum integration within our team, to be the first mover on changes in arbitrage flow, as well as on working with other desks within the Oil division to maximise the relative value of products across the naphtha/gasoline/condensate/crude oil space.

### CONDENSATE

Trafigura maintained its status as one of the leading international condensate traders in 2016, capitalising on strong relationships with western suppliers and eastern end-users and supplying Asian markets from sources as diverse as the US Gulf, West Africa, Europe and Latin America. Global demand for condensates is rising, with splitting capacity in Asia showing especially strong growth. But we chose to focus on improving margins during 2016 on the basis of the strong market position we have already achieved, rather than further growing volumes.

The dynamics of the condensate market changed radically during the year as a result of the vote by the US Congress in December 2015 to end the 40-year-old ban on crude oil exports. Prior to this decision, exporting condensate from the US – while possible – was a difficult undertaking because of the need to demonstrate that an export cargo contained no commingled crude molecules. When the ban was lifted, crude and condensate became essentially interchangeable in export markets. Trafigura, with its significant position in gathering and

transporting condensate from the Eagle Ford shale in Texas and with its stake in the Corpus Christi splitter, was well placed to benefit and during 2016 became the first company to book a Very Large Gas Carrier (VLCC) carrying Eagle Ford condensate to Asia.

Key to the condensate team's success is strong and transparent relationships with our long-term customers. We are working in many niche markets, and such communication allows us to be the first mover on many opportunities. We expect the dynamic conditions seen in 2016 to persist over the next year, with the continuing increase in Asian splitter capacity further enhancing east-west arbitrage opportunities.

### LNG

The global LNG market continued its rapid expansion in 2016. Prices enhanced the competitiveness of LNG as a fuel for power generation and drove a broad-based increase in demand, notably in Egypt, Pakistan, India and China. On the supply side, some important production projects took longer than expected to come on stream and some existing facilities experienced difficulties.

At the same time the growth in liquidity observed in the past two years accelerated at a pace faster than many had expected. More and more market participants now realise that market liquidity is a solid basis for security of supply, creating a virtuous circle of increasing confidence and increasing participation in the spot market. Although, disappointingly, the growth in liquidity has to date not enabled the creation of a widely-used price benchmark for hedging purposes, we continue to believe this is just a matter of time, and the launch of an LNG index by Singapore's SGX exchange was a promising step in this direction.

Trafigura, which established a leading position in LNG trading three years ago, continued to grow its business, with a 53 percent year-on-year expansion in volumes and an increased profit. The trading team expanded from its existing bases in Geneva and Houston to Singapore. In Europe and the US, we hired additional traders to start a regional natural gas trading business. The intention is to establish a sustainable physical gas business in Europe and the US, creating synergies where possible with the LNG book as energy market liberalisation continues and LNG and natural gas markets converge.

In another innovation during 2016, Trafigura has launched an LNG infrastructure business. We expect that lower cost, modular and flexible infrastructure will provide a powerful support for our trading business as infrastructure assets have for other Trafigura trading desks since the company's inception.

Over the coming months, we expect a further increase in global LNG supplies with prices that will stimulate new demand. Our priorities will be to capture new volumes, optimise our infrastructure portfolio and continue to build our natural gas business for long-term success.

### LPG

The global LPG market provided a challenging backdrop for trading in 2016 owing to a lack of arbitrage opportunities in propane. In particular, the economics of supplying LPG from the US to eastern markets were difficult for much of the year.

However, the Trafigura LPG team succeeded both in growing volumes and maintaining profitability on the new business. Flows handled grew 58 percent year-on-year while margins remained steady, thanks to a combination of numerous new business relationships and creative work in optimising our portfolio. Key growth areas included Asia, Africa and Latin America. The desk was particularly pleased to have maintained flows under challenging conditions in China and Venezuela, and to have captured new markets in East and West Africa.

Trading benefited overall during the year from a fall in freight rates, resulting from a substantial increase in the global fleet of VLCCs in recent years. On the other hand, managing freight positions in this market was not always straightforward. Similarly, the challenging market conditions in some key territories led to an increased focus on credit issues, and an increased emphasis on providing financial solutions to clients as part of our commercial offer.

Our focus in 2017 will be to continue growing the book in terms of profitability and volumes – not least by maintaining the markets captured in 2016. We expect that to entail offering our clients innovative solutions in markets that will remain challenging.

### BIODIESEL

Biodiesel remained a challenging market in 2016, with low oil prices essentially eliminating the potential for discretionary blending of biodiesel. Uncertainty concerning regulatory matters in the US and Europe – ranging from US tax policy and renewable fuel volume requirements to European Union countervailing duties on various biodiesel imports – created additional complications for the business. The commitment of consumers and regulators around the world, however, is unwavering in calling for increased penetration of renewable fuels as a source of low-carbon intensity energy. In response to this environment, Trafigura maintains expertise to evaluate and act on market movements as they occur.



# DT GROUP



## \$2.0bn

Total assets  
(2015: USD1.8 billion)

## \$1.6bn

Sales revenue  
(2015: USD3.9 billion)

DT Group is a 50-50 business venture between Trafigura and Angolan management and investment firm Cochan, focused principally on the Angolan market. It leverages the market capabilities and financial strength of Trafigura with the local knowledge and networks of Cochan.

In 2016, the Angolan economy continued to suffer from the impact of low oil prices. But the Government made headway in stabilising the overall economic situation and launched a significant restructuring of the national energy sector. DT Group focused its activities during the year on its core trading and shipping activities. Trading entities DTS Refining and DTS Commercial continued to trade refined petroleum products such as gasoil, bitumen and jet fuel with state energy company Sonangol. DT Shipping continued to charter vessels to Sonangol Distribuidora. In addition our specialist unit DT Agro sought to develop its commercial farming operation, demonstrating how modern technology and techniques can improve yields in growing fruit and vegetables.

In 2014-15 DT Group consolidated its business in Angola, withdrawing from a number of previous lines of activity and refocusing on core activities. In the coming year we intend to maintain this focus, based on a close commercial relationship with Sonangol and on partnership with the Angolan subsidiary of Puma Energy, Pumangol.



For further information please visit [www.dtsholding.com](http://www.dtsholding.com)

# METALS AND MINERALS TRADING



AMIN ZAHIR

Global Head of Refined Metals and Concentrates

JULIEN ROLLAND

Global Head of Coal and Iron Ore

Trafigura is one of the world's largest metals and minerals traders. Despite challenging conditions, the division continued to grow, trading 59 million tonnes in total.

## HIGHLIGHTS

- Trafigura maintains its position as market leader in concentrates and refined metals.
- Volumes traded increase by 13 percent.

**35%**

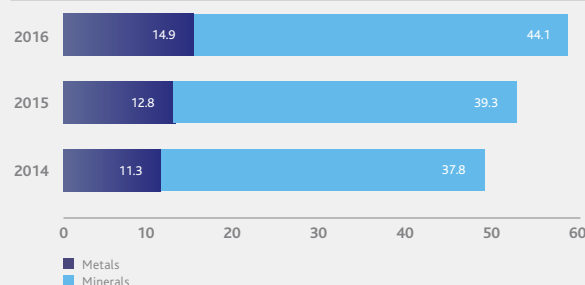
Contribution to global revenue  
(2015: 33 percent)

**59.0mmt**

Total volume traded  
(2015: 52.1mmt)

Metals and Minerals total volume traded (mmt)	2016	2015
Non-ferrous metal concentrates	8.2	7.6
Non-ferrous refined metals	6.6	5.2
Coal	37.8	35.3
Iron ore	6.4	4.0
<b>Total</b>	<b>59.0</b>	<b>52.1</b>

## Metals and Minerals total volume traded (mmt)



## STRATEGY AND PERFORMANCE

The global metals and minerals sector saw a period of continued transition and flux in 2016. As a general theme the 'new reality' of a slowing Chinese economy and resulting decrease in consumption has dramatically reshaped the outlook for producers. In some cases it has already led to primary production cuts; in others, further downward price pressure will be required to bring about the needed market adjustment.

The past year has been challenging for many industry participants so it was particularly encouraging to see the volumes across our Metals and Minerals Trading Division grow by 13 percent to 59.0 million tonnes from 52.1 million in 2015.

This growth is a continued testament to Trafigura's core strategy. We seek to differentiate ourselves from our competitors by offering our business partners innovative solutions that utilise our various strengths in operations, logistics, credit and finance – all supported by a truly global presence.

Although we do have assets with price exposures, these exposures are minimal within the scope of our trading activities. As a result of this we can operate with genuine independence and have greater flexibility to focus and prioritise the interests of our business partners.

As we approach 2017 we see many headwinds facing the metals complex and within this environment we hope to further forge long-term partnerships with producers and processors for mutual benefit and growth.

## COPPER CONCENTRATES

The global copper concentrates market featured increases both in mine supply and in smelter demand, with the continued ramp-up of new mining projects such as Las Bambas, Cerro Verde and Toromocho in Peru and the commissioning of several large new Chinese smelters. The result was a market that was broadly balanced, with volatility stronger in the first half than the second. The growth in mine production and smelting demand was evident via a 94 percent year-on-year increase in Peruvian concentrate exports to China which still remains by far the largest source of smelting demand and the only country with new greenfield smelters. Another promising step was the wider implementation of tolling books for Chinese copper smelters allowing them to export refined copper and silver bullion without incurring a pricing bias which should improve the liquidity in some niche segments of the market.





Copper cathode at Jinchuan Group's copper smelter in Fangchenggang, China.

Trafigura's copper concentrates trading desk, which is the global market leader, exceeded its targets for the year and increased volumes handled as well as contribution to net profit year-on-year. We have a strong position supported by world-class infrastructure in Peru, Mexico and Spain and strong relationships as a key raw material supplier and overall service provider to miners and smelters alike.

The commissioning of the new Impala Terminals logistics facility in the Spanish Port of Huelva has allowed the desk to diversify its marketing services to mines in the Andalusian copper belt, while giving us significant trading flexibility both within Europe and into Asia. Our investment with Jinchuan in the Fangchenggang smelter has now operated successfully for over 12 months and is adding significant value for both companies.

As we consider the prospects for coming months, copper smelting still looks reasonably healthy, despite lower premiums being received for copper cathode and blister. Final demand for copper, however, remains subdued, and with smelters still incentivised to bring on additional capacity, we believe there is a possibility that an over-supply of metal may force some market corrections. Our priority for the coming year will be to maintain profitable market leadership by developing creative and competitive solutions for our clients in the face of increasing competition.

#### **ZINC CONCENTRATES**

The global zinc concentrates market rallied strongly during 2016 as a supply deficit emerged. The principal driver was a fall in supply resulting from the closures of important mining operations such as the large open-cut Century Mine in Australia and Lisheen Mine in Ireland, as well as from a slowdown in mine production by Glencore. Demand, on the other side remained relatively stable while prices moved up throughout the year. As important was a significant shift in market flows, with a wider diversity of material from a wide variety of origins being imported

into Europe as well as a 40 percent decrease in imports into China.

The Trafigura trading team took a highly analytical approach to the evolving market balance and on that basis was able to increase traded volumes, market share and achieve the objectives set for the year. We have a highly diversified book by geography as well as by counterparties, with Europe, Australia, South Korea and Japan all playing an important role alongside China. For 2017, the big question is how quickly supply will come back onstream in response to higher prices and in particular when Glencore will ramp-up its mines again. In general we expect a tougher market environment with increased competition around the globe.

#### **LEAD CONCENTRATES**

In 2016, Trafigura's trading team increased market share and achieved its objectives set for the year. Supply was partially curtailed with the closure of the Century Mine in Australia and the Lisheen Mine in Ireland as well as some others across the globe. Important changes on the demand side, notably with the expansion of primary smelting capacity by Korea Zinc during the year. At the same time Chinese imports reduced by about 9 percent year-to-date overall but the appetite for high-silver lead concentrates in China grew as a consequence of the adoption at mid-year 2016 of a tolling licence for silver concentrates. Prices were stable for much of the year, with a spike during the last few months. For the coming year, we expect the market to continue along similar lines. We will focus on preserving our market leadership by exploring new opportunities and maintaining our existing long-term relationships. The market environment is likely to become tougher due to increased competition, and to continue to be influenced by stricter environmental regulations – a development we follow closely.

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## PERFORMANCE REVIEW

### NICKEL CONCENTRATES

After a significant period of metal over-supply, stock build and low prices, the global supply-demand balance for nickel concentrates started to tighten late in 2016 as a number of producers placed their mines on care and maintenance. Prices bottomed out in the first half of the year and recovered somewhat in the second. The Chinese market remained the most significant influence on the demand side, with a relatively strong domestic market for stainless steel supporting demand for nickel pig iron (NPI) and ferro-nickel.

Against this backdrop Trafigura's relatively new nickel concentrates trading team – ranked number two globally by volume – continued to grow its business from a small base, in part by trading stocks deliberately carried over from 2015. We were delighted to increase our business with western smelters, for whom mine closures have impacted supplies. The pricing environment and associated risks and exposures remained challenging, given the relatively illiquid nature of the market.

Looking ahead, we expect the recent tightening in the supply-demand balance, drawdown of stocks and price recovery to continue into 2017. There is also the possibility of a supply-side shock in laterite, used to produce NPI, as a result of additional export restrictions from the Philippines. Longer term we expect rising demand for nickel units in particular from battery manufacturers. Next year we will be looking to further diversify our sources of concentrate supply by geography and by counterparty, as well as building trading capacity in ferro-nickel and laterite.

### ALUMINA

The global alumina market in 2016 was dominated by China. A significant build-up in domestic alumina refining capacity over the previous year to match growing aluminium production made China increasingly self-sufficient, producing more than half the world's supply both of alumina and aluminium. One consequence was the accumulation of a significant global alumina surplus which caused prices to fall sharply at the end of calendar 2015. The market remained volatile as periodic price rises brought capacity back on stream, only to be shuttered again when prices fell in response. In August, increased alumina demand from new aluminium smelting capacity, coupled with transportation bottlenecks within China, caused the alumina price to start increasing. Elsewhere, permanent alumina refining capacity closures took place in the US while new capacity came on stream in Indonesia.

Trafigura's alumina trading team had another satisfactory year, increasing traded volumes by 25 percent. We will maintain our focus on trading the Chinese domestic and international market, based on our strong relationships with refineries and smelters. Given the financial stresses in the sector, in particular in China, credit was an important tool for business development both with alumina refiners and aluminium smelters.

We expect the patterns established in 2016 to continue into next year, with prices oscillating in response to capacity closures and openings. The Chinese market will continue to grow in importance thanks to rising aluminium production, and will thus remain our principal focus.

### REFINED METALS

The global market for refined metals presented challenging trading conditions in 2016, featuring significant supply surpluses, depressed prices and reduced trading liquidity resulting from the withdrawal from the market of a number of previously important players. Trafigura's trading teams performed well, increasing both volumes and profits year-on-year and developing important new customer relationships, although margins per tonne were in general lower than in 2015. Our

principal refined books cover copper cathode and blister, aluminium, lead, zinc and nickel, and we also trade some silver and scrap.

In refined copper, we saw a substantial increase in volumes and became the largest trader, building on strengthened relationships with producers in Latin America and Asia to source additional tonnes that boosted the book by more than 30 percent. The copper market is transitioning from a position of balance to one of significant over-supply and weaker demand, notably in the most important market, China. In consequence, prices fell sharply at the beginning of the year and stocks built, as exchange warehouses attracted units in this low premium environment. On a more positive note, we see significant upside in the Indian market in coming years, and to capitalise on rising consumption there Trafigura formed a joint venture with India's largest copper cable manufacturer to build a copper wire rod manufacturing facility in the state of Gujarat.

In aluminium, a chronic stock overhang continued to weigh on the market, creating a difficult trading environment. However, supply and demand were more balanced, and aerospace and automotive demand for aluminium remained strong. Price volatility reduced with prices staying in a range between USD1,500 and USD1,700 per tonne. LME warehouse queues tailed-off and the market appeared to have entered a new era of flat price spread and physical premium stability. A global focus on value-added production, notably in China which is increasing exports of semi-finished products, is intensifying competition in the aluminium downstream sector.

The Trafigura trading team delivered improved performance compared to last year despite the difficult backdrop, increasing volumes handled and profit despite tighter margins. We maintained existing consumer and producer relationships and developed new ones, as well as staying nimble to take advantage of new opportunities. We developed substantial physical offtakes around the world and maintained a strong position in China.

In refined zinc, the market moved from its previous position of surplus into a small deficit for the year and zinc prices rallied strong during the year. However as stocks remained high, premiums did not move significantly, and a lack of volatility in premiums was one of the main challenges for trading. The Trafigura team performed well, with strong trading in all key regions and performance enhanced by the recruitment of new talent. Despite weakening Asian consumption we increased our Asian market share. We also grew our business substantially in Europe, thanks to our strong relationship with the leading metals processing group, Nyrstar, in which Trafigura holds a minority stake.

In the next 12 months, we will maintain focus on the Asian market. We will also pay increased attention to developing closer relationships with end-consumers and deepening our understanding of the evolving supply-demand balance. These measures will become more necessary as a result of the shrinkage of market liquidity that is taking place with the withdrawal of a number of previously active traders and banks, and that is likely to make carrying units for the spot market more expensive.

In refined lead, the market was in increasing over-supply with stocks building. However, prices spiked towards the end of the year as expectations grew that the supply-side was coming closer to a tipping point where smelter capacity cuts will become unavoidable. Trafigura's trading performance and outlook were similar to those in refined zinc.

### IRON ORE

The global iron ore market remained severely depressed in 2016, with the CIF China price falling below USD40 per tonne in the first quarter.





Iron ore being dispatched in Minas Gerais region of Brazil.

Prices were boosted temporarily in March by increased demand from Chinese steel mills in response to financial stimulus measures, but the effect soon wore off as steel prices plateaued and a rise in the cost of metallurgical coal took its toll on steel mill margins. Meanwhile, increasing supplies from the majors, and from new sources such as Australia's Roy Hill, added to the glut and pushed iron ore prices down.

Trafigura's iron ore trading team had a better year than in 2015. We started operations at our major new Porto Sudeste export terminal in Brazil, exporting nearly 7 million tonnes at an accelerating pace, and we worked to secure long-term supply agreements in the Brazilian mining sector with the support of structured finance offerings. We were also active in third-party business in countries such as Mauritania.

Going forward, we expect iron ore to remain a difficult market, with new supplies still coming on stream as the majors seek to displace marginal producers and the global steel business under unrelenting pressure. However, we have good access to cost-competitive supplies in Brazil and expect to ramp-up exports through Porto Sudeste to 15 million tonnes in 2017 and 20 million the following year.

## COAL

After years of structural weakness, surplus supplies and falling prices, the global market for thermal coal showed signs of new life during 2016, principally as a result of measures by the Government of China, by far the largest coal producer and consumer, to curb production. The so-called '276-day' rule required mines to reduce their output by 16.4 percent across the board; tighter enforcement of health and safety rules forced the closure of many unsafe mines; and a rainy summer disrupted domestic supply routes. As a result, China imported 30-40 million tonnes more seaborne thermal coal than expected, catching the global market unawares and sending spot prices soaring between March

and September. The spike in Chinese imports redirected trade flows, with Colombian exports in particular shifting from the Atlantic basin to the Pacific. On the other hand, Indian import demand shrank by 20 million tonnes, as the Government took measures to discourage imports in favour of the state-owned producer, Coal India. In mature markets such as Europe, coal continued to lose ground to cleaner fuels.

Trafigura's coal trading team had a good year, increasing its contribution to net profit and boosting traded volume by 7 percent from 35.3 million to 37.3 million tonnes. In addition we handled 12-13 million tonnes under our marketing agreement with Bowie Resource Partners in the US. Our most important customers were India and China, and we significantly increased purchases from Indonesia and South Africa.

Market strength has started to ebb recently as China has introduced various measures to bring supply back to market, at least through the heating season. Chinese domestic prices have come down from their peaks and demand elsewhere remains tepid. In India, the other great source of demand growth, the Government will continue to promote domestic production over imports. The recent 'demonetisation' policy has also created a short-term demand shock in India, where a significant share of coal traded in the domestic market is still delivered in small parcel sizes via cash transactions. Further ahead, there is much uncertainty over the future for coal demand. In China, coal still represents 70 percent of the overall energy mix, but the Government has clearly signalled it wants to reduce this over time, and the peak in Chinese coal burn may come sooner than previously expected. Trafigura sees an opportunity to continue to grow its coal trading book, thanks to decisions by some trading firms that used to play an important role in the business to withdraw or reduce their exposure.

# SHIPPING AND CHARTERING

Trafigura Maritime Logistics arranges shipping and freight services to Trafigura's various commodity trading teams as well as to third-party clients. It operates as a service provider securing competitive and reliable freight for in-house oil, metals and minerals traders. The Wet and Dry Freight desks also operate respectively as profit centres in their own right.

All commercial shipping and chartering activities are managed out of Trafigura's key regional offices. All post-fixture operations, which include issuing voyage orders, completing stowage plans, negotiating with port agents and handling demurrage claims are managed centrally from our Athens office.

## 3,878

Shipping and Chartering fixtures  
(2015: 2,744)

2016 Wet and Dry Freight Activity	Wet	Dry
Tonnage shipped	152mmt <sup>(1)</sup>	30mmt <sup>(2)</sup>
	2015: 106mmt <sup>(1)</sup>	2015: 32mmt <sup>(3)</sup>
Number of fixtures	2,974	904
	2015: 1,959	2015: 785
Average time-charter fleet <sup>(4)</sup>	65-70	35-40
	2015: 85-90	2015: 40

<sup>(1)</sup> Includes third-party tonnage and internal tonnage fixed internally and externally.

<sup>(2)</sup> Includes 14mmt external customer tonnage.

<sup>(3)</sup> Includes 21mmt external customer tonnage.

<sup>(4)</sup> A vessel on hire for longer than three months.

Trafigura is a leading player in global shipping and a key partner for ship-owners around the world. Our freight desks work closely with the company's trading teams, who rely on real-time freight pricing to structure physical arbitrage opportunities.

The shipping and chartering desks faced a challenging environment in 2016 in both the wet and dry sides of the business and accordingly reduced their exposure in terms of vessels on time charter. The wet freight desk recorded a significant increase in the number of fixtures and in volumes carried while in dry freight, fixtures increased but volumes carried fell. Both sides of the business recorded a profit for the year.

### WET FREIGHT

The positive market backdrop and significantly longer freight position taken that underpinned our historically strongest wet freight performance in the previous financial year was turned on its head in 2016. Despite the severe drop in freight rates, a successfully executed hedging strategy early in the year, while freight was still firm, set us up for another strong year. Weaker freight rates were caused by many factors including increasing vessel supply and lack of oil arbitrage movements. In terms of fixing volumes, the team went from about 1,950 fixtures in 2015 to more than 2,970 in 2016.

In further response to the weak fundamentals, we substantially reduced our time charter fleet during the year across all market segments. We also successfully sold the remaining six ships we had previously ordered from a shipyard in Guangzhou, China to new owners under sale-and-leaseback agreements – reducing our ownership of product tankers to zero by the end of the fiscal year.

One of our strategic aims is to extract full value of the cargo infrastructure which saw significant growth throughout the year. Freight exposure has been concentrated where Trafigura's cargo programme is strongest – thus limiting downside risk by maximising capacity utilisation.

With an increasing cargo programme we see continued value in building closer ties with our biggest freight partners. In May, we hosted an event in Copenhagen for 22 chief executives and board members of our largest freight partners among gas, crude and product tanker owners. The aim was to foster further senior-level trust, to give ship-owners greater insight into our business model, and to position Trafigura further as a transparent partner with a large and growing volume of cargoes available to place in the market. In 2016, 21 percent of all







Trafigura wet cargoes were carried on Trafigura-controlled tonnage – meaning that 79 percent needed to find a home with third-party ships.

The current rate environment is very challenging and we expect weaker wet freight performance for 2017. We see weak market fundamentals continuing through 2017, including further supply growth offset marginally by higher scrapping activity if earnings remain at current levels in certain segments. For the wider evolution of the market much will depend also on oil market arbitrage flows and we will be monitoring this closely to be able to respond to any physical market shifts. With a smaller fleet and an expected continued growing cargo programme we expect our third-party volumes will increase significantly in 2017.

#### DRY FREIGHT

In the dry freight market, conditions were especially challenging in 2016 with the Baltic Dry Index reaching an all-time low on 10 February. While global seaborne cargo volumes remained healthy and continued to grow by 1.5 – 2 percent year-on-year, the huge over-supply of vessel capacity weighed heavily on the market.

Trafigura's dry freight desk achieved a positive result for the year, with the key to success being limiting counterparty exposure, retaining a lean and nimble market position, and focusing on niche markets where we have a strong competitive advantage such as the west coast of Latin America, moving concentrates from Chile, Peru and Mexico and iron ore from Porto Sudeste, the major Brazilian export terminal jointly owned by Impala Terminals and Mubadala.

As mentioned, counterparty risk was a major focus through the year and will continue to be for the foreseeable future in shipping given the immense financial pressure on many owners and operators. This was highlighted by the bankruptcy filing by the South Korean container giant Hanjin Shipping in August. While Trafigura had no direct exposure to this event, it underlined how important it is in distressed markets for cargo owners to understand the true financial position of ship-owners with whom they contract and to this end our team spent significant effort during the year vetting ships, owners and working with Trafigura's credit department to control exposures.

In 2017, we expect the distressed market conditions to continue and we will maintain our conservative approach. However, there are signs that the market may start to turn positive in the next one to two years with a record volume of dry freight tonnage being scrapped, no new ship orders being placed and seaborne cargo continuing to expand.



For further information please visit  
[www.trafigura.com/our-services/shipping-chartering/](http://www.trafigura.com/our-services/shipping-chartering/)



# IMPALA TERMINALS



NICOLAS KONIALIDIS  
CEO, Impala Terminals

Impala Terminals is a multimodal logistics provider focused on export-driven emerging markets. We own and operate ports, terminals, warehouses and transport assets which together offer end-to-end logistics solutions for dry and liquid bulk cargoes, general cargo and containers.

## HIGHLIGHTS

- Record volumes of refined metals exported from the African copper belt.
- Freight forwarding business has record year moving 75,000 containers.
- Completion of the first phase of construction of the Huelva terminal in Spain.
- Parana river barge fleet doubles in size to meet demand.

**\$375.8m**

Sales revenue  
(2015: USD340.2 million)

**1,625**

Employees  
(2015: 1,749)

**18**

Countries of operation

**23**

Locations worldwide

## RAMPING-UP COMMERCIAL OPERATIONS

In 2016, Impala Terminals focused on ramping-up commercial operations at a number of important new projects, including our multimodal transport system in Colombia, the Porto Sudeste iron ore terminal in Brazil and the Huelva metal storage and blending facility in southern Spain. There was also an ongoing emphasis on securing cost savings and efficiency improvements across the company. Having previously divested non-core assets in China, Belgium and the UK and restructured the remaining operating companies within Impala, recurring businesses performed well, with EBITDA growing by approximately 50 percent year-on-year.

The market environment has been challenging in the countries and commodities in which we operate, with the iron ore market depressed, crude oil production in Colombia reduced, and refined metals from Africa struggling with low prices and over-supplied markets. However Impala was able to source and handle increased volumes and generate margins in each of these regions, demonstrating the important contribution that its strong logistical platform can make to Trafigura Group business. For example, despite the weak price environment for refined metals, we were able to export record volumes from the African copper belt, in part by changing the export route out of DRC and Zambia via the ports of Dar es Salaam, Durban, Beira and Walvis Bay.

We also continued to invest in new operations including our non-ferrous blending and storage terminal at Huelva in Spain, our growing container freight forwarding business and a new barging project along the Parana River linking Argentina, Paraguay and Bolivia. Our freight forwarding business had a record year, contributing positively in each region moving 75,000 containers of which 35 percent were third party, and adding significant value to our existing warehouse operations.

## GROWTH IN LATIN AMERICA AND SPAIN

In Colombia, we have invested more than USD1 billion in an inland port at Barrancabermeja and fluvial equipment, providing multimodal logistics services linking the industrial heartland to the Caribbean ports at Cartagena and Barranquilla. The liquid terminal at Barrancabermeja will be completed by the end of 2016. The port is already handling all types of Colombian crude and naphtha with volumes reaching a peak of 40,000 barrels per day during 2016, and we look to increase our services as more tank space comes on line towards the end of 2016. At the same time we are importing naphtha by barge for use by oil producers as a diluent, thereby maximising the asset utilisation.



Impala's barge operations on the Parana River, Argentina.





Impala's new terminal in Huelva, Spain.

On the dry side, we have handled containers, general cargo and project cargo during 2016 and have signed liner services with Maersk, Sealand and Hapag Lloyd who collectively control the majority of the container market in the Caribbean. Separately, we exited our involvement in the Ferrocarril del Pacifico (FDP) railway concession in the west of the country, after a local operator was identified.

At the port of Huelva on the southern coast of Spain, our new concentrates blending and storage terminal ramped-up services to the regional mining industry and in addition handled volumes from further afield in its first full year of operations, handling approximately 1 million tonnes in the period. In April, Impala concluded a shareholder agreement with Berge Infraestructuras y Servicios Logísticos SL, a division of Spanish group Berge y Cia, providing for the transfer of a 20 percent stake in Impala Terminals Huelva SL.

With the completion of the first phase of development, the Huelva terminal is set to become the handling, storage and blending hub for metal concentrates in western Europe as well as a strategic gateway for Spain's mining industry, offering 240,000 tonnes of warehouse static capacity and a new 550-metre private berth.

In Brazil, the Porto Sudeste iron ore terminal which Impala owns jointly with Mubadala built up operations after completing the transition from the construction phase and commissioning all equipment. Despite the weak price environment we succeeded in sourcing volumes by working closely with Trafigura. The port was also able to add value by blending different ore qualities to complement the trade margin. It exported 7 million tonnes in 2016 and expected to reach 8 million

tonnes during the calendar year. This remained significantly below installed capacity of 50 million tonnes at the port owing to the weak global iron ore market, and so Trafigura took an impairment on the value of the asset amounting to USD250 million. This reflected Trafigura Group's generally fair approach to valuation of its assets.

Meanwhile our barging operation on the Parana River, linking Trafigura's new oil storage terminal at Campana, Argentina, with upstream ports in Paraguay and Bolivia, continued to build its activities, transporting diesel and gasoline to product-short markets to the north and carrying agricultural products on the return leg. The Parana fleet has now doubled in size to 27 barges and four pushers. We continue to look for opportunities for further expansion along the river.

#### LOOKING AHEAD

As we move into 2017, we expect commodity markets to remain weak, placing continued pressure on margins and an ongoing premium in optimising the efficiency and cost effectiveness of our operations. We will focus on continuing to optimise our Colombian operations, building further flows through Porto Sudeste and in general consolidating our expertise in operations, maintenance and health, safety, environment (HSE) management. We are also looking to roll out a multi-product warehouse management system in our larger facilities to drive process unification and procedure that should create further efficiencies.



For further information please visit [www.impalaterminals.com](http://www.impalaterminals.com)

# MINING GROUP



NICOLAS TREAND  
Global Head of  
Mining Operations

Trafigura's Mining Group manages mining operations, develops projects, conducts technical audits of potential partner projects and provides advisory and support services to the rest of the Group – both to generate profit and to secure access to commodities produced via long-term offtake or marketing agreements.

## HIGHLIGHTS

- Investment programme to boost efficiency and improve safety management in MATSA, Spain.
- Construction commences on Castellanos lead and zinc mine in Cuba.

Trafigura's Mining Group oversees mining operations in Europe, Latin America, Africa and Asia.

**4.4mmt**

Ore extracted at MATSA mine, Spain  
(2015: 3.6mmt)

**0.7mmt**

Ore extracted at Catalina Huanca  
(2015: 0.7mmt)

For the Mining Group, 2016 was a year of consolidation and investment. The two key themes were weak metal markets as a result of surplus supplies, and a focus on investing to upgrade and execute existing projects. Our key assets remain the Minas de Aguas Teñidas (MATSA) mining complex in southern Spain, a 50-50 joint venture with Mubadala, and the wholly owned Catalina Huanca mine in Peru. MATSA underwent a significant management overhaul following the change in ownership, including an investment programme to boost efficiency and improvements in safety management. During the year we also started work on a significant new mining project in Cuba and continued to explore opportunities in Brazil.

## MANAGEMENT CHANGE AND COST CONTROL IN SPAIN AND PERU

The restructuring of ownership at MATSA, with the arrival of Abu Dhabi investment company Mubadala as a 50 percent shareholder alongside Trafigura, prompted a comprehensive review of the asset's governance in order to align its objectives and culture with those of both its shareholders. We appointed a new General Manager in Audra Walsh, an experienced mining professional with a strong track record with mining majors, and otherwise refreshed the management team to sharpen the focus on cost control and safety management. The cultural challenge came on top of an economic one, with the fall in copper prices creating a fresh need for cost efficiencies. MATSA's answer to the latter was the Avanza project, an efficiency programme which improved the operation's EBITDA by USD21 million on a full-year basis. By year-end the restructuring was complete and a new basis had been created for future growth.

Our Catalina Huanca lead and zinc mine in Peru also faced a cost challenge as a result of low commodity prices. We reduced headcount at the mine and launched a number of small investment programmes to improve efficiency, notably including the installation of a filter press to reduce the volume of water in tailings from the mine and thus control waste transport costs. Catalina Huanca is now in good shape to weather the continuing weakness in commodity prices and to benefit from the expected upturn in the zinc market.



MATSA mine near Seville, Spain.



Mineração Morro do Ipê mine in Minas Gerais region, Brazil.

### OPPORTUNITIES IN CUBA AND BRAZIL

Despite the pressure on mining assets, we continued to invest in cash-generating projects for the future. In particular construction started on the Castellanos lead and zinc mine in Cuba. This is a project between Trafigura and the Cuban government and already amounts to the largest industrial investment on the island. Given the additional nearby concessions we own, this has the potential to become a significant part of our mining portfolio and of the Cuban export economy. The project is another illustration of Trafigura Mining Group's ability to put its expertise and investment to work in challenging economic or political environments. Work is so far proceeding to plan, and the mine is expected to start production towards the end of 2017.

### PRIORITIES FOR THE COMING YEAR

We already have a full programme of work for 2017 balancing the need for cost control in light of weak markets with the imperative to invest for the future. Developments include:

- Rolling-out the new safety system developed for MATSA across all our assets;
- Extending the life of existing assets through selective exploration projects;
- Adjusting mining plans of existing polymetallic assets to maximise value and increase productivity.



For further information please visit [www.trafigura.com/mining-group/](http://www.trafigura.com/mining-group/)



# GALENA ASSET MANAGEMENT



Galena Asset Management, Trafigura's wholly owned investment subsidiary, executed a fundamental change of strategy during 2016, shifting focus from derivatives trading and trade finance to private equity-style investment in real assets.

In December 2015, the decision was taken to wind down the Galena Metals Fund and to review strategic options for the Galena Trade Finance Fund. After year-end it was announced that the Singapore-based independent asset manager EFA Group would take over as investment manager of the trade finance fund.

This left the Galena Private Equity Resources Fund as Galena's sole focus. The Resources Fund has raised USD400 million to invest in the equity and debt of metals and mining companies. To date it has invested USD200 million in a number of assets in the Democratic Republic of the Congo and the US, and it made no new transactions in 2016. Instead it worked to recapitalise and restructure existing investments in light of low commodity prices.

At Mawson West, a Toronto-listed resource company in which the Fund held a majority stake, a decision was made in March 2016 to place the Kapulo mine in DRC, its sole operating asset, on care and maintenance. The Fund subsequently moved to take Mawson West private. Another Fund asset, its investment in Bowie Resource Partners, which operates coal mining assets in the US, required additional financing later in the year. On 30 September 2016, the Fund took majority ownership and control of Bowie, replacing the CEO with a new Interim CEO.

Looking forward, Galena continues to prospect for suitable resource investments offering strong underlying asset value and the opportunity to apply management and financial capabilities from the wider Trafigura Group. However, the continuing flood of cheap liquidity in global debt and equity markets at the low end of the commodity cycle has incentivised owners to secure additional debt rather than selling. The transactions that have occurred have closed with valuations inflated by the strong competition and making the projected investment returns sub-optimal.



For further information please visit [www.galena-invest.com](http://www.galena-invest.com)



# HOW TRAFIGURA MANAGES RISK

Trafigura operates in dynamic markets that pose a wide range of risks, whether financial, political, operational or environmental. In consequence, a rigorous and conservative approach to risk management is an integral element of Trafigura's business and has been a central focus of the Group since its foundation.

As a rule, the Group actively manages and mitigates wherever possible the identifiable or foreseeable risks inherent to its activity – for example in systematically hedging exposure to flat prices and in extensively using insurance and financial tools such as letters of credit.

It has also ensured a degree of diversification in its business – trading a wide range of commodities with diverse and uncorrelated market dynamics in various geographical regions – that in itself reduces the Group's exposure to risk. Unlike many financial assets, physical commodity markets provide many opportunities for risk diversification. The premium paid for copper in China, for example, has little to do with the pricing relationship in LPG between the US and Europe.

Diversification results in lower overall exposure and higher risk-adjusted performance. As we extend our trading capabilities, we are diversifying the business further.

## TRAFIGURA'S RISK MANAGEMENT SYSTEM

To manage the full range of risks to which it is exposed, the Group has developed a system with multiple lines of defence.

The first line consists of managers of the trading divisions and operating companies, overseen directly by the executive members of the Board of Directors.

Trafigura has a flat corporate governance structure featuring short and direct channels of communication and control (see separate section on Governance on page 40).

The Board of Directors has principal oversight responsibility, sets the risk management framework, determines the overall risk appetite of the business, and ensures that the appropriate structures and processes are in place to handle each category of risks in an appropriate manner.

The second line consists of a series of corporate functions that establish policies and processes for managing different categories of risk, as well as providing analysis, advice and implementation support.

## MARKET AND PRICE RISK

### Risk Committee and Chief Risk Officer

Trafigura systematically hedges all index price exposure incurred as a result of its trading activities within a framework set by the Board of Directors and implemented by the Risk Committee and the Chief Risk Officer (CRO).

The CRO reports directly to the Chief Operating Officer and the Board of Directors. The CRO is a key member of the Risk Committee, which includes company directors and senior traders. The Committee meets at least weekly to manage overall exposures, assess the impact of changing market dynamics and limit risk exposures and concentrations.

Trafigura's ongoing programme of investment in risk management systems includes a reporting system which automatically notifies the risk management and trading teams whenever a book nears its risk limits.

The CRO works proactively with trading teams to analyse changing market conditions and ensure that hedging strategies are focused on current market dynamics. Rigorous methodologies for managing market risk are used across the company. The CRO's risk team employs advanced statistical models that capture the non-normal dynamics which are an important feature of commodity markets.

The risk team focuses on aggregate risk, paying particular attention to term-structure and intra-commodity spreads. Risk concentrations are continuously reviewed in the context of changing market dynamics. The CRO manages strategic hedging activity dynamically to reduce risk concentrations and limit company-wide exposure.

## FINANCE AND CREDIT RISKS

### Finance Committee and Finance Department

The Finance Department supports the activities of the whole Group and is involved at the earliest stage of transactions and projects. Overseen by the Finance Committee, it is responsible for assessment of financial risk and has the capacity to veto any transaction. Within Finance, the Credit Department's key role is to safeguard the balance sheet. It performs fundamental credit analysis, assessing credit risk associated with the Group's counterparts, setting internal limits, monitoring exposures and overseeing documentation.



## COMPLIANCE RISKS

### Compliance Committee and Head of Compliance

Trafigura's Global Head of Compliance oversees the implementation and further development of our Code of Business Conduct, reporting to the COO and to the Trafigura Compliance Committee. The Compliance Department focuses on financial and commercial compliance, incorporating KYC, anti-money laundering, trade sanctions and anti-bribery and corruption. The Compliance Committee is chaired by Trafigura's CEO and meets at least twice a year.

## RISKS PERTAINING TO HEALTH, SAFETY, ENVIRONMENT AND COMMUNITIES

### HSEC Steering Group and Corporate Affairs

This committee is chaired by a member of the Board of Directors and the Head of Corporate Affairs and includes Trafigura's CEO and senior representatives from across the Group. It is mandated by the Board to

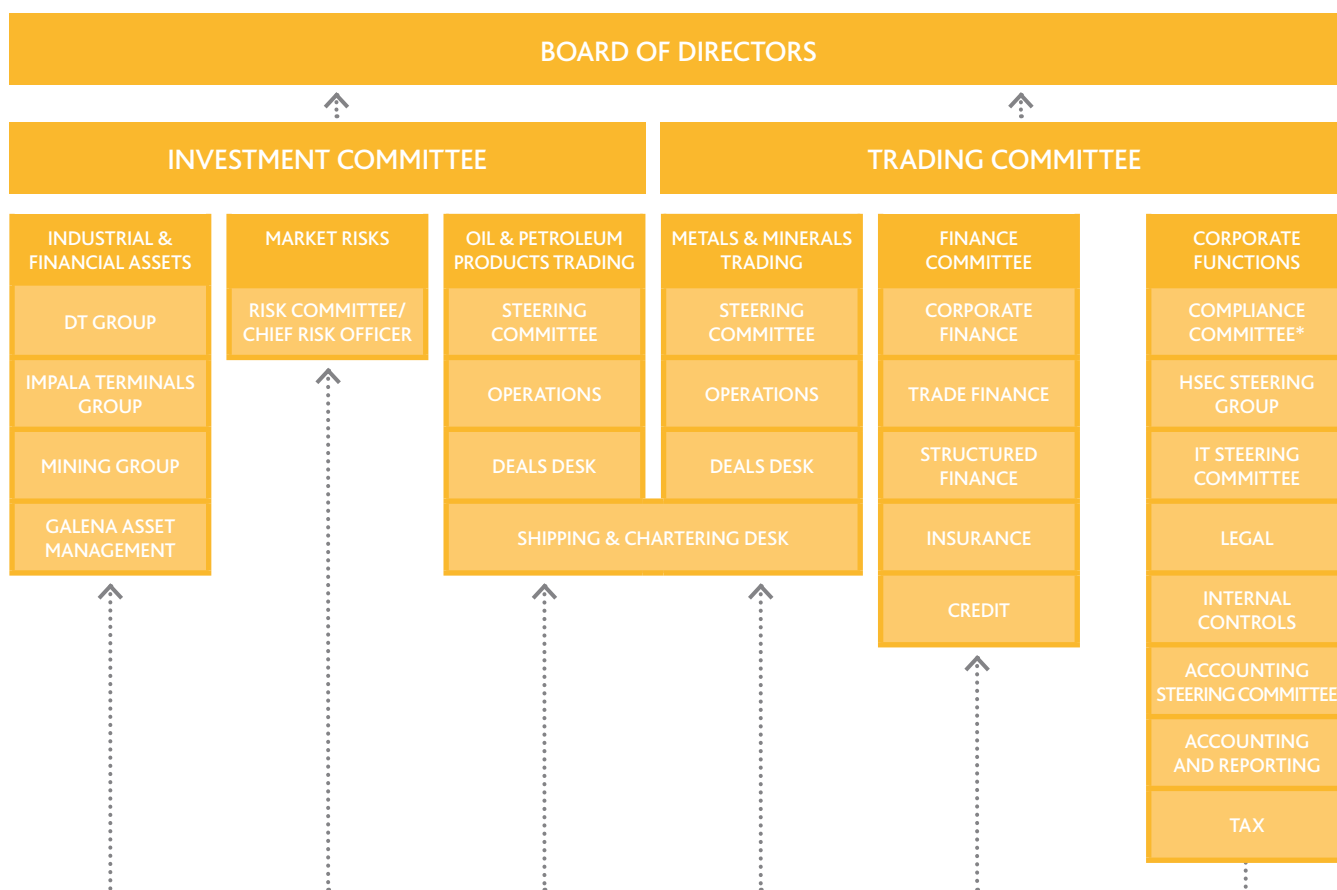
promote best practice, oversee the management of HSEC risks and ensure that Trafigura's Corporate Responsibility Policy and Business Principles are implemented consistently across the organisation.

## CONTROL RISKS

### Internal Controls Team

The Internal Controls team supports management across the Group in annually assessing risks and controls for the governance, trading, IT and support processes. Results of these activities are reported to the Board of Directors accompanied by action plans to strengthen controls and further mitigate risks where required. Internal Controls manage these annual framework cycle activities and external auditors validate the existence of the Trafigura Internal Control System every year. Additionally the team performs site reviews to assess how local management manages risk and to identify opportunities for improvement, and advises on process design for new IT applications.

## OVERVIEW OF TRAFIGURA'S RISK MANAGEMENT SYSTEM



\* The Trafigura Group Pte. Ltd. Compliance Committee is chaired by our CEO. The Global Head of Compliance chairs the Compliance Committees of all Group companies.

KEY RISK	MITIGATION AND ACTIONS	
<b>MARKETS AND PRICES</b> <ul style="list-style-type: none"> <li>Volatility in commodity prices, spreads, interest and exchange rates.</li> <li>Fluctuations in the supply of, or demand for, commodities which we trade.</li> </ul>	<ul style="list-style-type: none"> <li>It is a fundamental objective of Trafigura's business model to be able to operate successfully in all market conditions. The Group's policy is to hedge all index price exposure related to physical transactions on a deal-by-deal basis.</li> <li>As a matter of policy, 100 percent of stock is at all times either pre-sold or the index price is hedged.</li> <li>Despite such hedging Trafigura remains exposed to basis risk, ie the risk of changes in the difference between the price of the commodity being hedged and the hedging instrument. The group carefully monitors all its hedging positions on a daily basis in order to avoid excessive basis risk resulting from these imperfect correlations.</li> <li>In terms of exchange rate risks, the majority of sales and purchases are denominated in US dollars. Exposure to other currencies is hedged and financing raised in currencies other than the USD is immediately swapped into dollars.</li> <li>Concerning interest rate risks, 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.</li> <li>Freight costs are hedged by our Shipping and Chartering Desk via Forward Freight Agreements (FFAs) and bunker costs.</li> </ul> <p><i>For our view of the market environment and how we are responding, please see CEO report (p04).</i></p>	
<b>FINANCE AND LIQUIDITY</b>	<ul style="list-style-type: none"> <li>Trafigura relies on a deep pool of financing from banks for working capital to support its business, consisting of three pillars: trade finance, securitisation and unsecured committed revolving credit facilities. <i>See CFO statement (p10–p15).</i></li> <li>For longer-term capital needs we raise funds from time to time on public bond markets or through private placements with investment institutions. We follow a strict policy of matching the maturity of our assets and liabilities, with longer-term assets supported by longer-term borrowings.</li> <li>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 around USD500 million always on hand. Our transactional financing base allows the underlying assets to be 100 percent marked-to-market value, matching liquidity needs for any related margin calls. <i>See CFO statement for a fuller account of our funding model.</i></li> </ul>	
<b>COMPLIANCE AND ETHICS</b>	<ul style="list-style-type: none"> <li>Trafigura's Compliance Department oversees Group activities, in partnership with front-office functions, to ensure that we operate with integrity and according to best practice, and that our controls are relevant, rigorous 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.</li> <li>The Department's activities include counter party due diligence (KYC); anti-money-laundering; sanctions and trade restrictions; anti-bribery and corruption; gifts, hospitality and entertainment; political contributions; protection of whistle-blowers; financial compliance and market conduct. <i>See 2016 Responsibility Report (p55–p57).</i></li> </ul>	
<b>ECONOMIC AND FINANCIAL SANCTIONS</b>	<ul style="list-style-type: none"> <li>The Group takes its compliance obligations with regard to international sanctions extremely seriously. Ensuring this position is respected in all our business activities, and that we fulfil the undertakings on sanctions that we give as part of our credit facilities, is a key focus for the trading desks with support from the Compliance, Legal and Finance departments.</li> </ul> <p><i>See 2016 Responsibility Report (p56–p57)</i></p>	

KEY RISK	MITIGATION AND ACTIONS	
<b>COUNTERPARTY, COUNTRY AND CREDIT RISK</b>	<ul style="list-style-type: none"> <li>On counterparty and credit risk, Trafigura uses internal credit limits established by the Credit department.</li> <li>Trafigura lays off political risk in relation to countries below a certain risk rating as gauged by Dun &amp; Bradstreet, by purchasing political risk insurance.</li> <li>Credit limits reflect Trafigura's own appetite for 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.</li> </ul>	
<b>DIGITAL INFRASTRUCTURE/ CYBER-SECURITY</b>	<ul style="list-style-type: none"> <li>The company takes IT security extremely seriously and is investing significant sums in state-of-the-art systems to protect the integrity of its IT architecture and processes against the threat of fraud or other potential damage from cyber-attack.</li> </ul>	
<b>LEGAL, TAXATION AND REGULATION</b> <ul style="list-style-type: none"> <li>Changes in taxation arrangements in various territories.</li> <li>Collateral effects of changes in financial regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>Trafigura is increasingly focused on maintaining legal, taxation and regulatory risks, given the multiple jurisdictions in which it operates and its global scope. Trafigura adheres to applicable local and international tax law in the countries where it operates, including legislation on transfer pricing. We are following the unfolding discussions on Base Erosion and Profit Shifting (BEPS) within the Organisation for Economic Co-operation and Development, and will adapt our reporting to respond as and when this produces more concrete recommendations.</li> </ul>	
<b>CORPORATE RESPONSIBILITY</b> <ul style="list-style-type: none"> <li>Eliminating fatalities and reducing lost-time injuries.</li> <li>Improving Group management of risks posed by Heavy Goods Vehicles (HGVs).</li> <li>Improving Trafigura's management of contractors.</li> <li>Enhancing engagement with notable international organisations in the sphere of corporate responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>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 is required to supplement the Policy and Principles with relevant, sector-specific standards and procedures to manage the impacts of their operations.</li> <li>The 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.</li> </ul>	
	<ul style="list-style-type: none"> <li>In light of lower commodity prices in 2015, we paid particular attention to screening our portfolio of prepayment agreements with producers for credit risk.</li> <li>Exposures in excess of a credit limit are covered through the insurance or bank markets.</li> <li>The Group prides itself on having had an extremely low incidence of credit losses throughout its history.</li> </ul>	
	<ul style="list-style-type: none"> <li>We are also following closely the discussions about potential new forms of regulation that may be imposed on commodities trading firms, for example under the European Union's MiFid 2 legislation. 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.</li> </ul>	
	<ul style="list-style-type: none"> <li>All HSEC incidents are recorded and categorised for severity on Safeguard, the Group's HSEC data management system. Incidents registered as levels 3, 4 or 5, involving significant spills or single or multiple fatalities, as well as high-potential near misses are investigated and the results and remedial actions are presented to the Steering Committee.</li> <li>We engage actively with leading industry forums, including the UN Global Compact, the EITI and the World Business Council for Sustainable Development (WBCSD). <i>See Trafigura's 2016 Responsibility Report for further information on these activities. <a href="http://www.trafigura.com/responsibility">www.trafigura.com/responsibility</a>.</i></li> </ul>	

# FINANCE TO MEET DIVERSE BUSINESS NEEDS

## CONTINUING 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 a global programme of flexible, short-term facilities in place 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 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 121 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.

## HOW OUR FUNDING MODEL WORKS IN PRACTICE

### KEY:

The chart on the right illustrates the interaction between the three different types of financing Trafigura uses during the life of an example trade.

### EXAMPLE CRUDE OIL TRANSACTION:

Trafigura agrees today:

- (1) To buy one million barrels of crude from an oil major loading in 41-45 days @ Brent-\$1/bbl. The Brent price is fixed as the average during the loading period.
- (2) To sell one million barrels of crude to a refinery for delivery in 101-105 days @ Dubai+\$4/bbl. The Dubai price is fixed as the average during the loading period.

- **Revolving line:** Cash flows arising from hedging activity and freight costs.
- **Transactional line:** Cash flows arising from the physical transaction and its financing by the LC issuing bank.
- **Securitisation line:** Cash flows between Trafigura and its separately capitalised special purpose vehicle (SPV).

- ↑ Cash inflow
- ↓ Cash outflow
- ↕ Market-contingent cash flow

### TRANSACTION COMPONENT

#### PHYSICAL TRADE

#### FINANCE PHYSICAL BUY LEG BY ISSUING LETTER OF CREDIT (LC)

#### HEDGE BUY LEG WITH BRENT FUTURES

#### HEDGE SALES LEG WITH DUBAI FUTURES

#### FREIGHT COST

#### PHYSICAL SALES LEG

#### NET CASH FLOW



### DAY 1: TRADE AGREEMENT

Brent contract = \$50  
Dubai contract = \$49

Trafigura agrees:  
(1) To buy crude, (2) To sell crude  
(see key for trade details)



### DAYS 2 – 40: PRICING PERIOD

Oil major issues invoice to Trafigura

Bank issues LC, drawable on loading date

↓ Buy 1,000 Brent futures @50  
-\$2m (initial margin)

↕ Mark-to-market daily (variation margin)

↓ Sell 1,000 Dubai futures @49  
-\$2m (initial margin)

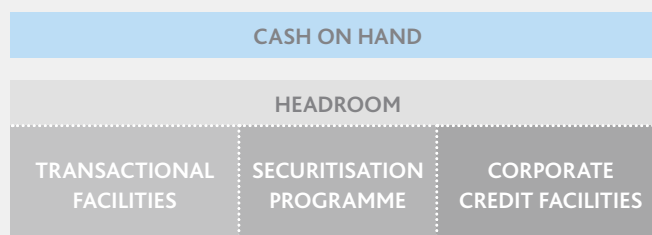
↕ Mark-to-market daily (variation margin)

Initial margin: -\$4m



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

## TRAFIGURA FUNDING MODEL



### 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 worldwide. We comply with the financial covenants attached to our syndicated bank facilities. Members of the finance team regularly meet our banks. 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 respond to specific queries directly.

### OUR THREE-PILLAR FUNDING STRUCTURE

#### 1. TRANSACTIONAL FACILITIES

All transaction-based lending is fully collateralised. We fund day-to-day trading through one-to-one (ie, bilateral) agreements with individual banks. For most transactions, this starts with a bank issuing an LC on behalf of the buyer in favour of the seller. The physical commodity being financed by the LC is specified as security. On delivery, the seller of the commodity draws down the LC, which then converts into a secured loan from the LC-issuing bank. The loan is marked-to-market at least weekly until maturity so that the amount being financed always corresponds to the value of the underlying commodity. This secured loan is repaid by the cash flow from the on-sale of the commodity from Trafigura to the end-buyer, with a receivable created once the sale has been agreed. This receivable is either repaid when the counterparty pays Trafigura according to the credit terms of the transaction or from the securitisation programme if the receivable is sold into the programme.

#### 2. SECURITISATION PROGRAMME

Trafigura manages a securitisation programme through a separately capitalised SPV. The programme further diversifies Trafigura's funding sources and, thanks to its investment-grade ratings from Moody's and S&P, is a cost-effective financing mechanism. Most trades are financed on a trade-by-trade basis with bilateral trade finance loans, but Trafigura can fund eligible receivables once an invoice has been issued by selling them to the SPV. Securitising our receivables accelerates the rotation of existing credit lines, since secured bilateral loans can be repaid faster with the programme proceeds.

#### 3. CORPORATE CREDIT FACILITIES

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

### PUBLIC 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.



#### DAYS 41 – 45: LOADING

Average Brent contract = \$52  
Average Dubai contract = \$50



Buy 1m bbls @ Brent-\$1  
Counterparty draws on LC  
-\$51m



Drawdown amount moves  
onto balance sheet as  
secured loan:  
+\$51m



Sell 1,000 Brent futures @52  
+\$2m (initial margin)  
(realised p/l = +\$2m)



Buy 1,000 Dubai futures @50  
+\$2m (initial margin)  
(realised p/l = -\$1m)



Charter tanker for 65 days  
@ \$3.50/bbl  
-\$3.5m

• Return of initial margin:	+\$4m
• Realised profit on futures:	+\$1m
• Transportation costs:	-\$3.5m
<b>Total:</b>	<b>+\$1.5m</b>



#### DAYS 46 – 100: TRANSPORTATION



Loan marked-to-market  
(physical excess/deficit)



#### DAYS 101 – 105: DELIVERY

Trafigura issues invoice to refinery.  
Invoice is securitised with SPV as beneficiary.



Sell 1m bbls @ Dubai +\$4  
(transaction value = \$54m)



Securitisation programme refinances loan  
-\$51m (principal)  
-\$85,000 (1% interest) for 60 days



Securitisation vehicle receives  
payment for cargo from refinery  
+\$54m on 30 days payment terms

• Proceeds from physical sale:	+\$54m
• Repayment of loan principal:	-\$51m
• Payment of loan interest:	-\$85,000
<b>Total:</b>	<b>+\$2.92m</b>

NET RESULT  
**\$415,000 PROFIT**

# BOARD OF DIRECTORS AND COMMITTEES

Trafigura is exclusively owned by its management and active employees, who are therefore focused on the long-term success of the business, promoting management depth and stability, and encouraging prudent risk management.

The reference parent company of the Group is Trafigura Group Pte. Ltd. (TGPL), incorporated in Singapore. All Group activities and assets globally are consolidated under TGPL, which is also the entity for all Group corporate reporting.

## BOARD OF DIRECTORS

The principal oversight body for the Group is the Board of Directors, a unitary structure established in accordance with Singapore law. The Board of Directors has overall responsibility for the strategic direction and management of the Group across all its investments and activities. It is responsible for oversight of the Group, shareholder relations and commercial and financing strategy. Members of the Board of Directors are listed on the opposite page. Formal meetings of the Board of Directors take place in Singapore at a minimum of four times a year.

In practice, those Directors with executive responsibilities are in constant touch with each other, and are actively involved in a range of management steering committees, as outlined here. Management of the Group is characterised by short reporting lines, flat structures, clear delineation and segregation of responsibilities, and personal accountability.

Employee remuneration at all levels is linked to Group performance as well as individual contribution. As shareholders, senior traders and front- and back-office personnel have a personal stake in the business and are therefore invested in its long-term success.

## MANAGEMENT STEERING COMMITTEES

Under the Board of Directors, a number of management steering committees coordinate the day-to-day management of Trafigura.

During 2016, two new management committees were established to oversee the trading business on the one hand and investments on the other. The Trading Committee is responsible for managing the trading activities of Trafigura within the financial and operating parameters set by the Board.

The Investment Committee is responsible for defining and implementing an investment strategy and risk framework for the Group and its subsidiaries. The work of these committees has already enhanced our management process. In addition the following steering committees continue to provide vital support:

- Finance Committee
- Accounting Committee
- IT Steering Committee
- Market Risk Management Committee
- Compliance Committee
- HSEC Committee
- HR Group





Left to right: Christopher Cox, Pierre Lorinet, Andrew Vickerman, José Larocca, Jeremy Weir, Mike Wainwright, Sipko Schat, Mark Irwin.

## BOARD OF DIRECTORS

### JEREMY WEIR

#### CHIEF EXECUTIVE OFFICER

Jeremy Weir was appointed CEO of Trafigura in March 2014, after a career spanning nearly three decades in commodity and commodity derivative markets. An Australian national, he joined the Trafigura Group in 2001 as head of metals derivatives, structured products and risk management. Immediately prior to his current appointment he served as a Management Board Director, Head of Risk and CEO of Galena Asset Management and Trafigura Mining Group. Before Trafigura, Jeremy spent nearly nine years between 1992 and 2000 with N M Rothschild. Jeremy holds a BSc (Hons), Geology Major from the University of Melbourne.

### MIKE WAINWRIGHT

#### CHIEF OPERATING OFFICER

Mike Wainwright was appointed Chief Operating Officer and Trafigura Management Board member in January 2008. His principal focus is the management of the middle and back office support teams for the trading division in addition to direct responsibility for the Group's profit and loss. Mike joined Trafigura in 1996 as an accounts assistant in the Oil Division. He has held various roles within the Group, covering accounting, deals desk and middle-office IT development. A UK national, Mike holds a BSc in Mathematics and Actuarial Studies from Southampton University.

### JOSÉ LAROCCA

#### HEAD OF OIL TRADING

José Larocca was appointed to the Trafigura Management Board and Head of the Oil and Petroleum Products Trading Division in March 2007. He was one of the company's earliest employees, joining Trafigura in London in 1994 on the Oil Deals Desk before taking a series of commercial roles, including as a trader of naphtha and gasoline. Prior to joining Trafigura, José worked for two years at Interpetrol, a small oil trading company in Buenos Aires. An Argentine national born in Switzerland, he holds a diploma in International Trading from the Bank Boston Foundation (Buenos Aires).

### PIERRE LORINET

Pierre Lorinet was Chief Financial Officer of Trafigura from 2007 until 2015. Following his departure from the role of CFO in September 2015, Pierre joined the Board Directors of Trafigura Group Pte. Ltd. and was nominated on to the Board of Directors of Puma Energy. He joined Trafigura in 2002 as Co-head of Structured and Corporate Finance. In 2012, Pierre relocated to Singapore to take over management of the Asia-Pacific region in addition to his CFO duties. Prior to joining Trafigura, Pierre worked for Merrill Lynch in London in the areas of structuring of asset-backed securities and of debt origination. He started his career in commodity finance at Banque Indosuez in Bahrain. A French national, he holds a Master's degree in Business from ESCP Europe in Paris and an MSc in Finance from Lancaster University.

### SIPKO SCHAT

Sipko Schat joined the Board of Directors in January 2016. A Dutch citizen, Sipko worked in the Rabobank Group for over 25 years, where he was a member of the Executive Board of Rabobank Nederland. He was also responsible for the Wholesale Clients division of Rabobank International and managed the Wholesale Management Team. Sipko is a Non-Executive Director of various companies including an independent member of the Supervisory Board and Chairman of the Risk Committee for Rothschild & Co (formerly Paris Orléans); Chairman of the Supervisory Board of Vion N.V., an international food company; and a senior independent Director of OCI N.V., a global producer of natural gas-based fertilizers and industrial chemicals. Sipko holds a Master of Laws degree from the University of Groningen, the Netherlands.

### MARK IRWIN

Mark Irwin is a UK-qualified chartered accountant who joined Trafigura as financial controller in 1994 and was appointed as a director in 2004 to provide support for Trafigura's corporate and IT infrastructure. Mark holds a degree in Computer Science and Accounting from the University of Manchester.

### CHRISTOPHER COX

Christopher Cox was formerly the Head of the Metals and Minerals Trading Division at Trafigura and a member of the Management Board between March 2004 and December 2011. A qualified geologist, his experience in global investment and trading relationships greatly enhances Trafigura's ability to continue its expansion in sub-Saharan Africa and further afield. Chris was educated in South Africa and holds a BSc (Hons) in Geology and an MBA from the University of Cape Town Graduate School of Business.

### ANDREW VICKERMAN

Andrew Vickerman spent almost 20 years with Rio Tinto, one of the world's leading mining companies, the last 10 as a member of the Executive Committee with responsibility for Global Communications and External Relations. An economist by background, with a PhD in economics from Cambridge University, he has previously worked for The World Bank and other international agencies.

Mariano Marcondes Ferraz served on the TGPL Board of Directors throughout 2016, and as a director of a number of other Group companies as well as Puma Energy Holdings Pte Ltd. On 9 November 2016 he informed the Group that he had resigned from his directorships with immediate effect and would no longer be active in these businesses.







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# FINANCIAL STATEMENTS

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**FINANCIAL STATEMENTS**

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### INDEPENDENT AUDITOR'S REPORT

To: the Shareholders and the Board of Directors of Trafigura Group Pte. Ltd.

#### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements for the year ended 30 September 2016 of Trafigura Group Pte. Ltd., Singapore, which comprise the consolidated statement of financial position as at 30 September 2016, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of the significant accounting policies and other explanatory information.

#### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the consolidated financial statements and for the preparation of the report of the Board of Directors, both in accordance with International Financial Reporting Standards as issued by the IASB. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### OPINION WITH RESPECT TO THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Trafigura Group Pte. Ltd. as at 30 September 2016, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Amsterdam, 2 December 2016  
Ernst & Young Accountants LLP  
Signed by W.J. Smit

## A. CONSOLIDATED STATEMENT OF INCOME

	Note	2016 USD'M	2015 USD'M
Revenue	7	98,097.8	97,236.5
Cost of sales		(95,806.6)	(94,636.1)
<b>Gross profit</b>	4	<b>2,291.2</b>	<b>2,600.4</b>
Other income/(expenses)	8	(233.2)	(198.4)
General and administrative expenses	9	(946.7)	(994.8)
<b>Results from operating activities</b>		<b>1,111.3</b>	<b>1,407.2</b>
Finance income		387.0	228.5
Finance expense		(507.7)	(479.0)
<b>Net financing costs</b>		<b>(120.7)</b>	<b>(250.5)</b>
Share of profit/(loss) of equity-accounted investees	13	94.3	87.8
<b>Profit before tax</b>		<b>1,084.9</b>	<b>1,244.5</b>
Income tax expense	10	(110.2)	(141.1)
<b>Profit for the year</b>		<b>974.7</b>	<b>1,103.4</b>
Profit attributable to			
Owners of the Company		750.8	1,235.9
Non-controlling interests	22	223.9	(132.5)
<b>Profit for the year</b>		<b>974.7</b>	<b>1,103.4</b>
See accompanying notes			

## B. CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2016 USD'M	2015 USD'M
<b>Profit for the year</b>		<b>974.7</b>	<b>1,103.4</b>
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Gain/(loss) on cash flow hedges	21	45.1	(69.9)
Tax on comprehensive income	10	(3.3)	5.2
Exchange loss on translation of foreign operations		(70.0)	(83.0)
Share of other comprehensive income from associates (exchange loss on translation of foreign operations)		(45.4)	(240.6)
Items that will not be reclassified to profit or loss:			
Net change in fair value of financial assets at fair value through OCI	16	(31.7)	(91.9)
<b>Other comprehensive income for the year net of tax</b>		<b>(105.3)</b>	<b>(480.2)</b>
<b>Total comprehensive income for the year</b>		<b>869.4</b>	<b>623.2</b>
Total comprehensive income attributable to			
Owners of the Company		631.1	766.9
Non-controlling interests		238.3	(143.7)
<b>Total comprehensive income for the year</b>		<b>869.4</b>	<b>623.2</b>
See accompanying notes			

## FINANCIAL STATEMENTS

### C. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2016 USD'M	30 September 2015 USD'M
<b>Assets</b>			
Property, plant and equipment	11	2,345.0	2,400.3
Intangible assets	12	230.5	245.8
Equity-accounted investees	13	3,464.4	3,167.5
Prepayments	14	945.3	1,067.2
Loans receivable	15	801.3	440.1
Other investments	16	540.3	809.2
Derivatives	27	97.3	57.0
Deferred tax assets	10	103.8	169.9
<b>Total non-current assets</b>		<b>8,527.9</b>	<b>8,357.0</b>
Inventories	17	11,537.7	7,614.4
Trade and other receivables	18	15,199.9	13,902.3
Derivatives	27	476.3	3,326.2
Prepayments	14	2,259.8	2,110.8
Income tax receivable	10	78.7	106.5
Deposits	20	7.9	46.9
Cash and cash equivalents	20	3,141.9	3,534.2
<b>Total current assets</b>		<b>32,702.2</b>	<b>30,641.3</b>
Non-current assets classified as held for sale	6	–	88.4
<b>Total assets</b>		<b>41,230.1</b>	<b>39,086.7</b>
<b>Equity</b>			
Share capital	21	1,503.7	1,503.7
Capital securities	21	646.7	640.6
Reserves	21	(558.7)	(505.9)
Retained earnings	21	3,956.3	3,962.5
<b>Equity attributable to the owners of the Company</b>		<b>5,548.0</b>	<b>5,600.9</b>
Non-controlling interests	22	299.1	56.7
<b>Total group equity</b>		<b>5,847.1</b>	<b>5,657.6</b>
<b>Liabilities</b>			
Loans and borrowings	23	7,234.2	7,289.7
Derivatives	27	237.8	173.3
Provisions	24	69.3	83.9
Deferred tax liabilities	10	189.5	253.1
<b>Total non-current liabilities</b>		<b>7,730.8</b>	<b>7,800.0</b>
Current tax liabilities	10	245.6	270.5
Loans and borrowings	23	18,033.0	14,668.2
Trade and other payables	25	8,952.5	9,486.3
Derivatives	27	421.1	1,204.1
<b>Total current liabilities</b>		<b>27,652.2</b>	<b>25,629.1</b>
<b>Total group equity and liabilities</b>		<b>41,230.1</b>	<b>39,086.7</b>
See accompanying notes			



## D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to the owners of the Company											
USD'000	Note	Share capital	Capital contribution reserve	Currency translation reserve	Revaluation reserve	Cash flow hedge reserve	Capital Securities	Retained earnings	Profit for the year	Total	Non-controlling interests	Total Group equity
Balance at 1 October 2015		1,503,727	—	(420,828)	(57,313)	(27,765)	640,617	2,726,577	1,235,891	5,600,906	56,734	5,657,640
Profit for the year		—	—	—	—	—	—	—	750,817	750,817	223,926	974,743
Other comprehensive income		—	—	(129,832)	(31,701)	41,822	—	—	—	(119,711)	14,389	(105,322)
Total comprehensive income for the year		—	—	(129,832)	(31,701)	41,822	—	—	750,817	631,106	238,315	869,421
Profit appropriation		—	—	—	—	—	—	1,235,891	(1,235,891)	—	—	—
Dividend	21	—	—	—	—	—	—	(719,059)	—	(719,059)	—	(719,059)
Recycling revaluation reserve to retained earnings FVOCI instruments		—	—	—	65,991	—	—	(65,991)	—	—	—	—
Acquisition of non-controlling interest in subsidiary		—	—	—	—	—	—	—	—	—	4,532	4,532
Share based payments	28	—	—	—	—	—	—	77,656	—	77,656	—	77,656
Subsidiary equity distribution		—	—	—	—	—	—	—	—	—	(502)	(502)
Capital securities (currency translation)		—	—	—	—	—	6,107	(6,107)	—	—	—	—
Capital securities dividend		—	—	—	—	—	—	(48,990)	—	(48,990)	—	(48,990)
Acquisition of subsidiaries from parent	21	—	—	—	—	—	—	6,479	—	6,479	—	6,479
Reclassification		—	—	897	—	—	—	(897)	—	—	—	—
Share of other changes in equity of associates		—	—	—	—	—	—	(33)	—	(33)	—	(33)
Other		—	—	—	—	—	—	(37)	—	(37)	—	(37)
Balance at 30 September 2016		1,503,727	—	(549,763)	(23,023)	14,057	646,724	3,205,489	750,817	5,548,028	299,079	5,847,107

See accompanying notes

**D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

USD'000	Note	Equity attributable to the owners of the Company								Total	Non-controlling interests	Total group equity
		Share capital	Capital contribution reserve	Currency translation reserve	Revaluation reserve	Cash flow hedge reserve	Capital Securities	Retained earnings	Profit for the year			
<b>Balance at 1 October 2014</b>		3,215,535	64,053	(109,921)	(17,494)	35,738	–	1,831,467	995,294	6,014,672	301,465	6,316,137
Profit for the year		–	–	–	–	–	–	–	1,235,891	1,235,891	(132,494)	1,103,397
Other comprehensive income		–	–	(313,559)	(91,937)	(63,503)	–	–	–	(468,999)	(11,203)	(480,202)
Total comprehensive income for the year		–	–	(313,559)	(91,937)	(63,503)	–	–	1,235,891	766,892	(143,697)	623,195
Profit appropriation		–	–	–	–	–	–	995,294	(995,294)	–	–	–
Shares issued	21	30,000	–	–	–	–	–	–	–	30,000	–	30,000
Share redemption	21	(1,741,808)	–	–	–	–	–	–	–	(1,741,808)	–	(1,741,808)
Dividend paid		–	–	–	–	–	–	(138,968)	–	(138,968)	–	(138,968)
Transfer due to realisation of FVOCI instruments		–	–	–	52,117	–	–	(52,117)	–	–	–	–
Share based payments		–	–	–	–	–	–	51,129	–	51,129	–	51,129
Subsidiary dividend distribution		–	–	–	–	–	–	–	–	–	(101,184)	(101,184)
Capital securities transferred from parent company	21	–	–	–	–	–	640,617	–	–	640,617	–	640,617
Acquisition of subsidiaries from parent	21	–	(64,053)	–	–	–	–	(23,685)	–	(87,738)	27	(87,711)
Dilution gain from capital contribution in equity-accounted investees		–	–	–	–	–	–	67,715	–	67,715	–	67,715
Reclassification		–	–	2,652	–	–	–	(2,652)	–	–	–	–
Share of other changes in equity of associates		–	–	–	–	–	–	(968)	–	(968)	–	(968)
Other		–	–	–	–	–	–	(637)	–	(637)	–	(514)
<b>Balance at 30 September 2015</b>		<b>1,503,727</b>	<b>–</b>	<b>(420,828)</b>	<b>(57,314)</b>	<b>(27,765)</b>	<b>640,617</b>	<b>2,726,578</b>	<b>1,235,891</b>	<b>5,600,906</b>	<b>56,734</b>	<b>5,657,640</b>

See accompanying notes

## E. CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 USD'M	2015 USD'M
<b>Cash flows from operating activities</b>			
Profit before tax		1,084.9	1,244.5
<b>Adjustments for:</b>			
Depreciation	11	148.4	167.9
Amortisation of intangible assets	12	56.3	51.8
Provisions	24	(6.7)	72.4
Gain on fair value through profit and loss instruments	8	134.2	(34.8)
Impairment losses on financial fixed assets	8	39.8	14.0
Reversal of impairment (no capital) losses on non-financial fixed assets	8	(243.6)	–
Impairment losses on non-financial fixed assets	8	75.1	407.3
Impairment losses on equity-accounted investees	13	250.0	47.9
Net finance costs		120.7	250.5
Share of profit of equity-accounted investees	13	(94.3)	(87.8)
Gain on sale of non-financial fixed assets	8	(12.4)	(11.3)
Loss/(gain) on sale of equity-accounted investees	8	5.4	(0.4)
Gain on sale of other investments	8	(0.1)	–
Gain on divestments of subsidiaries	8	(20.3)	(287.3)
Equity-settled share-based payment transactions	28	77.7	51.1
<b>Operating cash flow before working capital changes</b>		1,615.1	1,885.8
<b>Changes in:</b>			
Inventories		(3,925.1)	188.5
Trade and other receivables and derivatives		701.3	1,616.5
Prepayments		(392.9)	5.2
Trade and other payables and derivatives		(562.6)	(1,507.0)
<b>Cash generated from/(used in) operating activities</b>		(2,564.2)	2,189.0
Interest paid		(544.8)	(570.2)
Interest received		376.4	232.4
Dividends received		13.2	25.8
Tax (paid)/received		(107.7)	(160.3)
<b>Net cash from/(used in) operating activities</b>		(2,827.1)	1,716.7
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	11	(668.3)	(985.1)
Proceeds from sale of property, plant and equipment	11	514.0	138.4
Acquisition of intangible assets	12	(48.9)	(131.7)
Proceeds from sale of intangible assets		0.8	0.3
Acquisition of equity-accounted investees	13	(543.7)	(193.3)
Disposal of equity-accounted investees	13	26.6	10.3
Acquisition of loans receivable	14/15	(116.6)	(804.5)
Disposals of loans receivable	14/15	31.5	26.0
Acquisition of other investments	16	(20.7)	(282.4)
Disposal of other investments	16	121.4	32.3
Disposal of subsidiaries, net of cash disposed of	6	637.1	(8.0)
<b>Net cash from/(used in) investing activities</b>		(66.8)	(2,197.7)
<b>Cash flows from financing activities</b>			
Dividend/Payment in relation to the share redemption by the direct parent company	21	(719.1)	(775.5)
Payment of capital securities dividend	21	(49.0)	–
Proceeds from long-term loans and borrowings	23	100.8	628.7
Payment of finance lease liabilities	23	(12.2)	(12.1)
Increase of short-term bank financing	23	3,177.7	606.2
Dividend non-controlling interest	22	3.4	(102.2)
<b>Net cash from/(used in) financing activities</b>		2,501.6	345.1
<b>Net increase/(decrease) in cash and cash equivalents</b>		(392.3)	(135.9)
Cash and cash equivalents at 1 October	20	3,534.2	3,670.1
<b>Cash and cash equivalents at 30 September (Note 21)</b>		3,141.9	3,534.2

See accompanying notes

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The principal business activities of Trafigura Group Pte. Ltd. (the Company) and together with its subsidiaries (the Group) are trading and investing in crude and petroleum products, non-ferrous concentrates, refined metals and bulk commodities such as coal and iron ore. The Group also invests in assets, including through investments in associates, which have strong synergies with its core trading activities. These include storage terminals, service stations, metal warehouses and mines.

The Company is incorporated in Singapore and its principal business office is at 10 Collyer Quay, Ocean Financial Centre, #29-00, Singapore, 049315.

The immediate and ultimate holding companies of the Company are Trafigura Beheer B.V. and Farringford N.V., respectively. Trafigura Beheer B.V. is incorporated in The Netherlands and Farringford N.V. is incorporated in Curacao.

The consolidated financial statements for the year ended 30 September 2016 were authorised for issue by the Board of Directors on 2 December 2016.

### 2. BASIS OF PREPARATION

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

The consolidated financial statements have been prepared under the historical cost convention except for inventories, derivatives and certain other financial instruments that have been measured at fair value. The consolidated financial statements have been prepared on a going concern basis.

#### a. Functional and presentation currency

The Group's presentation currency is the US dollar (USD) and all values are rounded to the nearest tenth of a million (USD'M 0.1) except when otherwise indicated. The US dollar is the functional currency of most of the Group's principal operating subsidiaries. Most of the markets in which the Group is involved are USD denominated.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in compliance with IFRS. The company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position and throughout all periods presented, as if these policies had always been in effect.

#### a. Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of all subsidiaries and branch offices, which the Company, either directly or indirectly, controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

Subsidiaries are consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which control is transferred to a person or entity outside of the control of the Company. All intra-group assets and liabilities, equity,

income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions with any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received being recognised directly in equity and attributed to equity holders of the Company.

If the Group loses control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. The parent's share of components previously recognised in other comprehensive income (OCI) is reclassified to profit and loss or retained earnings, as would be required if the Group had directly disposed of the related assets or liabilities. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an equity investment depending on the level of influence retained.

Non-controlling interests in subsidiaries are identified separately from the Company's equity and are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### b. Investments in equity-accounted investees

Associates and joint ventures (together 'Associates') in which the Group exercises significant influence or joint control are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control those policies. Joint control is established by contractual agreement and requires unanimous consent for strategic financial and operating decisions. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method the investment in an Associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share in the net assets of the Associate or joint venture since acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the Associate are eliminated to the extent of the interest in the Associate, unless the sale or contribution of assets constitute a business in which case the gains and losses are recognised in full.



The aggregate of the Group's share of profit or loss of equity-accounted investees is shown on the face of the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the Associate is impaired.

The financial statements of the Associates are prepared for the same reporting period as the Group, unless otherwise indicated.

Changes in the Group's interest in Associates are accounted for as a gain or loss on disposal with any differences between the amount by which the carrying value of the Associate is adjusted and the fair value of the consideration received being recognised directly in the statement of income.

### c. Business combinations

The Company accounts for its business combinations under the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If a business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss except when measured at fair value through OCI. It is then considered in the determination of goodwill.

If the consideration transferred for a business combination exceeds the fair values attributable to the Group's share of the identifiable net assets, the difference is treated as goodwill, which is not amortised but is reviewed annually for impairment or when there is an indication of impairment. If a business combination results in a negative goodwill, the Group reassesses whether it has correctly identified and measured all assets acquired and all liabilities assumed. If the negative goodwill remains after the reassessment, it is recognised as a gain in the profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### d. Fair value measurement

The Group measures financial instruments, such as derivatives, and certain non-derivative financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27i.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- **Level 2** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- **Level 3** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### e. Foreign currency

#### (i) Foreign currency transactions

Subsidiaries, joint ventures and equity accounted investees record transactions in the functional currency of the economic environment in which they operate. Transactions in currencies other than the functional currency of the subsidiary, joint ventures and equity investees are recorded at the rates of exchange prevailing at the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are translated at the rates of exchange prevailing at the balance sheet date and gains and losses are reported in the statement of income.

#### (ii) Foreign operations

Upon consolidation, the balance sheets of subsidiaries with functional currencies other than the USD are translated at the rates of exchange prevailing at the end of the year. The statements of income denominated in currencies other than the USD are translated at the average rate for the year. The resulting exchange differences are recorded in equity through other comprehensive income and are included in the statement of income upon sale or liquidation of the underlying foreign operation.

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****f. Financial instruments**

The financial assets are classified in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Reclassification takes place at the first day of the financial year following the financial year in which the business model changes.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss as incurred.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement of debt instruments depends on the Groups business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

**(i) Amortised cost**

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model with the objective of collecting the contractual cash flows, and
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost include loans receivable, trade and other receivables, and other financial assets that are held with the objective of collecting contractual cash flows. After initial measurement at fair value, the financial assets are measured at amortised cost using the effective interest rate (EIR) method, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in other income.

**(ii) Fair value through other comprehensive income**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying

amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

**(iii) Financial assets at fair value through profit or loss**

The Group classifies the following financial assets at fair value through profit or loss:

- Debt investments that do not qualify for measurement at amortised cost;
- Debt investments that do not qualify for measurement at fair value through other comprehensive income; and
- Debt investments that have been designated at fair value through profit or loss.

Financial assets at fair value through profit or loss include financial assets held for trading, debt securities and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other income/ (expenses) in profit or loss. Interests, dividends and gain/loss on foreign exchange on financial assets at fair value through profit or loss are included separately in finance income or other income respectively.

The Group enters into prepayment agreements where purchases of commodities are prepaid. When the prepayment agreement can be settled in cash or another financial asset, it is classified at amortised cost in line with IFRS 9. When settlement of the prepayment agreement solely occurs by having the commodities physically delivered, these agreements are not classified as financial instruments as they do not meet the definition of a financial asset. Interest received on prepayment agreements is presented in finance income in the statement of profit or loss.

The Group invested in listed equity securities and unlisted equity investments. The Group subsequently measures all equity investments at fair value. The Group classifies the following financial assets at fair value through profit or loss:

- Equity investments that are held for trading; and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income.

Where Group management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other income when the Groups' right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position if, and only if, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Non-derivative financial liabilities

The Group measures non-derivative financial liabilities at amortised cost. The non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, the financial liabilities are measured at amortised cost using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

#### Derivative financial instruments, including hedge accounting

Derivative instruments, which include physical contracts to sell or purchase commodities that do not meet the own use exemption, are initially recognised at fair value when the Group becomes a party to the contractual provisions of the instrument and are subsequently remeasured to fair value at the end of each reporting period. Any attributable transaction costs are recognised in profit or loss as incurred.

The Group utilises derivative financial instruments (shown separately in the statement of financial position) to hedge its primary market risk exposures, primarily risks related to commodity price movements, and to a lesser extent, exposure to foreign currency exchange rates and interest rate movements. Commodity derivative contracts may be utilised to hedge against commodity price risk for fixed priced physical purchase and sales contracts, including inventory. Commodity swaps, options and futures are used to manage price and timing risks in conformity with the Company's risk management policies.

Generally, the Group does not apply hedge accounting, but in some instances it may elect to apply hedge accounting. The Group elects to apply fair value hedge accounting to hedge certain risk components of non-financial hedged items. When applicable, the Group designates derivative hedging instruments as fair value hedges in relationship to the hedged item. The hedged item may be individual risk components which are separately identifiable and reliably measurable. The designated hedge derivatives are accounted for at fair value through profit and loss and reflected on the balance sheet as either a recognised asset or liability or an unrecognised firm commitment. Each of the identified risk components of the hedged item will be revalued at each period with its corresponding benchmark accounted for at fair value and recognised through profit and loss and reflected on the balance sheet as either a recognised asset or liability or an unrecognised firm commitment. The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items.

Those derivatives qualifying and designated as hedges are either (i) a fair value hedge of the change in fair value of a recognised asset or liability or an unrecognised firm commitment, or (ii) a cash flow hedge of the change in cash flows to be received or paid relating to a recognised asset or liability or a highly probable transaction.

A change in the fair value of derivatives designated as a fair value hedge is reflected together with the change in the fair value of the hedged item in the statement of profit or loss. A change in the fair value of

derivatives designated as a cash flow hedge is initially recognised as a cash flow hedge reserve in OCI. The deferred amount is then released to the statement of profit or loss in the same periods during which the hedged transaction affects the statement of profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity and is reclassified to profit or loss when the forecast transaction affects in profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for at the time of the hedge relationship rebalancing.

#### Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e. the underlying contractual cash flows).

Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and noncurrent portions).

#### g. Cash and cash equivalents

Cash and cash equivalents include all cash on hand and short-term highly liquid investments such as deposits with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalent consist of cash and short-term deposits as defined above.

#### h. Property, plant and equipment

##### (i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except for exploration and evaluation assets (see Note i). The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components). The costs of major repairs and maintenance (dry-docking or turnarounds) are capitalised and depreciated over their useful life.

Gains or losses on disposal of an item of property, plant and equipment are recorded in the statement of income under 'Other income/ (expense)'.

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Upon completion, the cost of construction is transferred to the appropriate category.

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### (ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

### (iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each component. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use. Assets under construction are not depreciated.

Depreciation of assets held under finance leases is calculated over the shorter of the lease term or the estimated useful life of the asset.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	20-33 years
• Machinery and equipment	3-20 years
• Barges and vessels	10-20 years
• Other fixed assets	1-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (iv) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are calculated using the effective interest rate method and are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs (including borrowing costs related to exploration and evaluation expenditures) are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs directly in connection with the borrowing of funds.

### i. Exploration and evaluation expenditure

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral and petroleum resources and include costs such as the acquisition of rights to explore, topographical geological, geochemical and geophysical studies, exploratory drilling and other activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. These costs are capitalised as an asset and measured at cost and recognised as a component of property, plant or equipment. Purchased exploration and evaluation assets are recognised at their fair value at acquisition.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, an assessment is performed for each area of interest or at the cash generating unit level. To the extent that capitalised expenditure is not expected to be recovered it is charged to the statement of income.

When commercially recoverable reserves are determined and such development receives the appropriate approvals, capitalised exploration and evaluation expenditure is transferred to 'Development Properties'.

### j. Development expenditure

Development expenditure incurred by or on behalf of the Group are accumulated separately for each area of interest in which economically recoverable reserves have been identified, and are capitalised only if they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. They are included as a component of property, plant and equipment as 'Development Properties'.

With regards to mines, the development property is reclassified as 'Mining Interests' at the end of the development phase, when the mine is capable of operating in the manner intended by management.

No depreciation is recognised in respect of development properties until they are classified as 'Mining Interests'.

Each development property is tested for impairment, see Note 3o. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred Mining interests

When further development expenditures are incurred in respect of a mining interest after the commencement of production, such expenditures are carried forward as part of the mining interests when it is probable that additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditures are classified as a cost of production.

Depreciation is charged using the unit of production method, with separate calculations being made for each area of interest. The unit of production basis results in a depreciation charge proportional to the depletion of proven and probable reserves.

Mining interests are tested for impairment.

### k. Deferred stripping costs

Stripping costs incurred in the development of a mine (or pit) before production commences are capitalised as part of the cost of constructing the mine (or pit) and subsequently amortised over the life of the mine (or pit) on a unit of production basis. The removal of overburden waste is required to obtain access to the ore body.

Production stripping costs are deferred when the actual stripping ratio incurred significantly exceeds the expected long-term average stripping ratio and are subsequently amortised when the actual stripping ratio falls below the long-term average stripping ratio. Where the ore is expected to be evenly distributed, waste removal is expensed as incurred.

### l. Intangible assets and goodwill

#### (i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition see Note c.

Goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or group of cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquired are assigned to those units.



Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain and loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

### **(ii) Mineral and petroleum rights**

Mineral and petroleum reserves, resources and rights (together 'Mineral rights') which can be reasonably valued, are recognised in the assessment of fair values on acquisition. Mineral rights for which values cannot be reasonably determined are not recognised. Exploitable Mineral rights are amortised using the unit of production method over the commercially recoverable reserves and, in certain circumstances, other mineral resources. Mineral resources are included in amortisation calculations where there is a high degree of confidence that they will be extracted in an economic manner.

### **(iii) Other intangible assets**

Other intangible assets include licences and are stated at cost, less accumulated amortisation and accumulated impairment losses. Licences are amortised over the term of the licence, generally not exceeding 10 years.

An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in the accounting estimates.

Gains or losses on disposal of intangible assets are recorded in the statement of income under 'Other income/(expense)'.

### **m. Leases**

The Group is the lessee of equipment, buildings, vessels and terminals under various operating and finance leases. The Group classifies its leases as operating or finance leases based upon whether the lease agreement transfers substantially all the risks and rewards of ownership.

For leases determined to be finance leases, an asset and liability are recognised at an amount equal to the lower of the fair value of the leased asset or the present value of the minimum lease payments during the lease term. Such assets are amortised on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset taking into account the residual value, with depreciation included in depreciation expense.

Leases that do not qualify as finance leases are classified as operating leases, and the related rental payments are expensed on a straight-line basis over the lease term.

If a sale and leaseback transaction can be classified as an operational lease, which implies that substantially all the risks and rewards of ownership of the lease agreement have been transferred, the difference between the carrying value and the consideration of the sold assets will be accounted for in the profit and loss under other income.

### **n. Inventories**

Trading-related inventories are measured at fair value less costs to sell. Fair value movements are included in profit and loss.

Inventories of non-trading related products are measured at the lower of cost or net realisable value. Costs comprise all costs of purchases and other costs incurred.

### **o. Impairment of financial instruments**

#### **Non-derivative financial assets**

The Group assesses the expected credit losses associated with its debt instruments and trade receivables carried at amortised cost and fair value through other comprehensive income. The impairment provisions for financial assets disclosed in Notes 15 and 16 are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### **Trade receivables**

The Group applies the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables. In calculating the expected credit loss rates for trade receivables, the company considers historical loss rates for each category of counterparties, and adjusts for forward looking macroeconomic data. Refer to Note 18 for the loss provision on trade receivables.

#### **Loans receivable**

Over the term of the loans, the Group manages its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of counterparties, and adjusts for forward looking macroeconomic data. The Group classifies its loans receivable in three categories that reflect their credit risk as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Non-performing	Interest and/or principal repayments are past due and credit risk level shows a significant increase	Lifetime expected losses
Write-off	Based on observable data the interest and/or principal will not be collected	Asset is written off through profit or loss to extent of expected loss

The Group recognises expected credit losses when a payment is received past its due date, even though it is received in full. Refer to

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 15 for the loss provision on loans receivable.

### **Write-off**

The Group also assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If the decrease in impairment relates to an objective event occurring after the impairment was recognised, a previously recognised impairment loss is reversed to a maximum of the amount required to carry the asset at amortised cost at the time of the reversal if no impairment had taken place while taking into consideration the expected credit losses associated to the instrument. The Group recognises in profit or loss, as an impairment gain, the amount of expected credit losses reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised under the expected credit loss model.

### **p. Accrued turnover**

Accrued turnover relates to sales made before the end of the year that have not been invoiced at the balance sheet date. Reasons for such delays include the need to determine final pricing, quantity and quality analysis. All are typical of the industry in which the Group operates.

### **q. Employee benefits**

#### **(i) Post-employment benefits**

The Group provides direct contributions to individual employee pension schemes, which are expensed to net income in the year. Accordingly, there is no significant post-employment benefit liabilities associated with the Group.

#### **(ii) Employee share incentive plan and employee share trust**

Employees of the Group receive remuneration in the form of shares of the immediate holding company Trafigura Beheer B.V. as consideration for services rendered. This is considered an equity-settled share scheme as the Company neither has a present legal nor constructive obligation to settle in cash nor has a past practice or stated policy of settling in cash.

The cost of the equity-settled transactions is measured at fair value at the grant date taking into account the terms and conditions upon which the shares were granted. This fair value is expensed over the vesting period with a corresponding credit to equity. For shares that immediately vest, the fair value is expensed in the same accounting period corresponding to the date of grant.

### **r. Provisions**

The Group recognises provisions for liabilities and onerous contracts that have been incurred as of the balance sheet date and can be reliably estimated. A provision is recognised when (i) the Group has a present

obligation (legal or constructive) as a result of a particular event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) an estimate can be made of the amount of the obligation.

Provisions for claims, disputes and legal proceedings are recorded if it is probable that the Group will be liable in a proceeding, for the estimated amount at which the liability can be settled. If the amount for which the liability can be settled cannot be reliably estimated, the claim, dispute or legal proceeding is disclosed, if it is expected to be significant.

#### **(i) Restoration, rehabilitation and decommissioning**

Restoration, rehabilitation and decommissioning costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the time such an obligation arises. The costs are charged to the statement of income over the life of the operation through depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site disturbance, which are created on an ongoing basis during production, are provided for at their net present values and charged to the statement of income as extraction progresses. If the obligation results from production (e.g. extraction of reserves) these are recognised as extraction occurs.

#### **(ii) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### **s. Accrued costs of sales and expenses**

The accrued cost of sales and expenses relate to purchases and expenses made before the year end that have not been invoiced at the balance sheet date. Reasons for such delays include the need to determine final pricing, quantity and quality analysis. All are typical of the industry in which the Group operates.

### **t. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. The following specific recognition criteria must also be met before revenue is recognised.

Revenue from the sale of goods which are transported in discrete cargoes is recognised when the significant risk and rewards of the goods have passed to the buyer, which is usually the date of the bill of lading. Revenue from the sale of goods which are transported in continuous systems is recognised when the goods have been delivered.

Revenue from the sale of goods which are consigned to counterparties on a sale-and-return basis is recognised when the goods are sold to the customers on a non-recourse basis. At these points the

quantity and the quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured.

Revenue from rendering of services is recognised in the statement of income in proportion to the stage of the rendered performance as at the balance sheet date.

#### **u. Cost of sales**

Cost of sales includes the purchase price of the products sold, as well as the costs of purchasing, storing, and transporting the products. It also includes the changes in mark to market valuation of inventories, all derivatives and forward contracts.

#### **v. Selling, general and administrative expenses**

Selling, general and administrative expenses includes the Group's corporate offices, rent and facility costs, and certain other general and administrative expenses which do not relate directly to the activities of a single business segment.

#### **w. Finance income and finance expense**

Interest income and interest expense are recognised on a time-proportion basis using the effective interest method.

#### **x. Corporate taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in statement of income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

##### **(i) Current income tax**

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The charge for taxation includes Singaporean and foreign corporate income taxation. Due to the different statutory rates applicable and non-deductible expenses, the Group effective tax charge differs from the statutory tax rate applicable in Singapore.

##### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### **(iii) Tax exposure**

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### **y. Assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

#### **z. Segments**

The Group's operating segments are established on the basis of those components of the group that are evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance.

##### **aa. Use of estimates and judgements**

The preparation of the Group's financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual outcomes could differ from those estimates. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The Group has identified the following areas as being critical to understanding the Company's financial position as they require management to make complex and/or subjective judgments and estimates about matters that are inherently uncertain.

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(i) Valuation of derivative instruments**

Derivative instruments are carried at fair value and the Group evaluates the quality and reliability of the assumptions and data used to measure fair value in the three hierarchy levels, Level 1, 2 and 3, as prescribed by IFRS 13. Fair values are determined in the following ways: externally verified via comparison to quoted market prices in active markets (Level 1); by using models with externally verifiable inputs (Level 2); or by using alternative procedures such as comparison to comparable instruments and/or using models with unobservable market inputs requiring the Group to make market based assumptions (Level 3). For more details refer to Note 27. For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**(ii) Depreciation and amortisation of mineral rights and development costs**

Mineral rights and development costs are amortised using UOP (unit of production). The calculation of the UOP rate of amortisation, and therefore the annual amortisation charge to operations, can fluctuate from initial estimates. This could generally result when there are significant changes in any of the factors or assumptions used in estimating mineral or petroleum reserves, notably changes in the geology of the reserves and assumptions used in determining the economic feasibility of the reserves. Such changes in reserves could similarly impact the useful lives of assets depreciated on a straight line basis, where those lives are limited to the life of the project, which in turn is limited to the life of the proven and probable mineral or petroleum reserves. Estimates of proven and probable reserves are prepared by experts in extraction, geology and reserve determination. Assessments of UOP rates against the estimated reserve and resource base and the operating and development plan are performed regularly. Refer to Note 11 and Note 12.

**(iii) Impairments**

Investments in associates and other investments, loans receivables and property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable or at least annually for goodwill and other indefinite life intangible assets. If an asset's recoverable amount is less than the asset's carrying amount, an impairment loss is recognised. Loans and receivables are evaluated based on collectability. Future cash flow estimates which are used to calculate the asset's fair value are based on expectations about future operations primarily comprising estimates about production and sales volumes, commodity prices, reserves and resources, operating, rehabilitation and restoration costs and capital expenditures. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management. Refer to Note 11, Note 12, Note 13 and Note 15.

**(iv) Provisions**

The amount recognised as a provision, including tax, legal, restoration and rehabilitation, contractual and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. The Group assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements. Refer to Note 24.

**(v) Restoration, rehabilitation and decommissioning costs**

A provision for future restoration, rehabilitation and decommissioning costs requires estimates and assumptions to be made around the relevant regulatory framework, the magnitude of the possible disturbance and the timing, extent and costs of the required closure and rehabilitation activities. To the extent that the actual future costs differ from these estimates, adjustments will be recorded and the statement of income could be impacted. The provisions including the estimates and assumptions contained therein are reviewed regularly by management. Refer to Note 24.

**(vi) Taxation**

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. These judgements are subject to risk and uncertainty and hence, to the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in income in the period in which the change occurs. The recoverability of deferred tax assets including the estimates and assumptions contained therein are reviewed regularly by management. Refer to Note 10.

**(vii) Determination of control of subsidiaries and joint arrangements**

Judgement is required to determine whether the Company has control or joint control, which requires an assessment of the relevant activities (those relating to establishing operating and capital decisions of the arrangement, such as: the approval of the budget including the capital expenditure programme for each year, determining the funding structure and appointing, remunerating and terminating the key management personnel or service providers of the operations) and when the decisions in relation to those activities are under the control of the Company or require unanimous consent. Judgement is also required in determining the classification of a joint arrangement between a joint venture or a joint operation through an evaluation of the rights and obligations arising from the arrangement. Differing conclusions around these judgements, may materially impact how these businesses are presented in the consolidated financial statements – under the full consolidation method, equity method or proportionate share of assets and liabilities. Refer to Note 6.

**4. OPERATING SEGMENTS**

The Group's operating businesses are organised and managed separately according to the nature of the products, with each segment representing a strategic unit that offers different products and serves different markets.

Segment results that are reported to the Group's Chief Executive Officer (CEO) (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

- The Oil and Petroleum Products segment is engaged in the sourcing, provision and storage of oil, at all stages from crude to finished products such as naphtha and gasoline. This includes the blending required to make gasoline in the various grades suitable for the different specifications relevant in different countries.
- The Metals and Minerals segment trades copper, lead, zinc, aluminium, iron ore and coal in all forms including ores, concentrates, and refined



metals. There is involvement in all the various stages from mining through smelting to the finished metal. This segment also includes the Mining group and Impala Warehousing and Logistics and includes the blending of metal concentrates, iron ore, coal and alumina, as well as warehousing and transportation.

- All other segments includes holding companies, and some smaller operating companies.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross profit, as included in the internal management reports that are reviewed by the Group's CEO. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Trafigura accounts for inter-segment sales and transfers where applicable as if the sales or transfers were to third parties, i.e. at arm's length commercial terms.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items:

	Oil and Petroleum	Metals and Minerals	All other segments	Total
2016	USD'M	USD'M	USD'M	USD'M
Revenue from external customers	63,831.3	34,266.5	—	98,097.8
<b>Gross profit</b>	<b>1,460.3</b>	<b>830.9</b>		<b>2,291.2</b>
Other income/(expenses)				(233.2)
General and administrative expenses				(946.7)
Finance income				387.0
Finance expense				(507.7)
Share of profit/(loss) of equity-accounted investees				94.3
Income tax expense				(110.2)
<b>Profit for the year</b>				<b>974.7</b>

	Oil and Petroleum	Metals and Minerals	All other segments	Total
2016	USD'M	USD'M	USD'M	USD'M
<b>Segment assets</b>				
Equity-accounted investees	2,345.6	1,109.4	9.4	3,464.4
Other assets	20,184.3	12,417.6	5,163.8	37,765.7
<b>Total segment assets</b>	<b>22,529.9</b>	<b>13,527.0</b>	<b>5,173.2</b>	<b>41,230.1</b>
<b>Segment liabilities</b>				
<b>Total segment liabilities</b>	<b>(14,678.0)</b>	<b>(10,444.0)</b>	<b>(10,261.0)</b>	<b>(35,383.0)</b>
<b>Other segment information</b>				
Capital expenditure	302.7	326.4	125.1	754.2
Depreciation and amortisation	39.8	75.3	89.6	204.7
Impairment of non-financial assets	0.8	(169.3)	—	(168.5)
Impairment of financial assets	8.0	25.5	6.3	39.8
Impairment of equity-accounted investees	—	250.0	—	250.0

	Oil and Petroleum	Metals and Minerals	All other segments	Total
2015	USD'M	USD'M	USD'M	USD'M
Revenue from external customers	65,262.7	31,973.8	—	97,236.5
<b>Gross profit</b>	<b>1,680.3</b>	<b>920.1</b>		<b>2,600.4</b>
Other income/(expenses)				(198.4)
General and administrative expenses				(994.8)
Finance income				228.5
Finance expense				(479.0)
Share of profit/(loss) of equity-accounted investees				87.8
Income tax expense				(141.1)
<b>Profit for the year</b>				<b>1,103.4</b>

	Oil and Petroleum	Metals and Minerals	All other segments	Total
2015	USD'M	USD'M	USD'M	USD'M
<b>Segment assets</b>				
Equity-accounted investees	2,091.8	1,074.5	1.2	3,167.5
Other segment assets	20,610.9	11,831.1	3,477.2	35,919.2
<b>Total segment assets</b>	<b>22,702.7</b>	<b>12,905.6</b>	<b>3,478.4</b>	<b>39,086.7</b>

<b>Segment liabilities</b>				
<b>Total segment liabilities</b>	<b>(17,720.4)</b>	<b>(7,894.1)</b>	<b>(7,814.6)</b>	<b>(33,429.1)</b>

<b>Other segment information</b>				
Capital expenditure	152.7	851.2	219.5	1,223.4
Depreciation and amortisation	40.5	114.3	64.9	219.7
Impairment of non-financial assets	—	407.3	—	407.3
Impairment of financial assets	—	14.0	—	14.0
Impairment of equity-accounted investees	2.0	45.9	—	47.9

## Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers:

	Oil and Petroleum	Metals and Minerals	Total
2016	USD'M	USD'M	USD'M
<b>Revenue from external customers</b>			
Europe	16,559.4	9,805.8	26,365.2
Asia	17,744.1	19,673.6	37,417.7
North America	13,791.3	2,348.8	16,140.1
Latin America	6,516.6	1,346.9	7,863.5
Africa	4,775.8	745.8	5,521.6
Australia	573.0	225.3	798.3
Middle East	3,871.1	120.3	3,991.4
<b>Total revenue from external customers</b>	<b>63,831.3</b>	<b>34,266.5</b>	<b>98,097.8</b>

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Oil and Petroleum	Metals and Minerals	Total
2015	USD'M	USD'M	USD'M
Revenue from external customers			
Europe	16,523.7	6,790.4	23,314.1
Asia	8,271.2	20,337.7	28,608.9
North America	10,651.1	2,762.4	13,413.5
Latin America	11,372.0	1,375.8	12,747.8
Africa	13,820.3	609.9	14,430.2
Australia	1,269.1	–	1,269.1
Middle East	3,355.3	97.6	3,452.9
<b>Total revenue from external customers</b>	<b>65,262.7</b>	<b>31,973.8</b>	<b>97,236.5</b>

### 5. ACQUISITIONS OF SUBSIDIARY AND NON-CONTROLLING INTERESTS

There were no significant transactions during the year, nor in 2015, to acquire subsidiaries or non-controlling interests.

### 6. DECONSOLIDATION OF SUBSIDIARIES

#### a. 2016

##### AEMR SA, Angola

During the second quarter of financial year 2016, the Group has reversed the impairment it had recorded in financial year 2015 of USD243.6 million in respect of the iron-ore investment in AEMR SA, Angola (AEMR). A presidential decree has been issued in February 2016 which will result in the liquidation of AEMR. The Group obtained a signed Instrument of Confession of Indebtedness (the 'Debt Instrument') from the Angolan Ministry of Finance. Under the Debt Instrument, the Angolan Ministry of Finance will assume a consolidated debt value of USD409 million to the DT Group as compensation for the investments that the DT Group has made in AEMR. The debt is payable to the Group over a period of 48 months commencing in January 2017 and has thus been recorded at a discounted value of USD357.6 million under loans receivable.

As part of this arrangement, the assets held by AEMR are in the process of being transferred to the non-controlling interest partner in AEMR (Ferrangol). As a result of the arrangement, it has been concluded that the Group no longer has control over AEMR and therefore AEMR has been deconsolidated in the Group's consolidated financial statements as per 31 March 2016. The divestment of AEMR, presented under assets held for sale, and the recognition of the receivable towards the Angolan Ministry of Finance resulted in a gain of USD264.6 million recorded in Other income split between a reversal of impairment of USD243.6 million and gain on divestment of subsidiary of USD21 million (refer to Note 8). After taking into account non-controlling interest, the net result of the impairment reversal and the divestment of AEMR attributable to owners of the company is USD72 million.

#### b. 2015

##### Minas de Aguas Teñidas (MATSA)

On 29 June 2015 the Company entered into an agreement with Mubadala Development Company to create a 50/50 joint-venture company to invest in the base metals mining sector, including copper and zinc. As part of this agreement, the Company has sold 50% of its share in Minas de Aguas Teñidas (MATSA) for a consideration of USD674 million. Mubadala's ownership became effective as of 30 September 2015, although the legal closing process was not completed until 13 October 2015. The consideration was received in 2016.

This divestment resulted in a loss of control and deconsolidation of MATSA per 30 September 2015. As of this date the investment is accounted for as an equity investment. Gains recognised in other income in relation to the divestment amount to USD289.9 million.

### 7. REVENUE

	2016	2015
	USD'M	USD'M
Sales of goods	97,722.0	96,896.3
Rendering of services	375.8	340.2
<b>Total</b>	<b>98,097.8</b>	<b>97,236.5</b>

### 8. OTHER INCOME/(EXPENSE)

	2016	2015
	USD'M	USD'M
Release/(additions) to provisions	6.7	(72.4)
Gain/(loss) on disposal of tangible and intangible fixed assets	12.4	11.3
Gain/(loss) from disposal of other investments	0.1	–
Gain/(loss) on sale of equity-accounted investees	(5.4)	0.4
Gain/(loss) on divestment of subsidiaries	20.3	139.5
Gain/(loss) on fair value through profit and loss instruments	(134.2)	34.8
Impairments of financial assets	(39.8)	(14.0)
Impairments of non-financial assets	(75.1)	(407.3)
Reversal of impairments of non-financial assets	243.6	–
Impairments of equity-accounted investees	(250.0)	(47.9)
Dividend income	0.4	0.5
Gain/loss on foreign exchange	7.1	10.6
Revaluation gain	–	147.8
Other	(19.3)	(1.7)
<b>Total</b>	<b>(233.2)</b>	<b>(198.4)</b>

In 2016 the Group entered into sale and leaseback transactions of 17 vessels which have been leased back for periods ranging between 8 – and 10 years. These sale and leaseback transactions generated a total gain of USD16.1 million which is accounted for as a gain on disposal of tangible and intangible assets.

Loss on fair value through profit and loss instruments includes USD126.7 million (2015: gain USD78.5 million) relating to a partial disposal as well as negative fair value movements of the debt securities related to Trafigura's investment in Porto Sudeste do Brasil SA.

During the regular assessment to determine asset impairment, the Group decided to record an impairment of USD42.7 million on non-financial assets related to the Group's railway operation in Colombia. Overall, the future operations and projected financial performances do not demonstrate sufficient discounted future cash flows to support the assets book values, leading to the impairment. The operations have been negatively impacted by a number of safety and security concerns, a complex economic environment and a consequent lack of sustainable profit growth in the current context.

For details on the reversal of impairments relating to non-financial assets please refer to Note 6.

The 2016 impairments of equity accounted investees consist of the impairment in Porto Sudeste. For a description of this impairment please refer to Note 13. In 2015 this item consisted mainly of an impairment of USD34.5 million in Nyrstar NV.

In 2015, Trafigura reduced its stake in Minas de Aguas Teñidas (MATSA) as described in Note 6. The gain of USD142.1 million from divestment of the 50% interest is included as a gain on divestment of subsidiaries. The gain of USD147.8 million from remeasuring the retained interest at fair value was recorded as a revaluation gain.

For details on the impairments of non-financial assets, refer to Notes 11 and 12.

For the additions to provisions we refer to Note 24.

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
	USD'M	USD'M
Depreciation and amortisation	204.7	219.7
Staff costs	513.5	504.3
General and other	228.5	270.8
<b>Total</b>	<b>946.7</b>	<b>994.8</b>

The total fees in respect to the procedures applied to the Group by Ernst & Young Accountants LLP, the Netherlands ('EY'), the external auditor, and other member firms of EY including their tax services and advisory groups amounted to USD5.7 million in 2016 (2015: USD6.6 million), which included USD0.2 million (2015: USD0.1 million) for assurance related services, USD1.2 million (2015: USD1.0 million) for tax advisory and compliance services, and USD0.2 (2015: USD nil) for transaction support services.

The financial statements audit fees include the aggregate fees in each of 2016 and 2015 financial years for professional services rendered for the audit of the Group's annual financial statements. Assurance related fees include the fees in relation to the annual statutory financial statement audit of subsidiaries or services that are normally provided by the auditor in connection with the audits. Transaction support fees relate to due diligence and assurance services in respect of potential acquisitions and/or divestitures.

Refer to Note 28, employee benefits, for a breakdown of the staff costs.

## 10. TAX

### a. Tax expense

Income tax expense recognised in the statement of income consists of the following:

	2016	2015
	USD'M	USD'M
Current income tax expense	102.0	184.4
Adjustments in relation to current income tax of previous year	(9.4)	(1.2)
Deferred tax expense/(income)	14.0	(47.6)
Withholding tax in the current year	3.6	5.5
<b>Total</b>	<b>110.2</b>	<b>141.1</b>

### b. Tax recognised in other comprehensive income

The tax credit/ (charge) relating to components of other comprehensive income and equity is as follows:

	2016	2015
	USD'M	USD'M
Tax expense/(income) on cash flow hedges	(3.3)	(5.2)
<b>Total</b>	<b>(3.3)</b>	<b>(5.2)</b>

### c. Reconciliation of effective tax rate

The Group's effective tax rate differs from the statutory income tax rate of the Singapore which was 17% in 2016 (2015: 17%).

The reconciliation between tax expense and the result of accounting profit multiplied by the Company's statutory income tax rate for the years ended 30 September 2016 and 2015 is as follows:

	2016		2015	
	USD'M	%	USD'M	%
Profit before tax	1,084.9		1,244.5	
Income tax expense at expected statutory blended tax rate	203.1	18.7%	205.5	17.8%
<b>Tax effect of adjustments to arrive at the effective income tax rate:</b>				
Effect of unrecognised and unused tax losses, not recognised as deferred tax assets	51.7		58.3	
Income exempt or subject to specific tax holidays	(141.9)		(160.7)	
Non-deductible expenses	3.1		33.7	
Adjustments in relation to income tax of previous years	(9.4)		(1.2)	
Withholding tax	3.6		5.5	
	110.2		141.1	
<b>Effective tax rate</b>		<b>10.2%</b>		<b>11.3%</b>

### d. Deferred tax assets and liabilities

	2016	2015
	USD'M	USD'M
Property, plant and equipment and other assets	(161.3)	(161.1)
Derivatives	–	13.7
Losses	96.5	152.9
Other temporary differences	(20.9)	(88.7)
<b>Deferred tax liability, net</b>	<b>(85.7)</b>	<b>(83.2)</b>

	2016	2015
	USD'M	USD'M
<b>Reflected in the consolidated balance sheet as follows:</b>		
Deferred tax assets	103.8	169.9
Deferred tax liabilities	(189.5)	(253.1)
<b>Deferred tax liability, net</b>	<b>(85.7)</b>	<b>(83.2)</b>

	2016	2015
	USD'M	USD'M
Opening balance as at 1 October	(83.2)	(171.5)
Tax expense during the period recognised in profit or loss	(13.9)	47.6
Other comprehensive income	(2.8)	5.2
Deferred taxes deconsolidated business combinations	–	107.1
Foreign currency differences and other	14.2	(71.6)
<b>Closing balance as at 30 September</b>	<b>(85.7)</b>	<b>(83.2)</b>

## FINANCIAL STATEMENTS

### F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The tax losses expire within five years (2016: USD5.1 million; 2015: USD3.3 million), more than five years (2016: USD18.4 million; 2015: USD14.0 million) or do not expire (2016: USD55.7 million; 2015: USD32.4 million). The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from.

The Group has unrecognised deferred tax assets amounting of USD78.2 million (2015: USD49.7 million).

#### e. Tax uncertainties

Trafigura operates numerous jurisdictions worldwide resulting in cross border intercompany transactions whereby the transfer pricing rules applied in one country have an impact on the results in another country.

In order to reduce transfer pricing uncertainties, transfer pricing studies are performed and reports are prepared to fulfil local transfer pricing requirements.

Due to complexity of tax rules, interpretation by local taxing authorities can differ from Trafigura's interpretation based on opinions provided by local tax counsel.

In countries where Trafigura starts new operations or alters business models, the issue of permanent establishment and profit allocation thereto may arise. The risk is that taxing authorities in multiple jurisdictions claim taxation rights over the same profit.

### 11. PROPERTY, PLANT AND EQUIPMENT

USD'M	Land and buildings	Machinery and equipment	Barges and vessels	Exploration and evaluation assets	Other fixed assets	Total
<b>Cost</b>						
Balance at 1 October 2015	805.7	462.2	648.0	–	1,180.5	3,096.4
Additions	69.1	36.4	96.8	–	506.1	708.4
Reclassifications	178.4	103.9	392.3	–	(681.7)	(7.1)
Effect of movements in exchange rates	(56.7)	(0.3)	0.8	–	2.7	(53.5)
Disposals	(27.6)	(15.3)	(483.5)	–	(63.1)	(589.5)
<b>Balance at 30 September 2016</b>	<b>968.9</b>	<b>587.0</b>	<b>654.4</b>	<b>–</b>	<b>944.4</b>	<b>3,154.7</b>
<b>Depreciation and impairment losses</b>						
Balance at 1 October 2015	171.9	247.1	88.2	–	188.8	696.1
Depreciation for the year	46.8	19.6	51.9	–	29.7	148.0
Impairment losses	7.6	5.1	3.3	–	40.2	56.2
Reclassification	0.5	11.4	(9.4)	–	(3.6)	(1.1)
Effect of movements in exchange rates	(1.1)	0.5	0.3	–	1.5	1.2
Disposals	(7.7)	(12.8)	(51.5)	–	(18.7)	(90.7)
<b>Balance at 30 September 2016</b>	<b>218.0</b>	<b>270.9</b>	<b>82.9</b>	<b>–</b>	<b>237.9</b>	<b>809.7</b>
<b>Net book value at 30 September 2016</b>	<b>750.9</b>	<b>316.0</b>	<b>571.5</b>	<b>–</b>	<b>706.6</b>	<b>2,345.0</b>

USD'M	Land and buildings	Machinery and equipment	Barges and vessels	Exploration and evaluation assets	Other fixed assets	Total
<b>Cost</b>						
Balance at 1 October 2014	955.9	591.6	443.8	387.5	1,247.5	3,626.3
Additions	148.7	39.5	66.6	2.4	839.8	1,097.0
Reclassifications	421.2	(3.1)	254.6	(152.7)	(855.7)	(335.6)
Effect of movements in exchange rates	(22.3)	(2.9)	(3.1)	–	(5.2)	(33.5)
Disposals	(10.7)	(11.8)	(113.9)	–	(12.2)	(148.6)
Divestments of subsidiaries	(687.1)	(151.1)	–	(237.2)	(33.7)	(1,109.2)
<b>Balance at 30 September 2015</b>	<b>805.7</b>	<b>462.2</b>	<b>648.0</b>	<b>–</b>	<b>1,180.5</b>	<b>3,096.4</b>
<b>Depreciation and impairment losses</b>						
Balance at 1 October 2014	216.1	165.5	59.6	–	176.8	618.0
Depreciation for the year	65.0	33.2	22.1	–	47.5	167.8
Impairment losses	18.8	105.4	–	219.5	33.5	377.2
Reclassification	(9.8)	1.8	14.4	(219.5)	(32.8)	(245.9)
Effect of movements in exchange rates	(1.0)	(2.4)	(0.1)	–	(0.9)	(4.4)
Disposals	(6.2)	(6.1)	(7.8)	–	(1.6)	(21.7)
Divestments of subsidiaries	(111.0)	(50.3)	–	–	(33.7)	(195.0)
<b>Balance at 30 September 2015</b>	<b>171.9</b>	<b>247.1</b>	<b>88.2</b>	<b>–</b>	<b>188.8</b>	<b>696.1</b>
<b>Net book value at 30 September 2015</b>	<b>633.8</b>	<b>215.1</b>	<b>559.8</b>	<b>–</b>	<b>991.7</b>	<b>2,400.3</b>



Machinery and equipment mainly consists of specialised industrial equipment.

Included in the Other fixed assets category is assets under construction, which relates to assets not yet in use. Total balance at 30 September 2016 amounted to USD618.7 million (2015: USD886.3 million). Once the assets under construction come into operation they are reclassified to the appropriate asset category and it is from that point that they are depreciated. Further other fixed assets mainly consist of small equipment, computer hardware, software licences, office equipment and refurbishment.

The net book value of property, plant and equipment acquired under finance leases at 30 September 2016 was USD38.8 million (2015: USD48.8 million).

Certain items of property, plant and equipment are pledged as collateral for an amount of USD545.9 million (2015: USD662.5 million).

Depreciation expenses are included in general and administrative expenses. Impairment charges are included in other income and expense.

During the financial year ended 30 September 2016, the Company has capitalised borrowing cost of a total amount of USD35.8 million under other fixed assets (2015: USD86.6 million) which mainly relates to the multimodal logistics and infrastructure project along the Magdalena river in Colombia. These borrowing costs are based upon a capitalisation rate of 5.50% – 8.00% of the eligible assets.

In 2016 the Group entered into sale and leaseback transactions of 17 vessels which have been leased back for periods ranging between

8 and 10 years. Under these agreements three of the vessels are still due, with delivery expected in the first and second quarter of 2017. The sale and leaseback transactions have generated proceeds in 2016 of USD449.0 million and a gain of USD16.1 million. The sale and leaseback transactions can be classified as an operational lease. The gain is accounted for under other operating income. The lease agreements are in line with market rent for longer-term charters. The future charter commitments of these leases are included in the outstanding commitments under Note 27.

During the regular assessment to determine asset impairment, the Group decided to record an impairment of USD42.7 million on non-financial assets related to the Group's railway operation in Colombia. The operations have been negatively impacted by a number of safety and security concerns, a complex economic environment and a consequent lack of sustainable profit growth in the current context. The investment has been impaired up until the value we expect to receive on the remaining asset.

In 2015, during the regular assessment in determining an indication of asset impairment or whether a previously recorded impairment may no longer be required the evaluation of projects and forecasts and mining assets resulted in an impairment charge of USD323.6 million in relation to Impala Terminals Burnside and the iron-ore investment in AEMR SA, Angola. The net result of the impairment on result attributable to owners of the company is USD167.1 million after taking into account non-controlling interests.

## 12. INTANGIBLE ASSETS

USD'M	Goodwill	Licences	Mineral rights	Other intangible assets	Total
<b>Cost</b>					
Balance at 1 October 2015	8.1	40.5	–	306.1	354.7
Additions	–	–	–	45.8	45.8
Reclassifications	–	–	–	6.7	6.7
Effect of movements in exchange rates	–	1.3	–	(3.0)	(1.7)
Disposals	–	(5.4)	–	(12.4)	(17.8)
<b>Balance at 30 September 2016</b>	<b>8.1</b>	<b>36.4</b>	<b>–</b>	<b>343.2</b>	<b>387.7</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 October 2015	2.2	1.9	–	104.8	108.9
Amortisation for the year	–	0.2	–	56.1	56.3
Impairment losses	–	5.4	–	2.0	7.4
Effect of movements in exchange rates	–	–	–	(0.9)	(0.9)
Reclassification	–	–	–	2.3	2.3
Disposals	–	(5.4)	–	(11.4)	(16.8)
<b>Balance at 30 September 2016</b>	<b>2.2</b>	<b>2.1</b>	<b>–</b>	<b>152.9</b>	<b>157.2</b>
<b>Net book value at 30 September 2016</b>	<b>5.9</b>	<b>34.3</b>	<b>–</b>	<b>190.3</b>	<b>230.5</b>

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

USD'M	Goodwill	Licences	Mineral rights	Other intangible assets	Total
<b>Cost</b>					
Balance at 1 October 2014	2.2	14.1	420.5	276.4	713.2
Acquisitions through business combinations	–	–	–	1.0	1.0
Additions	5.9	41.0	–	79.5	126.4
Reclassifications	–	2.3	(56.6)	(41.0)	(95.3)
Effect of movements in exchange rates	–	(12.4)	–	(1.5)	(13.9)
Disposals	–	(4.5)	–	–	(4.5)
Divestments of subsidiaries	–	–	(363.9)	(8.3)	(372.2)
<b>Balance at 30 September 2015</b>	<b>8.1</b>	<b>40.5</b>	<b>–</b>	<b>306.1</b>	<b>354.7</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 October 2014	2.2	3.1	84.5	90.3	180.1
Amortisation for the year	–	0.2	5.8	46.0	52.0
Impairment losses	–	1.2	20.0	1.5	22.7
Reclassification	–	0.5	(60.9)	(22.8)	(83.2)
Disposals	–	(3.1)	–	–	(3.1)
Divestments of subsidiaries	–	–	(49.4)	(10.2)	(59.6)
<b>Balance at 30 September 2015</b>	<b>2.2</b>	<b>1.9</b>	<b>–</b>	<b>104.8</b>	<b>108.9</b>
<b>Net book value at 30 September 2015</b>	<b>5.9</b>	<b>38.6</b>	<b>–</b>	<b>201.3</b>	<b>245.8</b>

Goodwill is the only intangible asset with an indefinite life. All other intangible assets are amortised as follows:

- Licence fees paid are amortised evenly over their respective periods, for which the licences have been granted, generally not exceeding 10 years;
- Other intangible assets are amortised evenly over their estimated useful economic life. Other intangibles mainly consist of software, payments made under exclusivity contracts with clients for petroleum fuels and lubricants and exploration costs.

Amortisation expenses and impairment charges are included in general and administrative expenses.

Intangible assets with finite lives are tested for impairment when impairment indicators exist. Goodwill is tested for impairment annually either individually or at the cash-generating unit (CGU) level. Annually, development costs are evaluated on a project-by-project basis by reviewing current status and project details.

For the purpose of impairment testing, goodwill is allocated to the CGUs, or groups of CGUs.

In 2015, during the regular assessment of whether there was an indication of asset impairment or whether a previously recorded impairment may no longer be required, the evaluation of projects and forecasts and mining assets resulted in impairment charges of USD20 million in relation to mining licences/mineral rights in the Central Africa Region.

**13. EQUITY-ACCOUNTED INVESTEEES**

	2016 USD'M
1 October 2015	3,167.5
Effect of movements in exchange rates	(42.5)
Additions	553.9
Disposals	(44.1)
Impairments	(250.0)
Share of net income/(loss)	94.3
Dividends received	(13.7)
Other	(1.0)
<b>30 September 2016</b>	<b>3,464.4</b>

The Group's share of profit in its equity-accounted investees for the year was a gain of USD94.3 million (2015: USD87.8 million).

In 2016, the Group received dividends of USD13.7 million from its investments in equity-accounted investees (2015: USD25.8 million).

In October 2015, Trafigura made an additional capital contribution of USD275 million in Puma Energy Holdings Pte Ltd. to enable further growth. During 2016, the company invested USD141.6 million in a copper smelting company in China. In February 2016, Trafigura subscribed to the rights offering by Nyrstar N.V. allowing it to increase its investment in Nyrstar N.V. by USD70 million. Also during 2016 Trafigura made an additional investment of USD36.9 million in PT Servo Meda Sejahtera, a coal trading partner located in Indonesia.

The reduction in equity accounted investees in 2016 was as a result of the sale of a minor stake in Puma Energy Holding Pte Ltd. of USD41.8 million. Besides that an impairment of USD250.0 million was made on Trafigura's equity investment in Porto Sudeste, as described below.

During the regular assessment to determine asset impairment or whether a previously recorded impairment may no longer be required, the Group decided that due to the continued low iron ore price environment, strong competition on logistics fees and low international freight rates, that an impairment of USD250.0 million in relation to Trafigura's investment in Porto Sudeste do Brasil SA was required. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which the company has defined as the higher of value in use and fair value less costs of disposal. As the majority of the specific assets related to Porto Sudeste do not have independent associated cash flows, Porto Sudeste represents one CGU. The recoverable amount of the property, plant, and equipment were measured based on value in use, determined using the discounted cash flow technique (level 3), where possible, market forecasts and assumptions discounted using operation specific discount factors. Discount rates used in determining the value in use were 12.6% (2015: 12.6%). The recoverable amount of the CGU was determined to be USD254 million. The value-in-use methodology inherently includes elements of judgement and estimations; including in relation to future throughput volumes and associated terminal rates. Management has made these judgements based on their best estimates and the information available. The sensitivity analyses on the valuations show that an increase/decrease in the discount rate of 0.5% has an impact on our valuation of minus USD95 million/plus USD102 million. A change in the throughput volume of the Port of 5% causes a change of USD28 million to the valuation and a change of the terminal rates of 5% has an impact of USD90 million.

Name	Place of incorporation/ registration	Activities	Percentage of equity attributable to the Group 2016	Percentage of equity attributable to the Group 2015
Buckeye Texas Partners LLC	United States	Terminalling	20.0%	20.0%
Empresa Minera del Caribe S.A.	Caribbean	Mining	49.0%	49.0%
Guangxi Jinchuan Nonferrous Metals Co., Ltd	China	Smelter	30.0%	—
Napoi Limited	Bermuda	Oil trading	49.0%	49.0%
Osmunda Limited	Isle of Man	Oil trading	—	33.0%
Porto Sudeste do Brasil S.A. (joint venture)	Brazil	Port services	47.4%	47.3%
PT Servo Meda Sejahtera	Indonesia	Coal trading	46.5%	40.0%
Puma Energy Holdings Pte. Ltd.	Singapore	Mid- and downstream oil activities	49.6%	48.6%
Transportadora Callao S.A.	Peru	Transportation	30.0%	30.0%
ATALAYA MINING PLC (previously known as EMED MINING PUBLIC LIMITED)	Cyprus	Mining	22.0%	22.0%
Nyrstar N.V.	Belgium	Mining, Metal processing	24.6%	23.7%
TM Mining Ventures, S.L. (joint venture)	Spain	Mining	50.0%	50.0%

Name	Segment	2016 USD'M	2015 USD'M
<b>Oil and Petroleum:</b>			
Puma Energy Holdings Pte. Ltd.	Oil and Petroleum	2,059.8	1,819.7
Buckeye Texas Partners LLC	Oil and Petroleum	276.0	260.9
Napoi Limited	Oil and Petroleum	8.7	8.7
Osmunda Limited	Oil and Petroleum	—	1.4
Others	Oil and Petroleum	1.1	1.1
<b>Total</b>		<b>2,345.6</b>	<b>2,091.8</b>

<b>Metals and Minerals:</b>			
TM Mining Ventures, S.L. (MATSA)	Metals and Minerals	407.3	422.2
Porto Sudeste do Brasil S.A.	Metals and Minerals	256.1	377.5
Nyrstar N.V.*	Metals and Minerals	161.9	165.3
Guangxi Jinchuan Nonferrous Metals Co., Ltd		141.7	—
ATALAYA MINING PLC (previously known as EMED MINING PUBLIC LIMITED)*	Metals and Minerals	53.8	55.8
PT Servo Meda Sejahtera	Metals and Minerals	56.2	23.3
Empresa Minera del Caribe S.A.	Metals and Minerals	16.8	16.8
Transportadora Callao S.A.	Metals and Minerals	8.7	10.5
Others	Metals and Minerals	6.9	3.1
<b>Total</b>		<b>1,109.4</b>	<b>1,074.5</b>

<b>All other segments:</b>			
Others	Corporate and Others	9.4	1.2
<b>Total</b>		<b>9.4</b>	<b>1.2</b>

**Total** 3,464.4 3,167.5

\* Listed investments. Fair value as at 30 September 2016 based upon level 1 valuation:

Nyrstar N.V.	168.7
ATALAYA MINING PLC (previously known as EMED MINING PUBLIC LIMITED)	28.8

Individually significant associate Puma Energy Holdings Pte. Ltd. is shown separate from the other associates.

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****Puma Energy Holdings Pte. Ltd.**

	2016	2015
	USD'M	USD'M
Non-current assets	5,019.1	4,645.4
Current assets	2,070.9	2,069.6
Non-current liabilities	2,916.8	2,545.6
Current liabilities	2,273.0	2,634.0
<i>The above assets and liabilities include:</i>		
Cash and cash equivalents	474.0	281.2
Current financial liabilities	475.0	645.6
Revenue	12,725.6	12,567.6
Profit/(loss) for the year	120.4	187.5
Dividends paid	—	17.0
Other comprehensive income	(109.7)	(484.2)
Total comprehensive income	10.7	(296.8)
Net assets	1,900.3	1,535.4
Trafigura's ownership interest	49.6%	48.6%
Acquisition fair value and other adjustments	1,117.3	1,074.1
Carrying value	2,059.8	1,819.7

**Other equity accounted investees**

	2016	2015
	USD'M	USD'M
Other associates		
Assets	4,683.4	3,685.8
Liabilities	3,335.6	2,502.5
Revenue	1,484.2	762.1
Profit/(loss) for the year	33.9	(2.8)

**14. PREPAYMENTS**

Under the prepayments category we account for the prepayments of commodity deliveries. The contractually outstanding prepayments amount decreases in size with each cargo that is delivered, until maturity. Once the contractually agreed total cargo has been fully delivered, the prepayment agreement falls away leaving no remaining contractual obligations on Trafigura or the supplier. As the economic benefit of the prepayments is the receipt of goods rather than the right to receive cash or another financial asset, the prepayments are not classified as a financial asset under IFRS. The Company monitors the commodity prices in relation to the prepayment contracts and manages the credit risk together with its financial assets as described in Note 27. The prepayments are split in non-current prepayments (due > 1 year) and current prepayments (due < 1 year). A portion of the long-term prepayments, as well as short-term prepayments, is on a limited recourse basis. Interest on the repayments is added to the prepayments balance.

**15. LOANS RECEIVABLE**

	2016	2015
	USD'M	USD'M
Loans to associates and related parties	433.9	251.8
Other non-current loans receivable	367.4	188.3
<b>Total</b>	<b>801.3</b>	<b>440.1</b>

Loans to associates and related parties consist of a shareholder loan receivable from Minas de Aguas Teñidas (MATSA) of USD251.8 million (2015: USD251.8 million). This loan is held to collect contractual cash flows and generates a fixed income for the Group. Also included under this line is a loan receivable from Empresa Minera del Caribe S.A. of USD140.0 million (2015: USD54.0 million under other non-current loans receivable).

In determining the impairment provision of these loans, the Group included the amount of the loans in the invested amounts in these companies under equity accounted investees. The impairment assessment of these investments has been performed on the total investments including loans issued. Based on these assessments no impairment needs to be recorded at 30 September 2016.

Other non-current loans receivable includes various loans which are granted to counterparties with which Trafigura trades. This line also includes the long-term portion (USD280.9 million) of the debt agreement with the Angolan Ministry of Finance which is further described in Note 6. Considering the diversity of these loans, Trafigura decided to assess the Expected Credit Loss ('ECL') of these loans individually based on different scenarios of probability of default ('PD') and loss given default ('LGD'). Based upon the individual analysis of these loans, the recorded expected losses on these loans amount USD2.5 million (2015: USD nil).

The Group also assessed whether the present value of the outstanding amounts assuming on time receipt, is significantly higher than the present value of the receivables that are past due. This difference was concluded to be insignificant.

**16. OTHER INVESTMENTS**

	2016	2015
	USD'M	USD'M
Listed equity securities – Fair value through OCI	97.6	145.3
Listed debt securities – Fair value through profit or loss	327.0	528.3
Unlisted equity investments – Fair value through profit and loss	59.4	71.2
Unlisted equity investments – Fair value through OCI	56.3	64.4
<b>Total</b>	<b>540.3</b>	<b>809.2</b>

The Group's long-term investments consist of listed equity securities, listed debt securities and unlisted equity securities. The listed equity securities have no fixed maturity or coupon rate. The fair values of listed equity investments are based on quoted market prices while the fair value of the unlisted equity securities is determined based on a Level 3 valuation as prepared by management.

The decrease in other investments is mainly due to the sale of the listed Pacific Exploration and Production shares (USD73.3 million), the partial sale of the debt instrument related to Porto Sudeste (USD91.7 million) and downward valuation of USD125.9 million based upon level 3 valuation of the same debt instruments.

The listed debt securities consist of a financial instrument related to the investment in Porto Sudeste do Brasil SA which is accounted for under equity accounted investees in Note 13. These instruments are held to collect cash flows. Since the payments on these debt instruments are dependent on the port's throughput, they are classified as fair value through profit or loss. Since the free float of these listed debt instruments is extremely thin and in the absence of normal market activity, it has been concluded that no active market exists and therefore the fair value is determined using a level 3 valuation. The holders of the instrument will be directly dependent on the business risk of Porto Sudeste. Therefore the fair value of this instrument is based on a discounted cash flow calculation using the business plan of Porto



Sudeste. Revenues are calculated over a period ending in 2064 and are held constant from 2022 onwards. In this calculation management used a discount rate of 12.6% (2015: 12.6%). Due to the limited liquidity of the port asset, a discount factor of 26% is applied (2015: 38%) relating to the lack of marketability. This input is based on a put option model and volatilities of comparable companies. Due to the adjustments made in the projections of the throughput of the Port in 2016, an impairment has been recorded on our investment in Porto Sudeste (see Note 13). As a consequence, the level 3 valuation of the debt securities also decreased which led to a downward valuation on the debt securities of USD125.9 million. The sensitivity analysis on this valuation shows that an increase/decrease of the discount rate by 0.5% has an impact on our valuation of USD23 million. A change in the discount due to lack of marketability by 5% has an effect of USD21 million on the valuation.

Throughout the financial year, no dividend has been recognised related to the equity securities held at 30 September 2016. The net change in fair value in equity securities measured at fair value through other comprehensive income ('OCI') was negative USD31.7million (2015: negative USD91.9 million). A cumulative loss of USD66.0 million (2015: USD52.1 million) was transferred within equity from OCI to retained earnings due to disposals and the reclassification of items to equity-accounted investees.

## 17. INVENTORIES

	2016	2015
	USD'M	USD'M
Carrying amount		
Storage inventories	7,069.1	4,961.4
Floating inventories	4,455.7	2,633.8
Supplies	12.9	19.2
<b>Total</b>	<b>11,537.7</b>	<b>7,614.4</b>

As at 30 September 2016 (and 30 September 2015) all of the inventory has either been pre-sold or hedged. The Group is committed to financing its day-to-day trading activity through self-liquidating transactional lines, whereby the financing banks retain security on the goods purchased. The percentage of total inventories financed in this way is carefully monitored.

## 18. TRADE AND OTHER RECEIVABLES

	2016	2015
	USD'M	USD'M
Trade debtors	6,725.7	5,787.4
Provision for bad and doubtful debts	(56.6)	(43.5)
Accrued turnover	5,403.7	4,554.2
Broker balances	1,212.1	380.9
Other debtors	333.2	851.3
Loans to third parties	217.3	694.1
Loans to related parties	104.2	284.4
Other taxes	222.5	193.7
Prepaid expenses	147.2	165.4
Related parties	890.6	1,034.4
<b>Total</b>	<b>15,199.9</b>	<b>13,902.3</b>

All financial instruments included in trade and other receivables are held to collect the contractual cash flows. Furthermore, the cash flows that the Group receives on these instruments are solely payments of principal and interest.

Of the USD6,725.7 million trade debtors, USD1,516.0 million (2015: USD1,038.8 million) had been sold on a non-recourse basis under the securitisation programme. Refer to Note 19. As at 30 September 2016, 17.7% (2015: 14.6%) of receivables were between 1-60 days overdue, and 17.8% (2015: 11.9%) were greater than 60 days overdue. Most of the overdue amounts are related to state owned counterparties. Such receivables, although contractually past their due dates, are not considered impaired as there has not been a significant change in credit quality of the relevant counterparty, and the amounts are still considered recoverable taking into account customary payment patterns and in many cases, offsetting accounts payable balances. Trafifigura applied the simplified method in assessing expected credit losses. The accounts receivables have been divided in aging buckets and based on a historical analysis on defaults and recovery rates a percentage for expected credit losses has been determined. Trafifigura manages to limit credit losses by renegotiating contracts in the case of a default. From the above analysis, an expected credit loss as at 30 September 2016 of USD5.9 million has been taken into account (30 September 2015: USD nil). The provision for doubtful debtors at 30 September 2016 amounts to USD56.6 million (2015: USD43.5 million). The primary character of this provision is that it is in line to resolve demurrage claims and commercial disputes with our clients. Accrued turnover represent receivable balances for sales which have not yet been invoiced. They have similar risks and characteristic as trade debtors. Trade debtors and accrued turnover have similar cashflow characteristics and are therefore considered to be a homogeneous group of financial assets.

## 19. SECURITISATION PROGRAMME

The Group operates a Securitisation Programme which enables the Group to sell eligible receivables. The securitisation vehicle, Trafifigura Securitisation Finance plc., is consolidated as part of the Group and consequently the receivables sold to the programme are included within the consolidated trade debtor balances.

Over time the external funding has increased significantly in size while incorporating a longer term committed funding element, principally through the issuance of Medium Term Notes (MTN), as well as retaining a significant proportion of variable funding purchased by bank sponsored conduits.

As at 30 September 2016, the maximum available amount of external funding of the programme was USD1,888 million (2015: USD2,133 million). The utilised external funding of the programme as at 30 September 2016 was USD1,485 million (2015: USD1,258 million).

The available external funding of the securitisation programme consists of:

			2016	2015
	Interest rate	Maturity	USD'M	USD'M
AAA MTN	Libor + 0.95%	2017 – October	279.0	279.0
BBB MTN	Libor + 2.25%	2017 – October	21.0	21.0
AAA VFN	See note below	Various throughout the year	1,425.4	1,644.3
BBB VFN	See note below	Various throughout the year	107.2	123.4
Senior subordinated debt	Libor + 4.25%	2017 – March	55.4	65.7
<b>Total</b>			<b>1,888.0</b>	<b>2,133.4</b>

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****a. Interest rate note**

The rate of interest applied to the AAA Variable Funding Notes is defined in the securitisation facility documentation and is principally determined by the demand for Commercial paper issued by six bank-sponsored conduits. The Group benchmarked the rate provided against overnight Libor. In the case of the rate of interest applicable to the BBB Variable Funding Notes, the rate of interest is principally determined by the liquidity of the interbank market.

**b. Maturity note**

The maturity of the AAA Variable Funding Notes has been staggered so as to diversify the maturity profile of the AAA funding. This aims to mitigate the 'liquidity wall' risk associated with a single maturity date for a significant funding amount.

**20. CASH AND CASH EQUIVALENTS**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents approximates the carrying value. An amount of USD43.1 million (2015: USD34.0 million) of cash at bank is restricted and can be collected when fixed asset construction invoices are presented to the banks.

	2016	2015
	USD'M	USD'M
Cash at bank and in hand	2,786.4	3,116.1
Short-term deposits	355.5	418.1
<b>Total</b>	<b>3,141.9</b>	<b>3,534.2</b>

As at 30 September 2016, the Group has USD8.0 billion (2015: USD7.8 billion) of committed revolving credit facilities of which USD3.2 billion (2015: USD3.2 billion) remained unutilised. The Group had USD2.0 billion (2015: USD1.8 billion) of immediately (same day) available cash in liquidity funds. The Group had immediate access to available liquidity balances from liquidity funds and corporate facilities in excess of USD5.2 billion (2015: USD4.9 billion). Short-term deposits made for periods longer than three months are separately shown in the statement of financial position and earn interest at the respective short-term deposit rates.

**21. CAPITAL AND RESERVES****a. Share capital**

As at 30 September 2016 the company has 25,000,000 ordinary shares outstanding and a capital of USD1,504 million. During 2016 no changes took place in the outstanding share capital.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

**b. Capital contribution reserve**

The capital contribution reserve relates to share capital and share premium of investments in subsidiaries contributed by the parent company to the Company. The contributions of these subsidiaries qualified as transactions under common control and have been accounted for under the pooling method of accounting. Under the pooling method of accounting the subsidiaries contributed have been consolidated in the Company's financial statements as if they were included in the Company's group structure as at the opening balance sheet of 1 October 2013. At the date of actual contribution by the parent company to the Company, any amount paid in excess of the carrying value of the subsidiary at the date of transfer has been recorded as a reduction in retained earnings. In 2016 an adjustment was made on the 2015 acquisitions of subsidiaries from the parent company of USD6.5 million.

**c. Capital Securities**

As part of the financing of the Company and its subsidiaries, the Company has taken over two capital securities instruments from its immediate parent Trafigura Beheer B.V. at the carrying value of USD640.6 million with a par value of SGD200 million and USD500 million. This substitution of issuer and subsequent transfer is in accordance with the trust deed of the SGD200 million and USD500 million capital securities.

The SGD200 million capital security was originally issued in February 2014. The distribution on the security is 7.5% and is listed on the Singapore Stock Exchange. The capital security may be redeemed at the Company's option in whole, but not in part, on the distribution payment date in February 2019 or any distribution date thereafter on not less than 30 and not more than 60 days' notice to the holders.

The USD500 million capital security was originally issued on 19 April 2013. The distribution on the capital security is 7.625% per annum and it is listed on the Singapore Stock Exchange. The capital security may be redeemed at the Company's option in whole, but not in part, on the distribution payment date in April 2018 or any distribution date thereafter on not less than 30 and not more than 60 days' notice to the holders.

The securities are perpetual in respect of which there is no fixed redemption date. The distribution on the capital securities is per annum, payable semi-annually in arrears every six months from the date of issue. The company may elect to defer (in whole but not in part) any distribution in respect of these capital securities.

In the event of a winding-up, the rights and claims of the holders in respect of the capital securities shall rank ahead of claims in respect of the Company's shareholders, but shall be subordinated in right of payment to the claims of all present and future unsubordinated obligations, except for obligations of the Company that are expressed to rank pari passu with, or junior to, its obligations under the capital securities.

According to the trust deed obligations of the Substitute under the Securities and the Coupons shall be unconditionally and irrevocably guaranteed by Trafigura Group Pte. Ltd.

#### d. Currency translation reserve

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

#### e. Revaluation reserve

The revaluation reserve comprises the fair value measurements movements of the equity investments which are accounted for at fair value through other comprehensive income. On realisation of these gains or losses, for example the sale of an equity instrument, the cumulative amounts of this reserve are transferred to retained earnings. Included in the revaluation reserve is a loss of USD23.0 million (2015: USD57.3 million) related to the mark to market valuation of equity investments.

#### f. Cash flow hedge reserve

Included in the cash flow hedge reserve is a gain of USD14.1 million (2015: USD27.8 million loss) related to the effective portion of the changes in fair value of cash flow hedges, net of tax.

#### g. Retained earnings

Retained earnings comprise the share-based payment reserves and revaluation reserves.

#### h. Dividends

The value of the dividends declared on the ordinary shares amounts to USD719.1 million representing USD28.8 per share.

## 22. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interest is provided below. The information is based on amounts before intercompany eliminations.

The Company has control over DTS Holdings Pte Ltd with a 50% equity interest (2015: 50%). DTS Holdings PTE Ltd is a business venture between Trafigura and Cochan and is the main holding company of the DT Group. The DT Group's activities span trading, shipping, infrastructure, asset management, logistics and mining. Summarised statement of income:

	2016	2015
	USD'M	USD'M
Revenue	1,617.7	3,876.2
Cost of sales	(1,533.4)	(3,725.2)
General and administrative expenses	(18.2)	(33.0)
Other income/expense	263.4	(244.3)
Net financing income/expense	8.9	(3.6)
<b>Profit/(loss) before tax</b>	<b>338.4</b>	<b>(129.9)</b>
Income tax expense	(2.1)	(7.1)
<b>Profit/(loss) for the period</b>	<b>336.3</b>	<b>(137.0)</b>
Attributable to non-controlling interest	226.4	(124.0)

The OCI related to non-controlling interest is disclosed in the consolidated statement of changes in equity.

During 2016, DTS Holdings Pte. Ltd. paid no dividend (2015: USD200 million).

Summarised statement of financial position as at 30 September:

	2016	2015
	USD'M	USD'M
Total non-current assets	428.7	267.6
Total current assets	1,659.6	1,524.5
Total non-current liabilities	(5.5)	(9.1)
Total current liabilities	(1,494.5)	(1,534.6)
<b>Total equity</b>	<b>588.3</b>	<b>248.4</b>
Attributable to		
Non-controlling interests	292.3	65.8
Owners of the Company	296.0	182.6

## 23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 27.

	2016	2015
	USD'M	USD'M
Carrying value of loans and borrowings		
<b>Non-current</b>		
Revolving credit facilities	3,960.0	4,160.0
Private placements	331.0	331.0
Eurobond	1,231.7	1,296.6
Other loans	1,685.0	1,469.5
Finance leases	26.5	32.6
<b>Total non-current</b>	<b>7,234.2</b>	<b>7,289.7</b>
<b>Current</b>		
Revolving credit facilities	685.0	215.0
Private placements	–	44.0
Other loans	364.6	335.4
Finance leases	12.3	16.2
Short-term bank borrowings	16,971.1	14,057.6
<b>Total current</b>	<b>18,033.0</b>	<b>14,668.2</b>
<b>Total</b>	<b>25,267.2</b>	<b>21,957.9</b>

## FINANCIAL STATEMENTS

### F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### a. Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Principal	Interest	Maturity	Floating/fixed rate debt	0-1 year USD'M	1-5 years USD'M	> 5 years USD'M	Total USD'M
<b>Revolving credit facilities</b>								
USD	3,190.0	Libor + 0.85%	2019 – March	Floating	–	2,810.0	–	2,810.0
USD	1,910.0	Libor + 0.65%	2017 – March	Floating	250.0	–	–	250.0
USD	435.0	Libor + 1.70%	2016 – October	Floating	435.0	–	–	435.0
USD	435.0	Libor + 1.30%	2017 – October	Floating	–	435.0	–	435.0
USD	625.0	Libor + 1.10%	2018 – October	Floating	–	625.0	–	625.0
USD	90.0	Libor + 2.35%	2018 – October	Floating	–	90.0	–	90.0
					685.0	3,960.0	–	4,645.0
<b>Private placements</b>								
USD	88.0	6.50%	2018 – April	Fixed	–	88.0	–	88.0
USD	98.0	7.11%	2021 – April	Fixed	–	98.0	–	98.0
USD	36.0	4.38%	2018 – March	Fixed	–	36.0	–	36.0
USD	51.5	4.89%	2020 – March	Fixed	–	51.5	–	51.5
USD	57.5	5.53%	2023 – March	Fixed	–	–	57.5	57.5
					–	273.5	57.5	331.0
<b>Eurobonds</b>								
EUR	593.0	5.25%	2018 – November	Fixed	–	669.0	–	669.0
EUR	500.8	5.00%	2020 – April	Fixed	–	562.7	–	562.7
					–	1,231.7	–	1,231.7
<b>Other loans</b>								
USD	279.0	Libor + 0.95%	2017 – October	Floating	–	279.0	–	279.0
USD	21.0	Libor + 2.25%	2017 – October	Floating	–	21.0	–	21.0
USD	150.0	Libor + 2.65%	2020 – September	Floating	21.5	107.9	–	129.4
USD	200.0	Libor + 3.15%	2022 – March	Floating	12.3	153.1	7.1	172.5
USD	55.5	Libor + 4.25%	2017 – March	Floating	55.5	–	–	55.5
JPY	50,500.0	Libor + 1.0%	2019 – March	Floating	–	498.3	–	498.3
USD	200.0	6.33%	2036 – July	Fixed	5.3	23.1	171.7	200.1
EUR	150.0	Euribor + 0.9%	2017 – January	Floating	167.7	–	–	167.7
EUR	200.0	5.50%	2020 – July	Fixed	–	224.7	–	224.7
USD	30.0	Libor + 3.25%	2018 – March	Floating	–	30.0	–	30.0
USD	60.0	Libor + 1.6%	2017 – March	Floating	47.3	–	–	47.3
USD	120.0	Libor + 4%	2021 – August	Floating	20.0	80.0	5.0	105.0
MXN	415.7	Libor + 5.70%	2023 – June	Floating	3.2	14.1	5.7	23.0
USD	39.6	Libor + 2.95%	2019 – October	Floating	3.5	21.3	–	24.8
Various					28.4	41.0	1.9	71.3
					364.7	1,493.5	191.4	2,049.6
Finance leases					12.3	26.5	–	38.8
<b>Total</b>					<b>1,062.0</b>	<b>6,985.2</b>	<b>248.9</b>	<b>8,296.1</b>

For long-term assets pledged under loans and borrowings agreements, refer to Note 11 (Property, plant and equipment).

Finance lease commitments are principally for machinery and equipment. Original terms range from two years to five years, some containing renewal options.

At the time of entering into finance lease agreements, the commitments are recorded at their present value using the interest rate then applicable for long-term funding. At 30 September 2016, existing finance lease commitments are recorded at the remaining present value using the interest rate applied at commencement of the lease.

#### 24. PROVISIONS

The carrying amount of provisions made is as follows:

	2016 USD'M	2015 USD'M
<b>Carrying amount of provisions</b>		
Opening balance 1 October	83.9	23.9
Additions	7.1	74.5
Amount charged against provisions	(10.5)	(0.8)
Unwinding of discount	0.4	3.9
Remeasurements and other movements	(11.6)	(1.1)
Divestments of subsidiaries	–	(16.5)
<b>Closing balance 30 September</b>	<b>69.3</b>	<b>83.9</b>
Non-current portion	13.3	9.8
Current portion	56.0	74.1
<b>Closing balance 30 September</b>	<b>69.3</b>	<b>83.9</b>



Provisions consist of Decommissioning, rehabilitation and restoration USD10.9 million (2015: USD10.0 million), Litigation, disputes USD45.5 million (2015: USD45.5 million), Onerous contracts USD5.0 million (2015: USD20.0 million) and others USD7.9 million (2015: USD8.4 million).

Provisions for decommissioning, rehabilitation and restoration costs are recognised due to the environmental commitment the Group has made with local authorities and for its obligations to undertake site reclamation and remediation in connection with its mining activities. Provisions for litigation and disputes at 30 September 2016, relate to two situations connected with the Company's trading and storage activities in China. Further information is presented in Note 26. Under the Onerous contracts the wind up of some long-term lease contracts are accounted for as well as onerous capital expenditure commitments. The expected outflow of resources is mainly to happen within one year.

## 25. TRADE AND OTHER PAYABLES

	2016	2015
	USD'M	USD'M
Trade creditors	2,100.3	2,368.1
Accrued costs of sales and expenses	6,825.4	6,593.6
Broker balances	18.3	520.8
Related parties	8.5	3.8
<b>Total</b>	<b>8,952.5</b>	<b>9,486.3</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

## 26. CONTINGENCIES AND COMMITMENTS

The following contingent liabilities exist in respect of trade financing:

	2016	2015
	USD'M	USD'M
Letters of credit	4,702.3	3,840.7
Guarantees	312.7	151.8
<b>Total</b>	<b>5,015.0</b>	<b>3,992.5</b>

The Company and its subsidiaries are parties to a number of legal claims and proceedings arising out of their business operations. The Company believes that the ultimate resolution of these claims and proceedings will not, in the aggregate, have a material adverse effect on The Company's financial position, consolidated income or cash flows. Such legal claims and proceedings, however, are subject to inherent uncertainties and the outcome of individual matters is unpredictable. It is possible that the Company could be required to make expenditures, in excess of established provisions, in amounts that cannot reasonably be estimated.

As reported in the press, at certain warehouses in China, notably for the Company at Qingdao, Pinglai and Yingkou, there have been rumours that fraudulent warehouse certificates are in circulation. The Company's subsidiary Impala has issued warehouse certificates, and also has a limited number of collateral management agreements in place, regarding metal stored at these locations. The position remains that it has not been possible to independently verify the quantity and ownership of the metal stored at these locations and consequently legal proceedings have been commenced in England and China relating to ownership of the metal and potential liabilities regarding the storage

arrangements. In view of the uncertainties surrounding (a) the volume of material in the warehouses; (b) its correct ownership; and (c) the approach the majority of the customers will ultimately take, it remains premature to speculate on Impala's likely net total exposure in relation to this matter. Looking at hypothetical yet realistic scenarios, it is considered unlikely that a potential liability for Impala would be material for the Group.

The Company has a potential financial exposure resulting from certain oil trading and risk management activities of its counterparty's representative. These activities are the subject of on-going actions, claims and disputes against the Company. The underlying circumstances regarding these actions, claims and disputes are complex and opaque and consequently how these disputes and actions will be resolved is uncertain.

Guarantees include guarantees to trading partners in the normal course of the business. In addition the Company has given a financial guarantee on the full recourse tranches of the syndicated bank facility held by Trafigura Investment Sarl. This company holds a USD1 billion prepayment facility in favour of Rosneft which was syndicated with a pool of international banks. The shares of Trafigura Investment Sarl are held by an independent Foundation incorporated in the Netherlands in which Trafigura has no control and thus has been deconsolidated since 30 September 2014. The maximum exposure under this guarantee as of 30 September 2016 amounted to USD285 million (2015: USD300 million). The expiry of this guarantee is September 2018.

The Company had outstanding commitments at the end of 30 September 2016 and 30 September 2015 as follows:

	2016	2015
	USD'M	USD'M
Storage rental	2,731.5	2,759.0
Time charters	1,133.3	1,176.8
Office rent	122.8	156.1
	<b>3,987.6</b>	<b>4,091.9</b>
Assets under construction	378.4	671.0
<b>Total</b>	<b>4,366.0</b>	<b>4,762.9</b>

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
	USD'M	USD'M
Less than one year	1,222.3	1,210.2
Later than one year and less than five years	2,340.6	2,302.6
Later than five years	424.7	579.1
<b>Total</b>	<b>3,987.6</b>	<b>4,091.9</b>

Amount under Assets under construction includes an amount of USD236.5 million (2015: USD421.5 million) as commitments for vessels under construction.

## 27. FINANCIAL INSTRUMENTS

### a. Financial risk management

The Group is exposed to a number of different financial risks arising from normal business exposures as well as its use of financial instruments including: market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk.

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Prudently managing these risks is an integral element of Trafigura's business and has been institutionalised since the Group's foundation. Risk management guidelines are established at senior management level. The various risks the Group is exposed to are managed through a combination of internal procedures, such as strict control mechanisms and policies, as well as external third parties such as the derivative, insurance and bank markets. As a rule, Trafigura actively manages and lays off where possible a large majority of the risks inherent to its activity. Trafigura's conservative risk management process is designed to:

- Provide a full and accurate awareness of risks throughout the Group.
- Professionally evaluate and monitor these risks through a range of risk metrics.
- Limit risks via a dynamic limit setting framework.
- Manage risks using a wide range of hedging instruments and strategies.
- Ensure a constant dialogue between trading desks, risk managers and senior management.

The three main, reinforcing, components of Trafigura's risk management process are the Chief Risk Officer (CRO), the Derivatives Trading Committee, and the trading teams.

The Chief Risk Officer is independent of the revenue-producing units and reports to the Chief Operating Officer and the Management Board. The CRO has primary responsibility for assessing and monitoring Trafigura's market risks. The CRO's team liaise directly with the trading teams to analyse new opportunities and ensure that risk assessments adapt to changing market conditions. The CRO's team also ensures Trafigura's risk management capabilities incorporate ongoing advances in technology and risk management modelling capabilities.

The Derivatives Trading Committee, which is comprised of members of the Management Board and the Chief Risk Officer is responsible for applying Trafigura's risk management capabilities towards improving the overall performance of the Group. In 2016, the Derivatives Trading Committee met weekly to discuss and set risk and concentration limits, review changing market conditions, and analyse new market risks and opportunities.

Trafigura's trading teams provide deep expertise in hedging and risk management in the specific markets each team operates in. While the trading teams have front line responsibility for managing the risks arising from their activities, our process ensures a strong culture of escalation and accountability, with well-defined limits, automatic notifications of limit overages and regular dialogue with the CRO and Derivatives Trading Committee.

### b. Market risk

Market risk is the risk of loss in the value of Trafigura's positions due to changes in market prices. Trafigura holds positions primarily to ensure our ability to meet physical supply commitments to our customers, to hedge exposures arising from these commitments, and to support our investment activities. Our positions change due to changing customer requirements and investment opportunities. The value of our positions is accounted for at fair value and therefore fluctuates on a daily basis due to changes in market prices. Categories of market risk we are exposed to include:

- Commodity price risk results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, base metals, coal and iron ore.
- Currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Interest rate risk results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, and credit spreads.
- Equity price risk results from exposures to changes in prices and volatilities of individual equities and equity indices.

Trafigura hedges a large majority of price risks arising from its activities. When there is a difference in the characteristics of available hedging instruments and the corresponding commodity price exposures, Trafigura remains exposed to a residual price risk referred to as basis risk. Dynamically managing the basis risk that arises from Trafigura's activities requires specialist skills and is a core focus of our trading and risk management teams.

### Value at Risk

Value at Risk (VaR) is a statistical estimate of the potential loss in value of our positions and unsold in-transit material due to adverse market movements. Trafigura calculates VaR over a one-day time horizon with a 95% confidence level. We use an integrated VaR model which captures risks including commodity prices, interest rates, equity prices and currency rates. Trafigura's integrated VaR model facilitates comparison of VaR across portfolios comprised of a range of different risk exposures.

As of 30 September 2016, Trafigura's one day market risk VaR was USD4.5 million (2015: USD6.0 million). Average market risk VaR (1 day 95%) during the fiscal year was USD6.3 million compared to USD9.3 million in the previous fiscal year. Trafigura's Management Board has set a target of maintaining VaR (1 day 95%) below 1% of Group equity.

Trafigura is aware of the inherent limitations to VaR and therefore uses a variety of risk measures and risk management techniques to create a robust risk management process. Limitations of VaR include:

- VaR does not estimate potential losses over longer time horizons where the aggregate moves may be extreme.
- VaR does not take account of the liquidity of different risk positions and therefore does not estimate the losses that might arise if Trafigura liquidated large positions over a short period of time.
- VaR is based on statistical analysis of historical market data. If this historical data is not reflective of futures market prices movements, VaR may not provide accurate predictions of future possible losses.

Trafigura's VaR calculation covers its trading businesses in the crude oil, refined oil products, petrochemical, natural gas, metals, concentrates, coal, iron ore, and freight markets and assesses the open-priced positions which are those subject to price risk, including inventories of these commodities. Trafigura's VaR model is based on historical simulations, with full valuation of more than 5,000 market risk factors.

VaR is calculated based on simultaneously shocking these risk factors. More recent historical price data is more heavily weighted in these simulations, which enables the VaR model to adapt to more recent market conditions and improves the accuracy of our estimates of potential losses.

Trafigura's VaR model utilises advanced statistical techniques that incorporate the non-normal price dynamics that are an important feature of commodity markets. Our VaR model is continuously and automatically calibrated and back-tested to ensure that its out-of-sample performance adheres to well defined targets. In addition, our VaR model is regularly updated to ensure it reflects the current observed dynamics of the markets Trafigura is active in.

Trafigura has made a significant, ongoing investment in risk management systems, including a reporting system which automatically distributes customised risk reports throughout the Group on a daily basis. These reports provide up-to-date information on each team's risk using industry standard measures such as 95% and 99% Value at Risk and performance indicators such as Sharpe ratios.

All trading books have well defined VaR risk limits and management and the trading teams are automatically notified whenever a book nears its risk limit, as well as whenever a VaR overage occurs. In addition, Trafigura's deals desk management team is automatically notified whenever statistically anomalous changes occur in the profit and loss of any deal.

For senior management, the daily reports provide a comprehensive view of Trafigura's risk, classified according to various risk factors. These reports emphasise the risk diversification created by the Group's varied activities and highlight any excessive risk concentrations.

### c. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument or physical contract fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Company has a formalised credit process with credit officers in the key locations around the world. Strict credit limits are set up for each counterparty on the basis of detailed financial and business analysis. These limits are constantly monitored and revised in light of counterparty or market developments and the amount of exposure relative to the size of the Group's balance sheet. The Company makes extensive use of the banking and insurance markets to cover any counterparty or country risks that are in excess of its credit limits.

The risk management monitoring and decision-making functions are centralised and make extensive use of the Company's integrated bespoke IT system. The Company conducts transactions with the following major types of counterparties:

- Physical commodity counterparties spread across the vertical chains for both oil and bulk, e.g. producers, refiners/smelters and end-users. Sales to investment grade and non-investment grade counterparties are made on open terms up to internally approved credit limits. Exposures above such limits are subject to payment guarantees.
- Payment guarantee counterparties, i.e. prime financial institutions from which the Company obtains payment guarantees.
- Hedge counterparties comprising a number of prime financial institutions and physical participants in the relevant markets. There is no significant concentration of risk with any single counterparty or group of counterparties. Collateral is obtained from counterparties when the Company's exposure to them exceeds approved credit limits. It is the Company's policy to have ISDA Master Agreements or ISDA-based Long-Form Confirmation Agreements in place with all hedging counterparties.

The Company trades in all major geographic regions. Where appropriate, guarantees, insurance and letters of credit are used to reduce payment or performance risk. The Company has gross credit exposure in locations across the world with a concentration in emerging markets. Most of this exposure is laid off with third parties while the Company retains between 10 to 20% on average of the individual exposures.

The Company's maximum exposure to credit risk, without considering netting agreements or without taking into account of any collateral held or other credit enhancements, is equal to the carrying amount of Trafigura's financial assets as indicated in the balance sheet plus the guarantees to third parties and associates. The Company's objective is to seek continued revenue growth while minimising losses incurred due to increased credit risk exposure.

The Group has amounts and guarantees outstanding related to countries that are impacted by sanctions currently imposed by the US and EU. The Group analysed the sanctions and exposures and concluded that these do not materially impact the Group's positions.

#### **(i) Concentration of credit risk**

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the Company's counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The carrying amount of financial assets represents the maximum credit exposure. The Company determines concentrations of credit risk by monitoring the country profile of its third-party trade receivables on an ongoing basis.

Trafigura has a diverse customer base, with no customer representing more than 5.3% (2015: 6.0%) of its revenues over the year ended 2016.

Refer to Note 18 for the aging of trade and other receivables at the reporting date that were not impaired.

#### **(ii) Financial assets that are neither past due nor impaired**

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Company. Cash and cash equivalents and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default. The credit quality of trade and other receivables is assessed based on a strict credit policy. The Group has monitored customer credit risk, by grouping trade and other receivables based on their characteristics.

Based on the Group's monitoring of customer credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

#### **Financial assets that are either past due or impaired**

Information regarding financial assets that are either past due or impaired is disclosed in Note 18 (Trade and other receivables).

#### **(iii) Guarantees**

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As part of the Group's ordinary physical commodity trading activities, Trafigura Group PTE Ltd. may act as guarantor by way of issuing guarantees accepting responsibility for subsidiaries' contractual obligations.

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### d. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash and cash equivalents and ready sources of committed funding available to meet anticipated and unanticipated funding needs. Sound financial management with a focus on liquidity has been instrumental to the Group's success. The Company has demonstrated the ability to raise the appropriate types of financing to match the needs of the business and to tap various investor bases (e.g. syndicated loan markets, trade finance markets, bond markets, USPP, securitisation etc.), maturities and geographies.

The Company manages its treasury and liquidity risks maintaining a strong liquidity position through the following:

- Targeting immediately-available cash on hand of minimum USD500 million under normal conditions (higher in the case of extreme volatility);

- Maintaining bilateral lines which allow the Group to mark-to-market financings to the value of the underlying physical assets. Mark to market financing is performed weekly (or intra-weekly in the case of extreme volatility) and provides an additional source of liquidity which is not available to competitors which are financed purely from revolving credit facilities;
- Committed unsecured credit facilities;
- Maintaining headroom under bilateral trade finance lines and committed revolving credit facilities; and
- Limited distribution of profit (significant retained earnings) and subordination of repurchased equity.

The Group provided a financial guarantee for an amount of USD285 million as of 30 September 2016 (2015: USD300 million) that will expire in 2018.

The maturity analysis of the Groups financial liabilities based on the contractual terms is as follows:

	Total	0-1 years	1-5 years	> 5 years
	USD'M	USD'M	USD'M	USD'M
<b>30 September 2016</b>				
Financial liabilities				
Current and non-current loans and borrowings	25,267.2	18,033.0	6,985.3	248.9
Trade and other payables	8,952.5	8,952.5	—	—
Expected future interest payments	835.7	214.5	420.6	200.6
Derivative financial liabilities	658.9	421.2	230.7	7.0
<b>Total financial liabilities</b>	<b>35,714.3</b>	<b>27,621.2</b>	<b>7,636.6</b>	<b>456.5</b>

	Total	0-1 years	1-5 years	> 5 years
	USD'M	USD'M	USD'M	USD'M
<b>30 September 2015</b>				
Financial liabilities				
Current and non-current loans and borrowings	21,957.9	14,668.2	6,742.8	546.9
Trade and other payables	9,486.3	9,486.3	—	—
Expected future interest payments	950.7	208.7	511.5	230.5
Derivative financial liabilities	1,377.4	1,204.1	171.7	1.6
<b>Total financial liabilities</b>	<b>33,772.3</b>	<b>25,567.3</b>	<b>7,426.0</b>	<b>779.0</b>

### e. Interest rate risk

Trafigura is not exposed to significant interest rate risk. Interest rate risk of the Group is mainly applicable on the long-term funding of the Group, although a majority of debt, whether long-term or short-term, is floating rate.

At 30th September 2016, assuming the amount of floating rate liabilities (excluding working capital financing) were outstanding for the whole year, interest rates were 50 basis points higher/lower and all other variables held constant, the Group's profit, other comprehensive income and group equity for the year ended 30 September 2016 would decrease/increase by USD24.2 million (2015: USD21.8 million).

From time to time the Group enters into interest rate derivatives transactions to lock-in current interest rate levels, for instance, interest rate swaps provide a method of reducing the Group's exposure to floating interest rates arising from its corporate funding programmes. To realise the desired matching of derivative results with the hedged interest rate payments, cash flow hedge accounting is applied and the derivatives are designated as hedging instruments. The derivatives are carried on balance and their effectiveness is tested on a quarterly basis.

### f. Currency risk

Trafigura has few exposures to foreign currency risk on its trading activities and those that do exist are hedged out. The Group does not use financial instruments to hedge the translation risk related to equity and earnings of foreign subsidiaries and non-consolidated companies.

The Group uses cross-currency swaps to hedge currency risk on the principal and related payments of foreign currency denominated loans and bonds for which cash-flow hedge accounting is applied. The periods when the cash flows are expected to occur are similar to the periods when the cash flows on the foreign currency denominated loans and bonds occur as indicated in Note 23 and 27d.

	Notionals		Fair values	
USD'M	2016	2015	2016	2015
Cross-currency swap	1,670.2	1,670.2	(115.7)	(156.8)
Cross-currency interest rate swap	506.2	279.6	(11.5)	(70.3)
<b>Total</b>	<b>2,176.4</b>	<b>1,949.8</b>	<b>(127.2)</b>	<b>(227.1)</b>



### g. Fair value hedge accounting

In some instances, The Group elects to apply fair value hedge accounting to hedge certain risk components of non-financial hedged items. These non-financial hedged items are the tolling agreements which Trafigura has entered into for the processing of Eagle Ford crude oil into petroleum by-products. Ultimately, the derivative hedging instruments (splitter hedges) are aimed to hedge the spread between purchasing Eagle Ford crude oil and selling refined product. When applicable, The Group designates derivative hedging instruments as fair value hedges in relationship to the hedged item. The hedged item may be individual risk components which are separately identifiable and reliably measurable. The designated hedge derivatives are accounted for at fair value through profit and loss and reflected on the balance sheet as either a recognised asset or liability or an unrecognised firm commitment. Each of the identified risk components of the hedged item will be revalued at each period with its corresponding benchmark accounted for at fair value and recognised through profit and loss and reflected on the balance sheet as either a recognised asset or liability or an unrecognised firm commitment. Ineffectiveness will occur as a result of basis differences between the valuation of designated hedge instruments used and valuation of the designated risk component benchmarks considered to best represent the risk component.

	2016	2015
Fair Value Hedge Accounting	USD'M	USD'M
LTD PnL hedging instruments as basis for hedge ineffectiveness	127.1	154.0
<b>Carrying value of hedged item</b>	<b>(151.8)</b>	<b>(168.3)</b>
<b>LTD Hedge Ineffectiveness (recognised in Profit and Loss)</b>	<b>(24.7)</b>	<b>(14.3)</b>
<b>YTD Hedge Ineffectiveness (recognised in Profit and Loss)</b>	<b>(10.4)</b>	<b>(14.3)</b>

### h. Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's immediate parent, Trafigura Beheer B.V., is exclusively owned by its employees. This shareholding arrangement leads to an alignment of the long-term interests of the Company and its management team. By virtue of having its own capital at risk, senior management is incentivised to take a long-term view of the Company's overall performance and to protect its capital.

The Company's capital management aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

The Company monitors capital using an adjusted debt to equity ratio, which is adjusted total debt divided by the Company's equity. For this purpose, the adjusted debt metric represents the Company's total long and short-term debt less cash, deposits, readily marketable inventories, debt related to the Company's securitisation programme and the non-recourse portion of loans to third-parties.

The Company's long-term average target adjusted debt to equity ratio is 1.0x. The Company's adjusted net debt to equity ratio at the end of the reporting period was as follows:

	2016	2015
	USD'M	USD'M
Non-current loans and borrowings	7,234.2	7,289.7
Current loans and borrowings	18,033.0	14,668.2
<b>Total debt</b>	<b>25,267.2</b>	<b>21,957.9</b>
<b>Adjustments</b>		
Cash and cash equivalents	3,141.9	3,534.2
Deposits	7.9	46.9
Inventories	11,537.7	7,614.4
Securitisation debt	1,516.0	1,258.3
Non-recourse debt	434.8	658.0
<b>Adjusted total debt</b>	<b>8,628.9</b>	<b>8,846.1</b>
<b>Group equity</b>	<b>5,847.1</b>	<b>5,657.6</b>
<b>Adjusted debt to Group equity ratio at 30 September</b>	<b>1.48</b>	<b>1.56</b>

As at 30 September 2016, the ratio of adjusted net debt to Group equity stood at 1.48x. The decrease of the ratio at year-end compared to 30 September 2015 is a combination of a decrease in adjusted total debt and an increase in Group Equity.

The nature of the ratio means it fluctuates between quarters, but Trafigura's long-term commitment is to maintain a disciplined approach to leverage with the aim of ensuring it does not remain significantly above its target of 1.0x on a long-term basis. We expect this ratio to revert to our stated target in the medium-term.

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### i. Fair value

#### (i) Fair values versus carrying amounts

The fair values of inventories, financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying value	Fair value
2016	USD'M	USD'M
<b>Assets</b>		
Listed equity securities – Fair value through OCI	97.6	97.6
Listed debt securities – Fair value through profit or loss	327.0	311.9
Unlisted equity investments – Fair value through profit and loss	59.4	74.5
Unlisted equity investments – Fair value through OCI	56.3	56.3
Loans receivable and advances	801.3	(*)
Inventories	11,537.7	11,537.7
Trade and other receivables	15,199.9	(*)
Derivatives	573.6	573.6
Deposits	7.9	(*)
Cash and cash equivalents	3,141.9	(*)
<b>Total financial assets and inventories</b>	<b>31,802.6</b>	<b>12,651.6</b>
<b>Liabilities</b>		
<i>Loans and borrowings</i>		
Floating rate borrowings	23,241.0	(*)
Fixed rate borrowings	1,987.4	2,039.2
Finance lease and purchase contract	38.8	(*)
Trade and other payables	8,952.6	(*)
Derivatives	658.9	658.9
<b>Total financial liabilities</b>	<b>34,878.7</b>	<b>2,698.1</b>

	Carrying value	Fair value
2015	USD'M	USD'M
<b>Assets</b>		
Listed equity securities – Fair value through OCI	145.3	145.3
Listed debt securities – Fair value through profit or loss	528.3	528.3
Unlisted equity investments – Fair value through profit and loss	71.2	71.2
Unlisted equity investments – Fair value through OCI	64.4	64.4
Loans receivable and advances	440.1	(*)
Inventories	7,614.4	7,614.4
Trade and other receivables	13,902.3	(*)
Derivatives	3,383.2	3,383.2
Deposits	46.9	(*)
Cash and cash equivalents	3,534.2	(*)
<b>Total financial assets and inventories</b>	<b>29,730.3</b>	<b>11,806.8</b>
<b>Liabilities</b>		
<i>Loans and borrowings</i>		
Floating rate borrowings	19,813.6	(*)
Fixed rate borrowings	2,095.2	1,842.9
Finance lease and purchase contract	48.8	(*)
Trade and other payables	9,486.3	(*)
Derivatives	1,377.3	1,377.3
<b>Total financial liabilities</b>	<b>32,821.2</b>	<b>3,220.2</b>

(\*) Management has determined that the carrying amounts of trade and other receivables, cash and cash equivalents, deposits and trade and other payables reasonably approximate their fair values because these are mostly short-term in nature and are re-priced regularly.

The fair value of the guarantee disclosed in Note 26 was calculated based on level 3 valuation inputs taking into account current illiquid market conditions; which include sanctions enacted by the US and EU.

#### Offsetting of financial assets and liabilities

In accordance with IAS 32 the Group reports financial assets and liabilities on a net basis in the consolidated statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The financial assets and liabilities subject to offsetting, enforceable master netting and similar agreements as at 30 September 2016 and 2015 were as follows:

	Amounts eligible for set off under netting agreements			Amounts not subject to netting agreements	Net amounts presented in the statement of financial position
	Gross amount	Amounts offset	Net amount		
2016	USD'M	USD'M	USD'M	USD'M	USD'M
Related parties	914.2	(23.6)	890.6	–	890.6
Derivative assets	916.6	(678.6)	238.0	335.6	573.6
Related parties	(32.1)	23.6	(8.5)	–	(8.5)
Derivative assets	(943.6)	678.6	(265.0)	(394.0)	(659.0)
2015	USD'M	USD'M	USD'M	USD'M	USD'M
Related parties	1,080.8	(46.2)	1,034.6	–	1,034.6
Broker balances	398.0	(102.4)	295.6	85.3	380.9
Derivative assets	22,701.9	(19,491.4)	3,210.5	172.7	3,383.2
Related parties	(50.1)	46.2	(3.9)	–	(3.9)
Broker balances	(563.7)	102.4	(461.3)	(59.6)	(520.9)
Derivative liabilities	(20,328.6)	19,491.4	(837.2)	(540.2)	(1,377.4)

For the financial assets and liabilities subject to enforceable master netting or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities may be settled on a gross basis, however, each party to the master netting or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## (ii) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 1 classifications primarily include futures with a maturity of less than one year. Level 2 classifications primarily include swaps and physical forward transactions which derive their fair value primarily from exchange quotes and readily observable broker quotes. Level 3 classifications primarily include physical forward transactions which derive their fair value predominately from calculations that use broker quotes and applicable market based estimates surrounding location, quality and credit differentials. In circumstances where Trafigura cannot verify fair value with observable market inputs (Level 3 fair values), it is possible that a different valuation model could produce a materially different estimate of fair value. It is Trafigura's policy to hedge significant market risk, therefore sensitivity to fair value movements is limited. Trafigura manages its market risk using the Value at Risk (VaR) as disclosed in Note 27b.

Other financial assets and inventories	Level 1 USD'M	Level 2 USD'M	Level 3 USD'M	Total USD'M
<b>30 September 2016</b>				
Listed equity securities – Fair value through OCI	97.6			<b>97.6</b>
Listed debt securities – Fair value through profit or loss	15.1		311.9	<b>327.0</b>
Unlisted equity investments – Fair value through profit and loss			59.4	<b>59.4</b>
Unlisted equity investments – Fair value through OCI			56.3	<b>56.3</b>
Futures	24.1			<b>24.1</b>
OTC derivatives		213.1		<b>213.1</b>
Physical forwards		6.5	175.6	<b>182.1</b>
Cross-currency swaps		28.5		<b>28.5</b>
Interest rate swaps		20.8		<b>20.8</b>
Other financial derivatives		104.9		<b>104.9</b>
Inventories		11,537.7		<b>11,537.7</b>
<b>Total</b>	<b>136.8</b>	<b>11,911.5</b>	<b>603.2</b>	<b>12,651.5</b>

Financial liabilities	Level 1 USD'M	Level 2 USD'M	Level 3 USD'M	Total USD'M
<b>30 September 2016</b>				
Futures	15.6	–	–	<b>15.6</b>
OTC derivatives	–	148.9	–	<b>148.9</b>
Physical forwards	–	1.0	227.9	<b>228.9</b>
Cross-currency swaps	–	144.2	–	<b>144.2</b>
Interest rate swaps	–	30.9	–	<b>30.9</b>
Other financial derivatives	–	90.6	–	<b>90.6</b>
Fixed rate borrowings	–	2,039.2	–	<b>2,039.2</b>
<b>Total</b>	<b>15.6</b>	<b>2,454.8</b>	<b>227.9</b>	<b>2,698.3</b>

Other financial assets and inventories	Level 1 USD'M	Level 2 USD'M	Level 3 USD'M	Total USD'M
<b>30 September 2015</b>				
Listed equity securities – Fair value through OCI	145.3	–	–	145.3
Listed debt securities – Fair value through profit or loss	–	–	528.3	528.3
Unlisted equity investments – Fair value through profit and loss	–	–	71.2	71.2
Unlisted equity securities – Fair value through OCI	–	–	64.4	64.4
Futures	1,311.6	–	–	1,311.6
OTC derivatives	–	1,365.7	–	1,365.7
Physical forwards	–	530.7	126.1	656.8
Cross-currency swaps	–	–	–	–
Interest rate swaps	–	–	–	–
Other financial derivatives	–	49.0	–	49.0
Inventories	–	7,614.4	–	7,614.4
<b>Total</b>	<b>1,456.9</b>	<b>9,559.8</b>	<b>790.0</b>	<b>11,806.7</b>

Financial liabilities	Level 1 USD'M	Level 2 USD'M	Level 3 USD'M	Total USD'M
<b>30 September 2015</b>				
Futures	27.1	–	–	<b>27.1</b>
OTC derivatives	–	242.6	–	<b>242.6</b>
Physical forwards	–	552.5	283.8	<b>836.3</b>
Cross-currency swaps	–	156.8	–	<b>156.8</b>
Interest rate swaps	–	70.3	–	<b>70.3</b>
Other financial derivatives	–	44.4	–	<b>44.4</b>
Fixed rate borrowings	–	1,842.9	–	<b>1,842.9</b>
<b>Total</b>	<b>27.1</b>	<b>2,909.5</b>	<b>283.8</b>	<b>3,220.4</b>

The overview of the fair value hierarchy and applied valuation methods can be specified as follows:

	2016 USD'M	2015 USD'M
<b>Listed equity securities – Fair value through profit or loss</b>		
Level 1 Assets:	97.6	145.3
Liabilities:		–
Valuation techniques and key inputs:	Quoted prices in an active market.	
Significant unobservable inputs:	None.	

	2016 USD'M	2015 USD'M
<b>Listed debt securities – Fair value through profit or loss</b>		
Level 1 Assets:	15.1	–
Liabilities:	–	–
Valuation techniques and key inputs:	Quoted prices in an active market.	
Significant unobservable inputs:	None.	

	2016 USD'M	2015 USD'M
<b>Futures</b>		
Level 1 Assets:	24.1	1,311.6
Liabilities:	15.6	27.1
Valuation techniques and key inputs:	Quoted prices in an active market.	
Significant unobservable inputs:	None.	

**F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

			2016	2015
			USD'M	USD'M
OTC derivatives	Level 2	Assets:	213.1	1,365.7
		Liabilities:	148.9	242.6
Valuation techniques and key inputs:	Reference prices.			
Significant unobservable inputs:	Inputs include observable quoted prices sourced from traded reference prices or recent traded prices indices in an active market for identical assets or liabilities.			

			2016	2015
			USD'M	USD'M
Physical forwards	Level 2	Assets:	6.5	530.7
		Liabilities:	1.0	552.5
Valuation techniques and key inputs:	Reference prices.			
Significant unobservable inputs:	Inputs include observable quoted prices sourced from traded reference prices or recent traded prices indices in an active market for identical assets or liabilities.			

			2016	2015
			USD'M	USD'M
Cross-currency swaps	Level 2	Assets:	32.5	—
		Liabilities:	160.3	156.8
Valuation techniques and key inputs:	Reference prices.			
Significant unobservable inputs:	Inputs include observable quoted prices sourced from exchanges or recent traded prices indices in an active market for identical assets or liabilities.			

			2016	2015
			USD'M	USD'M
Interest rate swaps	Level 2	Assets:	16.8	—
		Liabilities:	14.8	70.3
Valuation techniques and key inputs:	Discounted cash flow model.			
Significant unobservable inputs:	Inputs include observable quoted prices sourced from exchanges or traded reference indices in an active market for identical assets or liabilities. Prices are adjusted by a discount rate which captures the time value of money and counterparty credit considerations.			

			2016	2015
			USD'M	USD'M
Other financial derivatives	Level 2	Assets:	104.9	49.0
		Liabilities:	90.6	44.4
Valuation techniques and key inputs:	Discounted cash flow model.			
Significant unobservable inputs:	Inputs include observable quoted prices sourced from exchanges or traded reference indices in an active market for identical assets or liabilities. Prices are adjusted by a discount rate which captures the time value of money and counterparty credit considerations.			

			2016	2015
			USD'M	USD'M
Inventories	Level 2	Assets:	11,537.7	7,614.4
		Liabilities:	—	—
Valuation techniques and key inputs:	Quoted prices in an active market.			
Significant unobservable inputs:	Premium discount on quality and location.			

			2016	2015
			USD'M	USD'M
Fixed rate borrowings	Level 2	Assets:	—	—
		Liabilities:	2,039.2	1,842.9
Valuation techniques and key inputs:	Discounted cash flow model.			
Significant unobservable inputs:	Cash flows discounted at current borrowing rates for similar instruments.			

			2016	2015
			USD'M	USD'M
Listed debt securities – Fair value through profit or loss	Level 3	Assets:	311.9	528.3
		Liabilities:	—	—
Valuation techniques and key inputs:	Discounted cash flow model.			

			2016	2015
			USD'M	USD'M
Listed debt securities – Fair value through profit or loss				
Significant unobservable inputs:	<ul style="list-style-type: none"> <li>• Forecast throughput</li> <li>• Discount rates using weighted average cost of capital</li> </ul>			
Significant unobservable inputs:	<ul style="list-style-type: none"> <li>• Market illiquidity</li> <li>• Operating cost and capital expenditures</li> </ul> <p>The resultant asset is a discounted cash flow of the underlying throughput. Increase/decrease of the forecasted throughput will result in an increase/decrease of the value of the asset. There are no reasonable changes in assumptions which will result in material change to the fair value of the asset.</p>			

			2016	2015
			USD'M	USD'M
Unlisted equity investments – Fair value through profit and loss				
	Level 3	Assets:	59.4	71.2
		Liabilities:	—	—
Valuation techniques and key inputs:	Quoted prices obtained from the asset managers of the funds.			
Significant unobservable inputs:	<ul style="list-style-type: none"> <li>• Market illiquidity</li> <li>• Price of commodities</li> </ul>			

			2016	2015
			USD'M	USD'M
Unlisted equity investments – Fair value through OCI				
	Level 3	Assets:	56.3	64.4
		Liabilities:	—	—
Valuation techniques and key inputs:	Quoted prices obtained from the asset managers of the funds.			
Significant unobservable inputs:	<ul style="list-style-type: none"> <li>• Market illiquidity</li> <li>• Price of commodities</li> </ul>			

			2016	2015
			USD'M	USD'M
Physical forwards	Level 3	Assets:	175.6	126.1
		Liabilities:	227.9	283.8
Valuation techniques and key inputs:	Discounted cash flow model.			
Significant unobservable inputs:	<p>Prices are adjusted by differentials including:</p> <ul style="list-style-type: none"> <li>• Quality</li> <li>• Location</li> </ul> <p>An increase/decrease in one input resulting in an opposite movement in another input, resulting in no material change in the underlying value.</p>			

During 2015 the fair value hierarchy of our investment in the listed debt securities related to our investment in Porto Sudeste do Brasil has been transferred from a Level 1 valuation to a Level 3 valuation. The main reason for this change is that since its issuance there has been very limited trading activity of these securities. The trading volumes underpin the illiquidity of the market with daily trading volumes in percent of total shares of maximum 0.3 percent. The illiquidity of the market and limited availability of insight information to investors may lead to behavioural biases. Therefore management has decided to change the fair value hierarchy from level 1 to level 3. For the level 3 parameters of this valuation we refer to Note 17. The movements in the Level 3 hierarchy can be summarized as follows:

USD'M	Physical forwards	Equity/Debt securities	Total
<b>1 October 2015</b>			
Total gain/(loss) recognised in income statement	171.4	(135.1)	36.3
Total gain/(loss) recognised in OCI	—	(12.1)	(12.1)
Invested	—	5.5	5.5
Disposals	—	(94.8)	(94.8)
Total realised	(66.0)	—	(66.0)
<b>30 September 2016</b>			
	(52.3)	427.5	375.2



USD'M	Physical forwards	Equity/Debt securities	Total
<b>1 October 2014</b>	<b>(234.2)</b>	<b>79.3</b>	<b>(154.9)</b>
Total gain/(loss) recognised in income statement	(46.6)	34.8	(11.8)
Total gain/(loss) recognised in OCI	–	8.4	8.4
Invested	–	123.4	123.4
Disposals	–	(10.0)	(10.0)
Total realised	123.1	–	123.1
Transfer from Level 1	–	428.1	428.1
<b>30 September 2015</b>	<b>(157.7)</b>	<b>664.0</b>	<b>506.3</b>

There have been no transfers between fair value hierarchy Levels in 2016. Materially all level 3 physical forwards are settled in the next year.

## 28. EMPLOYEE BENEFITS

### a. Equity participation plan

The immediate parent of the Company, Trafigura Beheer B.V., has an equity participation plan (EPP) which is open to employees of the Group. Shares issued to employees, are preference shares of the immediate holding company Trafigura Beheer B.V. which give rights to economic benefits with limited voting rights. The value of the shares is based on the net asset value of an ordinary share as set out in Articles of Association of Trafigura Beheer B.V. which management believe is a fair approximation of the fair value. Beheer Malta Limited, a parent company of Trafigura Beheer B.V., together with the Board of Directors of the Company decide on the share awards to be issued to employees. Shares awarded under the EPP may vest immediately or over a period of several years. If employment is ceased prior to the end of the vesting period the shares will be forfeited except otherwise determined by Beheer Malta Limited.

Employees do not have the right to sell shares that have vested unless a purchase offer has been made by Trafigura Control Holdings SARL (a 100% subsidiary of Beheer Malta Ltd and direct controlling shareholder of Trafigura Beheer B.V.) Upon termination of employment, employees must transfer all of their shares at the direction of Trafigura Control Holdings SARL.

Neither Trafigura Beheer B.V. and nor the Company have neither a legal nor constructive obligation to settle the shares held by employees in cash.

The Group accounts for the EPP as an equity-settled plan; the fair value of the shares granted, determined at the grant date, is recorded in the statement of income rateably over the vesting period of the shares.

During 2016, 5,613 immediately vesting shares were granted to employees representing a value of USD24.0 million (2015: 5,139 shares representing a value of USD13.8 million) and 28,251 shares were granted with a vesting period of 1-5 years representing a value of USD120.8 million (2015: 12,430 shares representing a value of USD33.5 million).

Compensation in respect of share based payments recognised in staff costs amounted to USD77.7 million in 2016 (2015: USD51.1 million).

Unrecognised staff costs in respect of rateably vesting shares expected to be recognised from 2017 to 2020 amount to USD107.0 million at 30 September 2016 (2015: USD44.9 million).

## b. Personnel expenses

	2016	2015
	USD'M	USD'M
Salaries and bonuses	395.4	408.1
Social security costs	25.0	26.9
Pension costs	15.4	18.2
Share-based payments	77.7	51.1
<b>Total</b>	<b>513.5</b>	<b>504.3</b>

The average number of employees split geographically is depicted below:

	Oil and Petroleum FTE	Metals and Minerals FTE	All other segments FTE	Total FTE
<b>2016</b>				
North, Central and South America	201	1,929	148	2,278
Europe and Africa	248	470	245	963
Asia, Middle East and Australia	205	301	360	866
<b>Total</b>	<b>654</b>	<b>2,700</b>	<b>753</b>	<b>4,107</b>

	Oil and Petroleum FTE	Metals and Minerals FTE	All other segments FTE	Total FTE
<b>2015</b>				
North, Central and South America	197	2,043	192	2,432
Europe and Africa	205	1,313	330	1,848
Asia, Middle East and Australia	192	369	407	968
<b>Total</b>	<b>594</b>	<b>3,725</b>	<b>929</b>	<b>5,248</b>

## 29. RELATED PARTIES

In the normal course of business, the Company enters into various arm's length transactions with related parties including fixed price commitments to sell and to purchase commodities, forward sale and purchase contracts, agency agreements and management service agreements. Outstanding balances at period end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

All transactions between the Company and its subsidiaries are eliminated on consolidation along with any unrealised profits and losses between its subsidiaries, associates and joint ventures.

### a. Transactions with key management personnel

#### (i) Key management personnel compensation

The Management team consists of the Board of Directors and members of the Trading Committee and Investment Committee. In addition to their salaries, the Group also provides non-cash benefits to members of the Management team. Members of the Management team also participate in the Group's share participation programme (see Note 28). Compensation of the Management team comprised of the following:

	2016	2015
	USD'M	USD'M
Short-term employee benefits	18.1	3.8
Post-employment benefits	0.5	0.3
Share-based payments	22.0	5.4
<b>Total</b>	<b>40.6</b>	<b>9.5</b>

## F. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### (ii) Key management personnel and director transactions

As at 30 September 2016, loans receivable from the members of the Management team total USD11.6 million (2015: USD3.1 million). Interest is charged on the loans at approximately LIBOR + 1% and the loans are repayable within the 1-3 year bracket.

### b. Other related-party transactions

	2016	2015
Related-party receivables/(payables)	USD'M	USD'M
Trafigura Beheer B.V.	352.6	202.8
Puma Energy Holding	374.1	747.7
PT Servo Meda Sejahtera	122.5	147.0
Farrington N.V.	17.2	(60.4)
Beheer Malta Ltd	(7.2)	1.2
Ecore B.V.	16.4	28.9
Emincar	150.0	—
Buckeye Partners LLC	—	0.1
JINCHUAN Group Co. Ltd.	31.4	—
Minas de Aguas Teñidas, S.A.U (MATSA)	262.2	498.7
Other	100.9	1.1
<b>Total</b>	<b>1,420.2</b>	<b>1,567.1</b>

	2016	2015
	USD'M	USD'M
Sales (mainly Puma Energy)	6,697.4	5,798.3
Purchases	1,456.1	594.8
Terminalling & dockage fees	148.1	60.0
Interest income	35.7	32.0
Interest expense	13.6	17.5

Transactions between related parties are made on terms equivalent to those that prevail in arm's length transactions.

Below table summarises the nature of relationship and nature of transactions entered with the related party:

Party	Nature of relationship	Nature of transaction
Farrington N.V.	Ultimate parent	Loans and cost recharges
Trafigura Beheer B.V.	Parent company	Loans and cost recharges
Beheer Malta Ltd.	Parent company	Buy back of treasury shares
Ecore B.V.	Cousin group	Cost recharges, trading and hedging
Buckeye Partners LLC	Equity-accounted investee	Lease agreements
EMINCAR	Equity-accounted investee	Financing and trading agreement
JINCHUAN Group Co. Ltd.	Equity-accounted investee	Trading agreement
Minas de Aguas Teñidas, S.A.U (MATSA)	Equity-accounted investee	Financing and trading agreement
PT Servo Meda Sejahtera	Equity-accounted investee	Loan
Puma Energy Holding	Equity-accounted investee	Financing and trading agreement
Porto Sudeste do Brasil S.A.	Equity-accounted investee	Loans and cost recharges

A list of consolidated subsidiaries and associates is included in Note 32.

### 30. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

- IFRS 14 Regulatory Deferral Accounts, effective 1 January 2016. Will not be endorsed for use in the EU
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15, effective 1 January 2018
- IFRS 16 Leases, effective 1 January 2019
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative, effective 1 January 2016

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, effective 1 January 2016
- Amendments to IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in other entities and IAS 28 Investments in Associates and Joint Ventures – Applying the Consolidation Exception, effective 1 January 2016
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations, effective 1 January 2016
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation, effective 1 January 2016
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Bearer Plants, effective 1 January 2016
- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements, effective 1 January 2016
- Annual Improvements to IFRSs 2012-2014 Cycle (Issued September 2014), effective 1 January 2016
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses, effective 1 January 2017.
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative, effective 1 January 2017
- Clarifications to IFRS 15 Revenue from Contracts with Customers, effective 1 January 2018.
- Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions, effective 1 January 2018.

In 2015 the Group early adopted IFRS 9 – Financial Instruments.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. There have been no material new IFRS standards or amendments on IFRS standards which have been applied for the first time in 2016.

### 31. SUBSEQUENT EVENTS

On 15 October 2016 a consortium was formed between the Company (49%), United Capital Partners (UCP) (49%) and Essar (2%). Through a holding structure, the consortium has agreed to purchase a 49% stake in Mumbai-based Essar Oil Limited from Essar Energy Holdings Limited.

Essar Oil Limited (EOL) owns India's second largest private refinery and world-class storage and import/export facilities located near Vadinar city, as well as a domestic retail network business consisting of over 2,700 retail stations.

The transaction is supported by an efficient capital structure involving non-recourse bank finance. The agreement, which is targeted to close by the end of 2016, is subject to anti-trust and other regulatory clearances. Trafigura has a commitment for a capital contribution under the transaction of a maximum USD320 million.

Essar Oil Limited has plans to expand its oil refining capacity and to build a petrochemical complex. The deregulation of pricing of the Indian retail market is expected to bring potential growth opportunities for the company's retail network.

### 32. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES

For entities where legal shareholding is less than 50%, the Group has consolidated based on the definition of control under IFRS. Certain entities with a percentage of effective economic interest below 50% are held through intermediate holding companies controlled by the Group.

Principal consolidated operating subsidiaries	Location	% Owned	
		2016	2015
Angola Exploration Mining Resources S.A.	Angola	0.0%	30.0%
AngoRecycling Industry, Lda.	Angola	25.0%	25.0%
Boyaca Navigation Inc.	Panama	100.0%	100.0%
Catalina Huanca Sociedad Minera S.A.C.	Peru	100.0%	100.0%
DT Trading Ltd.	Bahamas	50.5%	50.5%
DTS Commercial Pte. Ltd.	Singapore	50.0%	50.0%
DTS Refining Pte. Ltd.	Singapore	50.0%	50.0%
Edenfield Procurement DMCC	United Arab Emirates	100.0%	100.0%
Empresa de Recolha de Resíduos de Angola, Lda. (Errangol)	Angola	25.0%	25.0%
Fangchenggang Guo Tong Import and Export Co. Ltd.	China	100.0%	100.0%
Galena Asset Management B.V.	Netherlands	100.0%	100.0%
Galena Asset Management Limited	United Kingdom	100.0%	100.0%
Galena Investments 2 Limited	Malta	100.0%	100.0%
Galena Investments 2 S.à r.l.	Luxembourg	100.0%	100.0%
Galena Investments Limited	Malta	100.0%	100.0%
Galena Investments S.à r.l.	Luxembourg	100.0%	100.0%
Genghis Holding Company Limited	Malta	100.0%	100.0%
Iberian Minerals Corp.	Switzerland	100.0%	100.0%
Impala Holdings Limited	Malta	100.0%	100.0%
Impala Logistics (Shanghai) Company Limited	China	100.0%	100.0%
Impala Terminals Barrancabermeja S.A.	Colombia	100.0%	100.0%
Impala Terminals Burnside LLC	United States	100.0%	100.0%
Impala Terminals Colombia SAS	Colombia	100.0%	100.0%
Impala Terminals DRC SARL	Congo, The Democratic Republic of the	100.0%	100.0%
Impala Terminals Mexico, S.A. de C.V.	Mexico	100.0%	100.0%
Impala Terminals Middle East FZE	United Arab Emirates	100.0%	100.0%
Impala Terminals Peru S.A.C	Peru	100.0%	100.0%
Impala Terminals UK Limited	United Kingdom	100.0%	100.0%
IWL (Luxembourg) S.à r.l.	Luxembourg	100.0%	100.0%
IWL Capital LLC	Marshall Islands	100.0%	100.0%
IWL Holding B.V.	Netherlands	100.0%	100.0%
IWL Holdings (Luxembourg) S.à r.l.	Luxembourg	100.0%	100.0%
IWL Investments (Luxembourg) S.à r.l.	Luxembourg	100.0%	100.0%
IWL River Inc.	Panama	100.0%	100.0%
Luna Mining SARL	Congo, The Democratic Republic of the	100.0%	100.0%
Manatee Holding Company Limited	Malta	100.0%	100.0%
Meteor Ltd.	Isle of Man	100.0%	100.0%
Ningbo Minghui Recycling Resources Co., Ltd.	China	95.0%	95.0%
Petromining S.A.	Argentina	100.0%	100.0%
Puma Energy Holdings Malta Limited	Malta	100.0%	100.0%
Shanghai Trafigura Energy and Resource Trading Co., Ltd.	China	100.0%	100.0%
TAG ECO Recycling (UK) Limited	United Kingdom	100.0%	100.0%
Trafigura B.V.	Netherlands	100.0%	100.0%

Principal consolidated operating subsidiaries	Location	% Owned	
		2016	2015
Trafigura Canada General Partnership	Canada	100.0%	100.0%
Trafigura Chile Limitada	Chile	100.0%	100.0%
Trafigura Corpus Christi Holdings LLC	United States	100.0%	100.0%
Trafigura Derivatives Limited	United Kingdom	100.0%	100.0%
Trafigura DMCC	United Arab Emirates	100.0%	100.0%
Trafigura Eurasia LLC	Russian Federation	100.0%	100.0%
Trafigura Funding S.A.	Luxembourg	100.0%	100.0%
Trafigura Holdings Limited	Malta	100.0%	100.0%
Trafigura India Private Limited	India	100.0%	100.0%
Trafigura Investment (China) Co., Ltd.	China	100.0%	100.0%
Trafigura Limited	United Kingdom	100.0%	100.0%
Trafigura Maritime Ventures Limited	Malta	100.0%	100.0%
Trafigura Marketing Inc.	United States	100.0%	100.0%
Trafigura Marketing Ltd.	Canada	100.0%	100.0%
Trafigura Mexico, S.A. de C.V.	Mexico	100.0%	100.0%
Trafigura Nat Gas Limited	Malta	100.0%	100.0%
Trafigura Overseas Projects Pte. Ltd.	Singapore	100.0%	100.0%
Trafigura Peru S.A.C.	Peru	100.0%	100.0%
Trafigura Pte. Ltd.	Singapore	100.0%	100.0%
Trafigura Services Pte. Ltd.	Singapore	100.0%	100.0%
Trafigura Services South Africa (Pty) Ltd.	South Africa	100.0%	100.0%
Trafigura Trade Investments B.V.	Netherlands	100.0%	100.0%
Trafigura Trading LLC	United States	100.0%	100.0%
Trafigura Trading Yangshan Co., Ltd.	China	100.0%	100.0%
Trafigura Ventures Trading Ltd.	Mauritius	100.0%	100.0%
Union Holdings (Malta) Limited	Malta	100.0%	100.0%
Impala Middle East General Warehousing L.L.C.	United Arab Emirates	100.0%	100.0%
Leeuwin Holding Co. Ltd.	Bahamas	100.0%	100.0%
Trafigura Holding GmbH	Switzerland	100.0%	100.0%
Trafigura Trade Holdings B.V.	Netherlands	100.0%	100.0%
DSA Ventures I LLC	Marshall Islands	100.0%	100.0%
Trafigura Holdings Pte. Ltd.	Singapore	100.0%	—
Union Mining International B.V.	Netherlands	100.0%	100.0%

Equity-accounted investees carried at net equity value	Location	% owned	
		2016	2015
Buckeye Texas Partners LLC	United States	20.0%	20.0%
Empresa Minera del Caribe S.A.	Caribbean	49.0%	36.6%
Guangxi jinchuan Nonferrous Metals Co., Ltd	China	30.0%	—
Napoli Limited	Bermuda	49.0%	49.0%
Osmunda Limited	Isle of Man	—	33.0%
Porto Sudeste do Brasil S.A.	Brazil	47.4%	47.3%
PT Servo Meda Sejahtera	Indonesia	46.5%	40.0%
Puma Energy Holdings Pte. Ltd.	Singapore	49.6%	48.6%
Transportadora Callao S.A.	Peru	30.0%	30.0%
ATALAYA MINING PLC (previously known as EMED MINING PUBLIC LIMITED)	Cyprus	22.0%	22.0%
Nyrstar N.V.	Belgium	24.6%	23.7%
TM Mining Ventures, S.L.	Spain	50.0%	50.0%

### 33. BOARD OF DIRECTORS

THE BOARD OF DIRECTORS	
Christopher Cox	Sipko Schat
Mark Irwin	Andrew Vickerman
José Larocca	Mike Wainwright
Pierre Lorinet	Jeremy Weir

Singapore, 2 December 2016.









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Trafigura Group Pte. Ltd. and the companies in which it directly or indirectly owns investments in are separate and distinct entities. In this publication, the collective expressions 'Trafigura', 'Trafigura Group', 'the Company' and 'the Group' may be used for convenience where reference is made in general to those companies. Likewise, the words 'we', 'us', 'our' and 'ourselves' are used in some places to refer to the companies of the Trafigura Group in general. These expressions are also used where no useful purpose is served by identifying any particular company or companies.





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