

Risks and risk management

A clear strategy which plainly identifies a company's opportunities and risks is vital for doing business successfully. Although it is complicated to assess the probability, impact and timing of risks and opportunities properly, it remains a core responsibility of the Executive Board to make clear decisions based on thorough analyses and to communicate the significance of potential risks affecting the strategy within the organization and to the market. Consequently, balanced communication on both opportunities and risks is essential. At Vopak, this is done at every level of the organization, making risk management an integral part of our day-to-day operations, which is considered fundamental to implementing the corporate strategy successfully.

The Vopak business model is characterized by a balanced global portfolio, with a geographical spread of terminals (OECD, non-OECD, in politically stable/less stable countries), with different types of terminals (distribution, hub, industrial), handling different type of products (oil, chemicals, natural gas, biofuels, LPG and vegetable oils), contracted differently (industrial, long, medium, short term) with different types of customers (international and national producers, traders, end users, governments). Any changes are subject to clear management decisions, in line with Vopak's risk-reward appetite.

Defining Vopak's risk-reward appetite is very much a responsibility for the Executive Board, as it is intimately linked to defining the overall strategy of Vopak. In this balancing act, the Board takes into account the expectations of customers, shareholders, employees, regulators and other stakeholders.

Main risks

This section explains the principal risks, set out in order of our strategic pillars: growth leadership, customer leadership and operational excellence.

The principal risks described hereafter follow the Strategic analysis on page 28 of the Report of the Executive Board.

Growth leadership

Increasing competition

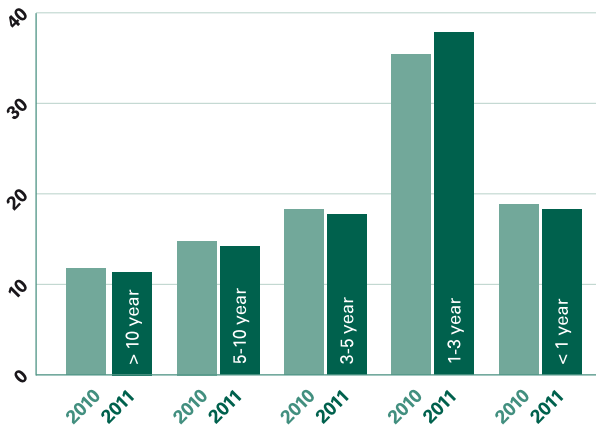
In a dynamic marketplace, existing competitors and new players could negatively affect Vopak's market position. In recent years, we have faced increasing competition from existing providers in the storage industry, but also from various newcomers. Traders, some NOCs, private equity and infrastructure funds in particular have entered our markets. In response to this development, Vopak is prioritizing targeted growth, especially in logistically strategic locations; we have been strengthening our business development functions, while further strengthening the service and safety culture.

We ensure that we continue to be closely connected to our core business, enabling swift, efficient and effective decision making and project execution by people that truly understand our business, reducing waste in terms of costs and time. We are also aiming to achieve higher customer satisfaction by providing high-quality service and highly efficient operational processes. In addition, we strive for a balanced duration of our sales contracts which has resulted in the spread as shown in the chart on the next page.

Risk category (COSO)	Strategic pillars Vopak	Vopak's risk-reward appetite
Strategic risks	Growth leadership Customer leadership	Moderate/High: right balance between risk and reward
Operational risks	Operational excellence	Low: on safety issues, and Moderate: on other areas/topics with alignment of targets and related cost, and a clear focus on sustainable EBIT maximization
Compliance risks		Low: full compliance with law, regulations and political environments
Financial reporting risks		Low: full compliance with financial reporting rules and regulations

Revenue in relation to contract duration

As a percentage



Besides our focus on growth, commercial excellence and safety, we are working on effective cost management through simplification of the organization structure, optimizing sustaining capex (based on terminal master plans) and providing high service levels in order to be able to offer competitive prices. Maintaining and strengthening our market position depends on the optimal use of our worldwide network.

Sector developments show positive demand for storage

Sector developments have provided a continuous solid demand for liquid storage services. We have a solid insight into product flows and the forecasted development of these flows. This insight is supportive to our terminal strategies, the locations where we want to have terminals and the layout of such terminals. Currently, the picture in most sectors is clear, like in the oil storage market, which continued to be robust. The chemical sector remained at a healthy level comparable to that of last year. The overall occupancy rate remains stable at 93%.

New projects bring additional challenges

Our new projects grow in number, they frequently represent more sizeable investments and their complexity might increase due to environmental, political or social circumstances or alignment with interests of new joint venture partners. Also non-recourse project financing might be challenging to obtain or take longer to finalize. These risks are mitigated through our standard Vopak project methodology, the Vopak repeatable formula with standard design criteria, hiring specific experts, knowledge management, strong relationship management and country studies. Also our internal procedures on fraud prevention and reporting, anti-corruption and compliance program, the smart and high quality investment proposals as well as the commitment from our Global Treasury department to timely investigate alternative sources of finance and/or to secure

sufficient funds to finance the project are supportive of the continued success rate in executing projects at new and existing locations.

Customer leadership

Improving customer satisfaction creates opportunities

High-quality service is of fundamental importance to our commercial strategy and, although we are pleased with the results of our annual customer satisfaction survey that show that our customers' satisfaction improved further, we continue to give our full attention to focusing on customers when doing business and performing operational activities. We aim to provide even better service through training courses and competence management, standardization of processes and further improvements to our information systems. Also our intensive sustaining capex programs - to upgrade our infrastructure where necessary or considered effective - will support us in further reducing delays and complaints. The Vopak Service Quality Index (VSQI) shows that these efforts are recognized by our customers, who have seen that various business processes have been enhanced in 2011. In order to truly embed a service culture, customer satisfaction is a key criterion for all eligible employees in the short-term incentive plans. We will continue our efforts in this area in 2012. In the end, the quality of our service is a distinctive factor for choosing Vopak, which is why we seek to make continuous improvements.

Operational excellence

Safety and environmental risks continue to be a key focus area

Vopak continues to give safety the highest priority as we care about people and the environment. In addition, incidents can also affect our license to operate and harm our reputation. Through various programs during 2011 focusing on leadership, safety awareness, safety behavior and bottom-up improvements, our safety attitude has further progressed. In addition, our terminal health assessments (THAs) stimulate continuous improvements. Our continuous intensive sustaining capex programs to upgrade infrastructure where necessary or considered effective, will also further reduce safety and environmental risks. Our ambition and targets are aimed at realizing further enhancements in the near future.

Safety is non-negotiable. It is the cornerstone of our business and something which we also require from our contractors. The 2011 safety performance has been overshadowed by an operator fatality that occurred at Vopak Terminal Zhangjiagang (China) on July 2, 2011. Apart from this regrettable fatality, the 2011 Vopak personal safety performance shows a promising improvement compared to the personal safety performance record for 2010 and has exceeded the objectives set. In contrast, the process safety performance worsened substantially when compared to the performance as recorded during 2010 and trails the

objectives set. Although the increasing number of expansion projects at existing terminals has contributed to this trend, we do not see this as an excuse. Accordingly, we continue to emphasize the importance of safety, health and the environment through internal communications, training courses on visible leadership and the sharing of best practices in order to make continuous improvements.

Clear sustainability vision and targets for the near future

During 2011, we further aligned our strategy and goals on sustainability with the overall Vopak strategy and already managed to achieve further management commitment, energy savings and more attention for further developing our people. The section about sustainability (pages 34-38) provides further details on this strategy and on the certification of the internationally recognized guidelines of the GRI to a B+ level. More importantly, the journey to a higher compliance level (i.e. from last year C+ to a current B+ level) indicates Vopak's commitment to be truly focused on people, planet and profit.

Risk of insufficient number of people with the right skills

Vopak is a rapidly growing company, meaning that in the coming years we could be short of sufficient and capable people in key positions. As a company with worldwide operations and as a leader in the independent tank storage market, we face the possibility that our people will be approached and recruited by competitors or customers.

Relevant remarks related to, amongst others, our risk response:

- We aim to take on sufficient people to cover both the expansion of our business activities and the expected outflow, while offering a balanced remuneration package and an environment in which new employees can develop quickly in the organization.
- Our HR strategy is executed in line with our three strategic pillars. We continue to focus on competency and skills management, performance management based on a worldwide talent management strategy, leadership and management development, and further improvements to the HR organization with more efficient processes and a supporting HR information system. Succession planning for senior management positions is coordinated centrally.
- Our employee engagement surveys show that our employees are prepared to make every effort to support our key factors of success. Their satisfaction is high, as is their pride in the company and willingness to stay.
- Further, we have the challenge of balancing between continuous improvement/growth projects and the inspiring but also potentially high work pressure resulting from that. Through clear priority setting and support in the personal development of employees, we aim to realize a balanced match with our high performance ambition.

IT/Information security

The integrity and availability of 'fit for purpose' IT systems could be affected by increasingly aggressive cyber threats (like the Stuxnet worm), thereby impacting our service reliability but also the safety at our terminals. Our current security IT governance is already set up to mitigate this risk and through the fit for purpose implementation of ISO27001 we will be even better protected and prepared to timely resolve most issues. We also run awareness training programs, perform terminal security risk assessments and are investigating the impact of social media and cloud computing.

Insurable risks

Vopak's enterprise risk management (ERM) approach offers insight into the potential dangers the company could face. Our insurance policy aims to strike the right balance between arranging insurance cover for the Group's risks and financing them ourselves, or transferring such risks to external insurance companies. The principal factors underlying our insurance policy are risk tolerance and risk transfer costs. On this basis, Vopak has purchased worldwide insurance cover for such risks as product and third-party liability, property damage and business interruption.

Vopak's insured risks are partly covered by a Vopak captive reinsurance company and by transferring risks to the insurance market. The financial credit ratings of the insurance companies involved are reviewed on a regular basis and, where appropriate, risks are spread across multiple insurance companies.

Legal and compliance risks

Vopak may be held liable for any non-compliance with laws and regulations, e.g. in a number of countries there is specific legislation in relation to the administration and tracking of 'controlled products' (the United Nations lists those products). We mitigate this risk through monitoring and by adapting to significant and rapid changes in the legal systems, regulatory controls and customs and practices in the countries in which we operate. Some stocks (e.g. ethanol) that we store and transport for customers are subject to import duties. As more products with import duties are handled, Vopak's financial risk exposure has risen, requiring continuous attention for adequate procedures, processes and controls. Adequate working capital, inventory management and supportive processes are preconditions that we safeguard through a key control framework and a global diagnostic instrument. Where necessary, control mechanisms are being tightened. The effects of stricter environmental regulation are covered as far as possible by making specific and sustainable investments and by sharing the risks with customers.

Financial risks

Our financial risks are considered in detail on page 107.

Currency and exchange rate risks

The currency exchange risks associated with foreign activities are limited. As a rule, income, expenditure and financing are in the same currency.

The main foreign currency risk is known as the translation risk of local functional currencies into euros. This arises on conversion of the results on the one hand, and capital invested on the other, from e.g. Singapore dollars and US dollars to euros. The euro is the currency we use in our financial reporting.

Sensitivity to exchange rate movements of the US dollar (USD) and the Singapore dollar (SGD) impact on the 2011 result is as follows:

An average movement of 10 dollar cent in the USD exchange rate against the euro affects Vopak's net profit by EUR 2.5 million.

An average movement of 10 dollar cent in the SGD exchange rate against the euro affects Vopak's net profit by EUR 4.3 million. As required by IFRS 7, a sensitivity analysis has been performed on the balance sheet items. The results are set out on page 109.

Each quarter, exchange rate risks relating to the translation of capital invested in foreign operations, comprising equity and internal financing, are established and the optimum hedging/financing strategy is reviewed and submitted to the Executive Board for approval. Net investment in foreign activities is generally hedged by loans in the same currency, supplemented where necessary with cross-currency interest rate swaps and forward exchange contracts, and hedge accounting is applied.

Interest rate risks

Vopak's policy on interest rate risks aims to control the net finance costs resulting from fluctuations in market interest rates, taking into account the company's long-term profile. The funds obtained recently from private placements mean that we have long-term funding at fixed interest rates.

Refinancing and liquidity risks

Vopak is a capital-intensive company. The focus of our strategic finance funding policy is to ensure flexible access to various capital markets and funding sources to support Vopak's growth strategy, facilitating a continuous balanced and well-spread debt maturity profile at appropriate terms and conditions, matching Vopak's solid credit quality. Following various long-term funding transactions (US and Asian private placements, revolving credit facility) the remaining duration of the outstanding long-term debt is approximately 10 years and the repayment profile is well-spread over an even longer period.

The development of our Net debt : EBITDA ratio is frequently monitored and discussed in the Strategic Finance

Committee, the Executive Board, the Audit Committee and the Supervisory Board. Vopak's funding strategy is focused on ensuring continuous access to the capital markets so that funding capital is always available at a time of our choice at acceptable cost.

Accordingly, we have a proactive financing policy so that we can act flexibly, irrespective of the prevailing financing climate. In February 2011 Vopak closed a new EUR 1.2 billion senior unsecured multicurrency revolving credit facility which replaces the previous revolving credit facility of EUR 1 billion. The new revolving credit facility is available for drawdown and has an initial maturity of five years with two mutual extension options of one year each. At 31 December 2011 EUR 100 million was drawn under this facility. The facility can be repaid at any time. Subsidiaries are funded centrally by the Global Treasury department, which acts as a type of in-house bank. Where possible, joint ventures are funded by debt on a non-recourse basis for Vopak.

Liquidity requirements are monitored continuously. Long-term liquidity risks are reviewed each quarter and ahead of every significant investment. Active cash management is a daily responsibility.

Credit risk and credit risk management

Vopak's maximum exposure to credit risks is the carrying amount of financial assets amounting to EUR 388.7 million (2010: EUR 442.8 million) (see notes 14 and 31) and the credit replacing guarantees amounting to EUR 53.7 million (2010: EUR 58.7 million). Loans granted to joint ventures are not secured by collateral. Exposure to the risk of bad debt is limited due to effective working capital management whereby the value of the product stored for these clients usually exceeds the value of the receivables and Vopak generally has the right of retention. However, other claims may have priority ranking over the right of retention in a bankruptcy case. Therefore, Vopak is constantly monitoring the outstanding receivables and the value of the stored products. Assessing the financial positions of counterparties is part of our credit management and tendering process, but cannot exclude all credit risk.

For each of the reporting dates under review, the Group's management considers that all the financial assets are of good quality. The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible. Vopak manages the counterparty risk by spreading the financial instruments and cash and cash equivalents evenly across a select group of highly rated financial institutions while limiting the cash and cash equivalents within the Group and assessing the exposure to each financial institution on a daily basis. Vopak applies credit limits per institution and regularly reviews these limits. These treasury activities are concluded with financial institutions that have at least an A- Standard & Poor's credit rating. When necessary appropriate action is taken in compliance with Vopak's treasury policy.

The credit risk of derivative financial instruments with a positive value is mitigated by ISDA Master Agreements with its counterparties and by setting quality and financial limits to the derivative counterparties. The Group maintains a control system that includes the authorization, reporting and monitoring of derivative activities, including the Credit Default Swaps developments of counterparties observed on the secondary market. Vopak believes there are no material credit risks to the Group's financial position.

Management of pension risks

Vopak operates a number of pension schemes, including defined benefit schemes. The liabilities and pension charges related to the defined benefit schemes are subject to risks regarding changes in discount rates, plan asset values and returns derived from these assets, future salary increases, inflation and life expectancy. Such changes can negatively influence the liabilities and necessitate additional future pension charges under IAS 19. A sensitivity analysis with respect to the impact on pension charges of changes in the major assumptions is included in note 27 of the consolidated financial statements (see page 142).

The Board of the Vopak pension fund manages the risks of market-related fluctuations in the value of plan assets through prudent investment strategies and close monitoring. Asset liability modeling, including stress-scenario testing, is part of their portfolio management.

On a local basis, cash contributions may be needed if local funding levels deteriorate. These contributions are subject to local arrangements and legal requirements. Vopak aims to reduce the volatility in cash contributions as much as possible.

Financial reporting

Vopak prepares its financial reports using reliable systems with clear procedures, solid internal controls and integrity in reporting. The various duties are segregated, performed by trustworthy professionals and tested in specific audits.

The results of internal and external audits are discussed with terminal and divisional managers each quarter. Vopak gives a great deal of attention to these procedures. We use a finance excellence model to support terminals and divisions in developing their financial departments.

Reports are prepared using a clearly-defined, mandatory process with regular consultations across the management layers involved. The reports and related discussions are not limited to the financial results but also cover key operational, human resources and commercial performance indicators. Joint ventures are included in this process and there is at least one Vopak representative in a supervisory role in the joint venture organization who pays particular attention to these points.

Vopak has an effective internal control structure. A number of controls are automated to reduce the risk of variations and errors. A specific group of representatives from the Global Control & Business Analysis department and from all

divisions is responsible for the ongoing application and enhancement of internal control procedures. Staff at the terminals are instructed about IFRS standards and kept up to date about amendments. The potential impact is assessed promptly. External advisors are engaged to value acquisitions (acquisition accounting method). The external auditor examines compliance with IFRS at the main terminals, using standards set in IFRS and Vopak's accounting manual.

Risk management

Risk management is strongly embedded in all layers of the organization. Divisional managers assess risks and set and check the effect of the strategy for risk mitigating actions and monitor effective implementation. Risk reports are prepared and topics are analyzed at a corporate level. Enterprise risk management is on the agenda of the Stratcom. The Stratcom comprises of members of the Executive Board, the Commercial President and the Division Presidents who met four times this year and held two video conference meetings on certain topics supported by selected global functional directors. This committee selects what are known as risk themes, and appoints functional directors at a global level to develop the right approach to these themes.

Our risk appetite remains unchanged

At year-end 2011, Vopak has 83 terminals in 31 countries. This extensive network adds value to our internationally operating customers and enables us to spread the risks of political and economic instability in an entrepreneurial manner. Every Vopak location pays considerable attention to environmental risks and attempts to keep safety risks to the absolute minimum. Many products we store and transport are potentially harmful to public health and the environment. Our focus on safety is reflected in the design of our terminals, the conduct of our employees and in our policy and standards, which meet or exceed local legislation and regulations. Our employees undergo regular training to keep know-how, skills and conduct up to standard. Key performance indicators are monitored monthly and there are also internal and external audits.

We are prepared to take different risks in different areas. Taking calculated risks to benefit from exceptional opportunities is part of our growth strategy. To ensure that risks and the loss of opportunities are sufficiently under control, each business decision is supported by a balanced system of selection, prioritization, internal financial and operational reviews and authorization profiles. Our standards and values are set out in the 'Vopak Values', which guide our actions. We make no concessions on this. Where it involves our business, we ensure proper funding and have adequate cash and cash equivalents available on time for developing growth projects.

Risk Management Framework

Risk management and the internal control structure

The aim of our risk management and internal control structure is to achieve a balance between an effective, professional enterprise, and the risk profile that we are aiming for as a business. Our risk management and internal controls, based on the COSO Enterprise Risk Management Framework, makes a significant contribution to the prompt identification and adequate management of strategic and market risks. They also support us in achieving our operational and financial targets and complying with legislation and regulations.

Risk management approach

The Executive Board, under the supervision of the Supervisory Board, has ultimate responsibility for Vopak's risk management and internal control structure. The divisional management teams are responsible for implementing the strategy, achieving results, identifying underlying opportunities and risks and ensuring effective operations. They have to act in accordance with the policy and standards set by the Executive Board, in which they are supported by global functional departments.

Division management teams have risk management integrated in their strategic, tactical and operational business activities. Opportunities and risks assessments and follow-up actions to mitigate risks are discussed as part of the standard management review cycles. The quality of these activities is regularly audited. At a corporate level, the ERM process is coordinated, the ERM information is analyzed, consolidated and reported to the Executive Board, to the division management teams and to global functional directors.

The Executive Board approves the annual budget and the consecutive two-year plans for each division. These budgets contain clear objectives for each of the three strategic pillars, risks and opportunities, activities and performance indicators. It also designates the managers with ultimate responsibility. To avoid execution risk, the Executive Board discusses the conditions (enablers) with the divisions. Each quarter, the Executive Board and the division management teams discuss progress on implementing the company's strategy, business plans, key performance indicators, quarterly results, key risks, opportunities and progress on mitigating measures.

At the end of the year, terminal and divisional managers use the Control Risk Self-Assessment to assess how effective the risk management and internal control structures have been. The results and trend analyses are discussed with the Executive Board.

The Executive Board, which bears ultimate responsibility for the proper functioning of risk management and the internal control structure, discusses the company's results, key performance indicators and strategy (and adjustments to it), the outcomes and effectiveness of risk management and the internal control structure with the Audit Committee and the Supervisory Board. Global Internal Audit provides further assurance on the functioning of risk management and the internal control framework. The external auditor also offers assurance on the internal control framework and the adequacy of the financial reporting systems. The results are discussed with the Audit Committee.

Management of our terminals, divisions and the Executive Board sign Letters of Representation at the end of the half year and the full year.

With all the challenges associated with operating in an entrepreneurial manner in a complex dynamic world, Vopak is well positioned to capture the opportunities while mitigating the risks through a focused core business, supported by a fit for purpose business model and management teams with the right competences, skills and experiences.

Our in-control statement is included on the next page.