

Interview with the Chairman, CEO and CFO

Interview with Peter Ulber, Chairman of the Board of Directors; Stefan Karlen, President and Chief Executive Officer; and Robert Erni, Chief Financial Officer



995,900

tons air freight transported

1,520,500

TEUs ocean freight transported

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This will position the company among the top players to shape the future of our industry.”

Peter Ulber

Chairman of the Board of Directors

What were the highlights of 2017 for Panalpina?

Peter Ulber: Our strategy is to place Panalpina amongst the top global logistics providers, and be in a position where we have every option to play an active role in the further anticipated consolidation of the logistics industry. We have achieved organizational stability, maintained financial strength and now built a scalable IT landscape to be even more competitive.

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Interview with the Chairman, CEO and CFO continued



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Stefan Karlen

President and Chief Executive Officer



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Robert Erni

Chief Financial Officer

Stefan Karlen: In 2017, Air Freight reached new heights by transporting close to one million tons, the highest in our company’s history. Both profitability and EBIT for Air Freight improved quarter on quarter. Logistics further improved its profitability and expanded its footprint, inaugurating the new 40,000 m² manufacturing facility in Dubai and moving ahead with construction of a state-of-the-art warehouse terminal in Singapore. We also won a major oil and gas project in Iraq, where Panalpina’s expertise in marine chartering and transport engineering was the real differentiator.

We centralized our supply chain experts under one group called Supply Chain Solutions; the solutions they offer go beyond transportation services to additionally cover all supply chain services at origin and destination. We also further developed our services in multimodal transportation, which involve not only our core products of Air Freight, Ocean Freight and Logistics, but also rail and trucking. The latest launch was the new Panprojects Carrier service, which enables us to oversee multimodal heavy-lift moves from end to end under one single contract that governs all modes of transport.

Digitalization is one of the primary drivers in our industry, and we see that as an opportunity to offer better, more transparent services to our customers. In 2017, we announced the launch of a new customer portal that will create an innovative, end-to-end digital environment for our customers. As the first step, we piloted a new online tool with selected Air Freight customers and will launch the platform in 2018.

Another important digital tool is the Validaide system that we co-developed, allowing us and our customers to improve the transparency of carriers and routes. And, in order to further foster our digital transformation, we created a new position of Head of Digital Innovation, reporting directly to me.

Robert Erni: In 2017, Panalpina was successful in further improving operational performance and productivity. We rolled out our new transportation management system for Air Freight and Ocean Freight in Germany, demonstrating that it can be implemented successfully in a large country and that it improves processes and data quality. This new system will allow us to become a cost leader in our industry, giving us the flexibility to adapt to changes in the marketplace more quickly; it will also help to make us fit for acquisitions by enabling us to integrate other companies more easily. That is why we continued to invest in upgrading our IT systems during the year, even at times when margins were tight.

Interview with the Chairman, CEO and CFO continued



The Global Business Services Center in Manila handles operational transactions related to Air and Ocean Freight activities.

The Global Business Services network opened a new center in Mumbai, India, adding to the locations in Wuhan, Manila and Prague. These off-shoring centers have made an important contribution to productivity by assuming operational tasks from the Panalpina locations, not only for financial but also for air and ocean transactions and other standard processes. That has allowed us to free up our experts from time-consuming documentation work so that they can help our customers to manage their supply chains better.

What were the main market factors that influenced Panalpina during 2017?

Stefan Karlen: In air freight, the widening gap between capacity supply and demand impacted the rate levels and increased the rate volatility to levels we have never seen before. The e-commerce boom intensified this situation as customers took steps to shorten their supply chains and increase the speed to market. Panalpina recognized these trends early and worked with air freight customers and carriers to secure capacity. In ocean freight, the ongoing consolidation of carriers following the Hanjin collapse affected the dynamics of rate development.

Can you comment on the financial results for 2017?

Robert Erni: We ended 2017 on a strong note, with record volumes and profitability in Air Freight. In Ocean Freight, we kept volumes stable throughout the year, but as margin pressure continued into the fourth quarter, a full-year loss resulted for that part of our business. Logistics increased its EBIT significantly despite higher investments in the new warehouse.

Stefan Karlen: These favorable results demonstrate our company's robustness: even as we forged ahead with the largest transformation in our history, we were able to secure record volumes and deliver value-added, innovative services to our customers.

Peter Ulber: Based on the successful financial results of 2017, Panalpina's Board of Directors will propose a dividend of CHF 3.75 per share to the Annual General Meeting on May 8, 2018; this is equivalent to a dividend yield of 2.5% based on the 2017 year-end share price.

3.75^{CHF}

dividend payment per share

2.5%

dividend yield

“Innovation will be key to our success. Our industry is only at the beginning of the digitalization process and Panalpina strives to be one of the key players to shape the new logistics environment of the future.”

Peter Ulber
Chairman

Interview with the Chairman, CEO and CFO continued



3,000

Panalpina employees are qualified to Good Distribution Practice standards.

Has sustainability become more of a focus area for Panalpina?

Peter Ulber: Sustainability has been a major focus and a core value of the company for many years. In 2017, our dedicated Panalpina team, with the complete support of the management, has positioned the company as a true leader in the industry. As a global organization, we realize our responsibility to have a positive impact that reaches beyond purely financial performance.

Stefan Karlen: Our customers expect us to show our sustainability-related record during RFQs and push for concrete data and information. It is gratifying that many customers, especially in the fashion industry, consider Panalpina a model company in terms of sustainability.

Robert Erni: Increasing our focus on sustainability is also helping us to mitigate many key risks. For instance, it can help to reduce costs and lower liabilities for the company. By creating a safe working environment, for example, we lower the risk of accidents.

What are your objectives for 2018?

Stefan Karlen: We aim to grow at or above the market in our core products by supporting our customers to adapt their supply chains to the new dynamics; our global Supply Chain Solutions teams will be key to this development. In Air Freight, our goal is to replicate the success of the second half of 2017 through a proactive approach with carriers and customers. We will continue the turnaround of the Ocean Freight business by focusing on productivity in order to improve margins and overall profitability. In Logistics, we will continue to expand our Logistics Manufacturing Services capabilities and services portfolio. Another important focus area is the new customer portal, which will be expanded in terms of functionality and stakeholders.

Robert Erni: The focus for 2018 will continue to be on cost efficiency and operational improvement. The implementation of SAP TM will continue in additional large countries, together with the expansion of Global Business Services. We are also continuing to improve our net working capital management and increase the cash conversion.

Peter Ulber: In 2018, we will continue to strengthen the foundation of the company in terms of organizational stability, financial performance and industry-leading technology. In addition to organic growth targets, we will intensify our focus on external growth through acquisitions.

Moreover, the successful expansion of the Panalpina Perishables Network will continue, and similar plans will be explored for other niche markets. In the broader area of industry consolidation, Panalpina is now well positioned to take an even more active role.

Lastly, innovation will be key to our success. Our industry is only at the beginning of the digitalization process and Panalpina strives to be one of the key players to shape the new logistics environment of the future.