



Compensation report 2016

COMPENSATION REPORT

Compensation report

The compensation report describes the remuneration philosophy and principles, as well as the governance framework related to the compensation of the Board of Directors and the Executive Board of Panalpina. The report also provides details of the compensation programs and the remuneration related to the 2016 performance year.

The compensation report is based on sections 3.5 and 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Art. 13 to 16 of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC).

The Annual Shareholders' Meeting votes separately each year on the approval of motions from the Board of Directors concerning the aggregate maximum amount of compensation for the Board of Directors until the following ordinary Shareholders' Meeting; and for the Executive Board for the following financial year.

The Articles of Association of Panalpina World Transport (Holding) Ltd are available in English and German on the Investors section of Panalpina.com, under the Corporate Governance heading.

Remuneration philosophy

In the volatile economy and the challenging business context in which Panalpina operates, it is critical to recruit, develop and retain a dedicated and capable team of employees with excellent skills, integrity and high ethical standards.

Remuneration at Panalpina is built around the fundamental objective to support the achievement of the strategic business objectives and demonstrate behaviors that are consistent with Panalpina's values.

Remuneration principles

- ✓ Provide a competitive remuneration package compared to the relevant talent market
- ✓ Align with shareholders' interests, especially in terms of long-term value creation
- ✓ Align performance orientation with the achievement of the company's strategic objectives

- ✓ Encourage behaviors that are consistent with Panalpina's values and high ethical standards
- ✓ Ensure fair and transparent application throughout the group

Determination of compensation

The main duties of the Compensation and Nomination Committee (CNC) comprise the determination and validation of the compensation policies, compensation models, and principles of remuneration for the members of the Board of Directors and Executive Board. The CNC will prepare and present respective motions and recommendations to the Board of Directors. The remuneration of the Board of Directors and Executive Board members is reviewed annually to ensure that the value and nature of this remuneration is in line with what is observed in comparable organizations. Published reports of leading consultancies on the topic of the executive remuneration of Swiss companies serve as the basis for such review.

On the basis of the external benchmark information, combined with internal peer comparisons and individual performance evaluation, the CNC defines the amount and the composition of remuneration for the Executive Board members, and submits its proposal to the Board of Directors for final approval.

At the Annual General Meeting of Shareholders of May 10, 2016, the following members of the Board of Directors were re-elected as members of the CNC for a one-year term: Thomas E. Kern, Chris E. Muntwyler and Knud Elmholt Stubbjær. Peter Ulber was elected from the Board of Directors to act as the new Chairman of the CNC following the retirement of Rudolf W. Hug.

The CNC monitors the selection process for members of the Board of Directors, the Executive Board, and other key senior management positions. The CNC also determines the overall remuneration and terms of employment, and submits proposals for final approval to the Board of Directors for these positions.

The CNC holds its ordinary meetings normally one day before the meetings of the Board of Directors, typically four times per year.

The Chairman of the CNC regularly updates the Board of Directors on the activities and decisions made during the CNC meetings and may call for further meetings as necessary.

Remuneration model

The remuneration model is designed to provide an appropriate balance between fixed and variable pay, as well as between short-term, mid-term and long-term incentives.

Board of Directors

The members of the Board of Directors receive a fixed annual cash compensation, which consists of a Board membership compensation (including Committee memberships), an attendance compensation per meeting and a potential grant of free shares at the discretion of the CNC's evaluation of the Group's overall situation.

The shares are granted for the previous business year at the share's closing price listed on the SIX Swiss Stock Exchange on April 30. Any shares granted are blocked from trading for the duration of one year, except in the case of a change of control, liquidation, death or disability, when the shares are unblocked immediately.

The members of the Board of Directors do not participate in Panalpina's employee benefit or incentive plans, except for social security where applicable.

Executive Board

The members of the Executive Board receive a fixed annual base salary which takes into consideration the scope and responsibilities of the role, its market value and the skills, experience and performance of the individual in the role.

In addition, Executive Board members receive a performance-related annual bonus, expressed as a percentage of annual base salary, that rewards the company's financial performance (accounting for 70% of the total bonus) and the individual's performance (accounting for 30% of the total bonus) for the respective performance period. Depending on their function, the target bonus ranges between 67 and 100% for the members of the Executive Board.

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The company's financial performance is fully measured on the Group's EBIT. The minimum EBIT achievement level, below which no financial bonus is paid out, is 60% of the target. The maximum EBIT, above which the bonus payout is capped, is 140% of the target.

The individual performance is assessed through the formal performance management process. The individual performance rating translates into a payout percentage for the individual portion of the annual bonus.

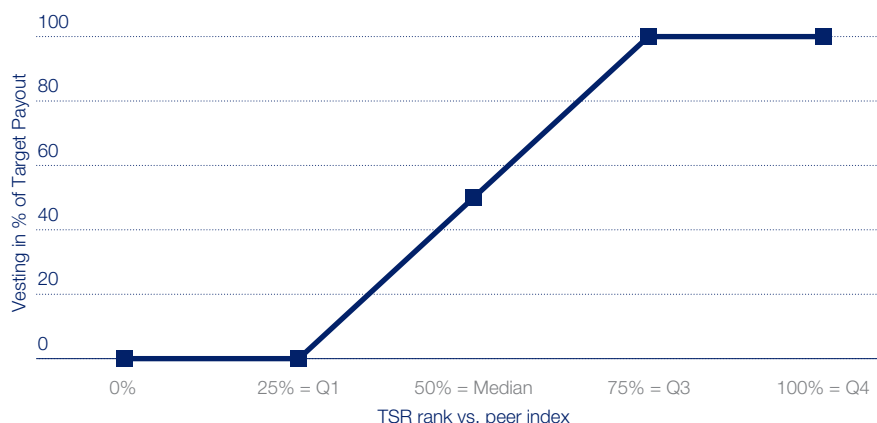
The combined financial and individual bonus payout may range from 0% to 185% for the members of the Executive Board and 0% to 200% for the CEO, depending on the respective performance achievement.

Members of the Executive Board participate in the Mid-Term Incentive Plan (MTIP), under which 60% of the annual bonus is payable in cash and 40% is converted into Panalpina World Transport (Holding) Ltd (PWTN) shares that are restricted for one year using a three-year fixed share price. After the restriction period, and subject to continuous employment, deferred bonus shares are matched one-to-one with free shares that are restricted for another year. The fixed share purchase price rewards the participants for a positive share price development, while a negative share price evolution reduces the value of the award.

The applicable share price for determining the number of deferred bonus shares related to the bonus paid in 2017 (performance year 2016) was defined for the three-year cycle (from 2015 to 2017) as the PWTN closing price on April 30, 2015, which amounted to CHF 130.70.

In case of voluntary resignation or termination for cause, the free matching shares will forfeit. The matching may be accelerated in case of termination without cause, retirement, death or disability. In case of change of control or liquidation, the CNC reserves the right to determine any appropriate measure with regard to the unvested free matching shares.

PSU vesting curve



It is foreseen that the MTIP will cease to exist as of the 2017 performance year. Additional details regarding this change can be found under the section "Foreseen Changes to the Variable Remuneration for the Executive Board."

Panalpina World Transport (Holding) AG – TSR Peer Group

- 1 United Parcel Service, Inc. Class B
- 2 Deutsche Post AG
- 3 FedEx Corporation
- 4 Kuehne + Nagel International AG
- 5 C.H. Robinson Worldwide, Inc.
- 6 Expeditors International of Washington, Inc.
- 7 Nippon Yusen Kabushiki Kaisha
- 8 Nippon Express Co., Ltd.
- 9 DSV A/S
- 10 Agility Public Warehousing Co. K.S.C.
- 11 Kawasaki Kisen Kaisha, Ltd.
- 12 Hitachi Transport System, Ltd.
- 13 Hub Group, Inc. Class A
- 14 Kintetsu World Express, Inc.
- 15 Forward Air Corporation
- 16 Sinotrans Air Transportation Development Co. Ltd. Class A
- 17 Aramex PJSC
- 18 Norbert Dentressangle SA
- 19 SITC International Holdings Co., Ltd.
- 20 Hanjin Shipping Co., Ltd
- 21 CWT Limited

Members of the Executive Board also participate in a Performance Share Units Plan (PSUP) that rewards long-term shareholder value creation. Performance Share Units (PSUs) are delivered through an annual rolling grant with a cliff vesting after three years, dependent on the relative position of the Total Shareholder Return (TSR) versus a peer group at the end of the performance cycle. The peer group consists of a balanced selection of companies within the industry taking into consideration, among other factors, market capitalization, business profile and geographic distribution. Vesting of the PSUs in case the TSR performance ranks below the 25th percentile versus the external peer group is 0%. Between the 25th and the 75th percentile, a linear vesting from 0% up to the maximum of 100% vesting is applied.

The performance period related to the 2016 PSU grant, started on January 01, 2016 and ends on December 31, 2018. In case of retirement, disability or death, accelerated pro-rated vesting applies at the end of the respective performance year. The CNC has the right to apply discretion for special circumstances.

Executive Board members participate in the regular employee pension plans of the country where they have their employment contract. For members employed in Switzerland, the company pension fund covers their annual base salary and the actual bonus payout up to

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an overall insured income of CHF 846,000. Pension fund contributions are equally split between employer and employee for insured income up to CHF 400,000. In the supplemental scheme covering income between CHF 400,000 and CHF 846,000 (current maximum under Swiss law), contributions are paid by the company. Certain Executive Board members may participate in a non-Swiss pension fund scheme whose benefits and contributions are equivalent to those of the Swiss pension plan.

Each Executive Board member is entitled to a company car allowance and a general expense allowance, in accordance with the expense rules applicable to all employees at management levels in Panalpina Switzerland.

Employment agreements with Executive Board members stipulate a notice period of twelve months. They do not contain any "golden parachutes" in case of a change of control, or any severance provisions in case of termination of employment.

Remuneration of the Board of Directors and the Executive Board for 2016

To increase transparency regarding the reporting of the compensation of the members of Panalpina's Executive Board and Board of Directors, the remuneration table format has been changed. The new format reflects a more frequently observed format in other Swiss listed companies. For the sake of comparison, both formats have been included in this year's compensation report.

The components of the new format have been listed below, including the corresponding component where this data will be reported in the future:

Annual remuneration:

Will be split between "Basic Salary and Membership Fees" and "Cash Bonus."

Meeting attendance fees:

Included in "Allowances and Attendance Fees" figure.

Other long-term benefits:

Removed.

Termination benefits:

Removed.

Share-based payments:

Included in the "Long Term Incentives" figure. The share-based payments for 2016 include the MTIP (value of the deferred bonus shares to be granted in May 2017 and matching free shares offered on May 12, 2016 to be granted in May 2017) and PSU grants (granted on May 12, 2016). The theoretical value of the PSUs is based on the company's valuation model at grant date of CHF 40.16 (assuming median TSR performance versus peer group) versus a market value at grant date of CHF 114.50.

The MTIP will cease in the coming years, as detailed in the section "Foreseen changes to the variable remuneration for the Executive Board" below.

Employer contributions to social security and retirement benefits:

Included in "Social Security and Retirement Benefits" figure.

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Remuneration of the Board of Directors and the Executive Board for 2016
Reward table (old format)

2016 in thousand CHF	Annual remuneration	Meeting attendance fees	Other long-term benefits	Termination benefits	Share-based payments	Employer contributions to social security and retirement benefits	Total CHF '000 2016
Board of Directors							
Peter Ulber, Chairman	0	0	0	0	0	0	0
Beat Walti, Vice Chairman	150	2	0	0	50	28	230
Ilias Läber, Member	150	5	0	0	50	29	233
Chris E. Muntwyler, Member	150	4	0	0	50	29	232
Roger Schmid, Member*	150	5	0	0	50	13	217
Knud Elmholt Stubbjær, Member	150	4	0	0	50	1	204
Pamela Knapp, Member	150	4	0	0	50	28	232
Thomas Kern, Member	150	5	0	0	50	29	233
Board of Directors leaving							
Hans-Peter Strodel, Member**	0	0	0	0	0	0	0
Rudolf W. Hug, Chairman	225	2	0	0	50	32	309
Total remuneration of Board of Directors	1,275	29	0	0	400	189	1,892
Executive Board							
Stefan Karlen, Chief Executive Officer	529	0	0	0	101	72	703
Members of the Executive Board	4,808	0	0	0	1,715	1,191	7,713
Executive Management leaving***	2,336	0	0	0	1,410	347	4,093
Total remuneration of Executive Board	7,673	0	0	0	3,226	1,610	12,509
Total remuneration of key management personnel	8,948	29	0	0	3,626	1,799	14,401

* Representative of Ernst Göhner Stiftung (employer of respective Board member) and the social security reported is actually VAT (as payments are made to the Stiftung).

** Hans-Peter Strodel left in 2015, but is added to the list so that the 2015 totals also match last year's table.

*** Peter Ulber concluded his employment in 2016 and is the only individual recorded for 2016.

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Remuneration of the Board of Directors and the Executive Board for 2015/2016
Reward table (new format)

2016 in thousand CHF	Basic salary and membership fees CHF '000		Allowances and attendance fees		Cash bonus CHF '000		Long-term incentives		Social security and retirement benefits		Total CHF '000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Board of Directors												
Peter Ulber, Chairman	0	0	0	0	0	0	0	0	0	0	0	0
Beat Walti, Vice Chairman	150	150	2	3	0	0	50	50	28	28	230	230
Ilias Läber, Member	150	150	5	5	0	0	50	50	29	27	233	232
Chris E. Muntwyler, Member	150	150	4	4	0	0	50	50	29	28	232	232
Roger Schmid, Member*	150	150	5	5	0	0	50	50	13	12	217	217
Knud Elmhøldt Stubkjær, Member	150	150	4	3	0	0	50	50	1	1	204	204
Pamela Knapp, Member	150	75	4	4	0	0	50	0	28	11	232	90
Thomas Kern, Member	150	75	5	4	0	0	50	0	29	11	233	90
Board of Directors leaving												
Hans-Peter Strodel, Member**	0	75	0	2	0	0	0	50	0	14	0	141
Rudolf W. Hug, Chairman	225	450	2	4	0	0	50	50	32	58	309	562
Total remuneration of Board of Directors	1,275	1,425	29	32	0	0	400	350	189	190	1,892	1,998
Executive Board												
Stefan Karlen, Chief Executive Officer	317	0	61	0	152	0	101	0	72	0	703	0
Members of the Executive Board***	3,270	3,576	538	1,005	1,000	1,726	1,715	2,602	1,191	1,350	7,713	10,260
Executive Management leaving****	950	480	54	1,210	1,332	0	1,410	95	347	222	4,093	2,008
Total remuneration of Executive Board	4,537	4,056	652	2,215	2,484	1,726	3,226	2,697	1,610	1,573	12,509	12,267
Total remuneration of key management personnel	5,812	5,481	680	2,247	2,484	1,726	3,626	3,047	1,799	1,763	14,401	14,265

* Representative of Ernst Göhner Stiftung (employer of respective Board member) and the social security reported is actually VAT (as payments are made to the Stiftung).

** Hans-Peter Strodel left in 2015, but is added to the list so that the 2015 totals also match last year's table.

*** For comparison reasons, Peter Ulber's remuneration was included in the 2015 Members of the Executive Board figure.

**** Peter Ulber concluded his employment in 2016 and is the only individual recorded for 2016.

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Board of Directors remuneration

With the election of Peter Ulber as Chairman of the Board of Directors at the Annual General Meeting of May 10, 2016, the role is envisioned to have a considerably higher degree of direct involvement in Panalpina's operations. As a result of these changes, the chairmanship compensation has been increased from CHF 450,000 to CHF 500,000. In addition, the Chairman will receive attendance compensation of CHF 500 per meeting and an increased potential grant of free shares of the Company in the value of CHF 350,000 (from CHF 50,000 previously) under the same conditions as the other Board members, as defined above. With Mr. Ulber remaining employed by Panalpina until 31 December 2016, it was agreed that no chairmanship compensation was to be paid to him for the duration of his employment.

Rudolf W. Hug received a cash compensation of CHF 75,000 under a consulting services agreement entered on May 10, 2016 until August 31, 2016 for the purpose of facilitation, support and finalization of various board matters in which he was previously involved as the Chairman of the Board of Directors.

Executive Board

In 2016, no fundamental changes to the overall remuneration mix (i.e. fixed and variable remuneration as well as short- and long-term incentives) were made. However, a restructuring to the variable remuneration of the Executive Board is envisioned per 2017. Additional details regarding this change can be found under the section *"Foreseen Changes to the Variable Remuneration for the Executive Board."*

The annual bonus payout amounts to 75% on average for the members of the Executive Board and 140% for the departing CEO. The bonus included in the 2016 reward table above is related to the cash bonus paid out in 2017, which related to the performance year 2016.

Under the MTIP, a total of 9,182 deferred bonus shares were granted on May 12, 2016 to the Executive Board, out of which the former CEO received 4,308 deferred bonus shares, with a fair market value of CHF 114.50 per share. Based on the Executive Board members in service per December 31, 2016, 4,874 matching free

shares will be granted on May 12, 2017. In line with the MTIP plan regulations, the accelerated vesting of the FSA offered in May, 2016 for the departing CEO resulted in a onetime grant of 4,308 blocked shares at the end of December, 2016. To compensate for the loss of participation rights in the 2017 MTIP, related to the 2016 performance year, 3,943 blocked shares were granted to him at the end of December, 2016.

On May 12, 2016, 4,000 PSUs were granted to the departing CEO and 12,194 PSUs to other Executive Board members. As per December 31, 2016 the TSR related to the PSUs granted in 2016 ranked slightly below the 50th percentile of the peer group and at present would result in an approximate vesting of 49%. To compensate for the loss of entitlement due to the accelerated vesting, 2,000 blocked shares were granted to him at the end of December, 2016.

Other share-based or long-term incentive compensation plans for Executive Committee and senior management

Executive Committee

Executive Committee members comprising of the core business functions (nine executives in 2016), who are not members of the Executive Board, participate in the PSUP and the MTIP similar to the above described Executive Board plans, but with the details outlined below.

For those executives, 80% of the annual bonus is payable in cash and 20% is converted into PWTN shares that are matched with one free matching share each at the end of the one-year restriction period under the MTIP. All other plan features are the same as for the Executive Board as described above.

On May 12, 2016, 2,229 deferred bonus shares in total were granted to these executives at a fair market value of CHF 114.50. This relates to the bonus paid in 2016 for performance in 2015. Based on the executives in service per December 31, 2016, all 2,229 free matching shares will be granted on May 12, 2017. In addition, on May 12, 2016, 1,891 matching free shares in total were granted to these executives at a fair market value of CHF 131. This relates to the bonus paid in 2015 for performance in 2014.

Executive Committee members were granted in total 11,800 PSUs on May 12, 2016.

Senior management – MIP (Management Incentive Program)

Within this old plan the senior management had the option (voluntary) to invest part of their annual bonus in Panalpina shares with a discounted share price of 25% versus the moment of grant. These shares were blocked for one year. As a consequence Panalpina was matching these shares with stock options which had a vesting period of three years (one third after one year, one third after two years and the last third after three years). The total duration of the options amounts to six years from the date of grant. As of December 31, 2016, all options relating to this plan have expired.

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Management Incentive Plan (Option Plan)

Year	Nr of participants	Discount	Nr of shares purchased	Options granted	Exercise price	Exercise price for US participants	Options vested but not exercised yet	Expiry date
2010	51	25%	13,453	13,453	95.65	87.75	1,762	Jun 14, 2016

Management Incentive Plan (Free Share Plan)

Year	Nr of participants	Discount	Nr of shares purchased	Free share ratio	Matching shares granted	Vested free shares	Forfeited free shares	Non-vested free shares
2014	51	10%	9,995	1 to 3	3,342	2,118	471	753
2015	83	10%	12,819	1 to 3	4,289	1,603	354	2,332
2016	83	10%	13,672	1 to 3	4,574	-	120	4,454

This plan was changed in 2011, replacing the stock options with matching free shares. Within this plan the senior management has the option (voluntary) to invest part of their annual bonus in Panalpina shares with a discounted share price of 10% versus the moment of grant. These shares are blocked for one year. As a consequence Panalpina matches these shares with free share grants based on a ratio of one free share for four shares bought by the participant (for the 2011, 2012 and 2013 plans) and based on a ratio of one free share matched for three shares bought by the participant (for the 2014 and 2015 plans). These free shares have a staggered vesting period of three years (one third per year). For senior management positions for the years 2014, 2015 and 2016, the grants are summarized on December 31, 2016 as per the table below.

The members of the Executive Board and Executive Committee who participate in the MTIP and PSUP are not eligible for the MIP plan as described above.

Credits, loans or other monetary allowances

No contributions or other monetary allowances have been made to closely related parties of current or former members of the Board of Directors and Executive Board respectively.

Credits or loans in favor of members of the Board of Directors or Executive Board do not exist.

Foreseen changes to the variable remuneration for the Executive Board

In its November 2016 meeting, the CNC decided to change the structure of the remuneration packages paid to Panalpina's Executive Board and Executive Committee members. These changes seek to increase the proportion of executive remuneration attributable to long-term performance, simplify the structure and further align the interests of executives with shareholders, and can be summarized as follows:

No changes are foreseen in respect of the value and the structure of the Annual Bonus paid to members of the Executive Board, including the mandatory bonus deferral into blocked shares. While the mandatory bonus deferral into shares will remain, the MTIP including its fixed share price and free share matching will cease to exist per the 2018 bonus payout (performance 2017). Any Free Share Awards granted previously will continue to exist and vest per the respective plan conditions. A one-off Free Share Award will be granted in 2019 in respect of the 2017 bonus, to compensate for the remuneration gap arising from the ceasing of the MTIP plan and the prolonged performance period underlying the LTIP plan. This Free Share Award will be subject to similar terms as the current plan conditions.

To compensate for the removal of the MTIP, the prolonged performance period and the increased risk, an additional number of PSUs will be granted to the executives in 2017 as part of their existing long-term incentive plan.

In addition to the existing KPI, TSR vs. an external peer group, GP to EBIT margin (conversion rate) will be introduced as a second KPI under the performance conditions of the long-term incentive plan. Both KPIs will carry an equal weight.

To further align the interests of executives and shareholders, a mandatory shareholding requirement, expressed as a percentage of annual base salary, will be introduced for members of Panalpina's Executive Board and Executives Committee. Executives will be granted a three-year period to reach the required levels. This same three-year period will be granted to any joining executive, following the start of their appointment.

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Report of the statutory auditor to the General Meeting of Panalpina World Transport (Holding) Ltd, Basel

We have audited the accompanying remuneration report of Panalpina World Transport (Holding) Ltd for the year ended December 31, 2016. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies contained in table Remuneration of Board of Directors and the Executive Board for 2016 in the compensation report 2016, page 76.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report for the year ended December 31, 2016 of Panalpina World Transport (Holding) Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Marc Ziegler

Reto Scherrer

Licensed Audit Expert

Licensed Audit Expert

Auditor in Charge

Basel, February 23, 2017