

YEAR IN REVIEW

GRI
Standard Disclosures
G4-1

Interview with the Chairman and the CEO



Interview with Peter Ulber, Chairman of the Board of Directors (right), and Stefan Karlen, Chief Executive Officer (left)

“With our strong and flexible organization, we are now able to accelerate our plans for growth and to succeed in a competitive environment.”

Peter Ulber
Chairman of the Board of Directors

Mr. Ulber, 2016 was your first year as Chairman of the Board, following three years as Panalpina's CEO. What stands out the most from 2016?

Peter Ulber: The highlight for me from 2016 was seeing the positive results from our strong focus on operational improvement. Over the last three years, our priorities have been to strengthen our organization and management team, follow strict cost controls and implement systems to improve quality and productivity; we have turned around loss-making operations and increased the return on our sales investments. With our strong and flexible organization, we are now able to accelerate our plans for growth and to succeed in a competitive environment.

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Interview with the Chairman and the CEO continued

Mr. Karlen, 2016 was your first year as CEO for Panalpina. What were your priorities when you took over the helm in September?

Stefan Karlen: My main priority was to ensure that we maintained the momentum for growth, discipline, productivity and profitability that was already under way. With a solid strategy in place, we could then focus on accelerating its execution and striving for continuity. In particular, I wanted to ensure that the Operational Transformation Program to standardize our financial and operational IT systems remained on track.

I also took the opportunity to meet with some of our key customers and suppliers and, of course, with Panalpina employees in different locations. Although I have worked for Panalpina for over 20 years, I am still astounded by the wide breadth of talent and expertise throughout the company.

What was the market environment for freight forwarding and logistics in 2016?

Peter Ulber: The markets remained soft in the first half of the year and growth in both air and ocean freight was in the low single digits. However, in the second half of the year, the air freight peak season was much stronger than anybody had anticipated. In ocean freight, capacities were tight, triggered mainly by the Hanjin collapse at the end of August. As a consequence of these incidents, rates soared in both air and ocean freight, putting strong pressure on our GP margins during the second half of 2016.

Additionally, Panalpina had much lower volumes in oil and gas compared to previous years. However, the market grew in some regions, especially the emerging economies of Asia, and the rapidly changing digital economy has opened new opportunities for us.

How did Panalpina meet this challenging market environment?

Peter Ulber: We were able to adapt to this environment because of a firm and consistent commitment to our strategy, which is built around four pillars: operational improvement, organic growth, external growth and innovation. We continued to follow our mission to unlock value in our

customers' supply chains and offer them efficient, end-to-end logistics solutions. Because of this focus on our customers, we have retained our position as one of the world's top five companies for air and ocean freight.

What were some of the highlights of 2016?

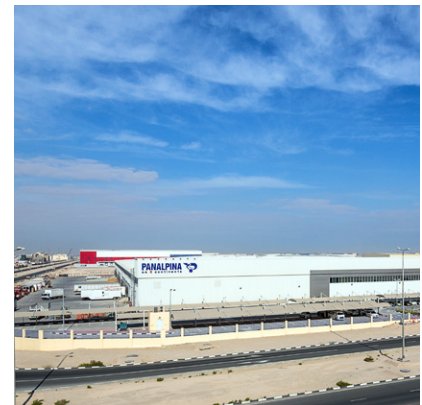
Stefan Karlen: One of the most important achievements is that the system to standardize and improve processes for Ocean Freight and Air Freight—SAP transportation management—was fully implemented in Switzerland and Singapore in 2016, without customer interruption and with positive feedback from our operational users. It has since been launched successfully in Italy and Canada. The system to unify our financial systems, ERP Single Client, was rolled out at additional locations and now encompasses over half of our transactions globally.

Throughout 2016, we continued to maintain strict cost management. The year brought an improvement in sales efficiency through adjustments in our sales structure and processes. We offshored certain operational functions to Global Business Services centers at three sites, leading to increased quality and productivity.

We continued to build on our innovative Logistics Manufacturing Services (LMS), which integrates us into the customer's supply chain by managing last-minute assembly, as well as repairs and returns. In Dubai, we completed construction of a giant warehouse that provides LMS as well as freight forwarding services to customers in the important MEAC market.

Airflo, the perishables company we acquired in 2015, was fully integrated into Panalpina in 2016 and contributed to a strong growth in our Air Freight product. We also continued to build up the infrastructure for the perishables business as well as pharmaceuticals through our modern, temperature-controlled facilities in Amsterdam, Antwerp and Brussels.

And as part of our expansion into developing economies in Asia Pacific, we have opened our first office in Cambodia, which offers opportunities in the textile, agriculture and construction industries.



40,000 m²

Completed new facility in Dubai for freight forwarding, contract logistics and Logistics Manufacturing Services.

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Interview with the Chairman and the CEO continued

“ We are keeping to our long-term goals and are confident that we can maintain stable costs to position the business for volume growth. ”

Stefan Karlen
Chief Executive Officer

3.75 CHF

dividend payment per share

3%

dividend yield

What were the year's highlights in terms of sustainability?

Stefan Karlen: In 2016, we met or surpassed our internal goals for environmental impact, especially in terms of lowering our total energy use and reducing the amount of paper used in our offices. A special highlight was the Global Sustainable Action Week in September, when employees in all Panalpina regions pitched in to help their communities and contribute to sustainable activities.

Externally, we continued to support our customer's sustainability efforts through tools to measure greenhouse gas emissions and a strong subcontractor management program. As a member of the Science Based Target initiative, we joined over 30 international companies in committing to targets for reducing our CO₂ emissions. But while an increasing number of customers consider sustainability to be an important topic, the cost of services remains a key factor in their decision process. Our goal is to demonstrate to customers that sustainability is a long-term commitment that benefits them and their communities.

How did the financial results for 2016 compare to 2015?

Stefan Karlen: Against the backdrop of a very tough market environment, Panalpina recorded the highest Air Freight volumes since 2007. However, the margins in both Air and Ocean Freight came under pressure in the second half of 2016, resulting in lower full-year earnings.

We achieved solid volume growth in both our core products. Air Freight grew by over 10% (of which about 4% was organic) versus a market of 1 to 2%; additionally, this was the highest volume in almost ten years. And while in Ocean Freight the volumes decreased by 7% versus a market of 1%, when compared to 2015, Panalpina recorded a positive volume development with every quarter of 2016.

We successfully compensated for the downward trend in the oil and gas business with organic growth across our other industry verticals and organically the business grew by 2% at the GP level. And, we have clearly demonstrated that we can stringently manage our costs.

Adjusted for the restructuring expenses of CHF 28 million for Energy and Project Solutions, EBIT reached CHF 109.9 million,

a decrease of 6.3% from 2015, and consolidated profit reached CHF 80.2 million, a decrease of 9.1% from 2015.

Peter Ulber: It is noteworthy that strong cash conversion has now become part of Panalpina's DNA. The cash position remains very healthy with roughly CHF 390 million at the end of 2016, which is practically unchanged from the previous year. In light of the healthy net cash position and stable profitability, the board of directors will propose an increased (+7%) dividend payment of CHF 3.75 per share to the Annual General Meeting on May 3, 2017. This is equivalent to a dividend yield of 3% based on the 2016 year-end share price.

Looking forward, what will be your areas of focus in 2017?

Peter Ulber: As chairman, my focus will be primarily on exploring opportunities for bolt-on mergers and acquisitions with companies that meet our objectives for long-term growth. I also intend to stay closely involved with the Innovation Board, which will allow us to keep abreast of market developments and develop new solutions that anticipate and meet our customers' requirements.

Stefan Karlen: The unusually strong air freight peak season, and the temporary capacity constraints in the ocean freight market in 2016, mean that we have to concentrate even more on improving our yield management, especially when it comes to our Ocean Freight operating model. Although we expect 2017 to be a year of great political and macroeconomic uncertainties, we are keeping to our long-term goals and are confident that we can maintain stable costs to position the business for volume growth.

We will continue to increase our focus on industries that offer steady, non-cyclical growth, in particular perishables and chemicals, and to increase our business with existing customers. Top line growth will be a priority, as well as growth through selected bolt-on acquisitions.

Our goal over the coming years is to reach a GP to EBIT conversion ratio of 25% for Air Freight and 20% for Ocean Freight, assuming that the market environment is generally favorable for our industry. These are ambitious targets, but with our solid strategy and the broad expertise and commitment of our Panalpina teams, I believe we will achieve them.