



Strategy

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Vision, mission and values

A key element of Panalpina's brand equity is our vision, which is built around developing partnerships with our customers in order to meet their freight forwarding and logistics needs. Our mission describes how we apply our product expertise to add value for our customers, while our values describe the principles that guide our actions internally and externally.

**Vision**

To be the most customer-focused global provider of freight forwarding and logistics solutions – a trusted, valued and respected partner.

**Mission**

Leverage our global presence and competence in Air and Ocean Freight by collaborating with our customers to unlock value in their supply chains and together build smart and efficient end-to-end logistics solutions.

**Values****Performance**

Our continuous commitment to long-term sustainable development and financial success. In essence, we aspire to out-play the competition.

Integrity

The compass which drives our behavior and attitude towards each other and our customers. For us this would be reflected by "We keep our promises and play by the rules."

Professionalism

How we create value for our customers through our solutions and by anticipating their business needs. In short, "We know our business" – and create value for our stakeholders.

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Panalpina's strategy is based on four pillars – operational improvement, organic growth, external growth and innovation. While our main focus in 2016 was on operational improvement, we are now turning our attention towards growth and innovation.



Operational improvement

ERP Single Client implemented for 55% of transactions
SAP TM implemented in four countries



Organic growth

New office in Cambodia; additional offices in China and Japan
~2% GP organic sales growth throughout industry verticals



External growth

Successful integration of Panalpina Airflo



Innovation

New solution for commodity trading customers

Operational improvement

We have taken several measures since 2013 to improve operations:

Management structure

We have simplified and significantly strengthened the top 100 population, with 64% of these managers newly appointed since 2013. We have equally developed our internal talents, and appointed the CEO and four executive committee members from within.

Centralization and offshoring

The Global Business Services network was built up to handle Air and Ocean Freight processes at three central sites (Manila, Prague and Wuhan), which led to process standardization, productivity improvement, cost reductions and better quality.

Finance and operational IT systems

We have continued to consolidate our disparate finance environments into a ERP Single Client system, increasing transparency and stability. The system is now implemented for 55% of total transactions and the roll-out is expected to be completed by the end of 2017. The SAP Transportation Management system, which supports our Air and Ocean Freight operations, was successfully implemented in Switzerland and Singapore in 2016. We also extended the system to Canada and Italy and started the rollout in Germany. Our aim is to have 60% of transactions in SAP TM by the end of 2018.

Increase of return on sales

Starting in 2013, we implemented several measures to increase sales efficiency and effectiveness, including standardized sales processes, a sales academy and induction program, and a single CRM tool to drive opportunities. We further diversified our industry verticals and focused on innovative solution selling.

Turnaround of loss-making units

Due to Panalpina's structured approach to loss-making operations, most of the top loss-making countries from 2013 are now showing positive EBIT. We have achieved full P&L visibility at regional, country, business unit and department level, allowing us to make the right management decisions.

Cost control

We have kept our costs at the 2013 level and will strive to maintain this in the future.

STRATEGY**Strategy** continued**Organic growth**

To grow Panalpina from within, our strategy is to increase our business with existing customers, to gain new customers and to continue to balance our industry mix. We increased sales efficiency and achieved 80% of GP through our global accounts and key country accounts. This approach paid off in 2016 with several large business wins with major companies over a wide range of verticals.

We have continued to expand our footprint in selected geographies and this year opened our first office in Cambodia, together with new offices in China and Japan. We have also invested in new facilities for perishables and pharmaceuticals in Amsterdam, Antwerp and Brussels. Our new facility in Dubai is now operational and will meet the increased demand for our innovative Logistics Manufacturing Services (LMS).

External growth

Our solid finances and the implementation of unified finance and operational IT systems have put us in a position where we can consider other companies for M&A. These would be bolt-on companies in areas that complement our current services and have strong potential for growth.

Innovation

The major disruptions within the technology and freight forwarding industries present tremendous opportunities for Panalpina. New ideas to fuel Panalpina's growth can come from within the company or from external sources. Panalpina's Innovation Board, now led by the chairman, meets every quarter to follow up on ongoing initiatives and evaluate new ideas. Suitable ideas are proposed to the Executive Board and, if accepted, are adopted by a sponsor. The process has generated several ideas such as the use of 3D printing in manufacturing, end-to-end e-commerce offerings and a new service to support commodity trading companies.

Panalpina extended its partnership with the Cardiff Business School and opened a joint Logistics Manufacturing Research Centre to investigate new approaches to distributed manufacturing, 3D printing, the circular economy, and digital manufacturing. Innovative ideas are also generated through internal meetings with managers and young talents, external conferences, workshops with selected customers and start-up companies or scanning of media to determine industry trends.



The Airflo company was successfully integrated in early 2016 under the brand Panalpina Airflo and was a major driver for increased perishables business.

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Panalpina integrated business model

Our capitals					
Financial investments Financial management Strategic acquisitions	Intellectual capital New methodologies Management systems Advanced IT systems	Human capital Education and training Employee engagement Compliance and ethics	Social Trade organizations, customers, suppliers Philanthropy	Manufactured capital Building new facilities Adopting state-of-the-art technologies	Natural capital Energy utilization Material usage



Our impacts					
Operating profits Resources for investment Long-term stability	Optimized supply chains Effective management IT innovations	Well-trained workforce Commitment to ethics Sustainability awareness	Reputation Customer and supplier relationships Risk management	Changes to our footprint Innovation in transportation	Pollution from infrastructure Waste from operations Greenhouse gases

Our stakeholders				
Customers	Suppliers and subcontractors	Shareholders	Employees	Communities

Our products

 Air Freight From paperless flights to temperature-controlled shipments, we deliver tailored transport services, worldwide and end-to-end.	 Ocean Freight We are one of the world's largest providers of ocean freight services and are present in all major cities and ports.	 Logistics We create more value for our customers' supply chains through integrated planning tools and Logistics Manufacturing Services.	 Energy and Project Solutions We offer integrated turnkey project logistics and forwarding management services to oil and gas customers and various other industries on a global scale.
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Impacts and governance of material topics

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Material topics

The Panalpina Integrated Management Report 2016 presents a balanced and concise analysis of its management and performance related to material issues. These were deemed material if they were thought likely to impact the company's ability to achieve its strategy, to remain commercially sustainable and socially and environmentally responsible. Particular consideration was given to issues that influence stakeholders' assessments of the extent to which their needs can be fulfilled over the long term. Also important are those factors that specifically impact the countries and regions in which Panalpina operates.

In the economic category, the material topics are:

- Economic performance
- Market presence

In the environmental category, the topics most material to Panalpina and its stakeholders are:

- Energy
- Emissions
- Impacts of transportation services

In the social category, the topics include:

- Health and safety
- Labor/management relations
- Training and education
- Fair market practices
- Corruption and compliance
- Product quality
- Supply chain sustainability

Panalpina is committed to deepening its understanding of how its value creation process impacts, and is impacted by, the economic, social and environmental contexts within which it operates.

While this involves seeking answers to a complex set of questions, it is important to our commitment to long-term value creation for our stakeholders. From this process, we identified 22 material aspects, which formed the basis for the content of this report.

Governance of material issues

Panalpina's Board of Directors is the highest governing body and its primary objective is to protect the long-term interests of shareholders by consistently seeking opportunities for growth in Panalpina's core business. It is therefore the responsibility of these eight independent and non-executive board members to manage corporate performance and strategy, capital structure, and market exposure, as well as the company's overall risk profile.

Many material topics, including energy, environment, health and safety, and quality are overseen on an operational and strategic basis by the global head of quality, health, safety and environment, who reports to the company's chief commercial officer and participates in planning and risk analysis on a corporate-wide basis.

Issue such as ethics and compliance, risk management and compensation are the responsibility of individuals or committees on the Board of Directors. Three such committees exist under the Board of Directors:

- The Audit Committee, which primarily supports the board with oversight of financial statements, audits, and risk management.
- The Compensation and Nomination Committee, which monitors the selection process and proposes compensation and bonuses for members of the board, Executive Board, and other senior management positions.
- The Ethics and Compliance Committee, which oversees the company's ethics and compliance program. It also monitors the handling of major legal matters and the development of compliance policies and procedures.

Panalpina's board members bring extensive leadership, broad-based skills and expertise in areas that are critical to our business. The constitution of the board also reflects an ongoing effort to drive diversity of thought and experience at the highest levels of our company in order to better compete in a global marketplace.

Panalpina's Board of Directors is regularly informed about performance and programs, and it engages in ongoing conversations with senior management about sustainability-related opportunities, priorities and goals.

Currently, the remuneration policies for Panalpina's senior management team do not explicitly include sustainability metrics as criteria for compensation. However, many issues that are indirectly connected to sustainability performance, such as cost savings, profitability, employee performance and other topics, are included in performance and compensation reviews.

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Impacts and governance of material topics continued

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Material impacts on resources

Understanding how Panalpina's activities impact the stock of resources that it utilizes during its operations, and the interrelationships between these resources, is a prerequisite to reducing the impacts on these stocks and thus maintaining their value over time. This will allow strategic and business decisions to be made with the benefit of this deeper understanding so that, where technically and economically reasonable, steps can be taken to reduce or mitigate those impacts, and thus ensure the long-term viability of the business.

According to the guidelines of the International Integrated Reporting Council, these stocks of resources have value that is increased, decreased or transformed through the activities and outputs of the organization.

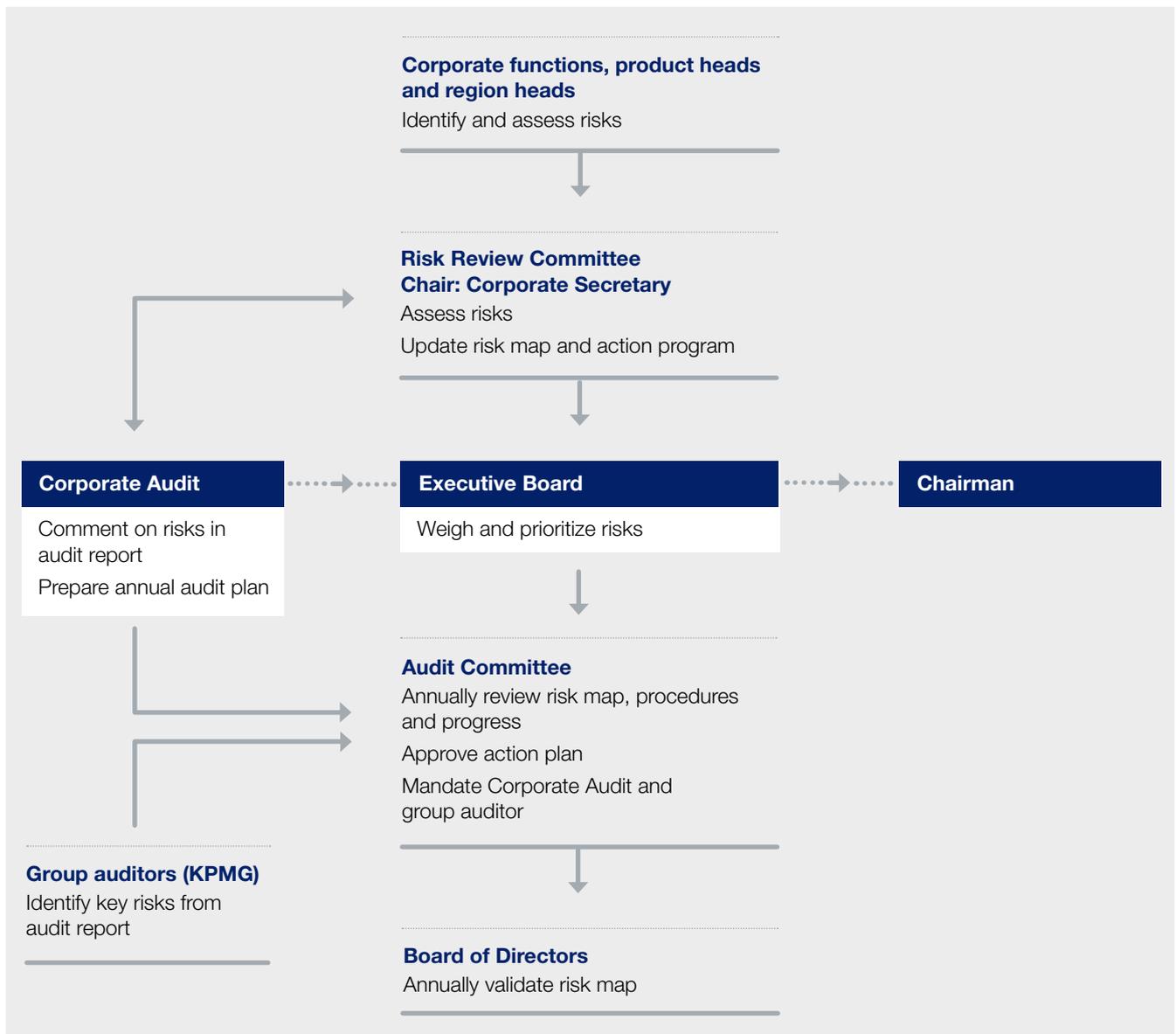
Panalpina is continuing to develop an understanding of where its impacts are greatest, including where they positively and negatively affect the balance of those resources. Each of the material issues identified for Panalpina affects these resources, and it is the objective of this report to highlight the nature of these impacts.

Natural	Renewable and non-renewable resources that provide goods or services that support the prosperity of the organization
Social	The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being
Intellectual	Organizational, knowledge-based intangibles, including intellectual property such as patents, copyrights, software, rights and licenses, and "organizational capital" such as tacit knowledge, systems, procedures and protocols
Financial	The pool of funds that is available to an organization for use in the production of goods or the provision of services, and funds obtained through financing, such as debt, equity or grants, or generated through operations or investments
Manufactured	Manufactured items that are available to an organization for use in the production of goods or the provision of services, including buildings, equipment and infrastructure
Human	People's competencies, capabilities and experience; motivation to innovate; alignment with and support for an organization's governance framework; risk management approach; ethical values; ability to understand, develop and implement an organization's strategy; loyalty and motivation for improving processes, goods and services; ability to lead, manage and collaborate

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Risk management

Panalpina follows a robust risk management process involving the functions and regions, the Risk Review Committee, Executive Board, Audit Committee, and internal and external auditors. The process is explained in the Corporate Governance Report, paragraphs 3.5.2 and 3.6. For an explanation of financial risks, see the Panalpina Financial Report 2016, note 17.



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Approaches to sustainability management

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Economic

Ultimate oversight of Panalpina's financial performance is provided by the Board of Directors with support from the Executive Board and leadership teams from individual business units. With regard to risk management, Panalpina's Audit Committee oversees the quality and integrity of its financial reporting processes. The committee provides a detailed and weighted risk map to the Executive Board, implements risk mitigation measures, and reports the respective outcomes to the board on an annual basis. The map outlines any strategic, financial, operational, legal and compliance risks that could adversely impact Panalpina's business. Each identified risk is weighted and prioritized by the Executive Board with relation to the significance of its impact and the likelihood of it occurring. Key risks are then presented to Panalpina's Board of Directors and mitigation plans are developed accordingly.

Environment

Panalpina views environmental stewardship as a critical component of its corporate responsibility program. By continuously refining processes to manage environmental issues, Panalpina can better understand its impacts and identify ways to improve. The highest level of direct responsibility for environmental management lies with Panalpina's Executive Board and the Board of Directors. Efforts to measure and reduce environmental impacts at individual sites are the responsibility of Panalpina facility managers.

To reduce the impacts associated with its operations, Panalpina regularly measures its energy consumption and corresponding greenhouse gas emissions. Energy usage and the resulting Scope 1, Scope 2, and Scope 3 emissions are closely monitored by Panalpina facility managers. Panalpina reports this information annually and transparently communicates progress towards achieving its goals.

In 2016, Panalpina sought certification of its environmental management system to the latest standard, ISO 14001: 2015. This required a global auditing process of Panalpina facilities around the world to ensure systems were implemented well and that Panalpina employees were fully trained on the systems.

Panalpina is committed to complying with all applicable environmental health and safety laws where it operates. Company-wide policies are implemented at each site to ensure compliance with local environmental regulations, and all employees are responsible for ensuring Panalpina operates in a responsible manner. Health and safety metrics are closely monitored across Panalpina facilities. Responsibility for the health and safety of Panalpina employees and customers is supported by the global head of quality, health, safety and environment.

Panalpina operates an asset-light business model, meaning it purchases capacity from suppliers rather than its own planes, ships, trucks and other vehicles. However, this does not absolve Panalpina of the responsibility to operate these fleets in a responsible way. To this end, Panalpina has implemented a number of programs to minimize the impacts associated with the delivery of its products and services. Reducing the environmental impacts from transportation is the responsibility of Panalpina's key account managers, who work closely with each customer. Panalpina's asset-light strategy depends on strong relationships with its suppliers and therefore it recognizes the value of assessing suppliers for their environmental performance, labor practices and impacts on society.

Labor and decent work

Panalpina is committed to fostering a culture where employees are treated with respect and fairness. The chief human resources officer oversees all functions relating to employment including talent recruitment, employee development, and labor relations. Fair labor practices and compliance with labor laws are of the utmost importance to Panalpina. Compensation levels at Panalpina are always based on the qualifications of the employee, the requirements of the position and job performance. Employees are always informed of operational changes well in advance when restructuring, role changes, or changes to facilities are planned. Employees have the opportunity to report any grievances about labor practices through their local managers or through the ethics and compliance hotline and when necessary these issues are brought to the attention of Panalpina's human resources.



Panalpina regularly measures its energy consumption and corresponding greenhouse gas emissions.

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Approaches to sustainability management continued



Panalpina offers job-specific development programs that refine skills such as leadership, sales, customer relations and compliance.

Providing a safe and healthy work environment is critical to Panalpina's success. The global head of quality, health, safety and environment leads issues relating to occupational health and safety with support from local site managers. Each employee is provided with safety training and is held accountable for following safety practices and reporting workplace accidents, injuries, and unsafe use of equipment. Emergency plans and response procedures are upheld at all Panalpina locations. Procedures such as emergency reporting, response training, access and egress, and fire detection and suppression are critical to ensure Panalpina employees can respond to emergency situations appropriately. Driving performance is another key focus for Panalpina. Wellness campaigns that highlight issues such as hygiene, cardiovascular health, and regular exercise encourage Panalpina employees to maintain healthy lifestyles.

Panalpina recognizes that a well-trained workforce is critical to provide quality service to its customers. Offering opportunities to grow allows Panalpina to continuously develop its capabilities. Consequently, it provides internal and external training programs, job rotation, international assignments and on-the-job coaching. Panalpina also offers job-specific development programs that refine skills such as leadership, sales, customer relations, and compliance. All programs related to employee education, benefits and compensation, and related issues are ultimately the responsibility of Panalpina's chief human resources officer, who reports to the chief executive officer.

Human Rights

Panalpina supports the principles outlined in the UN Declaration of Human Rights, which recognizes fundamental labor and environmental standards. Panalpina does not tolerate harassment in any form including intimidation or discrimination based on gender, race, color, religion, age, nationality, sexual identity or disability. Panalpina seeks to build relationships with partners who uphold these same high ethical standards, and consequently expects its suppliers to uphold the values outlined in its Code of Conduct.

Society

Panalpina is committed to being a good member of the communities where it operates to ensure mutual success. Behaving responsibly and operating with integrity is critical to the company's reputation. Panalpina complies with all applicable laws and regulations in the countries where it operates.

Ethics, anticorruption and regulatory compliance issues are overseen by the board-level Ethics and Compliance Committee. These issues are of the utmost importance to Panalpina as incidents of bribery and corruption may expose Panalpina to legal, financial and reputational risks. All business units are assessed for risks related to bribery and corruption on an annual basis. The ethics and compliance hotline is available to employees to report potential violations confidentially 24 hours a day, 7 days a week. These reports are monitored by the corporate compliance officer and brought to the attention of the board-level Ethics and Compliance Committee as needed.

Performance, integrity and professionalism are basic values to which Panalpina emphatically subscribes. Panalpina's Code of Conduct serves as a compass for employees and other stakeholders to effectively navigate challenging business situations. Bribery and corruption not only harm Panalpina, but also the communities where it does business. To this end, Panalpina employees participate in training programs to provide clear direction on corruption and bribery issues such as charitable donations, sponsorships, gifts and entertainment. This training is required for all new and current employees and is refreshed on an annual basis.

To ensure its suppliers also adhere to these values, Panalpina implements due diligence procedures such as onsite assessments and compliance certifications. To further minimize potential conflicts of interest and the potential for corruption, as a matter of policy Panalpina does not participate in or contribute to political campaigns, candidates, or political parties.

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Approaches to sustainability management continued

Panalpina strictly adheres to what are called “competition” laws in some countries and “anti-trust” laws in others. These laws promote or protect free and fair competition around the world and prohibit all anti-competitive behavior, such as price-fixing conspiracies. Panalpina implements a variety of programs that detect and deter competition law violations. Key personnel are trained on US and international competition laws via in-person and online training. Issues relating to fair competition are monitored by the chief legal officer and the corporate ethics and compliance officer, and are overseen by the board-level Ethics and Compliance Committee.

Product responsibility

Panalpina delivers customized, seamless supply chain solutions to its customers within its core services of Air Freight, Ocean Freight, and Logistics. Due to the nature of the logistics business, customers are not characteristically exposed to health and safety risks. Occupational health and safety risks are managed through Panalpina’s systems and processes that are certified to OHSAS 18001 standards.

Panalpina carefully monitors the impacts it has on the communities where it operates. Consequently, when new trade routes or services are introduced, Panalpina remains aware of any potential impacts they may have on local communities and grievance mechanisms are made publicly available to members of the community.

Ensuring customers have a positive experience is critical to the growth of Panalpina’s business. Customers are regularly given the opportunity to provide feedback with regards to their overall satisfaction with Panalpina’s products and services. This feedback is acquired through comprehensive customer surveys, quarterly business reviews, and other formal and informal mechanisms. Customer satisfaction is reviewed and monitored by key account managers.



Panalpina is committed to complying with all applicable environmental health and safety laws where it operates. Company-wide policies are implemented at each site to ensure compliance with local environmental regulations.

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Stakeholders

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G4-26, G4-27

Stakeholder engagement

Panalpina's key stakeholders are its customers, employees, shareholders and the suppliers that it depends upon. The company also engages with and supports the communities where its operations are located. Panalpina's ability to make decisions that consider the best interests of its stakeholders is influenced by the quality of the information it receives from them. Therefore, it is imperative that stakeholders are engaged through a variety of mechanisms, and in a manner that allows all parties to communicate openly and transparently.

Engagement mechanisms

Customer relationships are the primary responsibility of key account managers, who lead regular business reviews and ensure that all topics of interest to the customer are addressed promptly and completely. Panalpina also engages regularly with customers through workshops, customer service centers and management meetings, and conducts customer opinion surveys at the regional and global level.

Some customers now include sustainability and environmental topics as key elements in their tender offer process; in these cases, Panalpina is required to outline its approach to sustainability management in order to be considered as a potential supplier of services.

Panalpina's asset-light business model depends on strong relationships with key suppliers to provide services reliably, efficiently and securely. Panalpina sets a high bar for its suppliers, expecting them to comply with a range of quality, safety, environmental and security standards. In order to ensure this level of service, and to identify ways to collaborate effectively, Panalpina has a variety of mechanisms in place to interact with its suppliers. These mechanisms include regular business reviews, customer surveys, and quality, health, safety and environmental audits and surveys.

Being a good corporate citizen means not only managing the impacts from operations, but also engaging with and supporting communities where Panalpina's employees live and work, and using the company's expertise to support people in need. In the communities where Panalpina operates, topics of interest include noise levels from airports, schools and education, and environmental quality.

Engagement mechanics

Panalpina engages with its stakeholders through the following mechanisms and frequencies:

- Shareholders: shareholder and annual meetings
- Customers: regular customer satisfaction and feedback surveys
- Employees: employee engagement surveys conducted annually
- Business partners: cooperative partnerships with suppliers, including regular audits to ensure compliance with Panalpina's policies and applicable laws
- The environment: risk assessments
- Neighbors of all company sites: communications with local Panalpina management teams