

# ANNUAL REPORT



# 2018

PANALPINA 

#INMOTION



# Contents

## Overview

About Panalpina	3
Panalpina at a glance	4-5
Letter to the shareholders	6-9
Products and industries	10
Key figures	11
Five-year review	12-13
Employee figures	14

## Strategy

The Panalpina strategy	15-16
Business model	17
Risk management	18
The Panalpina Spirit	19
Innovation	20-21

## Business Review

<i>Products:</i>	
Air Freight	23-24
Ocean Freight	25-26
Logistics and Manufacturing	27-28
Energy and Project Solutions	29-30

## Regions:

Americas	31-32
Asia Pacific (APAC)	33-34
Europe	35-36
Middle East, Africa and CIS (MEAC)	37-38

## Industry Verticals:

Aerospace	39
Automotive and Manufacturing	40
Chemicals	41
Consumer, Retail and Fashion	42
Government, Aid and Relief	43
Healthcare	44
Perishables	45
Technology (Hi-tech and Telecom)	46

## Corporate Governance Report

47-62

## Compensation Report

63-71

# About Panalpina

Overview



The Panalpina Group is one of the world's leading providers of supply chain solutions. The company combines its core products – Air Freight, Ocean Freight, and Logistics and Manufacturing – to deliver globally integrated, tailor-made end-to-end solutions for 12 core industries. Energy and Project Solutions is a specialized service for the energy and capital projects sector.

Drawing on in-depth industry know-how and customized IT systems, Panalpina manages the needs of its customers' supply chains, no matter how demanding they might be. In addition to the design and execution of logistics and transportation services, Panalpina offers its customers strategic consultancy on their end-to-end supply chain.

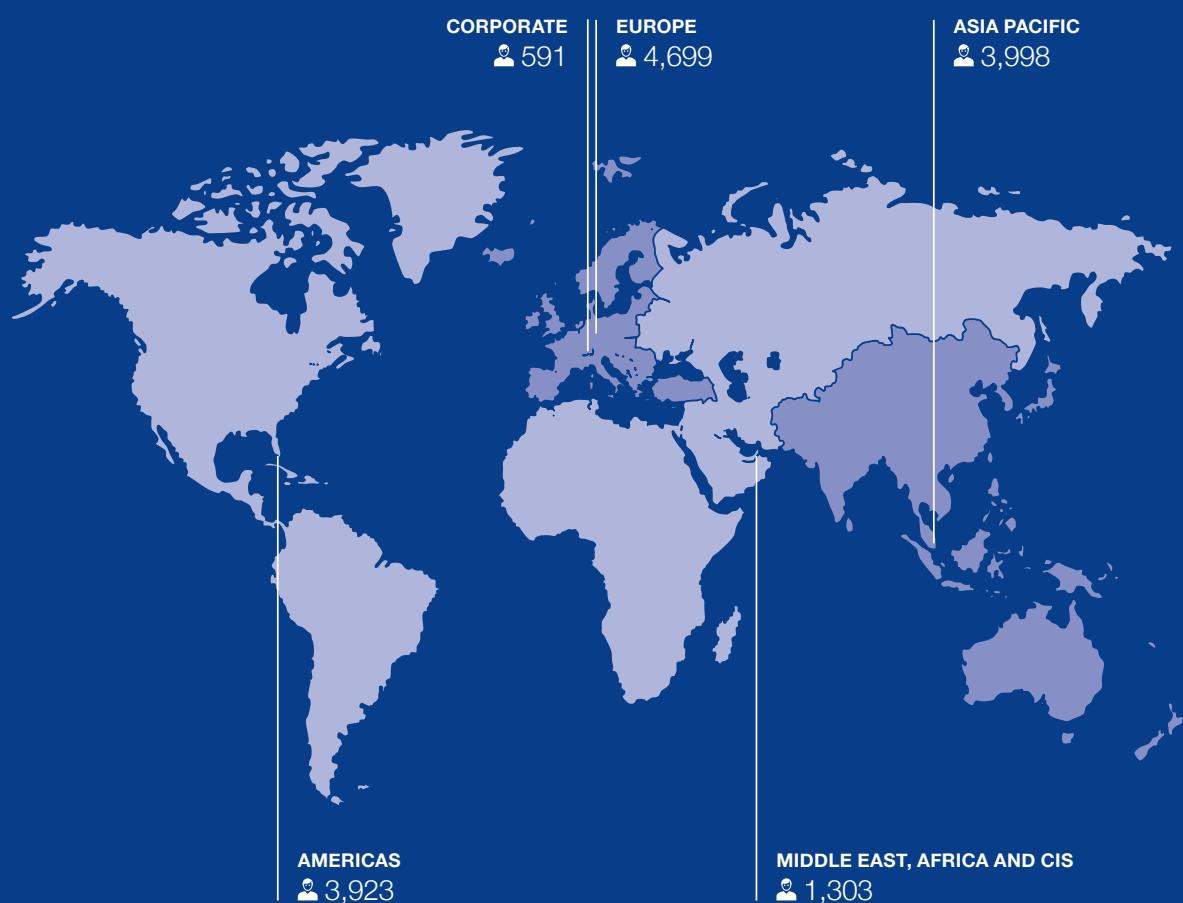
The Panalpina Group operates a global network with some 500 offices in around 70 countries, and it works with partner companies in another 100 countries. Panalpina employs approximately 14,500 people worldwide who deliver a comprehensive service to the highest quality standards – wherever and whenever.

# Panalpina at a glance

Overview

Panalpina has a rich history of over 120 years, with its roots in Rhine shipping. It shifted into the forwarding sector in the 1930s and since then has grown organically and through acquisitions.

The company has been listed on the SIX Swiss stock exchange since 2005. With headquarters in Basel, Switzerland, Panalpina is organized into four regions.



Full-time equivalents (FTEs)

# Panalpina at a glance

Overview

YEARS OF HELISHIP  
SERVICE

25

LCL SERVICES

530

PERISHABLES COMPETENCY  
CENTERS

26

Panalpina acquired two companies specializing in perishables in 2018: Newport Cargo in Argentina and Skyservices in South Africa.

GDP CERTIFIED SITES  
SPECIALIZING IN  
PHARMACEUTICAL PRODUCTS

37

Panalpina set a new record in 2018 by transporting over **1 million tons of air freight**, the highest volume in its history.

The **first Latin America LCL hub** opened in the port of Cartagena, Colombia, expanding Panalpina's global LCL network infrastructure.

Panalpina entered the **telecoms installations market** with a new project in Mexico to manufacture, test, install and upgrade telecommunications equipment.

[Read more on page 28.](#)

FACILITIES COVERED BY  
JDA UNIFIED WAREHOUSE  
MANAGEMENT SYSTEM

68

Energy and Project Solutions teams delivered the **main components for an oil platform** near the Strait of Magellan.

The **Panalpina Digital Hub** was created in 2018 to explore disruptive technologies and develop new digital solutions for customers.

A new build-to-suit logistics facility opened in Singapore, encompassing **25,800 m<sup>2</sup> of warehouse space**.

PRIZE IN CARGO IQ Q RALLY

1st

[Read more on page 30.](#)

[Read more on page 20.](#)

[Read more on page 34.](#)

# Letter to the shareholders

Overview



Peter Ulber, Chairman of the Board of Directors

## THE YEAR IN REVIEW

Throughout the world in 2018, Panalpina's employees worked diligently to expand our portfolio and footprint, win new customers and delight existing ones, implement complex projects, streamline processes and increase our commitment to sustainability.

Panalpina delivered a strong performance, with record-breaking volumes in Air Freight, a turnaround in Ocean Freight and the highest EBIT ever in Logistics. In comparison to 2017, EBIT increased by 15%, consolidated profit by 32% and gross profit by 7%, while total operating expenses decreased by 3%.

We achieved these results in a rapidly changing economic environment affected by the ongoing tariff

conflict between the US and China and uncertainties over Brexit. Volatility is the new norm and the peak seasons for air and ocean freight have become less predictable. The logistics industry is experiencing a shift toward commoditization, increased price transparency and pressure on margins; at the same time, digitalization and new technologies are changing traditional supply chain models and customers demand digital services similar to what they experience as consumers.

We successfully continued executing our strategy, which is built around the four pillars of organic growth, external growth, innovation and operational improvement. The efforts that we made in previous years to expand our services, improve customer focus and increase productivity have allowed us to create a stronger, more resilient company.

# Letter to the shareholders

Overview



Stefan Karlen, President and CEO

## HIGHLIGHTS FROM THE BUSINESS

In Air Freight, for the first time, we transported more than 1 million tons in one year, reaching the highest volume in our company's history for the second year in a row. Additional achievements included new scheduled charter flights, our direct service between Bogotá, Colombia and Huntsville, Alabama, US to support our perishables operations, and the launch of an online quotation and booking platform for ad hoc cargo.

In Ocean Freight, we stabilized our volumes despite the exit from a high-volume but loss-making contract. This was part of our ongoing program to optimize the business portfolio. We launched our Cartagena consolidation hub in June 2018 to serve Central America. Our global LCL Ocean Freight network has increased from 320 services operated on our own in 2010 to 530 today.

In Logistics and Manufacturing, we entered into a strategic alliance with Honeywell to enhance worker productivity, accuracy and efficiency across our global distribution centers. We made significant progress in obtaining Good Distribution Practice (GDP) certifications at ten additional locations this year, including our new state-of-the-art logistics center in Singapore with 25,800 m<sup>2</sup> usable warehouse space. Shell awarded Panalpina a new warehouse management and distribution contract here that will transform Shell's supply chain in and out of Singapore into a full end-to-end operation. Logistics and Manufacturing also expanded its offering with a new installation management service to support telecoms customers with their transition from 4G to 5G networks.

We improved our EBIT in Energy and Project Solutions, which we achieved by continuous cost management, additional trade lane gains from key

# Letter to the shareholders

Overview

customers, and wins on the project cargo side. In Australia, we won contracts for renewable energy projects, including several solar farms and a biomass energy plant.

## GROWTH OF PERISHABLES NETWORK

The Panalpina Perishables Network continued to grow in 2018 with the acquisition of two more companies, Newport Cargo in Argentina and Skyservices in South Africa, adding to the five other perishables companies we have acquired since 2015. We also signed up five strategic agent members for the Network in 2018 to further develop our end-to-end offering for perishables.

We expanded our facilities in Nairobi, doubling our cold storage space at Jomo Kenyatta International Airport, and securing our leading position in the perishables business in the country. Panalpina's Perishables Network now encompasses 26 competence centers and 50 countries.

## INNOVATION AND DIGITAL TRANSFORMATION

We renewed our efforts in marketing with an emphasis on digital marketing and high-impact trade shows like Fruit Logistica. As of the end of December 2018, we had 150,000 followers on LinkedIn and the highest engagement rate in the industry on this platform.

We also took a major step on our digital transformation journey in 2018 by launching the Panalpina Digital Hub to explore innovative technologies, develop new online solutions for customers and engage with digital start-up companies. Panalpina participated in the Bosch Connected World event and gave a public demonstration of how Internet of Things (IoT) technologies will shape tomorrow's supply chains. In collaboration with Cardiff University at the Panalpina Centre for Manufacturing and Research, we continued our work on manufacturing and supply

chain trends, and developed systems that enable customers to improve their operations.

Our IT teams, with the support of our IT Center of Excellence in Lisbon, created new online tools that improve the customer experience, increase our productivity and offer more visibility along the supply chains of our customers.

We continued to develop our new customer portal, which will become the central point of contact for customers to engage and interact with Panalpina. The portal, which is planned for global release in summer 2019, will digitize the entire customer journey through a seamless, intuitive online environment and integrate access to all tactical and strategic supply chain tools.

## A MATURE OPERATING SYSTEM

In 2018, SAP TM was deployed in most of Panalpina's key countries including Germany, China (partially) and the US and had about 3,200 users as of the end of 2018. Over 2.3 million shipments were processed on SAP TM in 2018, covering more than 50% of Panalpina's transactions. With the successful deployment in Panalpina's biggest market Germany, all core functionalities of the operating system were added and the IT development phase for SAP TM was concluded.

## CONTINUED COMMITMENT TO SUSTAINABILITY

Progress in QHSE has been exceptional this year. 2018 was the safest year on record at Panalpina, with significant reductions in injuries to staff and in time off from work due to accidents. Panalpina was certified to the new ISO 9001:2015 Quality standard as well as re-certified to ISO 14001:2015 Environment and OHSAS 18001 Health and Safety. This year's Global Sustainable Action Week was the most successful iteration of the event since its inception, with nearly 430 initiatives by Panalpina offices in 60 countries. We signed a sustainability agreement with CMA CGM, one of the world's

# Letter to the shareholders

Overview

leading shipping groups, aimed at reducing carbon emissions by 2025. Last but not least, we donated our sixth annual relief flight to Africa in December, carrying nearly 70 tons of UNICEF relief aid destined for children in South Sudan.

We have been working hard to improve employee engagement and internal communications. In May, the top 150 leaders met in Berlin and following this, we began to roll out the Panalpina Leadership Values, as well as the Panalpina Spirit. Results from the employee engagement survey got better for the third year in a row, as employees across the board took a more active role in implementing improvement actions.

Diversity has improved in our Board and amongst our senior leadership with the addition of Sandra Emme as a member of the Panalpina Board of Directors, as well as new female hires as country manager of Taiwan, regional head of HR Americas, and corporate head of marketing and communications.

## SOLID FINANCIAL STANDING

Panalpina remains on firm financial ground, with a healthy balance sheet and practically no debt. We have access to attractive financing, as shown by the CHF 150 million debut bond that we successfully placed on the Swiss market in November 2018.

## OUTLOOK FOR 2019

Already this year, cargo owners will feel the impact of new rules on ship emissions that are coming into force on January 1, 2020. Increased costs will apply, as a result of higher demand for low-sulfur fuel or installing “scrubbers,” systems that clean exhaust gases. Directly related cost increases are expected to spike in the second half of 2019. Panalpina is monitoring the ocean freight market and price developments, and developing a transparent and competitive pricing mechanism to pass through increased costs from carriers to cargo owners.

The lower sulfur limits, together with Brexit, could lead to international supply chain disruptions, which

in turn could trigger more demand for air freight. However, all leading indicators and sources point towards a slowdown in the air freight market in 2019. While US and Intra-Asian exports are still expected to grow slightly, European and other Asian exports are likely to decrease. China is the biggest unknown as, on the one hand, manufacturing is shifting to other Asian countries as a result of the US-Chinese trade tensions. On the other hand, we expect an economic stimulus program by the Chinese government.

Altogether, the markets will remain volatile due to the macroeconomic uncertainties and international tensions. Nevertheless, we expect Panalpina's Air and Ocean Freight products to grow at or above the market in 2019.

Our priorities for this year are to accelerate organic and external growth, further improve EBIT in Ocean Freight, expand and innovate the service portfolio in Logistics and Manufacturing, and launch the new customer portal.

In the past two years, we have invested significant time and resources in developing different elements of this portal to establish the best digital experience for our customers. In particular, the quoting and shipment-visibility capabilities of the new portal are hitting the core of today's demands. Customers will be able to manage their entire supply chain end-to-end with all partners in one digital place. They can request an instant quote, as well as book and track their shipments in an intuitive, integrated and thus seamless flow. Self-service reporting will complement the user experience. As features are added, the portal will not only offer interaction capabilities with Panalpina's customers, but also suppliers. With our customer portal, we are one step closer to creating a truly digital end-to-end enterprise which will enable us to drive down costs, shorten response time and offer multiple communication channels to our customers and trading partners.

**Peter Ulber**  
Chairman of the  
Board of Directors

**Stefan Karlen**  
President and CEO

# Products and industries

Overview

## OUR CORE PRODUCTS AND SERVICES



### AIR FREIGHT

As one of the top 4 global air freight companies, we provide tailored service levels, from intermodal sea-air to temperature-controlled services. We hold strategic partnerships with leading airlines and manage our own Panalpina Charter Network with gateways at key locations.



### OCEAN FREIGHT

We are among the top 4 global players, with central procurement and capacity management and strategic partnerships with leading carriers. Our Pantainer Express Line, intermodal services and approximately 530 less-than-container load (LCL) services enable us to meet the needs of a wide range of customers.



### LOGISTICS AND MANUFACTURING

In addition to warehousing, distribution and overland transport, we provide logistics manufacturing services, 3D printing solutions, and advanced forecasting and inventory planning solutions, with a focus on applying the newest technology and meeting the demands of e-commerce.



### ENERGY AND PROJECT SOLUTIONS

Our expert teams provide end-to-end, turnkey solutions for customers in oil and gas and capital projects industries. We specialize in out-of-gauge and heavy-lift handling and transport, break bulk and chartering, transport engineering and offshore marine services.

## OUR INDUSTRY VERTICALS



### AEROSPACE



### AUTOMOTIVE



### CHEMICALS



### CONSUMER AND RETAIL



### ENERGY



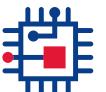
### FASHION



### GOVERNMENT, AID AND RELIEF



### HEALTHCARE



### HI-TECH



### MANUFACTURING



### PERISHABLES



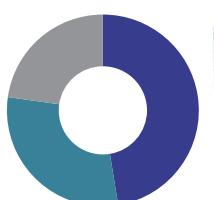
### TELECOM

# Key Figures

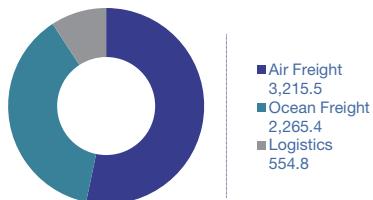
Overview

**6,036**  
NFR in million CHF

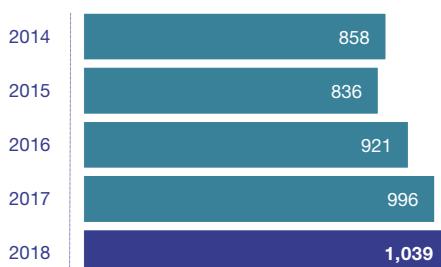
**Gross profit by product**  
Million CHF



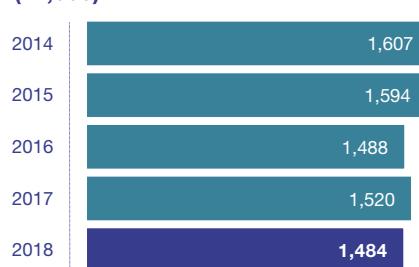
**Net forwarding revenue**  
Million CHF



**Tons air freight transported**  
(in ,000)



**TEUs ocean freight transported**  
(in ,000)



# Five-year Review

Overview

In million CHF	2018	2017	2016	2015	2014
<b>Forwarding services</b>	<b>7,104</b>	<b>6,532</b>	<b>6,321</b>	<b>7,129</b>	<b>8,172</b>
Change in %	8.76	3.32	(11.33)	(12.77)	(0.03)
<b>Net forwarding revenue</b>	<b>6,036</b>	<b>5,533</b>	<b>5,196</b>	<b>5,855</b>	<b>6,707</b>
Change in %	9.09	6.48	(11.26)	(12.70)	(0.75)
<b>Gross profit</b>	<b>1,500</b>	<b>1,398</b>	<b>1,425</b>	<b>1,474</b>	<b>1,586</b>
Change in %	7.29	(1.88)	(3.34)	(7.07)	1.60
in % of net revenue	24.85	25.26	27.42	25.17	23.65
<b>Profit</b>	<b>75.7</b>	<b>57.5</b>	<b>52.3</b>	<b>88.2</b>	<b>86.5</b>
Change in %	31.78	9.89	(40.73)	1.97	639.50
in % of gross profit	5.05	4.11	3.67	5.99	5.46
<b>Operating result before depreciation and amortization (EBITDA)</b>	<b>289.5</b>	<b>146.2</b>	<b>131.7</b>	<b>168.3</b>	<b>174.0</b>
Change in %	98.03	11.04	(21.79)	(3.26)	45.26
in % of gross profit	19.30	10.46	9.24	11.42	10.97
<b>Operating result before amortization (EBITA)</b>	<b>266.8</b>	<b>124.9</b>	<b>105.9</b>	<b>140.5</b>	<b>142.1</b>
Change in %	113.59	17.96	(24.62)	(1.12)	66.15
in % of gross profit	17.79	8.94	7.43	9.53	8.96
<b>Operating result (EBIT)</b>	<b>118.4</b>	<b>103.3</b>	<b>82.0</b>	<b>117.2</b>	<b>116.7</b>
Change in %	14.57	26.06	(30.09)	0.44	143.19
in % of gross profit	7.89	7.39	5.75	7.95	7.36
<b>Cash generated from operations</b>	<b>164.5</b>	<b>105.6</b>	<b>150.1</b>	<b>187.4</b>	<b>152.9</b>
Change in %	55.71	(29.66)	(19.87)	22.54	107.19
in % of gross profit	10.97	7.56	10.54	12.71	9.64
<b>Net cash from operating activities</b>	<b>125.5</b>	<b>67.3</b>	<b>110.8</b>	<b>151.7</b>	<b>123.0</b>
Change in %	86.41	(39.22)	(26.98)	23.27	189.48
in % of gross profit	8.37	4.82	7.77	10.29	7.76
<b>Free cash flow</b>	<b>59.3</b>	<b>(0.8)</b>	<b>86.6</b>	<b>142.8</b>	<b>87.0</b>
Change in %	(7,239.76)	(100.96)	(39.34)	64.08	(1,681.84)
in % of gross profit	3.95	(0.06)	6.08	9.69	5.49
<b>Net (operational) working capital</b>	<b>415.8</b>	<b>300.4</b>	<b>256.3</b>	<b>285.0</b>	<b>384.8</b>
Change in %	38.43	17.19	(10.07)	(25.94)	(1.10)

# Five-year Review

Overview

In million CHF	2018	2017	2016	2015	2014
<b>Capital expenditure on tangible and intangible assets</b>	40.8	54.0	24.6	16.5	48.1
Change in %	(24.37)	119.51	48.98	(65.65)	(3.49)
in % of gross profit	2.72	3.86	1.73	1.12	3.03
<b>Net capital expenditure on tangible and intangible assets</b>	46.4	52.2	8.2	6.4	45.1
Change in %	(11.17)	537.07	28.62	(85.87)	(6.96)
in % of gross profit	3.09	3.73	0.58	0.43	2.84
<b>Depreciation and amortization (incl. impairment losses)</b>	171.1	42.9	49.7	51.1	57.3
Change in %	299.28	(13.79)	(2.75)	(10.81)	(20.27)
in % of gross profit	11.41	3.07	3.49	3.47	3.61
<b>Personnel expenses</b>	925.8	889.8	870.5	896.2	976.9
<b>Personnel</b>					
Number of employees (headcount) at year-end (world)	14,539	14,355	14,217	14,774	15,639
Number of employees (headcount) at year-end (Switzerland)	622	619	641	651	682
Yearly average full time equivalents (FTE) (world)	14,514	14,051	14,572	15,340	16,180
<b>Productivity ratios (CHF)</b>					
Net sales per average FTE	415,857	393,764	356,566	381,714	414,521
Gross profit per average FTE	103,328	99,480	97,762	96,078	98,018
Personnel expenses per average FTE	63,789	63,330	59,737	58,423	60,372
Personnel cost in % of gross profit	61.74	63.66	61.10	60.81	61.59
<b>Leverage (liabilities / equity)</b>	2.95	1.99	1.72	1.68	1.66
<b>Net interest-bearing liabilities</b>	186	(305)	(386)	(390)	(363)
<b>Gross gearing (interest-bearing liabilities/equity)</b>	0.83	0.01	0.00	0.00	0.01
<b>Net gearing (net interest-bearing liabilities/equity)</b>	0.33	(0.50)	(0.63)	(0.61)	(0.50)
<b>ROCE (EBIT less tax/capital employed) in %</b>	16.05	21.69	21.43	28.20	24.01
<b>Current cash debt coverage ratio (net operating cash flow/average current liability)</b>	0.11	0.07	0.12	0.15	0.11
<b>Cash debt coverage ratio (net operating cash flow/average total liability)</b>	0.09	0.06	0.10	0.13	0.10
<b>Return on equity in %</b>	12.77	9.40	8.40	13.00	12.20
Change in %	35.85	11.90	(35.38)	6.56	662.50

# Employee Figures

Overview

## EMPLOYEES BY AGE GROUP 2018

Headcount\*

UNDER 30 (24%)

**3,417**

30 TO UNDER 40 (36%)

**5,254**

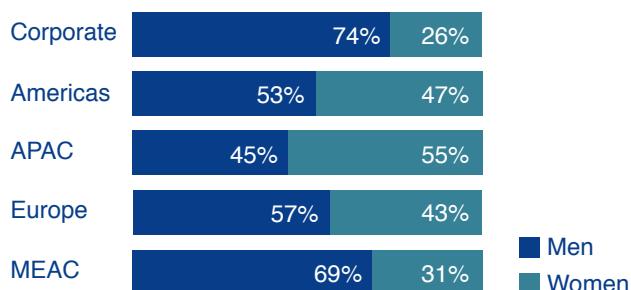
40 TO UNDER 50 (24%)

**3,492**

OVER 50 (16%)

**2,264**

## EMPLOYEES BY GENDER AND REGION 2018



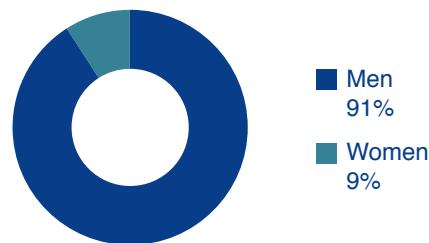
\*Does not include headcount from recently acquired companies.

## EMPLOYEES BY GENDER AND EMPLOYEE GROUP 2018

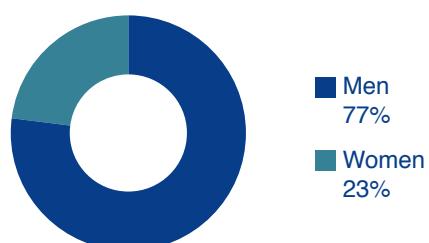
Overall



Top Leadership  
(Includes Executive Board and Executive Committee)



Senior Management



Other employees (excluding previous categories)



# The Panalpina Strategy



Panalpina bases its activities on four strategic pillars—organic growth, external growth through acquisitions, innovation and operational improvement.



# The Panalpina Strategy

Strategy

## Organic growth

Increase our business with existing customers, gain new customers, continue to balance our industry mix and expand our footprint in selected geographies.

## External growth

Complete acquisitions in areas that complement our current services, give us access to additional capabilities and competencies or that accelerate growth in underdeveloped geographies or sectors.

## Innovation

Explore disruptive trends within the technology and supply chain industries, expand our service portfolio and foster strategic partnerships that create new opportunities for Panalpina, its partners and its customers.

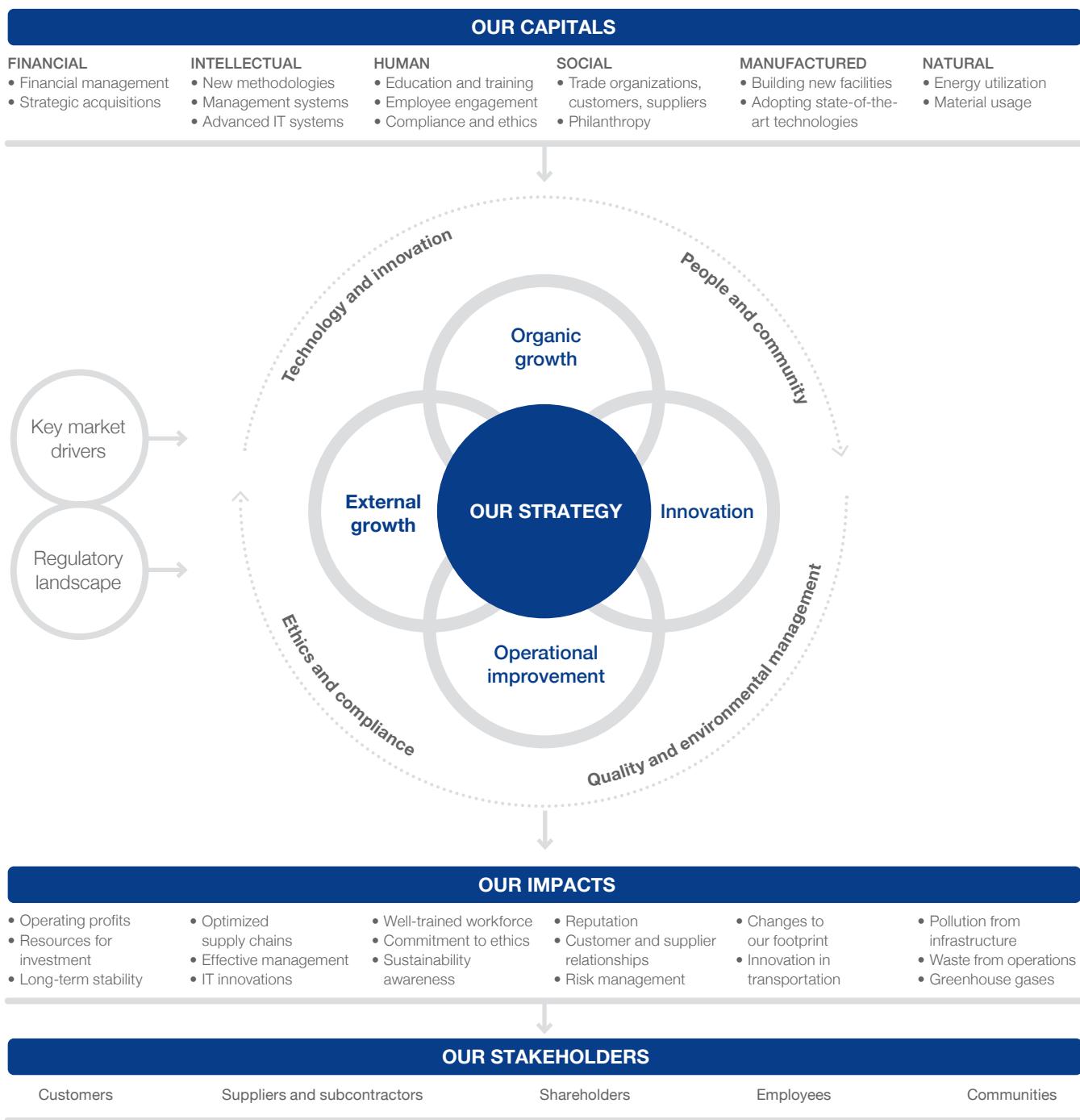
## Operational improvement

Continuously improve our operations by further restructuring loss-making operations, centralizing and offshoring key processes, optimizing GP margin, maintaining strict cost control and optimizing the Panalpina Charter Network.

# Business Model

Strategy

Panalpina operates an asset-light business model – leasing rather than purchasing aircraft or warehouses, chartering vessels and partnering with transport and logistics subcontractors. The company establishes agreements with suppliers to buy capacity and secure routes for the movement of goods. This business model allows Panalpina to better service the market's capacity requirements.



# Risk Management

Strategy

Panalpina follows a robust risk management process involving the Executive Committee, the Audit, Risk and Compliance Committee, Corporate Audit and Group auditors. The process is outlined in the Corporate Governance Report, paragraphs 3.5.2 and 3.7. For an explanation of financial risks, see the Panalpina Financial Report 2018, note 27.

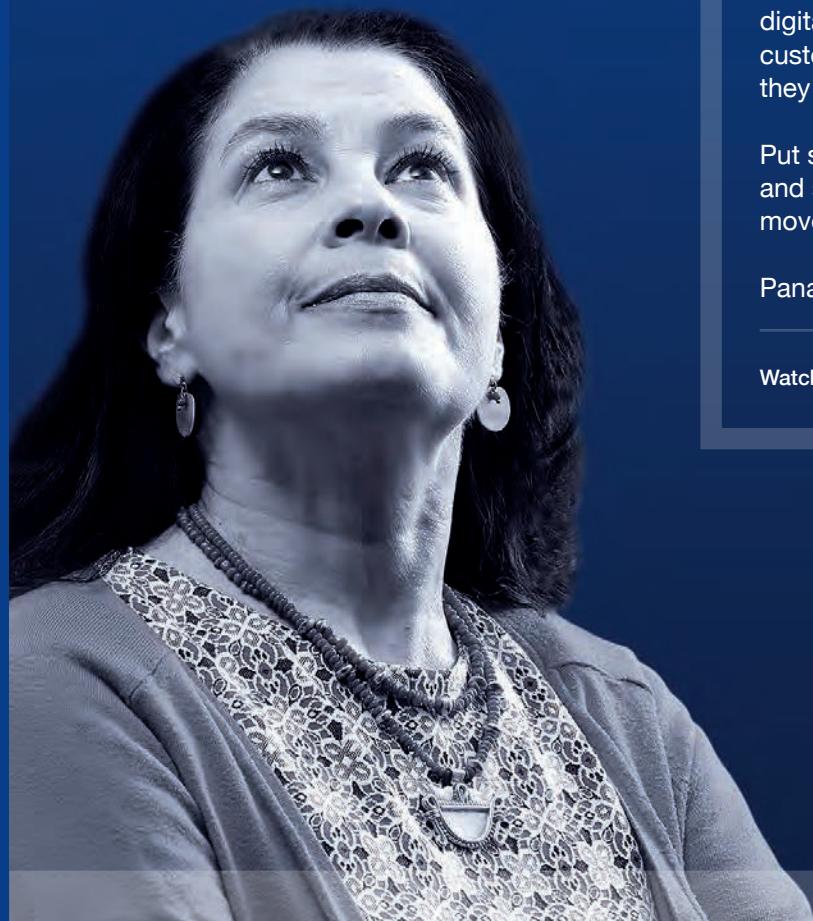
## RISK MANAGEMENT PROCESS



# The Panalpina Spirit

Strategy

In 2018 we embarked on a mission to unite the Panalpina team behind a common purpose and direction. The Panalpina Spirit, which is being introduced at all locations, captures the aspirations we have as a customer-focused and innovative company. It will serve as a focal point for the transformation of our company, helping us to build on our long, proud history and set the path for the future.



At Panalpina, we're changing the way the world moves, by designing and refining global supply chains that are fit for the future.

For 120 years, we've helped businesses move in the best way possible. And as a result, we've broken new ground to find inventive ways to solve our customers' challenges.

How? By embracing our entrepreneurial spirit.

Our 14,000 experts share a passion for shaping the future of logistics. We're not weighed down by traditional assets, we embrace data and technology, so we can be agile and out-think our industry. Together, with our vast global network and strategic partners, we create imaginative digital-first solutions to unlock value for our customers – wherever they are, whenever they need them.

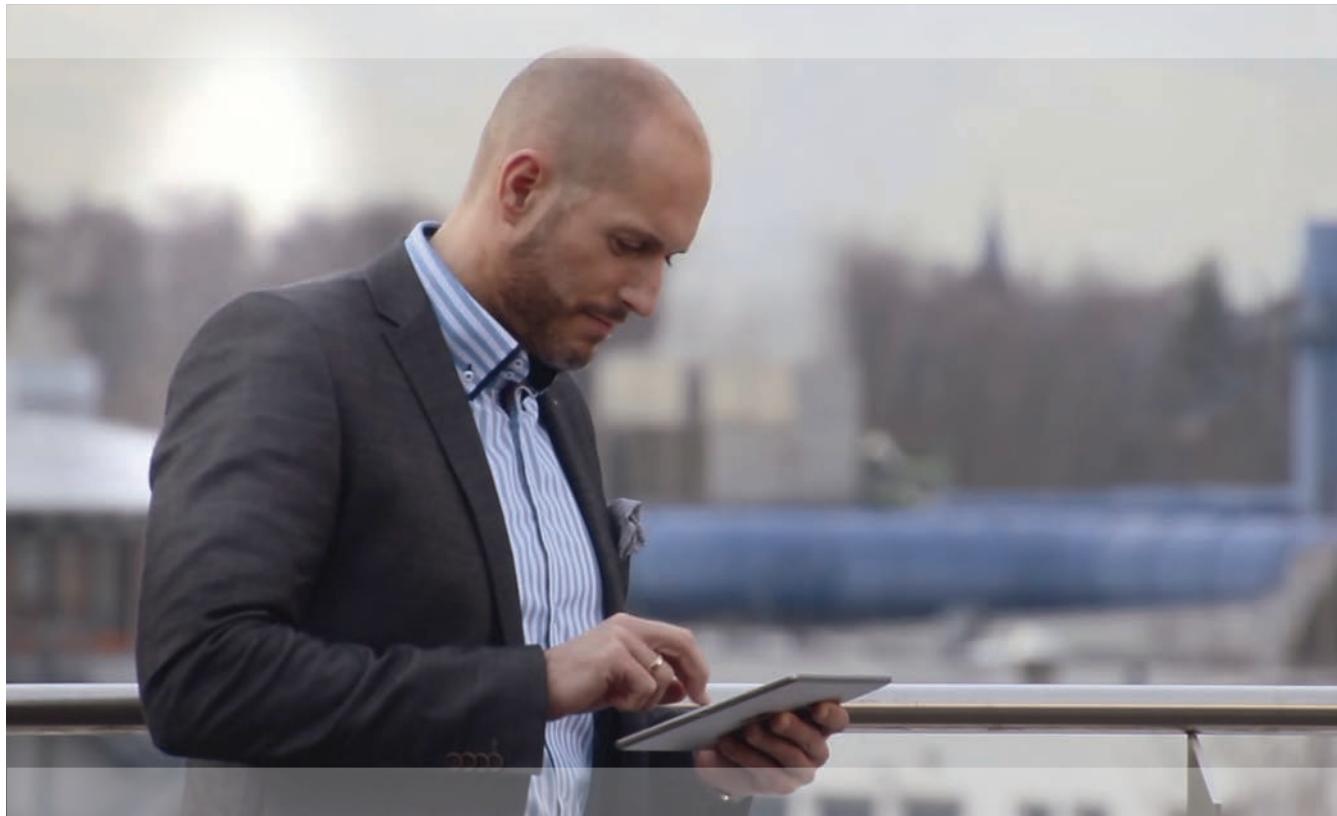
Put simply, we combine smart people and smart technology to help the world move forward.

Panalpina. In motion.

[Watch the Panalpina Spirit video on YouTube.](#)

# Innovation

Strategy



As one of the key pillars of Panalpina's strategy, innovation plays an important role in defining how the company develops new products, business models and processes to benefit its customers. Innovation works at several levels, including testing new ideas and concepts through customer partnerships, monitoring emerging trends that will impact our industry and customers, conducting fundamental research through partnerships with academic resources, and cooperating with start-ups on specific subjects.

The freight forwarding industry is undergoing major changes because of the introduction of new business models and digital approaches. Customers have higher expectations and demand the same type of digital experience they have as consumers. Logistics companies need to adapt to this environment if they want to increase productivity in a more and more commoditized industry, offer new services, respond to customer needs, and be the employer of choice for digital natives.

In 2018, Panalpina took a major step in its digital transformation process with the creation of the Digital Hub. Reporting directly to the CEO, the Panalpina Digital Hub aims to explore disruptive technologies, develop new digital solutions for customers and realize business opportunities. Particular areas of focus are innovative technologies such as the Internet of Things (IoT), cloud computing, predictive analytics, artificial intelligence (AI) and blockchain. The hub functions as a central gateway to the growing start-up ecosystem that is inventing innovative solutions for our industry.



# Innovation

Strategy



The company continued its activities at the Panalpina Centre for Manufacturing and Logistics Research, founded with Cardiff University, to identify future manufacturing and supply chain trends and conduct research that can be the basis for new business solutions. Panalpina has joined the Blockchain in Transport Alliance (BiTA), a forum of leading tech and transportation companies for the development and implementation of blockchain standards in the freight industry. Panalpina also partnered with Plug and Play, the best known and most active accelerator program in the area of supply chain and logistics. This partnership will allow the company to gain access to digital start-up companies in Plug and Play's global network and identify attractive pilot and investment opportunities.

In February 2018, Panalpina's CEO was invited to speak at the Bosch Connected World event about the effect of IoT technologies on future supply chains. Panalpina also took part in the Bosch Connected Experience hackathon with a team of eight developers and two hack coaches from Basel, Lisbon and Luxembourg.

Throughout 2018, Panalpina teams intensified their work to digitize both internal processes and external interfaces. Internally, new tools were rolled out for air freight pricing, and the legacy track and trace system was replaced. For our customers, we have developed new tools both for ad-hoc air freight quotations and for chartering aircraft.

These developments are only a small part of the radical change that Panalpina is going to introduce in the summer of 2019, when the new customer portal will be officially launched. This new portal will digitize the entire customer journey, offering customers personal engagement through a seamless, intuitive online environment and integrated access to all customer-facing tactical and strategic supply chain tools. The portal will also provide an environment to ensure innovative solutions are tested and deployed quickly.

# Business Review



Working in close coordination, Panalpina's teams from the products and regions created innovative, customized solutions for its customers in 12 industries.



# Air Freight

Products



## MARKET ENVIRONMENT

The global market for air freight grew by about 4% in 2018, driven in particular by the perishables, automotive, consumer, retail, fashion, technology, and machinery parts industries and the continued increase in e-commerce. Carriers were able to manage capacity well throughout the year, which led to a lower share of allocations and block-space agreements, together with higher rates of between 15% and 20% on selected trade lanes.

The air freight market was impacted by restrictions in airport slots in Europe and Asia, a worldwide shortage of pilots and ground handling capabilities, fluctuations in fuel prices, the restriction on diesel fuel in Germany, and the ongoing uncertainty over Brexit and trade negotiations between China and the US.

## THE YEAR IN REVIEW

For the second year in a row, Panalpina Air Freight reached its highest volume ever; in 2018, it reached the record of 1 million tons. Much of this success is due to Panalpina's teams negotiating earlier in the year with customers and carriers to secure capacity and agree on rates.

The Panalpina Charter Network, a worldwide network of hubs and lanes servicing major industrial centers, also played a key role by providing hundreds of charters on a scheduled or ad hoc basis. The Charter

Network was expanded during the year with a new service between Querétero International Airport, Mexico and Huntsville, US, and the first route for LATAM Cargo between Bogotá, Colombia and Huntsville. Panalpina also expanded its Perishables Network in 2018 by acquiring two companies that rely primarily on air freight: Newport Cargo in Argentina, and Skyservices in South Africa.

During 2018, the Air Freight product continued its focus on digitalization and automation to increase productivity and to provide more tailored and responsive service to customers. WebCargoNet, an online tool that was introduced in 2017, is now available to all Panalpina Air Freight locations worldwide as a central resource for quotations and pricing.

Panalpina also offers customers an automated, web-based tool for ad hoc quotation and booking. The e-quotation tool went live in 2018 and is now being introduced to air freight customers worldwide, allowing them to quickly and easily manage ad hoc shipments from end to end. Another new tool, the charter tool, provides a real-time overview of all scheduled cargo flights and cargo aircraft available for chartering. Using this charter tool and framework agreements with individual shippers, Panalpina can offer ad hoc charters to its customers in the shortest possible time.

Security is a major concern for international flights, which is now compounded by the increased use of e-commerce. To save costs, small e-commerce orders are consolidated with other international orders, transported and de-consolidated, which can pose problems with identifying the shipper and product details.

Panalpina works to alleviate risk in the international e-commerce supply chain as much as possible by handling the freight as a restricted commodity, working with its standards and governance experts to evaluate the shipper, commodity and other shipment parameters and identify potential risks. Panalpina has put in place global standard operating procedures for e-commerce freight to ensure a safe and seamless process from booking acceptance to handover to the carriers.

# Air Freight

Products

In 2018 Panalpina adapted its procedures to comply with the US Air Cargo Advance Screening (ACAS) program; this applies risk management of all cargo to and via the US prior to loading the aircraft.

## OUTLOOK FOR 2019

The market is expected to grow by about 3% in 2019 and Panalpina will continue to strive to outgrow the market. Particular areas of growth will include Aerospace, which became a separate industry vertical in 2018, and the Perishables Network.

Panalpina's goal for 2019 is to keep the customer experience at the heart of everything it does. Digitalization and innovation will help to make data easily available to customers, improving collaboration and bringing greater visibility of cost, performance and quality.



### ANOTHER FIRST FOR AIR FREIGHT



Panalpina has been awarded with first prize in the Cargo iQ Q Rally, together with Cargo iQ fellow member and long-standing partner Cargolux. Cargo iQ is an IATA interest group whose mission is to create and implement quality standards for the worldwide air cargo industry. In the first ever Cargo iQ Q Rally, Panalpina worked together with Cargolux to significantly improve data quality and performance at Luxembourg Airport.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/panalpina-and-cargolux-make-great-strides-in-cargo-iq-performance-339847>)



# Ocean Freight

Products



## MARKET ENVIRONMENT

2018 was not as volatile as 2017, although there was increasing concern over protectionism and trade wars. For the carriers, it was a period of reorganization and stabilization after the consolidation activities of the last years; however, rising fuel prices and continued overcapacity meant that freight rates in general did not recover to profitable levels for the carriers until the third quarter. Fiscal year growth was around 3%, below the 4-5% expected at the beginning of the year.

## THE YEAR IN REVIEW

Panalpina stabilized its Ocean Freight volumes in 2018, despite exiting a high-volume but loss-making contract as part of the ongoing program to optimize its business portfolio. Margins improved compared to 2017 as a result of improved procurement and effective yield management through the Master Space Protection Program, and there was impressive growth in the volumes from Asia to the USA and Asia to Latin America.

Costs were kept at a stable level and productivity improved as the company reaped the benefits of the new operating system, SAP TM 9.1, which has now been deployed in many of Panalpina's key countries including Germany, the US and China. In Germany, where the system has been live for over 12 months, the results have shown a clear proof of concept with a stable system and very positive feedback from employees.

In parallel, Ocean Freight continued the outsourcing of certain functions to shared service centers and now has well over 10% of its employees in these offshore locations.

Following the creation of the Supply Chain Solutions structure in late 2017, Ocean Freight gained some significant business wins during 2018 from prominent retailers in the UK and Germany by building bespoke solutions to manage origin flows from Asia Pacific to Europe, including value-added services and full visibility along the entire supply chain.

The less than container load (LCL) network development is a key element to support the customer's ever-growing demand for an efficient supply chain. By the end of 2018, Panalpina's global LCL network offered more than 530 own operated services on a weekly basis.

# Ocean Freight

Products

## OUTLOOK FOR 2019

The consolidation in the liner industry appears to be coming to an end, at least for the major players; however, attention is now turning to LSPs and whether there could be further partnerships between carriers and 3PLs.

A key topic will certainly be the introduction of the low sulfur regulation required by the International Maritime Organization (IMO), which will go into effect in 2020. This will have significant cost impacts for carriers, either due to higher fuel costs or modifications to vessels, as well as cost impacts for all parties across the ocean freight supply chain.

Panalpina will continue with the deployment of its new operating system. By the end of 2019, the majority of its shipments are expected to be transacted through the new platform, which will deliver significant productivity benefits and ensure a stable cost base to efficiently absorb new volumes.

In 2019, Ocean Freight will continue its focus on growing key strategic trade lanes for both FCL and LCL business. The LCL offering will be developed by adding new services, accessing more markets directly, and making further frequency improvements on individual routes. To further improve margins, there will be increased emphasis on penetrating SME business.



### PANALPINA OPENS FIRST LCL HUB OPERATION IN LATIN AMERICA



In 2018, Panalpina opened its first Latin America Ocean Freight LCL hub in the port of Cartagena, Colombia. With more than 30 LCL services operated under the Pantainer Express Line, this new set-up offers companies that source or distribute in Latin America a reliable solution for smaller shipments. The hub connects services in Europe, Asia and Latin America with Central America and the Caribbean.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/colombia-panalpina-opens-first-ocean-freight-hub-operation-326409>)

# Logistics and Manufacturing

Products



## MARKET ENVIRONMENT

The logistics industry is currently undergoing major changes. Consumer expectations for ever shorter lead times, driven mainly by the rapid rise of e-commerce, is disrupting the traditional elongated supply chain model of products manufactured and shipped from central locations. Manufacturers and retailers are transforming their supply chains, reducing the need for traditional big-box “contract logistics” services, and demanding faster, more flexible logistics services.

This decline of the traditional supply chain model poses a major challenge for 3PL companies, who have to adapt their offerings to the new world. At the same time, another major change—the transition to distributed manufacturing—provides new commercial opportunities to develop in areas not usually associated with traditional contract logistics.

This transition to distributed manufacturing is driven not only by the demand for shorter lead times, but also by the ongoing equalization of global labor costs, the rapid uptake of new innovations such as advances in robotics, IoT and additive manufacturing, and the introduction of governmental trade tariffs that encourage manufacturers to move manufacturing closer to the market. Logistics companies who have both manufacturing and logistics capabilities will be able to help these manufacturers relocate all or part of their manufacturing processes closer to local demand. Logistics companies also have the opportunity to become service providers instead of simply delivering standard products.

## THE YEAR IN REVIEW

Panalpina continues to invest in and grow its Logistics and Manufacturing Services (LMS). In the last 12 months, Panalpina has built on its high-quality manufacturing capabilities in Latin America, extending the scope of its LMS service offering to include installation services, adding to the number of locations in which LMS services are offered as well as moving into the enterprise infrastructure and telecom sectors.

In 2018, Panalpina opened a new state-of-the-art, 25,800 m<sup>2</sup> logistics facility in Singapore, one of the largest single investments in a facility in Panalpina’s history. In addition to providing value-added logistics services, the facility also offers advanced logistics manufacturing services. The facility has already attracted a large number of blue-chip customers, and demand for LMS services in Singapore has proven to be high.

Panalpina has also extended its LMS concept beyond the telecoms industry, and now manufactures and assembles servers in its LMS facility in Czechia, where it also runs its own Materials Requirements Planning system to help manage customers’ inventory.

As part of the company’s commitment to playing a leading role in developing research in all aspects of manufacturing and supply chain topics, Panalpina continued its collaboration with Cardiff University through their industry and academic research platform ([www.cardiff.ac.uk/parc](http://www.cardiff.ac.uk/parc)). Research from the platform was featured at the G7 supply chain conference in Canada, where Panalpina demonstrated its thought leadership on leading the transition from linear to circular supply chains.

The company continued its commitment to continuous improvement and operational excellence with further advances in the Logistics Excellence (LogEx) program, which is university-accredited and deployed globally at Panalpina sites. With thousands of employees now trained, Panalpina is making extended use of advanced wearable technologies to further enable its operations teams to provide fast, agile supply chains for its customers.

# Logistics and Manufacturing

Products

Panalpina is ahead of schedule with its global roadmap to replace all legacy warehouse management systems (WMS) with JDA WMS, an industry-leading system. As of the end of 2018, JDA has been successfully implemented in 28 countries across the world. With this solid foundation in place, Panalpina has been able to introduce a wide range of advanced technology solutions, including voice-directed solutions, mobile hand-held devices, and warehouse automation software.

## OUTLOOK FOR 2019

As manufacturers and retailers adjust their supply chains to adapt to the demands of e-commerce, the transition to distributed manufacturing and circular supply chains is expected to continue.

In 2019, Logistics and Manufacturing will focus on two key areas: first, continuing to improve existing facilities using the LogEx continuous improvement approach and the global WMS as platforms on which to deploy new, advanced technologies that drive efficiencies; and second, continuing to expand LMS capabilities around the world, developing new service offerings, entering new geographies and adapting the service for new industry verticals.



### NEW INSTALLATIONS SERVICE FOR THE TELECOMS INDUSTRY



As part of the ongoing development of its pioneering Logistics Manufacturing Services (LMS), Panalpina extended its service offering into the telecoms installations market with a new project in Mexico. With this innovative service, Panalpina not only manufactures and tests the telecoms equipment in its facilities, but also installs and upgrades mobile network antennas in the field. This unique solution combines logistics, manufacturing, test, repair and installations, providing a truly end-to-end supply chain offering for the telecoms industry.



# Energy and Project Solutions

Products



## MARKET ENVIRONMENT

Although there is an increasing focus on renewable energy, oil and gas still play—and will continue to play—a dominant role in the overall energy mix, with a current share of 53% of the world's primary energy supply.

Global upstream capital expenditure dropped by nearly 45% between 2014 and 2016; it has recently recovered and there appears to be more confidence again in medium-term growth. The recent recovery seems to represent a rebalancing of market fundamentals, in a way that will make supply more challenging over the next few years. Oil supply growth has eased off, demand is more robust and inventory levels are finally eroding.

The combination of possible supply shortage, deferred maintenance of noncritical spending to reduce costs and continued geopolitical concerns form the strategy to refocus on investments, new geographies and asset maintenance while maintaining capital and cost discipline.

## THE YEAR IN REVIEW

Panalpina's 2018 target for Energy and Project Solutions (EPS) was to improve productivity compared to 2017. This goal was achieved through continued cost management, gains of additional trade lanes from existing key customers (oil majors and oilfield service companies) and some important wins on the project cargo side from engineering, procurement and construction (EPC) contracts.

Panalpina worked with international energy companies to provide full end-to-end services for some of the world's major energy projects. In addition, EPS gained a number of multimodal contracts under the Panprojects Carrier model, combining complex pre- and on-carriage with marine chartering and integral transport engineering. With Panprojects Carrier, Panalpina can oversee multimodal heavy-lift moves from fabrication to installation sites under a single contract that governs all modes of transport.

Panalpina increased its presence in the renewable energy sector during the year. In Australia, it won three contracts to manage a total of six projects—five solar farms and a biomass power plant—requiring a wide range of end-to-end services including ocean freight, break-bulk charter shipments from multiple sites, customs clearance, inland transport, warehousing and site coordination. It also won contracts from one of Australia's most important procurement and construction providers for another seven solar farms, based on its ability to offer a complete supply chain solution. In Egypt, Panalpina won a contract to manage shipments of solar components and panels for Benban Solar Park, which will be the world's biggest solar power installation when it opens in 2019.

# Energy and Project Solutions

Products

## OUTLOOK FOR 2019

Making predictions for the oil and gas industry goes beyond simply calculating supply and demand; regional and global economics come into play as well as geopolitical factors. One can easily say that uncertainty is the only real certainty.

Having served the energy and project market for more than 45 years, Panalpina's engagement and commitment towards this industry will remain firm going forward. While the main focus in the last few years has been on cost management and improvements in process efficiency, the objective for 2019 is to make controlled investments in new upstream geographical areas and in the project market overall, with a special focus on EPC customers.

Within the capital projects structure, the project team is being reinforced through a dedicated competence center and a clearly defined operational execution structure to meet the complex needs of EPC customers.



### SHIPPING A HELIDECK TO ARGENTINA



Panalpina delivered the main components of an offshore platform for the Area Magallenes Incremental Project in Argentina, near the Strait of Magellan. The components included several out-of-gauge pieces, including a helideck, generator room and living quarters module, with a total volume of 5,000 freight tons. Under a tailored Panprojects Carrier offering, the EPS team managed the shipment from Texas, US to Punta Quilla, Argentina, with a stopover at Vitoria, Brazil.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/shipping-a-helideck-to-argentina-309371>)



# Americas

Regions



## MARKET ENVIRONMENT

The overall market in the Americas showed steady growth from a volume perspective, with a strong peak on the ever-important Transpacific Eastbound trade to the US driven by a strengthening US economy and the looming tariff changes, which led many companies to pull orders forward to minimize the impact.

## THE YEAR IN REVIEW

In 2018, the Americas region focused on building on the foundation created from the turnaround process completed in the previous year. This included multiple efforts across the business.

The South American organization was focused on accelerating growth in strategic trade lanes (Intra Latin America, Asia Inbound). Although strong volumes and high vessel utilization led to rate volatility directly affecting margins, overall the strategy proved successful in growing above market on all key trade lanes.

A key initiative and another industry first completed in 2018 was the opening of the new Ocean Freight LCL hub in Cartagena, Colombia. Operated entirely by Panalpina, this new development offers customers more than 30 new LCL services, reduced transit times and greater coverage. This addition to our

global LCL network creates a unique offering in the market and further strengthens Panalpina's position as one of the leading LCL service providers in Latin America.

The Panalpina Perishables Network also continued expanding in the Americas with the acquisition of Newport Cargo in Argentina. This acquisition added more proficiencies in shipping berries, fish and live horses to our already exceptional perishables team and solidified our position as one of the most dominant exporters in South America.

In North America, Panalpina continued deploying and optimizing the SAP TM operating system. The US exports deployment was completed in the second quarter and the imports deployment began in the fourth quarter. The final group of users will be live on the system in the first quarter of 2019, which will mark the completion of the migration for all of North America. Following this milestone, deployments will continue into Mexico then further into Latin America, with a target completion in 2020 for the entire region.

At the heart of all the Americas' operations is safety, sustainability and quality. In 2018, not only did the Americas start the transition to the new ISO 45001 standard for occupational health and safety, but the region also had a stellar performance on their external ISO audits, which reflects a better understanding and application of the quality, health, safety and environmental standards the company strives to achieve.

# Americas

Regions

## OUTLOOK FOR 2019

The Americas region will continue optimizing operations, building a robust logistics organization and maximizing the opportunities for growth in South America following a critical election year. The continuation of the SAP TM rollout into Latin America in 2019 will also help drive productivity across the region.



### PANALPINA LAUNCHES SCHEDULED FLIGHTS TO QUERETARO, MEXICO

Panalpina added Querétaro International Airport in Mexico to the “Speedy” loop of its Charter Network, which also connects Mexico City and Guadalajara with Panalpina’s Air Freight gateway in Huntsville, Alabama. The new Querétaro lane reflects Panalpina’s growth in Aerospace and Perishables and the continuous adaptation of the company’s Charter Network to meet evolving market needs and customer demand in Mexico.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/panalpina-launches-scheduled-flights-to-queretaro-mexico-306781>)

# Asia Pacific

Regions



## MARKET ENVIRONMENT

In 2018, air freight recorded positive growth. Air freight rates rose despite an increase in capacity, while growth in demand was lower as the air freight cargo market was not as robust as in 2017. Ocean freight volumes in Asia as a whole continued to accelerate, while China remained the biggest country driving export growth.

Overall, the Asia Pacific (APAC) market has developed positively, benefiting from strong growth mainly from emerging markets such as Cambodia, Indonesia, Myanmar, the Philippines and Vietnam, as well as from China's continued solid growth.

## THE YEAR IN REVIEW

The teams across the APAC region have actively sought fresh perspectives and innovation to grow and deepen our networks, and the region has enjoyed strong year-on-year growth in line with expectations. Air Freight delivered steady growth, backed by strong imports and favorable development in the Technology and Automotive industry verticals. Ocean Freight also held up well with positive growth and improved productivity. Shipments to North America and Latin America and Panalpina's services for own-controlled less than container load (LCL) grew above the market trend.

In Logistics, strong performance was driven by the construction of the new build-to-suit warehouse in Singapore. In addition, Logistics' closely aligned operational capabilities and service offerings helped attract and retain a diverse range of customers from different industries.

As the year progressed, regional sales growth strengthened and recorded improvements across all industry verticals. In particular, sales in Technology, Automotive, Consumer, Retail and Fashion remained firm. As part of its ongoing efforts to ensure the right growth drivers, the region has also successfully scaled up the Supply Chain Solutions capabilities and activities out of South East Asia.

The region continued its focus on enhancing productivity through processes and collaboration with Panalpina's Global Business Services team to broaden its offerings and optimize operational efficiency in HR and IT delivery. Harnessing digital technology to boost workers' productivity, accuracy, and efficiency, the warehouse in Melbourne, Australia was the first site within the Panalpina Group to implement an innovative voice-picking solution.

The APAC teams take social and environmental sustainability priorities and practices seriously and remain committed to driving progress on their goals. Due diligence is done to use sustainable resources to support operations, whenever possible. To champion corporate giving and promote environmental responsibility, country teams across Asia launched outreach activities to give back to the communities in which they live. Through strong sub-contractor management initiatives, the region also had the opportunity to align its business partners and providers with its business requirements, which include using sustainable energy sources.

# Asia Pacific

Regions

## OUTLOOK FOR 2019

The business environment will remain uncertain in 2019. However, even in a difficult market, there are still many opportunities. Panalpina will continue to increase its footprint and accelerate business growth in APAC through building its capabilities and optimizing process management.

The region's development strategies will focus primarily on Intra Asia, North America and Latin America trade, and promote Asian multinational companies, in addition to those in Europe and the Middle East. Digital adoption efforts will remain key to foster deeper customer engagement and increase process efficiency.



### NEW LOGISTICS CENTER OPENS IN SINGAPORE

Panalpina's new, purpose-built logistics center in Singapore covers six floors and offers 25,800 m<sup>2</sup> of usable warehouse space. Strategically positioned near the new port, the warehouse will provide Air and Ocean Freight services including value-added logistics services to companies in a wide range of industries. The facility was already operating at 75% capacity by the end of 2018 and should reach full capacity by the first quarter of 2019.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/panalpina-opens-new-logistics-center-in-singapore-313687>)

# Europe

Regions



## MARKET ENVIRONMENT

Air freight trade in Europe increased by about 4% in 2018, driven mainly by imports from the US and exports to the US and China. The automotive industry continued to be a main driver of growth, although production started to dip in the second half of the year as some manufacturers were affected by new emission regulations.

The ocean freight market remained highly fragmented between shipping lines on the one side, and non-vessel operating common carriers (NVOCCs) and logistics service providers (LSPs) on the other side. Growth rates were moderate at about 3%. Supply chain costs were under heavy pressure, which put fulfillment at stake, and the overall capacity remained higher than demand trends. Supply chain delivery and cost development were further affected by port congestion and low water levels on the European barge routes.

Logistics costs increased in 2018, especially personnel costs in Eastern European countries due to shrinking labor availability. The trend toward outsourcing of logistics services continued; it became increasingly important to offer end-to-end capabilities and services supporting customers' ambition of best speed to market.

Securing capacity for customers' needs was the top priority in Overland throughout the year. The European trucking market was confronted with driver shortages, cost increases and overall volume growth, especially in e-commerce cargo, which put a strain on integrator and groupage networks. An acute need

for last-mile trucking solutions opened opportunities in this field of service.

## THE YEAR IN REVIEW

Europe grew its Air Freight volume by over 10% compared to 2017 through a combination of organic growth, mainly driven by Automotive and strong development on the major trade lanes, and non-organic growth through the completed acquisition of Adelantex, which further increased Panalpina's perishables footprint. Thanks to the Charter Network, Panalpina was able to offer long-term, stable prices in conjunction with long-term customer commitments in tonnage. The first outcome of this new way of partnering was a 20,000-ton award from a major car manufacturer on the Transatlantic Westbound lane.

As a result of the operational disruptions during the 2017 peak season, Panalpina initiated stronger direct cooperation with ground handling agents, with the aim to have better control of the goods prior to uplift and after arrival. The transactional shared service center was ramped up, shifting activities from higher-wage European countries to India.

In Ocean Freight, the highest priority was to reduce losses of the major countries by recalibrating the customer portfolio, renewing contracts, managing margins and increasing productivity. A complete operational process review, related mainly to the shared services center, helped to streamline activities and increase collaboration and efficiency. The LCL network, profiting from a new, innovative e-quotation system that produces dynamic pricing for customers, continued to grow and in 2018 reached its highest ever number of services and volumes.

The Logistics teams focused on continuous improvement programs aimed at quality, profitability and ultimately customer retention. Innovative customer projects were started in the UK, Germany, Czechia, the Netherlands and Poland, and the warehouses implemented several automatization projects to reach higher efficiency. Under the Logistics Excellence (LogEx) program, the region kept all sites at the Bronze level as a minimum and added two sites at the Silver level.

# Europe

Regions

Overland Europe approached the market challenges through specialized services such as customer-dedicated network solutions, white glove delivery, rail between Asia Pacific and Europe, and security- and temperature-controlled trucking. Overland also successfully implemented centers of excellence and a solutions-driven business development strategy.

The region continued to successfully roll out SAP TM in 2018, with France, the Netherlands, Belgium and Luxembourg joining Germany, Italy and Switzerland and bringing a further increase in productivity.

## OUTLOOK FOR 2019

The air freight market from Europe should grow moderately in the coming years; however, the automotive industry is not expected to grow at the same pace as during the last two years. Airlines will continue to balance supply and demand to avoid erosion of air freight rates, but there will be opportunities for better prices on selected trade lanes.

Ocean Freight has created the foundation for profitable growth, delivering customer excellence and introducing more digital solutions. Since markets are only expected to grow moderately, Ocean Freight is geared towards gaining market share in order to outgrow and deliver against its roadmap. With further acceleration of the global SAP TM roll-out, productivity improvements and more consistent data quality will enable stringent cost management.

The labor market in Europe will remain challenging. Increased demand is expected for end-to-end solutions, and there will be new potential coming in the SME market for e-commerce companies and collaboration with startup companies.

For Overland, the main challenges for 2019 will be a high demand for shipment visibility and last mile delivery solutions. Those challenges will be tackled with an innovative partner management strategy involving joint ventures, incentive schemes, shipment visibility projects and the remodeling of pick-up and delivery and last mile solutions.



## PERISHABLES NETWORK COMPLETES ADELANTEX ACQUISITION

The Belgium company Adelantex, which was acquired by Panalpina in late 2017 and fully integrated in 2018, has expanded the Perishables Network in Europe and the company's global, end-to-end offering for fresh produce. Panalpina Adelantex handles Air Freight imports and ground handling at Brussels and Liège airports, customs clearance, and the onward distribution in Europe. In July 2018, Panalpina Adelantex received a bio certification from Certisys, becoming the sixth Panalpina unit certified to handle organic produce.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/panalpina-adelantex-is-now-bio-certified-by-certisys-in-belgium-313949>)

# Middle East, Africa and CIS

Regions



## MARKET ENVIRONMENT

The oil and gas and capital project markets recovered in 2018 and maintained their momentum. The blockade on Qatar affected Dubai as the regional distribution hub and supply chains had to be redesigned, which benefitted Oman. The currency devaluations in Angola and Turkey resulted in a very challenging economic situation.

## THE YEAR IN REVIEW

The Middle East, Africa and CIS (MEAC) region won some very significant capital projects business in 2018 from major international EPC contractors as well as international oil companies. In Angola, Panalpina became the market leader in oil and gas logistics in the country after winning a large contract with a major oil company.

The Perishables industry vertical grew organically in Morocco, Egypt and Turkey. The Panalpina Perishables Network also expanded to South Africa through the acquisition of Skyservices, a reputable specialist with presence in both Johannesburg and Cape Town. Perishables make up 40% of South Africa's Air Freight exports, and the acquisition will enable end-to-end solutions for perishables from South Africa to Europe, the Middle East, the Far East and the US.

Panalpina turned around its operations in Russia, even in the face of sanctions affecting the country. In a low-growth market, Panalpina successfully gained market share from customers, and the customer portfolio became more diversified in the Gulf Cooperation Council countries through an increased share of locally controlled businesses. The region also streamlined its organizational structures in 2018, leading to greater profitability and improved processes.

The Dubai warehouse, a 40,000 m<sup>2</sup> facility that was opened in 2016, has developed well and offers logistics manufacturing services (LMS), contract logistics and value-added services. Installation services have also been added for certain customers.

# Middle East, Africa and CIS

Regions

## OUTLOOK FOR 2019

The priority for 2019 will be on continued top-line growth, with a special focus on telecom, perishables, oil and gas, and capital projects. Further investments will be made in field sales to increase business for both country and global accounts.



### PERISHABLES CAPABILITIES EXPAND IN KENYA

Panalpina doubled its cold storage space at Nairobi's Jomo Kenyatta International Airport, enabling more and improved services for its Perishables customers. The facility is unique within the airport, with dedicated loading bays for skidded or palletized cargo and separate cold rooms to manage specific requirements for products such as cuttings. Panalpina currently manages most of Kenya's premium perishables exports, which include flowers, fruits and vegetables.

Read more in the Panalpina Newsroom  
(<http://www.panalpina.com/www/global/en/home/newsroom.html#/news/panalpina-expands-facilities-at-nairobis-jomo-kenyatta-international-airport-336253>)

# Aerospace

## Industry Verticals



### MARKET ENVIRONMENT

The global aerospace industry continued its journey of growth in 2018. Boeing bought Embraer and Airbus bought a majority of Bombardier, each of the acquisitions leading to further growth and mergers on the supplier side. Slightly more than half of the aerospace market is still dominated by the US, with Europe and Asia forecasted to have the largest growth for the next 10 years.

Outsourcing, in particular maintenance, repair and operations (MRO) and aircraft on ground (AOG) activities, are on the rise, with logistics providers seeking a share of that market. Passenger transport is expected to double within the next 15 years, and aircraft order books are already filled for the next 10 years. The development of alternative propulsion systems is a key driver within aerospace R&D.

### THE YEAR IN REVIEW

2018 saw the creation of Panalpina's Aerospace industry vertical with a small team focusing on business development in Europe and the Americas. Panalpina has successfully maintained one of the top aerospace original equipment manufacturers (OEMs) as a customer for five years, and is now growing its references to include top Tier 1 suppliers to commercial and military OEMs. Again, Panalpina has been voted "Supplier of the Year" by a major customer for consistent and excellent performance.

The Heliship helicopter business celebrated its 25th year in 2018, continuing to offer specialized solutions in locations worldwide. This year also saw the emergence of engine transports, the highly specialized and complex movement of high-value aircraft engines. While the average sales cycle of aerospace customers is about one year, Panalpina has established a strong relationship with aerospace OEMs and suppliers, poised the IV for some unique business opportunities in 2019.

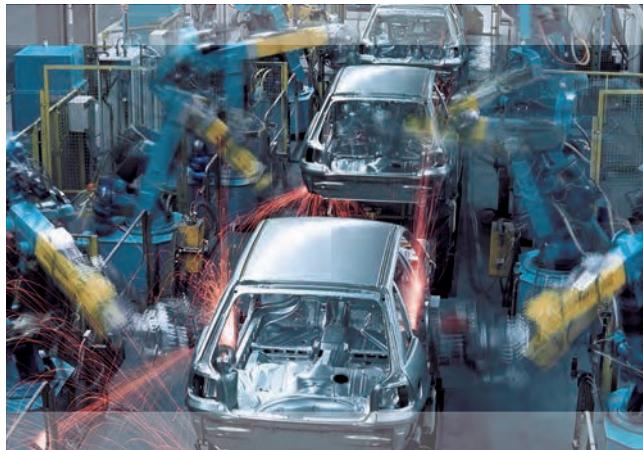
### OUTLOOK FOR 2019

The turnaround time of aircraft, with the objective of receiving, unloading, fueling and loading within 25 minutes, is pushing the industry to be more agile both for passenger movement and for the entire logistics infrastructure surrounding the management of aircraft on ground.

2019 will bring a number of unique and challenging opportunities for Panalpina. These will rise predominantly in the AOG field, where globally the demand for immediate shipment of replacement and production parts is on the rise. Panalpina is aggressively targeting these services and working with the Air Freight team to ensure the infrastructure is in place to accommodate these demands.

# Automotive and Manufacturing

## Industry Verticals



### MARKET ENVIRONMENT

The automotive and manufacturing (A&M) industry had significant growth during 2018, with increased demand for products and services. Development has been very strong in China together with Europe, the US and Latin America. The shared platforms in the automotive industry support flexible production and improved productivity but also drive elongated supply chains, with a high amount of inventory. Value creation is shifting from the mature markets to emerging markets. China continued to implement its One Belt One Road concept to develop capacity for international trade.

New technologies and more stringent CO<sub>2</sub> regulations are creating a major market for electric and driverless cars. However, suppliers will need to redesign and expand their existing product range, as more software-driven, dynamic vehicle and power control systems will be needed in the future.

### THE YEAR IN REVIEW

Panalpina supported the A&M industry with stable and predictable supply chain solutions throughout the year. The IV secured several new business opportunities, meeting the challenges of cargo capacity and increased demand, and supporting the complex, global and sensitive supply chains of its customers; this resulted in significant volume growth both for Air Freight and Ocean Freight.

Panalpina's service platform supported customers in providing visibility and allowing customers to take informed decisions about their supply chains. Panalpina also offered its customers sustainable supply chain solutions to reduce their environmental impact. Several customers recognized Panalpina during the year for excellence in delivering valuable supply solutions to the industry.

Panalpina continued to develop high-quality Air Freight solutions for the industry based on its capabilities with the Charter Network in combination with commercial capacity. Together with its customers, Panalpina looked into reducing volatility and creating resilient supply chains.

### OUTLOOK FOR 2019

The A&M industry will continue to grow in 2019 with the increasing demand for new and connected devices and the increased technological development of IoT solutions. The use of available technology as well as artificial intelligence is increasing the speed of development; as devices become more connected, a manufacturer's IT infrastructure must become more high-performing and agile. Panalpina is developing solutions to meet these demands for the future.

Production of new electrical vehicles (NEVs) will continue to increase, and China is estimated to have around 50% of the global capacity. Estimates are that by 2020, there will be about 10 million vehicles on the roads, and by 2030, at least 50% of all new vehicles will be NEVs. To support this industry development, Panalpina is exploring different solutions such as a battery supply chain that supports both production and after sales services.

After sales will increase with the new shared mobility services. The average use of a car will increase, which will lead to shorter life span of the car and an increased need for maintenance. This development is projected for major urban areas, where there will be higher demand for fast and agile supply chain solutions.

# Chemicals

Industry Verticals



## MARKET ENVIRONMENT

Global chemicals production grew at a rate of 3% in 2018. Many chemical companies adjusted their growth strategies and adopted more aggressive business models instead of the cost-cutting and retrenching of past years. Mergers and acquisitions continued throughout the year, with mid-size players also getting into the act. The adoption of digital technology helped to increase profitability and promote growth.

Political movements are causing some retrenchment in open borders, trade and shared ventures. Regulations regarding the transportation and storage of chemicals have increased.

## THE YEAR IN REVIEW

The Chemicals IV was successful in adding a number of new companies to its customer list, while also generating growth with many of its long-term accounts. In several instances, existing customers did not put their business out for RFQ while also agreeing to increased rates with Panalpina.

Growth in Asia and Europe was fueled by new accounts. The IV also successfully expanded business with a number of targeted accounts by building on past successes and introducing additional products. The largest Panalpina LCL customer extended its contract for an additional period.

The IV gained additional traction in Asia and Europe by converting country sales personnel to regional roles for greater coverage, and continued the trend of growing regional accounts into global accounts. The teams also built up additional expertise in the Supply Chain Solutions offering for the chemicals industry.

## OUTLOOK FOR 2019

Capacities for ocean freight should remain tight in 2019, fueling the increased use of Panalpina's own controlled services for the chemical sector. New or expanded chemical production facilities will be coming on stream in North America and the Middle East, with the potential to shift supply and demand patterns. Resources in the Chemicals IV will be focused on a smaller, better defined target customer list.

Panalpina will continue its journey to be the preferred supplier in meeting the logistics needs of the chemical industry. A renewed focus on Supply Chain Solutions and an increased focus on cross-selling additional products will contribute to growth. Panalpina will be well positioned as the chemical sector begins to utilize predictive analytics.

# Consumer, Retail and Fashion

## Industry Verticals



### MARKET ENVIRONMENT

The consumer, retail and fashion CRF industry was influenced by several market trends, including the continued growth of “e-tailing” and the preference for small brands promoted through social media. The bricks and mortar retail model is being challenged by e-commerce and new business models are developing.

The CRF industry was also affected by technological developments such as IoT devices to provide accurate visibility down to order, item and SKU level, and by predictive and prescriptive analytics tools.

Sustainability, responsibility, health and wellness are the new basis for brand loyalty. The customer experience is very important, and the industry is experimenting with innovative, user-friendly stores. New technologies such as “smart checkout” and payment in cryptocurrencies are becoming more widespread.

### THE YEAR IN REVIEW

Panalpina’s CRF IV achieved impressive growth for the fourth year in a row. Especially on the Ocean Freight and Logistics side, the IV was able to grow far above the roadmap on GP level, thanks to a focus on end-to-end supply chain solutions such as order management and buyer’s consolidation.

In Air Freight, the IV continued to focus on a global solution for one of its strategic consumer accounts

and replicate this to gain single provider status with other accounts. In Ocean Freight, the IV promoted a freight management solution including visibility for consumer accounts and consolidated flows between brands to make the supply chain more cost efficient. Working closely with Supply Chain Solutions, the IV significantly grew its order management and buyer’s consolidation footprint with several retail and fast fashion wins in Europe, the US and Asia Pacific.

In Logistics, the focus was on areas where Panalpina has a good footprint, such as New York, Singapore and Dubai, and on building end-to-end logistics solutions for e-commerce.

The IV continued to grow its consumer goods sector and in 2018 successfully finished implementation with one of the world’s largest coffee consumer companies. The solution consists of end-to-end order management with visibility at order level and optimization of flows. With one consumer company, Panalpina installed sensor devices in containers to automate event and exception management and to achieve real-time visibility. This use of IoT is an exciting development and will lead to more benefits in the future. For one of its largest sports and lifestyle retail accounts, the IV won a pilot case to build up a 4PL setup focusing on optimization, centralization and end-to-end visibility.

Sustainability remains an important topic for CRF clients, and in the luxury and high fashion industry, a sustainable solution is often the qualifying component to win an RFQ.

### OUTLOOK FOR 2019

The digitization of retail, combined with unpredictable buying behavior, shows the need for end-to-end visibility and optimization solutions for the CRF industry. Together with its Supply Chain Solutions teams, Panalpina will place a special focus on further growing its order management and buyer’s consolidation solutions. The company is also looking into innovations such as sensor technology in units to improve event management and increase operational efficiencies.

# Government, Aid and Relief

Industry Verticals



## MARKET ENVIRONMENT

In the government and defense sector, heightened security threats combined with increased spending by major countries will continue to drive growth for the next five years and beyond. Defense contractors continued to consolidate during the year, as shown by the recent acquisition of Orbital ATK by Northrup Grumman. In the aid and relief sector, humanitarian organizations were occupied in 2018 by continued conflicts in Syria, Yemen and South Sudan, coupled with the Rohingya refugee crisis.

## THE YEAR IN REVIEW

Panalpina continued its focus on countries in the NATO alliance in support of counterterrorism in several countries across Africa as well as support missions in Iraq and Afghanistan. Panalpina won a large contract in support of a major non-profit organization, which involved moving charter flights to support relief efforts in Ethiopia, Bangladesh, Syria and Pakistan. To ensure the critical movement of food to South Sudan, Panalpina handled over 90 small charter flights in conjunction with its long-term agent.

Panalpina utilized the Charter Network as well as key partnerships with carriers, especially for solutions needed at short notice and under great time pressure. With its extensive expertise and global network, Panalpina was able to ensure an unbroken supply chain for temperature-sensitive medicines such as vaccines.

## OUTLOOK FOR 2019

Panalpina will focus on expanding its team in this industry vertical to keep pace with growth. The company also plans to work with other relief organizations and to ensure its country offices in Africa are able to support these requirements. The resurgence of Ebola in the Democratic Republic of Congo could soon create another emergency situation.

# Healthcare

Industry Verticals



## MARKET ENVIRONMENT

The global healthcare market is growing 4% year on year. The main issue for the healthcare industry is to improve operating margins due to the fact that many public and private health systems are under cost and revenue pressures. Spending in the healthcare industry is expected to be driven by the increasing population and the growing proportion of elderly people.

## THE YEAR IN REVIEW

Panalpina successfully grew its market share in 2018 by winning additional business from the top healthcare companies.

Panalpina, in particular the Air Freight product, continued to invest in the global healthcare network. Ten business units were certified according to GDP, together with the new warehouse in Singapore. By the end of 2018, Panalpina had 37 GDP-certified sites.

More than 400 employees successfully completed their GDP training, bringing the number of GDP-trained employees to 3,500.

## OUTLOOK FOR 2019

The cost pressure on healthcare companies will continue, with the focus shifting from volume to value. Newly launched products will be more sensitive, with more demanding temperature requirements that will increase the value per unit. New markets are growing at a fast rate.

Panalpina will continue to expand its global healthcare network by adding more GDP-certified sites in 2019, with a focus on fast-growing emerging markets. The goal is to have 50 GDP-certified units by the end of 2019. The company will also invest in new GDP warehouses to meet the increased demand for warehousing space closer to the market. These include warehouses in Cajamar São Paulo (Brazil), Weiterstadt (Germany) and Amsterdam. The cross dock and warehouse network of Panalpina will support the bundling of flows to reduce the cost per unit for its customers.

# Perishables

Industry Verticals



## MARKET ENVIRONMENT

The perishables sector grew by 6% overall in 2018. A growing middle class in Asia, particularly in China, has shifted demand for product with traditional destinations to product with provenance, and the demand for quality has increased.

The main challenge is the shift of air capacity to better-paying markets, partly due to the continued rise of e-commerce with higher paying cargo. Kenya lost capacity for this reason, and extreme weather also impacted the expected volumes in Kenya in 2018.

## THE YEAR IN REVIEW

Panalpina continued to develop its footprint in this sector with two more significant acquisitions: Skyservices in South Africa and Newport Cargo in Argentina. Together with Newport Cargo, Panalpina moved more than 26 charters into the US over a three-week period.

The Perishables Network continued to expand in 2018, gaining five strategic perishables agencies to further develop its end-to-end offering. Panalpina now has a total of 26 dedicated perishables competency centers and over 20 Panalpina offices that handle small amounts of perishables through a traditional general cargo operation. This has expanded the network to over 50 countries, making

Panalpina one of only two logistics companies with such a broad perishables framework, and allowing its clients to manage their product under a strict regime.

Overall the Perishables vertical has seen the most significant growth in Air Freight. The company is also looking to expand its Ocean Freight reefer business, and Peru and Mexico have invested in capability. The Americas region was able to secure vendor approval with a major international retailer and has already made its first shipments, assisted by the inaugural flight of LATAM Cargo from Bogotá, Colombia to Huntsville, US. In Nairobi, Kenya, Panalpina expanded its facility at the Jomo Kenyatta International Airport.

Fruit Logistica in Berlin was a high point in the 2018 calendar, resulting in about 700 meetings with existing and new prospects and showcasing Panalpina as a global perishables provider. Customers within the Panalpina network are now able to identify potential growers, buyers and new markets. The Perishables digital marketing campaign went into full swing, driven from a global level, with multiple articles and touch points to create more market awareness of the Panalpina brand and increase sales activity.

## OUTLOOK FOR 2019

The Panalpina Perishables Network now is second to none, with a strong European structure, and will focus on identifying the major countries that have high consumption or production of dairy, meat, fish and high-end finished products, as well as the traditional fruits, vegetables and flowers.

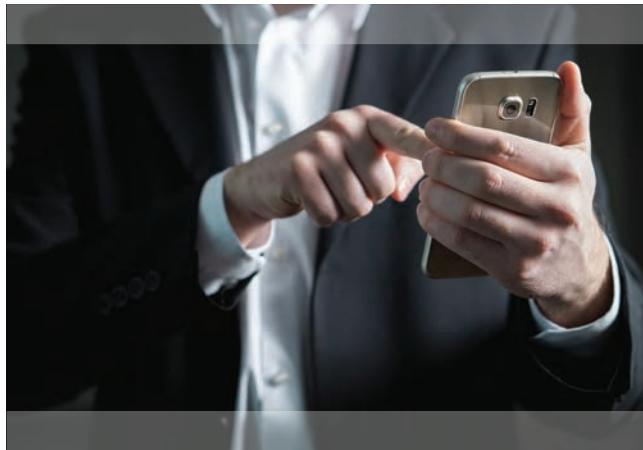
The customer is demanding a more visible supply chain, and Panalpina will gain more traction on its end-to-end offering due to the continuing investment into its network. Panalpina will also place a great focus on reefer shipments in 2019.

Online commerce is developing within the perishables sector and will be a major disrupter in the coming years; it will also be an opportunity as it increases market reach and air volumes.

# Technology

## (Hi-tech and Telecom)

Industry Verticals



### MARKET ENVIRONMENT

The overall technology sector grew by more than 4% in 2018, and personal computer and server growth was higher than forecast. Telecom is gearing up for 5G and growth in India and other emerging markets has been dynamic.

### THE YEAR IN REVIEW

The Technology IV rolled out the Perfect Performance Program (PPP) to 18 accounts in 2018. Panalpina has been able to improve the customer experience and achieve higher margins with this program, which establishes clear expectations and responsibilities for Panalpina and its customers. Due to the reputation for quality that Panalpina has earned with the PPP, it received several supplier awards from a major Chinese telecom company.

Panalpina was awarded significant Air Freight and Ocean Freight awards from some of the leading telecom companies, and achieved outstanding growth with a European chip-making company.

### OUTLOOK FOR 2019

2019 could be a volatile year for Hi-tech and Telecom; they are global industries and their world is becoming more complex. Trade issues, tariffs and increased regulatory challenges could have significant impact but could also create opportunities. Server shipments are expected to be strong and 5G could add volume growth to key air freight lanes; however, the impact and rollout of 5G is still not clear.

The Technology teams are holding planning and strategy sessions with their major accounts, looking for ways to help them address their challenges. Panalpina will focus on taking excellent care of its customers with the PPP program, and expects to maintain margins in close collaboration with Panalpina's product and operations groups. The Technology IV is also looking forward to gaining traction with the Logistics installation program for Telecom and expanding its white glove services to support server deliveries.

# Corporate Governance Report

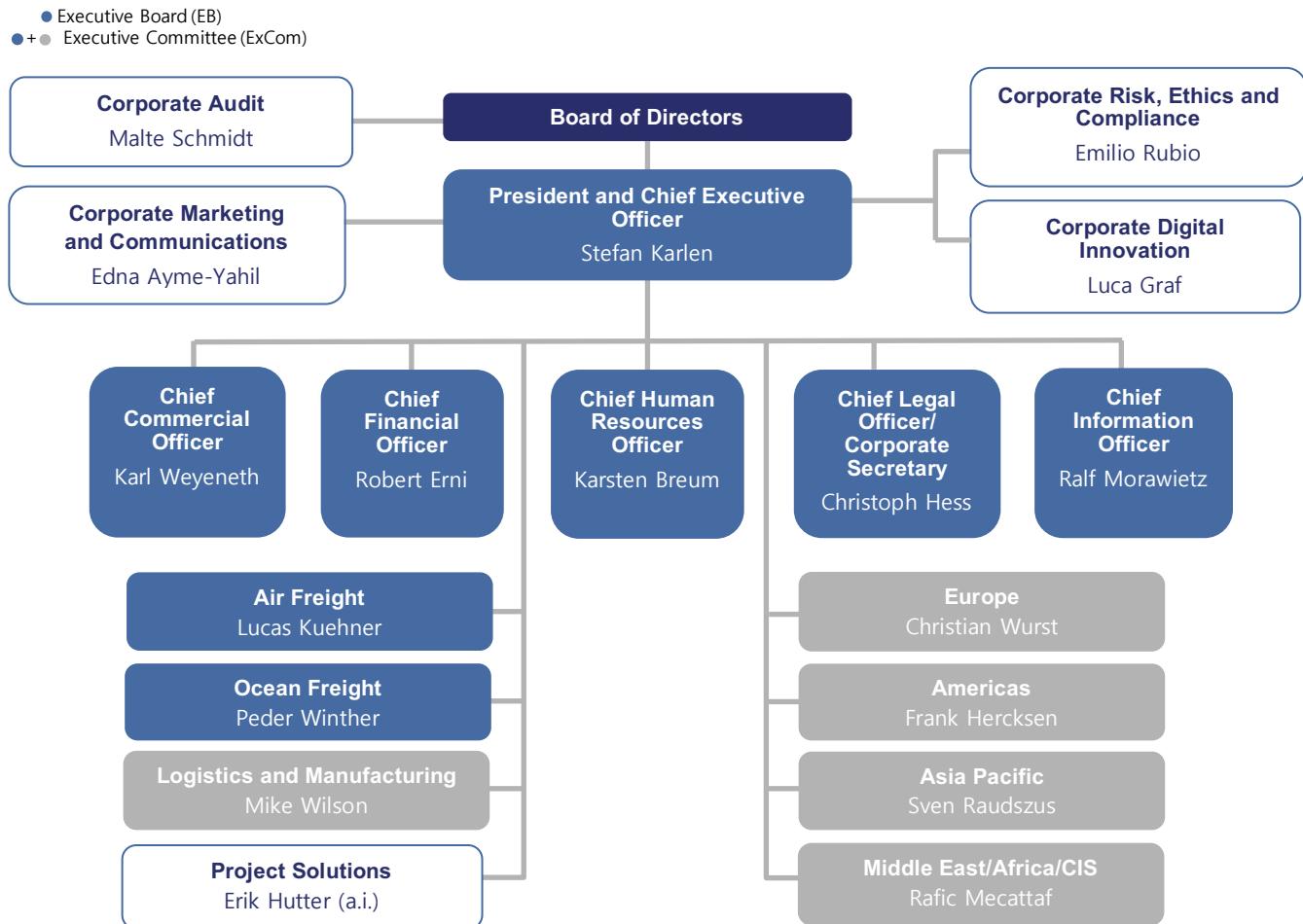


Panalpina is committed to a transparent management structure that is governed by international principles. This Corporate Governance Report complies with the Corporate Governance directive of the SIX Swiss Exchange dated December 13, 2016 and provides investors with the corresponding key information.



# Corporate Governance Report

## GROUP MANAGEMENT STRUCTURE (Valid as of January 1, 2019)



Malte Schmidt, Head of Corporate Audit as of October 1, 2018.

Edna Ayme-Yahil, Corporate Head of Marketing and Communications as of July 1, 2018.

Emilio Rubio, Corporate Risk, Ethics and Compliance Officer as of September 1, 2018.

Erik Hutter, Global Head of Project Solutions, a.i., as of July 1, 2018.

# Corporate Governance Report

## 1 GROUP STRUCTURE AND SHAREHOLDERS

### 1.1 Group structure

#### 1.1.1 Operational Group structure

Panalpina's business activities are primarily regionally oriented. The operating structure is divided into the following four regional segments:

- Americas (North, Central and South America)
- Asia Pacific
- Europe
- MEAC (Middle East, Africa and CIS)

Secondly, the business activities are subdivided into the following business segments:

- Air Freight
- Ocean Freight
- Logistics (value-added services, distribution solutions)

Supplementary information can be taken from the segmental reporting section (note 3, page 12) of the Consolidated Financial Statements ([http://www.panalpina.com/www/global/en/home/investors/financial\\_presentations/interim\\_reports.html](http://www.panalpina.com/www/global/en/home/investors/financial_presentations/interim_reports.html)).

#### 1.1.2 Listed companies within the scope of consolidation

Panalpina World Transport (Holding) Ltd. (PWT), the ultimate holding company of the Panalpina Group, is the only listed company within the scope of consolidation. PWT has its registered office in Basel, Switzerland. The PWT shares are exclusively listed on the SIX Swiss Exchange. The market capitalization on the closing date amounted to CHF 3.11 billion (23,750,000 registered shares at CHF 131.10 per share).

The PWT shares are traded under Valor no. 216808, ISIN CH0002168083, symbol PWTN.

#### 1.1.3 Non-listed companies within the scope of consolidation

The main subsidiaries and associated companies are disclosed in the Consolidated Financial Statements (<http://www.panalpina.com/www/global/en/home/>

[investors/financial\\_presentations/interim\\_reports.html](http://www.panalpina.com/www/global/en/home/investors/financial_presentations/interim_reports.html) /note 31, page 56) itemized by registered office, nominal capital, equity interest in percent, investment and method of consolidation.

### 1.2 Significant shareholders

As of December 31, 2018 the Ernst Göhner Foundation, Zug, Switzerland, is the main shareholder of PWT, with an equity participation of 45.9%.

Cevian Capital II Master Fund LP held a share capital of 12.3% on closing date. The other significant shareholder according to the most recent disclosure notice is Artisan Partners Limited Partnership (≥10%). During the reporting year the following disclosure notices (listed by shareholder and transaction date) were filed on the SIX online publication platform.

Artisan Partner Fund Inc.

January 19, 2018: decrease of share capital to 9.99%

Franklin Resources Inc.

September 5, 2018: decrease of share capital to 2.87%

### 1.3 Cross-shareholdings

No cross-shareholdings exist between PWT and any other company.

## 2 CAPITAL STRUCTURE

### 2.1 Capital

On the closing date, the ordinary share capital of PWT amounted to CHF 2,375,000 and is divided into 23,750,000 registered shares, with a nominal value of CHF 0.10 each.

### 2.2 Authorized and conditional capital in particular

At the Shareholders' Meeting of May 3, 2017, the authorized share capital was renewed, at the value of a maximum aggregate amount of CHF 300,000 by issuing a maximum of 3,000,000 registered shares with a nominal value of CHF 0.10 each, until May 2, 2019.

# Corporate Governance Report

The Board of Directors is authorized to exclude the pre-emptive rights of shareholders and to convey them to third parties, provided that such new shares are to be used for the takeover of entire enterprises, divisions or assets of enterprises or participations or for the financing of such transactions. The Board of Directors has not yet made use of this authorization.

No decision has been made regarding the creation of conditional capital.

## 2.3 Change in capital over the past three years

No changes were made over the last three years.

## 2.4 Shares and participation certificates

On the closing date, 23,750,000 fully paid-in PWT registered shares with a nominal value of CHF 0.10 each were issued. On this date, no participation certificates were issued.

## 2.5 Dividend-right certificates

On the closing date, no dividend-right certificates had been issued.

## 2.6 Limitations on transferability and nominee registrations

### 2.6.1 Limitations on transferability for each share category; indication of statutory group clauses and rules for granting exceptions

Acquirers of PWT shares are entered into the share register as shareholders with voting rights upon provision of proof of the acquisition of the shares and provided that they expressly declare that they hold the shares in their own name and for their own account.

The Articles of PWT specify ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 5, page 3) that any shareholder may exercise voting rights to a maximum of 5% of the total number of shares recorded in the commercial register. This limitation for registration in the share register shall also apply to persons who hold shares fully or in part through nominees within the meaning of the Articles. Furthermore, this limitation for registration in the share register also applies to registered shares that are acquired through the

exercising of preemptive rights, warrants and conversion rights. The Board of Directors is empowered to allow exemptions from the limitation for registration in the share register in particular cases.

The Articles make provision ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 5, page 3) for group clauses.

The limitations on transferability do not apply to the shares held by the Ernst Göhner Foundation because it held PWT shares prior to the implementation of the limitations (so-called grandfathering).

### 2.6.2 Reasons for granting exceptions in the year under review

No exceptions were granted during the reporting year.

### 2.6.3 Admissibility of nominee registrations; indication of any percent clauses and registration conditions

The Articles of PWT specify ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) / Art. 5, page 3) that the Board of Directors may register nominees with voting rights in the share register up to a maximum of 2% of the share capital recorded in the commercial register. Nominees are persons who do not expressly declare in their application that they hold the shares for their own account and with whom the company has entered into an agreement to this effect.

The Board of Directors is empowered to register nominees with voting rights exceeding 2% of the share capital recorded in the commercial register as long as the respective nominees inform PWT of the names, addresses, nationalities (registered office in the case of legal entities) and the shareholdings of those persons for whose account they hold 2% or more of the share capital recorded in the commercial register.

The Articles make provision ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 5, page 3) for group clauses.

# Corporate Governance Report

## *2.6.4 Procedure and conditions for canceling statutory privileges and limitations on transferability*

A resolution of the General Shareholders Meeting of PWT on which at least two-thirds of the voting shares represented agree is required for any abolition or change of the provisions relating to transfer limitations.

## 2.7 Convertible bonds and options

There were no convertible bonds outstanding on the closing date.

The only issued options relate to the share purchase program (Management Incentive Plan (MIP)) and are for currently 881 senior managers of Panalpina. As of 2009, the Board of Directors and the Executive Board have been excluded from participation in this program. As of 2011, the options under the MIP program have been replaced by a free share ratio scheme. Please refer to page 70 of the Compensation Report of the Annual Report ([http://www.panalpina.com/www/global/en/home/investors/annual\\_report.html](http://www.panalpina.com/www/global/en/home/investors/annual_report.html))

## 3 BOARD OF DIRECTORS

### 3.1 Members of the Board of Directors

At the Annual General Meeting of May 8, 2018, Sandra Emme was elected and Peter Ulber, Beat Walti, Thomas E. Kern, Pamela Knapp, Ilias Läber, Dirk Reich and Knud Elmholdt Stubkjær were re-elected to the Board of Directors. Chris E. Muntwyler stepped down from the Board.

All members of the Board of Directors are elected for a one-year term until the next ordinary General Meeting.

On the closing date, the Board was composed of eight persons.

Two members of the Board of Directors (Peter Ulber and Beat Walti) are also members of the Board of Trustees (Stiftungsrat) of PWT's main shareholder, the Ernst Göhner Foundation.

Ilias Läber is a Partner at Cevian Capital Ltd. in Switzerland and represents one of PWT's largest minority shareholders.

The biographies of the members are as follows:

**Peter Ulber**, Chairman of the Board of Directors, since 2016. German and US citizen. Born in 1960. Re-elected in 2018.

Following his studies at the International School of Logistics in Hamburg, Ulber held various management positions from 1985 to 2011 at Kuehne + Nagel in Europe, as well as North and South America. During his tenure, Ulber was responsible for both seafreight and airfreight, had overall responsibility for the global sales organization and joined the management board in 2008. As a result of a series of strategic acquisitions by Kuehne + Nagel, Ulber was also heavily involved in the company's expansion in Europe, Asia and America.

At the end of 2011, he founded Charleston Enterprise Group LLC, a strategic management consultancy that offered consulting, management and investment strategies for international logistics companies as well as private equity firms with a primary focus on mergers and acquisitions as well as growth strategies. As of May 2013, the company changed its focus to concentrate solely on the real estate industry.

Peter Ulber joined Panalpina in June 2013 as President and CEO and was elected as Chairman on May 10, 2016.

In his capacity as Chairman, Peter Ulber assumes an extended role covering the assessment of opportunities for mergers and acquisitions to support the Group's long-term growth. Moreover, the Chairman is closely involved in the activities of the Group's Innovation Board to enable the exploitation of new market developments and new solutions, which anticipate customers' requirements.

Peter Ulber will not stand for re-election as Chairman of the Board at the next Annual General Meeting on May 9, 2019.

**Beat Walti**, Member of the Board of Directors since 2010. Swiss citizen. Born in 1968. Re-elected in 2018.

# Corporate Governance Report

Beat Walti holds a PhD in law from the University of Zurich. From 1998 to 2001 he worked as a consultant and engagement manager with McKinsey & Company in Zurich. In 2001, he was a co-founder and project manager of a start-up company in the healthcare sector. Since 2002, Beat Walti has worked as a lawyer with Wenger & Vieli in Zurich specializing in corporate, commercial, contract, competition and antitrust law. He became a partner with Wenger & Vieli in 2007 and was the firm's managing partner from 2012 to 2014.

**Ilias Läber**, Member of the Board of Directors since 2013. Swiss citizen. Born in 1974. Re-elected in 2018.

Ilias Läber holds a Master of Science from ETH Zurich and a PhD in Finance from the University of Zurich. From 2001 to 2008, Ilias Läber worked at McKinsey & Company, ultimately as an Associate Principal. In 2008, he joined Cevian Capital AG, being responsible for Cevian's Swiss office and investments in Switzerland and England. Since 2009 he has been a Partner at Cevian Capital in Switzerland.

**Knud Elmholdt Stubkjær**, Member of the Board of Directors since 2011. Danish citizen. Born in 1956. Re-elected in 2018.

Knud Elmholdt Stubkjær holds a shipping degree from the Mærsk International Shipping Academy, supplemented with various executive programs, e.g. from IMD and INSEAD. From 1977 through 2007, he held various positions within the A.P. Møller-Mærsk Group, including a number of postings in Asian and European countries. This included positions as Head of Mærsk Line United Kingdom, President of Mærsk K.K. Japan, CEO A.P. MøllerMærsk Singapore and Regional Manager A.P. Møller Group Asia/Oceania/Middle East. In 1999, he became Head of Mærsk's container business worldwide, based in Copenhagen, and the same year became one of five partners in the A.P. MøllerMærsk Group. In 2008, he became a partner in the E.R. Capital Holding Group in Hamburg, serving as CEO of one of its subsidiaries, E.R. Schiffahrt GmbH, a leading maritime service provider within container, bulk and offshore shipping. Since July 30, 2012, Knud Elmholdt Stubkjær is acting as CEO and CSO of Carrix Inc., Seattle, Washington.

**Thomas E. Kern**, Member of the Board of Directors since 2015. Swiss citizen. Born in 1953. Re-elected in 2018.

Thomas E. Kern holds a Master of Law from the University of Zurich and an MBA from INSEAD, Fontainebleau (France).

Thomas E. Kern held various management positions in established organizations. From 2002 to 2006 Thomas E. Kern was Chief Executive Officer of Globus-Gruppe, Spreitenbach (Switzerland) and from 2008 to 2014 Chief Executive Officer of Zurich Airport AG, Zurich (Switzerland).

**Pamela Knapp**, Member of the Board of Directors since 2015. German citizen. Born in 1958. Re-elected in 2018.

Pamela Knapp holds a diploma degree in economics from the Freie Universität Berlin/ Free University Berlin (Germany) and completed the Advanced Management Program (AMP) at Harvard University, Boston (US).

She began her career at Deutsche Bank AG, then worked as an M&A consultant before taking on various management roles at Siemens AG including Chief Financial Officer of the Power Transmission & Distribution division from 2004 to 2008. From 2009 until October 2014, she was Chief Financial Officer and member of the Management Board, responsible for Finance, Controlling and Accounting, Personnel, M&A, Purchasing and Administration at GfK SE. Today, Pamela Knapp serves as a nonexecutive board director in the following companies: PSA Groupe S.A., Rueil-Malmaison (France), Compagnie de Saint-Gobain S.A., Courbevoie (France), hkp group AG, Zurich, (Switzerland), NV Bekaert SA, Zwevegem, Belgium and Lanxess AG, Köln (Germany).

**Dirk Reich**, Member of the Board of Directors since 2017. German and Swiss citizen. Born in 1963. Re-elected in 2018.

Dirk Reich completed his apprenticeship as an air transport commercial at Lufthansa German Airlines AG, Cologne (Germany) in 1983 and roles followed at German Cargo Services GmbH, Frankfurt (Germany)

# Corporate Governance Report

and VIAG AG, Bonn (Germany) until joining Kuehne + Nagel as head of Corporate Development in 1994.

During his 20 years at Kuehne + Nagel International AG, Feusisberg (Switzerland). Dirk was responsible for merger and acquisition projects as well as the strategic development of the group. In 2000, he was appointed Director Corporate Development, e-commerce and Marketing for the company's global logistics network. In 2001, Dirk Reich joined the Management Board of Kuehne + Nagel, responsible for the business unit Contract Logistics. He also headed the Group's Rail and Road Logistics business unit and served as Secretary of the Board of Directors of Kuehne + Nagel in 2008 and 2009.

In 2014, Dirk Reich was appointed President and CEO of Cargolux Airlines International S.A., Luxembourg (Luxembourg) until 2016. During his tenure he was also Chairman of Cargolux Italia, Vizzola Ticino (Italy) and served on the Board of CHAMP Cargosystems S.A., Contern (Luxembourg) and on the Board of the China-Luxembourg Chamber of Commerce A.S.B.L. (ChinaLux), Luxembourg (Luxembourg).

Dirk Reich attended the Otto Beisheim School of Management (WHU) in Koblenz, Germany with studies in France and the US and received a degree in Business Administration.

Today, Dirk Reich serves as a non-executive board director at Skycell AG, Zurich (Switzerland), at Loghub AG, Zug (Switzerland), at IPT – Innovation Process Technology AG, Zug (Switzerland) and as a non-executive Chairman of InstaFreight GmbH, Berlin (Germany).

**Sandra Emme**, Member of the Board of Directors since 2018. German citizen. Born in 1972.

Sandra Emme holds a Master of Arts degree in Business and International Management from the University of Applied Sciences Bremen, Germany and completed part of her studies at the Ecole Supérieure de Commerce in Marseilles (France). In 2015, she graduated in Leading Digital Business Transformation at the IMD Business School in Lausanne (Switzerland) and Singapore and thereafter served as CEO and Co-Founder of companies in the business areas of Online Marketing and IT. Since 2011 she has

held various management positions at Google Switzerland GmbH, Zurich (Switzerland) and is since 2014 the Industry Head Luxury and Finance in Global Business Development and member of the Google management board.

Sandra Emme is also a lecturer in Leading Digital Business Transformation at IMD Business School and a member of the Board of Directors at Belimo Holding AG, Hinwil (Switzerland).

All members of the Board are non-executive members and do not actively perform any managerial functions at PWT or any of the Group companies. Peter Ulber served as Chief Executive Officer from June 2013 until August 2016 (from May to August 2016 on an interim basis in a dual role as Chairman and CEO). No other Board members have held any executive positions within the past three years prior to this reporting year. None of the members of the Board of Directors has a substantial business relationship with PWT or any of its Group companies.

## 3.2 Other activities and vested interests

**Peter Ulber**, Member of the Board of Trustees (Stiftungsrat) of the Ernst Göhner Foundation, Zug (Switzerland), founder and owner of Charleston Enterprise Group LLC, Charleston, US and Partner and owner of Charleston Boatyard LLC, Charleston, US.

**Beat Walti**, Chairman of the Board of Trustees of the Ernst Göhner Foundation, Zug (Switzerland) and a member of the National Council (Swiss Federal Parliament).

**Ilias Läber**, Partner with Cevian Capital Limited. St. Helier, (Jersey).

**Knud Elmholdt Stubkjær**, Member of the Board of Directors of various Carrix, Inc. related entities.

**Thomas E. Kern**, Member of the Board of Directors of Berne Airport, Berne (Switzerland); Chairman of the Board of Trustees of the Zoo Zurich Foundation, Zurich (Switzerland); Member of the Board of Directors of PKZ Burger Kehl & Co AG, Urdorf (Switzerland) and Member of the Board of Directors of The Swiss Finance & Property Group, Zurich (Switzerland).

# Corporate Governance Report

**Pamela Knapp** serves as a board director at the French-German Chamber of Commerce, Paris (France) and is a consultant at Bernotat & Cie. – The Mentoring Company, Essen (Germany).

**Dirk Reich**, a Member of the Board of Directors of Log-hub AG, Zug (Switzerland), member of the Board of Directors at SkyCell AG, Zurich (Switzerland), member of the Board of Directors at Feronia Holding SA, Neuchâtel (Switzerland), non-executive board director at IPT – Innovation Process Technology AG, Zug (Switzerland) and is a non executive Chairman of InstaFreight GmbH, Berlin (Germany).

Other than these, the members of the Board of Directors do not hold other material offices, nor do they carry out any other principal activities that affect the Group.

## 3.3 Mandates

The number of mandates of each member of the Board of Directors fully comply with the provisions as outlined in the Articles of Association ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 23, pages 8 and 9).

## 3.4 Elections and terms of office

### 3.4.1 Principles of the election procedure and limitations on the terms of office

The Articles of PWT ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html)) do not make provision for the general renewal of office for the Board of Directors. The members of the Board of Directors are elected at each General Meeting of Shareholders with a one-year period of office. They may be re-elected at any time. The Organizational Regulations of PWT specify ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Clause 4.3, page 34) an age limit of 72 years for the members of the Board of Directors.

### 3.4.2 The first election and remaining term of office for each member of the Board of Directors

The timing of the first election and the remaining term of office for each member of the Board of Directors is specified under section 3.1.

## 3.5 Internal organizational structure

The Board of Directors is responsible for the ultimate management of the company and monitoring of the Executive Board. It represents the company externally and is responsible for all matters which have not been transferred to another executive body of the company by the Swiss Code of Obligations or the Articles ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 15, pages 6 and 7). In line with the Articles, the Board of Directors has established Organizational Regulations that transfer certain management responsibilities to the Executive Board ([http://www.global/en/home/investors/corporate\\_governance.html](http://www.global/en/home/investors/corporate_governance.html) /Clause 2.5, pages 14 – 27).

### 3.5.1 Allocation of tasks within the Board of Directors

The Chairman of the Board of Directors is elected at each General Meeting of Shareholders with a one-year period of office. The Vice Chairman is appointed by the Board of Directors. The Chairman (in his absence the Vice Chairman) directly supervises the business affairs and activities of the Executive Board and is entitled to regularly attend Executive Board meetings. The Corporate Secretary, in his capacity as secretary to the Board of Directors, is subordinated to the Chairman of the Board of Directors; the Head of Corporate Audit is subordinated to the Chairman of the Audit, Risk and Compliance Committee. The Corporate Risk, Ethics and Compliance Officer has a dotted line to the Chairman of the Audit, Risk and Compliance Committee.

### 3.5.2 Member list, tasks and areas of responsibility for each committee of the Board of Directors

Two committees exist under the Board of Directors.

In 2017 the former Audit Committee (AC) and Ethics and Compliance Committee (ECC) were merged to form the Audit, Risk and Compliance Committee (ARCC).

# Corporate Governance Report

The Audit, Risk and Compliance Committee (ARCC) consists of the following members of the Board of Directors: Ilias Läber (Chairman), Beat Walti, Pamela Knapp and Dirk Reich. The Audit, Risk and Compliance Committee supports the Board of Directors with the review of the company's financial statements, the supervision of the financial accounting standards and reporting, the review of the effectiveness of the internal control system and with the efficiency of external and corporate audits. It also reviews the effectiveness of the company's compliance policies and procedures, monitoring the handling of major legal matters, which, in view of their materiality, may have a significant impact on the company's financial statements. In addition it also overviews the company's Risk, Ethics and Compliance Program. The Audit, Risk and Compliance Committee reviews the consolidated annual financial statements as well as the consolidated interim financial statements including the related information to analysts and the media. The ARCC also reviews communication and matters related to Corporate Governance and it approves the company's Compensation Report based on an initial review by the CNC.

It regularly maintains contact with the Group Auditors and the Head of Corporate Audit. On this basis, it adopts the detailed reports of the Group Auditors and semi-annual reports of Corporate Audit. It is therefore in the position to audit the quality, effectiveness and interaction between the control systems, to determine the audit priorities, to introduce proposed measures and to monitor their implementation.

The Audit, Risk and Compliance Committee determines the organization of Corporate Audit, adopts the corporate audit charter and approves the annual planning and scope of corporate audit.

In the field of risk management, the Audit, Risk and Compliance Committee approves the detailed and weighted risk map of the Executive Board, adopts the necessary measures for risk control and risk mitigation and reports the respective outcome to the Board of Directors on a bi-annual basis. The risk map itself covers any strategic, financial, operational, legal and compliance risks that could significantly impact the company's ability to achieve its business goals and financial targets. Identified risks are weighted and

prioritized by the Executive Board according to their significance and likelihood of occurrence. For each risk, specific risk mitigation measures – including their current status – are defined and responsibilities are allocated. The risk map, which is compiled by the Corporate Risk, Ethics and Compliance Officer, reviewed by the Executive Board and subsequently approved by the Audit, Risk and Compliance Committee, contains risks identified and assessed by the Executive Committee members, Regional Management, Corporate Audit and the Group Auditors.

During the reporting year, the Audit, Risk and Compliance Committee held one telephone conference and five half-day meetings, four thereof immediately prior to the publication of the Group results and one in mid-November. During Audit, Risk and Compliance Committee meetings, direct discussions took place with representatives of the Group Auditors, Corporate Audit and the Corporate Risk, Ethics and Compliance Officer. Representatives from the Group Auditors were present at three of these meetings. Meanwhile the Corporate Risk, Ethics and Compliance Officer participated in three of these meetings and the Head of Corporate Audit attended all of the above-mentioned meetings. At these meetings, the Executive Board was represented by the CEO, the CFO and the Corporate Secretary. All BoD members attended the aforementioned meetings.

The Compensation and Nomination Committee consists of the following members of the Board of Directors: Thomas E. Kern (Chairman), succeeding Peter Ulber following the election at the AGM 2018, Peter Ulber and Knud Elmholdt Stubkjær. The members of the Committee are elected at each General Meeting of Shareholders with a one-year period of office. It monitors the selection process for members of the Board of Directors, the Executive Board and other selected senior management positions, determines the overall remuneration and terms of employment for members of the Board of Directors and the Executive Board as well as remuneration bands for highly compensated employees. Regarding the compensation of the members of the Executive Board, the Committee makes a decision subject to the final approval of the Board of Directors; applications for the compensation

# Corporate Governance Report

of the Board members are decided by the Committee and shared with the Board of Directors. Each year the Committee decides on the bonus compensation for the CEO and the other members of the Executive Board for the previous year, based on recommendations of the Chairman (for the CEO) and the CEO (for other executive board members). Furthermore, the Committee regularly reviews the Board Stock Award Plan, the Executive Equity Plans and Group's Management Incentive Plan and submits proposals for final approval to the Board of Directors. Moreover, it approves concepts and policies for the Group's management performance assessment, succession planning and expat programs.

During the reporting year, the Compensation and Nomination Committee held two conference calls and four meetings prior to the regular Board of Directors meetings of approximately two hours each. The Executive Board was represented at these meetings by the CEO, the Chief Human Resources Officer and the Corporate Secretary. Thomas E. Kern as well as Knud Stubkjaer attended all meetings. Chris Muntwyler was excused from two meetings and one conference call prior to the AGM.

The committees generally meet prior to Board of Directors meetings. The chairmen of the committees inform and update the Board of Directors on the topics discussed and decisions made during such meetings. They submit proposals for approval related to decisions that fall within the scope of the Board of Directors.

Objectives, organization, duties and cooperation with the Board of Directors are defined in the Terms of Reference of the respective committees which are reviewed and adopted by the Board of Directors.

The overall responsibility of the Board of Directors is not affected by these committees.

## *3.5.3 Working methods of the Board of Directors and its committees*

During the reporting year, the Board of Directors held five full-day meetings and one ad-hoc conference call. The Executive Board was represented by all its members at these meetings. In one meeting, Chris Muntwyler was excused. All other BoD members were present at all meetings.

During the reporting year, the Board of Directors also held 4 half-day meetings and 3 conference calls where only BoD members participated. In one conference call, Peter Ulber and Pamela Knapp were excused, and in another conference call, Thomas E. Kern could not take part. All other BoD members were present at all meetings and conference calls.

At every meeting, the Executive Board updates the Board of Directors on business and key financial developments and main regional and segment developments. On a quarterly basis, detailed consolidated financial statements on the Group, regional and business segment levels are reported to the Board of Directors in accordance with International Financial Reporting Standards (IFRS). The Board of Directors is furnished on time with an agenda, detailed meeting documentation related to topics on the agenda and minutes.

## **3.6 Definition of areas of responsibility**

In line with the law and the Articles ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 15, pages 6 and 7), the Board of Directors has transferred the responsibility to develop and implement the Group strategy, as well as the responsibility to supervise business and financial development of the Group's subsidiaries, to the Executive Board.

The Organizational Regulations adopted by the Board of Directors govern the cooperation between the Board of Directors, the Chairman and the Executive Board ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Clause 2.1, pages 5 and 6, and Clause 2.5, pages 14 - 27). They contain a detailed catalog of duties and competencies which determine the financial thresholds within which the Board of Directors and the Executive Board can efficiently execute their daily business. The Organizational Regulations are accessible on Panalpina's website [http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html).

The main responsibilities of the Board of Directors at Group level include the determination of the business strategy on the basis of applications filed by the Executive Board, the approval of major Group policies

# Corporate Governance Report

and organizational structures, including topics related to corporate governance and compliance, the approval of the annual operational and investment budgets, the approval of any extraordinary additional investment applications as well as financial planning. Further responsibilities include decisions regarding mergers and acquisitions and major management staff and remuneration decisions following the recommendations and preparatory work of its Compensation and Nomination Committee.

## **3.7 Information and control instruments vis-à-vis the Executive Board**

The Executive Board informs the Board of Directors in a written format on a monthly basis on the current course of business, covering the Group's consolidated monthly and year-to-date income statements, including deviation from budget and preceding year, regional and product income statements, functional costs/FTE development, financial position, statements on cash flows and net working capital development.

A detailed update is provided at each Board of Directors' meeting.

On a quarterly basis, the reporting covers the condensed consolidated interim financial statements including key developments, income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and explanatory notes, investor relations presentations and media releases.

Further information regarding personnel and organizational changes, extraordinary events and the activities of analysts, investors and competitors form part of the regular reporting. Moreover, the Board of Directors annually reviews and approves the Group's targets for the individual regions and business segments and adopts the respective report of the Executive Board.

During the reporting year, the Chairman of the Board of Directors regularly receives the minutes of the Executive Board meetings. The members of the Executive Board regularly join meetings of the Board of Directors. In addition, individual senior executives attend specific topic discussions pertaining to their particular field of expertise. Furthermore, specific

meetings of the Board of Directors are dedicated to a detailed review of major markets, business segments and the Group's strategy according to a predefined schedule. The Audit, Risk and Compliance Committee of the Board of Directors monitors and assesses the activities of the Corporate Risk, Ethics and Compliance Officer, Corporate Auditor as well as the activities of the Group Auditors.

The Audit, Risk and Compliance Committee receives the Corporate Auditor's half-year reports and also adopts the comprehensive risk map of the Executive Board. The Audit, Risk and Compliance Committee approves the proposed risk control and risk mitigation measures as well as the annual planning and scope of the corporate audit, which is also based on the risk map. In addition, the Audit, Risk and Compliance Committee reviews the company's procedures for preventing and detecting fraud, bribery and other non-compliance; adopts the annual compliance program; reviews the compliance reports and assesses the appropriateness of proposed corrective actions. For further details please refer to section 3.5.2.

## **4 EXECUTIVE BOARD**

### **4.1 Members of the Executive Board**

On the closing date, the Executive Board was composed of six persons.

**Stefan Karlen**, President and Chief Executive Officer since September 2016, Swiss citizen. Born in 1973. Member of the Executive Board since 2016.

Responsible for Corporate Risk, Ethics and Compliance, Corporate Marketing and Communications, Digital Innovation as well as all products and regions.

Stefan Karlen started his logistics career in 1991. He held roles at Danzas and Nedlloyd Lines in Switzerland, before joining Panalpina in 1997. Since his first appointment at Air Sea Broker (Panalpina Group, West Africa Division) he has held various senior management positions across Europe, Africa, CIS countries and Asia Pacific. In 2012 he was appointed Managing Director for Southeast Asia before assuming the position of Regional CEO for

# Corporate Governance Report

Asia Pacific and becoming a member of the Executive Committee in 2013.

Stefan Karlen holds an Executive MBA from IE Business School in Madrid, Spain and a Bachelor Degree in international trade and freight forwarding from EIAB in Basel, Switzerland.

**Robert Erni**, Chief Financial Officer since January 2013, Swiss citizen. Born in 1966. Member of the Executive Board since 2013. Responsible for Corporate Finance, Tax, Real Estate and M&A.

Robert Erni worked in various finance positions at Kuehne + Nagel for more than 19 years. Prior to the head office functions such as Head of Corporate Controlling (2009 to 2012) and Head of Accounting and Treasury (2004 to 2009), he gained profound finance and managerial expertise through several senior postings in Asia Pacific (Hong Kong and India), in South America (Argentina) and in the US.

Robert Erni holds a degree in Economics and Business Administration from the University of Economics and Business Administration, Lucerne (Switzerland).

**Christoph Hess**, Chief Legal Officer and Corporate Secretary, Swiss citizen. Born in 1955. Member of the Executive Board since 2006. Responsible for Corporate Legal Services and Insurance.

Christoph Hess joined the Group's head office in 1994 as Secretary of the Board of Directors and the Executive Board. In this capacity he manages both the Group's Legal and Insurance departments. He also managed Corporate Communications until August 2008. Christoph Hess holds a degree in law from the University of Basel and has been admitted to the bar in Switzerland.

**Karl Weyeneth**, Chief Commercial Officer, Swiss citizen. Born in 1964. Member of the Executive Board since 2008. Responsible for Sales.

Karl Weyeneth joined the Group in 2007 as Regional CEO for North America, where he was responsible for the development and results of the subsidiaries in the US and Canada. From 2008 to 2013, he was COO and member of the Executive Board for all product, sales and operational matters globally and was

appointed in 2014 as CCO. He is a professional with profound leadership and management experience in logistics, including freight management, 3PL and contract logistics. Before joining Panalpina, he was President and CEO Americas of Hellmann Worldwide Logistics, Inc. (US) and prior to this he was Executive Vice President and CFO of Danzas Management Latin America (US), where he attained extensive experience in all finance matters.

He holds a Bachelor in Economics and Business Administration from the University of Berne, Switzerland.

**Karsten Breum**, Chief Human Resources Officer, Danish citizen. Born in 1972. Member of the Executive Board since 2014. Responsible for Human Resources, Global Business Services and Quality, Health, Safety and Environment.

Karsten Breum joined Panalpina's Executive Board in 2014 as the company's Chief Human Resources Officer. After receiving a Masters in economics and business administration from Aarhus School of Business, Denmark in 1998, Karsten Breum spent a decade working in various human resources positions at A.P. Møller-Mærsk in Copenhagen, Antwerp and Singapore. In 2008, he was appointed Vice President Global Head of Human Resources for Damco; during his time at the company he was a member of the Global Executive Leadership Team and, in addition, completed his MBA at the University of Chicago's Booth School of Business. He was appointed Vice President Regional CEO of Damco in 2013, responsible and accountable for operational, as well as commercial activities in Asia Pacific.

Karsten Breum spent more than 14 years working internationally in all areas of human resources.

**Ralf Morawietz**, Chief Information Officer, German citizen. Born in 1967. Member of the Executive Board since 2015. Responsible for Information Technology.

Ralf Morawietz joined Panalpina as Chief Information Officer in 2015. He brings with him more than 15 years of leadership experience as well as IT development and operations expertise in various positions within the logistics industry. He spent five years (2010 to 2015) on the global IT management team at Kuehne + Nagel. Prior to that, Ralf Morawietz

# Corporate Governance Report

served in different IT leadership positions for Deutsche Post DHL Group (DPDHL) between 2002 and 2009.

Ralf Morawietz holds an Executive MBA from European Business School in Germany and Durham Business School in the UK.

As of January 1, 2019 the following two Executive Board members have been appointed to the Executive Board:

**Lucas Kuehner**, Global Head of Air Freight, Swiss citizen. Born in 1971. Member of the Executive Board as of January 1, 2019. Responsible for Air Freight.

Lucas Kuehner started his career as a management consultant at Price Waterhouse Coopers before joining Panalpina in 2000. Since then, he has held numerous executive level positions in the US including Regional Head of Operations, VP Business Process & Quality, Regional Chief Information Officer as well as Managing Director USA. In 2012 he was appointed as Global Head of Air Freight and relocated back to Basel (Switzerland).

A seasoned logistics professional with extensive knowledge in international supply chain management, he was appointed as Global Head of Air Freight and member of the Executive Board as of January 1, 2019.

Lucas Kuehner earned his Master of Science in Logistics and Supply Chain Management (MSc) from Cranfield University (UK) and has a business degree from the University of Applied Science Northwestern Switzerland.

**Peder Winther**, Global Head of Ocean Freight, Danish citizen. Born in 1963. Member of the Executive Board as of January 1, 2019. Responsible for Ocean Freight.

Peder Winther studied Foreign Trade at Copenhagen Business School before starting his International Shipping Education at A.P. Moeller-Maersk in 1984. Until 2006, he held various positions and later executive roles at A.P. Møller Mærsk in Denmark, Japan, The Benelux and the UK and also worked on the global management board of Maersk Logistics (now Damco) as Regional Manager in Europe. In

2006 Peder Winther became Chief Executive Officer at Samskip Logistics and took on the role of Chief Commercial Officer at Samskip Multimodal Container Logistics in 2009. Peder Winther joined Kuehne+Nagel in 2011 as Senior Vice President with global responsibility for Business Solutions and was promoted to Head of Seafreight in Western Europe in 2013. As of 2017, he was President and Regional Manager of Western Europe for Kuehne+Nagel before joining Panalpina on January 1, 2019 as Global Head of Ocean Freight and member of the Executive Board.

Peder Winther participated in an Advanced Development Program at London Business School and at an Advanced Management Program at INSEAD, Fontainebleau (France).

## 4.2 Other activities and vested interests

No other activities and vested interests.

## 4.3 Permitted activities

The number of permitted activities of Executive Board members are outlined in the Articles of PWT ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Article 23, pages 8 and 9).

## 4.4 Management contracts

No management contracts exist with any third party outside the Group.

# 5 COMPENSATION, SHAREHOLDINGS AND LOANS

## 5.1 Content and method of determining the compensation and the shareholding programs

Details regarding compensation for members of the Board of Directors and the Executive Board including shareholding programs can be found in the Compensation Report (pages 63-71) of the Annual Report [http://www.panalpina.com/www/global/en/home/investors/annual\\_report.html](http://www.panalpina.com/www/global/en/home/investors/annual_report.html)).

# Corporate Governance Report

## 5.2 Compensations for members appointed after vote on pay

Statutory rules governing the additional amount for payments to members of the Executive Board, appointed after the vote on pay at the general meeting of shareholders, are outlined in the Articles of Association ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Article 22 / page 8) and the Compensation Report (pages 63-71 of the Annual Report / [http://www.panalpina.com/www/global/en/home/investors/annual\\_report.html](http://www.panalpina.com/www/global/en/home/investors/annual_report.html)).

independent proxy holder of voting rights (unabhängiger Stimmrechtsvertreter).

Statutory regulations in regards to instructions given to the independent proxy holder of voting rights can be found in the Articles of Association ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 11, page 5).

## 6.2 Quorums required by the Articles of Association

In principle, the legal rules on quorums apply. Supplementary to the quorums legally listed, a two-thirds majority of the shares represented at the General Meeting of Shareholders is required for the following resolutions:

- any abolition or change of the provisions relating to transfer restrictions;
- any abolition or change of the provisions relating to the restriction of voting rights;
- the transformation of registered shares into bearer shares;
- the dissolution of the company by way of liquidation;
- the removal of two or more members of the Board of Directors;
- the abolition of the respective provision in the Articles as well as the repeal or relief of the stated quorum. A resolution to increase the quorum as set forth in the Articles must be based on the consent of the increased quorum.

## 6.3 Convocation of the General Meeting of Shareholders

There are no provisions deviating from the law.

## 6.4 Inclusion of items on the agenda

Shareholders who individually or together with other shareholders represent shares in the nominal value of CHF 1 million may request that an item be placed on the agenda. Such a request must be made in writing to PWT at least 60 days prior to the General Meeting of Shareholders.

## 6.5 Entries in the share register

Registered shares can only be represented by shareholders (or nominees) who have been entered

## 6 SHAREHOLDERS' PARTICIPATION RIGHTS

### 6.1 Voting rights, restrictions and representation

Each share carries one vote at the General Meeting of Shareholders. The Articles state that when exercising voting rights, no shareholder may directly or indirectly represent more than 5% of the total shares issued by the company for own and represented shares. ([http://www.panalpina.com/www/global/en/home/investors/corporate\\_governance.html](http://www.panalpina.com/www/global/en/home/investors/corporate_governance.html) /Art. 5, page 3).

The Articles provide for group clauses.

The voting right restrictions are not applicable to shares represented by the independent proxy holder of voting rights (unabhängiger Stimmrechtsvertreter).

The voting restrictions do not apply to the shares held by the Ernst Göhner Foundation, because it held PWT shares prior to the introduction of the voting restrictions (grandfathering).

Any abolition or change of the provisions relating to the restrictions on voting rights requires a resolution of the General Meeting of Shareholders on which at least two-thirds of the voting shares represented agree.

A written proxy entitles a shareholder to be represented at the General Meeting of Shareholders by his or her legal representative, or by another shareholder with the right to vote, or by the

# Corporate Governance Report

into the PWT share register. Shareholders (or registered nominees) who cannot personally attend the General Meeting of Shareholders are entitled to nominate a representative according to the provisions in the Articles, who represents them by written proxy.

For the purpose of determining voting rights, the share register is closed for registration from the date upon which the General Meeting of Shareholders has been called (date of invitation) until the day after the General Meeting of Shareholders has taken place.

## 7 CHANGES OF CONTROL AND DEFENSE MEASURES

### 7.1 Duty to make an offer

No opting-out or opting-up provisions exist.

### 7.2 Clauses on changes of control

Neither the contracts of the members of the Board of Directors nor of the Executive Board have a change-of-control clause.

## 8 AUDITORS

### 8.1 Duration of the mandate and term of office of the lead auditor

The mandate to act as statutory and Group Auditors is assumed by Deloitte, Basel, which were appointed at the AGM on May 3, 2017. Fabien Lussu, the lead auditor, took up office on May 3, 2017 for a seven-year term, as permitted by the Swiss Code of Obligations.

### 8.2 Auditing fees

Deloitte fees for audit services related to the 12-month period ending December 31, 2018 amounted to CHF 2.2 million.

### 8.3 Additional fees

The Group Auditors Deloitte were compensated with an amount of CHF 105 thousand for audit related fees and CHF 220 thousand for other services (including tax related services) rendered in the financial year 2018.

### 8.4 Informational instruments pertaining to the external audit

The Group Auditors are supervised and controlled by the Audit, Risk and Compliance Committee. The Group Auditors report to the Audit, Risk and Compliance Committee and periodically the lead auditor participates in the meetings. During these meetings, the Group Auditors present a detailed audit plan for the current year including risk-based audit priorities, the audit scope, proposals regarding audit fees, organization and timing as well as updates and status of the results of the internal control system. In subsequent meetings. They present interim audit findings with respective statements and recommendations later followed by a detailed audit report. Presentations also contain references to upcoming changes in legislation and IFRS. The main criteria for the selection of Group Auditors include independence, network capabilities, industry and IT experience of the audit team, a risk-based audit approach, a central process management as well as the integration of Corporate Audit and risk management function. The Audit, Risk and Compliance Committee annually assesses the performance of the Group Auditors and determines the audit fees.

The Group Auditors are appointed annually by the Annual General Meeting following the recommendation of the Audit, Risk and Compliance Committee to the Board of Directors. Re-election is permitted. The lead auditor is to rotate after the seven-year term, as permitted by the Swiss Code of Obligations.

# Corporate Governance Report

## 9 INFORMATION POLICY

Panalpina regularly updates its website at [www.panalpina.com](http://www.panalpina.com), informing the public of any major events, organizational changes and (quarterly) financial results ([http://www.panalpina.com/www/global/en/home/investors/financial\\_presentations/interim\\_reports.html](http://www.panalpina.com/www/global/en/home/investors/financial_presentations/interim_reports.html)). Media releases are accessible to all visitors to the website (<http://www.panalpina.com/www/global/en/home/newsroom.html>); alternatively, subscriptions can be made (<http://www.panalpina.com/www/global/en/home/investors/subscription.html>) so that the latest media releases are automatically forwarded via e-mail. Furthermore, all publications such as the Annual Report (including the Corporate Governance Report and the Compensation Report) ([http://www.panalpina.com/www/global/en/home/investors/annual\\_report.html](http://www.panalpina.com/www/global/en/home/investors/annual_report.html)), and sales brochures ([http://www.panalpina.com/www/global/en/home/industry\\_verticals.html](http://www.panalpina.com/www/global/en/home/industry_verticals.html)) are available online. The dates of the General Meeting of Shareholders as well as dates of publication of the quarterly financial results appear in the Financial Calendar on the website ([http://www.panalpina.com/www/global/en/home/investors/financial\\_calendar/financial\\_calendar\\_2019.html](http://www.panalpina.com/www/global/en/home/investors/financial_calendar/financial_calendar_2019.html)). The minutes of shareholder meetings are available online (<http://www.panalpina.com/www/global/en/home/investors/agm/Archiv.html>). Panalpina's contact address can be found on the back cover of the annual report ([http://www.panalpina.com/www/global/en/home/investors/annual\\_report.html](http://www.panalpina.com/www/global/en/home/investors/annual_report.html)).

# 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.



# Compensation Report 2018

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 2018 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 8, 2018, the following members of the Board of Directors were re-elected as members of the CNC for a one-year term: Peter Ulber, Thomas E. Kern and Knud Elmholdt Stubkjær. Thomas E. Kern acts as Chairman of the CNC.

# Compensation Report 2018

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 achievement of variable compensation targets of the members of the Executive Board is determined by the CNC, which also sets the applicable criteria and their weighting.

The CNC normally holds its ordinary meetings 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), and an attendance compensation per meeting.

Members of the Board of Directors also receive a potential grant of restricted shares at the discretion of the CNC's evaluation of the Group's overall situation.

The number of shares that are granted at the Annual General Meeting of Shareholders in respect of the previous business year (reported under "Long Term Incentives" in the table below) is determined based on the share's closing price listed on the SIX Swiss Stock Exchange on April 30, or the last working day prior if it falls on a weekend or public holiday. 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 benefit or incentive plans for employees.

## 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. Depending on their function, the target bonus ranges between 67 and 80% of annual base salary for the members of the Executive Board.

The bonus is paid out annually and 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.

The company's financial performance is fully measured on the Group's EBIT. 2018 marks the first year of the 2020 roadmap. No financial bonus is paid out if EBIT achievement is below 70% of target. The maximum EBIT - where the bonus payout is capped - is approximately 125% of the target.

With the introduction of the 2020 roadmap, the executives' horizon has shifted from a one year focus, to three years. This requires more careful forecasting, taking calculated risks, investments and decisions that are focused on long-term value creation. The ultimate goal and ambition is to not only achieve, but exceed the defined roadmap targets. The bonus scheme is designed to both allow for the investments necessary to achieve the roadmap objectives, while providing a motivating reward by introducing a carry forward concept. Unearned bonus in one year (due to non-achievement of targets for that performance year) will be carried over into

# Compensation Report 2018

the next performance period and will be paid out provided the following year's roadmap target, which is higher than the previous year's targets, is achieved. 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, including carryover, may range from 0% to 185% for the members of the Executive Board, depending on the respective performance achievement.

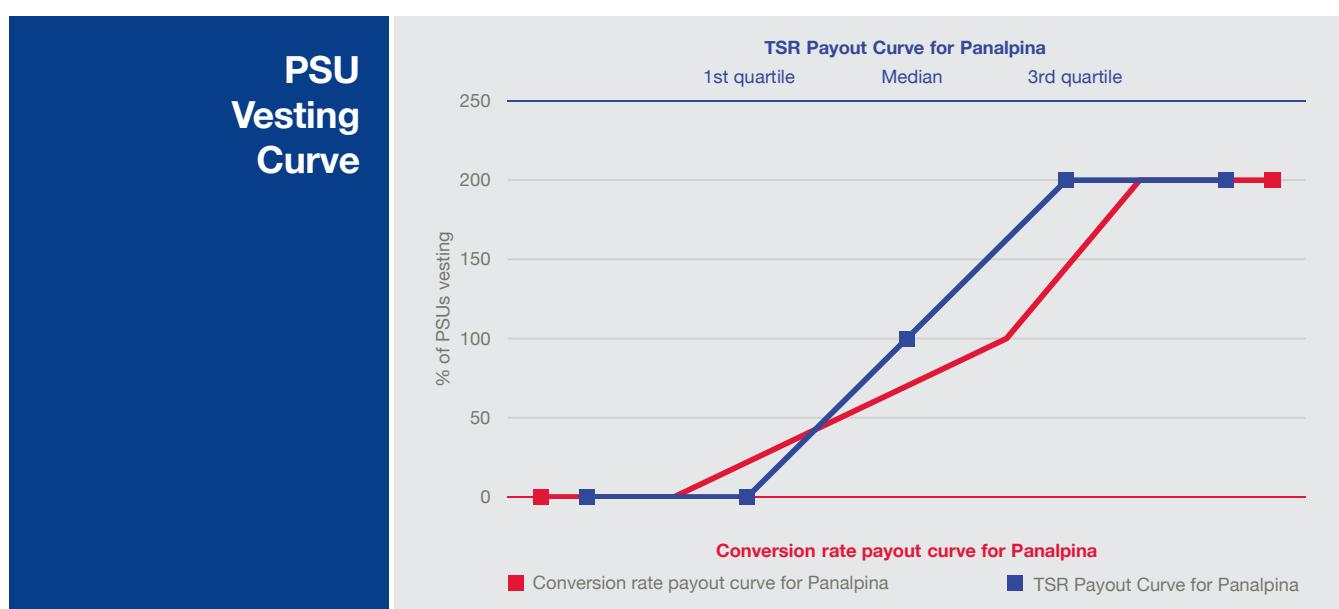
The actual bonus payout is split into a cash payout, accounting for 60% of the payout, and a mandatory deferral, accounting for 40% of the payout, into restricted Panalpina shares at the fair market value at the time of the bonus payout. Those shares are blocked from trading for a duration of 12 months.

Members of Panalpina's 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. For PSUs granted prior to 2017, vesting is 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 200% vesting is applied.

For PSUs granted in or after 2017, vesting is determined by the achievement of GP to EBIT margin (conversion rate) against pre-determined targets in addition to the same relative TSR metric used in previous plans. These two performance indicators are weighted equally.

At the end of the performance period, 100% of the granted PSUs will vest into Panalpina shares at target achievement and a maximum vesting of 200% in the event of maximum achievement in all relevant performance measures.



# Compensation Report 2018

The performance period related to the 2018 PSU grant started on January 1, 2018 and ends on December 31, 2020.

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.

## 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** CWT Limited

To further align the interests of executives and shareholders, a mandatory shareholding requirement, expressed as a percentage of annual base salary, was introduced in 2017 for members of Panalpina's Executive Board and Executive Committee. Executives are given a three-year period to reach the required levels. The percentage of annual base salary in mandatory shareholding for the CEO, Executive Board and Executive Committee is 100%, 75% and 50% respectively. This same three-year period will be granted to any joining executive, following the start of their appointment.

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 an overall insured income of CHF 853,200. 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 853,200 (current maximum under Swiss law), contributions are paid by the company.

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. Members of the Executive Board are also entitled to expense the costs of a comprehensive medical check-up at a private clinic once a year. The provider and check-up program are chosen by Panalpina based on the quality and price of services.

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.

# Compensation Report 2018

## REMUNERATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD FOR 2017/2018

	Basic Salary and Membership Fees		Allowances and Attendance Fees		Cash Bonus		Long Term Incentives		Social Security and Retirement Benefits*		Total	
	CHF '000		CHF '000		CHF '000		CHF '000		CHF '000		CHF '000	
Board of Directors	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Peter Ulber, Chairman**	500	500	4	4	0	0	350	120	0	0	854	624
Beat Walti, Vice Chairman	150	150	5	4	0	0	50	50	14	15	219	219
Ilias Läber, Member	150	150	5	4	0	0	50	50	14	15	219	219
Knud Elmholdt Stubkjær, Member	150	150	4	4	0	0	50	50	0	-1	204	202
Pamela Knapp, Member***	145	150	5	4	0	0	50	50	0	-21	200	183
Thomas Kern, Member	150	150	4	4	0	0	50	50	13	15	217	219
Dirk Reich, Member	150	75	5	2	0	0	50	0	14	6	219	83
Sandra Emme, Member	88	0	2	0	0	0	0	0	7	0	96	0
<b>Board of Directors leaving</b>												
Chris E. Muntwyler, Member	63	150	1	4	0	0	50	50	6	15	119	218
Roger Schmid, Member	0	75	0	2	0	0	0	50	0	0	0	127
<b>Total remuneration of Board of Directors</b>	<b>1,545</b>	1'550	<b>32</b>	30	<b>0</b>	0	<b>700</b>	470	<b>69</b>	45	<b>2,345</b>	2,094
<b>Executive Board</b>												
Stefan Karlen, Chief Executive Officer****	950	1'069	42	74	451	321	1,070	922	294	251	2,807	2'637
Members of the Executive Board	2,797	2'824	452	564	1,224	882	2,878	2'599	1,135	1'072	8,488	7'942
Executive Management leaving	0	500	0	47	0	135	0	425	0	389	0	1'496
<b>Total remuneration of Executive Board</b>	<b>3,747</b>	4'393	<b>494</b>	685	<b>1,676</b>	1'339	<b>3,948</b>	3'946	<b>1,430</b>	1'712	<b>11,295</b>	12'075
<b>Total remuneration of key management personnel</b>	<b>5,292</b>	5,943	<b>526</b>	715	<b>1,676</b>	1'339	<b>4,648</b>	4,416	<b>1,498</b>	1'757	<b>13,640</b>	14,169

\* Covers all employer-paid statutory social security contributions (AHV/IV/ALV for Swiss-based parties) and employer pension contributions to Panalpina's pension fund.

\*\* Chairman LTI allocation for 2017 was prorated to reflect the time period in Chairman role in that year

\*\*\* 2018 basic salary and membership fee amount reflects previous years' correction

\*\*\*\* Highest paid member of the Executive Board in 2017 and 2018

# Compensation Report 2018

## 2018 versus 2017 remuneration of the Board of Directors and the Executive Board

### BOARD OF DIRECTORS

At the Annual General Meeting of Shareholders of May 8, 2018, Sandra Emme was elected to the Board of Directors following the departure of Chris Muntwyler.

Since December 2017, Panalpina no longer covers any employee social security due on payments to its Board of Directors.

### EXECUTIVE BOARD

The annual bonus payout amounts to 101% on average for the members of the Executive Board and 99% for the CEO. The bonus included in the above 2018 reward table is related to the cash bonus paid out in 2019, which related to the performance year 2018.

As part of the mandatory deferral of bonus payout into Panalpina shares, on April 25, 2018 a total of

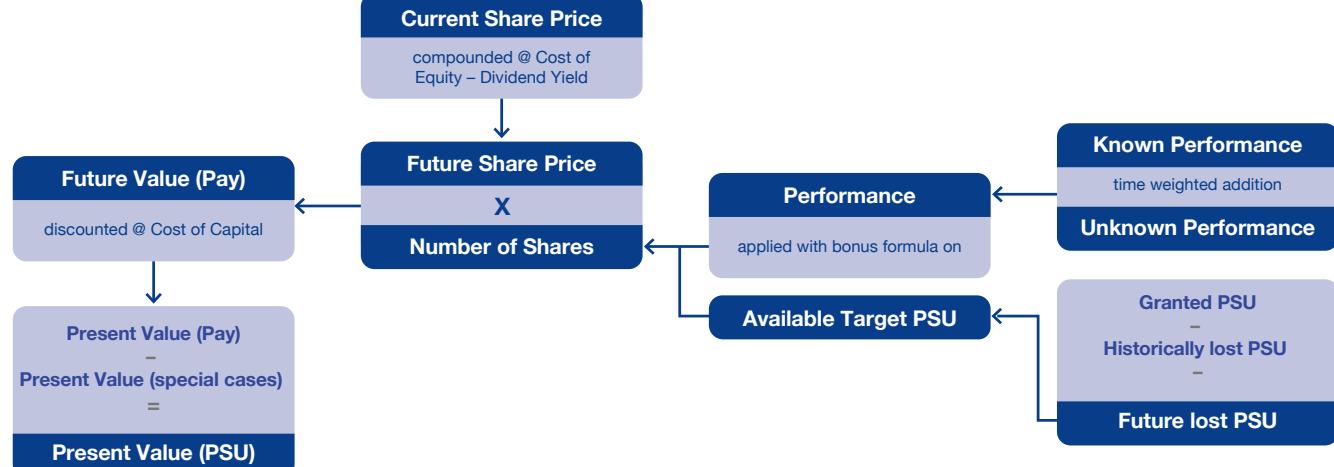
6,394 deferred bonus shares were granted to the Executive Board members at a fair market value of CHF 125.40.

Under the ceased MTIP, a total of 5,551 matching free shares were granted on May 5, 2018 at a fair market value of CHF 125.10. This free share match relates to the bonus paid in 2017 for performance in 2016.

On May 5, 2018, 5,800 PSUs were granted to the CEO and 14,825 PSUs to other Executive Board members. The time value of the share-based payment is equal to the expected present value of the granted PSUs based on the valuation performed by Obermatt AG using the indirect method.

At grant date, the time value per PSU amounted to CHF 74.38 (assuming targeted TSR and conversion rate performance) versus a market value at grant date of CHF 128.30.

As per December 31, 2018 the TSR related to the PSUs granted in 2018 ranked on the 56th percentile of the peer group and the conversion rate for 2018 was 7.9%, which at present would result in an approximate overall vesting of 94%.



# Compensation Report 2018

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

### EXECUTIVE COMMITTEE

Executive Committee members, comprising the core business functions (seven executives in 2018) who are not members of the Executive Board, participate in the same PSU plan as the members of the Executive Board. Similar to the Executive Board, the Executive Committee members are subject to a mandatory deferral of their annual bonus payout into restricted Panalpina shares, accounting for 20% of their respective bonus payout.

On April 25, 2018, 3,285 deferred bonus shares in total were granted to these executives at a fair market value of CHF 125.40.

Under the ceased MTIP, a total of 1,815 matching free shares were granted at a fair market value of CHF 125.10. These grants relate to the bonuses paid in 2017 for performance in 2016.

Executive Committee members were granted in total 8,066 PSUs on May 5, 2018.

### MANAGEMENT INCENTIVE 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
2016	83	10%	13,672	1 to 3	4,574	2,742	705	1,127
2017	94	10%	12,541	1 to 3	4,207	1,389	325	2,493
2018	102	10%	14,959	1 to 3	5,015	-	188	4,827

### SENIOR MANAGEMENT – MIP

Under this plan, senior management has the option (voluntary) to invest all or 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. In addition, Panalpina matches these shares with free share grants based on a ratio of one free share for three shares bought by the participant. These free shares are granted on the condition of continuous employment and have a staggered vesting period of three years (one third per year). For senior management positions for the years 2016, 2017 and 2018, the grants are summarized on December 31, 2018 as per the table above.

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

### CREDITS, LOANS OR OTHER MONETARY ALLOWANCES

In 2018 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.



Deloitte AG  
Steinengraben 22  
4002 Basel  
Schweiz

Telephone: +41 (0)58 279 60 00  
Fax: +41 (0)58 279 66 00  
[www.deloitte.ch](http://www.deloitte.ch)

To the General Meeting of  
**Panalpina World Transport (Holding) Ltd, Basel**

We have audited the accompanying compensation report dated February 20, 2019 of Panalpina World Transport (Holding) Ltd for the year ended December 31, 2018. 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 the table “Remuneration of the Board of Directors and the Executive Board for 2017/2018” in the compensation report 2018 on page 68.

**Responsibility of the Board of Directors**

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation 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 compensation system and defining individual remuneration packages.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the accompanying compensation 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 compensation 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 compensation 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 compensation 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 compensation 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 compensation report for the year ended December 31, 2018 of Panalpina World Transport (Holding) Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

**Deloitte AG**

Fabien Lussu  
Licensed Audit Expert  
Auditor in Charge

Robert Renz  
Licensed Audit Expert

Basel, February 20, 2019

**Panalpina World  
Transport (Holding) Ltd**

Viaduktstrasse 42  
P.O. Box  
CH-4002 Basel  
Phone: +41 61 226 11 11  
Fax: +41 61 226 11 01  
[info@panalpina.com](mailto:info@panalpina.com)  
[www.panalpina.com](http://www.panalpina.com)

**Publisher**  
Panalpina World Transport (Holding) Ltd.

**Concept and Design**  
The Unknown Creative

**Photo Credits**  
Bosch (1, 2, 15, 21), Fotolia (42), Honeywell (1, 2), Justin Hession (6, 7, 19), Kenya Airports (38), Bruce Leibowitz (32), Pixabay (26, 46), Shutterstock (1, 2, 22, 41, 43, 47, 63)

