Panalpina Consolidated Interim Report January to June 2007

PANALPINA
on 6 continents

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Consolidated Income Statement

for six months ended 30 June 2007 and 2006

in thousand CHF	2007	2006
Forwarding services	4,974,337	4,435,929
Customs, duties and taxes	(939,692)	(744,225)
Net forwarding revenue	**4,034,645**	**3,691,704**
Forwarding services from third parties	(3,143,745)	(2,933,452)
Contribution margin (gross profit)	**890,900**	**758,252**
Personnel expenses	(496,273)	(439,426)
Other operating expenses	(220,777)	(198,338)
Gains (losses) on sales of non-current assets	711	210
Depreciation of property, plant and equipment	(19,269)	(17,158)
Amortization of intangible assets	(7,005)	(6,966)
Operating result (Ebit)	**148,287**	**96,574**
Financial income	7,393	7,364
Financial expenses	(14,739)	(14,645)
Earnings before taxes	**140,941**	**89,293**
Taxes on income	(32,567)	(19,946)
Consolidated net earnings	***108,374***	***69,347***
Attributable to:		
Equity holders of the Company	108,475	69,131
Minority interests	(101)	216
Consolidated net earnings	***108,374***	***69,347***
Basic earnings per share (CHF)	**4.37**	**2.79**
Diluted earnings per share (CHF)	**4.36**	**2.78**

Consolidated Balance Sheet

as of 30 June 2007 respectively as of 31 December 2006

Assets

in thousand CHF	2007	2006
Current assets		
Cash and cash equivalents	428,613	371,352
Financial assets held for trading	770	2,524
Trade receivables	1,218,258	1,185,459
Unbilled forwarding services	123,129	135,393
Other receivables and other current assets	109,173	77,974
Total current assets	**1,879,943**	**1,772,702**
Non-current assets		
Property, plant and equipment	170,705	161,548
Financial and other assets	49,279	44,365
Intangible assets	97,303	102,358
Deferred tax assets	30,395	27,286
Total non-current assets	**347,682**	**335,557**
Total assets	***2,227,625***	***2,108,259***

Liabilities and equity

in thousand CHF	2007	2006
Current liabilities		
Trade payables	568,952	501,051
Other payables and accruals	148,962	157,029
Accrued cost of services	206,943	220,620
Borrowings	19,528	24,239
Other liabilities	88,369	76,442
Current income tax liabilities	38,035	30,707
Total current liabilities	**1,070,789**	**1,010,088**
Non-current liabilities		
Borrowings	4,436	3,248
Provisions	109,278	101,344
Deferred tax liabilities	18,265	15,873
Total non-current liabilities	**131,979**	**120,465**
Total liabilities	**1,202,768**	**1,130,553**
Equity		
Share capital	50,000	50,000
Treasury shares	(18,425)	(15,022)
Reserves	985,025	934,708
Issued share capital and reserves available to Panalpina shareholders	**1,016,600**	**969,686**
Minority interests	8,257	8,020
Total equity	**1,024,857**	**977,706**
Total liabilities and equity	***2,227,625***	***2,108,259***

Condensed Consolidated Cash Flow Statement

for six months ended 30 June 2007 and 2006

in thousand CHF	2007	2006 [1]
Consolidated earnings before taxes	**140,941**	**89,293**
Depreciation, impairment and amortization of fixed assets	26,274	24,124
Increase in long-term provisions	7,569	8,086
Gain on sales of fixed assets	(711)	(211)
Interest (income) / expenses	3,634	6,769
Other non-cash items	2,884	1,353
Cash-flow before interest and taxes	**180,591**	**129,414**
Decrease in working capital	31,686	24,653
Total cash flow from operating activities	**212,277**	**154,067**
Interest and tax paid	(29,033)	(27,260)
Utilized other liabilities and long-term provision	(23,326)	(14,845)
Net cash flow from operating activities	**159,918**	**111,962**
Cash flow from investing activities		
Property, plant and equipment	(19,842)	(22,679)
Intangible assets	(1)	(3,000)
Other financial investments	(5,516)	(2,519)
Total investments	**(25,359)**	**(28,198)**
Proceeds from sales of property, plant and equipment	2,015	1,312
Loan repayments	847	149
Proceeds from sales of securities	1,630	2,706
Repayment of other financial assets	831	853
Sale of intangible assets	19	18
Total cash flow from investing activities	**(20,017)**	**(23,160)**
Cash flow from financing activities		
Proceeds from (repayment of) short-term and long-term borrowings	(2,473)	673
Dividends paid to equity holders of the Company	(74,329)	(49,384)
Dividends paid to minority interests	(97)	(100)
Treasury shares	(5,400)	(4,020)
Total cash flow from financing activities	**(82,299)**	**(52,831)**
Effect of exchange rate changes on cash and cash equivalents	(341)	1,789
Increase in cash and cash equivalents	**57,261**	**37,760**
Cash and cash equivalents at the beginning of the period	371,352	224,829
Cash and cash equivalents at the end of the period	***428,613***	***262,589***

[1] Certain comparatives have been reclassified to conform with the current period's presentation.

Consolidated Statement of Recognized Income and Expenses

for six months ended 30 June 2007 and 2006

in thousand CHF	2007	2006
Amounts recognized in equity for pension plan		
Defined benefit post-employment plans		
– Effect of impact of limit in paragraph 58b	(1,156)	(6,304)
– Initial recognition of defined benefit plan	0	(318)
Income taxes on items recognized in equity	287	2,072
Exchange difference on translations of foreign operations	14,997	(11,489)
Net earnings recognized directly in equity	***14,128***	***(16,039)***
Consolidated net earnings	108,374	69,347
Total recognized earnings for the period	***122,502***	***53,308***
Attributable to equity holders of the Company	122,603	53,092
Attributable to minority interests	(101)	216

Condensed Statement of Changes in Equity

for six months ended 30 June 2007 and 2006

in thousand CHF	2007	2006
Balance at the beginning of the period	**977,706**	**857,850**
Net earnings recognized directly in equity	14,128	(16,039)
Consolidated net earnings attributable to equity holders of the Company	108,475	69,131
Consolidated net earnings attributable to minority interests	(101)	216
Total recognized earnings for the period	**122,502**	**53,308**
Dividends paid to equity holders of the Company	(74,329)	(49,384)
Dividends paid to minority interests	(97)	(100)
Changes in minority interests	435	(673)
Share-based payments	4,040	1,353
Changes in treasury shares, net	(5,400)	(4,019)
Balance at the end of the period	***1,024,857***	***858,335***

Selected Explanatory Notes to the Condensed Consolidated Interim Financial Statements

Accounting policies used in the consolidation

General

Panalpina World Transport (Holding) Ltd. (thereafter “the Company”) and its subsidiaries (together “the Group”), are one of the world’s leading providers of forwarding and related logistics services, specializing in intercontinental air freight and ocean freight and associated supply chain management solutions. As a group Panalpina is headquartered, registered and domiciled in Basel, Switzerland, and operates a network of around 500 branches in more than 80 countries.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 8 August 2007.

Basis of preparation

The condensed interim financial statements comprise the unaudited interim consolidated financial statements of Panalpina World Transport (Holding) Ltd. and its subsidiaries for the six month period ended 30 June 2007. They are prepared in accordance with the International Accounting Standard 34 (IAS 34) *“Interim Financial Reporting”*.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2006, as they provide an update of previously reported information.

Accounting policies and changes in accounting policies

The accounting policies adopted are consistent with those of the consolidated annual financial statements for the year ended 31 December 2006. Compared to the accounting policies illustrated in the Annual Report 2006 there were no new standards, amendments to standards and interpretations which had any effect on these interim condensed consolidated financial statements. In 2006, bills of exchange (commitments) in transit have been reclassified to cash and cash equivalents. Where necessary, the comparatives have been reclassified or expanded from the previously reported condensed interim financial statements to take into account any presentational changes made in the annual financial statements or in these interim financial statements.

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the interim consolidated financial statements. If in the future such estimates and assumptions, which are based on management’s best judgment at the date of the interim consolidated financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

All figures included in these financial statements and notes to the financial statements are rounded to the nearest thousand CHF except where otherwise indicated.

Scope and method of consolidation

The consolidated financial statements comprise the financial statements of all companies which are directly or indirectly controlled by Panalpina. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

During the first six months of 2007 the scope of consolidation did not change.

Goodwill and Other Intangible Assets

Intangible assets as of 30 June 2007 include goodwill of TCHF 61,389 and other intangible assets (brands and customer relations) of TCHF 18,476.

Goodwill represents the excess of cost over fair value of assets of businesses acquired. In accordance with IFRS 3 *Business Combinations*, goodwill acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that an asset may be impaired. Impairment, if any, is measured at the difference between the carrying value and the fair value of the asset. There were no impairment charges recorded on goodwill during the six months ended 30 June 2007 and 2006.

Intangible assets with estimable useful lives are amortized over the period of their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Intangible assets, stated at cost net of amortization and impairment charges, includes brand name and customer relations, which are amortized on a straight-line basis over the estimated useful life of 5 to 10 years. Accumulated amortization as of 30 June 2007 and 31 December 2006 was TCHF 13,074 and TCHF 10,217, respectively. Amortization expenses of these intangible assets totaled TCHF 2,674 for the six months ended 30 June 2007 (2006: TCHF 2,311). There were no impairment charges recorded on these other intangible assets during the six months ended 30 June 2007 and 2006.

Equity

The ordinary share capital and issued numbers of shares as well as the authorized capital have not changed during the interim period 2007. In the same period the weighted average number of shares in issue was CHF 24.8 million (2006: CHF 24.7 million).

Dividends

On 15 May 2007 the shareholders approved the distribution of a dividend of CHF 3.00 per share in respect of the business year 2006 (2006: CHF 2.00). The dividends distributed to holders of outstanding shares during the interim period totaled CHF 74.3 million (six months ended 2006: CHF 49.4 million) and had been recorded against retained earnings.

Treasury shares

In the first six months of 2007, the Company acquired 88,250 of its own shares through purchases on the Swiss Stock Exchange. The total amount paid to acquire the shares, net of income taxes, was CHF 17.7 million. During the same period, the Company sold 41,692 shares for the total amount of CHF 6.3 million under its share and option ownership programs. Both transactions have been recorded into equity.

Share and Option Ownership Program

Stock Option Exchange Offer

In May 2007 the Company modified the Management Incentive Plan II (MIPII). The MIPII was divided into an International Incentive Plan (the “International Management Incentive Plan”) and in a “United States Management Incentive Plan”. Both plans are administred by the Board of Directors, which approves the terms and conditions of the options granted, including exercise price as well as number of options granted. Beneficiaries of the “United States Management Incentive Plan“ are selected preferential employees of the subsidiary in the United States of America and members of the Board of Directors with residence in the United States of America. The conditions of the plan do not differ from the “International Incentive Plan“ except for the strike price, which in the “International Incentive Plan“ is the average closing price of one share at the SWX Swiss Exchange during the months January to May in the year of disbursement. The new strike price of the “United States Incentive Plan“ is the closing price of one share at the SWX Swiss Exchange at the date of disbursement.

Under this changed program, employees and Board of Directors members holding options to purchase shares of the Company’s capital stock were given the opportunity to exchange their existing options for new options to purchase an equal number of shares. 3,550 options with a strike price of CHF 111.30 were tendered pursuant to the “United States Management Incentive Plan“. In May 2007, those options were accepted and cancelled by the Company. The Company undertook to grant new options on a one-for-one basis, in lieu of the tendered options, to the affected employees. The new options, which totaled 3,550, were granted with a strike price of CHF 114.00.

Management Incentive Plan 2007 (MIPIII)

In June 2007 a further share and option program with the same conditions as discribed in the annual report 2006 (note 24) was introduced. Under this program participants of the “International Management Incentive Plan“ subscribed 38,591 shares with a strike price of CHF 201.10. Participants of the “United States Management Incentive Plan“ subscribed 3,101 shares with a strike price of CHF 251.00.

Exercised options during the period under review

In the first six months of 2007, 66,212 options of the “International Management Incentive Plan“ (MIPI and MIPII) were exercised at a strike price of CHF 80.00 (2006: 0 options), 5,876 options were exercised at a strike price of CHF 111.30 (2006: 0 options) and 2,730 options (2006: 0 options) were forfeited. During the same period 197 options of the “United States Management Incentive Plan“ (MIPII) were exercised at a strike price of CHF 114.00. No options were forfeited under this plan.

Income taxes

Income tax expenses are recognized based upon the best estimate of the weighted average annual income tax rate expected for the full financial year. The Group’s effective tax rate increased slightly from 22.3% to 23.1%. The major reason for the increase comes from the larger profit contribution in countries with higher tax rates and on not yet recognized taxes on losses carry-forwards.

Condensed segment information for six months ended 30 June 2007 and 2006

Primary reporting by geographical segments

in million CHF	Net forwarding revenue 2007	Net forwarding revenue 2006	Segment contribution margin 2007	Segment contribution margin 2006	Segment operating result (Ebit) 2007	Segment operating result (Ebit) 2006
Europe/Africa/Middle East/CIS	2,353	2,081	517	428	85	55
North America	813	826	175	151	17	4
Central and South America	378	336	70	66	6	7
Asia/Pacific	491	449	129	113	40	31
Total Group	***4,035***	***3,692***	***891***	***758***	***148***	***97***

Secondary reporting by business segments

in million CHF	Air Freight 2007	Air Freight 2006	Ocean Freight 2007	Ocean Freight 2006	Supply Chain Management 2007	Supply Chain Management 2006	Total 2007	Total 2006
Net forwarding revenue	1,869	1,731	1,529	1,354	637	607	4,035	3,692
Contribution margin (gross profit)	399	326	253	234	239	198	891	758

Business combinations

There were no acquisitions of subsidiaries or associated companies during the interim period 2007 and 2006.

Material legal claims

In addition to the pending legal claims described in the consolidated annual financial statements, the Group is not a party to any legal, administrative or arbitration proceedings which could significantly harm the Group's business, financial condition and results of operations taken as a whole, and it does not know of any such proceedings which may currently be contemplated by governmental or third parties.

Contingent liabilities and other commitments

There have been no material changes in contingent liabilities and other commitments since the last annual balance sheet date.

Seasonality

The Group is exposed to certain seasonality in operations. In the past, the operation tends to be slightly stronger in the second half year against the first half year.

Additional information

In January 2007 Panalpina's US subsidiary was requested by US authorities to produce documents related to the provision of its services to Nigeria which was later extended to Kazakhstan and Saudi Arabia for a limited number of customers. This request was triggered by the plea agreement of one customer with the US authorities for allegedly making improper payments to Nigerian officials to secure preferential customs treatment and the subsequent announcement of several other customers to review their business practices in Nigeria. Panalpina has initiated its own internal investigations. At this stage the internal investigations have not progressed far enough for Panalpina's US subsidiary to reach a definitive view of its potential liability exposure.

Events after the Balance Sheet Date

There have been no other material events other than described above between 30 June 2007 and the date of authorization that would require adjustments of the interim consolidated financial statements or disclosure.