

No. 431

## COMPANY ANNOUNCEMENT

6 February 2018

### INTERIM REPORT FOURTH QUARTER 2017

## PANDORA REPORTS 15% REVENUE GROWTH IN LOCAL CURRENCY FOR 2017 AND 37.3% EBITDA MARGIN

### FINANCIAL HIGHLIGHTS

- Group revenue in 2017 increased by 12% (15% in local currency) to DKK 22,781 million (2016: DKK 20,281 million)
  - Revenue from PANDORA owned retail increased 42% (46% in local currency).
    - Like-for-like sales-out growth for PANDORA owned concept stores was 11%
  - Revenue from EMEA increased 13% (15% in local currency)
  - Revenue from Americas increased 4% (6% in local currency)
    - Like-for-like sales-out growth in the US was 15%
  - Revenue in Asia Pacific increased 25% (28% in local currency)
  - Revenue from Charms increased 8% and revenue from Bracelets increased 8%
  - Full jewellery brand development remains on track with combined revenue from Rings, Earrings and Necklaces & Pendants up 28%. The three categories represented 26% of Group revenue compared with 23% in 2016
- Gross margin was 74.5% in 2017 (2016: 75.1%)
- EBITDA was DKK 8,505 million in 2017 (2016: DKK 7,922 million), corresponding to an EBITDA margin of 37.3% (2016: 39.1%).
- The effective tax rate was 24.8% in 2017 compared with 21.2% in 2016. The change was due to the new US tax reform as well as repatriation of dividend related to PANDORA Production Co. Ltd. in Thailand
- Free cash flow was DKK 5,294 million in 2017 (2016: DKK 5,358 million)
- The Board proposes to return DKK 2.0 billion in dividend in 2018, including an ordinary dividend of DKK 9 per share and a bi-annual dividend of DKK 9 per share
- Additionally, PANDORA will initiate a share buyback programme to a maximum consideration of DKK 4.0 billion
- For 2018, PANDORA expects to increase revenue by 7-10% in local currency and has an EBITDA margin of approximately 35%

Commenting on the results, Anders Colding Friis, CEO of PANDORA, said:

*"2017 was a challenging and eventful year for PANDORA. We increased revenue by 15% in local currency, driven by a strong performance from PANDORA owned retail, and double-digit growth in local currency across all product categories. The results enable us to return DKK 6 billion to our shareholders. Looking ahead, as outlined at our Capital Markets Day in January, we have a clear strategy to utilise our fully integrated value chain to capitalise on the growth opportunities. We are confident this strategy will deliver continued growth and strong profitability in 2018 and the years to come."*

## FINANCIAL GUIDANCE

In 2018, PANDORA will continue to drive growth and expand the store network. Group revenue is expected to increase 7-10% in local currency. To drive revenue PANDORA will continue to increase the owned and operated part of the store network as well as develop and launch new and more innovative products. As a consequence the EBITDA margin for 2018 is expected to be lower than in 2017. The EBITDA margin is expected to be around 35% in 2018.

CAPEX for the year is expected to be around 5% of revenue. The expected level of investments mainly includes investments in PANDORA's distribution network, IT and continued optimisation of the Company's crafting facilities in Thailand.

	2018 Guidance	2017 Actual	2017 Guidance
Revenue, DKK billion/ local currency growth	7-10%	22.8	23-24
EBITDA margin	Approx. 35%	37.3%	Approx. 38%
CAPEX, % of revenue	Approx. 5%	6.1%	Approx. 5%

## GUIDANCE ASSUMPTIONS

In 2018, PANDORA plans to continue to expand the store network and expects to add around net 200 concept stores during the year of which roughly 50% are expected to be opened in EMEA, 25% in Americas and 25% in Asia Pacific. PANDORA expects two thirds of the concept store openings to be PANDORA owned stores, which is in line with the Company's intentions to increase the owned and operated retail footprint. Furthermore, PANDORA will continue to acquire franchise concept stores in 2018 and consequently expects a full year tailwind in revenue of roughly DKK 1.0 billion from the full year effect of acquisitions made during 2017 as well as acquisition of stores in 2018.

PANDORA expects revenue growth in Q1 2018 to be slightly below the guided range of 7-10%. The main reason is the dependency on newness in the product assortment, which is expected to gradually improve throughout the year. Additionally, currency headwind for Q1 2018 is expected to be around 5 percentage points.

Assuming current exchange rates versus the Danish Krone, growth reported in DKK is expected to be around 3 percentage points lower than in local currency.

As in 2017, the EBITDA margin is expected to be significantly lower in the first half of the year compared with the second half. EBITDA margin expectations are based on the foreign exchange rates at the time of the announcement.

## CASH ALLOCATION

In connection with the Annual Report 2016, PANDORA announced the decision to return up to DKK 5.8 billion to shareholders. For 2018, PANDORA's Board of Directors has decided to increase the total cash return to shareholders to DKK 6.0 billion. Looking ahead, PANDORA will continue to secure a strong return of cash to the Company's shareholders.

## DIVIDEND

In 2017, PANDORA paid out an ordinary dividend of DKK 9 per share, corresponding to DKK 1.0 billion in total. Additionally, three quarterly dividends of DKK 9 per share were paid out in relation to Q1 2017, Q2 2017 and Q3 2017. In total, PANDORA paid out DKK 36 per share (DKK 4.0 billion) in 2017.

Based on the financial results in 2017, the Board proposes to return DKK 2 billion in dividend in 2018. This includes an ordinary dividend of DKK 9 per share and one additional bi-annual dividend of DKK 9 per share in relation to the first half 2018 results. In total, PANDORA will pay out DKK 18 per share in 2018, equivalent to DKK 2.0 billion.

#### **SHARE BUYBACK PROGRAMME FOR 2017**

In connection with the Annual Report 2016, PANDORA announced its intention to buy back own shares of up to DKK 1.8 billion in a share buyback programme from 7 February 2017 to 6 February 2018. In 2017, a total of 2,566,886 shares have been bought back, corresponding to a transaction value of DKK 1.7 billion. The purpose of the programme is to reduce PANDORA's share capital and to meet obligations arising from employee share option programmes. At the Annual General Meeting 2018, The Board will propose to reduce the Company's share capital by a nominal amount of DKK 2,478,388 by cancellation of 2,478,388 own shares of DKK 1, equal to 2.2% of the Company's total share capital.

#### **SHARE BUYBACK PROGRAMME FOR 2018**

The Board has decided to launch a new share buyback programme in 2018, under which PANDORA will buy back own shares to a maximum consideration of DKK 4.0 billion. The shares acquired during the programme will primarily be used to reduce PANDORA's share capital and to meet obligations arising from employee share option programmes. The share buyback programme will run from the Annual General Meeting (14 March 2018) to no later than 13 March 2019.

#### **ANNUAL REPORT 2017**

PANDORA's Annual Report 2017 has been released today and is available for download in the investor section of [www.pandoragroup.com](http://www.pandoragroup.com).

#### **CONFERENCE CALL**

A conference call for investors and financial analysts will be held today at 11.00 CET and can be joined online at [www.pandoragroup.com](http://www.pandoragroup.com). The presentation for the call will be available on the website one hour before the call.

The following numbers can be used by investors and analysts:

DK: +45 35 44 55 83

UK (International): +44 (0) 203 194 0544

US: +1 855 269 2604

#### **FINANCIAL CALENDAR 2018**

14 March 2018	Annual General Meeting
19 March 2018	Payment of annual dividend
15 May 2018	Interim Report for Q1 2018
14 August 2018	Interim Report for Q2/H1 2018
21 August 2018	Ex-dividend date
23 August 2018	Payment date
6 November 2018	Interim Report for Q3/9M 2018

## **ABOUT PANDORA**

PANDORA designs, manufactures and markets hand-finished and contemporary jewellery made from high-quality materials at affordable prices. PANDORA jewellery is sold in more than 100 countries on six continents through around 7,800 points of sale, including more than 2,400 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, PANDORA employs more than 27,300 people worldwide of whom around 13,200 are located in Thailand, where the Company manufactures its jewellery. PANDORA is publicly listed on the Nasdaq Copenhagen stock exchange in Denmark. In 2017, PANDORA's total revenue was DKK 22.8 billion (approximately EUR 3.1 billion).

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## FINANCIAL HIGHLIGHTS

DKK million	Q4 2017	Q4 2016	FY 2017	FY 2016
<b>Consolidated income statement</b>				
Revenue	7,603	6,602	22,781	20,281
Gross profit	5,765	4,963	16,966	15,223
Earnings before interest, tax, depreciation and amortisation (EBITDA)	3,050	2,711	8,505	7,922
Operating profit (EBIT)	2,818	2,552	7,784	7,404
Net financials	11	120	-117	246
Net profit for the period	1,946	2,093	5,768	6,025
<b>Consolidated balance sheet</b>				
Total assets	17,240	15,085	17,240	15,085
Invested capital	11,439	9,396	11,439	9,396
Operating working capital	2,977	2,780	2,977	2,780
Net interest-bearing debt (NIBD)	4,855	2,448	4,855	2,448
Equity	6,514	6,794	6,514	6,794
<b>Consolidated cash flow statement</b>				
Net increase/decrease in cash	356	451	133	5
Free cash flow	2,919	2,849	5,294	5,358
Cash conversion, %	103.6%	111.6%	68.0%	72.4%
<b>Growth ratios</b>				
Revenue growth, %	15%	16%	12%	21%
Gross profit growth, %	16%	18%	11%	25%
EBITDA growth, %	13%	26%	7%	27%
EBIT growth, %	10%	27%	5%	27%
Net profit growth, %	-7%	52%	-4%	64%
<b>Margins</b>				
Gross margin, %	75.8%	75.2%	74.5%	75.1%
EBITDA margin, %	40.1%	41.1%	37.3%	39.1%
EBIT margin, %	37.1%	38.7%	34.2%	36.5%
<b>Other ratios</b>				
Effective tax rate, %	31.2%	21.7%	24.8%	21.2%
Equity ratio, %	37.8%	45.0%	37.8%	45.0%
NIBD to EBITDA	0.6x	0.3x	0.6x	0.3x
Return on invested capital (ROIC) <sup>1</sup> , %	68.0%	78.8%	68.0%	78.8%
<b>Share information</b>				
Dividend per share <sup>2</sup> , DKK	-	-	9.00	9.00
Quarterly dividend per share <sup>3</sup> , DKK	9.00	-	27.00	-
Total payout ratio (incl. share buyback), %	66.0%	-	99.1%	91.5%
Earnings per share, basic, DKK	17.7	18.5	52.0	52.8
Earnings per share, diluted, DKK	17.6	18.4	51.8	52.5
Share price at end of period, DKK	675.5	924.0	675.5	924.0
<b>Other key figures</b>				
Capital expenditure (CAPEX)	502	249	1,388	1,199
Capital expenditure, tangible assets (CAPEX)	357	134	946	828
Store network, total number of points of sale	7,794	8,131	7,794	8,131
Store network, total number of concept stores	2,446	2,138	2,446	2,138
Average number of full-time employees	22,925	18,956	20,904	17,770

1) Ratios are based on 12 months' rolling EBITDA and EBIT, respectively.

2) Proposed dividend per share for 2017.

3) Quarterly dividend per share for 2017, paid in 2017.

## HIGHLIGHTS FOR Q4 2017

For the fourth quarter, PANDORA reported revenue of DKK 7,603 million, an increase of 15% compared with Q4 2016 (20% in local currency). Growth was mainly driven by a strong performance in PANDORA-owned retail, representing 51% of revenue for the quarter. Furthermore, growth was supported by a continued strong performance in EMEA and Asia Pacific, mainly driven by growth markets like Italy, France and China.

- Group revenue in Q4 2017 increased by 15% (20% in local currency) to DKK 7,603 million (Q4 2016: DKK 6,602 million)
  - Revenue from PANDORA owned retail increased 51% (58% in local currency).
    - Like-for-like sales-out growth for PANDORA owned concept stores was 15%
  - Revenue from EMEA increased 19% (20% in local currency) driven mainly by a positive performance in Italy and France
  - Revenue from Americas increased 16% (27% in local currency)
    - Positively impacted by product returns in Q4 2016 (DKK 200 million)
    - Like-for-like sales-out growth in the US was 27%, driven by the eSTORE
  - Revenue in Asia Pacific increased 5% (13% in local currency) driven by strong sales growth in China
  - Revenue from Charms increased 13% and revenue from Bracelets increased 9%
  - Full jewellery brand development remains on track with combined revenue from Rings, Earrings and Necklaces & Pendants up 24%, the three categories representing 27% of Group revenue compared with 25% in Q4 2016
- Gross margin was 75.8% in Q4 2017 (Q4 2016: 75.2%)
- EBITDA was DKK 3,050 million in Q4 2017 (Q4 2016: DKK 2,711 million), corresponding to an EBITDA margin of 40.1% (Q4 2016: 41.1%).
- The effective tax rate was 31.2% in Q4 2017 compared with 21.7% in Q4 2016. The increase was due to the new US tax reform as well as repatriation of dividend related to PANDORA Production Co. Ltd. in Thailand. Excluding these two items, the tax rate for Q4 2017 was approximately 21%
- Free cash flow was DKK 2,919 million in Q4 2017 (Q4 2016: DKK 2,849 million)
- During Q4 2017, PANDORA bought back 497,000 own shares at a total value of DKK 297 million as part of the ongoing DKK 1.8 billion share buyback programme

## FINANCIAL PERFORMANCE

### REVENUE

Total revenue for Q4 2017 was DKK 7,603 million, an increase of 15% (20% in local currency) compared with Q4 2016. Organic growth was 12% in local currency. Moreover, revenue for the quarter included a net impact of DKK 517 million from the acquisition of stores.

### REVENUE BY SALES CHANNEL

DKK million	Q4 2017	Q4 2016	Growth			FY 2017	FY 2016	Growth		
			in DKK	in local currency	Share of revenue			in DKK	in local currency	Share of revenue
PANDORA owned retail*	3,845	2,540	51%	58%	51%	9,782	6,883	42%	46%	43%
Wholesale	3,438	3,529	-3%	2%	45%	11,470	11,792	-3%	-1%	50%
Third-party distribution	320	533	-40%	-38%	4%	1,529	1,606	-5%	-4%	7%
<b>Total revenue</b>	<b>7,603</b>	<b>6,602</b>	<b>15%</b>	<b>20%</b>	<b>100%</b>	<b>22,781</b>	<b>20,281</b>	<b>12%</b>	<b>15%</b>	<b>100%</b>

\*Including revenue from PANDORA eSTORES

**PANDORA OWNED RETAIL**

Revenue from PANDORA owned retail was DKK 3,845 million in Q4 2017, an increase of 51% (58% in local currency) compared with Q4 2016.

**PANDORA OWNED RETAIL REVENUE**

DKK million	Q4 2017	Q4 2016	Growth in DKK	Growth in local currency	Share of revenue	FY 2017	FY 2016	Growth in DKK	Growth in local currency	Share of revenue
PANDORA owned concept stores	3,624	2,359	54%	61%	48%	9,214	6,266	47%	51%	40%
- Hereof eSTOREs	812	527	54%	62%	11%	1,678	1,045	61%	67%	7%
Other points of sale (retail)	221	181	22%	25%	3%	568	617	-8%	-6%	3%
<b>Total PANDORA owned retail revenue</b>	<b>3,845</b>	<b>2,540</b>	<b>51%</b>	<b>58%</b>	<b>51%</b>	<b>9,782</b>	<b>6,883</b>	<b>42%</b>	<b>46%</b>	<b>43%</b>

Revenue from PANDORA owned concept stores (incl. PANDORA eSTOREs) was DKK 3,624 million in Q4 2017 an increase of 54% (61% in local currency) compared with Q4 2016. Local currency growth was driven by:

- Like-for-like sales-out growth of 15%
- Growth from network expansion of 18%
- Growth from acquisition of stores of 27%

Revenue from PANDORA eSTOREs increased 54% (62% in local currency) to DKK 812 million in Q4 2017 corresponding to 11% of total revenue (8% in Q4 2016), driven by a strong performance in all major markets.

**WHOLESALE**

Revenue from PANDORA's wholesale channel was DKK 3,438 million, a decrease of 3% (increase of 2% in local currency) compared with Q4 2016.

**WHOLESALE REVENUE**

DKK million	Q4 2017	Q4 2016	Growth in DKK	Growth in local currency	Share of revenue	FY 2017	FY 2016	Growth in DKK	Growth in local currency	Share of revenue
Franchise concept stores	2,119	2,519	-16%	-11%	28%	6,678	7,040	-5%	-3%	29%
Other points of sale (wholesale)	1,319	1,010	31%	36%	17%	4,792	4,752	1%	2%	21%
<b>Total wholesale revenue</b>	<b>3,438</b>	<b>3,529</b>	<b>-3%</b>	<b>2%</b>	<b>45%</b>	<b>11,470</b>	<b>11,792</b>	<b>-3%</b>	<b>-1%</b>	<b>50%</b>

Revenue from franchise concept stores decreased 16% (11% in local currency) compared with Q4 2016. This included a negative impact of DKK 201 million from PANDORA's acquisition of franchise stores. The underlying development in revenue from franchise concept stores continues to be impacted by a too repetitive product assortment, as well as a difficult retail environment in the US and the UK.

Revenue from other points of sale in the wholesale channel increased 31% (36% in local currency) compared with Q4 2016. The development was mainly driven by Spain as revenue from other points of sale in Spain is now booked as wholesale, following the acquisition of PANDORA's Spanish distributor. Furthermore, revenue from other points of sale (wholesale) was negatively impacted by around DKK 200 million in Q4 2016 related to product returns in North America.

**THIRD-PARTY DISTRIBUTORS**

Revenue from third-party distributors was DKK 320 million, a decrease of 40% (38% in local currency) compared with Q4 2016. The decrease was mainly due to PANDORA's acquisition of the distribution in Spain, Belgium and South Africa in Q2 and Q3 2017.

**DISTRIBUTION NETWORK**

PANDORA added net 308 concept stores in the last 12 months bringing the global concept store network to 2,446.

**STORE NETWORK**

Number of points of sale	Q4 2017	Q3 2017	Q4 2016	Growth	Growth
				Q4 2017 /Q3 2017	Q4 2017 /Q4 2016
<b>Concept stores</b>	<b>2,446</b>	<b>2,328</b>	<b>2,138</b>	<b>118</b>	<b>308</b>
- hereof PANDORA owned	974	865	598	109	376
- hereof franchise owned	969	971	976	-2	-7
- hereof third-party distribution	503	492	564	11	-61
<b>Other points of sale</b>	<b>5,348</b>	<b>5,379</b>	<b>5,993</b>	<b>-31</b>	<b>-645</b>

Breakdown of other points of sale by channel (Note 11) and concept store network development for selected markets (Note 12) available in appendix.

In Q4 2017, PANDORA added a net of 109 PANDORA owned concept stores. The increase was mainly driven by store openings in the US, China, Italy and France as well as the acquisition of 24 franchise concept stores.

During the quarter, PANDORA opened 22 new franchise concept stores. This was more than offset by the above-mentioned franchise acquisitions, resulting in a decline of 2 franchise concept stores for the quarter.

At the end of Q4 2017, PANDORA had 5,348 other points of sale. During Q4 2017, net 31 other points of sale were closed. In the last 12 months PANDORA closed 645 other points of sale, mainly in EMEA.

**REVENUE BY REGION**

In Q4 2017, 53% of revenue was generated in EMEA (51% in Q4 2016), 29% in Americas (29% in Q4 2016) and 18% in Asia Pacific (20% in Q4 2016).

**REVENUE BY REGION**

DKK million	Q4 2017	Q4 2016	Growth			FY 2017	FY 2016	Growth		
			in DKK	in local currency	Share of revenue			in DKK	in local currency	Share of revenue
EMEA	4,012	3,378	19%	20%	53%	10,832	9,556	13%	15%	48%
Americas	2,205	1,905	16%	27%	29%	7,111	6,852	4%	6%	31%
Asia Pacific	1,386	1,319	5%	13%	18%	4,838	3,873	25%	28%	21%
<b>Total revenue</b>	<b>7,603</b>	<b>6,602</b>	<b>15%</b>	<b>20%</b>	<b>100%</b>	<b>22,781</b>	<b>20,281</b>	<b>12%</b>	<b>15%</b>	<b>100%</b>

Please refer to Note 3 for revenue in PANDORA's 7 largest markets

**EMEA**

Revenue in EMEA was DKK 4,012 million in Q4 2017, an increase of 19% (20% in local currency) compared with Q4 2016. Revenue in EMEA was supported by around DKK 350 million from acquisition of stores, including around DKK 170 million related to the acquisition of PANDORA's Spanish distributor.



The increase in revenue from EMEA was mainly driven by a good performance in Italy (45% in local currency), France (20% in local currency) and Germany (9% in local currency). Revenue in the UK increased 8% in local currency. Growth in the UK was mainly driven by a strong performance by the eSTORE, expansion of the network and acquisition of concept stores.

Growth in EMEA was supported by the addition of 141 new concept stores in the last 12 months partially offset by the closure of 569 other points of sale (corresponding to around 15% of other points of sale in the region).

#### AMERICAS

Revenue in Americas was DKK 2,205 million in Q4 2017, an increase of 16% (27% in local currency) compared with Q4 2016.

Revenue from the US was DKK 1,632 million, an increase of 31% in local currency. Growth was supported by the acquisition of franchise stores in the US (around DKK 190 million) as well as a negative one-off related to product returns in Q4 2016 (around DKK 200 million). Excluding acquisitions and product returns (in Q4 2016) growth in the US was around 2% in local currency, which was mainly driven by network expansion. Like-for-like sales-out growth in the US in PANDORA's owned concept stores including the eSTORE was 27%. Growth was driven by a continued strong performance in the eSTORE. The retail environment in the US remained challenging and the physical network (including franchisee stores) continued to experience negative like-for-like performance.

#### ASIA PACIFIC

Revenue in Asia Pacific was DKK 1,386 million in Q4 2017, an increase of 5% (13% in local currency) compared with Q4 2016. Revenue growth was mainly driven by China (62% in local currency), which was supported by the addition of 58 new concept stores during the last 12 months. Revenue from Australia decreased 3% in local currency, mainly due to a decline in traffic from Chinese consumers.

### REVENUE BY PRODUCT CATEGORY

#### REVENUE BY PRODUCT CATEGORY

DKK million	Q4 2017	Q4 2016	Growth In DKK	Growth in local currency	Share of revenue	FY 2017	FY 2016	Growth in DKK	Growth in local currency	Share of revenue
Charms	4,205	3,706	13%	19%	55%	12,920	11,991	8%	10%	57%
Bracelets	1,338	1,233	9%	13%	18%	3,965	3,672	8%	10%	17%
Rings	1,037	881	18%	24%	14%	3,161	2,643	20%	22%	14%
Earrings	523	410	28%	33%	7%	1,418	1,052	35%	38%	6%
Necklaces & Pendants	500	372	34%	40%	7%	1,317	923	43%	46%	6%
<b>Total revenue</b>	<b>7,603</b>	<b>6,602</b>	<b>15%</b>	<b>20%</b>	<b>100%</b>	<b>22,781</b>	<b>20,281</b>	<b>12%</b>	<b>15%</b>	<b>100%</b>

Growth for the quarter was primarily driven by Rings (24% in local currency), Earrings (33% in local currency) and Necklaces & Pendants (40% in local currency), reflecting PANDORA's continued development towards becoming a full jewellery brand.

Revenue from Charms increased 13% (19% in local currency) compared with Q4 2016, driven by a positive development across all regions.

Revenue from Bracelets increased 9% (13% in local currency) compared with Q4 2016, driven by a good performance across all main markets in the EMEA and the Asia Pacific region, which was supported by the launch of a number of innovative bracelets during 2017.

### COST OF SALES AND GROSS PROFIT

Gross profit in Q4 2017 was DKK 5,765 million (Q4 2016: DKK 4,963 million) corresponding to a gross margin of 75.8% compared with 75.2% in Q4 2016.

#### COST OF SALES AND GROSS PROFIT

DKK million	Q4 2017	Q4 2016	Growth in DKK	Share of revenue Q4 2017	Share of revenue Q4 2016	FY 2017	FY 2016	Growth in DKK	Share of revenue FY 2017	Share of revenue FY 2016
Revenue	7,603	6,602	15%	100.0%	100.0%	22,781	20,281	12%	100.0%	100.0%
Cost of sales	-1,838	-1,639	12%	-24.2%	-24.8%	-5,815	-5,058	15%	-25.5%	-24.9%
<b>Gross Profit</b>	<b>5,765</b>	<b>4,963</b>	<b>16%</b>	<b>75.8%</b>	<b>75.2%</b>	<b>16,966</b>	<b>15,223</b>	<b>11%</b>	<b>74.5%</b>	<b>75.1%</b>

\* Refer to Note 13 for details related to PANDORA's commodity hedging policy

The change in gross margin compared with Q4 2016 was mainly driven by:

- Increasing share of revenue from PANDORA owned retail (approximately 3 percentage point)
- Change in metal mix (approximately -1 percentage point) mainly related to an increasing share of revenue from the PANDORA rose collection
- Changes in raw material prices (approximately -1 percentage point)

Excluding hedging and the time lag effect from the inventory, the underlying gross margin would have been approximately 76% based on the average gold (USD 1,276/oz) and silver (USD 16.73/oz) market prices in Q4 2017. Under these assumptions, a 10% deviation in quarterly average gold and silver prices would impact our gross margin by approximately +/- 1 percentage point.

### OPERATING EXPENSES

Total operating expenses for the quarter were DKK 2,947 million, equivalent to an OPEX ratio of 38.8% (36.5% in Q4 2016).

#### OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION

DKK million	Q4 2017	Q4 2016	Growth	Share of revenue Q4 2017	Share of revenue Q4 2016	FY 2017	FY 2016	Growth	Share of revenue FY 2017	Share of revenue FY 2016
Sales and distribution expenses	-1,592	-1,185	34%	-20.9%	-17.9%	-4,810	-4,011	20%	-21.1%	-19.8%
Marketing expenses	-838	-716	17%	-11.0%	-10.8%	-2,235	-1,827	22%	-9.8%	-9.0%
Administrative expenses	-517	-510	1%	-6.8%	-7.7%	-2,137	-1,981	8%	-9.4%	-9.8%
<b>Total operating expenses</b>	<b>-2,947</b>	<b>-2,411</b>	<b>22%</b>	<b>-38.8%</b>	<b>-36.5%</b>	<b>-9,182</b>	<b>-7,819</b>	<b>17%</b>	<b>-40.3%</b>	<b>-38.6%</b>

The higher operating expenses were mainly due to an increase in sales and distribution costs driven by the increasing share of PANDORA owned retail revenue. End of Q4 2017, PANDORA operated 974 own concept stores compared with 598 end of Q4 2016. Marketing expenses were 11.0% of revenue (from 10.8% in Q4 2016). Administrative expenses as a percentage of revenue were 6.8% of revenue, a decrease compared with 7.7% in Q4 2016.

### EBITDA

EBITDA was DKK 3,050 million in Q4 2017, corresponding to an EBITDA margin of 40.1% (41.1%

in Q4 2016).

#### GROUP EBITDA

DKK million	Q4 2017	Q4 2016	Growth	EBITDA margin Q4 2017	EBITDA margin Q4 2016	FY 2017	FY 2016	Growth	EBITDA margin FY 2017	EBITDA margin FY 2016
EMEA	1,718	1,570	9%	42.8%	46.5%	4,288	3,996	7%	39.6%	41.8%
Americas	772	614	26%	35.0%	32.2%	2,313	2,503	-8%	32.5%	36.5%
Asia Pacific	560	527	6%	40.4%	40.0%	1,904	1,423	34%	39.4%	36.7%
<b>Total EBITDA</b>	<b>3,050</b>	<b>2,711</b>	<b>13%</b>	<b>40.1%</b>	<b>41.1%</b>	<b>8,505</b>	<b>7,922</b>	<b>7%</b>	<b>37.3%</b>	<b>39.1%</b>

The EBITDA margin in EMEA decreased 3.7 percentage points compared with Q4 2016 mainly driven the significant increase in PANDORA owned retail in the region, including the acquisition of the PANDORA's Spanish distributor.

Americas' EBITDA margin increased by 2.8 percentage points compared with Q4 2016. The increase was mainly due to Q4 2016 being negatively impacted by around 4 percentage points related to product returns in the quarter. Furthermore, Americas EBITDA margin was temporarily impacted by the effect of the acquisition of concept stores where initial inventory in the stores was acquired at wholesale prices (approximately -2 percentage points).

The EBITDA margin in Asia Pacific increased by 0.4 percentage points to 40.4%.

#### EBIT

EBIT for Q4 2017 was DKK 2,818 million, an increase of 10% compared with Q4 2016, resulting in an EBIT margin of 37.1% for Q4 2017 (38.7% in Q4 2016).

#### NET FINANCIALS

In Q4 2017, net financials amounted to a gain of DKK 11 million (gain of DKK 120 million in Q4 2016).

#### INCOME TAX EXPENSES

Income tax expenses were DKK 883 million in Q4 2017. The effective tax rate in Q4 2017 was 31.2% (21.7% in Q4 2016). The increase was due to the new US tax reform, signed in December 2017, as well as a 10% withholding tax on the repatriation of dividend, related to earnings before 2013 from PANDORA Production Co. Ltd. in Thailand. Excluding these two items, the underlying tax rate for Q4 2017 was approximately 21%.

#### NET PROFIT

Net profit in Q4 2017 was DKK 1,946 million (DKK 2,093 million in Q4 2016).

#### BALANCE SHEET AND CASH FLOW

In Q4 2017, PANDORA increased the free cash flow to DKK 2,919 million (DKK 2,849 million in Q4 2016).

Operating working capital (defined as inventory and trade receivables less trade payables) at the end of Q4 2017 decreased to 13.1% of the last twelve months' revenue (13.7% in Q4 2016).

At the end of Q4 2017, inventory decreased to 12.0% of the last twelve months' revenue (13.5% in Q4 2016), mainly due to optimisation of inventories. Trade receivables at the end of Q4 2017 corresponded to 8.6% of the last twelve months' revenue (8.2% in Q4 2016), while days sales outstanding (DSO) was 47 days (37 days in Q4 2016). The increase compared with Q4 2016 was

mainly due to revenue in the fourth quarter being skewed towards the end of the quarter as well as receivables being impacted by the acquisition of the Company's Spanish distributor in September 2017.

**OPERATING WORKING CAPITAL AS A SHARE OF THE LAST 12 MONTHS' REVENUE**

Share of preceding 12 months' revenue	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Inventory	12.0%	14.8%	14.3%	14.0%	13.5%
Trade receivables	8.6%	10.4%	5.8%	7.2%	8.2%
Trade payables	-7.5%	-6.3%	-6.4%	-7.1%	-8.0%
<b>Total</b>	<b>13.1%</b>	<b>18.9%</b>	<b>13.7%</b>	<b>14.2%</b>	<b>13.7%</b>

At the end of Q4 2017, sales return and warranty provisions corresponded to around 4% of the last twelve months' rolling revenue, compared with 4% for Q3 2017 and 6% for Q4 2016. The decrease in provisions compared with Q4 2016 was related to a lower share of Group revenue from the US as well as a reduction of provisions in Q2 2017 related to a change to the product return programme in the US.

CAPEX was DKK 502 million in Q4 2017 (DKK 249 million in Q4 2016). The CAPEX investments were mainly related to IT, opening of PANDORA owned stores and the crafting facilities in Thailand. In Q4 2017, CAPEX represented 7% of revenue (4% in Q4 2016).

Net interest-bearing debt (NIBD) at the end of Q4 2017 was DKK 4,855 million (DKK 2,448 million in Q4 2016) corresponding to a NIBD to EBITDA ratio of 0.6x of the last twelve months' rolling EBITDA (0.3x in Q4 2016).

**OTHER IMPORTANT EVENTS IN Q4 2017**

**SHARE BUYBACK PROGRAMME FOR 2017**

On 7 February 2017, in connection with the Annual Report 2016, PANDORA launched a share buyback programme under which PANDORA expects to buy back own shares to a maximum consideration of DKK 1.8 billion. The programme will end no later than 6 February 2018.

During Q4 2017, a total of 497,000 shares were bought back, corresponding to a transaction value of DKK 297 million. During the current share buyback programme, a total of 2,566,886 shares were bought back during 2017, corresponding to a transaction value of DKK 1,721 million. As of 31 December 2017, PANDORA held a total of 2,891,926 treasury shares, corresponding to 2.6% of the share capital.

## EVENTS AFTER THE REPORTING PERIOD

### **ORGANISATIONAL CHANGE**

In January 2018, Anders Boyer was announced the new CFO in PANDORA following Peter Vekslund's decision to resign from his position as CFO. Anders Boyer has been a member of the Company's Board since 2012. He will resign from the Board in connection with the Annual General Meeting on 14 March 2018. Peter Vekslund will continue in his current role until Anders Boyer (currently employed by Hempel A/S) is able to take up his position, to be no later than 1 August 2018.

### **CAPITAL MARKETS DAY 2018**

In January, PANDORA hosted a Capital Markets Day in Copenhagen, Denmark for analysts, institutional investors and media. At the event, PANDORA presented the strategic direction towards 2022, which includes an ambition to increase revenue annually in the period 2018-2022 by 7-10% in local currency, while maintaining a solid EBITDA margin of around 35% beginning from 2018.

As part of the presentations on the Capital Markets Day, and as stated in Company Announcement no. 426, the following forward-looking statements were disclosed:

- Group revenue in the period 2018-2022 is expected to increase annually by 7-10% in local currency
  - o PANDORA expects annual like-for-like growth in PANDORA owned concept stores (including eSTOREs) to be low- to mid-single digit
  - o PANDORA expects annual revenue tailwind of DKK 500-1,000 million from forward integration
  - o PANDORA expects to add around net 200 concept stores annually in 2018-2022
- Group EBITDA margin in the period 2018-2022 is expected to be around 35%<sup>1</sup>. Compared with current levels, the EBITDA margin will be negatively impacted by
  - o a broader and more innovative product portfolio, and
  - o an increasing share of PANDORA owned stores
- CAPEX, in the period 2018-2022, as a percentage of annual revenue is expected to be around 5%<sup>1</sup>
- The effective tax rate in the period is expected to be 21-22%.

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<sup>1</sup> Prior to implementation of IFRS 16. Refer to note 1.2 in the Annual Report 2017 for details.

## **DEVELOPMENT IN FY 2017**

### **REVENUE**

Total revenue increased by 12% to DKK 22,781 million in 2017 compared with 2016. Excluding foreign exchange rate movements, the underlying revenue growth was 15% in local currency.

The geographical distribution of revenue in 2017 was 48% for EMEA (47% in 2016), 31% for Americas (34% in 2016) and 21% for Asia Pacific (19% in 2016).

### **COSTS**

Gross profit was DKK 16,966 million in 2017 (DKK 15,223 million in 2016) resulting in a gross margin of 74.5% in 2017 (75.1% in 2016).

Sales, distribution and marketing expenses increased to DKK 7,045 million in 2017 (DKK 5,838 million in 2016) corresponding to 30.9% of revenue (28.8% in 2016). Administrative expenses amounted to DKK 2,137 million in 2017 (DKK 1,981 million in 2016), representing 9.4% of revenue in 2017 (9.8% in 2016).

### **EBITDA**

EBITDA for 2017 increased by 7% to DKK 8,505 million resulting in an EBITDA margin of 37.3% in 2017 versus 39.1% in 2016.

Regional EBITDA margins for 2017 were 39.6% in EMEA (41.8% in 2016), 32.5% in Americas (36.5% in 2016) and 39.4% in Asia Pacific (36.7% in 2016).

### **EBIT**

EBIT for 2017 was DKK 7,784 million – an increase of 5% compared with 2016 resulting in an EBIT margin of 34.2% in 2017 versus 36.5% in 2016.

### **NET FINANCIALS**

Net financials amounted to a loss of DKK 117 million in 2017 versus a gain of DKK 246 million in 2016. The development was primarily related to unrealised exchange rate losses.

### **INCOME TAX EXPENSES**

Income tax expenses were DKK 1,899 million in 2017 compared with DKK 1,625 million in 2016, implying an effective tax rate for the Group of 24.8% for 2017 compared with 21.2% in 2016.

### **NET PROFIT**

Net profit in 2017 was DKK 5,768 million compared with DKK 6,025 million in 2016.

## FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

DKK million	Notes	Q4 2017	Q4 2016	FY 2017	FY 2016
Revenue	3	7,603	6,602	22,781	20,281
Cost of sales		-1,838	-1,639	-5,815	-5,058
<b>Gross profit</b>		<b>5,765</b>	<b>4,963</b>	<b>16,966</b>	<b>15,223</b>
Sales, distribution and marketing expenses		-2,430	-1,901	-7,045	-5,838
Administrative expenses		-517	-510	-2,137	-1,981
<b>Operating profit</b>		<b>2,818</b>	<b>2,552</b>	<b>7,784</b>	<b>7,404</b>
Finance income		113	146	198	328
Finance costs		-102	-26	-315	-82
<b>Profit before tax</b>		<b>2,829</b>	<b>2,672</b>	<b>7,667</b>	<b>7,650</b>
Income tax expense		-883	-579	-1,899	-1,625
<b>Net profit for the period</b>		<b>1,946</b>	<b>2,093</b>	<b>5,768</b>	<b>6,025</b>
Earnings per share, basic, DKK		17.7	18.5	52.0	52.8
Earnings per share, diluted, DKK		17.6	18.4	51.8	52.5

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Q4 2017	Q4 2016	FY 2017	FY 2016
<b>Net profit for the period</b>	<b>1,946</b>	<b>2,093</b>	<b>5,768</b>	<b>6,025</b>
<b>Other comprehensive income:</b>				
<b>Items that may be reclassified to profit/loss for the period</b>				
Exchange rate adjustments of investments in subsidiaries	45	167	-343	121
Fair value adjustment of hedging instruments	-4	-405	109	47
Fair value adjustment of obligation to acquire non-controlling interests	-	14	-	-
Tax on other comprehensive income, hedging instruments, income/expense	1	90	-25	-10
<b>Items that may be reclassified to profit/loss for the period, net of tax</b>	<b>42</b>	<b>-134</b>	<b>-259</b>	<b>158</b>
<b>Items not to be reclassified to profit/loss for the period</b>				
Actuarial gain/loss on defined benefit plans, net of tax	-2	-	-2	-
<b>Items not to be reclassified to profit/loss for the period, net of tax</b>	<b>-2</b>	<b>-</b>	<b>-2</b>	<b>-</b>
<b>Other comprehensive income, net of tax</b>	<b>40</b>	<b>-134</b>	<b>-261</b>	<b>158</b>
<b>Total comprehensive income for the period</b>	<b>1,986</b>	<b>1,959</b>	<b>5,507</b>	<b>6,183</b>

CONSOLIDATED BALANCE SHEET

DKK million	2017 31 December	2016 31 December
<b>ASSETS</b>		
Goodwill	3,522	2,571
Brand	1,057	1,057
Distribution network	154	184
Distribution rights	1,153	1,061
Other intangible assets	1,113	893
<b>Total intangible assets</b>	<b>6,999</b>	<b>5,766</b>
Property, plant and equipment	2,324	1,767
Deferred tax assets	884	946
Other financial assets	289	250
<b>Total non-current assets</b>	<b>10,496</b>	<b>8,729</b>
Inventories	2,729	2,729
Derivative financial instruments	153	161
Trade receivables	1,954	1,673
Income tax receivable	143	142
Other receivables	772	754
Cash	993	897
<b>Total current assets</b>	<b>6,744</b>	<b>6,356</b>
<b>Total assets</b>	<b>17,240</b>	<b>15,085</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	113	117
Treasury shares	-1,999	-4,334
Reserves	922	1,181
Dividend proposed	987	1,007
Retained earnings	6,491	8,823
<b>Total equity</b>	<b>6,514</b>	<b>6,794</b>
Provisions	150	101
Loans and borrowings	5,283	3,008
Deferred tax liabilities	501	393
Other payables	481	393
<b>Total non-current liabilities</b>	<b>6,415</b>	<b>3,895</b>
Provisions	649	1,004
Loans and borrowings	164	3
Derivative financial instruments	143	256
Trade payables	1,706	1,622
Income tax payable	572	547
Other payables	1,077	964
<b>Total current liabilities</b>	<b>4,311</b>	<b>4,396</b>
<b>Total liabilities</b>	<b>10,726</b>	<b>8,291</b>
<b>Total equity and liabilities</b>	<b>17,240</b>	<b>15,085</b>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Treasury shares	Translation reserve	Hedge reserve	Dividend proposed	Retained earnings	Total equity
<b>2017</b>							
Equity at 1 January	117	-4,334	1,255	-74	1,007	8,823	6,794
<b>Net profit for the period</b>	-	-	-	-	-	<b>5,768</b>	<b>5,768</b>
Exchange rate adjustments of investments in subsidiaries	-	-	-343	-	-	-	-343
Fair value adjustment of hedging instruments	-	-	-	109	-	-	109
Actuarial gain/loss	-	-	-	-	-	-2	-2
Tax on other comprehensive income	-	-	-	-25	-	-	-25
<b>Other comprehensive income, net of tax</b>	-	-	<b>-343</b>	<b>84</b>	-	<b>-2</b>	<b>-261</b>
<b>Total comprehensive income for the period</b>	-	-	<b>-343</b>	<b>84</b>	-	<b>5,766</b>	<b>5,507</b>
Fair value adjustment of obligation to acquire non-controlling interests	-	-	-	-	-	-126	-126
Share-based payments	-	-	-	-	-	66	66
Share-based payments (exercised)	-	217	-	-	-	-215	2
Share-based payments (tax)	-	-	-	-	-	-13	-13
Purchase of treasury shares	-	-1,721	-	-	-	-	-1,721
Reduction of share capital	-4	3,839	-	-	-	-3,835	-
Dividend paid	-	-	-	-	-4,004	9	-3,995
Dividend proposed	-	-	-	-	3,984	-3,984	-
<b>Equity at 31 December</b>	<b>113</b>	<b>-1,999</b>	<b>912</b>	<b>10</b>	<b>987</b>	<b>6,491</b>	<b>6,514</b>
<b>2016</b>							
Equity at 1 January	122	-4,152	1,134	-111	1,511	7,635	6,139
<b>Net profit for the period</b>	-	-	-	-	-	<b>6,025</b>	<b>6,025</b>
Exchange rate adjustments of investments in subsidiaries	-	-	121	-	-	-	121
Fair value adjustment of hedging instruments	-	-	-	47	-	-	47
Tax on other comprehensive income	-	-	-	-10	-	-	-10
<b>Other comprehensive income, net of tax</b>	-	-	<b>121</b>	<b>37</b>	-	-	<b>158</b>
<b>Total comprehensive income for the period</b>	-	-	<b>121</b>	<b>37</b>	-	<b>6,025</b>	<b>6,183</b>
Fair value adjustment of obligation to acquire non-controlling interests	-	-	-	-	-	-123	-123
Share-based payments	-	-	-	-	-	76	76
Share-based payments (exercised)	-	230	-	-	-	-229	1
Share-based payments (tax)	-	-	-	-	-	25	25
Purchase of treasury shares	-	-4,000	-	-	-	-	-4,000
Reduction of share capital	-5	3,588	-	-	-	-3,583	-
Dividend paid	-	-	-	-	-1,511	4	-1,507
Dividend proposed	-	-	-	-	1,007	-1,007	-
<b>Equity at 31 December</b>	<b>117</b>	<b>-4,334</b>	<b>1,255</b>	<b>-74</b>	<b>1,007</b>	<b>8,823</b>	<b>6,794</b>

CONSOLIDATED CASH FLOW STATEMENT

DKK million	Q4 2017	Q4 2016	FY 2017	FY 2016
Profit before tax	2,829	2,672	7,667	7,650
Finance income	-113	-146	-198	-328
Finance costs	102	26	315	82
Depreciation, amortisation and impairment losses	232	159	721	518
Share-based payments	16	20	66	76
Change in inventories	519	576	145	-206
Change in receivables	458	608	-285	-327
Change in payables and other liabilities	496	597	-118	327
Other non-cash adjustments	66	-316	102	241
Interest etc. received	1	1	3	3
Interest etc. paid	-11	-13	-44	-43
Income taxes paid	-1,170	-1,022	-1,768	-1,462
<b>Cash flows from operating activities, net</b>	<b>3,425</b>	<b>3,162</b>	<b>6,606</b>	<b>6,531</b>
Acquisitions of subsidiaries and activities, net of cash acquired	-250	-1	-1,843	-210
Purchase of intangible assets	-139	-126	-427	-344
Purchase of property, plant and equipment	-375	-210	-890	-825
Change in other non-current assets	-2	-6	-48	-75
Proceeds from sale of property, plant and equipment	-	17	12	31
<b>Cash flows from investing activities, net</b>	<b>-766</b>	<b>-326</b>	<b>-3,196</b>	<b>-1,423</b>
Dividend paid	-987	-	-3,995	-1,507
Purchase of treasury shares	-300	-609	-1,721	-4,000
Proceeds from loans and borrowings	1,188	609	4,981	3,777
Repayment of loans and borrowings	-2,204	-2,385	-2,542	-3,373
<b>Cash flows from financing activities, net</b>	<b>-2,303</b>	<b>-2,385</b>	<b>-3,277</b>	<b>-5,103</b>
<b>Net increase/decrease in cash</b>	<b>356</b>	<b>451</b>	<b>133</b>	<b>5</b>
Cash at beginning of period <sup>1</sup>	642	438	897	889
Exchange gains/losses on cash	-5	8	-37	3
Net increase/decrease in cash	356	451	133	5
<b>Cash at end of period<sup>1</sup></b>	<b>993</b>	<b>897</b>	<b>993</b>	<b>897</b>
Cash flows from operating activities, net	3,425	3,162	6,606	6,531
- Interests etc. received	-1	-1	-3	-3
- Interests etc. paid	11	13	44	43
Cash flows from investing activities	-766	-326	-3,196	-1,423
- Acquisitions of subsidiaries and activities, net of cash acquired	250	1	1,843	210
<b>Free cash flow</b>	<b>2,919</b>	<b>2,849</b>	<b>5,294</b>	<b>5,358</b>
<b>Unutilised credit facilities</b>	<b>3,085</b>	<b>5,120</b>	<b>3,085</b>	<b>5,120</b>

The above cannot be derived directly from the income statement and the balance sheet.

<sup>1</sup> Cash comprises cash at bank and in hand.

## NOTES

### NOTE 1 – Accounting policies

This unaudited interim financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as endorsed by the European Union and accounting policies set out in the Annual Report 2017 of PANDORA.

Furthermore, the interim financial report and Management's review are prepared in accordance with additional requirements in the Danish Financial Statements Act.

PANDORA has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January – 31 December 2017. The implementation of these new or amended standards had no material impact on the Annual Report 2017.

Refer to note 1.2 in the Annual Report 2017 for the description of the expected impact from new standards issued, but not yet effective.

PANDORA presents financial measures in the interim financial report that are not defined according to IFRS. PANDORA believes that these non-GAAP measures provide valuable information to investors and PANDORA's management when evaluating performance. Since other companies might calculate these differently from PANDORA, they may not be comparable to the measures used by other companies. These financial measures should therefore not be considered to be a replacement for measures defined under IFRS.

For definitions of other alternative performance measures used by PANDORA which are not defined by IFRS, refer to note 5.5 in the consolidated financial statement in the Annual Report 2017.

### NOTE 2 – Significant accounting estimates and judgements

In preparing the interim financial report, Management makes various accounting estimates and assumptions, which form the basis of presentation, recognition and measurement of PANDORA's assets and liabilities.

All significant accounting estimates and judgements are consistent with the description in the Annual Report 2017. Refer to descriptions in the individual notes to the consolidated financial statement in the Annual Report 2017.

### NOTE 3 – Segment information

PANDORA's activities are segmented based on geographical areas in accordance with the management reporting structure. The operating segments of the Group are divided into 3 operating segments: EMEA, Americas and Asia Pacific. Each operating segment comprises wholesale, retail and e-commerce business activities relating to the distribution and sale of PANDORA products.

The Group operates with two performance measures with EBITDA as the primary performance measure and EBIT as the secondary performance measure. Management monitors the segment profit of the operating segments separately for the purpose of making decisions about resource allocation and performance management. Segment results are measured as EBITDA, corresponding to 'operating profit' in the consolidated financial statements before depreciation, amortisation and impairment losses in respect of non-current assets. EBIT as a performance measure is only measured at Group level.

For information on revenue from the different products and sale channels reference is made to the Management Review.

## SEGMENT INFORMATION

DKK million	EMEA	Americas	Asia Pacific	Total Group
<b>Q4 2017</b>				
External revenue	4,012	2,205	1,386	7,603
Segment profit (EBITDA)	1,718	772	560	3,050
<i>Segment profit margin (EBITDA margin)</i>	42.8%	35.0%	40.4%	40.1%
Depreciation, amortisation and impairment losses				-232
<b>Consolidated operating profit (EBIT)</b>				<b>2,818</b>
<b>Q4 2016</b>				
External revenue	3,378	1,905	1,319	6,602
Segment profit (EBITDA)	1,570	614	527	2,711
<i>Segment profit margin (EBITDA margin)</i>	46.5%	32.2%	40.0%	41.1%
Depreciation, amortisation and impairment losses				-159
<b>Consolidated operating profit (EBIT)</b>				<b>2,552</b>
<b>FY 2017</b>				
External revenue	10,832	7,111	4,838	22,781
Segment profit (EBITDA)	4,288	2,313	1,904	8,505
<i>Segment profit margin (EBITDA margin)</i>	39.6%	32.5%	39.4%	37.3%
Depreciation, amortisation and impairment losses				-721
<b>Consolidated operating profit (EBIT)</b>				<b>7,784</b>
<b>FY 2016</b>				
External revenue	9,556	6,852	3,873	20,281
Segment profit (EBITDA)	3,996	2,503	1,423	7,922
<i>Segment profit margin (EBITDA margin)</i>	41.8%	36.5%	36.7%	39.1%
Depreciation, amortisation and impairment losses				-518
<b>Consolidated operating profit (EBIT)</b>				<b>7,404</b>

## REVENUE DEVELOPMENT IN PANDORA'S 7 LARGEST MARKETS (BASED ON FY 2017 REVENUE)

DKK million	Q4 2017	Q4 2016	<i>Growth in DKK</i>	<i>Growth in local currency</i>	FY 2017	FY 2016	<i>Growth in DKK</i>	<i>Growth in local currency</i>
UK	1,101	1,046	5%	8%	2,809	2,704	4%	10%
Italy	825	568	45%	45%	2,602	2,004	30%	30%
France	535	447	20%	20%	1,272	1,127	13%	13%
Germany	407	373	9%	9%	1,065	974	9%	9%
US	1,632	1,377	19%	31%	5,297	5,157	3%	6%
Australia	590	653	-10%	-3%	1,647	1,529	8%	8%
China	389	254	53%	62%	1,592	910	75%	82%

### NOTE 4 – Seasonality of operations

Due to the seasonal nature of the jewellery business, higher revenue is historically realised in the second half of the year.

### NOTE 5 – Financial risks

PANDORA's overall risk exposure and financial risks, including risks related to commodity prices, foreign currency, credit, liquidity and interest rate, are unchanged compared with the disclosures in note 4.4 in the consolidated financial statement in the Annual Report 2017.

### NOTE 6 – Derivative financial instruments

Derivative financial instruments are measured at fair value and in accordance with level 2 in the fair value

hierarchy (IFRS 7). Put options related to non-controlling interests are measured in accordance with level 3 in the fair value hierarchy (non-observable data) based on projected revenue derived from approved budgets.

Refer to note 4.5 to the consolidated financial statement in the Annual Report 2017.

#### **NOTE 7 – Business combinations**

##### **Acquisitions in 2017**

###### **City Time S.L.**

On 28 September PANDORA acquired 100% of the share capital in City Time S.L. in Spain. The purchase price, DKK 786 million (EUR 106 million), was finally agreed between the parties and paid in December 2017. With this acquisition PANDORA will gain full control of the distribution in Spain, Gibraltar and Andorra. In addition, PANDORA will add 50 concept stores and 14 shop-in-shops to its retail chain.

Besides assets and liabilities mainly related to the stores, PANDORA reacquired the exclusive distribution rights to the above markets. The value of the distribution rights was calculated at DKK 131 million based on the Multi-period Excess Earnings model and is amortised over their useful life of 1.25 years.

Acquired gross contractual receivables totalled DKK 105 million and consisted of trade receivables of DKK 99 million, including a write-down of DKK 3 million, and prepayments of DKK 6 million. The net receivables acquired, DKK 105 million, are considered to be stated at fair value and are expected to be collected.

Acquisition costs were DKK 3 million and are recognised as operating expenses in the income statement.

Goodwill, DKK 464 million, mainly consists of know-how, future growth expectations and the effect of converting the acquired business from wholesale to PANDORA owned retail. None of the goodwill acquired is deductible for income tax purposes.

Contribution to Group revenue and net earnings for the period 28 September – 31 December 2017 was DKK 270 million and DKK 119 million respectively.

###### **Other acquisitions in 2017**

On 30 June 2017, PANDORA acquired the distribution in Belgium and Luxembourg when the previous distribution agreement with Gielen Trading BVBA ended. The acquisition comprised inventory and non-current assets relating to 13 concept stores and 3 shop-in-shops. On 3 July 2017, PANDORA acquired the distribution in South Africa, Mauritius, Namibia, Zambia, Zimbabwe and Réunion from Scandinavian Brand House following the expiry of the distribution agreement on 30 June 2017. The acquisition comprised inventory and non-current assets relating to the addition of 16 concept stores and 18 shop-in-shops to PANDORA's retail business.

PANDORA further acquired 121 stores in the period 1 January – 31 December 2017 (50 concept stores in the US, 23 in the UK, 13 in Poland, 8 in Canada, 6 in New Zealand, 6 in Italy, 6 in Australia, 5 in South Africa and 4 in Germany) in 25 business combinations. Net assets acquired mainly consists of inventory and other non-current assets and liabilities relating to the stores.

The total purchase price was DKK 1,074 million. Based on the purchase price allocations, goodwill was DKK 645 million (Belgium DKK 87 million and South Africa DKK 84 million). Goodwill from the acquisitions is mainly related to the synergies from converting the stores from wholesale to PANDORA owned retail. Costs relating to the acquisition of the distributors in Belgium, South Africa and the stores was DKK 3 million and is recognised as operating expenses in the income statement.

Of the goodwill acquired, DKK 527 million is deductible for income tax purposes.

Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 31 December 2017 was DKK 921 million and DKK 238 million respectively.

Had all acquisitions in 2017 taken place on 1 January 2017, Group revenue and net earnings for the period 1 January – 31 December 2017 would have been approximately DKK 23.4 billion and DKK 5.9 billion respectively.

Due to the continued activity related to stores and small business acquisitions there will, at any given time, be purchase price allocations that have not been finalised at the time of reporting. Outstanding items in these are considered immaterial.

## Acquisitions

DKK million	Spain	Other	Total 2017	Total 2016
Distribution rights	131	-	131	-
Other intangible assets	4	13	17	-
Property, plant and equipment	45	107	152	6
Other non-current receivables	6	-	6	9
Receivables	105	6	111	4
Inventories	131	339	470	61
Cash	10	-	10	1
<b>Assets acquired</b>	<b>432</b>	<b>465</b>	<b>897</b>	<b>81</b>
Non-current liabilities	-	17	17	2
Payables	91	3	94	6
Other current liabilities	19	16	35	-
<b>Liabilities assumed</b>	<b>110</b>	<b>36</b>	<b>146</b>	<b>8</b>
<b>Total identifiable net assets acquired</b>	<b>322</b>	<b>429</b>	<b>751</b>	<b>73</b>
Goodwill arising on the acquisitions	464	645	1,109	115
<b>Purchase consideration</b>	<b>786</b>	<b>1,074</b>	<b>1,860</b>	<b>188</b>
Cash movements on acquisitions:				
Prepaid, previous year <sup>1,2</sup>	-	-1	-1	-7
Consideration transferred regarding previous years <sup>3</sup>	-	-	-	29
Deferred payment (including earn-out) <sup>4</sup>	-	-6	-6	-
Cash acquired	-10	-	-10	-1
<b>Net cash flows on acquisition for the period</b>	<b>776</b>	<b>1,067</b>	<b>1,843</b>	<b>209</b>
Prepayments, acquisitions <sup>1</sup>	-	-	-	1
<b>Net cash flows on acquisitions</b>	<b>776</b>	<b>1,067</b>	<b>1,843</b>	<b>210</b>

1) Prepayment in 2016 relates to the acquisition of a store in Australia 4 January 2017. The amount paid was DKK 1 million.

2) Prepayment in 2015 relates to the acquisitions in Singapore, Macau and the Philippines on 1 January 2016. The amount paid was DKK 7 million.

3) The consideration transferred in 2016 was the final payment for the transfer of assets regarding the acquisition in China in 2015, DKK 29 million.

4) The deferred payment is related to store acquisitions in Italy in September and South Africa in December and are expected to be paid in Q1 2018, DKK 6 million.

## Acquisitions in 2016

On 1 January 2016, PANDORA acquired the PANDORA store network in Singapore and Macau from Norbreeze Group (Norbreeze). The distribution agreements with Norbreeze for distributing PANDORA jewellery in Singapore, Macau and the Philippines expired on 31 December 2015. Distribution in the Philippines continues under a new agreement with the existing distributor, whereas the distribution in Singapore and Macau remains with PANDORA. On 1 January 2016, PANDORA established a local office in Singapore for the Singapore operation, whereas Macau and the Philippines are operated out of PANDORA's office in Hong Kong.

According to the purchase price allocation, the purchase price of DKK 167 million was primarily related to non-current assets and inventories related to the acquired stores. Goodwill was DKK 102 million, mainly related to the opportunity to enter Singapore and Macau directly and to add 15 PANDORA concept stores and 5 shop-in-shops located in these two markets to PANDORA's retail chain.

In 2016, purchase consideration in the amount of DKK 160 million was transferred to Norbreeze. DKK 7 million was prepaid in 2015. Transaction cost of DKK 3 million was recognised in the income statement as administrative expenses. None of the goodwill recognised was deductible for income tax purposes.

On 6 July 2016, PANDORA acquired four concept stores in London, UK, in a business combination. The purchase price was DKK 21 million. Assets acquired mainly consisted of inventories and other assets and liabilities relating to the stores. Of the purchase price DKK 13 million was allocated to goodwill. Transaction cost was DKK 1 million. None of the goodwill recognised was deductible for income tax purposes.

Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 31 December 2016 was insignificant.

**Acquisitions after the reporting period**

PANDORA acquired 5 stores after the reporting period (2 concept stores in the UK, 2 in the US and 1 in Canada). The total purchase price was DKK 49 million. Assets acquired are mainly non-current assets relating to the stores and inventory. Due to the timing between acquisition dates and the announcement of the financial statements, it has not been possible to finalise the purchase price allocations. Expected goodwill from the acquisitions, based on the preliminary purchase price allocation, was DKK 26 million, of which DKK 9 million is expected to be deductible for income tax purposes.

**NOTE 8 – Goodwill**

DKK million	31 December 2017	31 December 2016
Cost at 1 January	2,571	2,424
Acquisition of subsidiaries and activities in the period	1,109	115
Exchange rate adjustments	-158	32
<b>Cost at the end of the period</b>	<b>3,522</b>	<b>2,571</b>

Impairment testing of goodwill was performed in Q4 which did not result in any impairment. Further information regarding the impairment test and goodwill allocation is found in note 3.1 in the Annual Report 2017.

**NOTE 9 – Contingent liabilities**

Reference is made to note 5.1 to the consolidated financial statements in the Annual Report 2017. Compared with Q3 2017, leasing commitments decreased by DKK 22 million in Q4 2017 to DKK 3,355 million at the end of Q4 2017.

**NOTE 10 – Related parties**

*Related parties with significant interests*

Other related parties of PANDORA with significant influence include the Board and the Executive Management of this company and their close family members. Related parties also include companies in which the persons have control or significant interests.

*Transactions with related parties*

PANDORA did not enter any significant transactions with members of the Board or the Executive Management, except for compensation and benefits received because of their membership of the Board, employment with PANDORA or shareholdings in PANDORA.

**NOTE 11 – STORE NETWORK, OTHER POINTS OF SALE DEVELOPMENT**

	Q4 2017	Q3 2017	Q4 2016	Growth Q4 2017 / Q3 2017	Growth Q4 2017 /Q4 2016
Other points of sale (retail)	150	130	111	20	39
Other points of sale (wholesale)	4,550	4,593	4,401	-43	149
Other points of sale (third-party)	648	656	1,481	-8	-833
<b>Other points of sale, total</b>	<b>5,348</b>	<b>5,379</b>	<b>5,993</b>	<b>-31</b>	<b>-645</b>

**NOTE 12 – STORE NETWORK, CONCEPT STORE DEVELOPMENT\***

	<i>Total concept stores</i>					<i>O&amp;O concept stores</i>		
	Number of concept stores Q4 2017	Number of concept stores Q3 2017	Number of concept stores Q4 2016	Growth Q4 2017 /Q3 2017	Growth Q4 2017 /Q4 2016	Number of O&O Q4 2017	Growth O&O stores Q4 2017 /Q3 2017	Growth O&O stores Q4 2017 /Q4 2016
UK	234	233	228	1	6	37	14	24
Russia	201	206	208	-5	-7	-	-	-
Germany	154	153	156	1	-2	145	5	3
Italy	112	98	75	14	37	66	13	39
France	95	80	71	15	24	44	14	17
Spain	69	63	55	6	14	54	4	54
Poland	47	45	43	2	4	36	2	16
Ireland	30	30	29	-	1	-	-	-
South Africa	29	29	32	-	-3	22	3	22
Belgium	25	25	25	-	-	13	-	13
Portugal	24	23	22	1	2	-	-	-
Ukraine	23	23	23	-	-	-	-	-
Netherlands	23	23	20	-	3	23	-	3
United Arab Emirates	21	20	19	1	2	21	1	2
Czech Republic	19	19	17	-	2	10	-	-
Romania	19	16	15	3	4	11	1	2
Turkey	19	15	13	4	6	19	4	6
Israel	17	17	14	-	3	-	-	-
Denmark	14	14	14	-	-	14	-	-
Austria	14	14	14	-	-	8	-	1
Greece	14	13	13	1	1	-	-	-
Rest of EMEA	144	135	100	9	44	26	3	6
<b>EMEA</b>	<b>1,347</b>	<b>1,294</b>	<b>1,206</b>	<b>53</b>	<b>141</b>	<b>549</b>	<b>64</b>	<b>208</b>
US	382	363	346	19	36	114	15	68
Brazil	98	95	89	3	9	58	2	8
Canada	77	77	78	-	-1	10	-	8
Mexico	34	25	19	9	15	10	8	10
Caribbean	25	24	24	1	1	-	-	-
Rest of Americas	41	34	32	7	9	3	3	3
<b>Americas</b>	<b>657</b>	<b>618</b>	<b>588</b>	<b>39</b>	<b>69</b>	<b>195</b>	<b>28</b>	<b>97</b>
China	155	143	97	12	58	151	12	54
Australia	123	120	112	3	11	26	4	9
Hong Kong	30	29	29	1	1	25	1	-
Malaysia	30	28	27	2	3	-	-	-
Philippines	26	22	16	4	10	-	-	-
New Zealand	16	16	13	-	3	6	-	6
Singapore	15	14	14	1	1	11	-	-
Thailand	14	12	9	2	5	-	-	-
Rest of Asia Pacific	33	32	27	1	6	11	-	2
<b>Asia Pacific</b>	<b>442</b>	<b>416</b>	<b>344</b>	<b>26</b>	<b>98</b>	<b>230</b>	<b>17</b>	<b>71</b>
<b>All markets</b>	<b>2,446</b>	<b>2,328</b>	<b>2,138</b>	<b>118</b>	<b>308</b>	<b>974</b>	<b>109</b>	<b>376</b>

\*Includes markets with 10 or more concept stores as of end Q4 2017.



**NOTE 13 – Commodity hedging**

It is PANDORA's policy to hedge 70% of the Group's expected consumption, based on a rolling 12-months production plan.

**HEDGED AND REALISED PRICES**

<b>USD / OZ</b>	<i>Realised in Q4 2017</i>	<b>Hedged Q4 2017</b>	<b>Hedged Q1 2018</b>	<b>Hedged Q2 2018</b>	<b>Hedged Q3 2018</b>
Gold price	1,235	1,259	1,298	1,287	1,273
Silver price	17.03	17.79	17.31	17.27	16.70
Commodity hedge ratio (target), %	<i>Realised</i>	90-100%	70-90%	50-70%	30-50%

QUARTERLY OVERVIEW

DKK million	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Consolidated income statement</b>					
Revenue	7,603	5,194	4,825	5,159	6,602
Gross profit	5,765	3,853	3,567	3,781	4,963
Earnings before interest, tax, depreciation and amortisation (EBITDA)	3,050	1,965	1,611	1,879	2,711
Operating profit (EBIT)	2,818	1,800	1,450	1,716	2,552
Net financials	11	-71	-63	6	120
Net profit for the period	1,946	1,366	1,095	1,361	2,093
<b>Consolidated balance sheet</b>					
Total assets	17,240	17,551	15,136	15,286	15,085
Invested capital	11,439	12,069	10,262	9,859	9,396
Operating working capital	2,977	4,125	2,901	2,943	2,780
Net interest-bearing debt (NIBD)	4,855	6,123	3,943	2,883	2,448
Equity	6,514	5,896	6,242	7,010	6,794
<b>Consolidated cash flow statement</b>					
Net increase/decrease in cash	356	80	-46	-257	451
Free cash flow	2,919	637	556	1,182	2,849
Cash conversion, %	103.6%	35.4%	38.3%	68.9%	111.6%
<b>Growth ratios</b>					
Revenue growth, %	15%	13%	12%	9%	16%
Gross profit growth, %	16%	11%	9%	7%	18%
EBITDA growth, %	13%	7%	0%	7%	26%
EBIT growth, %	10%	5%	-3%	4%	27%
Net profit growth, %	-7%	-3%	-10%	4%	52%
<b>Margins</b>					
Gross margin, %	75.8%	74.2%	73.9%	73.3%	75.2%
EBITDA margin, %	40.1%	37.8%	33.4%	36.4%	41.1%
EBIT margin, %	37.1%	34.7%	30.1%	33.3%	38.7%
<b>Other ratios</b>					
Effective tax rate, %	31.2%	21.0%	21.1%	21.0%	21.7%
Equity ratio, %	37.8%	33.6%	41.2%	45.9%	45.0%
NIBD to EBITDA <sup>1</sup>	0.6x	0.7x	0.5x	0.4x	0.3x
Return on invested capital (ROIC), % <sup>1</sup>	68.0%	62.3%	72.5%	75.8%	78.8%
<b>Other key figures</b>					
Capital expenditure (CAPEX)	502	380	296	210	249
Capital expenditure, tangible assets (CAPEX)	357	241	209	139	134
Store network, total number of points of sale	7,794	7,707	7,725	7,889	8,131
Store network, total number of concept stores	2,446	2,328	2,266	2,196	2,138
Average number of full-time employees	22,925	21,215	20,065	19,495	18,956

1) Ratios are based on 12 months' rolling EBITDA and EBIT, respectively.

## MANAGEMENT STATEMENT

The Board and the Executive Management have reviewed and approved the interim report of PANDORA A/S for the period 1 January – 31 December 2017.

The interim financial statement, which has not been audited or reviewed by the Company's auditor, has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU, and additional requirements in the Danish Financial Statements Act.

In our opinion, the interim financial statement gives a true and fair view of the PANDORA Group's assets, liabilities and financial position at 31 December 2017, and of the results of the PANDORA Group's operations and cash flow for the period 1 January – 31 December 2017.

Further, in our opinion the Management's review gives a true and fair view of the development in the Group's operations and financial matters, the result of the PANDORA Group for the period and the financial position and describes the significant risks and uncertainties pertaining to the Group.

Copenhagen, 6 February 2018

## EXECUTIVE MANAGEMENT

Anders Colding Friis  
*Chief Executive Officer*

Peter Vekslund  
*Chief Financial Officer*

## BOARD

Peder Tuborgh  
*Chairman*

Christian Frigast  
*Deputy Chairman*

Allan Leighton  
*Deputy Chairman*

Anders Boyer

Andrea Alvey

Birgitta Stymne Göransson

Bjørn Gulden

Per Bank

Ronica Wang

## Disclaimer

Certain statements in this company announcement constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and our anticipated or planned financial and operational performance. The words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “seeks,” “will,” “may,” “might,” “anticipates,” “would,” “could,” “should,” “continues,” “estimate” or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as our future results of operations; our financial condition; our working capital, cash flows and capital expenditures; and our business strategy, plans and objectives for future operations and events, including those relating to our on-going operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities; and

Although we believe that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; our plans or objectives for future operations or products, including our ability to introduce new jewellery and non-jewellery products; our ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the United States, Australia, Germany, the United Kingdom and other markets in which we operate; the protection and strengthening of our intellectual property, including patents and trademarks; the future adequacy of our current warehousing, logistics and information technology operations; changes in Danish, E.U., Thai or other laws and regulation or any interpretation thereof, applicable to our business; increases to our effective tax rate or other harm to our business as a result of governmental review of our transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced in this company announcement.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, our actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected.

We do not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law or the rules of Nasdaq Copenhagen. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this company announcement.