

No. 410

## COMPANY ANNOUNCEMENT

7 November 2017

### INTERIM REPORT THIRD QUARTER 2017

## PANDORA REPORTS 16% REVENUE GROWTH IN LOCAL CURRENCY AND 37.8% EBITDA MARGIN

### FINANCIAL HIGHLIGHTS

- Group revenue in Q3 2017 increased by 13% (16% in local currency) to DKK 5,194 million (Q3 2016: DKK 4,612 million)
  - Revenue from PANDORA owned retail increased 35% (40% in local currency).
    - Like-for-like sales-out growth for PANDORA owned concept stores was 5%
  - Revenue from EMEA increased 15% (17% in local currency) driven mainly by a positive performance in Italy and Germany
  - Revenue from Americas increased 1% (6% in local currency)
    - Like-for-like sales-out growth in the US was 5%
  - Revenue in Asia Pacific increased 26% (32% in local currency) driven by strong sales growth in Australia and China
  - Revenue from Charms increased 9% and revenue from Bracelets increased 13%
  - Full jewellery brand development remains on track with combined revenue from Rings, Earrings and Necklaces & Pendants up 21%, the three categories representing 27% of Group revenue
- Gross margin was 74.2% in Q3 2017 (Q3 2016: 75.1%)
- EBITDA was DKK 1,965 million in Q3 2017 (Q3 2016: DKK 1,842 million), corresponding to an EBITDA margin of 37.8% (Q3 2016: 39.9%). The decrease was mainly due to unfavorable currency fluctuations and higher marketing expenses
- Free cash flow was DKK 637 million in Q3 2017 (Q3 2016: DKK 577 million)
- DKK 1,650 million returned to shareholders in Q3 2017 via quarterly dividend of DKK 9 per share and share buy-back of DKK 652 million
- Related to the Q3 2017 results, PANDORA will pay out a quarterly dividend of DKK 9 per share to shareholders (corresponding to DKK 1 billion)
- Financial guidance for FY 2017 is unchanged, even though full year revenue is expected in the low end of the earlier guided range of DKK 23-24 billion.

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

*"The results in the third quarter were in-line with our expectations, with the underlying development showing positives as well as negatives. Most of our major growth markets - Germany, Italy, Australia and China - continued to show strong performance with double-digit growth rates, whereas the retail environment in the US, combined with currency headwind from the US Dollar, continued to be a challenge."*

## 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

## NEW DATE FOR CAPITAL MARKETS DAY

The Capital Markets Day originally scheduled for 13 December 2017 has been rearranged to 16 January 2018. The location and timing are unchanged.

## FINANCIAL CALENDAR 2017

14 November 2017	PANDORA shares are traded ex-dividend
16 November 2017	Payment of quarterly dividend
23 November 2017	Payment of quarterly dividend for ADR holders

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## 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 7,700 points of sale, including more than 2,300 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, PANDORA employs around 23,800 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 2016, PANDORA's total revenue was DKK 20.3 billion (approximately EUR 2.7 billion).

## FINANCIAL HIGHLIGHTS

DKK million	Q3 2017	Q3 2016	9M 2017	9M 2016	FY 2016
<b>Consolidated income statement</b>					
Revenue	5,194	4,612	15,178	13,679	20,281
Gross profit	3,853	3,464	11,201	10,260	15,223
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,965	1,842	5,455	5,211	7,922
Operating profit (EBIT)	1,800	1,719	4,966	4,852	7,404
Net financials	-71	60	-128	126	246
Net profit for the period	1,366	1,405	3,822	3,932	6,025
<b>Consolidated balance sheet</b>					
Total assets	17,551	15,242	17,551	15,242	15,085
Invested capital	12,069	9,839	12,069	9,839	9,396
Operating working capital	4,125	3,833	4,125	3,833	2,780
Net interest-bearing debt (NIBD) <sup>1</sup>	6,123	4,546	6,123	4,546	2,448
Equity	5,896	5,528	5,896	5,528	6,794
<b>Consolidated cash flow statement</b>					
Net increase/decrease in cash	80	-104	-223	-446	5
Free cash flow	637	577	2,375	2,509	5,358
Cash conversion, %	35.4%	33.6%	47.8%	51.7%	72.4%
<b>Growth ratios</b>					
Revenue growth, %	13%	18%	11%	24%	21%
Gross profit growth, %	11%	20%	9%	28%	25%
EBITDA growth, %	7%	27%	5%	28%	27%
EBIT growth, %	5%	28%	2%	27%	27%
Net profit growth, %	-3%	40%	-3%	71%	64%
<b>Margins</b>					
Gross margin, %	74.2%	75.1%	73.8%	75.0%	75.1%
EBITDA margin, %	37.8%	39.9%	35.9%	38.1%	39.1%
EBIT margin, %	34.7%	37.3%	32.7%	35.5%	36.5%
<b>Other ratios</b>					
Effective tax rate, %	21.0%	21.0%	21.0%	21.0%	21.2%
Equity ratio, %	33.6%	36.3%	33.6%	36.3%	45.0%
NIBD to EBITDA, x <sup>1,2</sup>	0.7	0.6	0.7	0.6	0.3
Return on invested capital (ROIC), % <sup>2</sup>	62.3%	69.7%	62.3%	69.7%	78.8%
<b>Share information</b>					
Dividend per share, DKK <sup>3</sup>	9.0	-	27.0	-	9.0
Total payout ratio (incl. share buyback), %	120.8%	-	115.9%	-	91.5%
Earnings per share, basic, DKK	12.3	12.4	34.3	34.3	52.8
Earnings per share, diluted, DKK	12.3	12.3	34.2	34.1	52.5
Share price at end of period, DKK	621.5	801.0	621.5	801.0	924.0
<b>Other key figures</b>					
Capital expenditure (CAPEX), DKK million	380	324	886	950	1,199
Capital expenditure, tangible assets (CAPEX), DKK million	241	246	589	694	828
Store network, total number of points of sale	7,707	8,921	7,707	8,921	8,131
Store network, total number of concept stores	2,328	2,010	2,328	2,010	2,138
Average number of full-time employees	21,215	18,106	20,231	17,374	17,770

1) For 2016, NIBD and consequently NIBD to EBITDA were recalculated due to reclassifications. Refer to note 4.3 in the Annual Report 2016.

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

3) Including extraordinary quarterly dividends.

**FINANCIAL GUIDANCE**

PANDORA maintains full year 2017 financial guidance, even though PANDORA now expects full year revenue in the low end of the guided range of DKK 23-24 billion, mainly due to currency headwinds and impact from hurricanes. The EBITDA margin is still expected to be approximately 38%.

**FINANCIAL GUIDANCE**

	FY 2017 Guidance	FY 2016 Actual
Revenue, DKK billion	23-24	20.3
EBITDA margin	Approx. 38%	39.1%
CAPEX, % share of revenue	Around 5%	5.9%
Effective tax rate	Approx. 21%	21.2%

**GUIDANCE ASSUMPTIONS**

Assuming current exchange rates, PANDORA expects a headwind from currencies on full year revenue of around 2 percentage points compared to a tailwind of around 1 percentage point as anticipated in connection with the announcement of the Annual Report 2016 in February. This translates into a headwind of around DKK 700 million. Furthermore, the Americas region is expected to be negatively impacted by around DKK 150 million related to the hurricanes in the region during Q3 2017.

For the full year, commodity prices are expected to impact the EBITDA margin negatively by 0-1 percentage point, and foreign exchange rates are expected to have a negative impact of around 1 percentage point.

PANDORA plans to continue to expand its store network and expects to add more than 300 new concept stores in 2017 of which roughly 50% are expected to be opened in EMEA, 25% in Americas and 25% in Asia Pacific. PANDORA expects around half of the concept store openings to be PANDORA owned stores, which is in line with the Company's intention to increase its owned and operated retail footprint. Roughly 25% of the new stores are expected to be opened by franchisees and 25% by 3<sup>rd</sup> party distributors.

Expectations are based on the foreign exchange rates at the time of the announcement.

## **STRATEGIC UPDATE**

### **FULL JEWELLERY PRODUCT OFFERING**

Revenue growth in the quarter was driven by double digit growth rates in all product categories, including Charms and Bracelets, with revenue from Rings, Earrings and Necklaces & Pendants increasing 21%. The three categories represented 27% of Group revenue for the quarter.

Growth across all categories was supported by the launch of the Autumn collection in late August and included 20 additional products that were fast tracked to fulfil an identified opportunity with PANDORA's consumers, reflecting the significance of PANDORA's market-leading manufacturing capabilities and improved production lead times. Furthermore, the new collection included 32 PANDORA Rose products (out of a total of 128), which was very well received and revenue from PANDORA Rose tripled compared to the same quarter last year. Finally, the Disney collection was launched for consumers in early October in EMEA with a positive initial reception.

### **BRANDED RETAIL EXCELLENCE**

In PANDORA's US network promotional activity in Q3 2017 was similar to Q3 2016, with share of sales generated on promotions roughly on par with the same time last year.

Promotions is an integrated part of retail used to target consumers and drive traffic and PANDORA is consistently adapting promotional activities to reflect the current retail environment, including competitor behavior. Going into the fourth quarter, PANDORA has plans to increase the promotional activity across the network to remain competitive and support sales in the run up to Christmas.

In order to control more of the network and brand, while also offering a strong financial rationale, PANDORA is increasing the number of PANDORA owned stores in selected markets, including markets like the US, the UK, Australia and Canada.

At the end of the quarter, PANDORA completed the acquisition of the Company's Spanish distributor adding 50 PANDORA owned concept stores and 13 franchise concept stores. In July, PANDORA finalised the acquisition of the store network in South Africa adding another 16 PANDORA owned concept stores to the network. Furthermore, PANDORA acquired 53 concept stores from franchisees during the quarter taking the total number of acquired concept stores in the first nine months of 2017 to 176.

### **BALANCED GLOBAL BUSINESS**

Revenue in Asia Pacific for the quarter increased 26% compared with Q3 2016 and represented 21% of Group revenue (19% in Q3 2016). Growth in Asia Pacific was mainly driven by PANDORA's expansion in China, where 62 new concept stores were added during the last 12 months. Revenue from China increased by 62% in local currency compared with the same quarter last year. PANDORA has now opened 46 stores in China in 2017 (9 stores in Q3 2017) out of the planned total of around 60 concept stores. In the quarter, PANDORA opened net 10 concept stores in Latin America, including 5 in Mexico, taking the total number of concept stores in the region to 178. Revenue in the Latin America now represents 13% of revenue in Americas.

## FINANCIAL PERFORMANCE

### REVENUE

Total revenue for Q3 2017 was DKK 5,194 million, an increase of 13% (16% in local currency) compared with Q3 2016. Organic growth was 14% in local currency. Moreover, revenue for the quarter included a net impact of DKK 115 million from the acquisition of stores.

### REVENUE PER SALES CHANNEL

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	Share of revenue	9M 2017	9M 2016	Growth in DKK	Growth in local currency	Share of revenue
PANDORA owned retail*	1,970	1,460	35%	40%	38%	5,937	4,343	37%	38%	39%
Wholesale	2,820	2,765	2%	5%	54%	8,032	8,263	-3%	-2%	53%
3 <sup>rd</sup> party distribution	404	387	4%	6%	8%	1,209	1,073	13%	13%	8%
<b>Total revenue</b>	<b>5,194</b>	<b>4,612</b>	<b>13%</b>	<b>16%</b>	<b>100%</b>	<b>15,178</b>	<b>13,679</b>	<b>11%</b>	<b>12%</b>	<b>100%</b>

\*Including revenue from PANDORA eSTOREs

### PANDORA OWNED RETAIL

Revenue from PANDORA owned retail was DKK 1,970 million in Q3 2017, an increase of 35% (40% in local currency) compared with Q3 2016.

### PANDORA OWNED RETAIL REVENUE

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	Share of revenue	9M 2017	9M 2016	Growth in DKK	Growth in local currency	Share of revenue
PANDORA owned concept stores	1,865	1,322	41%	46%	36%	5,590	3,907	43%	45%	37%
- Hereof eSTOREs	264	141	87%	94%	5%	866	518	67%	71%	6%
Other points of sale (retail)	105	138	-24%	-21%	2%	347	436	-20%	-19%	2%
<b>Total PANDORA owned retail revenue</b>	<b>1,970</b>	<b>1,460</b>	<b>35%</b>	<b>40%</b>	<b>38%</b>	<b>5,937</b>	<b>4,343</b>	<b>37%</b>	<b>38%</b>	<b>39%</b>

Revenue from PANDORA owned concept stores (incl. PANDORA eSTOREs) was DKK 1,865 million in Q3 2017 an increase of 41% (46% in local currency) compared with Q3 2016. Local currency growth was driven by:

- Like-for-like sales-out growth of 5%
- Growth from network expansion of 27%
- Growth from acquisition of stores of 14%

Revenue from PANDORA eSTOREs increased 87% (94% in local currency) to DKK 264 million in Q3 2017 corresponding to 5% of total revenue (3% in Q3 2016). The positive development was driven by a strong development in all major markets.

### WHOLESALE

Revenue from PANDORA's wholesale channel was DKK 2,820 million, an increase of 2% (5% in local currency) compared with Q3 2016.

### WHOLESALE REVENUE

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	Share of revenue	9M 2017	9M 2016	Growth in DKK	Growth in local currency	Share of revenue
Franchise concept stores	1,589	1,540	3%	7%	31%	4,559	4,521	1%	2%	30%
Other points of sale (wholesale)	1,231	1,225	0%	3%	24%	3,473	3,742	-7%	-7%	23%
<b>Total wholesale revenue</b>	<b>2,820</b>	<b>2,765</b>	<b>2%</b>	<b>5%</b>	<b>54%</b>	<b>8,032</b>	<b>8,263</b>	<b>-3%</b>	<b>-2%</b>	<b>53%</b>

Revenue from franchise concept stores increased 3% (7% in local currency) compared with Q3 2016. The increase was mainly driven by the addition of net 53 new franchise concept stores in the last 12 months, as well as the sell-in of the Disney collection across concept stores in EMEA ahead of the launch in October.

Revenue from other points of sale in the wholesale channel was at the same level as Q3 2016 (3% increase in local currency). The development was driven by a number of store upgrades offset by the closure of multibranded accounts as a part of the optimisation of the global store network.

### *3<sup>RD</sup> PARTY DISTRIBUTORS*

Revenue from 3<sup>rd</sup> party distributors was DKK 404 million, an increase of 4% (6% in local currency) compared with Q3 2016. Growth was driven by a positive development in EMEA and Asia.

### **DISTRIBUTION NETWORK**

PANDORA added net 318 concept stores in the last 12 months bringing the global concept store network to 2,328.

#### **STORE NETWORK**

<b>Number of points of sale</b>	<b>Q3 2017</b>	<b>Q2 2017</b>	<b>Q3 2016</b>	<b>Growth Q3 2017 /Q2 2017</b>	<b>Growth Q3 2017 /Q3 2016</b>
<b>Concept stores</b>	<b>2,328</b>	<b>2,266</b>	<b>2,010</b>	<b>62</b>	<b>318</b>
- hereof PANDORA owned	865	711	563	154	302
- hereof franchise owned	971	981	918	-10	53
- hereof 3rd party distribution	492	574	529	-82	-37
<b>Other points of sale</b>	<b>5,379</b>	<b>5,459</b>	<b>6,911</b>	<b>-80</b>	<b>-1,532</b>

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

In Q3 2017, PANDORA added a net of 154 PANDORA owned concept stores. This includes the acquisition of 53 franchise concept stores as well as 66 distributor concept stores in Spain and South Africa.

During the quarter, 20 new franchise concept stores were opened and 23 distributor concept stores were transferred to franchise stores. This was more than offset by the above mentioned 53 franchise acquisitions, resulting in a decline of 10 franchise concept stores for the quarter.

At the end of Q3 2017, PANDORA had 5,379 other points of sale. During Q3 2017, net 80 other points of sale were closed. In the last 12 months PANDORA closed 1,532 other points of sale, including around 700 in North America to strengthen brand representation.

### **REVENUE PER REGION**

In Q3 2017, 49% of revenue was generated in EMEA (48% in Q3 2016), 29% in Americas (33% in Q3 2016) and 21% in Asia Pacific (19% in Q3 2016).

REVENUE PER REGION

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	Share of revenue	9M 2017	9M 2016	Growth in DKK	Growth in local currency	Share of revenue
EMEA	2,555	2,220	15%	17%	49%	6,820	6,178	10%	13%	45%
Americas	1,527	1,510	1%	6%	29%	4,906	4,947	-1%	-1%	32%
Asia Pacific	1,112	882	26%	32%	21%	3,452	2,554	35%	35%	23%
<b>Total revenue</b>	<b>5,194</b>	<b>4,612</b>	<b>13%</b>	<b>16%</b>	<b>100%</b>	<b>15,178</b>	<b>13,679</b>	<b>11%</b>	<b>12%</b>	<b>100%</b>

Please refer to Note 3 for revenue in PANDORAs 7 largest markets

EMEA

Revenue in EMEA was DKK 2,555 million in Q3 2017, an increase of 15% (17% in local currency) compared with Q3 2016.

Revenue in the UK increased 22% in local currency. The existing physical network developed negatively, partially offset by a good performance in the eSTORE. Growth in the UK was mainly driven by the expansion of the concept store network, sell-in of the Disney collection ahead of the October launch and timing of shipments.

Revenue in Italy (+26% in local currency) and Germany (+26% in local currency) continued to perform well, whereas revenue from France was flat compared to Q3 2016, mainly due to a negative development in the other points of sale network.

Growth in EMEA was supported by the addition of 158 new concept stores in the last 12 months partially offset by the closure of around 750 other points of sale (corresponding to around 20% of other points of sale in the region).

AMERICAS

Revenue in Americas was DKK 1,527 million in Q3 2017, an increase of 1% (6% in local currency) compared with Q3 2016.

Revenue from the US was DKK 1,118 million, an increase of 4% in local currency, with growth mainly driven by network expansion including acquisition of franchise stores. The retail environment in the US remained challenging with most brands in the affordable space being increasingly promotional. Consequently, to support sales-out in the fourth quarter, PANDORA decided to launch the Christmas collection ahead of time (early October) in the US, which supported sell-in in the third quarter. Like-for-like sales-out growth in the US in PANDORA's owned concept stores including the eSTORE was 5%. Growth was driven by a continued strong performance in the eSTORE as the physical network continued to experience negative like-for-like.

Revenue for the quarter in Americas was negatively impacted by roughly DKK 50 million from the hurricanes in the region in August and September. The full year effect is expected to be roughly DKK 150 million.

ASIA PACIFIC

Revenue in Asia Pacific was DKK 1,112 million in Q3 2017, an increase of 26% (32% in local currency) compared with Q3 2016. Revenue growth was driven by a strong performance in Australia (+21% in local currency) and China (+62% in local currency). The results were supported by the addition of 101 new concept stores in the region during the last 12 months, of which 62 were opened in China.



**REVENUE PER PRODUCT CATEGORY**

**REVENUE PER PRODUCT CATEGORY**

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	Share of revenue	9M 2017	9M 2016	Growth in DKK	Growth in local currency	Share of revenue
Charms	2,892	2,661	9%	12%	56%	8,715	8,285	5%	6%	57%
Bracelets	877	777	13%	16%	17%	2,627	2,439	8%	9%	17%
Rings	789	686	15%	19%	15%	2,124	1,762	21%	22%	14%
Earrings	353	280	26%	31%	7%	895	642	39%	41%	6%
Necklaces & Pendants	283	208	36%	39%	5%	817	551	48%	50%	5%
<b>Total revenue</b>	<b>5,194</b>	<b>4,612</b>	<b>13%</b>	<b>16%</b>	<b>100%</b>	<b>15,178</b>	<b>13,679</b>	<b>11%</b>	<b>12%</b>	<b>100%</b>

Growth for the quarter was primarily driven by Rings (+19% in local currency), Earrings (+31% in local currency) and Necklaces & Pendants (+39% in local currency), reflecting PANDORA's continued development towards becoming a full jewellery brand.

Revenue from Charms increased 9% (12% in local currency) compared with Q3 2016, driven by a positive development in the EMEA and the Asia Pacific region.

Revenue from Bracelets increased 13% (16% in local currency) compared with Q3 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 in the last 6 months.

In Q3 2017, products launched within the last 12 months accounted for roughly half of revenue which is on par with Q3 2016.

**COST OF SALES AND GROSS PROFIT**

Gross profit in Q3 2017 was DKK 3,853 million (Q3 2016: DKK 3,464 million) corresponding to a gross margin of 74.2% compared with 75.1% in Q3 2016.

**COST OF SALES AND GROSS PROFIT**

DKK million	Q3 2017	Q3 2016	Growth in DKK	Share of revenue Q3 2017	Share of revenue Q3 2016	9M 2017	9M 2016	Growth in DKK	Share of revenue 9M 2017	Share of revenue 9M 2016
Revenue	5,194	4,612	13%	100.0%	100.0%	15,178	13,679	11%	100.0%	100.0%
Cost of sales	-1,341	-1,148	17%	25.8%	24.9%	-3,977	-3,419	16%	26.2%	25.0%
<b>Gross Profit</b>	<b>3,853</b>	<b>3,464</b>	<b>11%</b>	<b>74.2%</b>	<b>75.1%</b>	<b>11,201</b>	<b>10,260</b>	<b>9%</b>	<b>73.8%</b>	<b>75.0%</b>

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

The change in gross margin compared with Q3 2016 was mainly driven by:

- Increasing share of revenue from PANDORA owned retail (approximately +1.5 percentage point)
- Change in metal mix (approximately -1.5 percentage point) mainly related to an increasing share of revenue from the PANDORA rose collection
- Unfavourable currency rates (approximately -1 percentage point)

Excluding hedging and the time lag effect from the inventory, the underlying gross margin would have been approximately 74% based on the average gold (USD 1,278/oz) and silver (USD 16.84/oz) market prices in Q3 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 2,053 million, equivalent to an OPEX ratio of 39.5% (37.8% in Q3 2016).

### OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION

DKK million	Q3 2017	Q3 2016	Growth	Share of revenue Q3 2017	Share of revenue Q3 2016	9M 2017	9M 2016	Growth	Share of revenue 9M 2017	Share of revenue 9M 2016
Sales and distribution expenses	-1,077	-934	15%	20.7%	20.3%	-3,218	-2,826	14%	21.2%	20.7%
Marketing expenses	-470	-360	31%	9.0%	7.8%	-1,397	-1,111	26%	9.2%	8.1%
Administrative expenses	-506	-451	12%	9.7%	9.8%	-1,620	-1,471	10%	10.7%	10.8%
<b>Total operating expenses</b>	<b>-2,053</b>	<b>-1,745</b>	<b>18%</b>	<b>39.5%</b>	<b>37.8%</b>	<b>-6,235</b>	<b>-5,408</b>	<b>15%</b>	<b>41.1%</b>	<b>39.5%</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. However, this was offset by the positive impact on the gross margin from more PANDORA owned retail revenue.

Marketing expenses increased to 9.0% of revenue (from 7.8% in Q3 2016), mainly as a result of a decision to phase brand building activities more evenly over the year. Administrative expenses as a percentage of revenue was 9.7% of revenue and roughly unchanged compared to last year.

## EBITDA

EBITDA was DKK 1,965 million in Q3 2017, corresponding to an EBITDA margin of 37.8% (39.9% in Q3 2016). The EBITDA margin for the quarter was negatively impacted by around 1 percentage point due to unfavourable currency fluctuations.

### GROUP EBITDA

DKK million	Q3 2017	Q3 2016	Growth	EBITDA margin Q3 2017	EBITDA margin Q3 2016	9M 2017	9M 2016	Growth	EBITDA margin 9M 2017	EBITDA margin 9M 2016
EMEA	1,067	974	10%	41.8%	43.9%	2,570	2,426	6%	37.7%	39.3%
Americas	474	539	-12%	31.0%	35.7%	1,541	1,889	-18%	31.4%	38.2%
Asia Pacific	424	329	29%	38.1%	37.3%	1,344	896	50%	38.9%	35.1%
<b>Total EBITDA</b>	<b>1,965</b>	<b>1,842</b>	<b>7%</b>	<b>37.8%</b>	<b>39.9%</b>	<b>5,455</b>	<b>5,211</b>	<b>5%</b>	<b>35.9%</b>	<b>38.1%</b>

The EBITDA margin in EMEA decreased 2.1 percentage points compared with Q3 2016 mainly driven by the decrease in the gross margin as well as higher marketing expenses.

Americas' EBITDA margin decreased by 4.7 percentage points compared with Q3 2016. This was driven by a decline in the gross margin, 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 point) as well as higher marketing expenses. Additionally, expansion in Latin America impacted the EBITDA margin negatively by around 1 percentage points.

The EBITDA margin in Asia Pacific increased by 0.8 percentage points to 38.1% driven by improved leverage on costs in China and Australia.

## EBIT

EBIT for Q3 2017 was DKK 1,800 million, an increase of 5% compared with Q3 2016, resulting

in an EBIT margin of 34.7% for Q3 2017 (37.3% in Q3 2016).

#### NET FINANCIALS

In Q3 2017, net financials amounted to a loss of DKK 71 million (gain of DKK 60 million in Q3 2016). The development was primarily related to unrealised exchange rate losses.

#### INCOME TAX EXPENSES

Income tax expenses were DKK 363 million in Q3 2017. The effective tax rate in Q3 2017 was 21% (21% in Q3 2016).

#### NET PROFIT

Net profit in Q3 2017 was DKK 1,366 million (DKK 1,405 million in Q3 2016).

#### BALANCE SHEET AND CASH FLOW

In Q3 2017, PANDORA increased the free cash flow to DKK 637 million (DKK 577 million in Q3 2016).

Operating working capital (defined as inventory and trade receivables less trade payables) at the end of Q3 2017 improved to 18.9% of the last twelve months' revenue (19.8% in Q3 2016).

At the end of Q3 2017, inventory decreased to 14.8% of the last twelve months' revenue (16.4% in Q3 2016), mainly due to optimisation of inventories. Trade receivables at the end of Q3 2017 corresponded to 10.4% of the last twelve months' revenue, on par with Q3 2016 (10.2% in Q3 2016), while days sales outstanding (DSO) was 63 days (56 days in Q3 2016). The increase compared to Q3 2016 was mainly due to the sell-in of the Disney collection in EMEA ahead of launch in October as well as higher receivables related to the UK and Italy, due to extended credit terms ahead of Christmas. Finally, receivables were impacted by the acquisition of the Company's Spanish distributor, which was finalised in the end of September 2017.

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

Share of preceding 12 months' revenue	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Inventory	14.8%	14.3%	14.0%	13.5%	16.4%
Trade receivables	10.4%	5.8%	7.2%	8.2%	10.2%
Trade payables	-6.3%	-6.4%	-7.1%	-8.0%	-6.8%
<b>Total</b>	<b>18.9%</b>	<b>13.7%</b>	<b>14.2%</b>	<b>13.7%</b>	<b>19.8%</b>

At the end of Q3 2017, sales return and warranty provisions corresponded to around 4% of 12 months' rolling revenue, compared with 4% for Q2 2017 and 6% for Q3 2016. The decrease in provisions compared to Q3 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 sales returns in the US.

CAPEX was DKK 380 million in Q3 2017 (DKK 324 million in Q3 2016). The CAPEX investments were mainly related to IT, opening of PANDORA owned stores and the crafting facilities in Thailand. In Q3 2017, CAPEX represented 7% of revenue (7% in Q3 2016).

Net interest-bearing debt (NIBD) at the end of Q3 2017 was DKK 6,123 million (DKK 4,546 million in Q3 2016) corresponding to a NIBD to EBITDA ratio of 0.7x of the last twelve months' rolling EBITDA (0.6x in Q3 2016).

**OTHER IMPORTANT EVENTS IN Q3 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 Q3 2017, a total of 1,003,359 shares were bought back, corresponding to a transaction value of DKK 652 million. During the current share buyback programme, a total of 2,069,886 shares were bought back in the first nine months of 2017, corresponding to a transaction value of DKK 1,423 million. As of 30 September 2017, PANDORA held a total of 2,394,926 treasury shares, corresponding to 2.1% of the share capital.

**ACQUISITION OF SPANISH DISTRIBUTOR**

On 28 September 2017, PANDORA acquired City Time, which owned the distribution rights to PANDORA jewellery in Spain, Gibraltar and Andorra.

PANDORA pays the owners of City Time a total amount of around EUR 106 million (approximately DKK 790 million) for 100% of the share capital in City Time. With the acquisition, PANDORA will add to its retail chain 50 PANDORA owned concept stores located in Spain and take over distribution to 13 franchisee concept stores and around 500 other points of sales in Spain, Gibraltar and Andorra.

## **DEVELOPMENT IN 9M 2017**

### **REVENUE**

Total revenue increased by 11% to DKK 15,178 million in 9M 2017 compared with 9M 2016. Excluding foreign exchange rate movements, the underlying revenue growth was 12% in local currency.

The geographical distribution of revenue in 9M 2017 was 45% for EMEA (45% in 9M 2016), 32% for Americas (36% in 9M 2016) and 23% for Asia Pacific (19% in 9M 2016).

### **COSTS**

Gross profit was DKK 11,201 million in 9M 2017 (DKK 10,260 million in 9M 2016) resulting in a gross margin of 73.8% in 9M 2017 (75.0% in 9M 2016).

Sales, distribution and marketing expenses increased to DKK 4,615 million in 9M 2017 (DKK 3,937 million in 9M 2016) corresponding to 30.4% of revenue in 9M 2017 (28.8% in 9M 2016). Administrative expenses amounted to DKK 1,620 million in 9M 2017 (DKK 1,471 million in 9M 2016), representing 10.7% of revenue in 9M 2017 (10.8% in 9M 2016).

### **EBITDA**

EBITDA for 9M 2017 increased by 5% to DKK 5,455 million resulting in an EBITDA margin of 35.9% in 9M 2017 versus 38.1% in 9M 2016.

Regional EBITDA margins for 9M 2017 were 37.7% in EMEA (39.3% in 9M 2016), 31.4% in Americas (38.2% in 9M 2016) and 38.9% in Asia Pacific (35.1% in 9M 2016).

### **EBIT**

EBIT for 9M 2017 was DKK 4,966 million – an increase of 2% compared with 9M 2016 resulting in an EBIT margin of 32.7% in 9M 2017 versus 35.5% in 9M 2016.

### **NET FINANCIALS**

Net financials amounted to a loss of DKK 128 million in 9M 2017 versus a gain of DKK 126 million in 9M 2016. The development was primarily related to unrealised exchange rate losses.

### **INCOME TAX EXPENSES**

Income tax expenses were DKK 1,016 million in 9M 2017 compared with DKK 1,046 million in 9M 2016, implying an effective tax rate for the Group of 21.0% for 9M 2017 compared with 21.0% in 9M 2016.

### **NET PROFIT**

Net profit in 9M 2017 was DKK 3,822 million compared with DKK 3,932 million in 9M 2016.

## FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

DKK million	Notes	Q3 2017	Q3 2016	9M 2017	9M 2016	FY 2016
Revenue	3	5,194	4,612	15,178	13,679	20,281
Cost of sales		-1,341	-1,148	-3,977	-3,419	-5,058
<b>Gross profit</b>		<b>3,853</b>	<b>3,464</b>	<b>11,201</b>	<b>10,260</b>	<b>15,223</b>
Sales, distribution and marketing expenses		-1,547	-1,294	-4,615	-3,937	-5,838
Administrative expenses		-506	-451	-1,620	-1,471	-1,981
<b>Operating profit</b>		<b>1,800</b>	<b>1,719</b>	<b>4,966</b>	<b>4,852</b>	<b>7,404</b>
Finance income		17	87	85	182	328
Finance costs		-88	-27	-213	-56	-82
<b>Profit before tax</b>		<b>1,729</b>	<b>1,779</b>	<b>4,838</b>	<b>4,978</b>	<b>7,650</b>
Income tax expense		-363	-374	-1,016	-1,046	-1,625
<b>Net profit for the period</b>		<b>1,366</b>	<b>1,405</b>	<b>3,822</b>	<b>3,932</b>	<b>6,025</b>
Earnings per share, basic, DKK		12.3	12.4	34.3	34.3	52.8
Earnings per share, diluted, DKK		12.3	12.3	34.2	34.1	52.5

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Q3 2017	Q3 2016	9M 2017	9M 2016	FY 2016
<b>Net profit for the period</b>	<b>1,366</b>	<b>1,405</b>	<b>3,822</b>	<b>3,932</b>	<b>6,025</b>
<b>Other comprehensive income:</b>					
<b>Items that might be reclassified to profit/loss for the period</b>					
Exchange rate adjustments of investments in subsidiaries	-97	-	-388	-46	121
Fair value adjustment of hedging instruments	29	-67	113	452	47
Fair value adjustment of obligation to acquire non-controlling interests	-	-14	-	-14	-
Tax on other comprehensive income, hedging instruments, income/expense	-6	15	-26	-100	-10
<b>Other comprehensive income, net of tax</b>	<b>-74</b>	<b>-66</b>	<b>-301</b>	<b>292</b>	<b>158</b>
<b>Total comprehensive income for the period</b>	<b>1,292</b>	<b>1,339</b>	<b>3,521</b>	<b>4,224</b>	<b>6,183</b>

CONSOLIDATED BALANCE SHEET

DKK million	2017 30 September	2016 30 September	2016 Full year
<b>ASSETS</b>			
Goodwill	3,442	2,518	2,571
Brand	1,057	1,058	1,057
Distribution network	161	192	184
Distribution rights	1,182	1,061	1,061
Other intangible assets	1,035	829	893
<b>Total intangible assets</b>	<b>6,877</b>	<b>5,658</b>	<b>5,766</b>
Property, plant and equipment	2,089	1,708	1,767
Deferred tax assets	949	872	946
Other financial assets	288	240	250
<b>Total non-current assets</b>	<b>10,203</b>	<b>8,478</b>	<b>8,729</b>
Inventories	3,232	3,166	2,729
Derivative financial instruments	278	374	161
Trade receivables	2,268	1,976	1,673
Income tax receivable	111	27	142
Other receivables	817	783	754
Cash	642	438	897
<b>Total current assets</b>	<b>7,348</b>	<b>6,764</b>	<b>6,356</b>
<b>Total assets</b>	<b>17,551</b>	<b>15,242</b>	<b>15,085</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	113	117	117
Treasury shares	-1,701	-3,724	-4,334
Reserves	880	1,329	1,181
Dividend proposed <sup>1</sup>	991	-	1,007
Retained earnings	5,613	7,806	8,823
<b>Total equity</b>	<b>5,896</b>	<b>5,528</b>	<b>6,794</b>
Provisions	134	104	101
Loans and borrowings	6,408	4,650	3,008
Deferred tax liabilities	417	487	393
Other payables	383	286	393
<b>Total non-current liabilities</b>	<b>7,342</b>	<b>5,527</b>	<b>3,895</b>
Provisions	733	939	1,004
Loans and borrowings	42	120	3
Derivative financial instruments	260	68	256
Trade payables	1,375	1,309	1,622
Income tax payable	983	824	547
Other payables	920	927	964
<b>Total current liabilities</b>	<b>4,313</b>	<b>4,187</b>	<b>4,396</b>
<b>Total liabilities</b>	<b>11,655</b>	<b>9,714</b>	<b>8,291</b>
<b>Total equity and liabilities</b>	<b>17,551</b>	<b>15,242</b>	<b>15,085</b>

1) Includes extraordinary quarterly dividends related to Q3 2017.

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>3,822</b>	<b>3,822</b>
Exchange rate adjustments of investments in subsidiaries	-	-	-388	-	-	-	-388
Fair value adjustment of hedging instruments	-	-	-	113	-	-	113
Tax on other comprehensive income	-	-	-	-26	-	-	-26
<b>Other comprehensive income, net of tax</b>	-	-	<b>-388</b>	<b>87</b>	-	-	<b>-301</b>
<b>Total comprehensive income for the period</b>	-	-	<b>-388</b>	<b>87</b>	-	<b>3,822</b>	<b>3,521</b>
Fair value adjustment of obligation to acquire non-controlling interests	-	-	-	-	-	-20	-20
Share-based payments	-	-	-	-	-	50	50
Share-based payments (exercised)	-	217	-	-	-	-215	2
Share-based payments (tax)	-	-	-	-	-	-20	-20
Purchase of treasury shares	-	-1,423	-	-	-	-	-1,423
Reduction of share capital	-4	3,839	-	-	-	-3,835	-
Dividend paid	-	-	-	-	-3,013	5	-3,008
Dividend proposed	-	-	-	-	2,997	-2,997	-
<b>Equity at 30 September</b>	<b>113</b>	<b>-1,701</b>	<b>867</b>	<b>13</b>	<b>991</b>	<b>5,613</b>	<b>5,896</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>3,932</b>	<b>3,932</b>
Exchange rate adjustments of investments in subsidiaries	-	-	-46	-	-	-	-46
Fair value adjustment of hedging instruments	-	-	-	452	-	-	452
Tax on other comprehensive income	-	-	-	-100	-	-	-100
<b>Other comprehensive income, net of tax</b>	-	-	<b>-46</b>	<b>352</b>	-	-	<b>306</b>
<b>Total comprehensive income for the period</b>	-	-	<b>-46</b>	<b>352</b>	-	<b>3,932</b>	<b>4,238</b>
Fair value adjustment of obligation to acquire non-controlling interests	-	-	-	-	-	-14	-14
Share-based payments	-	-	-	-	-	57	57
Share-based payments (exercised)	-	231	-	-	-	-230	1
Share-based payments (tax)	-	-	-	-	-	5	5
Purchase of treasury shares	-	-3,391	-	-	-	-	-3,391
Reduction of share capital	-5	3,588	-	-	-	-3,583	-
Dividend paid	-	-	-	-	-1,511	4	-1,507
<b>Equity at 30 September</b>	<b>117</b>	<b>-3,724</b>	<b>1,088</b>	<b>241</b>	-	<b>7,806</b>	<b>5,528</b>



CONSOLIDATED CASH FLOW STATEMENT

DKK million	Q3 2017	Q3 2016	9M 2017	9M 2016	FY 2016
Profit before tax	1,729	1,779	4,838	4,978	7,650
Finance income	-17	-87	-85	-182	-328
Finance costs	88	27	213	56	82
Depreciation, amortisation and impairment losses	165	123	489	359	518
Share-based payments	16	19	50	56	76
Change in inventories	10	-238	-374	-782	-206
Change in receivables	-954	-644	-743	-935	-327
Change in payables and other liabilities	28	39	-614	-270	327
Other non-cash adjustments	1	-21	36	557	241
Interest etc. received	1	-	2	2	3
Interest etc. paid	-13	-13	-33	-30	-43
Income taxes paid	-65	-72	-598	-440	-1,462
<b>Cash flows from operating activities, net</b>	<b>989</b>	<b>912</b>	<b>3,181</b>	<b>3,369</b>	<b>6,531</b>
Acquisitions of subsidiaries and activities, net of cash acquired	-1,154	-17	-1,593	-209	-210
Purchase of intangible assets	-144	-39	-288	-218	-344
Purchase of property, plant and equipment	-204	-288	-515	-615	-825
Change in other non-current assets	-18	-23	-46	-69	-75
Proceeds from sale of property, plant and equipment	2	2	12	14	31
<b>Cash flows from investing activities, net</b>	<b>-1,518</b>	<b>-365</b>	<b>-2,430</b>	<b>-1,097</b>	<b>-1,423</b>
Dividend paid	-998	-	-3,008	-1,507	-1,507
Purchase of treasury shares	-652	-1,238	-1,421	-3,391	-4,000
Proceeds from loans and borrowings	2,402	751	3,793	3,168	3,777
Repayment of loans and borrowings	-143	-164	-338	-988	-3,373
<b>Cash flows from financing activities, net</b>	<b>609</b>	<b>-651</b>	<b>-974</b>	<b>-2,718</b>	<b>-5,103</b>
<b>Net increase/decrease in cash</b>	<b>80</b>	<b>-104</b>	<b>-223</b>	<b>-446</b>	<b>5</b>
Cash at beginning of period	571	540	897	889	889
Exchange gains/losses on cash	-9	2	-32	-5	3
Net increase/decrease in cash	80	-104	-223	-446	5
<b>Cash at end of period<sup>1</sup></b>	<b>642</b>	<b>438</b>	<b>642</b>	<b>438</b>	<b>897</b>
Cash flows from operating activities, net	989	912	3,181	3,369	6,531
- Interests etc. received	-1	-	-2	-2	-3
- Interests etc. paid	13	13	33	30	43
Cash flows from investing activities	-1,518	-365	-2,430	-1,097	-1,423
- Acquisitions of subsidiaries and activities, net of cash acquired	1,154	17	1,593	209	210
<b>Free cash flow</b>	<b>637</b>	<b>577</b>	<b>2,375</b>	<b>2,509</b>	<b>5,358</b>
<b>Unutilised credit facilities</b>	<b>1,825</b>	<b>2,464</b>	<b>1,825</b>	<b>2,464</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 2016 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 beginning on 1 January 2017. The implementation of these new or amended standards had no material impact on the financial statements for the period.

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 5.6 in the consolidated financial statement in the Annual Report 2016. In addition to the definitions disclosed in the consolidated financial statement in the Annual Report 2016 note 5.6, organic growth and DSO (days sales outstanding) are also used in the interim financial report. These are defined below.

Organic growth is defined as: Growth in external revenue in local currency relative to the same period last year adjusted for the acquisition/divestment of distributors and franchisee stores (the effect of converting wholesale to retail revenue and vice versa).

DSO is defined as: Last 3 months of wholesale and 3rd party distribution revenue relative to trade receivables.

### 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 2016. Refer to descriptions in the individual notes to the consolidated financial statement in the Annual Report 2016.

### 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>Q3 2017</b>				
External revenue	2,555	1,527	1,112	5,194
Segment profit (EBITDA)	1,067	474	424	1,965
<i>Segment profit margin (EBITDA margin)</i>	41.8%	31.0%	38.1%	37.8%
Depreciation, amortisation and impairment losses				-165
<b>Consolidated operating profit (EBIT)</b>				<b>1,800</b>
<b>Q3 2016</b>				
External revenue	2,220	1,510	882	4,612
Segment profit (EBITDA)	974	539	329	1,842
<i>Segment profit margin (EBITDA margin)</i>	43.9%	35.7%	37.3%	39.9%
Depreciation, amortisation and impairment losses				-123
<b>Consolidated operating profit (EBIT)</b>				<b>1,719</b>
<b>9M 2017</b>				
External revenue	6,820	4,906	3,452	15,178
Segment profit (EBITDA)	2,570	1,541	1,344	5,455
<i>Segment profit margin (EBITDA margin)</i>	37.7%	31.4%	38.9%	35.9%
Depreciation, amortisation and impairment losses				-489
<b>Consolidated operating profit (EBIT)</b>				<b>4,966</b>
<b>9M 2016</b>				
External revenue	6,178	4,947	2,554	13,679
Segment profit (EBITDA)	2,426	1,889	896	5,211
<i>Segment profit margin (EBITDA margin)</i>	39.3%	38.2%	35.1%	38.1%
Depreciation, amortisation and impairment losses				-359
<b>Consolidated operating profit (EBIT)</b>				<b>4,852</b>

## REVENUE DEVELOPMENT IN PANDORA'S 7 LARGEST MARKETS (BASED ON FY 2016 REVENUE)

DKK million	Q3 2017	Q3 2016	Growth in DKK	Growth in local currency	9M 2017	9M 2016	Growth in DKK	Growth in local currency
UK	708	610	16%	22%	1,708	1,658	3%	12%
Italy	716	570	26%	26%	1,777	1,436	24%	24%
France	207	206	0%	0%	737	680	8%	9%
Germany	236	188	26%	26%	658	601	9%	10%
US	1,118	1,141	-2%	4%	3,665	3,780	-3%	-3%
Australia	329	275	20%	21%	1,057	876	21%	17%
China	414	269	54%	62%	1,203	656	83%	89%

### 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 2016.

**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). Refer to note 4.5 to the consolidated financial statement in the Annual Report 2016.

**NOTE 7 – Business combinations**

**Acquisitions in 2017**

**City Time S.L.**

On 28 September PANDORA acquired 100% of the share capital in City Time in Spain. The preliminary purchase price was calculated at DKK 790 million (EUR 106 million). The final purchase price will be agreed between the parties once the working capital levels have been established, expected within Q4. DKK 708 million was paid in cash while the remaining 82 million is will be paid when the final purchase price has been agreed. With the 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.

Due to the timing between take over dates and the announcement of the interim financial statements it has not been possible to finalise the purchase price allocation for the acquisition.

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

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

Acquisition costs was DKK 3 million recognised in operating expenses in the income statement.

Goodwill, preliminarily stated at DKK 468 million, mainly consists of know-how, future growth expectations and the effect of converting the acquired business from wholesale to retail. None of the goodwill acquired is deductible for tax purposes.

Due to the acquisition date, contribution to Group revenue and net earnings for the period 28 September – 30 September 2017 was insignificant.

**Other acquisitions in the period 1 January – 30 September 2017**

On 30 June 2017, PANDORA acquired the distribution in Belgium when the previous distribution agreement 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 expiration of the distribution contract on 30 June 2017. The acquisition comprised inventory and non-current assets relating to adding 16 concept stores and 18 shop-in-shops to PANDORA's retail business.

PANDORA further acquired 97 stores in the period 1 January – 30 September 2017 (50 concept stores in US, 13 in Poland, 9 in UK, 8 in Canada, 6 in New Zealand, 6 in Italy, 3 in Australia and 2 in South Africa) in 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 911 million. Based on the purchase price allocations goodwill was DKK 536 million. Goodwill from the acquisitions is mainly related to the synergies of converting the stores from wholesale to retail. Cost relating to the acquisition of the distributions in Belgium, South Africa and the stores was DKK 3 million recognised in operating expenses in the income statement.

Of the goodwill acquired DKK 406 million is deductible for income tax purposes.

Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 30 September 2017 was DKK 351 million and DKK 49 million respectively.

Had all acquisitions taken place on 1 January 2017 Group revenue and net earnings for the period 1 January – 30 September 2017 would have been approx. DKK 15,730 million and DKK 3,900 million respectively.

## Acquisitions

DKK million	Spain	Other	Total 2017	Total 2016
Distribution rights	131	-	131	-
Other intangible assets	4	13	17	-
Property, plant and equipment	45	92	137	6
Other non-current receivables	5	-	5	9
Receivables	105	2	107	4
Inventories	131	296	427	61
Cash	10	-	10	1
<b>Assets acquired</b>	<b>431</b>	<b>403</b>	<b>834</b>	<b>81</b>
Non-current liabilities	-	13	13	2
Payables	91	4	95	6
Other current liabilities	18	11	29	-
<b>Liabilities assumed</b>	<b>109</b>	<b>28</b>	<b>137</b>	<b>8</b>
<b>Total identifiable net assets acquired</b>	<b>322</b>	<b>375</b>	<b>697</b>	<b>73</b>
Goodwill arising on the acquisitions	468	536	1,004	115
<b>Purchase consideration</b>	<b>790</b>	<b>911</b>	<b>1,701</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>	-82	-18	-100	-
Cash acquired	-10	-	-10	-1
<b>Net cash flows on acquisition for the period</b>	<b>698</b>	<b>892</b>	<b>1,590</b>	<b>209</b>
Prepayments, acquisitions <sup>1</sup>	-	3	3	1
<b>Net cash flows on acquisitions</b>	<b>698</b>	<b>895</b>	<b>1,593</b>	<b>210</b>

1) Prepayment in 2017, DKK 3 million, relates to stores acquired in Australia in October 2017. 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 the acquisitions in Spain in September and Italy in September 2017 and is expected to be paid in Q4 2017, DKK 100 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 has been 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 is deductible for income tax purposes.

On 6 July 2016, PANDORA acquired four concept stores in London, UK, in a business combination. The purchase amount was DKK 21 million. Assets acquired mainly consist 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 is 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 17 stores after the reporting period (14 concept stores in UK and 3 in Australia). The total purchase price was DKK 128 million. Assets acquired are mainly non-current assets relating to the stores and inventory. Due to the timing between take over dates and the announcement of the interim 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 83 million.

**NOTE 8 – Goodwill**

DKK million	30 September 2017	30 September 2016	31 December 2016
Cost at 1 January	2,571	2,424	2,424
Acquisition of subsidiaries and activities in the period	1,004	115	115
Exchange rate adjustments	-133	-21	32
<b>Cost at the end of the period</b>	<b>3,442</b>	<b>2,518</b>	<b>2,571</b>

Impairment testing of goodwill is performed in Q4. As of 30 September 2017 there are no indications of impairment.

**NOTE 9 – Contingent liabilities**

Refer to note 5.2 to the consolidated financial statements in the Annual Report 2016. Compared with Q2 2017, leasing commitments increased by DKK 451 million in Q3 2017 to DKK 3,377 million at the end of Q3 2017.

**NOTE 10 – Related parties**

*Related parties with significant interests*

Other related parties of PANDORA with significant influence include the Board of Directors and the Executive Board 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 of Directors or the Executive Board, except for compensation and benefits received because of their membership of the Board of Directors, employment with PANDORA or shareholdings in PANDORA.

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

	Q3 2017	Q2 2017	Q3 2016	Growth Q3 2017 / Q2 2017	Growth Q3 2017 /Q3 2016
Other points of sale (retail)	130	99	112	31	18
Other points of sale (wholesale)	4,593	4,115	5,334	478	-741
Other points of sale (3 <sup>rd</sup> party)	656	1,245	1,465	-589	-809
<b>Other points of sale, total</b>	<b>5,379</b>	<b>5,459</b>	<b>6,911</b>	<b>-80</b>	<b>-1,532</b>

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

	<i>Total concept stores</i>					<i>O&amp;O concept stores</i>		
	Number of concept stores	Number of concept stores	Number of concept stores	Growth Q3 2017 /Q2 2017	Growth Q3 2017 /Q3 2016	Number of O&O stores	Growth O&O stores Q3 2017 /Q2 2017	Growth O&O stores Q3 2017 /Q3 2016
	Q3 2017	Q2 2017	Q3 2016			Q3 2017	/Q2 2017	/Q3 2016
UK	233	230	217	3	16	23	1	10
Russia	206	209	205	-3	1	-	-	-
Germany	153	154	157	-1	-4	140	-1	-4
Italy	98	88	66	10	32	53	14	31
France	80	76	60	4	20	30	3	7
Spain	63	62	50	1	13	50	50	50
Poland	45	46	41	-1	4	34	14	16
Ireland	30	30	27	-	3	-	-	-
South Africa	29	36	30	-7	-1	19	19	19
Belgium	25	25	24	-	1	13	-	13
Ukraine	23	23	22	-	1	-	-	-
Portugal	23	23	20	-	3	-	-	-
Netherlands	23	22	21	1	2	23	1	2
United Arab Emirates	20	19	19	1	1	20	1	1
Czech Republic	19	17	14	2	5	10	-	-
Israel	17	17	14	-	3	-	-	-
Romania	16	15	13	1	3	10	1	1
Turkey	15	15	13	-	2	15	-	2
Denmark	14	14	11	-	3	14	-	3
Austria	14	13	12	1	2	8	1	3
Greece	13	13	13	-	-	-	-	-
Rest of EMEA	135	121	87	14	48	23	-	5
<b>EMEA</b>	<b>1,294</b>	<b>1,268</b>	<b>1,136</b>	<b>26</b>	<b>158</b>	<b>485</b>	<b>104</b>	<b>159</b>
US	363	359	340	4	23	99	29	53
Brazil	95	92	82	3	13	56	3	10
Canada	77	78	73	-1	4	10	4	8
Mexico	25	20	17	5	8	2	2	2
Caribbean	24	24	21	-	3	-	-	-
Rest of Americas	34	32	26	2	8	-	-	-
<b>Americas</b>	<b>618</b>	<b>605</b>	<b>559</b>	<b>13</b>	<b>59</b>	<b>167</b>	<b>38</b>	<b>73</b>
China	143	134	81	9	62	139	6	58
Australia	120	115	109	5	11	22	3	5
Hong Kong	29	27	28	2	1	24	1	-1
Malaysia	28	29	25	-1	3	-	-	-
Philippines	22	17	11	5	11	-	-	-
New Zealand	16	15	12	1	4	6	1	6
Singapore	14	14	14	-	-	11	-	-
Thailand	12	11	9	1	3	-	-	-
Rest of Asia Pacific	32	31	26	1	6	11	1	2
<b>Asia Pacific</b>	<b>416</b>	<b>393</b>	<b>315</b>	<b>23</b>	<b>101</b>	<b>213</b>	<b>12</b>	<b>70</b>
<b>All markets</b>	<b>2,328</b>	<b>2,266</b>	<b>2,010</b>	<b>62</b>	<b>318</b>	<b>865</b>	<b>154</b>	<b>302</b>

\*Includes markets with 10 or more concept stores as of end Q3 2017.

**NOTE 13 – Commodity hedging**

It is PANDORA’s policy to hedge approximately 100%, 80%, 60% and 40%, respectively, of expected gold and silver consumption in the following four quarters. However, current inventory means a delayed impact of the hedged prices on cost of sales.

**HEDGED AND REALISED PRICES**

USD / OZ	<i>Realised in Q3 2017</i>	Hedged Q4 2017	Hedged Q1 2018	Hedged Q2 2018	Hedged Q3 2018
Gold price	1,308	1,242	1,276	1,284	1,317
Silver price	18.52	17.36	17.81	17.39	17.31
Hedging share, %	<i>Realised</i>	90-100%	70-90%	50-70%	30-50%

**NOTE 14 – Dividend and share buyback**

**DIVIDEND**

From 2017 and onwards, PANDORA plans to pay out quarterly dividends. In August 2017, PANDORA paid out quarterly dividend of DKK 9 per share in relation to Q2 2017, corresponding to DKK 998 million in total. PANDORA also plans to pay quarterly dividends of DKK 9 per share in relation to Q3 2017. In total, PANDORA will pay out DKK 36 per share in 2017. Please refer to the Company’s financial calendar for information on payment dates.

**SHARE BUYBACK PROGRAMME FOR 2017**

The Board of Directors of PANDORA has decided to launch a new share buyback programme in 2017 under which PANDORA expects to buy back own shares to a maximum consideration of DKK 1.8 billion. The shares acquired within the programme will be used to reduce PANDORA’s share capital and to meet obligations arising from employee share option programmes. The programme will run in the period from 7 February 2017 to no later than 6 February 2018.



QUARTERLY OVERVIEW

DKK million	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
<b>Consolidated income statement</b>					
Revenue	5,194	4,825	5,159	6,602	4,612
Gross profit	3,853	3,567	3,781	4,963	3,464
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,965	1,611	1,879	2,711	1,842
Operating profit (EBIT)	1,800	1,450	1,716	2,552	1,719
Net financials	-71	-63	6	120	60
Net profit for the period	1,366	1,095	1,361	2,093	1,405
<b>Consolidated balance sheet</b>					
Total assets	17,551	15,136	15,286	15,085	15,242
Invested capital	12,069	10,262	9,859	9,396	9,839
Operating working capital	4,125	2,901	2,943	2,780	3,833
Net interest-bearing debt (NIBD) <sup>1</sup>	6,123	3,943	2,883	2,448	4,546
Equity	5,896	6,242	7,010	6,794	5,528
<b>Consolidated cash flow statement</b>					
Net increase/decrease in cash	80	-46	-257	451	-104
Free cash flow	637	556	1,182	2,849	577
Cash conversion, %	35.4%	38.3%	68.9%	111.6%	33.6%
<b>Growth ratios</b>					
Revenue growth, %	13%	12%	9%	16%	18%
Gross profit growth, %	11%	9%	7%	18%	20%
EBITDA growth, %	7%	0%	7%	26%	27%
EBIT growth, %	5%	-3%	4%	27%	28%
Net profit growth, %	-3%	-10%	4%	52%	40%
<b>Margins</b>					
Gross margin, %	74.2%	73.9%	73.3%	75.2%	75.1%
EBITDA margin, %	37.8%	33.4%	36.4%	41.1%	39.9%
EBIT margin, %	34.7%	30.1%	33.3%	38.7%	37.3%
<b>Other ratios</b>					
Effective tax rate, %	21.0%	21.1%	21.0%	21.7%	21.0%
Equity ratio, %	33.6%	41.2%	45.9%	45.0%	36.3%
NIBD to EBITDA, x <sup>1,2</sup>	0.7	0.5	0.4	0.3	0.6
Return on invested capital (ROIC), % <sup>2</sup>	62.3%	72.5%	75.8%	78.8%	69.7%
<b>Other key figures</b>					
Capital expenditure (CAPEX), DKK million	380	296	210	249	324
Capital expenditure, tangible assets (CAPEX), DKK million	241	209	139	134	246
Store network, total number of points of sale	7,707	7,725	7,889	8,131	8,921
Store network, total number of concept stores	2,328	2,266	2,196	2,138	2,010
Average number of full-time employees	21,215	20,065	19,495	18,956	18,106

1) For 2016, NIBD and consequently NIBD to EBITDA were recalculated due to reclassifications. Refer to Note 4.3 in the Annual Report 2016.

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

## **MANAGEMENT STATEMENT**

The Board of Directors and the Executive Board have reviewed and approved the interim report of PANDORA A/S for the period 1 January – 30 September 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 30 September 2017, and of the results of the PANDORA Group's operations and cash flow for the period 1 January – 30 September 2017.

Further, in our opinion the Management's review on page 1-25 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, 7 November 2017

## **EXECUTIVE BOARD**

Anders Colding Friis  
*Chief Executive Officer*

Peter Vekslund  
*Chief Financial Officer*

## **BOARD OF DIRECTORS**

Peder Tuborgh  
*Chairman*

Christian Frigast  
*Deputy Chairman*

Allan Leighton  
*Deputy Chairman*

Anders Boyer-Søgaard

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.