

No. 339

COMPANY ANNOUNCEMENT

1 November 2016

INTERIM REPORT FOR Q3 2016

PANDORA GROWS REVENUE BY 18% AND INCREASES EBITDA MARGIN TO 39.9%

- Full year 2016 EBITDA margin guidance is changed to around 39% (from more than 38%). Revenue guidance is unchanged
- Group revenue in Q3 2016 was DKK 4,612 million, an increase of 18% (21% increase in local currency), compared with Q3 2015:
 - Americas increased by 6% (6% increase in local currency)
 - EMEA increased by 18% (25% increase in local currency)
 - Asia Pacific increased by 46% (47% increase in local currency)
 - Revenue from concept stores increased by 26% corresponding to 62% of revenue
- Concept store like-for-like sales growth was 4%, driven by positive growth in EMEA and Asia Pacific, and a flat development in Americas (US like-for-like sales growth was 3%)
- The gross margin increased to 75.1% in Q3 2016, compared with 74.0% in Q3 2015
- EBITDA increased by 27% to DKK 1,842 million in Q3 2016, corresponding to an EBITDA margin of 39.9%, compared with 37.2% in Q3 2015
- Net profit for the quarter was DKK 1,405 million, compared with DKK 1,006 million in Q3 2015
- Free cash flow for the quarter increased to DKK 577 million, compared with DKK 263 million in Q3 2015.
- During Q3 2016, PANDORA bought back 1,478,410 own shares at a total value of DKK 1,238 million as part of the ongoing DKK 4.0 billion share buyback programme, corresponding to 1.3% of the total share capital as of end Q3 2016

In connection with the Q3 2016 results Anders Colding Friis, CEO of PANDORA, stated:

“Following a strong first half of 2016, PANDORA continued the positive momentum into Q3, with strong growth in particularly Southern Europe and Asia Pacific. Additionally, the US continued to deliver solid growth supported by positive like-for-like. The increase was driven by double digit growth across all product categories supported by an attractive and relevant product offering. Finally, we improved profitability and increased the EBITDA-margin to 39.9% driven by operational leverage as well as lower realised commodity prices.”

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. 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 32 71 16 59

UK (International): +44(0) 203 427 1912

US: +1 212 444 0412

To participate, please quote confirmation code "PANDORA" when dialling into the conference.

FINANCIAL CALENDAR

7 February 2017	Annual Report 2016
15 March 2017	Annual General Meeting
20 March 2017	Payment of annual dividend
9 May 2017	Interim Report for the first quarter of 2017
8 August 2017	Interim Report for the second quarter of 2017
7 November 2017	Interim Report for the third quarter of 2017

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 approximately 9,000 points of sale, including more than 2,000 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, PANDORA employs more than 18,000 people worldwide of whom approximately 12,000 are located in Gemopolis, Thailand, where the Company manufactures its jewellery. PANDORA is publicly listed on the NASDAQ Copenhagen stock exchange in Denmark. In 2015, PANDORA's total revenue was DKK 16.7 billion (approximately EUR 2.2 billion).

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FINANCIAL HIGHLIGHTS

DKK million	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Consolidated income statement					
Revenue	4,612	3,911	13,679	11,056	16,737
Gross profit	3,464	2,893	10,260	7,988	12,193
Earnings before interest, tax, depreciations and amortisations (EBITDA)	1,842	1,454	5,211	4,070	6,214
Operating profit (EBIT)	1,719	1,339	4,852	3,812	5,814
Net financials	60	-35	126	-385	-469
Profit before tax	1,779	1,304	4,978	3,427	5,345
Net profit for the period	1,405	1,006	3,932	2,299	3,674
Consolidated balance sheet					
Total assets	15,242	12,919	15,242	12,919	13,311
Invested capital	9,839	7,879	9,839	7,879	8,255
Net working capital	1,952	1,124	1,952	1,124	925
Net interest-bearing debt (NIBD)	4,332	2,175	4,332	2,175	1,718
Equity	5,528	5,465	5,528	5,465	6,139
Consolidated cash flow statement					
Cash flows from operating activities, net	912	594	3,369	1,665	3,384
Cash flows from investing activities, net	-365	-332	-1,097	-973	-1,296
Free cash flow	577	263	2,509	985	2,449
Cash flows from financing activities, net	-651	-320	-2,718	-1,273	-2,333
Net increase/decrease in cash	-104	-58	-446	-581	-245
Growth ratios					
Revenue growth, %	18%	37%	24%	39%	40%
Gross profit growth, %	20%	45%	28%	43%	45%
EBITDA growth, %	27%	43%	28%	43%	45%
EBIT growth, %	28%	39%	27%	42%	43%
Net profit growth, %	40%	39%	71%	10%	19%
Margins					
Gross margin, %	75.1%	74.0%	75.0%	72.3%	72.9%
EBITDA margin, %	39.9%	37.2%	38.1%	36.8%	37.1%
EBIT margin, %	37.3%	34.2%	35.5%	34.5%	34.7%
Other ratios					
Effective tax rate, %	21.0%	22.9%	21.0%	32.9%	31.3%
Equity ratio, %	36.3%	42.3%	36.3%	42.3%	46.1%
NIBD to EBITDA, x ¹	0.6	0.4	0.6	0.4	0.3
Return on invested capital (ROIC), % ¹	69.7%	65.9%	69.7%	65.9%	70.4%
Capital expenditure (CAPEX) ²	324	384	950	790	1,109
Cash conversion, % ³	33.6%	19.6%	51.7%	25.8%	42.1%
Share information					
Dividend per share, DKK	-	-	-	-	13.00
Total payout ratio (incl. share buyback), % ³	-	-	-	-	135.8%
Earnings per share, basic, DKK	12.4	8.4	34.3	19.2	30.9
Earnings per share, diluted, DKK	12.3	8.4	34.1	19.1	30.7
Share price at end of period, DKK	801.0	779.0	801.0	779.0	872.0
Other key figures					
Average number of employees	18,106	14,662	17,374	13,328	13,971

- 1) Ratios are based on 12 months rolling EBITDA and EBIT, respectively
2) Capital expenditure includes additions to both tangible and intangible assets
3) The definition was changed in Q4 2015 – please refer to the Annual Report 2015

FINANCIAL GUIDANCE

The financial guidance for the full year 2016 for revenue is maintained and PANDORA continues to expect revenue above DKK 20 billion. Assuming current exchange rates, PANDORA expects a full year headwind effect from currencies on revenue of around 4% compared with 2015. This compares to an expected headwind of around 3% anticipated in August 2016 in connection with the announcement of the Q2 2016 report. EBITDA margin guidance is changed to around 39% from previously more than 38%. The revision is primarily based on a better than expected ability to cope with the increasing production complexity, as well as marginally higher than expected operating leverage.

All expectations are based on foreign exchange rates at the day of announcement.

	FY 2016 New guidance	FY 2016 Previous guidance	FY 2015 Actual
Revenue, DKK billion	> 20	> 20	16.7
EBITDA margin	approx. 39%	> 38%	37.1%
CAPEX, DKK million	approx. 1,200	approx. 1,200	1,109
Effective tax rate	approx. 21%	approx. 21%	31.3%

PANDORA plans to continue to expand the store network and now expects to add more than 325 concept stores in 2016, compared to previously expected more than 300. The concept store openings are expected to be distributed with roughly 50% in EMEA, 25% in Americas and 25% Asia Pacific.

IMPORTANT EVENTS IN Q3 2016

SHARE BUYBACK PROGRAMME FOR 2016

In connection with the Annual Report 2015, PANDORA launched a share buyback programme under which PANDORA expects to buy back own shares to a maximum consideration of DKK 4.0 billion. The programme will end no later than 31 December 2016.

As of 30 September 2016, a total of 3,912,603 shares had been bought back, corresponding to a transaction value of DKK 3,391 million. As of 30 September 2016, PANDORA held a total of 4,401,293 treasury shares, corresponding to 3.8% of the share capital.

EVENTS AFTER THE REPORTING PERIOD

In October 2016, PANDORA opened its new production facility in Lamphun close to Chiang Mai in Northern Thailand. The new facility is now being ramped-up, ready to start commercial production at the start of 2017. Furthermore, as part of the already announced production capacity expansion programme in Thailand, which will run until the end of 2019, PANDORA has started the construction of an additional site in Gemopolis named Triple A.

In addition to potentially double the production capacity in Thailand by the end of 2019 compared to 2015, PANDORA also targets to shorten the general lead-time at the production facilities. PANDORA has now reduced the lead-time from 3-8 weeks to 3-6 weeks, with an ambition to reduce it to around 4 weeks on average.

Furthermore, in recognition of PANDORA's high level of investments in Thailand, the Thailand Board of Investment has granted PANDORA 8 years of tax exemptions in Thailand related to the facilities in Lamphun, as well as 8 years related to the new Triple A facility in Gemopolis. Both agreements (BOI) will be initiated from first sale. The BOIs include exemptions from Thai income tax payable by PANDORA Production Co., Ltd. and on dividends from BOI business paid by PANDORA Production Co., Ltd. to its shareholders as well as exemptions from import duties paid on certain machinery and raw materials imported into Thailand.

FINANCIAL REVIEW

REVENUE

Total revenue for Q3 2016 was DKK 4,612 million, an increase of 18% (21% in local currency) compared with Q3 2015. Growth was mainly driven by an increase in volume. As announced in connection with the Q2 2016 results, prices on earrings, necklaces and Murano charms were aligned across regions during the quarter to improve the Group's pricing structure. On average, prices on individual products towards the end-consumer were largely unchanged.

Revenue increased across all three geographical regions. Growth for the quarter was split evenly between organic growth (including all stores and eSTOREs, which have been open for more than 12 months) and expansion of the network (all new stores and eSTOREs opened in the last 12 months) including acquired stores (the net effect of converting distributor revenue to retail revenue from acquired stores in the last 12 months). The overall growth was driven by a positive reception of the Autumn collection, including the PANDORA Rose collection, launched in stores in all of EMEA during Q3 2016, as well as a continued high demand for earlier launched products. Following the PANDORA Rose collection has been launched in Asia Pacific in October. In Q3 2016, around 50% of revenue was generated by products launched within the last 12 months, which is similar to Q3 2015.

Revenue per sales channel – Group*

DKK million	Q3 2016	Q3 2015	Growth	Share of revenue
Concept stores	2,863	2,270	26%	62%
- hereof PANDORA owned	1,322	897	47%	29%
Shop-in-shops	623	505	23%	14%
- hereof PANDORA owned	138	122	13%	3%
Branded	3,486	2,775	26%	76%
Multibranded	739	809	-9%	16%
Total direct	4,225	3,584	18%	92%
3 rd party distributors	387	327	18%	8%
Total revenue	4,612	3,911	18%	100%

*Regional revenue per sales channel available in note 11

Revenue from concept stores (excluding revenue from 3rd party concept stores) increased 26% compared with Q3 2015, driven by all three regions, and represented 62% of revenue compared with 58% in Q3 2015. The increase was driven by continued growth in existing stores as well as the addition of net 272 new concept stores in the last 12 months, excluding new 3rd party concept stores. Based on data from concept stores (excluding eSTOREs), which have been operating for more than 12 months, like-for-like sales growth for the Group was 4%, driven by growth in EMEA and Asia Pacific. Including the PANDORA eSTOREs, like-for-like sales growth was 5%.

Concept stores* like-for-like sales growth

	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014	Q3 2015 vs. Q3 2014
Group	4%	7%	9%	13%	13%

* Concept stores (excluding eSTOREs) that have been operating for more than 12 months

Revenue from PANDORA owned stores, including all PANDORA eSTOREs, increased by 43% to DKK 1,460 million and corresponded to 32% of total revenue compared with 26% in Q3 2015. The growth in retail revenue was driven by a continuous relevant product offering and strong in-store execution with cross selling into all jewellery categories as well as continued success of the PANDORA eSTORE. In Q3 2016, revenue from PANDORA eSTOREs increased to 3.1% of Group revenue (2.5% in Q3 2015)¹. At the end of Q3 2016 PANDORA eSTOREs were available in 15 countries compared with 10 at the end of Q3 2015. Furthermore, PANDORA has added net 120 PANDORA owned stores in the last 12 months, including net 20 concept stores and 5 shop-in-shops, converted from distributor stores, to a total of 563 concept stores and 112 shop-in-shops owned by PANDORA. For Q3 2016, the net effect of converting distributor revenue to retail revenue was approximately DKK 60 million of which approximately DKK 45 million was related to Singapore and Macau. The corresponding effect for Q3 2015 was approximately DKK 150 million.

Revenue from multibranded stores was DKK 739 million and decreased 9% compared with Q3 2015, due to the closure of net 1,330 multibranded stores in the last 12 months.

Revenue from 3rd party distributors was DKK 387 million, corresponding to an increase of 18% compared with Q3 2015. The increase was related to a positive development in a number of 3rd party distribution markets.

At the end of Q3 2016, sales return and warranty provisions corresponded to approximately 6% of 12 months' rolling revenue value, compared with 6% for both Q2 2016 and Q3 2015, respectively.

Store network, number of points of sale – Group*

	Number of PoS Q3 2016	Number of PoS Q2 2016	Number of PoS Q3 2015	Delta Q3 2016 and Q2 2016	Delta Q3 2016 and Q3 2015
Concept stores	2,010	1,920	1,666	90	344
- hereof PANDORA owned	563	525	440	38	123
- hereof 3 rd party distributors	529	511	457	18	72
Shop-in-shops	1,987	1,827	1,613	160	374
- hereof PANDORA owned	112	118	115	-6	-3
- hereof 3 rd party distributors	433	427	380	6	53
Multibranded	4,924	5,172	6,254	-248	-1,330
- hereof 3 rd party distributors	1,032	1,071	1,244	-39	-212
Total points of sale	8,921	8,919	9,533	2	-612

*Regional store network development available in note 11

In the last 12 months PANDORA has added net 344 concept stores to the global store network, including a net total of 123 new PANDORA owned concept stores. Please refer to note 10 for a detailed overview of concept stores per country.

¹ PANDORA eSTORE revenue as share of group revenue: 1.9% in Q1 2015; 2.6% in Q2 2015; 2.5% in Q3 2015; 6.6% in Q4 2015; 3.9% in Q1 2016; 4.4% in Q2 2016; 3.1% in Q3 2016

In Q3 2016, PANDORA opened net 160 new shop-in-shops of which 110 stores were related to a collaboration with Jared in the US, which is in the process of upgrading around 220 multibranded locations to shop-in-shops. At the end of Q3 2016, Jared had upgraded 208 stores in total.

REVENUE BREAKDOWN BY GEOGRAPHY

In Q3 2016, 33% of revenue was generated in Americas (37% in Q3 2015), 48% in EMEA (48% in Q3 2015) and 19% in Asia Pacific (15% in Q3 2015).

Revenue per region

DKK million	Q3 2016	Q3 2015	Growth	Growth in local currency
Americas	1,510	1,429	6%	6%
EMEA	2,220	1,879	18%	25%
Asia Pacific	882	603	46%	47%
Total	4,612	3,911	18%	21%

AMERICAS

Revenue for the third quarter in Americas was DKK 1,510 million, an increase of 6% (6% in local currency) compared with Q3 2015. The increase was driven by a continued positive development in the US, partially offset by a negative development in Latin America, including the Caribbean Islands.

Revenue in the US was DKK 1,141 million, an increase of 8% compared with Q3 2015 (9% in local currency). The growth was driven by the existing store network, including the continued success of the US eSTORE, as well as the addition of 31 new concept stores in the last 12 months. In the same period, PANDORA has closed a net of 404 multibranded points of sale in the US, including the 208 upgraded Jared stores, which have been upgraded to shop-in-shops. Shop-in-shop revenue in Americas increased 36% compared to Q3 2015, primarily due to the Jared upgrades.

Revenue development in Canada, which corresponded to 13% of revenue from Americas, was flat compared with Q3 2015, in both DKK and in local currency. Like-for-like sales growth was high single digit positive in Canada. Additionally, in October 2016, PANDORA launched an eSTORE in the country.

In October 2016, as part of the strategy to focus on the branded sales channel, PANDORA decided to close around 700 multibranded stores in North America (around 80% in the US and 20% in Canada). The expected revenue impact from taking back inventory from the closed multibranded stores is around DKK 150 million. The full impact on revenue and cost of sales will be accounted for as a provision in Q4 2016. Furthermore, these stores will not be generating any revenue for PANDORA in Q4 2016. In Q4 2015, revenue generated in the closed multibranded stores was around 150 million.

Concept stores* like-for-like sales growth

	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014	Q3 2015 vs. Q3 2014
Americas	0%	-1%	2%	7%	5%

* Concept stores (excluding eSTOREs) that have been operating for more than 12 months

Like-for-like sales growth in concept stores (excluding eSTOREs) in Americas in Q3 2016 was flat. Like-for-like sales growth in the US was 3%, driven by a flat to positive development in all four major regions, whereas like-for-like in Latin America continued to be negative. Including the PANDORA eSTOREs like-for-like sales growth in Americas was 2%.

EMEA

Revenue in EMEA, covering Europe, Middle East and Africa, was DKK 2,220 million in Q3 2016, and increased 18% (or 25% in local currency) compared with Q3 2015.

Revenue in the UK increased 16% in local currency in Q3 2016 (decreased 3% in reported revenue due to the depreciation of the British pound), and contributed around 25% of revenue in EMEA. Growth in local currency was driven by a positive development in existing stores, as well as the expansion of the store network, including net 38 new concept stores opened since Q3 2015, to a total of 217 concept stores.

Italy and France continued to drive the growth in the region with revenue increasing approximately 70% and 35%, respectively, in the quarter. The increase was primarily driven by organic growth. Italy and France represented around 25% and 10%, respectively, of revenue in EMEA in Q3 2016.

Revenue from Germany decreased 13% compared to Q3 2015. As a consequence of the planned optimisation of the network in Germany, revenue in Q3 2016 was negatively impacted by a provision for returned goods of DKK 20 million, while the same quarter last year was positively impacted by a reversed provision, of around DKK 20 million. Excluding provisions, revenue in Germany increased 6% for the quarter, driven by like-for-like sales growth, partially offset by the closing of 255 multibranded stores in the last 12 months. Revenue from Germany represented around 10% of revenue in EMEA.

Concept stores* like-for-like sales growth

	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014	Q3 2015 vs. Q3 2014
EMEA	5%	10%	11%	13%	15%

* Concept stores (excluding eSTOREs) that have been operating for more than 12 months

Like-for-like sales growth in concept stores (excluding eSTOREs) in EMEA in Q3 2016 was 5%. Like-for-like growth was driven by a positive development in all important markets in the region, including single digit growth in UK and continued double digit growth in Germany, Italy and France. Including the PANDORA eSTOREs, like-for-like sales growth was 6%. Like-for-like sales growth in EMEA excluding concept stores in distributor markets (including Russia, which continued to experience double digit negative like-for-like growth) was around 10%.

ASIA PACIFIC

Revenue in Asia Pacific was DKK 882 million in Q3 2016, an increase of 46% (47% in local currency) compared with Q3 2015. Growth was primarily driven by a continued strong development in China and Australia.

Revenue in Australia increased 32% compared with Q3 2015 (27% in local currency), and represented around 30% of revenue from Asia Pacific. The growth was primarily driven by a like-for-like sales growth, as well as net 12 new concept stores opened since Q3 2015, to a total of 109 concept stores in Australia.

Revenue in China represented around 30% of revenue from Asia Pacific and increased 120% compared to Q3 2015. Like-for-like sales growth in China continued to be high double digit, and during the last 12 months 43 new concept stores had been added to a total of 81 in China. Furthermore, in October 2016, PANDORA launched on Alibaba Group's business to consumer platform, Tmall.com, and in December, PANDORA expects to launch its own eSTORE in the country.

Revenue in Hong Kong increased 4%, (around 5% in local currency), primarily driven by expansion of the store network and since Q3 2015, 6 new concept stores have been opened to a total of 28 concept stores in Hong Kong. Revenue from Hong Kong represented around 15% of revenue from Asia Pacific.

Concept stores* like-for-like sales growth

	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014	Q3 2015 vs. Q3 2014
Asia Pacific	7%	16%	21%	26%	24%

*Concept stores (excluding eSTOREs) that have been operating for more than 12 months

Like-for-like sales growth in concept stores (excluding eSTOREs) in Asia Pacific in Q3 2016 was 7%, and primarily driven by low double digit growth in Australia and high double digit growth in China. Like-for-like sales growth in Hong Kong continued to be double-digit negative, impacted by the economic environment in the market as well as the increase in retail footprint in the last 12 months, including the launch of the PANDORA eSTORE in Q4 2015. Total sales-out growth in Hong Kong continued to be positive. Like-for-like sales growth in Asia Pacific including the PANDORA eSTOREs was 7%.

REVENUE BREAKDOWN BY PRODUCT CATEGORY

Product category development

DKK million	Q3 2016	Q3 2015	Growth	Share of total revenue
Charms	2,661	2,428	10%	58%
Bracelets	777	575	35%	17%
- hereof Moments and ESSENCE collections	556	422	32%	12%
Rings	686	616	11%	15%
Other jewellery	488	292	67%	11%
Total revenue	4,612	3,911	18%	100%

Revenue from Charms was DKK 2,661 million in Q3 2016, an increase of 10% compared with Q3 2015. Growth in revenue from Charms in the US was slightly negative, primarily due to lower revenue from the Disney collection, which primarily consists of charms. Revenue from Charms in Asia Pacific increased around 40%, whereas Charms in EMEA increased 10%, negatively impacted by provisions in Germany and the depreciation of the British pound. Revenue from Bracelets increased 35%. The two categories represented 75% of total revenue in Q3 2016 compared with 77% in Q3 2015.

Revenue from Rings was DKK 686 million, an increase of 11% compared with Q3 2015. The category was driven by a strong development in EMEA and Asia Pacific, partially offset by a negative impact on sell-in in Americas, related to the decision not to repeat a rings campaign in North America in October 2016 and instead focus on Earrings. The Rings category represented 15% of total revenue in Q3 2016, compared with 16% in Q3 2015.

Revenue from Other jewellery was DKK 488 million, an increase of 67% compared with Q3 2015. From 2016, PANDORA has increased the focus on earrings, and as a result revenue from Earrings increased by around 100% compared with Q3 2015 and contributed with 6% of Group revenue. Revenue from Necklaces and pendants continued to perform well and increased 40%. Other jewellery represented 11% of total revenue in Q3 2016 compared with 7% in Q3 2015.

During the quarter the PANDORA rose collection was launched in all markets in EMEA, whereas the collection was launched during October in Asia Pacific. Revenue from the collection increased significantly compared to the same quarter last year, when it was available only in the UK and North America.

COSTS AND GROSS PROFIT

Total costs in Q3 2016, including depreciation and amortisation, were DKK 2,893 million, an increase of 12% compared with Q3 2015. Total costs corresponded to 62.7% of revenue in Q3 2016 compared with 65.8% in Q3 2015.

Cost development

DKK million	Q3 2016	Q3 2015	Growth	Share of total revenue Q3 2016	Share of total revenue Q3 2015
Cost of sales	-1,148	-1,018	13%	-24.9%	-26.0%
Gross profit	3,464	2,893	20%	75.1%	74.0%
Sales and distribution expenses	-934	-807	16%	-20.3%	-20.6%
Marketing expenses	-360	-360	0%	-7.8%	-9.2%
Administrative expenses	-451	-387	17%	-9.8%	-9.9%
Total costs	-2,893	-2,572	12%	-62.7%	-65.8%

Gross profit in Q3 2016 was DKK 3,464 million corresponding to a gross margin of 75.1% compared with 74.0% in Q3 2015. The increase was mainly driven by tailwind from more favourable raw material prices (approximately 1 percentage point) and an increase in share of revenue from PANDORA owned stores (approximately 1 percentage point). This was partially offset by unfavourable currency rates (approximately 0.5 percentage point) as well as increased production complexity (approximately 0.5 percentage point). Furthermore, the gross margin in Q3 2015 was impacted with approximately minus 1 percentage point due to the takeover of the distribution in China, as initial inventory in the stores was taken over by PANDORA at distributor prices.

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. The hedged prices for the following four quarters for gold are USD 1,176/oz, USD 1,234/oz, USD 1,313/oz USD 1,343/oz and for silver USD 16.54/oz, USD 16.37/oz, USD 18.08/oz USD 19.40/oz. However, current inventory means a delayed impact of the hedged prices on cost of sales.

The average realised purchase price in Q3 2016 was USD 1,145/oz for gold and USD 15.55/oz for silver.

Excluding hedging and the time lag effect from the inventory, the underlying gross margin would have been approximately 73% based on the average gold (USD 1,335/oz) and silver (USD 19.61/oz) market prices in Q3 2016. Under these assumptions, a 10% deviation in quarterly average gold and silver prices would impact PANDORA's gross margin by

approximately +/- 1 percentage point.

OPERATING EXPENSES

Operating expenses in Q3 2016 were DKK 1,745 million compared with DKK 1,554 million in Q3 2015, representing 37.8% of revenue in Q3 2016 compared with 39.7% in Q3 2015.

Sales and distribution expenses were DKK 934 million in Q3 2016, an increase of 16% compared with Q3 2015, and corresponding to 20.3% of revenue compared with 20.6% in Q3 2015. The nominal increase in sales and distribution expenses was mainly driven by higher revenue, as well as an increase in the number of PANDORA owned stores (from 555 in Q3 2015 to 675 in Q3 2016). The sales and distribution costs related to the increasing number of PANDORA owned stores, mainly related to property and employee expenses, had a negative impact of around 2 percentage points on sales and distribution costs as a percentage of revenue compared with Q3 2015. Operational leverage from the existing network more than offset the higher costs particularly driven by Southern Europe and China.

Marketing expenses were DKK 360 million in Q3 2016 compared with DKK 360 million in Q3 2015, corresponding to 7.8% of revenue, compared with 9.2% in Q3 2015.

Administrative expenses in Q3 2016 increased by 17% to DKK 451 million, representing 9.8% of revenue, compared with 9.9% of Q3 2015 revenue. The nominal increase was primarily due to ongoing higher IT expenses as well as an increase in head count, particularly in IT.

EBITDA

EBITDA for Q3 2016 increased by 27% to DKK 1,842 million resulting in an EBITDA margin of 39.9% compared with 37.2% in Q3 2015.

Regional EBITDA

DKK million	Q3 2016	Q3 2015	Growth	EBITDA margin Q3 2016	EBITDA margin Q3 2015
Americas	539	497	8%	35.7%	34.8%
EMEA	974	777	25%	43.9%	41.4%
Asia Pacific	329	180	83%	37.3%	29.9%
Group	1,842	1,454	27%	39.9%	37.2%

The EBITDA margin for Americas increased to 35.7% in Q3 2016 compared with 34.8% in Q3 2015. The increase was primarily driven by a higher gross margin due to lower commodity prices.

The EBITDA margin for EMEA increased to 43.9% in Q3 2016 compared with 41.4% in Q3 2015. The increase was primarily driven by a higher gross margin due to lower commodity prices supported by operating leverage in the region due to the higher revenue.

The EBITDA margin for the Asia Pacific region increased to 37.3% compared with 29.9% in Q3 2015. The increase was driven by operational leverage particularly in China, which improved the EBITDA margin with around 2 percentage points. Additionally, the EBITDA margin for Q3 2015 was negatively impacted by roughly 5 percentage points due to the takeover of the distribution in China, where initial inventory in the stores was taken over at distributor prices.

EBIT

EBIT for Q3 2016 increased to DKK 1,719 million, an increase of 28% compared with Q3 2015, resulting in an EBIT margin of 37.3% for Q3 2016 compared with 34.2% in Q3 2015.

NET FINANCIALS

In Q3 2016, net financials amounted to a gain of DKK 60 million, compared with a net financial loss of DKK 35 million in Q3 2015. The development was primarily related to exchange rate gains including gains on foreign exchange contracts.

INCOME TAX EXPENSES

Income tax expenses were DKK 374 million in Q3 2016. The effective tax rate in Q3 2016 was 21.0% compared with 22.9% for Q3 2015. The effective tax rate for the quarter was in line with the estimated effective tax rate for the full year.

NET PROFIT

Net profit in Q3 2016 increased to DKK 1,405 million from DKK 1,006 million in Q3 2015.

BALANCE SHEET AND CASH FLOW

In Q3 2016, PANDORA generated free cash flow of DKK 577 million compared with DKK 263 million in Q3 2015. The increase was primarily due to the increase in profits.

Operating working capital (defined as inventory and trade receivables less trade payables) at the end of Q3 2016 corresponded to 19.8% of the last twelve months' revenue, compared with 19.6% at the end of Q3 2015 and 15.8% at the end of Q2 2016.

Operating working capital as a percentage of revenue

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Inventory	16.4%	15.7%	13.8%	14.1%	17.2%
Trade receivables	10.2%	6.7%	7.6%	8.1%	9.3%
Trade payables	6.8%	6.6%	7.0%	7.9%	6.9%
Operating working capital	19.8%	15.8%	14.4%	14.3%	19.6%

Inventory relative to preceding 12 months' revenue decreased to 16.4% in Q3 2016, from 17.2% in Q3 2015. Nominally, inventory increased to DKK 3,166 million in Q3 2016 from DKK 2,584 million in Q3 2015. The nominal increase was mainly due to higher activity in the Group and more inventory in PANDORA owned and operated stores, driven by an increase in the number of owned and operated stores. Compared with Q3 2015, gold and silver prices affected inventory value with a decrease of approximately 12%, partially offset by a 3% increase from foreign exchange. The relative and nominal increase compared to Q2 2016 is related to inventory build-up ahead of the launch of the Christmas collection.

Trade receivables increased to DKK 1,976 million at the end of Q3 2016 (10.2% of preceding 12 months' revenue) compared with DKK 1,392 million at the end of Q3 2015 (9.3% of the preceding 12 months' revenue). The increase compared to Q2 2016 is primarily due to revenue in the third quarter being skewed towards the end of the quarter, as well as extended credit terms ahead of Christmas in some markets. The increase compared to Q3 2015, was primarily related to an increasing share of revenue from Italy, which is one of the countries where PANDORA allows extended credit terms ahead of Christmas.

Trade payables at the end of the quarter were DKK 1,309 million compared with DKK 1,036

million at the end of Q3 2015 and DKK 1,239 million at the end of Q2 2016. The nominal increase in trade payables compared to Q3 2015 was impacted by increased activity in the Group.

CAPEX was DKK 324 million in Q3 2016 compared with DKK 384 million in Q3 2015. The CAPEX investments were primarily related to IT, openings of PANDORA owned stores and the production facilities in Thailand. In Q3 2016, CAPEX represented 7% of revenue.

Total interest-bearing debt was DKK 4,770 million at the end of Q3 2016, compared with DKK 2,723 million at the end of Q3 2015, and cash amounted to DKK 438 million compared with DKK 548 million at the end of Q3 2015. Net interest-bearing debt (NIBD) at the end of Q3 2016 was DKK 4,332 million corresponding to a NIBD to EBITDA ratio of 0.6x of the last twelve months EBITDA, compared with DKK 2,175 million at the end of Q3 2015 corresponding to a NIBD to EBITDA ratio of 0.4x.

DEVELOPMENT IN FIRST NINE MONTHS OF 2016

REVENUE

Total revenue increased by 24% to DKK 13,679 million in 9M 2016, or 27% in local currency, compared to 9M 2015.

The geographical distribution of revenue in 9M 2016 was 36% for Americas (41% in 9M 2015), 45% for EMEA (43% in 9M 2015) and 19% for Asia Pacific (15% in 9M 2015).

COSTS

Gross profit was DKK 10,260 million in 9M 2016 compared to DKK 7,988 million in 9M 2015, resulting in a gross margin of 75.0% in 9M 2016 compared to 72.3% in 9M 2015.

Sales and distribution expenses increased to DKK 2,826 million in 9M 2016 compared to DKK 2,068 million in 9M 2015, corresponding to 20.7% of revenue in 9M 2016 and 18.7% in 9M 2015. Marketing expenses increased to DKK 1,111 million in 9M 2016 compared to DKK 1,006 million in 9M 2015, corresponding to 8.1% of revenue in 9M 2016 and 9.1% in 9M 2015. Administrative expenses amounted to DKK 1,471 million in 9M 2016 versus DKK 1,102 million in 9M 2015, representing 10.8% and 10.0% of 9M 2016 and 9M 2015 revenue, respectively.

EBITDA

EBITDA for 9M 2016 increased by 28% to DKK 5,211 million resulting in an EBITDA margin of 38.1% in 9M 2016 versus 36.8% in 9M 2015. Regional EBITDA margins for 9M 2016 were 38.2% in Americas (35.8% in 9M 2015), 39.3% in EMEA (37.0% in 9M 2015) and 35.1% in Asia Pacific (39.2% in 9M 2015).

EBIT

EBIT for 9M 2016 was DKK 4,852 million – an increase of 27% compared to 9M 2015, resulting in an EBIT margin of 35.5% in 9M 2016 versus 34.5% in 9M 2015.

NET FINANCIALS

Net financials amounted to a gain of DKK 126 million in 9M 2016 versus a loss of DKK 385 million in 9M 2015, which was primarily related to intercompany loans in US dollars.

INCOME TAX EXPENSES

Income tax expenses were DKK 1,046 million in 9M 2016 compared to DKK 1,128 million in 9M 2015, implying an effective tax rate for the Group of 21.0% for 9M 2016 compared to 32.9% in 9M 2015. Tax expenses for the first nine months of 2015 were impacted by the earlier disclosed settlement with the Danish tax authorities, which had an impact of DKK 364 million in the first quarter of 2015 relating to prior years. Excluding the additional expense, the effective tax rate would have been 22.3% for 9M 2015.

NET PROFIT

Net profit in 9M 2016 was DKK 3,932 million compared to DKK 2,299 million in 9M 2015.

FINANCIAL STATEMENTS

Consolidated income statement

DKK million	Notes	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Revenue	3	4,612	3,911	13,679	11,056	16,737
Cost of sales		-1,148	-1,018	-3,419	-3,068	-4,544
Gross profit		3,464	2,893	10,260	7,988	12,193
Sales, distribution and marketing expenses		-1,294	-1,167	-3,937	-3,074	-4,722
Administrative expenses		-451	-387	-1,471	-1,102	-1,657
Operating profit		1,719	1,339	4,852	3,812	5,814
Finance income		87	1	182	47	84
Finance costs		-27	-36	-56	-432	-553
Profit before tax		1,779	1,304	4,978	3,427	5,345
Income tax expense		-374	-298	-1,046	-1,128	-1,671
Net profit for the period		1,405	1,006	3,932	2,299	3,674
Earnings per share, basic (DKK)		12.4	8.4	34.3	19.2	30.9
Earnings per share, diluted (DKK)		12.3	8.4	34.1	19.1	30.7

Consolidated statement of comprehensive income

DKK million	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Net profit for the period	1,405	1,006	3,932	2,299	3,674
Items that might be reclassified to profit/loss for the period					
Exchange rate adjustments of investments in subsidiaries	-	-258	-46	134	249
Fair value adjustment of hedging instruments	-67	-11	452	-13	23
Fair value adjustment of obligation to acquire non-controlling interests	-14	-	-14	-	-
Tax on other comprehensive income, hedging instruments, income/expense	15	-	-100	10	22
Other comprehensive income, net of tax	-66	-269	292	131	294
Total comprehensive income for the period	1,339	737	4,224	2,430	3,968

Consolidated balance sheet

DKK million	2016 30 September	2015 30 September	2015 31 December
ASSETS			
Goodwill	2,518	2,382	2,424
Brand	1,058	1,057	1,057
Distribution network	192	223	216
Distribution rights	1,061	1,089	1,069
Other intangible assets	829	615	683
Total intangible assets	5,658	5,366	5,449
Property, plant and equipment	1,708	1,072	1,237
Deferred tax assets	872	610	879
Other financial assets	240	143	159
Total non-current assets	8,478	7,191	7,724
Inventories	3,166	2,584	2,357
Financial instruments	374	110	65
Trade receivables	1,976	1,392	1,360
Income tax receivable	27	308	113
Other receivables	783	786	803
Cash	438	548	889
Total current assets	6,764	5,728	5,587
Total assets	15,242	12,919	13,311
EQUITY AND LIABILITIES			
Share capital	117	122	122
Share premium	-	1,173	-
Treasury shares	-3,724	-3,209	-4,152
Reserves	1,329	860	1,023
Proposed dividend	-	-	1,511
Retained earnings	7,806	6,519	7,635
Total equity	5,528	5,465	6,139
Provisions	104	73	97
Loans and borrowings	4,650	2,700	2,350
Deferred tax liabilities	487	436	394
Other payables	286	57	249
Total non-current liabilities	5,527	3,266	3,090
Provisions	939	699	971
Loans and borrowings	120	23	257
Financial instruments	68	292	214
Trade payables	1,309	1,036	1,329
Income tax payable	824	1,178	306
Other payables	927	960	1,005
Total current liabilities	4,187	4,188	4,082
Total liabilities	9,714	7,454	7,172
Total equity and liabilities	15,242	12,919	13,311

Consolidated statement of changes in equity

DKK million	Share capital	Share Premium	Treasury shares	Translation reserve	Hedge reserve	Proposed dividend	Retained earnings	Total equity
Equity at 1 January 2016	122	-	-4,152	1,134	-111	1,511	7,635	6,139
Net profit for the period	-	-	-	-	-	-	3,932	3,932
Exchange rate adjustments of investments in subsidiaries	-	-	-	-46	-	-	-	-46
Fair value adjustment of hedging instruments	-	-	-	-	452	-	-	452
Fair value adjustment of obligation to acquire non-controlling interests	-	-	-	-	-	-	-14	-14
Tax on other comprehensive income	-	-	-	-	-100	-	-	-100
Other comprehensive income, net of tax	-	-	-	-46	352	-	-14	292
Total comprehensive income for the period	-	-	-	-46	352	-	3,918	4,224
Share-based payments	-	-	231	-	-	-	-168	63
Purchase of treasury shares	-	-	-3,391	-	-	-	-	-3,391
Reduction of share capital	-5	-	3,588	-	-	-	-3,583	-
Dividend paid	-	-	-	-	-	-1,511	4	-1,507
Equity at 30 September 2016	117	-	-3,724	1,088	241	-	7,806	5,528

Equity at 1 January 2015	128	1,229	-2,679	885	-156	1,088	6,537	7,032
Net profit for the period	-	-	-	-	-	-	2,299	2,299
Exchange rate adjustments of investments in subsidiaries	-	-	-	134	-	-	-	134
Fair value adjustment of hedging instruments	-	-	-	-	-13	-	-	-13
Tax on other comprehensive income	-	-	-	-	10	-	-	10
Other comprehensive income, net of tax	-	-	-	134	-3	-	-	131
Total comprehensive income for the period	-	-	-	134	-3	-	2,299	2,430
Share-based payments	-	-	266	-	-	-	-218	48
Purchase of treasury shares	-	-	-2,957	-	-	-	-	-2,957
Reduction of share capital	-6	-56	2,161	-	-	-	-2,099	-
Dividend paid	-	-	-	-	-	-1,088	-	-1,088
Equity at 30 September 2015	122	1,173	-3,209	1,019	-159	-	6,519	5,465

The "Share premium" is a distributable reserve under the Danish regulations and has therefore been transferred to "Retained earnings" in December 2015.

Consolidated cash flow statement

DKK million	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Profit before tax	1,779	1,304	4,978	3,427	5,345
Finance income	-87	-1	-182	-47	-84
Finance costs	27	36	56	432	553
Depreciation, amortisation and impairment losses	123	115	359	258	400
Share-based payments	19	17	56	55	75
Change in inventories	-238	-476	-782	-765	-431
Change in receivables	-644	-466	-935	-570	-560
Change in payables and other liabilities	39	127	-270	329	1,139
Other non-cash adjustments	-21	11	557	-327	-432
Interest etc. received	-	1	2	2	3
Interest etc. paid	-13	-	-30	-83	-104
Income taxes paid	-72	-74	-440	-1,046	-2,520
Cash flows from operating activities, net	912	594	3,369	1,665	3,384
Acquisitions of subsidiaries and activities, net of cash acquired	-17	-2	-209	-241	-289
Divestment of businesses	-	-	-	29	29
Purchase of intangible assets	-39	-165	-218	-301	-402
Purchase of property, plant and equipment	-288	-174	-615	-444	-620
Change in other non-current assets	-23	-5	-69	-42	-49
Proceeds from sale of property, plant and equipment	2	14	14	26	35
Cash flows from investing activities, net	-365	-332	-1,097	-973	-1,296
Capital increase including share premium, net	-	-1	-	-	-
Dividend paid	-	-	-1,507	-1,088	-1,088
Purchase of treasury shares	-1,238	-1,405	-3,391	-2,957	-3,900
Proceeds from loans and borrowings	751	1,359	3,168	3,163	4,658
Repayment of loans and borrowings	-164	-273	-988	-391	-2,003
Cash flows from financing activities, net	-651	-320	-2,718	-1,273	-2,333
Net increase/decrease in cash	-104	-58	-446	-581	-245
Cash at beginning of period	540	611	889	1,131	1,131
Exchange gains/losses on cash	2	-5	-5	-2	3
Net increase/decrease in cash	-104	-58	-446	-581	-245
Cash at end of period	438	548	438	548	889
Cash flows from operating activities, net	912	594	3,369	1,665	3,384
- Interest etc. received	-	-1	-2	-2	-3
- Interest etc. paid	13	-	30	83	104
Cash flows from investing activities, net	-365	-332	-1,097	-973	-1,296
- Acquisition of subsidiaries and activities, net of cash acquired	17	2	209	241	289
- Divestment of businesses	-	-	-	-29	-29
Free cash flow	577	263	2,509	985	2,449
Unutilised credit facilities	2,464	2,773	2,464	2,773	3,089

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

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 2015 of PANDORA.

Furthermore, the interim financial report and Management's review are prepared in accordance with Danish disclosure requirements for listed companies.

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 2016. The implementation of these new or amended standards had no material impact on the financial statements for Q3 2016.

NOTE 2 – Significant accounting estimates and judgements

In preparing the consolidated financial statements, 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 2015. See descriptions in the individual notes to the consolidated financial statement in the Annual Report 2015.

NOTE 3 - Segment information

PANDORA's activities are segmented on the basis of geographical areas in accordance with the management reporting structure. In determining reporting segments, a number of segments have been aggregated. All segments derive their revenue from the types of products specified in Company Announcement no. 290.

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.

NOTE 3 - Segment information, continued

DKK million	Americas	EMEA	Asia Pacific	Total Group
Q3 2016				
External revenue	1,510	2,220	882	4,612
Segment profit (EBITDA)	539	974	329	1,842
Amortisation, depreciation and impairment losses				-123
Consolidated operating profit (EBIT)				1,719
Q3 2015				
External revenue	1,429	1,879	603	3,911
Segment profit (EBITDA)	497	777	180	1,454
Amortisation, depreciation and impairment losses				-115
Consolidated operating profit (EBIT)				1,339
9M 2016				
External revenue	4,947	6,178	2,554	13,679
Segment profit (EBITDA)	1,889	2,426	896	5,211
Amortisation, depreciation and impairment losses				-359
Consolidated operating profit (EBIT)				4,852
9M 2015				
External revenue	4,580	4,764	1,712	11,056
Segment profit (EBITDA)	1,638	1,761	671	4,070
Amortisation, depreciation and impairment losses				-258
Consolidated operating profit (EBIT)				3,812
Revenue per product group				
DKK million	Q3 2016	Q3 2015	9M 2016	9M 2015
Charms	2,661	2,428	8,285	7,265
Bracelets	777	575	2,439	1,671
Rings	686	616	1,762	1,403
Other jewellery	488	292	1,193	717
Total revenue	4,612	3,911	13,679	11,056

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 2015.

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), see note 4.5 to the consolidated financial statement in the Annual Report 2015.

NOTE 7 – Business combinations

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 was 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 remain 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.

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 – 30 September 2016 was insignificant.

Acquisitions

DKK million	Q3 2016	Total 2015
Other intangible assets	-	69
Property, plant and equipment	6	23
Other non-current receivables	9	12
Receivables	4	30
Inventories	61	141
Cash	1	21
Assets acquired	81	296
Non-current liabilities	2	5
Payables	6	40
Other liabilities	-	7
Liabilities assumed	8	52
Total identifiable net assets acquired	73	244
Goodwill arising from the acquisitions	115	281
Purchase consideration	188	525
Cash movements on acquisition:		
Prepaid, previous year ¹	-7	-
Consideration transferred regarding previous years ²	29	-
Deferred payment (including earn-out)	-	-222
Cash acquired	-1	-21
Net cash flow on acquisition for the period	209	282
Prepayments, acquisitions	-	7
Net cash flow on acquisitions	209	289
Cash flow from divestment of businesses ³	-	-29
Net cash flow from business combinations	209	260

- 1) Prepayment in 2015, DKK 7 million, was regarding the acquisitions in Singapore, Macau and the Philippines on 1 January 2016.
 2) The consideration transferred in 2016 was the last payment for the transfer of assets regarding the acquisition in China in 2015, DKK 29 million.
 3) Sale of businesses in 2015 included mainly inventories (DKK 18 million), assets related to stores and goodwill (DKK 9 million).

Acquisitions in 2015

Strategic alliance in Japan

On 1 January 2015, PANDORA acquired assets related to the distribution in Japan from Bluebell in a business combination. In addition to the reacquired distribution rights (DKK 30 million), assets related to branded stores – one concept store and nine shop-in-shops – and goodwill (DKK 20 million). The acquisition was part of a strategic alliance with Bluebell in Japan with the intent to jointly distribute PANDORA jewellery in Japan.

The agreement initially has a five-year term. On termination of the agreement, PANDORA will take over the full distribution of PANDORA jewellery in Japan. The total amount to be paid to Bluebell will depend on the realised revenue in 2019. The fair value of the earn-out is estimated at DKK 58 million.

Acquisition of PAN ME A/S

On 16 January 2015, PANDORA acquired 100% of the shares in PAN ME A/S, which holds the rights to distribute PANDORA jewellery in the United Arab Emirates (UAE), Bahrain, Qatar and Oman.

The purchase price of DKK 112 million was primarily related to non-current assets and inventories related to 11 concept stores and 3 shop-in-shops in the UAE and intangible assets comprising reacquired distribution rights (with a remaining lifespan of approximately one year) of DKK 5 million and goodwill of DKK 55 million.

UK

On 2 April 2015, PANDORA acquired 100% of the shares in four Evernal companies comprising concept stores in Liverpool, Blackpool, Trafford and Arndale. The purchase price was DKK 70 million. Assets

acquired mainly consist of inventories and other assets and liabilities relating to the stores. Of the purchase price, DKK 74 million was allocated to goodwill.

China

On 1 July 2015, PANDORA acquired assets related to the distribution in China from Oracle Investment (Hong Kong) Limited in a business combination. In addition to the reacquired distribution rights (0.5 year remaining) (DKK 34 million), assets comprised inventories and assets related to 49 branded stores - 30 concept stores and 19 shop-in-shops and goodwill (DKK 94 million). The acquisition was part of a strategic alliance with Oracle in China to jointly distribute PANDORA jewellery in China until 31 December 2018.

The total price will be calculated based on revenue in 2018 and is expected to be DKK 208 million. The remaining payment - the earn-out – will be delayed until the distribution agreement ends in 2018.

Other business combinations in 2015

PANDORA acquired concept stores in the US and Germany in 2015. Assets acquired mainly consist of inventories and other assets relating to the stores. Of the purchase price, DKK 38 million was allocated to goodwill.

The text above regarding acquired businesses in 2015 has been reduced. The full text is available in the Annual Report for 2015.

NOTE 8 - Contingent liabilities

See note 5.2 to the consolidated financial statements in the Annual Report 2015. Leasing commitments increased by DKK 218 million in Q3 2016 to DKK 2,771 million at the end of Q3 2016.

NOTE 9 – Related parties

Related parties with significant interests

BlackRock, Inc. holds more than 5% of the share capital and the voting rights in PANDORA.

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 aforementioned persons have control or significant interests.

Transactions with related parties

PANDORA did not enter into any significant transactions with members of the Board of Directors or the Executive Board, except for compensation and benefits received as a result of their membership of the Board of Directors, employment with PANDORA or shareholdings in PANDORA.

NOTE 10 – Concept store development*

	Number of concept stores Q3 2016	Number of concept stores Q2 2016	Number of concept stores Q3 2015	Growth Q3 2016 /Q2 2016	Growth Q3 2016 /Q3 2015	Number of O&O stores Q3 2016	Growth O&O stores Q3 2016 /Q2 2016
US	340	335	309	5	31	46	2
Brazil	82	75	57	7	25	46	4
Canada	73	73	69	-	4	2	-
Caribbean	21	20	17	1	4	-	-
Mexico	17	16	8	1	9	-	-
Rest of Americas	26	21	6	5	20	-	-
Americas	559	540	466	19	93	94	6
UK	217	205	179	12	38	13	4
Russia	205	200	187	5	18	-	-
Germany	157	157	154	-	3	144	-
Italy	66	59	47	7	19	22	2
France	60	60	52	-	8	23	-
Spain	50	47	33	3	17	-	-
Poland	41	40	38	1	3	18	1
South Africa	30	31	27	-1	3	-	-
Ireland	27	23	20	4	7	-	-
Belgium	24	24	24	-	-	-	-
Ukraine	22	21	18	1	4	-	-
Netherlands	21	20	19	1	2	21	1
Portugal	20	18	16	2	4	-	-
United Arab Emirates	19	15	14	4	5	19	4
Israel	14	17	13	-3	1	-	-
Czech Republic	14	14	11	-	3	10	-
Turkey	13	13	11	-	2	13	-
Greece	13	13	9	-	4	-	-
Romania	13	10	8	3	5	9	2
Austria	12	11	12	1	-	5	1
Denmark	11	11	11	-	-	11	-
Rest of EMEA	87	77	60	10	27	18	2
EMEA	1,136	1,086	963	50	173	326	17
Australia	109	105	97	4	12	17	-
China	81	67	38	14	43	81	14
Hong Kong	28	26	22	2	6	25	1
Malaysia	25	25	21	-	4	-	-
Singapore	14	15	15	-1	-1	11	-1
New Zealand	12	12	10	-	2	-	-
Philippines	11	10	8	1	3	-	-
Rest of Asia Pacific	35	34	26	1	9	9	1
Asia Pacific	315	294	237	21	78	143	15
All markets	2,010	1,920	1,666	90	344	563	38

*Includes markets with 10 or more concept stores as of end Q3 2016

NOTE 11 – Regional store development

Revenue per sales channel - Americas

DKK million	Q3 2016	Q3 2015	Growth	Share of revenue
Concept stores	979	891	10%	65%
- hereof PANDORA owned*	235	173	36%	16%
Shop-in-shops	329	242	36%	22%
- hereof PANDORA owned	-	-	-	-
Branded	1,308	1,133	15%	87%
Multibranded	202	296	-32%	13%
Total direct	1,510	1,429	6%	100%
3 rd party distributors	-	-	-	-
Total revenue	1,510	1,429	6%	100%

Revenue per sales channel - EMEA

DKK million	Q3 2016	Q3 2015	Growth	Share of revenue
Concept stores	1,248	1,007	24%	56%
- hereof PANDORA owned*	598	464	29%	27%
Shop-in-shops	216	188	15%	10%
- hereof PANDORA owned	77	74	4%	3%
Branded	1,464	1,195	23%	66%
Multibranded	475	470	1%	21%
Total direct	1,939	1,665	16%	87%
3 rd party distributors	281	214	31%	13%
Total revenue	2,220	1,879	18%	100%

Revenue per sales channel – Asia Pacific

DKK million	Q3 2016	Q3 2015	Growth	Share of revenue
Concept stores	637	371	72%	72%
- hereof PANDORA owned*	488	260	88%	55%
Shop-in-shops	79	75	5%	9%
- hereof PANDORA owned	61	48	27%	7%
Branded	716	446	61%	81%
Multibranded	61	44	39%	7%
Total direct	777	490	59%	88%
3 rd party distributors	105	113	-7%	12%
Total revenue	882	603	46%	100%

*PANDORA eSTORE revenue is recognised as PANDORA owned concept store revenue

Store network, number of points of sale - Americas

	Number of PoS Q3 2016	Number of PoS Q2 2016	Number of PoS Q3 2015	Delta Q3 2016 and Q2 2016	Delta Q3 2016 and Q3 2015
Concept stores	559	540	466	19	93
- hereof PANDORA owned	94	88	72	6	22
- hereof 3 rd party distributors	-	-	-	-	-
Shop-in-shops	919	798	670	121	249
- hereof PANDORA owned	-	-	-	-	-
- hereof 3 rd party distributors	-	-	-	-	-
Multibranded	1,576	1,679	1,988	-103	-412
- hereof 3 rd party distributors	-	-	-	-	-
Total points of sale	3,054	3,017	3,124	37	-70

Store network, number of points of sale - EMEA

	Number of PoS Q3 2016	Number of PoS Q2 2016	Number of PoS Q3 2015	Delta Q3 2016 and Q2 2016	Delta Q3 2016 and Q3 2015
Concept stores	1,136	1,086	963	50	173
- hereof PANDORA owned	326	309	289	17	37
- hereof 3 rd party distributors	469	450	390	19	79
Shop-in-shops	872	829	744	43	128
- hereof PANDORA owned	80	84	84	-4	-4
- hereof 3 rd party distributors	348	340	294	8	54
Multibranded	3,110	3,253	4,015	-143	-905
- hereof 3 rd party distributors	1,032	1,071	1,244	-39	-212
Total points of sale	5,118	5,168	5,722	-50	-604

Store network, number of points of sale - Asia Pacific

	Number of PoS Q3 2016	Number of PoS Q2 2016	Number of PoS Q3 2015	Delta Q3 2016 and Q2 2016	Delta Q3 2016 and Q3 2015
Concept stores	315	294	237	21	78
- hereof PANDORA owned	143	128	79	15	64
- hereof 3 rd party distributors	60	61	67	-1	-7
Shop-in-shops	196	200	199	-4	-3
- hereof PANDORA owned	32	34	31	-2	1
- hereof 3 rd party distributors	85	87	86	-2	-1
Multibranded	238	240	251	-2	-13
- hereof 3 rd party distributors	-	-	-	-	-
Total points of sale	749	734	687	15	62

Quarterly overview

DKK million	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Consolidated income statement					
Revenue	4,612	4,327	4,740	5,681	3,911
Gross profit	3,464	3,260	3,536	4,205	2,893
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,842	1,609	1,760	2,144	1,454
Operating profit (EBIT)	1,719	1,488	1,645	2,002	1,339
Net financials	60	57	9	-84	-35
Profit before tax	1,779	1,545	1,654	1,918	1,304
Net profit for the period	1,405	1,221	1,306	1,375	1,006
Consolidated balance sheet					
Total assets	15,242	14,242	13,502	13,311	12,919
Invested capital	9,839	8,965	7,972	8,255	7,879
Net working capital	1,952	1,355	615	925	1,124
Net interest-bearing debt (NIBD)	4,332	3,654	2,549	1,718	2,175
Equity	5,528	5,413	5,302	6,139	5,465
Consolidated cash flow statement					
Cash flows from operating activities, net	912	890	1,567	1,719	594
Cash flows from investing activities, net	-365	-486	-246	-323	-332
Free cash flow	577	576	1,356	1,464	263
Cash flows from financing activities, net	-651	-575	-1,492	-1,060	-320
Net increase/decrease in cash	-104	-171	-171	336	-58
Growth ratios					
Revenue growth, %	18%	20%	34%	43%	37%
Gross profit growth, %	20%	27%	40%	48%	45%
EBITDA growth, %	27%	23%	35%	48%	43%
EBIT growth, %	28%	20%	33%	45%	39%
Net profit growth, %	40%	34%	241%	37%	39%
Margins					
Gross margin, %	75.1%	75.3%	74.6%	74.0%	74.0%
EBITDA margin, %	39.9%	37.2%	37.1%	37.7%	37.2%
EBIT margin, %	37.3%	34.4%	34.7%	35.2%	34.2%
Other ratios					
Effective tax rate, %	21.0%	21.0%	21.0%	28.3%	22.9%
Equity ratio, %	36.3%	38.0%	39.3%	46.1%	42.3%
NIBD to EBITDA, x ¹	0.6	0.5	0.4	0.3	0.4
Return on invested capital (ROIC), % ¹	69.7%	72.2%	78.0%	70.4%	65.9%
Capital expenditure (CAPEX), DKK million ²	324	352	274	319	384
Cash conversion, % ³	33.6%	38.7%	82.4%	73.1%	19.6%
Other key figures					
Average number of employees	18,106	17,276	16,740	15,898	14,662

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

2) Capital expenditure includes additions to both tangible and intangible assets

3) The definition was changed in Q4 2015 – please refer to the Annual Report 2015

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 2016.

The interim report, 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 Danish disclosure requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the PANDORA Group's assets, liabilities and financial position at 30 September 2016, and of the results of the PANDORA Group's operations and cash flow for the period 1 January – 30 September 2016.

Further, in our opinion the Management's review p. 1-27 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 as a whole, and describes the significant risks and uncertainties pertaining to the Group.

Copenhagen, 1 November 2016

EXECUTIVE BOARD

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Chief Executive Officer

Peter Vekslund
Chief Financial Officer

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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 materialize, 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.