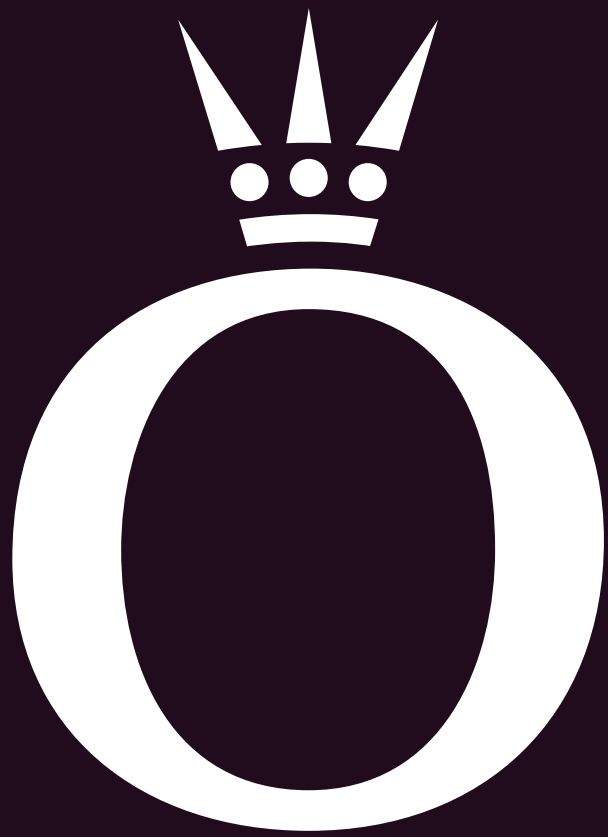

ANNUAL REPORT

2016

PANDORA





PANDORA designs, manufactures and markets a full universe of high-quality, hand-finished and affordable jewellery. As one of the best-known jewellery brands in the world, our vision is to become the world's most loved.



ABOUT PANDORA

PERSONAL EXPRESSION TOLD THROUGH JEWELLERY

Our jewellery celebrates the individuality of every woman and lets her express this uniqueness in her own special way. It is beautiful, current and forever relevant – and each piece can be worn on its own or combined with other PANDORA pieces to create a unique look and style.

From London to New York, Shanghai to Sydney, you can buy our jewellery in almost any major city in the world as well as online in one of our eSTOREs. Every one of our concept stores is something special – a beautiful branded space that has been carefully designed to show our universe of jewellery at its best.

THE CRAFTSMANSHIP BEHIND EVERY PIECE

Creating high-quality jewellery takes passion, care and great attention to detail. Every piece of PANDORA jewellery passes through expert hands as it is transformed from raw material – 14k gold, sterling silver, stones, cultured pearls, Murano glass and enamel – to a beautiful finished piece.

Our goldsmiths, silversmiths, stone-setters and other craftspeople work at our crafting facilities in Thailand, where we combine centuries-old crafting traditions with modern production techniques. This unique set-up enables us to quickly scale up production of certain pieces when needed, while keeping quality high and prices affordable.

LEADING WITH THE HEART

Since our early days, our philosophy has been to run a healthy business, with respect for people, the product and the planet – and these principles remain at the heart of our business today.

We own and operate the greatest part of our value chain, from design and raw material procurement through to production and distribution. This means we know where our jewellery comes from and how it is made – and can ensure that every piece is designed, crafted and distributed according to our high quality and ethical standards.

PANDORA is a pride of strong individuals with a wholehearted, can-do attitude. We come from almost every corner of the planet, understand many languages and have expertise in many areas of business. But wherever we are and whatever we do, we are bound together by our values of pride, passion and performance.

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 8,100 points of sale, including more than 2,100 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, PANDORA employs more than 21,500 people worldwide of whom around 12,400 are located in Gemopolis, 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).

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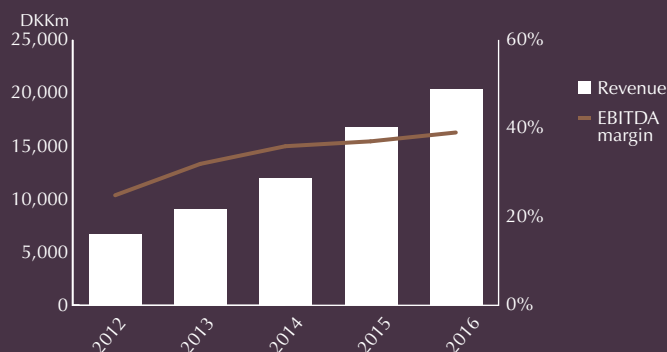
FINANCIAL HIGHLIGHTS

DKK million	2016	2015	2014	2013	2012
Consolidated income statement					
Revenue	20,281	16,737	11,942	9,010	6,652
Gross profit	15,223	12,193	8,423	5,999	4,429
Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,922	6,214	4,294	2,881	1,658
Operating profit (EBIT)	7,404	5,814	4,072	2,681	1,475
Net financials	246	-469	-200	61	4
Net profit for the year	6,025	3,674	3,098	2,220	1,202
Consolidated balance sheet					
Total assets	15,085	13,311	10,556	9,275	8,414
Invested capital	9,396	8,255	6,080	5,976	5,900
Operating working capital	2,780	2,388	1,990	1,846	2,039
Net interest-bearing debt (NIBD) ¹	2,448	1,921	-1,121	-637	-183
Equity	6,794	6,139	7,032	6,462	6,038
Consolidated cash flow statement					
Net increase/decrease in cash	5	-245	431	361	165
Free cash flow	5,358	2,449	3,868	1,956	1,151
Cash conversion, %	72.4%	42.1%	95.0%	73.0%	78.0%
Growth ratios					
Revenue growth, %	21%	40%	33%	35%	0%
Gross profit growth, %	25%	45%	40%	35%	-9%
EBITDA growth, %	27%	45%	49%	74%	-27%
EBIT growth, %	27%	43%	52%	82%	-28%
Net profit growth, %	64%	19%	40%	85%	-41%
Margins					
Gross margin, %	75.1%	72.9%	70.5%	66.6%	66.6%
EBITDA margin, %	39.1%	37.1%	36.0%	32.0%	24.9%
EBIT margin, %	36.5%	34.7%	34.1%	29.8%	22.2%
Other ratios					
Effective tax rate, %	21.2%	31.3%	20.0%	19.0%	18.7%
Equity ratio, %	45.0%	46.1%	66.6%	69.7%	71.8%
NIBD to EBITDA, x	0.3	0.3	-0.3	-0.2	-0.1
Return on invested capital (ROIC), %	78.8%	70.4%	67.0%	44.9%	25.0%
Share information					
Dividend per share ² , DKK	9.00	13.00	9.00	6.50	5.50
Total payout ratio (incl. share buyback), %	91.5%	135.8%	104.1%	63.7%	59.5%
Earnings per share, basic, DKK	52.8	30.9	25.0	17.2	9.2
Earnings per share, diluted, DKK	52.5	30.7	24.7	17.0	9.2
Share price at year-end, DKK	924.0	872.0	504.5	294.0	124.5
Other key figures					
Capital expenditure (CAPEX), DKK million	1,199	1,109	455	490	276
Capital expenditure, tangible assets (CAPEX), DKK million	828	706	297	182	167
Store network, total number of points of sale	8,131	9,271	9,906	10,279	10,374
Store network, total number of concept stores	2,138	1,802	1,410	1,100	895
Average number of full-time employees	17,770	13,971	9,957	6,910	5,753

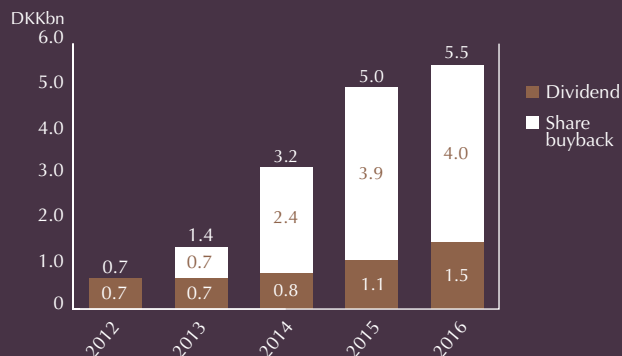
¹ For 2015, NIBD and consequently NIBD to EBITDA were recalculated due to reclassifications. Refer to note 4.3.

² Dividend proposed per share for 2016.

REVENUE AND EBITDA MARGIN



DIVIDEND AND SHARE BUYBACK



BUILDING FOR THE FUTURE

2016 was a successful year for PANDORA. It was another record-breaking year, with revenue exceeding DKK 20 billion. It was also a year of building for the future, a year of constant improvement that has left us well placed to push on towards our goal of becoming the world's most loved jewellery brand.

We reorganised internally in 2016 in order to sharpen focus on collaboration between our regions and functions, and ensure we are able to seize new opportunities as they arise. It was a period of change for our people, but we have been impressed by how our colleagues have reacted, embracing the changes with the core PANDORA values of pride, passion and performance.

As part of this work, we reorganised our regions and now have three strong regions: the Americas, EMEA – Europe, the Middle East and Africa – and Asia Pacific. All three of our regions delivered solid growth in 2016, driven by a combination of like-for-like sales growth and an expanding store network.

In the Americas, we opened net 87 new concept stores, and continued to expand our presence in South and Central America. In our newly established region, EMEA, we are building a strong region that will increase knowledge-sharing in order to continue developing our markets. Asia Pacific remained our fastest growing region, and we strengthened our position in this region, particularly in China, where we expanded our network of stores across the country and launched our products online.

We can see from experience that the stronger the representation of our brand, the stronger our retail performance – and we concentrated on expanding our branded store network in 2016. We celebrated opening our 2,000th concept store, and ended the year with 2,138 concept stores, 2,027 shop-in-shops and 17 eSTOREs across the globe. At the same time, we continued to strengthen our focus on in-store execution to ensure our customers have an excellent PANDORA shopping experience whenever and wherever they meet us.

Around the world, our jewellery is more popular than ever and we reached the milestone of crafting around 122 million pieces in 2016. We expect demand to keep growing, and are increasing our production capacity to keep pace.

The first part of this work is our new crafting facility in Lamphun, near Chiang Mai in Northern Thailand. The new facility was built in just over a year and it is testament to dynamic teamwork and a positive can-do attitude.

In our ongoing efforts to expand our universe of jewellery, we launched several new products in 2016 with good reception among consumers. In addition, we sharpened our focus on earrings, and we are excited by the potential this category holds for us in the future. We also continued to add to our existing collections, and launched PANDORA Rose globally following its success in the US and the UK.

Research shows that there is an increasingly confident generation of women with more spending power than ever before – and we evolved our brand in 2016 to give us an even stronger connection with this increasingly powerful group of consumers. This included launching a number of new marketing campaigns that celebrate women both as unique individuals and as part of strong collectives, and we saw our brand awareness grow in both new and existing markets.

None of our achievements in 2016 would have been possible without the dedicated people who make up our company – and we would like to take a moment to thank all of our colleagues, who worked hard to make 2016 such a successful year. Also, on behalf of PANDORA's Board of Directors, Management Board and employees, we would like to thank our consumers and shareholders for their continued trust and support.

Anders Colding Friis
*President & Chief
Executive Officer*

Peder Tuborgh
*Chairman of the
Board of Directors*

EXECUTIVE SUMMARY

2016 was another strong year for PANDORA, and our financial performance surpassed initial expectations in many areas, including revenue growth and profitability. The strong performance was driven by positive development in our key focus areas, including product diversification, branded store network development and geographical expansion.

PRODUCT DIVERSIFICATION

Following several years of progress in the Rings category, we began to focus on the Earrings category at the beginning of 2016, while still maintaining attention on both the Charms and Bracelets core category and the Rings core category. As well as introducing 46 new earring products, we gave earrings greater in-store focus and created targeted earring campaigns. In 2016, revenue from the Earrings category increased around 80%, representing 5% of Group revenue compared with 3% in 2015. At the same time, revenue from the Charms and Bracelets core category and the Rings core category increased by 16% and 28% respectively.

To drive all product categories, we launched seven new product collections in 2016, and we introduced

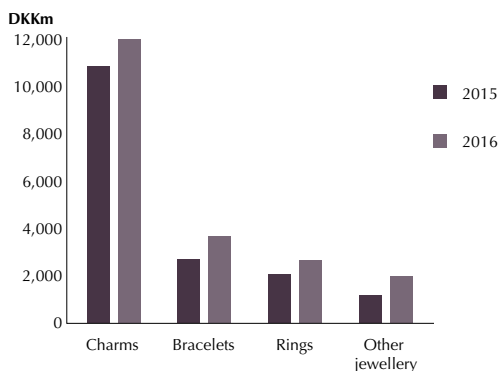
new products in all our individual product concepts, including Moments, PANDORA ESSENCE COLLECTION, PANDORA Rose and the Disney collection. All collections were received well by end consumers and generated more revenue than the corresponding collections in 2015. In addition, we launched Petite Memories, a new and innovative floating locket concept, and introduced the PANDORA Rose collection to all markets, following successful earlier launches in the UK and the US.

NETWORK DEVELOPMENT

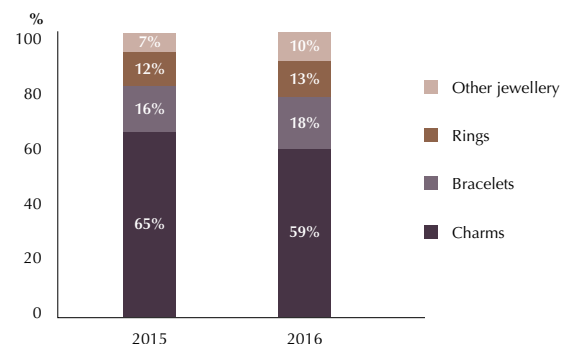
In 2016, we continued to expand the branded part of our store network, opening net 336 new PANDORA concept stores. We now have 2,138 concept stores across our three geographical regions, of which 598 are owned and operated by PANDORA. Furthermore, we opened eSTOREs in three new countries to further broaden consumer reach. By the end of the year, we had a total of 17 eSTOREs, including newly launched eSTOREs in Canada, China and New Zealand, giving us a truly global online presence.

As an integrated part of our strategy to improve our store network by focusing on branded sales channels, we closed

PRODUCT CATEGORY REVENUE



PRODUCT CATEGORY SHARE



net 1,829 multibranded accounts across the world in 2016. Of these, more than 200 stores owned by the US jewellery chain Jared® The Galleria Of Jewelry (Jared) and operated by Signet Jewelers were upgraded to shop-in-shops.

In 2016, branded revenue, which is generated through our concept stores and shop-in-shops, increased by 30% compared with 2015 and represented 78% of Group revenue.

GEOGRAPHICAL EXPANSION

We continued the focus on geographical expansion in both newer and developed markets in 2016.

In the Americas, a region that delivers 34% of Group revenue, we opened net 87 new concept stores, including net 27 new stores in the US, which remains our largest market. Additionally, we significantly improved the quality of our store network in the US through Jared's upgrade of more than 200 multibranded stores to shop-in-shops, and a reduction of multibranded stores by more than 50%. In Latin America, we also continued to expand our network and added net 53 new concept stores, of which 21 were located in Brazil.

EMEA represents 47% of Group revenue, and all major European markets continued to show growth in 2016. Revenue from Italy and France increased by more than 50% each, driven by increased brand awareness, while our business in Germany continued to improve as our store network became increasingly branded. Our business in the UK also continued to develop positively, and we experienced limited impact on market performance from the UK's decision to leave the EU, with the only significant effect being the depreciation of the British pound.

Asia Pacific was our fastest-growing region, and

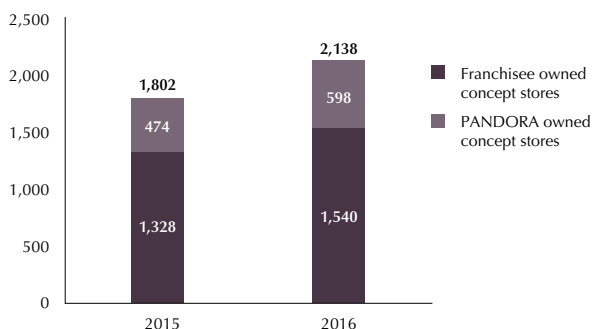
represented 19% of Group revenue in 2016. The accelerated growth in China that began in 2015 continued in 2016, and we opened net 44 new concept stores in the country during the year, bringing the total number of concept stores in China to 97. Furthermore, as part of our efforts to raise awareness of the PANDORA brand among Chinese consumers, our products were launched online on Tmall.com, a business-to-consumer platform owned by the Chinese Alibaba Group, in October and we opened a Chinese eSTORE in December. Thanks to these efforts, China now represents 4% of Group revenue, a share that is expected to increase in the coming years. Australia continued its strong performance. We added net 11 concept stores to our Australian store network in 2016 and saw double-digit like-for-like sales-out growth in the country throughout the year.

EXPANDING PRODUCTION CAPACITY

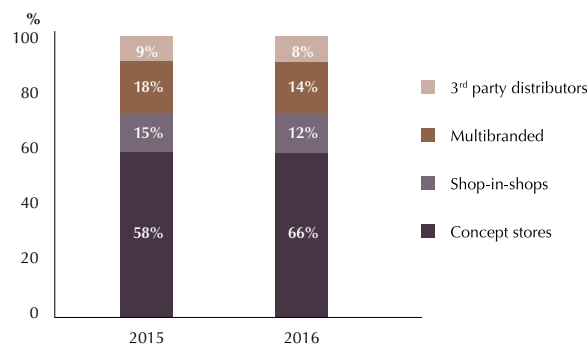
In 2016, we crafted around 122 million pieces of jewellery, at our crafting facilities in Thailand. Due to increasing demand, we have decided to expand our production capacity through a number of ongoing initiatives. With a total investment of DKK 1.8 billion, these initiatives will potentially double our production capacity to more than 200 million pieces a year by the end of 2019.

Our capacity expansion programme includes optimising our existing crafting facilities in Gemopolis, as well as building two new crafting facilities – one in Lamphun, near Chiang Mai, and another in Gemopolis, Bangkok. The first of these, the facility in Lamphun, was completed in late 2016 and will begin commercial production in early 2017. Built for around 5,000 employees, the facility is primarily optimised for rings, earrings and more complex products.

NUMBER OF CONCEPT STORES



BRANDED REVENUE SHARE



FINANCIAL PERFORMANCE

PANDORA generated revenue of DKK 20.3 billion in 2016. This was aided by strong double-digit growth in all four quarters and, in total, revenue increased by 21% compared with 2015. This was in line with the renewed guidance that we communicated in May based on a very strong performance in the first quarter.

Revenue growth was driven by good performance across all geographical regions. The Americas increased revenue by 5%, EMEA by 27% and Asia Pacific by 46%. In addition, revenue from all product categories experienced positive growth, driven by new as well as existing products.

Around half of our revenue growth in 2016 can be attributed to the expansion of our store network, which included the addition of net 336 new concept stores in 2016. Together with the closing of multibranded stores, this gave us a stronger and much more branded store network compared with the beginning of the year.

The level of EBITDA margin exceeded initial expectations for the year. Earnings before interest, tax, depreciation and amortisation (EBITDA) was DKK 7.9 billion in 2016, corresponding to an increase of 27% compared with 2015. Our EBITDA margin for the year was 39.1% compared with 37.1% in 2015.

The improvement of our EBITDA margin was primarily related to lower realised commodity prices compared with 2015, as well as increasing leverage on costs in our more developed markets. However, some of the increase was offset by greater complexity of production as well as our geographical expansion, primarily in Asia.

Capital expenditure was DKK 1,199 million compared with DKK 1,109 million in 2015. As in 2015, the level of CAPEX continued to be impacted by the development of our crafting facilities in Thailand, investments in our distribution network, and IT investments.

PANDORA's tax rate for 2016 was 21.2%, which was in line with expectations.

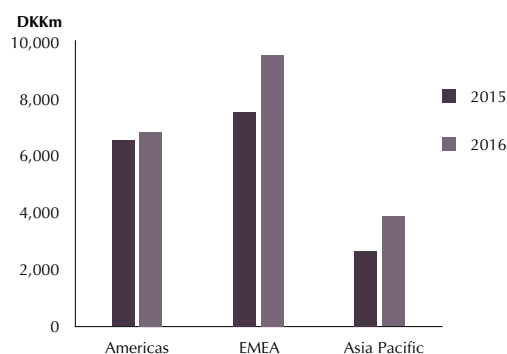
DIVIDEND AND SHARE BUYBACK PROGRAMME

For the financial year 2015, PANDORA paid out ordinary dividend of DKK 13 per share, corresponding to DKK 1.5 billion in total. From 2017, PANDORA proposes to supplement the ordinary dividend with three extraordinary quarterly dividends.

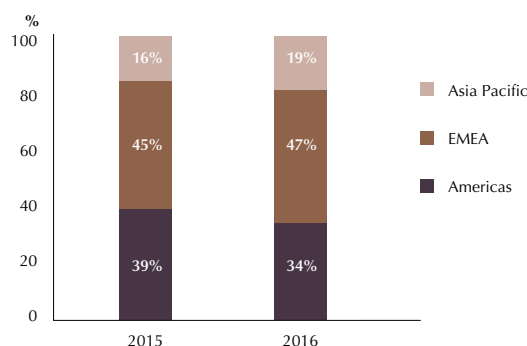
Following a strong financial performance in 2016, the Board of Directors proposes to return DKK 4.0 billion in dividend in 2017. This includes an ordinary dividend of DKK 9 per share and additionally three extraordinary quarterly dividends of DKK 9 per share in relation to Q1 2017, Q2 2017 and Q3 2017. In total, PANDORA will pay out a total of DKK 36 per share in 2017.

Furthermore, 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 share buyback programme will run in the period from 7 February 2017 to no later than 6 February 2018.

REGIONAL REVENUE



REGIONAL REVENUE SHARE



FINANCIAL GUIDANCE 2017

In 2017, PANDORA will continue to drive growth in existing stores, and expand the store network in newer as well as in more developed markets. Revenue is expected to be in the range of DKK 23-24 billion, with existing stores expected to contribute roughly half of the growth, and expansion of the store network contributing the remaining half. PANDORA currently expects only single digit revenue growth in the first quarter of 2017, due to timing of shipments and a very strong performance in the first quarter of 2016. Assuming current exchange rates, PANDORA expects a full year tailwind effect from currencies on revenue of around 1 percentage point compared with 2016.

The EBITDA margin in 2017 is expected to be around 38%. For 2017, the EBITDA margin is anticipated to be negatively impacted by around 0-1 percentage points from higher commodity prices. Furthermore, assuming current exchange rates, PANDORA expects a full year headwind effect from currencies on the EBITDA margin of around 1 percentage point compared with 2016. The EBITDA margin is expected to be significantly lower in the first half of 2017 compared to the second half.

CAPEX for the year is expected to be around 5% of revenue. The expected level of investments includes expansion of the crafting facilities in Thailand, investments in PANDORA's distribution network, as well as IT investments.

The effective tax rate for 2017 is expected to be around 21%, unchanged compared to 2016.

In 2017, PANDORA plans to continue to expand the store network and expects to add more than 275 new concept stores during the year of which roughly 50% are expected to be opened in EMEA, 25% in Americas and 25% in Asia Pacific. PANDORA expects around half of the concept store openings to be PANDORA owned stores, which is in line with the Company's intentions to increase the owned and operated retail footprint.

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

EVENTS AFTER THE REPORTING PERIOD

On 27 January 2017, PANDORA signed a letter of intent with Pan India Charms & Jewellery Private Limited (Pan India) about distribution of PANDORA jewellery in India. Under the terms of the distribution agreement, Pan India will be granted exclusive distribution rights for PANDORA jewellery in India, in which PANDORA currently has no distribution. The agreement is subject to certain conditions to be fulfilled.

Through its distribution partner, PANDORA will establish branded sales distribution focusing on concept stores and shop-in-shops, initially in Delhi, Mumbai and Bangalore, consistent with PANDORA's overall strategy to focus on expanding the global branded network. The initial expectation is to open around 50 concept stores in India over a three year period, with around five stores expected to be opened in 2017. The first opening is planned for the first quarter of 2017.

FINANCIAL GUIDANCE

	FY 2017 Guidance	FY 2016 Actual	FY 2016 Guidance (Nov. 2016)	FY 2016 Guidance (Aug. 2016)	FY 2016 Guidance (May 2016)	FY 2016 Guidance (Feb. 2016)	FY 2015 Actual
Revenue, DKK billion	23-24	20.3	>20	>20	>20	>19	16.7
EBITDA margin	Approx. 38%	39.1%	Approx. 39%	>38%	>38%	>37%	37.1%
CAPEX, DKK billion	Around 5% of revenue	1.2	Approx. 1.2	Approx. 1.2	Approx. 1.0	Approx. 1.0	1.1
Effective tax rate	Approx. 21%	21.2%	Approx. 21%	Approx. 21%	Approx. 21%	Approx. 21%	31.3%

2016 HIGHLIGHTS

Q1

CAPITAL MARKETS DAY IN THAILAND

We hosted a day to update analysts, institutional investors and the media on our strategy in the Asia Pacific region. The day also included insights into our supply chain and a tour of our crafting facilities in Gemopolis, Bangkok.



TAKING OVER DISTRIBUTION IN SINGAPORE, MACAO AND THE PHILIPPINES

We acquired the Norbreeze Group's PANDORA store network in Singapore and Macao. We also entered into a new agreement with our distributor in the Philippines and opened an office in Singapore.

PANDORA ACQUITTED IN COURT CASE

The Eastern High Court in Copenhagen, Denmark, passed verdict in the appeal case against PANDORA regarding the announcement date of the downward adjustment in our revenue expectations in 2011. PANDORA was acquitted on all counts.



RETURNING DKK 5.5 BILLION TO SHAREHOLDERS

In connection with the release of our 2015 Annual Report and the Annual General Meeting, it was decided to return DKK 5.5 billion to shareholders through dividends and share buyback.

UPGRADING AROUND 200 STORES IN THE US

US jewellery chain Jared began the upgrading of around 200 stores to PANDORA shop-in-shops. The upgrade was completed by the end of 2016.

Q2

THE UNIQUE THANK YOU

Our Unique Thank You campaign, including an online film, launched in time for Mother's Day. Later in the year, the campaign won Gold in the Online Advertising Branded Content category at the Lovie Awards.



PANDORA RECOGNISED FOR QUALITY

PANDORA received the Quality Best Practices Award from the European Society for Quality Research in recognition of our organisational excellence and manufacturing quality.





THOUSANDS LINE UP FOR JOBS IN THAILAND

On our local Recruitment Day in Thailand, more than 12,500 people applied for jobs at our crafting facilities.

Q3



PANDORA ROSE GOES GLOBAL

The PANDORA Rose Collection uses a unique blend of metals to create a beautiful rose colour. Following success in the US and the UK, the collection was launched globally.

By the end of the year, PANDORA employed more than 21,500 people globally

NEW LOCKETS CONCEPT LAUNCHES

As part of our Autumn/Winter 2016 collection, we introduced an innovative lockets concept, Petite Memories, which enables women to wear and remember precious memories in a stylish way.



2,000 CONCEPT STORES

We opened our 2,000th concept store. In total, we opened net 336 concept stores in 2016 – almost one per day – and by the end of the year we had 2,138 concept stores around the globe.

Q4



NEW CRAFTING FACILITY IN THAILAND

We celebrated the internal opening of our new crafting facility in Lamphun, close to Chiang Mai in Northern Thailand. The new facility sets new standards in the jewellery industry in terms of scale, speed and sustainability, and begins commercial production in early 2017.



REACHING MILESTONES IN CHINA

PANDORA launched on the Alibaba Group's Tmall.com website, the leading Chinese internet retail space. In addition, we opened our 100th branded store in China and launched a Chinese eSTORE.


PANDORA WINS WWD HONOUR

The first annual Women's Wear Daily (WWD) Honours celebrated outstanding company performance, executive leadership and social responsibility. PANDORA was recognised as the Best-Performing Large-cap Company.

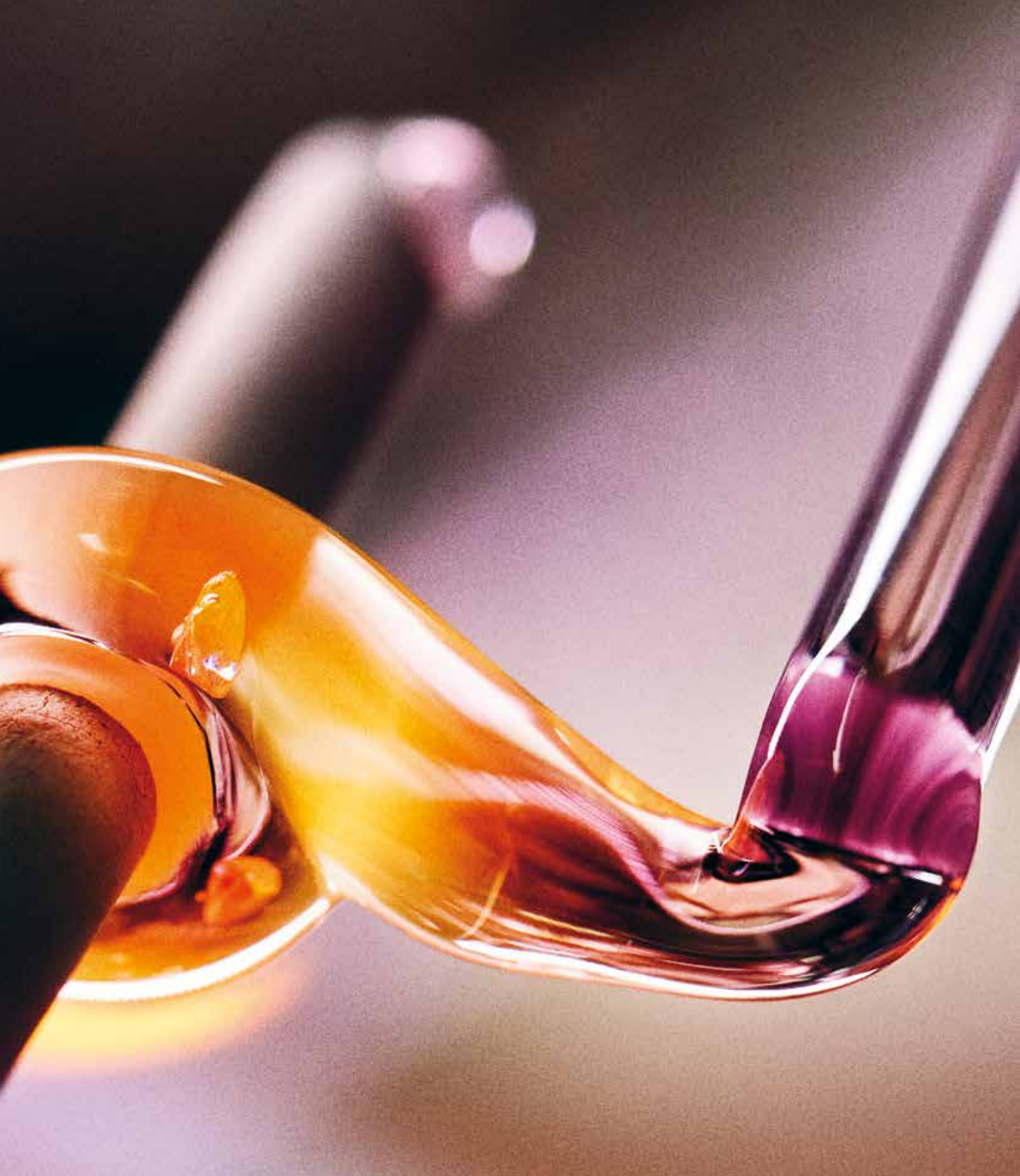
PANDORA is present in more than 100 countries across six continents

PANDORA ESTORE GOES LIVE IN CANADA

PANDORA launched an eSTORE in Canada. By the end of the year, we had 17 eSTOREs around the world.



This vibrant Murano charm features heart-shaped cubic zirconia stones embedded in the glass. The challenging design requires the individual stones to be inserted by hand, and our skilled craftspeople carefully ensure each stone is spaced evenly and facing in the same direction.



BUSINESS STRATEGY

BUSINESS STRATEGY

Over recent years, PANDORA has become one of the world's most recognised jewellery brands. Today, 8 out of 10 women in our defined target group around the world recognise the PANDORA brand, and in some markets the number is even higher. While brand recognition has increased, PANDORA has also changed significantly. We have grown in size, expanded our global presence, and significantly developed the design and complexity of our jewellery.

Our vision is to become the world's most loved jewellery brand. Recognition remains important in new and emerging markets, but we want to create a stronger emotional bond with our consumers wherever they are in the world. Many consumers already love the PANDORA brand and products. We build on this by putting the consumer at the heart of everything we do, from product development and design through to manufacturing, marketing and retail.

THE PANDORA VISION

To become the world's most loved
jewellery brand



THE PANDORA MISSION

To celebrate women by offering them
the opportunity for personal expression
through our universe of high-quality and
contemporary jewellery at
affordable prices

FOUR STRATEGIC PILLARS

In order to become the world's most loved jewellery brand, we have designed our strategy around four strategic pillars. These form the basis of our work, and we are convinced that we can achieve our aspiration by executing on these pillars in all we do.

1. FULL JEWELLERY PRODUCT OFFERING

PANDORA offers a full assortment of jewellery. Charms and Bracelets are still our strongest products and we will continue to protect and grow this category. At the same time, however, we are continuing to develop other jewellery categories, one at a time.

2. ONE BRAND – TARGETED SEGMENTS

We maintain one brand across the globe that is instantly recognisable and known to offer a full range of jewellery products. However, we also employ a segmented approach that addresses consumers in a more targeted way.

3. BRANDED RETAIL EXCELLENCE

We offer our consumers a unique PANDORA shopping experience through excellent retail execution. In some cases, stores are run by franchisees; in other cases, we own and operate stores ourselves.

4. BALANCED GLOBAL BUSINESS

We ensure balance in our geographical footprint by sustaining strong performance in developed markets while also increasing our revenue share in new and emerging markets.

Read more about our four pillars on the following pages.



THE FINISHING TOUCH

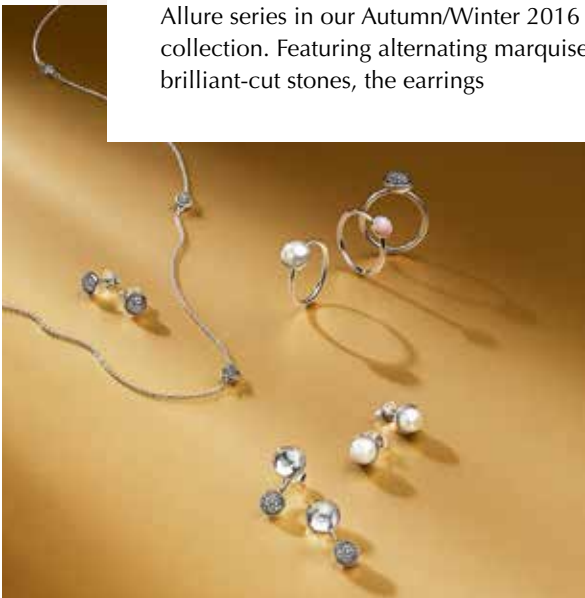
From exquisitely detailed studs to formal hanging pieces, earrings have always been part of the PANDORA jewellery universe. In 2016, we had special focus on earrings – out of a total of 426 new products, 46 were earrings – making 2016 the year of the earring at PANDORA.

Building on our existing foundation of brilliant studs, we introduced a number of statement earrings in 2016, such as the hail-loop earrings introduced as part of the Vintage Allure series in our Autumn/Winter 2016 collection. Featuring alternating marquise and brilliant-cut stones, the earrings

give the vintage look a contemporary twist, enabling women to add a touch of vintage style to any outfit.

In our marketing campaigns in 2016, earrings were often promoted together with rings – to create synergies between two of our fastest-growing product categories – or sold with matching necklaces in jewellery sets.

All this had a significant impact. Revenue from earrings accounted for 5% of our revenue in 2016, an increase by around 80% compared with 2015. However, earrings make up around 20% of the total jewellery market worldwide, and the category still holds significant potential for PANDORA.



FULL JEWELLERY PRODUCT OFFERING

When creating a new collection, our goal is to maintain the high level of quality for which we are renowned, while also introducing new details that make our hand-finished jewellery beautiful, current and forever relevant. Each collection is designed to further expand our jewellery universe, and our jewellery is designed with both future trends and previous collections in mind. This enables us to offer contemporary and innovative designs, while also activating our existing assortment to balance sales of existing and new products.

We produce the majority of our jewellery at our own crafting facilities in Thailand, from which we can ensure a constant supply of high-quality jewellery, and scale production of different pieces up or down to fulfil demand.

PRODUCT DEVELOPMENT STRATEGY

Our strategy capitalises on our product offering through consumer-centric, market-led and innovative design of new products. Many factors, including sales-out data on existing products, raw material prices and price points, are taken into account when deciding on designs, and the themes for each collection are chosen based on global trends and seasonality.

Our charm bracelet concept, launched in 2000, remains our strongest product category. However, we are developing other jewellery product categories, one at a time. We have successfully built our Rings category over the last few years – Rings made up 13% of our revenue in 2016, compared with 12% in 2015. In 2016, we turned our attention to the

Earrings category – and out of a total of 426 new pieces launched throughout the year, around 10% were earrings. In addition to our charms and bracelets, rings and earrings, our necklaces and pendants completes the PANDORA product universe and holds great long-term potential.

Launch strategy

We have seven product launches a year, arranged around traditional fashion and gift-giving seasons, to ensure consumers have a constant variety of new PANDORA products to choose from.

This launch strategy has contributed significantly to our growth, as it both refreshes the assortment and drives traffic into stores throughout the year. Slow-moving items are retired through sales promotions, clearance through outlets or permanent stock-balancing programmes in selected countries.

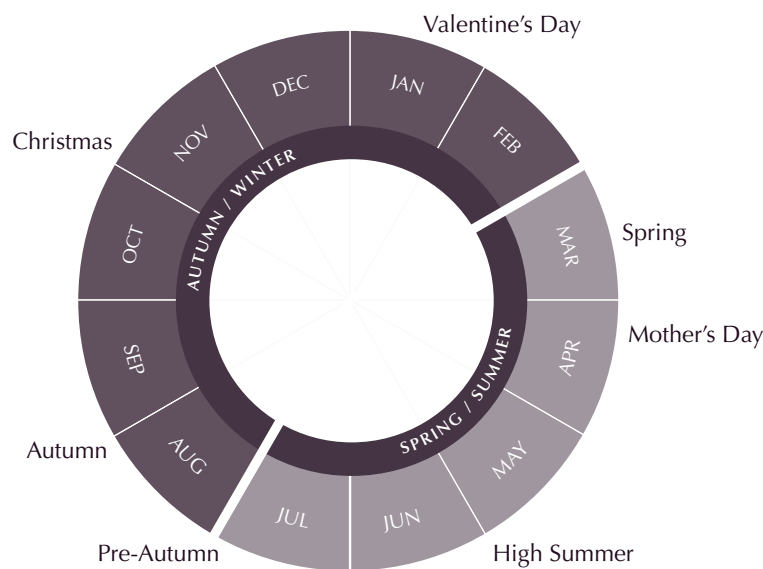
Consumer-centric design and innovation

We strengthened our front-end design process in 2016 to increase innovation and customer-focus in our designs. This included creating two new departments – Commercial Innovation and Product Innovation – that work with our design team on innovative new products, materials and production processes. The new structure gives us a more holistic approach to innovation and development that enables us to embed our designs more deeply in current consumer needs and bring new concepts into our collections.

In addition, our retail insight system provides us with sales-out figures for products in our concept stores. This data is fed back into our product design. If a specific design or colour performs particularly well, for example, we may create a number of variations of that design or colour for the next product launch – a process known as design-to-data. Increased revenue from new products indicates that our design team is able to meet consumer demand in terms of design, colour, materials and price.

PANDORA released 426 new
products in 2016

PRODUCT OFFERING IN SEVEN ANNUAL LAUNCHES



Our design and innovation teams begin preparations for every collection a year in advance. In order to ensure each launch has a modern and innovative feel, we keep abreast of the latest trends – not just within jewellery, but within all aspects of consumer behaviour. This information is combined with sales data from our retail insight system to create a mood board that sets the scene for each collection. Once a theme has been settled on, all three teams work together to come up with new ideas, test new concepts with consumer groups and establish the best way to produce the products.

For each launch, we develop a marketing and sales toolkit. The toolkit is designed around all consumer touch points and contains a full range of materials, from advertisements and PR to point-of-sale materials and sales training. Prior to and during a launch, we also promote new products through our digital channels, including social media, the PANDORA Club and our network of bloggers.

Crafting

Each new piece of jewellery is drawn in 3D at the PANDORA Innovation Centre in Thailand, a facility where design and crafting converge. The centre's development team creates prototypes of each piece and analyses the new designs in order to establish the most efficient crafting process. The pieces are then crafted at our crafting facilities

in Thailand – where we combine standardised, scalable and modern production techniques with centuries-old craftsmanship. Every piece is hand-finished by experienced and skilled craftspeople. In total, PANDORA Production Thailand employs more than 12,400 people.

PANDORA Production Thailand crafted around 122 million pieces of jewellery in 2016. Around 13% of these were crafted by carefully selected third-party suppliers in Thailand, China and Italy.

Due to increasing demand, we are expanding our production capacity through a number of initiatives. With a total investment of DKK 1.8 billion, the capacity expansion programme will potentially double our production capacity to more than 200 million pieces a year by the end of 2019, and introduce flow principles to shorten lead times by 50%.

The programme includes building two new crafting facilities in Thailand – one in Lamphun, near Chiang Mai, and one in Gemopolis, Bangkok – as well as optimising our existing crafting facilities in Gemopolis.

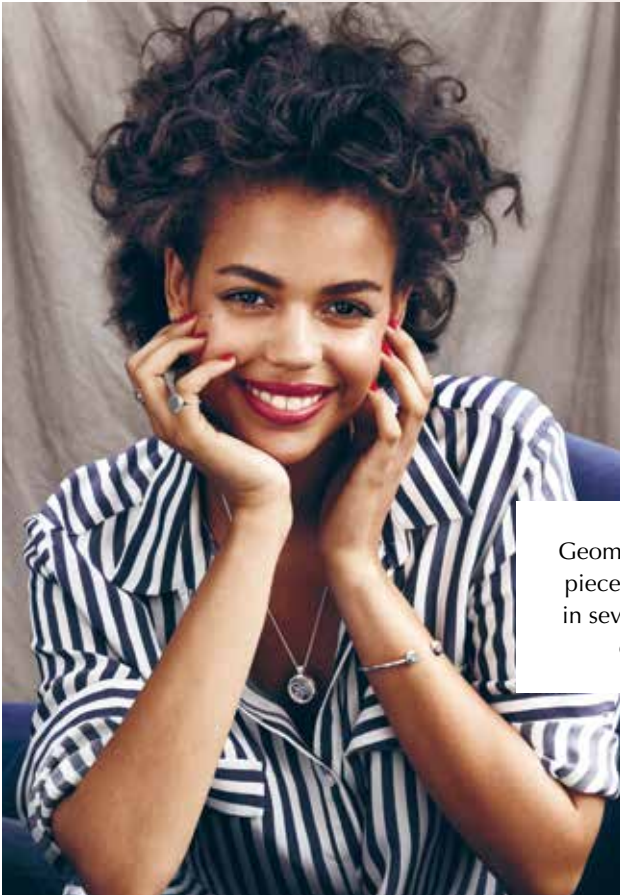
The first of these, our Lamphun facility, was completed in late 2016 and will begin commercial production in early 2017. Built for a maximum of 5,000 employees, the facility is primarily optimised for rings, earrings and more complex products. It incorporates flow principles and semi-automated areas and is LEED (Leadership in Energy and Environmental Design) certified.



Intricate, vintage-inspired designs put a fresh spin on the classic Moments bracelet.



Captivating and chic, leaf-inspired charms add a botanical flair to the popular sterling silver bangle.



Geometric shapes, intricate statement pieces and designs that can be worn in several ways make the PANDORA collections truly personal.



Birthstone and star sign charms add personal meaning to bracelet stylings.



The Droplets rings can be mixed and matched to create an arresting kaleidoscopic effect.

THE PANDORA PRODUCT UNIVERSE

Our products are a direct reflection of our desire to offer women high-quality, hand-finished and contemporary jewellery at affordable prices. Each product is a piece of personal storytelling, affordable luxury and contemporary design – and with each launch we further expand our full universe of jewellery.

PANDORA jewellery has a distinctive look and quality. However, within the PANDORA product universe there are a number of distinct collections – including Moments, PANDORA ESSENCE COLLECTION, PANDORA Rose and the Disney collection. All of our product categories include products from a number of different collections.

Charms and Bracelets

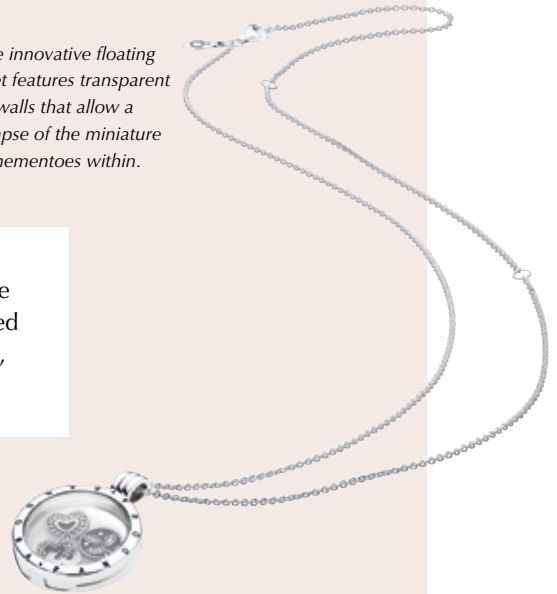
PANDORA's classic charm bracelet concept Moments offers a selection of charms and bracelets that let women wear mementos of their unforgettable moments on their wrists. Equipped with patented 'stations' and 'clips', the bracelets enable women to add and combine charms in any way they choose to create highly personalised pieces of jewellery. As a result, almost no two PANDORA charm bracelets are ever the same.

The Charms and Bracelets core category includes PANDORA ESSENCE COLLECTION, a range of slender bracelets and an accompanying assortment of charms representing personal values. It also includes an innovative and patent-pending solution that enables the wearer to position charms along the bracelet. In 2016, Charms and Bracelets made up 77% of revenue. 285 new charms were added to our assortment and 307 were discontinued.



The PANDORA jewellery universe provides women with hand-finished jewellery pieces that are timeless, on-trend and forever relevant.

The innovative floating locket features transparent walls that allow a glimpse of the miniature mementoes within.



Elegant hoops and chic stud earrings infuse looks with sophisticated details.



Light and delicate, PANDORA ESSENCE COLLECTION conveys timeless emotions with a sophisticated aesthetic.



Rings

Most PANDORA rings can be stacked to create a personal look and are designed to complement other PANDORA jewellery. The Rings category continued to be a key focus area in 2016 and we introduced a number of new ring products throughout the year. Ring sales increased by 28% in 2016, with Rings making up 13% of revenue. This has firmly established Rings as our second-largest core category.

Earrings

We have been crafting earrings since our brand's early beginning. As part of our continuous strategy to develop our product universe, the Earrings category was chosen as the focus of 2016. The Earrings category has huge potential. For many women, earrings pull together a complete look and PANDORA earrings reflect and complement our full assortment, making them a perfect fit with our other

jewellery categories. Earrings made up 5% of our revenue in 2016, up from 3% in 2015, and we will continue to build and expand our Earrings category over the coming years.

Necklaces and Pendants

In addition to charms and bracelets, rings and earrings, we design, produce and sell necklaces and pendants. Our necklaces are versatile and can be combined with our other product categories to create a unique and personal look, or can be worn on their own. We introduced a new range of lockets in 2016, which proved very successful in our Necklaces and Pendants category in 2016. Necklaces and Pendants made up 5% of our total revenue in 2016, compared with 3% in 2015.

ONE BRAND – TARGETED SEGMENTS

The PANDORA brand is unique. Through our people, products, stores, marketing and everything else we do, we have created a brand that not only celebrates the individuality of every woman, but lets her express this uniqueness in her own special way.

To preserve the strength of our brand and ensure we maintain a unique connection with our consumers, we maintain one brand across the globe that is instantly recognisable. However, our target group of women between 18 and 49 years of age is broad, and there are several different consumer segments within this target group,

each with individual characteristics. We adopt a segmented approach to marketing that addresses these consumer segments in a way that is relevant to them.

Increased focus on marketing

During 2016, we strengthened, expanded and reorganised our marketing team to ensure greater focus on listening to and learning from our consumers. As part of this work, we boosted our social and digital focus and added new expertise across our marketing team during the year.

In order to increase the relevance of our global campaigns, we established a Marketing Board in 2016 that includes our regional marketing vice presidents. The Marketing Board meets regularly to ensure we capture feedback from all our markets, listen to their needs and wishes, and understand regional consumer differences.

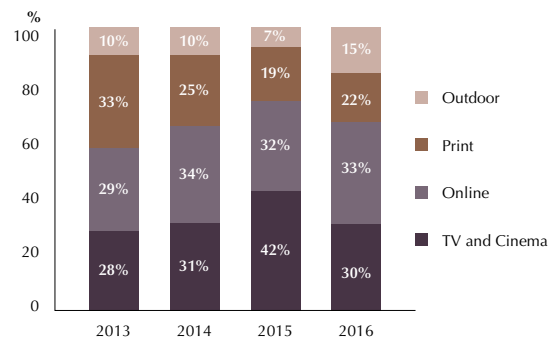
We spent 9% of our revenue on marketing in 2016, a nominal increase of 14% compared with 2015. Our global marketing spend was further increased by the marketing spend of franchisees, multibrand retailers and third-party distributors.

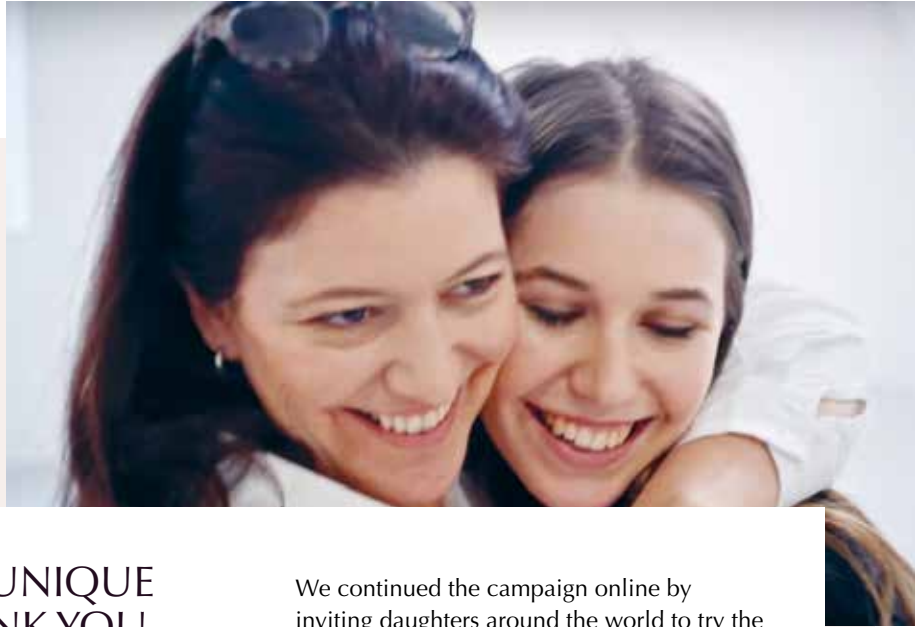
INCREASINGLY ONLINE

We constantly assess the media landscape and adjust our media spread to increase the effectiveness of campaigns and ensure we connect with consumers in the most effective way. In recent years, we have shifted some of our media spend from traditional print media to online media and TV.

Online media gives us an opportunity to connect and interact with consumers in a unique way. We create online spaces where consumers can meet and share their passions, jewellery designs and fashion tips – and monitor consumer feedback. We enjoy a close relationship with consumers, and this is enhanced by continuous online engagement via a variety of social media platforms such as Facebook, the PANDORA Club and Instagram. The digital news feed, PANDORA Universe, has more than 2 million readers per year and our Facebook page sees around 1.8 million interactions per month.

PANDORA MARKETING
SPEND PER MEDIA





THE UNIQUE THANK YOU

Mother's Day is one of the biggest jewellery giving occasions of the year. On this day, mothers and daughters around the world celebrate their relationship – and many give each other a unique thank you in the form of PANDORA jewellery.

In 2016, we celebrated Mother's Day by launching a film that explores the deep-rooted connection between mother and daughter. Called *The Unique Thank You*, the documentary-style film is a touching experiment to see if mothers can recognise an anonymous, yet personal, message written to them by their daughters, and hidden among other messages.

We continued the campaign online by inviting daughters around the world to try the experiment for themselves with our unique online message generator. Just like in the film, the daughters write a personal message to their mother, and then hide it among other messages and see if their mother can find it.

The campaign was a follow-up to our 2015 viral hit film *The Unique Connection*, and it proved a hit with both consumers and the advertising industry. By the end of 2016, *The Unique Thank You* had received more than 4 million views on Facebook and YouTube – as well as around 77 thousand interactions – and it won Gold in the Online Advertising Branded Content category of the prestigious Lovie Awards, which celebrate the best of the internet in Europe.



An evolving brand platform

Research by The Future Laboratory shows that there is an increasingly confident generation of women who are looking for new ways to explore and express their true identities. In 2016, we evolved our existing brand vision and communications platform to ensure we have an even stronger connection with this increasingly powerful group of consumers.

Our new brand communications platform is focused around the modern, multifaceted woman: a consumer who sees herself as both a unique individual and part of the strong female collective. This required a number of changes to our existing brand – including the removal of the tagline Unforgettable Moments – that are now reflected across our campaigns, communications and corporate materials. Our new brand communications platform launched in March 2016 with a global campaign called Unique as We Are.

In addition to female consumers, we also devote a small amount of our marketing resources to men. Around two thirds of women who own PANDORA jewellery receive it as a gift, and more than half of the givers are men. Our marketing initiatives targeted at men include the Giffinder, a simple online tool that helps men find the perfect PANDORA item for their loved one.

One brand – many segments

Following a study in 2014-2015, we identified a number of different consumer segments among both female jewellery wearers and male gift-givers. The segments give a general impression of why a person buys or wears jewellery, and enable us to create more targeted and relevant products, communication, product placement and sales techniques.

Each of our main markets has identified primary consumer segments, as well as secondary consumer segments that represent their strongest growth opportunities. Using this information, they select marketing materials targeted to their most important consumer segments, an approach that enables us to ensure global consistency in our brand presentation, while also targeting specific segments in each country.

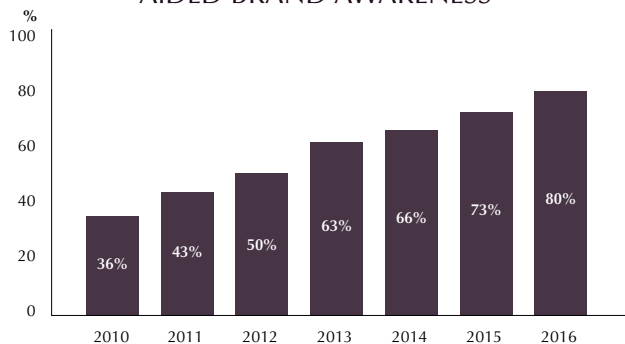
UNIQUE AS WE ARE

Our first marketing campaign based on our new brand communications platform was timed for the release of our Spring/Summer 2016 collection. Based on the tagline, Unique as We Are, the campaign celebrated the individual uniqueness and collective diversity of women in the more than 100 countries where we are present. The multi-channel campaign contained a number of elements, including a TV commercial directed by award-winning director Martin Werner that follows the separate lives of different women as they come together to celebrate a friend's wedding.

The Unique as We Are campaign was extended into the Autumn/Winter 2016 collection with a new campaign titled The Look of You. Inspired by the power of self-expression, the campaign explored the concept of personal style as an outward representation of women's inner selves, inspired by seasonal trends. The campaign demonstrated the versatility of our full jewellery universe in a unique way: as an experimental documentary-style film.

In the film, a number of celebrated global stylists are introduced to a woman, Ella, who shares a few personal facts about herself. The stylists then create a styled look for Ella – incorporating jewellery from our Autumn/Winter 2016 collection – that reflects her personality and the season's biggest trends. By the end of 2016, the film had received around 775,000 views on Facebook and YouTube.

AIDED BRAND AWARENESS



Source: Ipsos (2014-2016), IUM (2010-2013) - Global Brand Track among women between 18 and 64 years.

A woman with voluminous, curly brown hair is the central focus of the image. She is wearing a dark, textured, V-neck top and is adorned with several pieces of Pandora jewelry, including multiple silver and gold bracelets on both wrists and a gold necklace with a diamond pendant. She is sitting outdoors, with her hands near her face, looking directly at the camera with a slight smile. The background is a soft-focus outdoor setting with green foliage and some pinkish-purple flowers.

141 MILLION VISITS
ON PANDORA'S
CONSUMER WEBSITE
IN 2016

10.5 MILLION FANS
ON OUR FACEBOOK PAGE

9.4 MILLION PANDORA
CLUB MEMBERS
3.9 MILLION CLUB MEMBERS
HAVE ONLINE PANDORA
WISH LISTS

8 OUT OF 10 WOMEN
IN OUR TARGET GROUP
KNOW PANDORA

BRANDED RETAIL EXCELLENCE

Our goal is to ensure our consumers have a unique PANDORA shopping experience wherever they meet us, whether it is in a PANDORA concept store, a shop-in-shop or online.

The ultimate PANDORA shopping experience is at a PANDORA concept store. Everything about our concept stores has been designed to show our universe of jewellery at its best. From window displays to product zones and interaction with sales staff, the entire experience reinforces our brand. Supported by the PANDORA way of selling, this 360° approach has made our concept stores an increasingly important part of our business model – and today consumers can find a PANDORA concept store in most major shopping malls and streets in the world.

Branded stores

Our branded store network – including concept stores, shop-in-shops and eSTOREs – is an integral part of our business model. Here, our products are displayed in a PANDORA-branded environment, giving us full control over the consumer shopping experience, and we can see that branded store environments have a significant impact on sales. In 2016, branded stores made up 78% of revenue, compared with 73% in 2015. We continue to increase our branded store network by opening new concept stores and shop-in-shops or upgrading multibranded stores in which PANDORA products are selling well. In 2016, we opened net 336 new concept stores, net 353 new shop-in-shops, and three new eSTOREs.

Many of our branded stores are owned and operated by PANDORA. This gives us a number of benefits, including an invaluable direct connection with our consumers. Others are run in collaboration with a franchise partner. The choice of whether to own and operate our stores or partner with a franchisee depends on a number of factors, including store location and market needs. By the end of 2016, 17% of our physical branded store network was owned and operated by PANDORA.

Multibranded stores

Multibranded stores have historically been an important part of our strategy, especially in new and expanding markets, as the stores enable us to reach a broader consumer base. As we move further into branded sales, the number of multibranded stores will naturally decrease. At the end of 2016, our jewellery was available in a total of 3,966 multibranded stores across the globe, compared with 5,795 at the end of 2015.

BUILDING A BRANDED NETWORK ONLINE

As part of our efforts to raise awareness of the PANDORA brand among Chinese consumers, our products were launched on Tmall.com, an online store run by Chinese Alibaba Group, in October.

In addition, in December we opened our Chinese eSTORE, which, together with Tmall.com, gives us a strong online presence in China.

Our eSTOREs work together with our physical store network to give our consumers a consistent PANDORA-branded shopping experience, whether they prefer to buy their products in a physical store or online. As well as opening an eSTORE in China, we opened new eSTOREs in Canada and New Zealand in 2016, bringing the total number of PANDORA eSTOREs to 17 by the end of the year.



WELCOME TO OUR BEST-PERFORMING STORE

Welcome to our Pitt Street store in Sydney, Australia, one of the busiest PANDORA stores in the world and our best-performing store in 2016 in terms of sales out.

Like at all our stores, the atmosphere at Pitt Street is always warm and welcoming despite the hustle and bustle of shoppers – and the sales team love meeting customers and hearing their stories. In some cases, a customer can stay for up to two hours, talking to the sales staff about her life and experiences as she finds the perfect jewellery to express her individuality and style. There has been a recent surge in tourists

visiting Australia, particularly from China, and many of the visitors to our Pitt Street store are holidaymakers, keen to buy a memento of their trip or a gift for a loved one back home. It is not uncommon for these customers to video call with their friends or loved ones as they select the perfect PANDORA piece, and sales staff often join the call, explaining about the pieces and how they were made.

The personal approach is certainly working. Revenue at our Pitt Street store rose 500% from 2012 to 2016. But it is not just Pitt Street that is performing well. Sales are on the increase in our concept stores across the globe. In 2016, our concept stores delivered 66% of our sales revenue, an increase of 37% compared with 2015, despite making up only 26% of our physical store network.

BALANCED GLOBAL BUSINESS

With 8,131 points of sale across more than 100 countries, PANDORA's full universe of jewellery is readily available to consumers almost anywhere around the globe.

The global jewellery market was worth more than DKK 2,100 billion in 2016. According to Euromonitor International, this is expected to grow to around DKK 2,900 billion by 2021, representing a huge opportunity for PANDORA. Our goal is to ensure we have a balanced global business in which we grow our presence in new markets while also increasing revenue in developed markets.

Growing in new and developed markets

Our business model is strong in developed markets as our signature product, the charm bracelet, encourages repeat purchase of charms. However, we also see significant opportunities for leveraging our brand recognition in other jewellery categories, especially in markets where the PANDORA brand is already strong. To achieve this, we continued to develop our product offering around the globe in 2016. In addition, we further reduced our dependence on individual markets by entering new markets and expanding our presence in established markets, such as China, Italy and France. In each new market, we adopt a tailored approach in order to take advantage of opportunities, present our brand in the right way and mitigate risk.

Americas

We have an established business in the Americas, and the US remains our largest single market, delivering 25% of our total revenue in 2016. We also have a strong presence in the Canadian market with 78 concept stores and making up 12% of revenue in the region. There is still great untapped

potential for PANDORA in South America, although in some countries – such as Brazil – the local economic situation could prove challenging.

EMEA

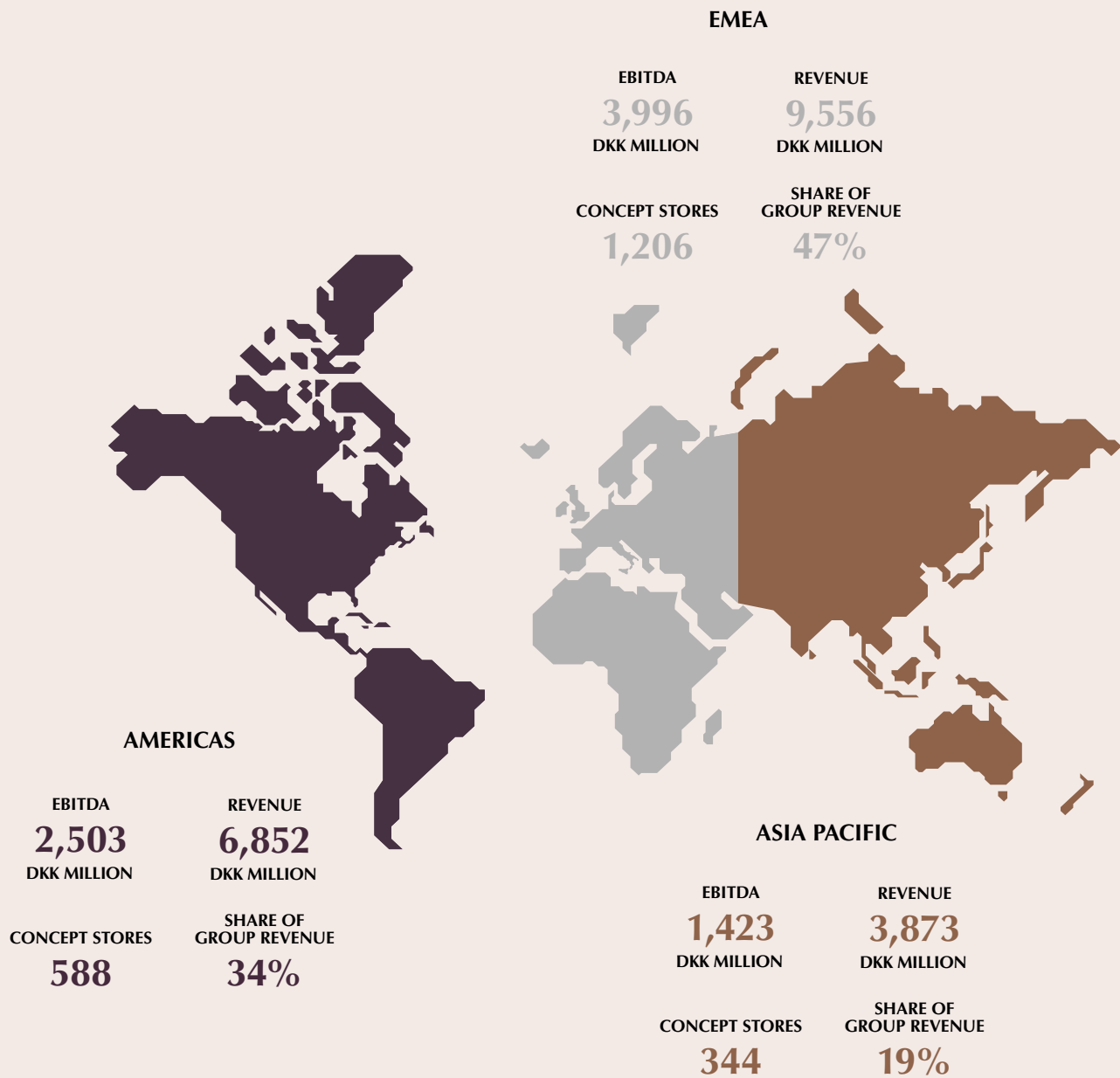
In 2016, we consolidated our existing regions of Europe, the Middle East and Africa into one region called EMEA. This will promote knowledge-sharing across the region, and will improve central support for individual countries.

There is still great growth potential in this region. Italy and France, for example, are two of the largest jewellery markets in EMEA, but are still relatively new markets for PANDORA. Thanks to a concerted effort, combined revenue from these markets constituted 33% of our total revenue in EMEA in 2016, compared with 27% in 2015. At the same time, we succeeded in growing in our developed markets. In the UK, for example, revenue grew by 9% (or 25% in local currency).

Asia Pacific

Asia Pacific was our fastest-growing region in 2016. However, this region still holds significant potential. In many countries in the region, our presence is still limited, including large jewellery markets such as China. In 2016, we further increased our focus on China – a country that represents one-third of the global jewellery market – opening net 44 new concept stores and an eSTORE as well as launching our products on Tmall.com.

Asia Pacific also includes a number of developed markets and we continued to grow in these markets in 2016. Australia, for example, saw revenue grow by 37%, driven by increasing sales in all product categories.



REVENUE PER REGION

DKK million	2016	2015	2014	2013	2012
Americas	6,852	6,537	4,959	4,156	3,312
EMEA	9,556	7,548	5,304	3,760	2,542
Asia Pacific	3,873	2,652	1,679	1,094	798

SHARE OF GROUP REVENUE

	2016	2015	2014	2013	2012
Americas	34%	39%	42%	46%	50%
EMEA	47%	45%	44%	42%	38%
Asia Pacific	19%	16%	14%	12%	12%



THE WORLD'S LARGEST JEWELLERY MARKET

China

China is the world's largest jewellery market, with an estimated value of around DKK 700 billion. This makes it an important emerging market for PANDORA.

Brand awareness is of high importance for us in China and in 2016 we concentrated on growing our presence and brand awareness across the country. We are opening around 40 new concept stores in China every year and will continue to do so for the next couple of

years. In 2016, we opened a total of 44 new concept stores, entering five new cities. In addition, we opened an eSTORE, and entered into an agreement with Alibaba Group to sell our products on its Tmall.com website.

These efforts are clearly working. In 2016, aided brand awareness among women increased to 53% in Beijing and Shanghai, compared with 35% in 2015, and our revenue grew by 175%. All this has given us a strong foundation in China. But China still holds great potential for PANDORA, and we will continue to expand over the coming years at a controlled but ambitious pace.



STRENGTHENING OUR BRAND

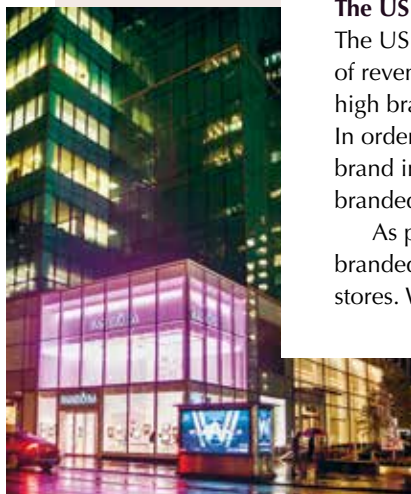
The US

The US remains our largest market in terms of revenue, and PANDORA has extremely high brand awareness among US consumers. In order to further strengthen our sales and brand image, we focused on expanding our branded store network in the US in 2016.

As part of this work, we opened net 264 branded stores, including net 27 concept stores. We closed net 829 multibranded stores

including an upgrade of our presence in more than 200 stores run by the US jewellery chain Jared to shop-in-shops.

This strengthening of the PANDORA brand is certainly working. Data from ShopperTrak Market Intelligence shows footfall traffic to US malls was 6.9% lower in 2016 compared with 2015. Despite this slow traffic to US malls, we delivered 5% growth in 2016, with both our physical stores and our eSTORE, which opened in 2015, performing well.





BECOMING THE BEST KNOWN

Italy

The Italian jewellery market is one of the largest in Europe, but it remains remarkably fragmented. Most of the country's around 18,600 jewellers and watch dealers are independent, and many are family-owned. This presents a good opportunity for a strong global jewellery brand, and it is one that PANDORA has grasped with both hands.

Since entering Italy as a complete unknown back in 2010, we have quickly

established ourselves as one of the best-known jewellery brands in the country. Today, we have a strong store network, and we continued to focus on expanding our branded sales network in 2016. We opened net 23 concept stores, giving us a total network of 75 concept stores by the end of the year.

Since we established our presence in the market, we have been growing rapidly year-on-year. And 2016 was our best year yet. We saw like-for-like sales-out growth every quarter, and revenue passed the DKK 2 billion mark for the first time, a 54% increase over 2015.



Enamel is used to great effect on our beautifully detailed designs and the Shimmering Bouquet ring is a wonderful example. The white enamel paste is applied by hand to the small daisies using a thin needle and creates a contrast to the stone-studded florals.





GOVERNANCE
AND MANAGEMENT

CORPORATE GOVERNANCE

PANDORA's aim regarding good corporate governance is to ensure transparency and accountability and that the Company meets its obligations to shareholders, customers, consumers, employees, authorities and other key stakeholders to the best of its ability in order to maximise long-term value creation.

PANDORA intends to exercise good corporate governance at all times and to assess our practices according to the corporate governance recommendations of the Danish Committee on Corporate Governance. As a publicly listed company, PANDORA is subject to the disclosure requirements laid down by Nasdaq Copenhagen, which has included the recommendations in its 'Rule Book for Issuers of Shares'. The Danish corporate governance recommendations were updated in May 2013 with minor revisions in 2014, which do not impact PANDORA's reporting. In 2016, PANDORA chose to deviate partly from Clause 3.4.6 as the Chairman of the Nomination Committee is not the Chairman of the Board.

At PANDORA, the Nomination Committee elects a chairman, who must be either the Chairman or one of the Deputy Chairmen of the Board. The Chairmanship is handled in cooperation between the Chairman of the Board and the Deputy Chairmen and thus, in practice, the Deputy Chairman represents the Chairman in the Nomination Committee.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Powers are distributed between the Board of Directors and the Executive Management and independence exists between these two bodies as is normal practice in Denmark. The Board of Directors is elected at the Annual General Meeting and all Board members are up for election every year. The Executive Management is appointed by the Board. The Executive Management handles day-to-day management, while the Board supervises the work of the Executive Management and is responsible for the general strategic direction. The primary tasks for the Board are to ensure that PANDORA has a strong management team, an adequate organisational structure, efficient business processes, an

optimal capital structure, transparent bookkeeping and practices, and responsible asset management.

The composition of the Board must be such that, at any time, the consolidated competencies of the Board enable it to supervise PANDORA's development and diligently address the specific opportunities and challenges faced by PANDORA. The Board and the Executive Management together develop the Company's overall strategies and oversee that the competencies and resources are in place to maximise the likelihood of PANDORA achieving its objectives.

Furthermore, the Board oversees the financial development of PANDORA and the related planning and reporting systems.

BOARD ACTIVITIES IN 2016

During 2016, the Board held eight ordinary Board meetings. The total attendance rate was 94%. In 2016, the primary focus area for the Board was continued growth, geographic expansion, product diversification (full jewellery brand), IT, expansion of manufacturing footprint and organisational development of the Company. The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee. The Board appoints Committee members and the Committee chairman. The Committees' terms of reference are disclosed via the Company's website.

The Audit Committee

The current members of the Audit Committee are Birgitta Stymne Göransson (Chairman), Anders Boyer-Søgaard, Andrea Alvey and Michael Hauge Sørensen. The Audit Committee reviews and assesses PANDORA's financial reporting and audit process as well as internal control systems and evaluates the adequacy of control procedures. More specifically, the duty of the Audit Committee is to supervise the following areas:

- financial reporting process
- internal control and risk management systems
- independent audit

In 2016, the Audit Committee met seven times and had an attendance rate of 93%. The main activities in 2016 were:

- meetings with the Executive Management and independent auditors to review the audited annual report
- meetings with the Executive Management to review quarterly financial statements, the key accounting policies and significant accounting estimates
- review of the adequacy and effectiveness of PANDORA's internal controls and risk management systems
- review of significant risks of PANDORA
- re-assessment of the need for an internal audit function and approved implementation of a Governance, Risk & Compliance function
- recommendation for the selection of independent auditors, including evaluation of independence, competencies and compensation
- the Audit Committee's annual self-assessment

The Remuneration Committee

The current members of the Remuneration Committee are Peder Tuborgh (Chairman), Christian Frigast, Allan Leighton, Bjørn Gulden and Andrea Alvey. The main duties of the Remuneration Committee are:

- to prepare recommendations to the Board on the pay and remuneration policy applicable to the Board and the Management Board, including the Executive Management with respect to fixed and variable pay components
- to submit proposals to the Board for the total individual pay and remuneration package of the Board members and PANDORA's executive managers
- to verify that the information about remuneration in the annual report is true, accurate and adequate

The Remuneration Committee met four times in 2016 and had an attendance rate of 90%. The main activities were the annual review of the remuneration policy and guidelines on incentive payments as well as approval of the company's overall wage regulation. The Committee also performed a review of the Long-Term Incentive Programme.

The Nomination Committee

The current members of the Nomination Committee are Christian Frigast (Chairman), Peder Tuborgh, Anders Boyer-Søgaard, Ronica Wang and Per Bank. The Nomination Committee assists the Board in fulfilling its responsibilities with regard to the:

- description of the qualifications and competencies required for members of the Board and the Executive Management
- nomination of candidates for approval by the Board to fill vacancies on the Board and the Executive Management

- self-evaluation of the Board
- assessment of the performance of the Executive Management and the cooperation between the Board and the Executive Management
- succession planning for top executive positions

In 2016, the Nomination Committee met twice and had an attendance rate of 80%. The main activities were the annual self-evaluation, development of a Board composition assessment tool to ensure the competencies and experiences represented on the Board are aligned with PANDORA's strategic objectives, and an in-depth analysis of the qualifications and competencies required for members of the Board and the Executive Management.

Board self-evaluation

The Board conducts an annual self-assessment to constantly improve the performance of the Board and its cooperation with the Executive Management. The chairman of the Nomination Committee directs the assessment process. The assessment is carried out by each Board member completing a questionnaire followed by a Board discussion where improvement areas are defined and agreed upon. Once a year, the CEO must perform an assessment of the individual members of the Executive Management.

Among the topics covered in the Board self-assessment are Board composition, the nomination process and competencies of the Board. Also covered are, for example, the Board's involvement in financial management and control, risk management, the efforts and time spent on strategic discussions, cooperation with the Executive Management, personal contributions and committee work.

The self-assessment conducted in 2016 identified the following strengths and development areas for the Board. In general, the Board demonstrates appropriate and broad industry knowledge and includes a diversity of experience and backgrounds well fitted to PANDORA's business and strategy. The Board structure and committee work are effective, and the Board considers itself to be sufficiently involved in financial oversight. The primary focus points for 2016/2017 are continuation of growth, geographical expansion, talent management, strategy, expansion of manufacturing footprint, IT and improvement of the strategy-related processes around Board meetings.

Additional information

The statutory report on corporate governance for 2016 cf. section 107b of the Danish Financial Statements Act is available at <http://investor.pandora.net/107bstatutoryreport2016EN.cfm>.

CORPORATE SOCIAL RESPONSIBILITY

We believe that Corporate Social Responsibility (CSR), or Ethics as we call it, and our aspiration to offer high-quality affordable jewellery go hand in hand. We also believe it to be a significant foundation for our vision of becoming the world's most loved jewellery brand.

Internally, our commitment to Ethics is reflected in our company values of pride, passion and performance. In addition, our integrated business model means we own and operate the greater part of our value chain. Also, we work closely with our suppliers and partners to ensure high ethical standards – and communicate efforts and performance externally in order to inspire partners and peers to initiate similar measures.

PANDORA ETHICS

PANDORA's Ethics Programme is integrated into our entire value chain through policies, guidelines and tools. Our PANDORA Ethics policies are available at www.pandoragroup.com/csr.

In 2016, the PANDORA Ethics Programme focused on:

- continuing implementation of our Code of Ethics
- inaugurating a new certified green crafting facility
- consumer communication and transparency
- supplier due diligence and training

We regularly perform *Ethics* risk assessments to define aspirations and tailor our efforts within business integrity, human and labour rights as well as the environment. Aspirations and requirements within these areas are communicated to employees through our internal Code of Ethics. The Code is supported by operational KPIs, mandatory training for all staff as well as awareness campaigns. Finally, our Ethics Hotline enables all staff to raise concerns should they perceive that our ethical standards are being breached.

In 2016, we continued the implementation of our Code of Ethics and initiated a major review process to ensure the

Code of Ethics remains relevant to the development of the company and stakeholder requirements.

PRODUCT, PEOPLE, PLANET

We use the headlines Product, People, Planet as our way of operationalising and communicating our ethics philosophy, efforts and performance to consumers, employees, industry peers and other stakeholders. We are committed to crafting our Products with integrity, providing proper working conditions for our People and minimising our environmental impact on the Planet. Product, People, Planet ensures consistency across all of our communication channels, from consumer-facing websites and our Annual PANDORA Ethics Report to internal training and presentations.

COMMUNICATING ETHICS

Over the last few years, it has become increasingly important to our consumers that the products they buy are ethically sourced. Therefore, besides loving our jewellery, we want to make sure that consumers are aware that our jewellery is sourced, crafted and traded in compliance with the highest ethical standards in the industry. In 2016, we proactively shared our ethical aspirations, efforts and results with fashion and news media, and hosted numerous press visits to our crafting facilities in Thailand. The participating media representatives were very interested in three subjects in particular – design, craftsmanship and ethical performance – and this interest led to a great deal of ethics-related PR coverage for PANDORA. In 2017, we aim to intensify the communication of our ethical standards.

PARTNERSHIPS

PANDORA is a member of the United Nations (UN) Global Compact, and the entire PANDORA Group is certified according to the provisions of the Responsible Jewellery Council's (RJC) Code of Practices, which includes the UN Guiding Principles on Business and Human Rights.

As a member of the RJC Executive Committee and elected Industry Chair of the multi-stakeholder RJC Standards Setting Committee (consisting of leading jewellery brands, independent experts and relevant civil society organisations), we are working to create shared value, conduct supply chain risk assessments, and develop and advance ethical standards in the jewellery supply chain.

PANDORA is also a member of the Danish Business Network for Human Rights and holds a seat on the steering committee. We invest considerable resources in all of the above initiatives in order to share efforts and lessons learnt with our peers and thereby help promote ethical business conduct.

Product

At PANDORA, responsible business practices begin in the design phase with the choice of materials and continue through ethical sourcing, procurement and crafting. Since 2013, CSR compliance has been one of the five pillars of our Group Procurement strategy. When entering into a contractual agreement with PANDORA, suppliers sign our Suppliers' Code of Conduct, which includes business integrity, human rights and environmental issues.

To ensure compliance with the code, we established a comprehensive Responsible Supplier Programme in 2011, which includes screening and risk assessment, training and dialogue, supplier audits, and ensures timely follow-up whenever non-compliances are identified. More details about the efforts and results of PANDORA's Responsible Supplier Programme can be found at www.pandoragroup.com/csr.

People

As a global organisation, our activities impact the lives of thousands of people around the world, and we believe that

we have a responsibility to proactively advance human rights. Our Human Rights Policy specifically instructs us to never engage in, solicit or accept child labour or forced labour in any form; we recognise and respect the right to freedom of movement, the right to associate and the right to enter into collective bargaining; we prohibit discrimination or any other unsuitable behaviour that might impair the dignity of our employees and the communities in which we operate; we provide employment and development opportunities for staff through fair and objective performance criteria; and we respond openly and transparently to perceived human rights violations.

Potential adverse human rights impacts within the jewellery supply chain are predominantly associated with mining. We minimise this risk by sourcing recycled gold grains (86%) and recycled silver grains (91%) and by predominantly using man-made stones. All the gold, silver and diamonds that we use can be traced back to certified responsible suppliers. Human rights risks at all additional goods and service providers are covered by our Responsible Supplier Programme.

Training

We offer training to all our employees – as well as shop associates in non-PANDORA owned points-of-sale – through a global network of dedicated full-time PANDORA trainers and our comprehensive in-house e-learning platform. All PANDORA shop associates and office team members can access online training on a range of topics, from general sales techniques to visual merchandising, specific jewellery collections and not least the PANDORA Ethics Programme.

We have specific training courses for production staff in Thailand that span technical skills, safety, health, business continuity, the environment, leadership and life skills. Different departments conduct the training, using a number of training methods and supported by communication channels such as PANDORA Production TV and PANDORA Radio.

Production

The vast majority of our jewellery is crafted at our own facilities in Thailand. At PANDORA Production Thailand (PPT), all people-related activities must aim at maintaining a working environment in which everyone has clarity about their role, the competence to fulfil their tasks, and the confidence to raise concerns and share ideas.

The Employee Welfare Committee is responsible for coordinating employee interests related to a) compensation and benefits, b) employee relations and c) social activities. The committee consists of 15 members, elected by their

BUSINESS INTEGRITY

At PANDORA, we believe in fair and honest competition. We remain dedicated to working against corrupt practices in our own operations and in the societies in which we operate. All our people are kept up to date with our Code of Ethics and underlying policies through awareness campaigns and mandatory training.

Our Business Integrity Policy most importantly instructs us to never offer, give or accept gifts, entertainment or any other advantages exceeding locally defined triviality limits; we never offer, authorise, give or accept bribes or extortion; we refuse to pay facilitation payments, even if this could mean a loss of business; and we do not contribute to money laundering.

One of the primary business integrity risks within our business model is the existence of 'key money' within retail. When using real estate consultants, our staff are instructed to scrutinise payments to make sure that the payments equal the actual services provided. If any of our employees suspect improper behaviour – or any other perceived misconduct – they must immediately report it to management or the PANDORA Ethics Hotline.

colleagues every second year. New committee members were elected in 2016, with 86% of employees voting.

PPT offers employees safe and healthy working conditions and competitive compensation and benefits. The growth in the number of pieces of jewellery produced resulted in specialised departments periodically exceeding the average weekly working hours defined by international standards. We addressed this by focusing on productivity gains and by hiring additional people – in total, we welcomed an additional 1,250 colleagues to PPT in 2016. In addition, we significantly expanded our capacity at our crafting facilities in Thailand by opening a new crafting facility in Lamphun near Chiang Mai.

Gender diversity in management

We believe that a successful company benefits from having a diverse management team. To ensure this, we have a number of gender diversity objectives, and progress is reviewed once a year.

- By 2020, the percentage of women in senior management positions (members of the Management Board, general managers and vice presidents) should be at least 40%. At the end of 2016, 37% of senior management were women, compared with 33% in 2015, 34% in 2014 and 24% in 2013.
- The gender composition of the Group's leadership programmes should mirror the gender composition of employees in vice president and director positions. Since we started our leadership programmes in 2012, the gender split has on aggregate been close to 50/50. In 2016, women accounted for 56% of this management group, and made up 60% of the enrolment in our leadership programmes.
- By 2018, our objective is that at least 35% of Board members elected at the Annual General Meeting are women. At the end of 2016, women made up 30% of the Board members (3 out of 10), compared with 22% in 2015 (2 out of 9). This means we are well above the average 16% for Danish listed companies, but still below the 35% target. The Board will continue to consider gender composition when appointing new members.

Planet

Our Environmental Policy commits us to minimising the environmental footprint of our operations by seeking new ways to reduce our consumption of resources and to minimise our emissions and waste. We acquire and maintain certificates for internationally recognised environmental management systems at our crafting facilities; we run training and campaigns and have standard procedures on environmental issues for relevant employees and suppliers. In addition, we have environmental and energy teams at our production facilities. We are regularly audited by the Responsible Jewellery Council (RJC), and environmental risks in our supply chain are mitigated through our Responsible Supplier Programme. Primary environmental risks within our industry are CO₂ emissions and the depletion of natural resources associated with mining. We minimise CO₂ emissions by sourcing recycled gold (86%) and recycled silver (91%) and by predominantly using man-made stones, which have less environmental impact than mined stones.



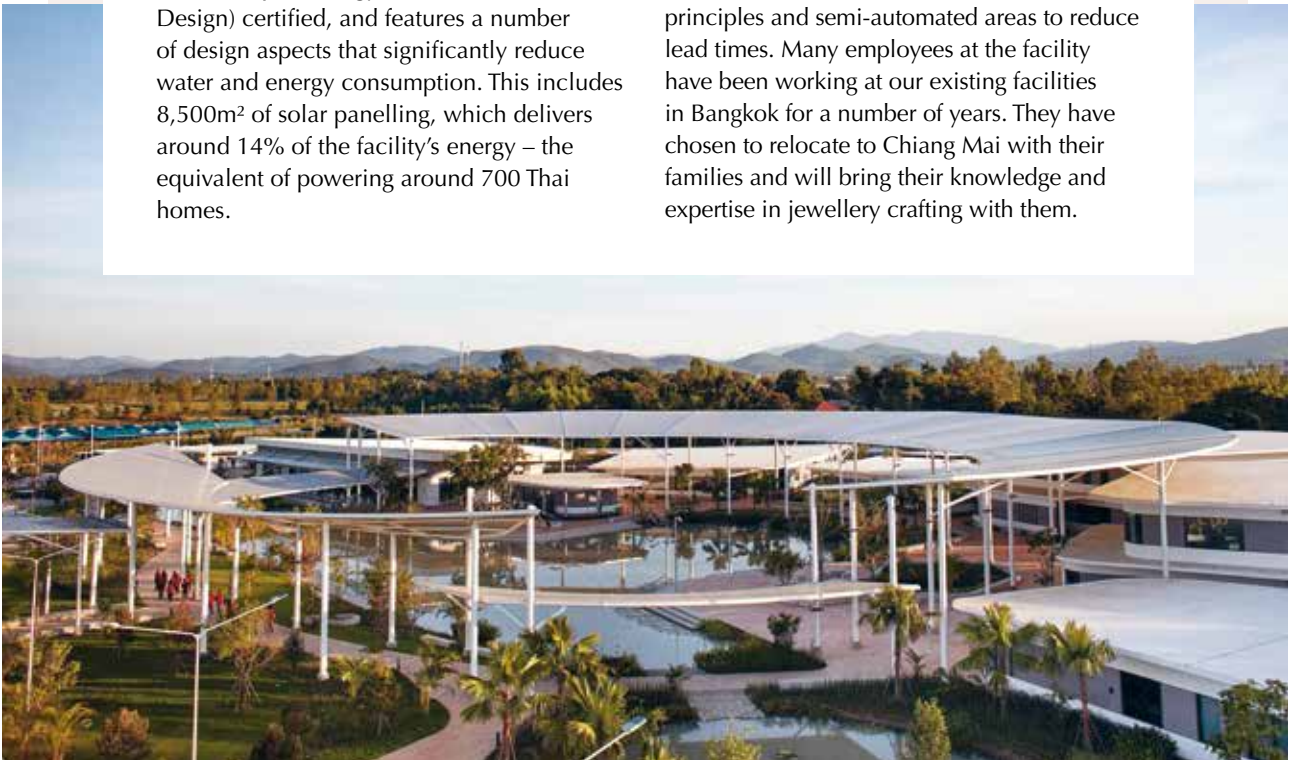
GREENER JEWELLERY CRAFTING

Our new crafting facility in Thailand is setting new standards for the jewellery industry in terms of scale and speed – and is one of the most environmentally friendly jewellery-crafting facilities ever built.

Built on a greenfield site in an industrial area in Lamphun, outside Chiang Mai in Northern Thailand, the facility is LEED (Leadership in Energy and Environmental Design) certified, and features a number of design aspects that significantly reduce water and energy consumption. This includes 8,500m² of solar panelling, which delivers around 14% of the facility's energy – the equivalent of powering around 700 Thai homes.

Water conservation is increasingly important around the globe, not least in Thailand, and our new facility recycles water within the production process to greatly reduce the use of water from the municipal supply. In addition, toilets are flushed with rainwater when possible, and a nearby lake is used as a fire-fighting water tank.

The new facility opened internally in October 2016, with commercial production beginning in early 2017. Built for around 5,000 employees, it is primarily optimised for more complex products, and includes flow principles and semi-automated areas to reduce lead times. Many employees at the facility have been working at our existing facilities in Bangkok for a number of years. They have chosen to relocate to Chiang Mai with their families and will bring their knowledge and expertise in jewellery crafting with them.



Supply chain and raw materials

Silver is by far the most important material in our products. In 2016, 91% of silver grains sourced by PANDORA originated from reused sources. The remaining 9% were mined silver provided by certified responsible refiners. In addition, we are working with our specialised silver product suppliers to ensure that the silver used in their products originates from reused sources. In 2016, 86% of the gold grains used in PANDORA products originated from recycling. The remaining gold used in our production originated from mining certified according to the RJC's Chain-of-Custody standard or the 'Good Delivery List' standard issued by the London Bullion Market Association. In addition, we focus on using sustainable products where possible. Our paper bags, for example, are made using wood from certified sustainable forestry.

Energy consumption

Our crafting facilities are by far our most energy-consuming entities. Here, we run a modern and energy-efficient production setup to reduce energy consumption. The amount of energy used by our crafting facilities in 2016 was around 36,000 MWh, up from around 29,000 MWh in 2015. This rise reflects the increase in jewellery complexity and the number of pieces produced. The two main sources of consumption (which together account for around 40% of energy use) are air conditioning, which ensures a comfortable working environment, and casting ovens.

LEED-certified crafting facility

Our new crafting facility in Lamphun, near Chiang Mai in Northern Thailand, was inaugurated in October 2016. The facility is LEED (Leadership in Energy and Environmental Design) certified and is highly resource-efficient. As a result, we expect to lower our average energy consumption, greenhouse gas emissions, and water consumption per unit produced.

Waste and recycling

At PANDORA, we see waste as a resource. In 2016, 86% of the waste produced by our crafting facilities in Thailand was reused or recycled, up from 8% in 2012. In 2015, our four main types of process waste – gypsum, glass, rubber and wax – reached an impressive result with all four types of waste being reused or recycled 100%. This trend continued in 2016.

More information on PANDORA's policies, efforts and results within business ethics, human rights, working conditions and environmental footprint can be found at www.pandoragroup.com/csr. Here you can also find our PANDORA Ethics Report 2016.

CERTIFICATIONS AT OUR CRAFTING FACILITIES IN THAILAND

Our crafting facilities in Bangkok hold the following certifications:

- Responsible Jewellery Council
- ISO 9001 (Quality Management)
- ISO 14001 (Environmental Management)
- OHSAS 18001 (Occupational Health & Safety Management)
- ISO 50001 (Energy Management)

Our crafting facility in Lamphun near Chiang Mai is certified Leadership in Energy and Environmental Design (LEED).

KEY PERFORMANCE INDICATORS



PRODUCT ASPIRATIONS

To craft our product with integrity



PEOPLE ASPIRATIONS

To ensure our people a safe, developing workplace



PLANET ASPIRATIONS

To minimise our environmental impact

PRODUCT

	2016	2015	2014	2013
Suppliers enrolled in PANDORA's Responsible Suppliers Programme, %	100	100	100	-
Total sourcing value audited by external experts, %	>85	>80	>80	>75
Silver and gold suppliers certified by Responsible Jewellery Council, %	100	100	100	100
Suppliers trained in ethical business practices at annual PANDORA supplier conferences	199	150	-	-

PEOPLE

	2016	2015	2014	2013
Craftspeople turnover, %	3.2	3.3	5.0	-
Global incident rate (OSHA standard)	0.30	0.18	0.17	0.30
Employees who would recommend PANDORA as a workplace, %	76	-	-	-
Employees covered by annual personal development reviews, %	100	-	-	-
Training hours/craftspeople	14.2	14.5	-	-

PLANET

	2016	2015	2014	2013
Water consumption at crafting facilities, m ³	584,108	483,000	379,000	292,000
Recycled crafting waste, %	86	83	81	57
Energy consumption at crafting facilities, MWh	35,907	29,472	23,243	19,170
Global transport emissions, tonnes CO ₂	8,665	5,435	4,324	-
Recycled silver/gold, %	91/86	83/96	99/90	-

INTELLECTUAL CAPITAL

PROTECTING THE PANDORA BRAND

The PANDORA brand is one of the most recognised in the jewellery world, and protecting it is crucial to the ongoing success of the Group. This work entails safeguarding intellectual property rights, such as trademarks, copyrights, design rights and patents, as well as retaining and training our people.

Intellectual property rights and policies

Our intellectual property rights are mainly vested in trademarks, copyrights, patents and designs. These are strengthened by business secrets, visually distinct products, non-disclosure procedures and non-competition regulations. Intellectual property rights are crucial to our business, competitive advantage and future development.

We therefore protect these intellectual property rights using all available means, including a comprehensive global surveillance, registration and control programme and an end-to-end enforcement programme. We have a zero-tolerance policy towards infringement of our intellectual property rights on the internet and towards counterfeit products and trademarks in general. No distributors, dealers or others are permitted to register or use PANDORA's intellectual property without prior agreement.

Patents

We protect our relevant innovations by patents in our main markets and country of production. PANDORA holds several patent families, including for the Moments bracelet, PANDORA ESSENCE COLLECTION charms, and innovative new clips. In 2016, we filed international patent applications for our new clip solution.

Trademarks

We hold an almost global trademark portfolio for the PANDORA trademark and a significant trademark portfolio for the crowned O logo, collection brands and material brands, such as PANDORA ESSENCE COLLECTION and PANDORA Rose. At the end of 2016, our trademark portfolio consisted of around 1,150 trademark applications and registrations. Of these, almost 100 trademark applications were filed in 2016.

Copyrights and design rights

In 2016, we significantly increased our portfolio of design and copyright registrations covering our unique and distinctive jewellery designs in the US, the EU and China.

HUMAN RESOURCES

Our people are the heart of our company and their continual development has always been a main driver in our success. To help every member of our global team feel empowered in their daily work and to prepare them for future challenges, we offer a number of training programmes developed for various levels and areas within the organisation. Most training is run by local HR departments, ensuring that content is directly related to our employees' daily work. This locally offered curriculum includes a centrally developed management training course designed to help prepare the next generation of PANDORA leaders. The course covers a range of topics, from personal effectiveness to leadership, and around the world almost 1,500 managers completed leadership training courses in 2016.

Global training programmes bring together people from around the world and include the Life Leadership Programme – a one-year development curriculum for vice presidents and potential vice presidents launched in 2012. In 2016, 22 managers completed the programme, which includes a module developed and facilitated specifically for PANDORA by Harvard Business School.

Our e-learning platform, PANDORA on Demand (POD), is another essential tool that enables more than 35,000 users worldwide, including shop associates in non-PANDORA owned points of sale, to follow a broad selection of training modules. More than 600,000 POD e-learning modules were completed globally in 2016.

In 2016, we continued working with our HR succession tool, which helps us identify candidates for leadership positions around the globe and ensures we can create a robust internal pipeline for the future. In addition, we launched a number of initiatives to improve our focus on ensuring stability of succession and bolstering our reputation as an attractive place to work.

The continual addition of new talent is essential to our dynamic and growing organisation. To ensure that we can create a pipeline of external talent for our company – and continue to attract the best people – we initiated a number of projects in 2016 that help us define the benefits and opportunities that we offer our people, which include comprehensive professional development and experience

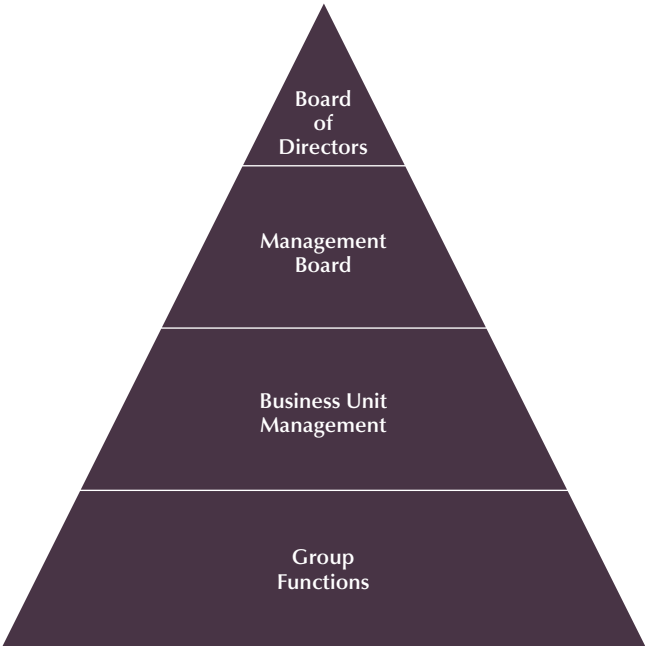
in a global company. In 2016, four graduates finished a Global Trainee Pilot Programme that began in 2015. The programme focused on our supply chain and, over the two years, the four trainees rotated between the key intersections of our supply chain: Copenhagen in Denmark, Hamburg in Germany, Hong Kong, and Baltimore in the US.

THE HEARTBEAT OF PANDORA

Our employee satisfaction survey provides significant insights into PANDORA as a place to work. Perhaps the most important of these is understanding how engaged our people are. Conducted globally for the first time in 2016, the Heartbeat Survey took the pulse of our people. Among other things, it revealed that 76% of our employees would recommend PANDORA as a workplace.

RISKS

RISK MANAGEMENT GOVERNANCE



Monitors the effectiveness of risk management.
Reviews and recommends changes to PANDORA's risk management approach.

Monitors the effectiveness of PANDORA's risk management process. Monitors that key risks are appropriately managed.
Establishes Group risk management approach.

Ensure that an appropriate and effective process is in place to identify, assess and manage risks in business units.
Drive risk mitigation and action plans.

Ensure that an appropriate and effective process is in place to identify, assess and manage risks across the organisation.
Coordinate corporate risk identification and assessment.
Report on risk management initiatives and risks.

TAKING ACTION TO MITIGATE RISKS

As a global company with central crafting facilities, a global distribution network and points of sale across the world, PANDORA needs to proactively manage risks. The Board of Directors makes regular assessments of the overall and specific risks associated with the Group's business and operations to ensure significant risk is managed in a proactive and efficient manner.

The Board of Directors regularly reviews the Group's established internal control systems – including a whistleblowing function – to ensure that they remain appropriate and sufficient. In the case of highly complex transactions and contracts, we work with advisers to mitigate risks.

RISK MANAGEMENT GOVERNANCE

The Audit Committee assists the Board of Directors in supervising the financial reporting process and the effectiveness of PANDORA's internal controls and risk management systems. The Audit Committee reviews significant risks related to PANDORA's business, activities and operations as well as risks related to financial reporting.

The Management Board is responsible for setting the tone for risk management. Management at all levels is responsible for identifying and appropriately managing risks related to their business area. Group functions support and facilitate the implementation of the risk process.

RISK MANAGEMENT ACTIVITIES AND STATUS

In 2016, we focused on mitigating and managing key risks reported in the 2015 Annual Report. The Group Governance, Risk and Compliance (GRC) function continued to further drive its risk and control agenda as set out in 2015.

Furthermore, we have continued to focus on increasing awareness of risk management across the organisation. We have consequently appointed a risk responsible in local markets. The local risk responsible is an individual who is part of our risk management in order to enhance risk awareness in our entities.

KEY RISKS

At PANDORA, we prioritise risk to maintain a focus on the most relevant risks. Risks at PANDORA are evaluated based on impact and likelihood analysis, and relevant actions are implemented to manage/mitigate the respective risk.

GROUP PRIORITISED RISKS

- RESPONSIBLE BUSINESS PRACTICES AND TRANSPARENCY
- CRAFTING AND SUPPLY CHAIN
- COMMODITY
- PRODUCT DEVELOPMENT
- TAX
- MAJOR MARKET DEPENDENCIES

RESPONSIBLE BUSINESS PRACTICES AND TRANSPARENCY

Description

The design, sourcing, crafting and distribution of our quality products rely on our ability to maintain and develop responsible business practices throughout our value chain.

At PANDORA, we rely on our ability to provide internal and external clarity and transparency about our ethical aspirations, performance and results.

Risk

Therefore the risk for PANDORA implies non-conformity with our Code of Ethics and external regulatory requirements.

Actions taken

- As a leading member of the Responsible Jewellery Council (RJC), PANDORA works closely with peers, independent experts and NGOs to create shared value by identifying generic risks within the jewellery supply chain, set auditable standards to counter these risks and finally to inspire the entire jewellery supply chain to commit to responsible business practices
- Risks in our own supply chain are handled through PANDORA's Responsible Supplier Programme focusing on training, dialogue, audits and continuous improvements
- Internally, responsible business practices are governed through PANDORA's Code of Ethics, supported by group-wide staff training and our Ethics Hotline
- Stipulating our commitment to minimise our environmental footprint, our new crafting facility in Lamphun is LEED (Leadership in Energy and Environmental Design) certified
- Increased transparency and consumer-oriented communication

For more information on PANDORA's ethical aspirations, efforts and results please refer to the chapter on corporate responsibility.

CRAFTING AND SUPPLY CHAIN

Description

PANDORA designs, produces, distributes and sells affordable jewellery globally. Consequently, we are highly dependent on a stable and reliable supply chain to guarantee product supply. To provide this, we are dependent on:

- supply of raw materials from our suppliers
- availability of our crafting facilities in Thailand
- availability of our four global distribution centres
- availability of our global IT infrastructure

There are a number of events that may affect the stability of our supply chain and stable product supply, including but not limited to:

- loss of suppliers
- disasters at physical IT infrastructure sites or at production sites or distribution centres
- geopolitical unrest

Risk

Therefore the risk for PANDORA implies a potential disruption within our sourcing, manufacturing and/or distribution activities.

Actions taken

- PANDORA purchasing policy
- Supplier audit programme
- Second manufacturing site in Lamphun, near Chiang Mai, Thailand
- Business continuity planning, management and test programme
- PANDORA security manual
- Internal reviews of security and safety at distribution centres
- Emergency response plans on flooding of Gemopolis area in Thailand
- PANDORA Internal Control Framework (ICF)

COMMODITY

Description

At PANDORA, we aim to provide our consumers with high-quality products at affordable prices. We are highly dependent on a stable cost of goods sold for the products currently on and close to market.

As we produce most of our products at our crafting facilities in Thailand from high-quality materials, we are mainly dependent on the cost of raw materials, especially gold and silver.

Risk

Therefore the risk for PANDORA implies increased cost of goods sold for our product range if commodity prices increase.

Actions taken

- PANDORA policies covering management of raw material price fluctuation risk
- PANDORA Pricing Board ensuring relevant pricing of products in design process
- Group commodity and currency hedging policies to ensure exposure within defined limits. The Group hedges around 100%, 80%, 60% and 40% of the risk for the following 1-3 months, 4-6 months, 7-9 months and 10-12 months respectively

PRODUCT DEVELOPMENT

Description

At PANDORA, a major part of our revenue comes from products that have been on the market for less than a year.

Because we design and craft most of our jewellery, we are dependent on an effective design and new product introduction process. We are dependent on:

- designs to our consumers' preferences
- designs to market trends
- PANDORA retail excellence
- PANDORA marketing excellence

Risk

Therefore the risk for PANDORA implies a new design of jewellery not meeting customer expectations or not gaining the desired traction in the markets.

Actions taken

- PANDORA new product introduction process implemented
- PANDORA drop strategy and collection management based on retail insight and product life cycle data and portfolio analysis - throughout the vertically integrated value chain
- External and internal design talent use

TAX

Description

PANDORA operates globally with a vertically integrated supply chain organisation and by nature therefore has a significant number of intercompany transactions, which are subject to tax legislation that is complex and open to interpretation.

At PANDORA, we put a great deal of effort into complying with local tax legislation, but we also recognise that situations may arise in which the tax authorities' understanding of how the legislation should be applied differs from ours.

Risk

Therefore the risk for PANDORA implies:

- local authorities may challenge our set-up
- entering new markets
- internal compliance, systems and processes on tax may fail
- different interpretations of the Board of Investment (BOI) agreement in Thailand

Actions taken

- Transfer pricing settlement made with the Danish tax authorities, incorporating transfer pricing principles for a significant part of PANDORA's transactions
- Ongoing dialogue with tax authorities in all relevant markets
- Global Group tax risk identification and management process
- Publishing Group Tax Policy on Group website

MAJOR MARKET DEPENDENCIES

Description

As we in PANDORA sell our products globally, we have a number of significant markets that are important to our growth and earnings. Single market developments have a significant impact on Group results.

Our major markets have experienced solid growth for a substantial period. To sustain our Group growth, we are therefore dependent on:

- continued access to our major markets
- continued positive development in all major markets

Major markets constituting 5% or more of the Group's revenue include the US, Canada, the UK, Italy, France, Germany, China and Australia.

Risk

Therefore the risk for PANDORA implies a potential impact on revenue should one or more of our major markets decline.

Actions taken

- Quarterly business review meetings
- Monthly management reports
- Market-specific strategies developed
- Strong focus on developing PANDORA's jewellery brand in all our markets

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

Responsibility for PANDORA's internal controls and risk management systems in relation to the financial reporting process rests with the Board of Directors and the Executive Management.

The purpose of PANDORA's internal controls and risk management systems in relation to the financial reporting process is to ensure that the financial statements provide a true and fair view, free from material misstatements, and that the internal and external financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. While the internal controls and risk management systems are designed and aim to ensure that material misrepresentation of assets, losses and/or significant errors or irregularities and omissions in the financial reporting are avoided, they provide no absolute assurance that all errors are detected and corrected.

Internal control and risk management systems are under continuous development and comprise:

- control environment
- risk assessment
- control activities
- information and communication
- monitoring

Control environment

The Board of Directors has established an Audit Committee that assists the Board of Directors in supervising the financial reporting processes and the efficiency of PANDORA's internal controls and risk management systems. The Audit Committee reviews significant risks related to PANDORA's business, activities and operations as well as risks related to financial reporting. The Audit Committee seeks to ensure that such risks are managed proactively, efficiently and systematically.

The Executive Management is responsible for maintaining controls and an effective risk management system and has taken the necessary steps to address the risks identified in relation to financial reporting.

In 2016, the Governance, Risk and Compliance (GRC) function was established. The GRC function helps PANDORA accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls, risk management, compliance, and governance processes. The GRC function will assist PANDORA's Executive Management and the Audit Committee in identifying, avoiding and mitigating risks.

The compositions of the Board of Directors, the Audit Committee and the Executive Management have ensured the availability of relevant competencies with respect to internal controls and risk management systems in relation to the financial reporting by implementing the GRC function.

Risk assessment

The Board of Directors and Executive Management assess risks on an ongoing basis, including risks related to financial reporting, and assess measures to manage or eliminate and/or reduce the identified risk. The Audit Committee reviews certain high-risk areas quarterly, including:

- significant accounting estimates
- material changes to accounting policies

At least once a year, the Audit Committee oversees a review of current internal controls to determine whether they are effective in relation to the risks identified in the financial reporting process.

Control activities

PANDORA operates with a global Finance Management Forum that meets three to four times a year. This forum sets the finance strategy for the Group. In addition, PANDORA Finance Manager conferences are held in order to discuss the latest developments in significant accounting matters and best practice regarding internal controls.

Controlling functions in the corporate finance function, reporting to the Chief Financial Officer, are responsible for controlling the financial reporting from the Parent Company and subsidiaries, and monitoring compliance with relevant legislation on an ongoing basis.

The Group has adopted and defined an internal control framework that identifies key processes, inherent risks and control procedures in order to secure appropriate accounting processes.

The control procedures include a variety of processes in order to prevent any misrepresentation, significant errors, omissions and fraudulent behaviours. The control procedures are assessed bi-annually and reported to the Audit Committee annually.

Information and communication

The Board of Directors has adopted an Investor Relations policy that prescribes that all communication to stakeholders, including financial reporting, must be conducted adequately, timely and openly internally as well as externally and must be conducted factually and truthfully and in compliance with legislation and applicable regulations.

Monitoring

PANDORA's internal controls and risk management systems are continuously monitored, tested, documented and

subject to quality control. The Audit Committee monitors the internal controls and risk management systems to ensure that any weaknesses are eliminated and that any errors in the financial statements that are identified and reported by the auditors are corrected, including controls or procedures implemented to prevent such errors.

PANDORA's independent auditors are appointed for a term of one year at the Annual General Meeting following recommendation from the Board of Directors. Prior to recommendation, the Board of Directors assesses, in consultation with the Executive Management, the independence and competencies and other matters pertaining to the auditors.

The framework for the auditors' duties, including their remuneration, audit and non-audit services, is agreed annually between the Board of Directors and the auditors following recommendation from the Audit Committee.



DIAMONDS IN THE ROUGH

At PANDORA, we see every employee as a precious stone – and we want these stones to shine as much as possible.

As well as ongoing training through our e-learning system and network of trainers across the globe, we offer employees extensive development courses in subjects relevant to them. As part of this, we introduced a two-year Global Trainee Pilot Programme in 2015, and the first four Global Trainees completed the programme at the end of 2016.

Since January 2015, the trainees have been travelling the PANDORA globe, working for six-month stints at key intersections in our

supply chain in Denmark, Germany, Hong Kong and the US. For the trainees, it has been a fantastic opportunity to gain international experience in a leading company; but the programme also has significant benefits for PANDORA.

As well as helping create a robust talent pipeline and establishing PANDORA as an attractive workplace for successful graduates, the programme gives each trainee a holistic view of our global supply chain. As they move between regions, the trainees bring insights into how our supply chain connects, which helps best practice sharing across regions.

Following the success of the pilot, we expect to run similar programmes in the future.

BOARD OF DIRECTORS



Peder Tuborgh, born in 1963, is a Danish citizen and currently lives in Højbjerg, Denmark.

Peder Tuborgh has been Chairman and a member of the Board of Directors since October 2014 and is also Chairman of the Remuneration Committee and member of the Nomination

Committee. Peder Tuborgh is regarded as an independent Board member.

The special skills possessed by Peder Tuborgh that are important for the performance of his duties as a member of the Board of Directors of PANDORA are his experience in global manufacturing and logistics, global branding, sales and marketing as well as consumer sales and retail marketing.

Peder Tuborgh holds an MSc in Economics and Business Administration from Odense University, Denmark. Currently, he is CEO of Arla Foods a.m.b.a. In addition, Peder Tuborgh is Vice Chairman of Aarhus University and a member of the Board Directors of Global Dairy Platform.



Christian Frigast, born in 1951, is a Danish citizen and currently lives in Klampenborg, Denmark.

Christian Frigast has been a member of the Board of Directors since August 2010 and is also Deputy Chairman of the Board, Chairman of the Nomination Committee and a member of the

Remuneration Committee. Christian Frigast is regarded as an independent Board member.

The special skills possessed by Christian Frigast that are important for the performance of his duties as a member of the Board of Directors of PANDORA are his experience in general management and active involvement in a number of retail and other companies obtained through his numerous directorships.

Christian Frigast holds an MSc in Economics from Copenhagen University. Until October 2016, he has been Managing Partner at Axcel Management A/S since the founding of the company in 1994, and continues as Executive Chairman at Axcel Management A/S.

Christian is Chairman of Danish Ship Finance Holding A/S and the Danish Export Credit Agency (EKF). Christian is Deputy Chairman of the Danish Venture Capital and Private Equity Association (DVCA), and he is a member of the management of AXII Holding ApS. He also sits on the boards of Frigast ApS, Nordic Waterproofing, Danish Ship Finance and the Board Leadership Society in Denmark. In addition, Christian chairs and co-founded Axcel's own think-tank, Axcelfuture, which is working to improve the investment climate in Denmark, and he is an associate professor at Copenhagen Business School.



Allan Leslie Leighton, born in 1953, is a British citizen and currently lives in London, United Kingdom.

Allan Leighton has been Co-Deputy Chairman of the Board of Directors since March 2015. Before that, Allan Leighton served as Chairman of the Board

of Directors of PANDORA from 8 September 2010 to 1 July 2013 and as Chief Executive Officer of PANDORA from 1 July 2013 to 1 March 2015. Due to his previous management positions with PANDORA, Allan Leighton is not regarded as an independent Board member.

The special skills possessed by Allan that are important for the performance of his duties as a member of the Board of Directors of PANDORA are his experience within general management in listed companies, financial management in listed companies, global supply chain and sourcing, consumer sales and retail marketing, and global cross-platform branding.

Allan Leighton attended Harvard University's Advanced Management Program. He has an Honorary Degree from Cranfield University and an Honorary Fellowship from the University of Lancashire. Currently, Allan Leighton is Chair of the Co-Operative Group and Chairman of the boards of directors of Entertainment One plc, Matalan Ltd., Wagamama Ltd. and the Canal and River Trust.



Anders Boyer-Søgaard, born in 1970, is a Danish citizen and currently lives in Charlottenlund, Denmark.

Anders Boyer-Søgaard has been a member of the Board of Directors since March 2012 and is also a member of the Audit Committee as well as member

of the Nomination Committee. Anders Boyer-Søgaard is regarded as an independent Board member.

The special skills possessed by Anders Boyer-Søgaard that are important for the performance of his duties as a member of the Board of Directors of PANDORA are his experience within general management in listed companies, financial management in listed companies, as well as global supply chain and manufacturing.

Anders Boyer-Søgaard holds an MSc in Finance and Accounting from Copenhagen Business School from 1997. Currently, Anders Boyer-Søgaard is CFO of Hempel A/S.



Andrea Dawn Alvey, born in 1967, is a US citizen and currently lives in Raleigh, North Carolina, USA.

Andrea Dawn Alvey has been a member of the Board of Directors since August 2010 and is also a member of the Audit and Remuneration Committees. Andrea Dawn Alvey is regarded as an

independent Board member.

The special skills possessed by Andrea Dawn Alvey that are important for the performance of her duties as

a member of the Board of Directors of PANDORA are her experience and insight in global supply chains, IT operations and retail financing.

Andrea Dawn Alvey holds a BSc in Business Economics/ Statistics from Southern Connecticut State University. Currently, Andrea Dawn Alvey is President of Kitabco Investments, Inc., and Regional Developer for Peak Franchising.



Birgitta Stymne Göransson, born in 1957, is a Swedish citizen and currently lives in Stockholm, Sweden.

Birgitta Stymne Göransson has been a member of the Board of Directors since March 2016 and is also Chairman of the Audit Committee. Birgitta Stymne

Göransson is regarded as an independent Board member.

The special skills possessed by Birgitta Stymne Göransson that are important for the performance of her duties as a member of the Board of Directors of PANDORA is her experience from general management, financial management

and business development in international listed and private companies covering retail, consumer services, IT and medical technology in addition to her background as a Board member in a number of global listed companies.

Birgitta Stymne Göransson holds an MBA from Harvard Business School and an MSc in Chemical Engineering from the Royal Institute of Technology in Stockholm. Birgitta Stymne Göransson currently works as Senior Industrial Advisor and non-executive board member. She is Chairman of the Boards of Directors of HL Display AB and the non-profit Fryshuset foundation, and serves on the Boards of Elekta AB, Capio AB, Midsona AB and Sportamore AB.



Bjørn Gulden was born in 1965 in Switzerland, is a Norwegian citizen and currently lives in Hattingen, Germany.

Bjørn Gulden has been a member of the Board of Directors since August 2013 and is also a member of the Remuneration Committee. Bjørn Gulden is not

regarded as an independent Board member due to the fact that he served as CEO of PANDORA during the period from 21 February 2011 until 1 July 2013.

The special skills possessed by Bjørn Gulden that are

important for the performance of his duties as a member of the Board of Directors of PANDORA are his substantial skills related to global sourcing, consumer sales and retail and comprehensive insight into the affordable goods industry.

Bjørn Gulden holds a BBA from the University of Rogaland, Norway, and an MBA from Babson Graduate School of Business in Boston, USA. Currently, Bjørn Gulden is CEO of Puma SE. Further, Bjørn Gulden serves on the Boards of Directors of Tchibo GmbH, Borussia Dortmund (BVB) GmbH & Co. KGaA, Deichmann SE and Dansk Supermarked A/S.



Michael Hauge Sørensen, born in 1973, is a Danish citizen and currently lives in Hong Kong.

Michael Hauge Sørensen has been a member of the Board of Directors since March 2014 and is also a member of the Audit Committee. Michael Hauge Sørensen is regarded as an

independent Board member.

The special skills possessed by Michael Hauge Sørensen that are important for the performance of his duties as a member of the Board of Directors of PANDORA are his

experience within consumer sales and retail marketing, global and cross-platform branding and the affordable goods industry.

Michael Hauge Sørensen is an alumni of Stanford Graduate School of Business and has attended numerous management programmes at INSEAD and IMD. Currently, Michael Hauge Sørensen is the interim CEO of Zebra A/S and Chairman of the Boards of Directors of Fristads Kansas AB, TOP-TOY A/S, TT Holding II A/S and TT Holding III A/S. Further, Michael Hauge Sørensen is a member of the Boards of Directors of Zebra A/S, IC Group A/S, Santa Fe Group A/S, Elevate Global Limited and Michaso Holdings Limited.



Per Bank, born in 1967, is a Danish citizen and currently lives in Aarhus, Denmark.

Per Bank has been a member of the Board of Directors since March 2014 and is also a member of the Nomination Committee. Per Bank is regarded as an independent Board member.

The special skills possessed by Per Bank that are important for the performance of his duties as a member

of the Board of Directors of PANDORA are his experience within general management in listed companies, consumer sales and retail marketing and manufacturing.

Per Bank graduated as an industrial engineer from the University of Southern Denmark in 1992. Currently, Per Bank is the Managing Director of Dansk Supermarked A/S. Further, Per Bank is currently Chairman of the Boards of Directors of F. Salling A/S and Købmand Ferdinand Sallings Mindefond. In addition, Per Bank is a member of the Board of Directors of Danmarks Nationalbank.



Ronica Wang was born in 1962, is a citizen of Hong Kong and is currently based in Asia, where she spends a large portion of her time in China.

Ronica Wang has been a member of the Board of Directors since March 2012 and is also a member of the Nomination

Committee. Ronica Wang is regarded as an independent Board member.

The special skills possessed by Ronica Wang that are important for the performance of her duties as a member of the Board of Directors of PANDORA include her

international experience within general management in listed companies, consumer sales and retail marketing, global and cross-platform branding and the affordable goods industry.

Ronica Wang holds an MBA from The Wharton School of the University of Pennsylvania, and a Bachelor Degree in Applied Science and Engineering (Industrial Engineering) from the University of Toronto. She has also studied multinational management at The London Business School.

Currently, Ronica Wang is the Chairman and Managing Director of The InnoGrowth Group, Ltd., which she co-founded in 2007. She is a company Director and member of the Board of Directors of Active Kidz Shanghai as well as a member of the Board of Directors of GN Store Nord A/S.

EXECUTIVE MANAGEMENT



Anders Colding Friis, born in 1963, is a Danish citizen and currently lives in Copenhagen, Denmark.

Anders Colding Friis has been President & Chief Executive Officer since March 2015.

Anders Colding Friis holds an MSc in Economics and Business

Administration from Copenhagen Business School.

Currently, Anders Colding Friis is Deputy Chairman of the Board of Directors of IC Group A/S.

Anders Colding Friis is a member of the Confederation of Danish Industry's Executive Committee and Central Board and Vice Chairman of The Copenhagen Industries Employer's Federation.



Peter Vekslund, born in 1967, is a Danish citizen and currently lives in Copenhagen, Denmark.

Peter Vekslund has been Executive Vice President & Chief Financial Officer since January 2015.

Peter Vekslund holds an HD-R and an MSc in Business Economics

and Auditing from Copenhagen Business School, and an E*MBA from the Scandinavian International Management Institute.

MANAGEMENT BOARD



Anders Colding Friis
President, Chief
Executive Officer
Nationality: Danish
Residence: Denmark



Peter Vekslund
EVP, Chief Financial
Officer
Nationality: Danish
Residence: Denmark



David Allen
President, EMEA
Nationality: Australian
Residence: Denmark



Kenneth Madsen
President, Asia Pacific
Nationality: Danish
Residence: Hong Kong



Minna Philipson
SVP, Chief Marketing
Officer
Nationality: Swedish
Residence: Germany



Scott Burger
President, Americas
Nationality: American
Residence: The US



Stephen Fairchild
SVP, Chief Creative
Officer
Nationality: American
Residence: Belgium



Thomas Touborg
SVP, Group Operations
Nationality: Danish
Residence: Denmark

Each day, more than 12,400 people come to work at our crafting facilities in Thailand. Most employees are craftspeople; the goldsmiths, silversmiths and stone-setters who turn every piece of PANDORA jewellery into a beautiful, hand-finished product.





SHAREHOLDER
INFORMATION

SHAREHOLDER INFORMATION

PANDORA shares have been listed on the Nasdaq OMX Copenhagen stock exchange since 5 October 2010. PANDORA is included in the blue chip index OMX C20.

In 2016, the lowest closing price was DKK 764 on 9 February 2016 and the highest closing price was DKK 999.5 on 24 May 2016. At the end of 2016, the share price was DKK 924, corresponding to an increase of 6% compared with the end of 2015. By comparison, OMX C20 decreased 13% during the year, while OMX C20 CAP decreased 2%.

Around 125 million PANDORA shares were traded in 2016 with an average trading volume of around 497,000 shares per day.

CAPITAL STRUCTURE AND CASH ALLOCATION

PANDORA's capital structure is aimed at providing sufficient financial flexibility to pursue the Company's strategic goals, while maintaining a stable financial structure based on a conservative balance sheet.

Consequently, PANDORA targets a net interest-bearing debt to EBITDA ratio of 0-1. PANDORA will aim to keep the interest-bearing debt level at the lower end of the target interval, while

the range allows for financial flexibility throughout the year. PANDORA's financial gearing ratio may temporarily exceed the targeted range in case of larger acquisitions.

Net interest-bearing debt to EBITDA was 0.3x as of 31 December 2016.

PANDORA's guiding principles for the use of free cash flow are as follows:

1. Repayment of interest-bearing debt if financial gearing is outside the Company's capital structure policy
2. Funding of organic growth opportunities or other value-creating opportunities, including forward integration
3. Distribution to the Company's shareholders through dividend and share buyback programmes aimed at reducing the Company's share capital

PANDORA aspires to increase the nominal dividend per share annually, while returning any additional excess cash via share buyback programmes.

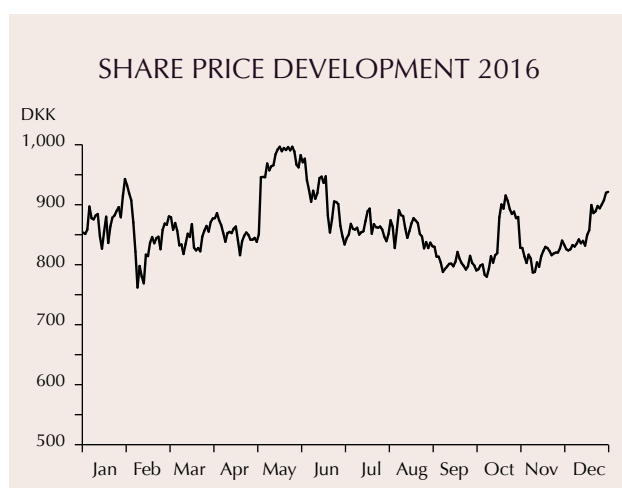
DIVIDEND

For the financial year 2015, PANDORA paid out ordinary dividend of DKK 13 per share, corresponding to DKK 1.5 billion in total. From 2017, PANDORA proposes to supplement the ordinary dividend with three extraordinary quarterly dividends.

Following a strong financial performance in 2016, the Board of Directors proposes to return DKK 4.0 billion in dividend in 2017. This includes an ordinary dividend of DKK 9 per share and additionally three extraordinary quarterly dividends of DKK 9 per share in relation to Q1 2017, Q2 2017 and Q3 2017. In total, PANDORA will pay out a total of DKK 36 per share in 2017.

SHARE BUYBACK PROGRAMME

In 2016, PANDORA bought back 4,641,992 own shares, corresponding to 4.0% of the share capital, and at a total value of DKK 4.0 billion. At the Annual General Meeting,



the Board of Directors will propose that the Company's share capital be reduced by a nominal amount of DKK 4,549,430 by cancellation of 4,549,430 own shares of DKK 1, equal to 3.9 % of the Company's total share capital. The remaining treasury shares may be used to meet obligations arising from employee share option programmes. Total share options outstanding on 31 December 2016 were 581,252.

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.

SHAREHOLDERS

As of 31 December 2016, BlackRock, Inc. holds more than 5% of the share capital and the voting rights in PANDORA.

As of 31 December 2016, PANDORA A/S owned a total of 5,130,682 treasury shares of nominally DKK 1 (in total nominally DKK 5,130,682), corresponding to 4.4% of the total shares outstanding.

As of 31 December 2016, institutional investors in Denmark held 13% of the share capital, institutional investors in Europe held 43% of the share capital of which 24% was held by UK investors, and institutional investors in North America held 19%. As of 31 December 2016, 7% of the PANDORA shares were held by Danish retail investors.

As of 31 December 2016, PANDORA's Board of Directors and Executive Management held a total of 78,523 and 18,647 PANDORA shares respectively, corresponding to 0.1% of the total share capital.

INVESTOR RELATIONS

The Executive Management is responsible for the presence of an Investor Relations (IR) function, which is responsible for PANDORA's compliance with the Company's Investor Relations Policy. IR is organised as a separate unit and reports directly to the Chief Financial Officer.

The purpose of PANDORA's IR activities is to ensure that relevant, accurate and timely information is made available to the stock market to serve as a basis for regular trading and a fair pricing of the share.

PANDORA will ensure that the Company is perceived as visible, accessible, reliable and professional by the financial markets and that PANDORA is regarded among the best relative to peers. This will be achieved by complying with the rules and legislation for listed companies on Nasdaq OMX and PANDORA's internal policies.

PANDORA will endeavour to maintain a high and uniform level of information from the Company and ensure that information is channelled back from the stock market to the Executive Management and the Board of Directors. Furthermore, PANDORA will continuously ensure awareness of, and confidence in, the Company's vision, strategy, policies and decisions in the capital market.

Contact

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Investor Relations Officer
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Email: brgr@pandora.net

FINANCIAL CALENDAR 2017

15 March 2017	Annual General Meeting
20 March 2017	Payment of annual dividend
9 May 2017	Interim Report Q1 2017
16 May 2017	Ex dividend date
18 May 2017	Payment date
8 August 2017	Interim Report Q2/H1 2017
15 August 2017	Ex dividend date
17 August 2017	Payment date
7 November 2017	Interim Report Q3/9M 2017
14 November 2017	Ex dividend date
16 November 2017	Payment date

SHARE INFORMATION

Exchange:	Nasdaq Copenhagen
Trading symbol:	PNDORA
Identification number/ISIN:	DK0060252690
Number of shares:	117,056,821 of 1 DKK each with one vote
Share classes:	1
GICS:	25203010
Sector:	Apparel, Accessories & Luxury Goods
Segment:	Large

The technique used for producing Murano glass charms is known as lampworking as it was originally done using the flame of an oil lamp to melt the glass. Today, patterns are created with the use of a blowtorch, but the glass-working technique has not changed and is still done entirely by hand.





FINANCIAL REVIEW

REVENUE BY GEOGRAPHY

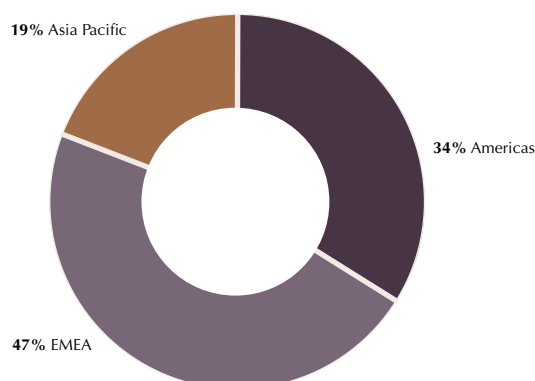
Total revenue for 2016 was DKK 20,281 million, an increase of 21% (24% in local currency) compared with DKK 16,737 million in 2015. The development was driven by growth in revenue from existing stores supported by strong retail execution, as well the global network expansion. Revenue growth for the year was split more or less evenly by revenue growth in stores open for more than 12 months (including all sales channels) and expansion of the store network, including acquisitions.

In 2016, PANDORA continued the focus on expanding the concept store network, and during the year, a net total of 336 new concept stores were added to the store network. Revenue from concept stores increased by 37% to DKK 13,306 million, corresponding to 66% of total revenue in 2016 compared with DKK 9,719 million corresponding to 58% of total revenue in 2015. As part of the process to improve the quality of the global store network, PANDORA closed net 1,829 multibranded stores during 2016.

Revenue from PANDORA-owned stores (including all PANDORA eSTOREs) generated revenue of DKK 6,883 million and increased 53% compared with DKK 4,511 million in 2015. The growth in retail revenue was driven by strong in-store execution and the addition of net 119 new PANDORA-owned stores as well as the continued success of the PANDORA eSTORE. The PANDORA eSTOREs generate revenue of DKK 1,045 million in 2016, corresponding to an increase of 65% compared with 2015. Finally, of the new PANDORA owned and operated stores, a net total of 19 concept stores and 5 shop-in-shops were converted from franchisee stores, and the net effect of converting wholesale revenue from franchisee stores to retail revenue, including the effect from stores converted during 2015, was around DKK 360 million.

At the end of 2016, sales return and warranty provisions corresponded to around 6% of revenue value, compared with around 7% at the end of 2015.

REVENUE BREAKDOWN BY GEOGRAPHY



REVENUE BREAKDOWN BY GEOGRAPHY

DKK million	2016	2015	Growth	Growth in local currency
Americas	6,852	6,537	5%	6%
EMEA	9,556	7,548	27%	33%
Asia Pacific	3,873	2,652	46%	48%
Total	20,281	16,737	21%	24%

AMERICAS

Revenue in the Americas, constituting 34% of Group revenue, was DKK 6,852 million, corresponding to an increase of 5% (or 6% in local currency) compared with DKK 6,537 million in 2015. The increase was driven by continued growth in North America, while revenue from Latin America decreased due to a difficult business environment.

Like-for-like sales growth in concept stores (excluding eSTOREs) in Americas was close to zero for all four quarters of the year, positively impacted by positive growth in the US, offset by the negative development in Latin America.

Revenue in the US, constituting 75% of revenue from Americas, was DKK 5,157 million and increased by 5% compared with 2015. The growth in local currency was also 5%. Growth in the US was primarily driven by a strong development in the US eSTORE opened in April 2015, as well as an improved store network. During 2016, net 27 new concept stores were opened in the US, bringing the total number of concept stores to 346. Furthermore, as part of improving the store network, net 829 multibranded stores were closed. Of these, more than 200 Jared stores were upgraded to shop-in-shops, as part of an improved partnership with US jewellery chain Jared.

Growth in local currency **6%**

Concept stores in Americas **588**



Revenue in Canada, constituting 12% of revenue from Americas, decreased by 4% compared with 2015. The development was driven by a positive development in the concept store network, which was more than offset by the closure of shop-in-shops and multibranded stores during 2016, as part of the effort to improve the store network in Canada. Furthermore, a PANDORA eSTORE was opened in Canada in October 2016.

During 2016, the number of branded stores in the Americas increased by net 302 to a total of 1,484 stores, while net 957 of PANDORA's multibranded stores were closed in the same period.

STORE NETWORK, NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	588	501	87
- hereof PANDORA owned	98	79	19
- hereof 3 rd party distributors	-	-	-
Shop-in-shops	896	681	215
- hereof PANDORA owned	-	-	-
- hereof 3 rd party distributors	-	-	-
Multibranded	881	1,838	-957
- hereof 3 rd party distributors	-	-	-
Total points of sale	2,365	3,020	-655

GROWTH IN LIKE-FOR-LIKE SALES-OUT¹

	Q4 2016 vs. Q4 2015	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014
Americas	-3%	0%	-1%	2%	7%

¹ Concept stores (excluding eSTOREs) that have been operating for more than 12 months

EMEA

Growth in local currency **33%**

Concept stores in EMEA **1,206**



Revenue in EMEA, constituting 47% of Group revenue, was DKK 9,556 million, corresponding to an increase of 27% (or 33% in local currency) compared with DKK 7,548 million in 2015. The increase was driven by a positive revenue development in all major markets in the region.

Like-for-like sales growth in concept stores (excluding eSTOREs) in EMEA was positive in all four quarters of the year, driven primarily by a positive development in the UK, France, Italy and Germany, partially offset by a negative development in the Russian market.

The UK remains PANDORA's largest market in Europe, accounting for 28% of revenue from EMEA. Revenue in the UK was DKK 2,704 million, corresponding to an increase of 9% (or 25% in local currency) compared with 2015. Growth in the UK was driven by a positive sales-out performance, as well as the expansion of the store network, including net 33 new concept stores opened in 2016, taking the total number of concept stores to 228.

Revenue in Italy, representing around 20% of revenue from EMEA, increased 54% compared with 2015. The development was primarily driven by a strong performance

in the existing store network, supported by the addition of net 23 concept stores to a total of 75 at the end of 2016. Revenue in France represented around 10% of revenue from EMEA and increased by 59% compared with 2015, the increase was primarily driven by a strong like-for-like performance in concept stores.

Revenue in Germany, which represented around 10% of revenue from EMEA, increased by 17% compared with 2015. The growth was driven by positive like-for-like growth in all four quarters of the year, supported by the improved store network.

During 2016, the number of branded stores in EMEA increased by net 290 to a total of 2,114 branded stores, while the number of multibranded stores was reduced by net 857 to a total of 2,853 stores.

STORE NETWORK, NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	1,206	1,033	173
- hereof PANDORA owned	341	298	43
- hereof 3 rd party distributors	496	425	71
Shop-in-shops	908	791	117
- hereof PANDORA owned	80	85	-5
- hereof 3 rd party distributors	366	322	44
Multibranded	2,853	3,710	-857
- hereof 3 rd party distributors	1,020	1,184	-164
Total points of sale	4,967	5,534	-567

GROWTH IN LIKE-FOR-LIKE SALES-OUT¹

	Q4 2016 vs. Q4 2015	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014
EMEA	4%	5%	10%	11%	13%

¹ Concept stores (excluding eSTOREs) that have been operating for more than 12 months

ASIA PACIFIC

Revenue in Asia Pacific was DKK 3,873 million, constituting 19% of Group revenue compared with 16% in 2015, and corresponding to an increase of 46% (or 48% in local currency) compared with DKK 2,652 million in 2015. Growth was driven primarily by a positive development in Australia and China.

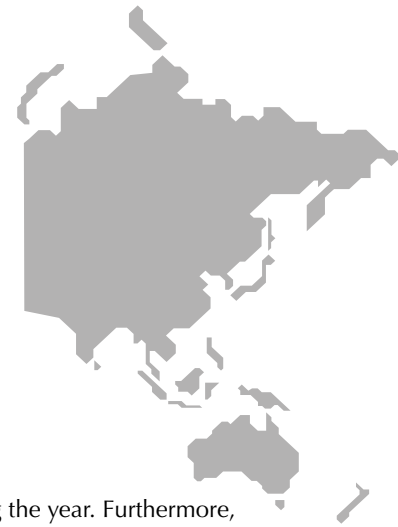
Like-for-like sales growth in concept stores (excluding eSTOREs) in Asia Pacific was positive in all four quarters of the year, driven primarily by a positive development in the China and Australia, partially offset by negative like-for-like sales growth in Hong Kong.

Revenue in Australia, constituting around 40% of revenue from Asia Pacific, increased by 37% compared with 2015 (or 37% in local currency). The growth in Australia primarily reflected continued strong sales-out growth, as well as an expansion of the branded store network.

Revenue from China, constituting around 25% of revenue from Asia Pacific, increased by 175% compared with 2015. The increase was driven by strong like-for-like growth throughout the year, as well as the addition of

Growth in local currency **48%**

Concept stores in Asia Pacific **344**



net 44 new concept stores during the year. Furthermore, revenue in China was impacted by the conversion of distributor revenue to retail revenue following the new and improved partnership in China from 1 July 2015, which added around DKK 140 million to revenue in 2016 compared with 2015.

Revenue in Hong Kong increased by 3% (or 3% in local currency), primarily driven by the addition of net 4 new concept stores in 2016, taking the total number of concept stores in Hong Kong to 29. Revenue from Hong Kong represented around 13% of revenue from Asia Pacific.

During 2016, a total of net 76 concept stores were opened in Asia Pacific. The total distribution network increased by 82 points of sales to a total of 799 at the end of 2016.

STORE NETWORK, NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	344	268	76
- hereof PANDORA owned	159	97	62
- hereof 3 rd party distributors	68	74	-6
Shop-in-shops	223	202	21
- hereof PANDORA owned	31	31	-
- hereof 3 rd party distributors	95	92	3
Multibranded	232	247	-15
- hereof 3 rd party distributors	-	-	-
Total points of sale	799	717	82

GROWTH IN LIKE-FOR-LIKE SALES-OUT¹

	Q4 2016 vs. Q4 2015	Q3 2016 vs. Q3 2015	Q2 2016 vs. Q2 2015	Q1 2016 vs. Q1 2015	Q4 2015 vs. Q4 2014
Asia Pacific	9%	7%	16%	21%	26%

¹ Concept stores (excluding eSTOREs) that have been operating for more than 12 months

SALES CHANNELS AND PRODUCT MIX

PRODUCTS

In 2016, revenue from all product categories increased with double-digit growth, driven by continued newness across all categories, including the global launch of the PANDORA Rose collection as well as the introduction of the Disney collection in Asia Pacific at the end of 2015.

Revenue from Charms was DKK 11,991 million in 2016, up 11% compared with DKK 10,833 million in 2015. Growth in revenue from the Charms category was primarily driven by a strong development in EMEA and Asia Pacific, whereas growth in the Americas region was slightly negative, primarily due to lower revenue from the Disney collection launched in North America in 2014. Revenue from Bracelets increased by 37% to DKK 3,672 million compared with DKK 2,690 million in 2015, driven by the introduction of several new bracelets in Moments and PANDORA ESSENCE COLLECTION.

Together, the two categories represented 77% of total revenue in 2016 compared with 81% in 2015.

Revenue from Rings was DKK 2,643 million, an increase of 28% compared with DKK 2,066 million in 2015. The increase was driven by the continued focus on rings in most markets, including more emphasis on rings in staff training, improved in-store focus on rings, as well as successful Rings promotions across most markets. The Rings category represented 13% of total revenue in 2016 compared with 12% in 2015.

Revenue from Other jewellery was DKK 1,975 million, up 72% compared with DKK 1,148 million in 2015. From 2016, PANDORA increased the focus on earrings, and as a result revenue from Earrings increased by around 80% compared with 2015 and represented 5% of revenue compared with 3% in 2015. Revenue from Necklaces increased around 60%. Other jewellery represented 10% of total revenue in 2016 compared with 7% in 2015.

STORE NETWORK,
NUMBER OF POINTS OF SALE

	2016	2015	Growth
Concept stores	2,138	1,802	336
- hereof PANDORA owned	598	474	124
- hereof 3 rd party distributors	564	499	65
Shop-in-shops	2,027	1,674	353
- hereof PANDORA owned	111	116	-5
- hereof 3 rd party distributors	461	414	47
Multibranded	3,966	5,795	-1,829
- hereof 3 rd party distributors	1,020	1,184	-164
Total points of sale	8,131	9,271	-1,140

REVENUE BREAKDOWN BY
SALES CHANNEL

	2016	2015	Growth	Share of revenue
Concept stores	13,306	9,719	37%	66%
- hereof PANDORA owned	6,266	4,049	55%	31%
Shop-in-shops	2,516	2,418	4%	12%
- hereof PANDORA owned	617	462	34%	3%
Branded	15,822	12,137	30%	78%
Multibranded	2,853	3,068	-7%	14%
Total direct	18,675	15,205	23%	92%
3 rd party distributors	1,606	1,532	5%	8%
Total revenue	20,281	16,737	21%	100%

PRODUCT CATEGORY DEVELOPMENT

DKK million	2016	2015	Growth	Share of revenue
Charms	11,991	10,833	11%	59%
Bracelets	3,672	2,690	37%	18%
- hereof Moments and PANDORA ESSENCE COLLECTION	2,729	1,923	42%	13%
Rings	2,643	2,066	28%	13%
Other jewellery	1,975	1,148	72%	10%
Total revenue	20,281	16,737	21%	100%

INCOME STATEMENT

COSTS

Total costs for 2016, including depreciation and amortisation, were DKK 12,877 million, an increase of 18% compared with DKK 10,923 million in 2015. The increase primarily reflected increasing sales. Costs corresponded to 63.5% of revenue for the year compared with 65.3% in 2015.

GROSS PROFIT

Gross profit was DKK 15,223 million in 2016 compared with DKK 12,193 million in 2015, resulting in a gross margin of 75.1% in 2016 compared with 72.9% in 2015. The increase in gross margin was mainly due to lower prices for silver and gold, with a positive effect of around 1 percentage point as well as a higher share of revenue for PANDORA owned and operated stores, which have a higher gross margin compared with wholesale revenue. This had a positive impact of around 1 percentage point compared with 2015.

Cost of sales is impacted by commodity hedging. Excluding hedging and the time lag effect from inventories, the underlying gross margin would have been around 74% based on the average gold (USD 1,257/oz) and silver

(USD 17.32/oz) market prices in 2016. Based on these assumptions, a 10% deviation in quarterly average gold and silver prices would impact PANDORA's gross margin by around +/- 1 percentage point. Refer to note 4.4.

OPERATING EXPENSES

Operating expenses in 2016 were DKK 7,819 million compared with DKK 6,379 million in 2015, representing 38.6% of revenue in 2016 compared with 38.1% in 2015.

Sales and distribution expenses increased to DKK 4,011 million in 2016, an increase of 29% compared with DKK 3,120 million in 2015 and corresponding to 19.8% of revenue in 2016 compared with 18.6% in 2015. The increase in sales and distribution expenses was primarily driven by increasing sales efforts and an increase in the number of PANDORA-owned stores (709 stores in 2016 compared with 590 stores in 2015). The higher costs in owned and operated stores mainly related to property and staff cost, which had a negative impact of around 2 percentage points on the sales and distribution expenses ratio compared with 2015.

Marketing expenses in 2016 were 9.0% of revenue, compared with 9.6% in 2015, and corresponded to DKK 1,827 million in 2016 and DKK 1,602 million in 2015.

COST DEVELOPMENT

DKK million	2016	2015	Growth	Share of revenue 2016	Share of revenue 2015
Cost of sales	-5,058	-4,544	11%	-24.9%	-27.1%
Gross profit	15,223	12,193	25%	75.1%	72.9%
Sales and distribution expenses	-4,011	-3,120	29%	-19.8%	-18.6%
Marketing expenses	-1,827	-1,602	14%	-9.0%	-9.6%
Administrative expenses	-1,981	-1,657	20%	-9.8%	-9.9%
Total costs	-12,877	-10,923	18%	-63.5%	-65.3%

Administrative expenses amounted to DKK 1,981 million in 2016 compared with DKK 1,657 million in 2015, representing 9.8% of revenue compared with 9.9% in 2015. The nominal increase in administrative expenses was primarily due to an increase in staff costs, and higher IT costs, including one-off costs related to transition to a new IT service provider.

EBITDA

EBITDA for 2016 increased by 27% to DKK 7,922 million compared with DKK 6,214 million in 2015, resulting in an EBITDA margin of 39.1% compared with 37.1% in 2015.

The EBITDA margin for the Americas was 36.5%, corresponding to an increase of 2.2 percentage points compared with 2015. The improvement was primarily driven by the increase in gross margin.

The EBITDA margin for EMEA increased from 38.8% in 2015 to 41.8% in 2016. The increase in EMEA was primarily driven by the increase in gross margin as well as improved leverage on the cost base from an increase in revenue - primarily in the UK, Italy and France.

The EBITDA margin for the Asia Pacific region was 36.7% in 2016 compared with 39.5% in 2015. The improvement in gross margin was more than offset by an increase in costs related to the expansion in China, Japan and Singapore, which had a negative impact of around 4 percentage points compared with 2015.

EBIT

EBIT for 2016 increased to DKK 7,404 million compared with DKK 5,814 million in 2015, an improvement of 27% on 2015, resulting in an EBIT margin of 36.5% for 2016 versus 34.7% in 2015.

NET FINANCIALS

Net financials amounted to an income of DKK 246 million in 2016, compared with an expense of DKK 469 million in 2015, primarily reflecting exchange rate gains including gains, on foreign exchange hedge contracts.

INCOME TAX EXPENSE

Income tax expense was DKK 1,625 million in 2016 compared with DKK 1,671 million in 2015, corresponding to an effective tax rate of 21.2% for 2016 compared with 31.3% in 2015. The decrease compared with 2015 was due to a settlement made in May 2015 with the Danish tax authorities, which had a one-off effect of DKK 364 million in 2015.

REGIONAL EBITDA MARGINS

	2016	2015	2016 vs. 2015 (% pts)
Americas	36.5%	34.3%	2.2%
EMEA	41.8%	38.8%	3.0%
Asia Pacific	36.7%	39.5%	-2.8%
Group	39.1%	37.1%	2.0%

SENSITIVITY ANALYSIS ON CURRENCY¹

DKK million	Change in exchange rate	Revenue	EBITDA
USD	+10%	613	176
CAD	+10%	82	72
AUD	+10%	153	122
GBP	+10%	270	228
EUR	+1%	57	38
CNY	+10%	91	46
THB	+10%	-	-231

¹ Revenue and EBITDA would have been impacted by the above amounts if exchange rates in 2016 had been higher than the realised exchange rates. The impact would have been the opposite if exchange rates had been lower. The analysis is based on the transaction currency.

BALANCE SHEET AND CASH FLOW STATEMENT

PANDORA generated a free cash flow of DKK 5,358 million in 2016 compared with DKK 2,449 million in 2015, corresponding to a cash conversion of 72.4% compared with 42.1% in 2015. The increase was primarily driven by an increase in profit as well as 2015 being impacted by tax and interest payment of DKK 995 million related to a settlement made with the Danish tax authorities.

Operating working capital at the end of 2016 was 13.7% of revenue, compared with 14.3% at the end of 2015.

Inventories were DKK 2,729 million, an increase of 16% compared with 2015, and corresponding to 13.5% of revenue compared with 14.1% for 2015. The nominal increase was primarily driven by higher activity and an increase in PANDORA-owned and stores. Compared with 2015, silver and gold prices affected inventories with a decrease of around 7%, partially offset by an increase from currency of 4%.

Trade receivables increased to DKK 1,673 million, an increase of 23% compared with 2015 and corresponding to 8.2% of revenue compared with 8.1% in 2015.

Trade payables increased to DKK 1,622 million in 2016

compared with DKK 1,329 million in 2015. The increase in receivables and payables was primarily related to a higher level of activity.

PANDORA invested a total of DKK 1,199 million in CAPEX in 2016, including intangible assets of DKK 371 million mainly related to key money in connection with the opening of PANDORA-owned stores and IT investments. Investments in property, plant and equipment of DKK 828 million mainly consisted of investments in the crafting facilities in Thailand and leasehold improvements related to the opening of several stores during the year. CAPEX was 5.9% of 2016 revenue compared with 6.6% in 2015.

Interest-bearing debt was DKK 3,345 million at the end of 2016 compared with DKK 2,810 million at the end of 2015, and cash amounted to DKK 897 million compared with DKK 889 million at the end of 2015.

Net interest-bearing debt (NIBD) at the end of 2016 was DKK 2,448 million, corresponding to a NIBD to EBITDA ratio of 0.3x of the last twelve months' EBITDA compared with DKK 1,921 million at the end of 2015, also corresponding to a NIBD to EBITDA ratio of 0.3x.

DEVELOPMENT IN OPERATING WORKING CAPITAL

DKK million	2016	2015	Growth	Share of revenue 2016	Share of revenue 2015
Inventories	2,729	2,357	16%	13.5%	14.1%
Trade receivables	1,673	1,360	23%	8.2%	8.1%
Trade payables	-1,622	-1,329	22%	-8.0%	-7.9%
Total	2,780	2,388	16%	13.7%	14.3%

As part of the enamelling process, colours are carefully mixed to achieve the desired hue. This white enamel colour has a shimmering pearlescent effect reminiscent of mother of pearl.





FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2016	2015
CONSOLIDATED INCOME STATEMENT			
Revenue	2.1, 2.2	20,281	16,737
Cost of sales	2.3	-5,058	-4,544
Gross profit		15,223	12,193
Sales, distribution and marketing expenses	2.3	-5,838	-4,722
Administrative expenses	2.3	-1,981	-1,657
Operating profit	2.2	7,404	5,814
Finance income	4.6	328	84
Finance costs	4.6	-82	-553
Profit before tax		7,650	5,345
Income tax expense	2.5	-1,625	-1,671
Net profit for the year		6,025	3,674
Earnings per share, basic (DKK)	4.2	52.8	30.9
Earnings per share, diluted (DKK)	4.2	52.5	30.7
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Net profit for the year		6,025	3,674
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		121	249
Commodity hedging instruments:			
- Realised in cost of sales		-	-9
- Realised in net financials		-21	23
- Realised in inventories		-145	183
- Fair value adjustments		144	-193
Foreign exchange hedging instruments:			
- Realised in net financials		-167	175
- Fair value adjustments		236	-156
Tax on other comprehensive income, hedging instruments, income/expense	2.5	-10	22
Other comprehensive income, net of tax		158	294
Total comprehensive income for the year		6,183	3,968

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2016	2015
ASSETS			
Goodwill		2,571	2,424
Brand		1,057	1,057
Distribution network		184	216
Distribution rights		1,061	1,069
Other intangible assets		893	683
Total intangible assets	3.1	5,766	5,449
Property, plant and equipment	3.2	1,767	1,237
Deferred tax assets	2.5	946	879
Other financial assets		250	159
Total non-current assets		8,729	7,724
Inventories	3.3	2,729	2,357
Derivative financial instruments	4.5	161	65
Trade receivables	3.4	1,673	1,360
Income tax receivable		142	113
Other receivables		754	803
Cash	4.3	897	889
Total current assets		6,356	5,587
Total assets		15,085	13,311
EQUITY AND LIABILITIES			
Share capital	4.1	117	122
Treasury shares		-4,334	-4,152
Reserves		1,181	1,023
Dividend proposed		1,007	1,511
Retained earnings		8,823	7,635
Total equity		6,794	6,139
Provisions	3.5	101	97
Loans and borrowings	4.3, 4.4	3,008	2,350
Deferred tax liabilities	2.5	393	394
Other payables		393	249
Total non-current liabilities		3,895	3,090
Provisions	3.5	1,004	971
Loans and borrowings	4.3, 4.4	3	257
Derivative financial instruments	4.4, 4.5	256	214
Trade payables	4.4	1,622	1,329
Income tax payable		547	306
Other payables		964	1,005
Total current liabilities		4,396	4,082
Total liabilities		8,291	7,172
Total equity and liabilities		15,085	13,311

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	Share capital	Share premium	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2016									
Equity at 1 January		122	-	-4,152	1,134	-111	1,511	7,635	6,139
Net profit for the year		-	-	-	-	-	-	6,025	6,025
Exchange rate adjustments of investments in subsidiaries		-	-	-	121	-	-	-	121
Fair value adjustment of hedging instruments		-	-	-	-	47	-	-	47
Tax on other comprehensive income	2.5	-	-	-	-	-10	-	-	-10
Other comprehensive income, net of tax		-	-	-	121	37	-	-	158
Total comprehensive income for the year		-	-	-	121	37	-	6,025	6,183
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	-	-123	-123
Share-based payments	2.4	-	-	-	-	-	-	76	76
Share-based payments (exercised)		-	-	230	-	-	-	-229	1
Share-based payments (tax)		-	-	-	-	-	-	25	25
Purchase of treasury shares		-	-	-4,000	-	-	-	-	-4,000
Reduction of share capital		-5	-	3,588	-	-	-	-3,583	-
Dividend paid	4.2	-	-	-	-	-	-1,511	4	-1,507
Dividend proposed	4.2	-	-	-	-	-	1,007	-1,007	-
Equity at 31 December		117	-	-4,334	1,255	-74	1,007	8,823	6,794
2015									
Equity at 1 January		128	1,229	-2,679	885	-156	1,088	6,537	7,032
Net profit for the year		-	-	-	-	-	-	3,674	3,674
Exchange rate adjustments of investments in subsidiaries		-	-	-	249	-	-	-	249
Fair value adjustment of hedging instruments		-	-	-	-	23	-	-	23
Tax on other comprehensive income	2.5	-	-	-	-	22	-	-	22
Other comprehensive income, net of tax		-	-	-	249	45	-	-	294
Total comprehensive income for the year		-	-	-	249	45	-	3,674	3,968
Transfers ¹		-	-1,229	-	-	-	-	1,229	-
Share-based payments	2.4	-	-	-	-	-	-	75	75
Share-based payments (exercised)		-	-	266	-	-	-	-266	-
Share-based payments (tax)		-	-	-	-	-	-	52	52
Purchase of treasury shares		-	-	-3,900	-	-	-	-	-3,900
Reduction of share capital		-6	-	2,161	-	-	-	-2,155	-
Dividend paid	4.2	-	-	-	-	-	-1,088	-	-1,088
Dividend proposed	4.2	-	-	-	-	-	1,511	-1,511	-
Equity at 31 December		122	-	-4,152	1,134	-111	1,511	7,635	6,139

¹The 'Share premium' is a distributable reserve under Danish regulation and has therefore been transferred to 'Retained earnings' in 2015.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2016	2015
Profit before tax		7,650	5,345
Finance income	4.6	-328	-84
Finance costs	4.6	82	553
Depreciation, amortisation and impairment losses		518	400
Share-based payments	2.4	76	75
Change in inventories		-206	-431
Change in receivables		-327	-560
Change in payables and other liabilities		327	1,139
Other non-cash adjustments	4.7	241	-432
Interest etc. received		3	3
Interest etc. paid		-43	-104
Income taxes paid		-1,462	-2,520
Cash flows from operating activities, net		6,531	3,384
Acquisition of subsidiaries and activities, net of cash acquired	5.1	-210	-289
Divestment of businesses	5.1	-	29
Purchase of intangible assets		-344	-402
Purchase of property, plant and equipment		-825	-620
Change in other non-current assets		-75	-49
Proceeds from sale of property, plant and equipment		31	35
Cash flows from investing activities, net		-1,423	-1,296
Dividend paid	4.2	-1,507	-1,088
Purchase of treasury shares	4.1	-4,000	-3,900
Proceeds from loans and borrowings		3,777	4,658
Repayment of loans and borrowings		-3,373	-2,003
Cash flows from financing activities, net		-5,103	-2,333
Net increase/decrease in cash		5	-245
Cash at 1 January ¹		889	1,131
Exchange gains/losses on cash		3	3
Net increase/decrease in cash		5	-245
Cash at 31 December¹		897	889
Cash flows from operating activities, net		6,531	3,384
- Interest etc. received		-3	-3
- Interest etc. paid		43	104
Cash flows from investing activities, net		-1,423	-1,296
- Acquisition of subsidiaries and activities, net of cash acquired		210	289
- Divestment of businesses		-	-29
Free cash flow		5,358	2,449
Unutilised credit facilities		5,120	3,089

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

¹ Cash comprises cash at bank and in hand.

Accounting policies

Cash flows from operating activities are presented using the indirect method.

Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month in question, unless these differ significantly from the rates at the transaction dates.

NOTES

The notes are grouped into five sections related to key figures. The notes contain the relevant financial information as well as a description of accounting policies applied for the topics of the individual notes.

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NOTES

SECTION 1: BASIS OF REPORTING

This section introduces PANDORA's accounting policies and significant accounting estimates. A more detailed description of accounting policies and significant estimates related to specific reported amounts is presented in the respective notes. The purpose is to provide transparency on the disclosed amounts and to describe the relevant accounting policy, significant estimates and numerical disclosure for each note.

1.1 BASIS OF REPORTING

PANDORA A/S is a public limited company with its registered office in Denmark.

The Annual Report for the period 1 January - 31 December 2016 comprises the consolidated financial statements of PANDORA A/S and its subsidiaries (the Group) as well as separate financial statements for the Parent Company, PANDORA A/S.

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for the annual reports of listed companies.

The Annual Report has been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The Annual Report is presented in Danish kroner and all amounts are rounded to the nearest million (DKK million), unless otherwise stated.

The accounting policies as described below and in the respective notes are unchanged from last year.

Alternative performance measures

PANDORA presents financial measures in the Annual Report that are not defined according to IFRS. PANDORA believes 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 the performance measures used by PANDORA, refer to note 5.6.

Accounting policies

The overall accounting policies applied to the Annual Report as a whole are described below. The accounting policies related to specific line items are described in the notes to which they relate.

The description of accounting policies in the notes forms part of the overall description of PANDORA's accounting policies:

Revenue	note	2.1
Staff costs	note	2.3
Share-based payments	note	2.4
Income tax	note	2.5
Deferred tax	note	2.5
Intangible assets	note	3.1
Property, plant and equipment	note	3.2
Inventories	note	3.3
Trade receivables	note	3.4
Provisions	note	3.5
Dividend	note	4.2
Net interest-bearing debt	note	4.3
Derivative financial instruments	note	4.5
Net financials	note	4.6
Business combinations	note	5.1

The consolidated financial statements

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which PANDORA obtains control, until the date that such control ceases. All intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intercompany transactions are eliminated in full.

Foreign currency

The consolidated financial statements are presented in Danish kroner, DKK, which is also the functional currency of the Parent Company. Each subsidiary determines its own functional currency, and items recognised in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recognised

NOTES

SECTION 1: BASIS OF REPORTING, CONTINUED

in the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the reporting date. All adjustments are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Group companies with another functional currency than DKK

The assets and liabilities of foreign subsidiaries are translated into DKK at the rate of exchange prevailing at the reporting date, and their income statements are translated at the exchange rates prevailing at the dates of the transactions.

Exchange rate adjustments arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

The consolidated income statement

The consolidated income statement is presented based on costs classified by function. Cost of sales comprises direct and indirect expenses incurred to generate revenue for the year, comprising raw materials, consumables, production staff, depreciation, amortisation and impairment losses in respect of production equipment.

Sales, distribution and marketing expenses comprise expenses related to the distribution of goods sold and sales campaigns, including packaging materials, brochures, wages and salaries and other expenses related to sales and distribution staff as well as depreciation, amortisation and impairment losses in respect of distribution equipment.

Administrative expenses comprise expenses incurred in the year to manage PANDORA, including expenses related to administrative staff and depreciation, amortisation and impairment losses in respect of assets used in the administration.

The allocation of amortisation and impairment losses from intangible assets is presented in note 3.1.

Implementation of new or amended standards and interpretations

PANDORA has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January - 31 December 2016.

The implementation of these new or amended standards has not had any material impact on PANDORA's Annual Report in 2016.

Standards issued, but not yet effective

The IASB has issued a number of new IFRS standards, amended standards, revised standards and interpretations, which are not effective for this Annual report, most significantly:

IFRS 9 'Financial instruments', with effective date 1 January 2018, will change the classification, measurement, and de-recognition of financial assets, and introduces new rules for hedge accounting. PANDORA has performed an initial analysis of the impact which shows that the updated classification and measurement rules will not materially impact the annual report based on the current portfolio of financial assets. The new hedge accounting rules are expected to increase PANDORA's opportunity for aligning financial risk management and hedge accounting. The initial assessment is that the Groups current hedge relationships would qualify as hedges following the adoption of IFRS 9, and PANDORA is assessing the opportunities relating to the new hedge accounting. As part of this, PANDORA is assessing whether to early adopt IFRS 9.

IFRS 15 'Revenue from contracts with customers' with effective date 1 January 2018 will replace the current standards (IAS 11 and IAS 18) and interpretations. The new standard requires revenue to be recognised based on the transfer of control whether this is at a fixed time or over time. This is different from the present standards based on the transfer of risks and rewards.

NOTES

SECTION 1: BASIS OF REPORTING, CONTINUED

In order to determine when and how much revenue can be recognised a five-step process shall be applied:

- identify the contracts with customers
- identify the separate performance obligations
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

PANDORA has performed an initial assessment of its current contracts and products and found that these changes will not materially impact the recognition and measurement of revenue. The timing of recognising revenue might change slightly in the future and some revenue might be recognised over a slightly extended period of time. Bundled products that are distinct shall be recognised separately just as discounts and rebates on the contract price must be allocated to the separate elements.

IFRS 15 further requires provisions for return rights to be presented gross in the balance sheet, thus presenting inventory and obligation separately.

IFRS 16 'Leases' was released in January 2016 with effective date 1 January 2019. It will result in almost all leases being recognised in the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a lease asset (the right to use the leased item) and a financial liability to pay rentals are recognised. There are only few exceptions which are related to short-term and low-value leases.

PANDORA has not yet determined to what extent lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect PANDORA's profit and classification of cash flows. The assessment of the expected length of the leases as well as the composition of the contracts between fixed and variable payments will impact the future values. EBITDA as the primary performance measure in PANDORA, will be impacted by the reclassification of rent to depreciation and interest expenses. Free cash flow will be impacted positively as the classification of the leasing payments change from

operational cash flow to cash flow from financing. In 2016 around one third of the leasing costs recognised were variable and will continue to be presented as rent costs included in EBITDA. At the reporting date, PANDORA had non-cancellable operating lease commitments of DKK 2,893 million, see note 3.2. It is expected, that most leases will also qualify for leases under IFRS 16 and only insignificant commitments may be covered by the exception for short-term and low-value leases.

All other new or amended standards and interpretations not yet effective are not expected to have any material impact on PANDORA's Annual Report.

! Significant accounting estimates

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

Determining the carrying amounts of some assets and liabilities requires estimates and assumptions concerning future events. Estimates and assumptions are based on historical experience and other factors, which Management assesses to be reasonable, but which by their nature involve uncertainty and unpredictability. These assumptions may have to be revised, and unexpected events or circumstances may occur.

PANDORA is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively. Specific risks for PANDORA are discussed in the relevant sections of the Management's review and in the notes.

Management regards estimates related to tax and provisions related to sales return and warranty as key estimates.

Taxation	note	2.5
Revenue and sales returns	note	2.1, 3.5

SECTION 2

RESULTS FOR THE YEAR

This section comprises notes related to the results for the year, including reporting segment disclosures, and provides additional information related to two of PANDORA's performance measures: Revenue and EBITDA.

In 2016, Group revenue was DKK 20,281 million compared with DKK 16,737 million in 2015. The continued growth in revenue was driven by all regions.

A detailed description of the results for the year is given in the Financial review section of the Management's review.

REVENUE GROWTH

21%

GROSS MARGIN

75.1%

EFFECTIVE TAX RATE

21.2%

NUMBER OF CONCEPT STORES

2,138

EBITDA MARGIN

39.1%

NET PROFIT

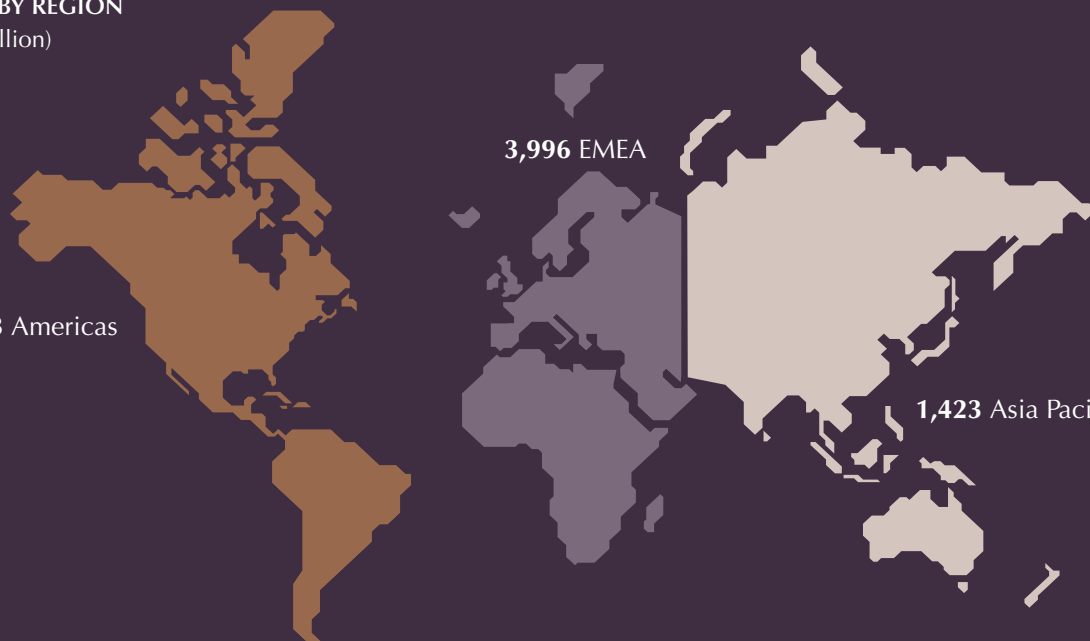
6,025
DKK million

EBITDA BY REGION
(DKK million)

2,503 Americas

3,996 EMEA

1,423 Asia Pacific



NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.1 REVENUE

Revenue by product category¹

DKK million	2016	2015
Charms	11,991	10,833
Bracelets	3,672	2,690
Rings	2,643	2,066
Other jewellery	1,975	1,148
Total revenue	20,281	16,737

¹ Figures include franchise fees of DKK 155 million (2015: DKK 138 million), which are allocated to the product categories.

Accounting policies

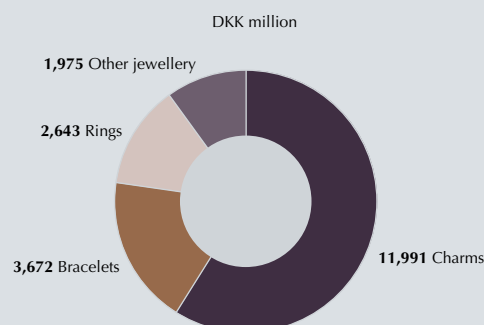
Revenue is recognised to the extent that it is probable that economic benefits will flow to PANDORA, the revenue can be reliably measured and when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes and duties when they are passed on to customers. Sales taxes and duties incurred on sales that are not recoverable from the taxation authority are reported gross as part of revenue and cost of sales.

Provisions for rebates and discounts granted to wholesalers and franchisees are recognised as a reduction of revenue, whereas the effect of expected returns is recorded as a reduction of gross profit, i.e. revenue and cost of sales. The provisions are measured on the basis of the terms in the specific agreements and historical experience.

Significant accounting estimates

Recognition and measurement of revenue is based on estimates and judgements relating to the expected sales returns allowed to customers in most countries. These judgements can have a material impact on the timing and measurement of the recognised revenue as well as the level of the return provision. Reductions in revenue from expected sales returns is calculated based on historical return patterns and on a case-by-case basis, if extended returns are allowed for specific goods for commercial reasons.

REVENUE BY PRODUCT CATEGORY



NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.2 SEGMENT INFORMATION

PANDORA's activities are segmented on the basis of geographical areas consistent with the management reporting structure.

The operating activities of the group are divided into 3 operating segments: Americas, EMEA and Asia Pacific. Each operating segment comprises wholesale, retail and e-commerce business activities relating to the distribution and sale of PANDORA products.

The financial reporting structure was changed compared with 2015 to reflect the performance of the operating segments monitored by Group Management.

All segments derive their revenue from the types of products shown in the product information in note 2.1.

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.

Income statement

DKK million	Americas	EMEA	Asia Pacific	Total Group
2016				
External revenue	6,852	9,556	3,873	20,281
Segment profit (EBITDA)	2,503	3,996	1,423	7,922
Depreciation, amortisation and impairment losses				-518
Consolidated operating profit (EBIT)				7,404
2015				
External revenue	6,537	7,548	2,652	16,737
Segment profit (EBITDA)	2,239	2,927	1,048	6,214
Depreciation, amortisation and impairment losses				-400
Consolidated operating profit (EBIT)				5,814

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.2 SEGMENT INFORMATION, CONTINUED

Geographic information, revenue

DKK million	2016	2015
US	5,157	4,893
Other Americas	1,695	1,644
Americas	6,852	6,537
UK	2,704	2,487
Italy	2,004	1,303
Denmark	72	63
Other EMEA	4,776	3,695
EMEA	9,556	7,548
Asia Pacific	3,873	2,652
Total revenue	20,281	16,737

Geographic information, intangible assets

DKK million	2016	2015
US	1,502	1,486
Other Americas	57	39
Americas	1,559	1,525
Germany	730	767
Denmark	2,117	1,968
Other EMEA	239	195
EMEA	3,086	2,930
Australia	317	309
Thailand	559	536
Other Asia Pacific	245	149
Asia Pacific	1,121	994
Total intangible assets	5,766	5,449
Property, plant and equipment ¹	1,767	1,237
Deferred tax assets	946	879
Other non-current financial assets	250	159
Current assets	6,356	5,587
Total consolidated assets	15,085	13,311

¹ The crafting facilities in Thailand accounted for DKK 875 million (2015: DKK 547 million), corresponding to 49.5% of property, plant and equipment (2015: 44.2%).

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.3 STAFF COSTS

DKK million	2016	2015
Wages and salaries	2,825	2,345
Pensions	127	102
Share-based payments	76	75
Social security costs	151	79
Other staff costs	409	319
Total staff costs	3,588	2,920
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	891	731
Sales, distribution and marketing expenses	1,827	1,471
Administrative expenses	870	718
Total staff costs	3,588	2,920
Average number of full-time employees during the year	17,770	13,971

The Group's pension plans are primarily defined contribution plans. PANDORA has defined benefit plans relating to employees in Thailand and Italy. The defined benefit plans are recognised at the present value of the

actuarially measured obligations. In 2016, these obligations amounted to DKK 44 million (2015: DKK 27 million). Actuarial loss was DKK 2 million (2015: DKK 0 million) recognised in equity. The increased obligation is primarily due to more employees.

DKK million	2016				2015
	Salary	Bonus	Shares	Total	Total
Anders Colding Friis ¹	8.8	12.5	3.4	24.7	18.7
Peter Vekslund	4.1	4.0	3.0	11.1	7.2
Allan Leighton	-	-	-	-	12.6
Total compensation of Executive Management	12.9	16.5	6.4	35.8	38.5

DKK million	2016	2015
Peder Tuborgh, Chairman	1.5	1.5
Christian Frigast, Deputy Chairman	0.9	0.9
Allan Leighton, Deputy Chairman	0.9	0.7
Anders Boyer-Søgaard	0.6	0.7
Andrea Alvey	0.7	0.6
Birgitta Stymne Göransson	0.6	-
Bjørn Gulden	0.6	0.6
Michael Hauge Sørensen	0.7	0.6
Nikolaj Vejlsgaard	-	0.1
Per Bank	0.6	0.6
Ronica Wang	0.7	0.6
Torben Ballegaard Sørensen	-	0.1
Total compensation of Board of Directors	7.8	7.0

¹ The bonus amount for Anders Colding Friis include the cost for one year relating to a sign-on bonus. The bonus is dependent on 24 months of service and will be paid in March 2017, DKK 4 million (2015: DKK 3 million).

§ Accounting policies

Wages and salaries, social security contributions, leave and sick leave, bonuses and non-monetary benefits are recognised in the financial year in which services are rendered by employees of PANDORA. Whenever PANDORA provides long-term employee benefits, the costs

are accrued to match the rendering of the services by the employees.

Termination benefits are recognised at the time an agreement between PANDORA and the employee is made and no future service is provided by the employee in exchange for the benefits.

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.4 SHARE-BASED PAYMENTS

The decision to grant share options is made by the Board of Directors in accordance with general guidelines on incentive payments for PANDORA. Share options have

been granted to members of the Executive Management and other employees in PANDORA.

	Executive Management	Other employees	Total	Average exercise price per option, DKK
2016				
Share options outstanding at 1 January	194,262	629,305	823,567	2.34
Share options granted during the year	17,864	87,801	105,665	8.50
Share options exercised during the year	-20,010 ¹	-314,867	-334,877	1.25
Share options lapsed during the year	-	-13,103	-13,103	6.18
Share options outstanding at 31 December	192,116	389,136	581,252	4.07
2015				
Share options outstanding at 1 January	210,278	1,172,522	1,382,800	1.10
Share options granted during the year	32,061	139,617	171,678	5.00
Share options exercised during the year	-48,077 ¹	-670,088	-718,165	0.52
Share options lapsed during the year	-	-12,746	-12,746	3.19
Share options outstanding at 31 December	194,262	629,305	823,567	2.34

¹ Former CDO Steen Daugaard was granted the right to exercise his share options according to his severance agreement.

The total cost of share-based payments was DKK 76 million (2015: DKK 75 million). The cost of share-based payments is included in staff costs. In the remaining vesting periods, an amount of DKK 86 million (2015: DKK 86 million) is expected to be recognised in respect of the current share option programmes.

For options exercised in 2016, the average share price was DKK 801 at the time of vesting.

Granted in 2016

In 2016, PANDORA granted a total of 105,665 share options. The market value was DKK 86 million at the grant date. The value of the programmes is recognised over the vesting period based on the likelihood that targets for Group revenue and EBITDA for 2018 will be reached and that the share options will vest. Two programmes have been released. One is for the Executive Management comprising

Share options outstanding have the following expiry dates and exercise prices

Grant date	Expiry date	Exercise price	Share options 31 December 2016	Share options 31 December 2015
May 2012	2017	0.52	76,816	76,816
February 2013	2016	1.25	-	312,732
February 2013	2018	1.25	34,061	54,070
February 2014	2017	2.99	181,652	183,859
February 2014	2019	2.99	31,314	31,314
March 2015	2018	5.00	123,334	132,715
March 2015	2020	5.00	32,061	32,061
March 2016	2019	8.50	84,150	-
March 2016	2021	8.50	17,864	-
Total number of share options outstanding			581,252	823,567

Weighted average remaining contractual life of share options outstanding at the end of the period was 1.1 years (2015: 2.0 years).

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.4 SHARE-BASED PAYMENTS, CONTINUED

17,864 share options, with a market value of DKK 15 million and a five-year vesting period, while the other programme is for other employees comprising 87,801 shares, with a market value of DKK 71 million and a three-year vesting period. The financial targets are the same in the two programmes.

Granted in 2015

In 2015, PANDORA granted a total of 171,678 share options. The market value at the grant date was DKK 105 million. The value of the programmes is recognised over the vesting period based on the likelihood that targets for Group revenue and EBITDA for 2017 will be reached and that the share options will vest. Two programmes have been released. One is for the Executive Management comprising 32,061 share options with a five-year vesting period, while the other programme is for other employees comprising 139,617 share options and with a three-year vesting period. The financial targets are the same in the two programmes.

Granted in 2014

In 2014, PANDORA granted a total of 227,555 share options. The market value at the grant date was DKK 78 million. The value of the programmes is recognised over the vesting period

based on the likelihood that targets for Group revenue and EBITDA for 2016 will be reached and that the share options will vest. The 2014 programmes are split into a programme for the Executive Management comprising 40,452 share options with a five-year vesting period and a three-year programme for other employees comprising 187,103 share options.

Granted in 2013

In 2013, PANDORA granted a total of 540,523 share options in three different share-based programmes. The first programme comprises 103,295 share options with a vesting period of only one year and a market value at the grant date of DKK 14 million. The programme vested in 2014. The second share-based programme is for the Executive Management and comprises 84,441 share options with a vesting period of five years. The last programme, for other employees, comprises 352,787 share options with a three-year vesting period. The financial targets are the same for the second and third programmes and are based on Group revenue and EBITDA for 2015. Both targets were reached and the three-year programme vested in 2016. The recognised value for the last two programmes was DKK 64 million at grant date.

Number of shares in PANDORA A/S

	2015	Purchase of shares	Sale of shares	2016	Market value ¹ DKK million
Executive Management					
Anders Colding Friis	13,820	1,800	-	15,620	14.4
Peter Vekslund	3,027	-	-	3,027	2.8
Total number of shares	16,847	1,800	-	18,647	17.2
Board of Directors					
Peder Tuborgh, Chairman	2,630	1,517	-	4,147	3.8
Christian Frigast, Deputy Chairman	46,000	-	-	46,000	42.5
Allan Leighton, Deputy Chairman ²	12,380	-	-12,380	-	-
Anders Boyer-Søgaard	4,121	-	-	4,121	3.8
Andrea Alvey	6,107	-	-	6,107	5.6
Birgitta Stymne Göransson	-	500	-	500	0.5
Bjørn Gulden	10,014	-	-	10,014	9.3
Michael Hauge Sørensen	600	600	-	1,200	1.1
Per Bank	1,923	-	-	1,923	1.8
Ronica Wang	4,070	441	-	4,511	4.2
Total number of shares	87,845	3,058	-12,380	78,523	72.6

¹ Calculation of the market value is based on the quoted share price of DKK 924 at the end of the year.

² Allan Leighton sold his shares at hand during 2016. The obligation to own shares is fulfilled by share options appointed to him as part of the severance agreement in 2014.

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.4 SHARE-BASED PAYMENTS, CONTINUED

Granted in 2012

In 2012, PANDORA granted 1,009,977 share options in two programmes. One programme, for the Executive Management, comprises 154,808 share options with a vesting period of five years. The second programme comprised 855,169 share options for other employees and vested in 2015.

Share plan

PANDORA has established a share plan for the members of the Board of Directors whereby the Chairman and the other members of the Board are each required to own a minimum number of shares corresponding to the amount of their respective initial gross annual compensation. The members of the Board of Directors must hold the shares for as long as they are members of the Board of Directors of PANDORA.

§ Accounting policies

Selected employees of PANDORA receive remuneration in the form of share-based payment transactions, whereby programme participants render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The calculated fair values are based on the Black-Scholes model for measuring share options. The cost of equity-settled transactions is recognised as staff costs together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Management's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or income for a period represents the movement in cumulative expenses recognised at the beginning and end of that period.

Assumptions

Given that the exercise price for one option equals 1% of the market price of one share at grant date, the fair value of one option almost equals the market value of one share at grant date. The assumptions listed below therefore have a very limited impact on the estimated fair value of options granted.

Year of grant	Exercise price	Expected volatility	Risk-free interest rate	Dividend per share
2016 5-year	8.50	31%	0.10%	13.00
2016 3-year	8.50	31%	-0.15%	13.00
2015 5-year	5.00	33%	-0.22%	9.00
2015 3-year	5.00	33%	0.02%	9.00
2014 3-year ¹	2.99	46%	0.47%	6.50
2013 3-year ¹	1.25	48%	0.16%	5.50

¹ As the effect of recalculating the 5-year programmes is immaterial, new values have not been calculated for share options allocated for 5-year programmes regarding previous years.

For the above programmes, volatility is based on the historical volatility of the PANDORA share in the preceding two years.

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.5 TAXATION

Income tax expense

DKK million	2016	2015
Current income tax charge	1,692	1,305
Adjustment concerning previous years ¹	17	486
Impact of change in tax rates	3	-5
Change in deferred tax	-87	-115
Total income tax expense	1,625	1,671
Tax reconciliation		
Profit before tax	7,650	5,345
Corporate tax rate in Denmark, 22% (2015: 23.5%)	1,683	1,256
Tax effect of:		
Deviations in foreign subsidiaries' tax rates compared with tax rate applicable for the Parent Company	77	34
Impact of change in tax rates	3	-5
Non-taxable income and non-deductible expenses	-133	-80
Adjustment concerning previous years	17	486
Adjustments of deferred tax assets, net	-22	-20
Total income tax expense	1,625	1,671
Effective income tax rate	21.2%	31.3%
Tax from other comprehensive income	10	-22

Deferred tax

DKK million	2016	2015
Deferred tax at 1 January	485	-23
Exchange rate adjustments	5	11
Change in deferred tax - recognised in income statement	105	411
Change in deferred tax - recognised in statement of other comprehensive income, hedging instruments	-10	22
Change in deferred tax - recognised in statement of changes in equity, share-based payments	-29	59
Impact of change in tax rates	-3	5
Deferred tax at 31 December	553	485
Deferred tax assets	946	879
Deferred tax liabilities	-393	-394
Deferred tax, net	553	485
Specification of deferred tax		
Intangible assets	-627	-615
Property, plant and equipment	-25	31
Current assets	792	570
Non-current assets and liabilities	395	491
Tax loss carry-forwards	18	8
Deferred tax, net	553	485
Unrecognised share of tax loss carry-forwards	72	53
Latent tax liability on undistributed dividends ²	254	244

¹ The adjustment concerning previous years in 2015, DKK 486 million comprised DKK 364 million related to the settlement with the Danish tax authorities.

² The latent tax liability on undistributed dividend relates to a 10% withholding tax on dividend, which will be payable if retained earnings earned before 1 September 2012 are distributed as dividend from PANDORA Production Co. Ltd. to PANDORA A/S. At present, Management does not intend to distribute this dividend.

NOTES

SECTION 2: RESULTS FOR THE YEAR, CONTINUED

2.5 TAXATION, CONTINUED

§ Accounting policies

Income tax

PANDORA A/S is taxed jointly with its Danish subsidiaries. These subsidiaries are included in the joint taxation from the date they are recognised in the consolidated financial statements and up to the date on which they are no longer consolidated. Current tax assets and liabilities for current and prior periods are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantively enacted, by the reporting date, in the countries where PANDORA operates and generates taxable income.

Deferred tax

Deferred tax is provided using the balance-sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available. Deductible temporary differences, carry-forwards of unused tax credits and unused tax losses can be offset against taxable profit except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. With respect to deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which they can be utilised. The carrying amount of deferred tax assets is

reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year the asset is realised or the liability settled, based on tax rates (and tax laws) enacted or substantively enacted at the reporting date. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of comprehensive income or directly in equity. Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same tax authority.

! Significant accounting estimates

PANDORA is subject to income tax in the countries in which the Group operates, comprising various tax rates worldwide. Significant judgements are required in determining the accrual for income taxes, deferred tax assets and liabilities, and provision for uncertain tax positions.

Changes in the profit allocation within entities could therefore have a significant impact on the Group's consolidated tax expense. For instance, the corporate tax rate in Denmark is 22% while, in Thailand, PANDORA is subject to Board of Investment agreements (BOIs), which significantly reduces Thailand income taxes.

Under the Thailand BOIs, many types of net income are tax exempt, while other types of income are subject to 20% tax. The classification of different types of income and expenses therefore determines the applicable tax rate.

As part of PANDORA conducting business globally, disputes with tax authorities may occur. Any unsettled disputes with local tax authorities are recognised under income tax payable/receivable based on an assessment of the most likely outcome. However, the actual obligation may deviate from this and is dependent on the result of litigations and settlements with the tax authorities.

SECTION 3

INVESTED CAPITAL AND WORKING CAPITAL ITEMS

The notes in this section describe the assets that form the basis for the activities of PANDORA and the related liabilities.

Around 60% of invested capital is made up of intangible assets, the value of which remains unchanged as both the PANDORA brand and free cash flow continue to grow.

Additions to invested capital in 2016 included acquisitions described in note 5.1 for a total consideration of DKK 188 million.

Operating working capital at the end of 2016 was 13.7% of revenue, compared with 14.3% at the end of 2015.

Financial risks are described in note 4.4.

CAPEX

1,199
DKK million

INVESTED CAPITAL

9,396
DKK million

OPERATING WORKING CAPITAL / REVENUE

13.7%

Invested capital

DKK million	Notes	2016	2015
Intangible assets	3.1	5,766	5,449
Property, plant and equipment	3.2	1,767	1,237
Other non-current financial assets		250	159
Non-current provisions	3.5	-101	-97
Net working capital		1,161	1,022
Deferred tax, net	2.5	553	485
Invested capital		9,396	8,255

Working capital

DKK million	Notes	2016	2015
Inventories	3.3	2,729	2,357
Trade receivables	3.4	1,673	1,360
Trade payables		-1,622	-1,329
Operating working capital		2,780	2,388
Other receivables		754	803
Current provisions	3.5	-1,004	-971
Net tax payable		-405	-193
Other payables		-964	-1,005
Net working capital		1,161	1,022

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.1 INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
2016						
Cost at 1 January	2,424	1,057	455	1,432	988	6,356
Acquisition of subsidiaries and activities	115	-	-	-	-	115
Additions	-	-	-	-	371	371
Disposals	-	-	-	-	-8	-8
Exchange rate adjustments	32	-	-	3	9	44
Cost at 31 December	2,571	1,057	455	1,435	1,360	6,878
Amortisation and impairment losses at 1 January	-	-	239	363	305	907
Amortisation for the year	-	-	31	8	164	203
Disposals	-	-	-	-	-3	-3
Exchange rate adjustments	-	-	1	3	1	5
Amortisation and impairment losses at 31 December	-	-	271	374	467	1,112
Carrying amount at 31 December	2,571	1,057	184	1,061	893	5,766
2015						
Cost at 1 January	2,080	1,053	478	1,363	596	5,570
Acquisition of subsidiaries and activities	281	-	-	69	-	350
Disposal of subsidiaries and activities	-9	-	-	-	-	-9
Additions	-	4	-	-	399	403
Disposals	-3	-	-	-	-30	-33
Transfers	-	-	-23	-	23	-
Exchange rate adjustments	75	-	-	-	-	75
Cost at 31 December	2,424	1,057	455	1,432	988	6,356
Amortisation and impairment losses at 1 January	-	-	210	316	185	711
Amortisation for the year	-	-	32	47	120	199
Transfers	-	-	-3	-	3	-
Exchange rate adjustments	-	-	-	-	-3	-3
Amortisation and impairment losses at 31 December	-	-	239	363	305	907
Carrying amount at 31 December	2,424	1,057	216	1,069	683	5,449

The majority of the intangible assets have been acquired through business combinations.

DKK million	2016	2015
Amortisation have been recognised in the income statement as follows:		
Cost of sales	11	11
Sales, distribution and marketing expenses	115	141
Administrative expenses	77	47
Total	203	199

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.1 INTANGIBLE ASSETS, CONTINUED

Carrying amounts of recognised goodwill:

DKK million	2016	2015
PANDORA core business ¹	802	790
PANDORA Jewelry America ApS, the American distributor	300	291
AD Astra Holdings Pty Ltd., the Australian distributor	313	306
PANDORA Jewelry Central Western Europe A/S, the German distributor	605	605
Other distributors	551	432
Total	2,571	2,424

¹ PANDORA's acquisition of all of the voting shares in PANDORA Production Co. Ltd., Populair A/S and Pilisar ApS. The companies comprise the Thai crafting facilities and the former Danish headquarters.

Goodwill

Goodwill was mainly acquired in connection with the acquisitions of PANDORA Jewelry A/S, PANDORA Jewelry America ApS (subsequently merged with PANDORA A/S), PANDORA Production Co. Ltd. and Pilisar ApS on 7 March 2008, AD Astra Holdings Pty Ltd. in July 2009, PANDORA Jewelry Central Western Europe A/S in 2010, distributors and concept stores acquired. Additions in 2016 relate to acquisitions of companies and activities. Note 5.1 includes an overview of the acquired goodwill.

Brand

The brand 'PANDORA' is the only brand of the Group that is capitalised in the financial statements. It comprises a group of complementary intangible assets relating to the brand, domain name, products, image and customer experience related to products sold under the PANDORA brand. The brand was acquired as part of the PANDORA core business in 2008.

Distribution network

The distribution network covers PANDORA's relations with its distributors. The main part of the distribution network was acquired with the PANDORA core business in 2008.

Distribution rights

Distribution rights are mainly related to the distribution rights for PANDORA products in North America. They were acquired with the American distributor in 2008 and the carrying amount was DKK 1,034 million at 31 December 2016 (2015: DKK 1,034 million).

Other intangible assets

Other intangible assets mainly comprise software and key money.

Accounting policies

All intangible assets are tested for impairment if there is any indications of impairment or at least annually.

Goodwill

Goodwill is initially recognised at the amount by which the purchase price for a business combination exceeds the recognised value of the identifiable assets and liabilities assumed. Goodwill comprises future growth expectations, buyer-specific synergies, the workforce in place and know-how. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised, and impairment losses charged in previous years are not reversed.

Brand

Brand is measured based on the "Relief from Royalty" method, which is considered to have an indefinite useful life.

Distribution network

The distribution network is initially recognised at fair value based on an estimation of the costs the entity avoids by owning the intangible assets and not needing to rebuild the network (the cost approach). The distribution network is amortised over an expected useful life of 15 years.

Distribution rights

The distribution rights for PANDORA products in the North American market are measured based on a residual model, since the distribution agreement underlying the distribution rights is non-terminable. Consequently, the distribution rights are considered to have an indefinite useful life.

Other acquired distribution rights are measured based on the "Multi-period Excess Earnings" model and amortised over their expected useful lives.

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.1 INTANGIBLE ASSETS, CONTINUED

Other intangible assets

Software is measured at cost and amortised over 3-5 years. Key money is measured at cost and amortised over the term of the contract. Contracts that are considered to have an indefinite term are not amortised, but are tested for impairment.

Impairment

At each reporting date, PANDORA assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing of an asset is required, PANDORA estimates the recoverable amount of the asset.

The most significant factors when assessing the potential need for write-downs are:

- decreasing revenue
- decreasing brand value
- changes to the product mix.

The indicators above should be viewed in the context of PANDORA's relatively high margins and low asset base.

The recoverable amount of an asset is the higher of the fair value of the asset or cash-generating unit (CGU) less costs to sell and its value in use. The recoverable amount is determined for the smallest group of assets that are independent from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Allocation of intangible assets to CGUs

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
2016						
US and Caribbean	651	-	-	1,034	44	1,729
Other Americas	41	-	-	-	29	70
Americas	692	-	-	1,034	73	1,799
Northern Europe	930	-	-	13	119	1,062
Other EMEA	176	-	-	-	116	292
EMEA	1,106	-	-	13	235	1,354
Asia	225	-	-	14	6	245
Pacific	497	-	-	-	3	500
Asia Pacific	722	-	-	14	9	745
Group	51	1,057	184	-	576	1,868
Total	2,571	1,057	184	1,061	893	5,766
2015						
North America	652	-	-	1,034	41	1,727
South America	22	-	-	-	17	39
Americas	674	-	-	1,034	58	1,766
Western Europe	117	-	-	-	59	176
Central Western Europe	712	-	1	13	161	887
Central Eastern Europe	57	-	-	-	8	65
Distributors & Travel retail	218	-	-	-	3	221
EMEA	1,104	-	1	13	231	1,349
Asia	117	-	-	22	3	142
Pacific	490	-	-	-	3	493
Asia Pacific	607	-	-	22	6	635
Group	39	1,057	215	-	388	1,699
Total	2,424	1,057	216	1,069	683	5,449

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.1 INTANGIBLE ASSETS, CONTINUED

Goodwill and distribution rights are allocated to 14 CGUs. The recoverable amount is based on a calculation of the value in use using cash flow estimates based on budgets and expectations for the next three years. The long-term growth rate in the terminal period has been set so that it equals the expected long-term rate of inflation.

The brand is applied and supported globally in all of the Group's entities. The brand is maintained and preserved through common strategy and product development at Group level and marketing in the individual sales entities. The brand is consequently tested for impairment at Group level. The calculations of the recoverable amounts of CGUs or groups of CGUs are based on the following key assumptions:

Discount rates reflect the current market assessment of the risks specific to each CGU. The Group discount rates have been estimated based on a weighted average cost of capital for the industry. The rates have further been adjusted to reflect the market assessment of any risk specific to each CGU.

The EBIT figures used in the impairment test are based on the budget for next year, prepared and approved by Management, and the expectations for the two subsequent years.

The EBIT margin in the budget of the individual CGU is based on historical experience and expectations concerning:

- revenue growth taking into account development in network (store openings, retail/wholesale share), product mix and market share
- cost of sales based on raw materials consumption effected by mix of materials (stones, gold, silver and salaries) and average lagged hedge commodity prices at the time the budget is prepared
- development in operating expenses
- currency rates are based on actual rates at the time the budget is prepared.

Net working capital in the budget for next year, relative to the revenue of the individual CGUs, is based on historical experience and is maintained for the remainder of the expected lives. The net working capital is thus increased on a linear basis as the level of activity increases.

The impairment tests did not show any need for impairment losses to be recognised. Based on sensitivity analyses, it is Management's opinion that no probable change in any key assumptions would cause the carrying amount of the CGUs or groups of CGUs to exceed the recoverable amount.

Discount rates and growth rates in terminal period	Discount rate before tax	Growth rate in the terminal period
2016		
US and Caribbean	10.9%	2%
Other Americas	9.9%-21.3%	2%-8%
Northern Europe	8.4%	2%
Other EMEA	9.8%-16.7%	2%
Asia	7.3%-12.3%	2%
Pacific	11.4%	2%
Group	11.2%	2%
2015		
North American	11.4%	2%
South Americas	55.5%	2%
Western Europe	9.6%	2%
Central Western Europe	10.1%	2%
Central Eastern Europe	13.0%	2%
Distributors and Travel Retail	10.4%	2%
Pacific	11.5%	2%
Asia	10.0%	2%
Group	11.3%	2%

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	Assets under construction	Total
2016				
Cost at 1 January	420	1,266	124	1,810
Acquisition of subsidiaries and activities	-	6	-	6
Additions	32	267	529	828
Disposals	-46	-120	-	-166
Transfers	304	298	-602	-
Exchange rate adjustments	22	30	8	60
Cost at 31 December	732	1,747	59	2,538
Depreciation and impairment losses at 1 January	96	477	-	573
Depreciation for the year	19	295	-	314
Disposals	-34	-94	-	-128
Exchange rate adjustments	3	9	-	12
Depreciation and impairment losses at 31 December	84	687	-	771
Carrying amount at 31 December	648	1,060	59	1,767
2015				
Cost at 1 January	342	686	78	1,106
Acquisition of subsidiaries and activities	-	23	-	23
Additions	69	353	284	706
Disposals	-5	-36	-3	-44
Transfers	9	233	-242	-
Exchange rate adjustments	5	7	7	19
Cost at 31 December	420	1,266	124	1,810
Depreciation and impairment losses at 1 January	81	314	-	395
Depreciation for the year	16	185	-	201
Disposals	-2	-28	-	-30
Exchange rate adjustments	1	6	-	7
Depreciation and impairment losses at 31 December	96	477	-	573
Carrying amount at 31 December	324	789	124	1,237

PANDORA has pledged assets relating to land and buildings in the amount of DKK 155 million (2015: DKK 147 million) as collateral for tax surcharges in Thailand. It is expected that the pledge will be revoked in 2017.

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.2 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

Operating leases

DKK million	Land and buildings	Plant and equipment	Total
Future minimum lease payments on existing contracts at 31 December 2016			
Within 1 year	661	28	689
Between 1- 5 years	1,543	20	1,563
After 5 years	641	-	641
Total	2,845	48	2,893
2015			
Within 1 year	513	27	540
Between 1- 5 years	1,258	19	1,277
After 5 years	617	-	617
Total	2,388	46	2,434

PANDORA has a large number of individually insignificant leases. The leases are mainly for stores, offices, office equipment etc. The increase in commitments in 2016 is mainly related to new owned and operated concept stores, and the lease for a new office in Germany.

Lease expense recognised in the year was DKK 934 million (2015: DKK 576 million). Of this amount DKK 292 million was variable lease payments based on store sales (2015: DKK 150 million).

§ Accounting policies

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Leases

Lease agreements in which a substantial portion of the risks and benefits of ownership are transferred to PANDORA are classified as finance leases. All other lease agreements are classified as operating leases.

Assets held under finance leases are reported as non-current assets and future minimum payments are reported as liabilities in the balance sheet. PANDORA had no finance leases at the reporting date.

Minimum lease payments under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Contingent (sales-based) rents are recognised in the same period as the corresponding sales.

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.3 INVENTORIES

DKK million	2016	2015
Raw materials and consumables	392	469
Work in progress	168	104
Finished goods	1,950	1,582
Point-of-sale materials	219	202
Total inventories at 31 December	2,729	2,357
Inventory write-downs at 1 January	269	246
Write-downs during the year	289	230
Utilised in the year	-235	-185
Reversal of write-downs in the year	-	-22
Inventory write-downs at 31 December	323	269

Write-downs

Write-downs of inventories are recognised in cost of sales, DKK 179 million (2015: DKK 135 million), and distribution expenses DKK 110 million (2015: DKK 73 million). Included in the write-downs are remelt costs. This is PANDORA's option to re-melt certain products in order to reduce some of the costs of disposing of either defective products or products that are not expected to be sold. The impact from remelt is mainly influenced by the market price of silver and gold. Remelting of goods (realised and unrealised) had a negative impact on gross profit of DKK 138 million (2015: DKK 104 million).

§ Accounting policies

Inventories are valued at the lower of cost and net realisable value. Costs are accounted for on a first-in, first-out basis (FIFO). Besides costs for purchases, costs also include labour and a proportion of production overheads based on normal operating capacity, but excluding borrowing costs.

Point-of-sale materials comprise purchase costs regarding equipment, displays and packaging materials etc. and are also accounted for on a FIFO basis.

Net realisable value

Net realisable value is based on the estimated selling price less estimated costs of completion and distribution. Alternatively, if the inventories are not expected to be sold, net realisable value is based on remelt value of the reusable raw materials (primarily silver and gold) measured at the market prices for silver and gold at the reporting date.

Capitalised production overheads

Capitalised production overheads are calculated using a standard cost method, which is reviewed regularly to ensure relevant assumptions concerning capacity utilisation, lead times and other relevant factors.

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.4 TRADE RECEIVABLES

DKK million	2016	2015
Analysis of trade receivables at 31 December		
Not past due	1,394	1,033
Up to 30 days	211	193
Between 30 and 60 days	41	85
Between 60 and 90 days	19	47
Over 90 days	8	2
Total past due, not impaired	279	327
Total trade receivables at 31 December	1,673	1,360
Analysis of movements in bad debt write-downs		
Write-downs at 1 January	24	23
Additions	50	10
Utilised	-3	-5
Unused amounts reversed	-22	-5
Exchange rate adjustments	-1	1
Write-downs at 31 December	48	24

PANDORA's customers comprise distributors, franchisees and consumers. While consumers pay cash, management monitors payment patterns of the other groups of customers and estimate the need for a write-down. Credit ratings of customers and market specific development are taken into account in order to assess the need for further impairment. Historically PANDORA has not suffered any significant losses.

§ Accounting policies

Trade receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less impairment. Any losses arising from write-down are recognised in the income statement as sales costs.

A write-down for bad or doubtful debts is made if there is any indication of impairment of a receivable or a portfolio of receivables. The write-down is calculated as the difference between the carrying amount and the present value of estimated future cash flows associated with the receivable. The discount rate used is the effective interest rate for the individual receivable or portfolio of receivables at the time of recognition.

NOTES

SECTION 3: INVESTED CAPITAL AND WORKING CAPITAL ITEMS, CONTINUED

3.5 PROVISIONS

DKK million	Sales return and warranty provisions	Other provisions	Total
2016			
Provisions at 1 January	902	166	1,068
Made in the year	813	96	909
Utilised in the year	-749	-33	-782
Unused provisions reversed	-60	-38	-98
Exchange rate adjustments	5	3	8
Provisions at 31 December	911	194	1,105
Provisions are recognised in the consolidated balance sheet as follows:			
Current	911	93	1,004
Non-current	-	101	101
Total provisions at 31 December	911	194	1,105
2015			
Provisions at 1 January	670	69	739
Made in the year	936	108	1,044
Utilised in the year	-702	-6	-708
Unused provisions reversed	-48	-10	-58
Exchange rate adjustments	46	5	51
Provisions at 31 December	902	166	1,068
Provisions are recognised in the consolidated balance sheet as follows:			
Current	902	69	971
Non-current	-	97	97
Total provisions at 31 December	902	166	1,068

Sales return and warranty provisions

Provision for warranty claims is presented together with sales returns. This is due to the handling of warranty claims, which lead to replacements instead of repairs.

PANDORA provides sales return and warranty rights to customers in most countries. Sales return and warranty provisions mainly relate to the Americas, DKK 576 million (2015: DKK 583 million).

Other provisions

Other provisions include provisions for defined pension plans, obligations to restore leased property as well as other legal and constructive obligations.

§ Accounting policies

Provisions are recognised when PANDORA has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation

and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the income statement net of any reimbursement.

A provision for estimated sales returns is recognised when there is historical experience or when a reasonably accurate estimate of expected future returns can otherwise be made. The provision is recognised at the gross margin of the expected returns. The part of estimated sales returns that is not expected to be sold is written down to remelt value.

! Significant accounting estimates

In most countries, PANDORA has provided return rights to customers. The provision is to a large extent based on historical return patterns, and changes in actual return patterns will therefore impact gross profit at the time of the return. Provisions are made on a case-by-case basis when PANDORA expects to take back specific goods for commercial reasons.

SECTION 4

CAPITAL STRUCTURE AND NET FINANCIALS

This section includes notes related to PANDORA's capital structure and net financials, including financial risks (see note 4.4). As a consequence of its operations, investments and financing, PANDORA is exposed to a number of financial risks that are monitored and managed via PANDORA's Group Treasury. PANDORA uses a number of derivative financial instruments to hedge its exposure to fluctuations in commodity prices and similar. Derivative financial instruments are described in note 4.5.

The basis of PANDORA's capital management is the NIBD to EBITDA ratio, which Management seeks to maintain between 0 and 1. At 31 December 2016, the ratio was 0.3 compared with 0.3 at 31 December 2015. PANDORA's ability to keep this low ratio is based on the high cash conversion. The cash conversion was 72.4% in 2016 compared with 42.1% in 2015.

CASH CONVERSION

72.4%

SHARE BUYBACK

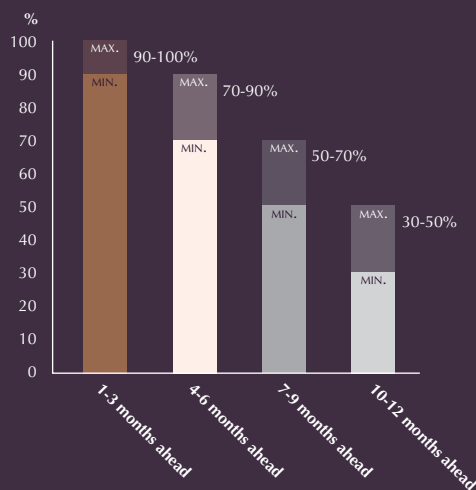
4,000

DKK million

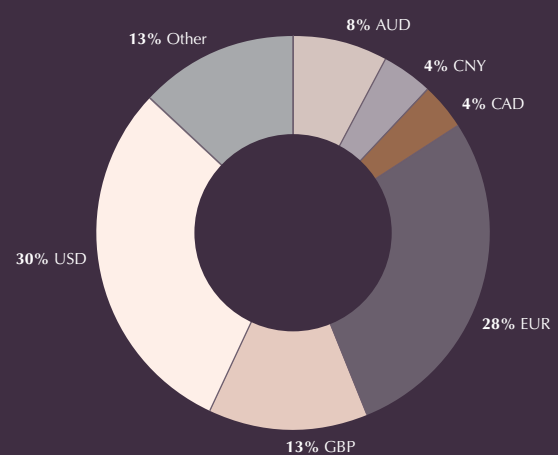
TOTAL PAYOUT RATIO

91.5%

COMMODITY HEDGE RATIO



REVENUE BREAKDOWN BY CURRENCY



NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.1 SHARE CAPITAL

Share capital	Number of shares	Nominal value (DKK)
2016		
Balance at 1 January	122,297,169	122,297,169
Reduction of share capital	-5,240,348	-5,240,348
Balance at 31 December	117,056,821	117,056,821
2015		
Balance at 1 January	128,115,820	128,115,820
Reduction of share capital	-5,818,651	-5,818,651
Balance at 31 December	122,297,169	122,297,169

Treasury shares	Number of shares	Nominal value (DKK)	Purchase price	% of shares
2016				
Balance at 1 January	6,063,915	6,063,915	4,152,220,853	5.0%
Used to settle share options	-334,877	-334,877	-230,344,441	-0.3%
Reduction of share capital	-5,240,348	-5,240,348	-3,588,289,454	-4.3%
Purchase of treasury shares	4,641,992	4,641,992	4,000,001,320	4.0%
Balance at 31 December	5,130,682	5,130,682	4,333,588,278	4.4%
2015				
Balance at 1 January	7,216,058	7,216,058	2,679,520,750	5.6%
Used to settle share options	-718,165	-718,165	-266,674,411	-0.6%
Reduction of share capital	-5,818,651	-5,818,651	-2,160,625,107	-4.5%
Purchase of treasury shares	5,384,673	5,384,673	3,899,999,621	4.4%
Balance at 31 December¹	6,063,915	6,063,915	4,152,220,853	5.0%

¹ At 31 December 2015 treasury shares accounted for 4.96%, rounded to 5.0%.

At 31 December 2016, the share capital comprised 117,056,821 shares with a par value of DKK 1. No shares have special rights.

In 2016, PANDORA launched a share buyback programme under which PANDORA expected to buy back own shares of DKK 4,000 million. PANDORA bought 4,641,992 treasury shares in 2016, corresponding to a total purchase price of DKK 4,000 million.

Treasury shares

All treasury shares are owned by PANDORA A/S. Treasury shares include hedges for share-based incentive plans and restricted stock grants to the Executive Management and other employees.

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.2 EARNINGS PER SHARE AND DIVIDEND

	2016	2015
Profit attributable to equity holders, DKK million	6,025	3,674
Weighted average number of ordinary shares	114,162,672	118,981,186
Effect of share options	581,252	823,567
Weighted average number of ordinary shares adjusted for the effect of dilution	114,743,924	119,804,753
Basic earnings per share, DKK	52.8	30.9
Diluted earnings per share, DKK	52.5	30.7

There have been no transactions between the reporting date and the date of completion of the Annual Report involving shares that would have significantly changed the number of shares or potential shares in PANDORA A/S.

Dividend

At the end of 2016, proposed dividend (not yet declared) was DKK 9.00 per share (2015: DKK 13.00 per share), corresponding to DKK 1,007 million. Declared dividend of DKK 13.00 per share, corresponding to DKK 1,511 million in 2015, was paid to the shareholders in 2016. No dividend was paid on treasury shares.

Dividend paid has had no effect on the Group's tax expense for the year.

Distributable reserves

When calculating the amount available for distribution of dividend, treasury shares are deducted from distributable reserves.

§ Accounting policies

Dividend proposed is recognised as a liability at the date of the adoption at the Annual General Meeting (declaration date). Extraordinary dividend is recognised as a liability at the declaration date.

4.3 NET INTEREST-BEARING DEBT

DKK million	2016	2015
Loans and borrowings, non-current	3,008	2,350
Other liabilities, non-current ¹	334	203
Loans and borrowings, current	3	257
Cash	-897	-889
Net interest-bearing debt	2,448	1,921

¹Put options to acquire non-controlling interests have been reclassified to be included in net interest-bearing debt (NIBD). Consequently NIBD and NIBD to EBITDA have been recalculated for 2015.

Capital management

The principal objectives of PANDORA's capital management are to ensure shareholders a competitive return on their investment and to ensure that PANDORA will be able to meet all the commitments set out in the loan agreements with the banks. The basis of PANDORA's capital management is the NIBD to EBITDA ratio. It is the policy of the Group that this ratio should be between 0 and 1 on a 12-month rolling basis. At 31 December 2016, the NIBD to EBITDA ratio was 0.3 (2015: 0.3).

In June and November 2016, PANDORA added an additional DKK 2,500 million in committed credit facilities.

Total committed credit facilities amount to DKK 7,500 million (2015: DKK 5,000 million). DKK 1,000 million are committed until June 2019 and DKK 6,500 million are committed until June 2021.

§ Accounting policies

Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium at inception, and fees and other costs.

PANDORA has entered into put options with non-controlling interests of certain Group entities. The put option gives the non-controlling shareholder the right to sell its non-controlling interest to PANDORA at a predefined exercise price, which is based on the revenue realised.

Financial liabilities relating to the acquisition of non-controlling interests is measured at fair value as if the put options have been exercised already. The value is determined

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.3 NET INTEREST-BEARING DEBT, CONTINUED

by means of the estimated present value of the expected cash outflows required to settle the put options. The value is based on projected revenue and assuming that the put options are exercised by the non-controlling interests at year end in the current financial year. Changes in the value of these liabilities

as well as differences on settlement between actual cash outflows and expected cash outflows are accounted for as a transaction directly in equity.

Subsidiaries whose non-controlling shareholdings are subject to put options are fully consolidated, i.e. with no recognition of a non-controlling interest.

4.4 FINANCIAL RISKS

As a consequence of its operations, investments and financing, PANDORA is exposed to a number of financial risks that are monitored and managed by PANDORA's Group Treasury.

To manage financial risks, PANDORA uses a number of financial instruments, such as forward contracts, silver and gold swaps, currency and interest rate swaps, options and similar instruments within the framework of its current policies. Financial risks are divided into commodity price risk, foreign currency risk, credit risk, liquidity risk and interest rate risk.

Commodity price risk

Raw material risk is the risk of fluctuating commodity prices resulting in additional production costs. The most important raw materials are silver and gold, which are priced in USD.

It is the policy of PANDORA to ensure stable, predictable raw material prices. Based on a rolling 12-month production plan, the policy is for Group Treasury to hedge around 100%, 80%, 60% and 40% of the risk for the following 1-3 months, 4-6 months, 7-9 months and 10-12 months respectively. Any deviation from the policy must be approved by the Group CFO and the Audit Committee. Commodity hedging is updated at the end of each month or in connection with revised 12-month rolling production plans. Actual production may deviate from the 12-month rolling production plan. In case of deviations, the realised commodity hedge ratio may deviate from the estimated hedge ratio. For the fair value of hedging instruments, see note 4.5.

Hedge ratio for the coming 12 months

Months ahead	Commodity	All major currencies
1-3	90-100%	90-100%
4-6	70-90%	70-90%
7-9	50-70%	50-70%
10-12	30-50%	30-50%

Foreign currency risk

PANDORA's presentation currency is DKK, but the majority of PANDORA's activities and investments are denominated

in other currencies. Consequently, there is a substantial risk of exchange rate fluctuations having an impact on PANDORA's reported cash flows, profit (loss) and/or financial position in DKK.

The majority of PANDORA's revenue is in USD, CAD, AUD, GBP and EUR. A drop in the strength of these currencies against DKK will result in a decline in the translated future cash flows. A substantial portion of PANDORA's costs are related to raw materials purchased in USD. PANDORA also purchases raw materials and pays other costs in THB. Exchange rate increases will result in a decline in the translated value of future cash flows. PANDORA finances the majority of its subsidiaries' cash requirements via intercompany loans denominated in the local currency of the individual subsidiary. A drop in the strength of these currencies against DKK will result in a foreign exchange loss in the Parent Company. PANDORA owns foreign subsidiaries where the translation of equity into DKK is influenced by exchange rate fluctuations. Declining exchange rates will result in a foreign exchange loss in the Group's equity.

Exchange rate fluctuations may lead to a decrease in revenue and an increase in costs and thus declining margins. In addition, exchange rate fluctuations affect the translated value of the profit or loss of foreign subsidiaries and the translation of foreign currency assets and liabilities.

It is PANDORA's policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. PANDORA basically does not hedge balance sheet items or ownership interests in foreign subsidiaries. It is PANDORA's policy for Group Treasury to hedge around 100% of the risk 1-3 months forward, 80% of the risk 4-6 months forward, 60% of the risk 7-9 months forward and 40% of the risk 10-12 months forward, based on a rolling 12-month liquidity budget. Foreign currency hedging is updated at the end of each month or in connection with revised 12-month rolling cash forecasts.

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.4 FINANCIAL RISKS, CONTINUED

Below is an illustration of the impact in DKK million on the net profit and changes in equity resulting from a change in

the Group's primary foreign currencies after the effect of hedge accounting.

Analysis of assets and liabilities

DKK million	Change in exchange rate	31 December 2016		31 December 2015	
		Profit (loss) before tax	Equity	Profit (loss) before tax	Equity
USD	-10%	-0	68	38	103
USD	+10%	0	-68	-38	-103
CAD	-10%	-13	33	2	49
CAD	+10%	13	-33	-2	-49
AUD	-10%	18	94	4	64
AUD	+10%	-18	-94	-4	-64
GBP	-10%	53	223	15	150
GBP	+10%	-53	-223	-15	-150
EUR	-1%	0	-3	-9	-10
EUR	+1%	-0	3	9	10
THB	-10%	12	-266	-11	-197
THB	+10%	-12	266	11	197

The movements in the income statement arise from monetary items (cash, borrowings, receivables and payables) where the functional currency of the entity differs from the currency that the monetary items are denominated in. The movements in equity arise from monetary items and hedging instruments where the functional currency of the entity differs from the currency that the hedging instruments or monetary items are denominated in.

Credit risk

Credit risk is primarily related to trade receivables, cash and unrealised gains on financial contracts. The maximum credit risk related to financial assets corresponds to the carrying amounts recognised in the consolidated balance sheet.

It is PANDORA's policy for subsidiaries to be responsible for credit evaluation and credit risk on their trade receivables. In case of deviation from standard agreements, Group Treasury and/or the CFO must approve any significant transactions related to direct distributors and local key customers.

Note 3.4 includes an overview of the credit risk related to trade receivables. Rating of trade receivables is not materially different either by type of customer or geographic placement. The risk of further impairment is considered limited.

Credit risks related to PANDORA's other financial assets mainly include cash and unrealised gains on financial contracts. The credit risk is related to default of the counterparty with a maximum exposure corresponding to the carrying amount of the assets. It is PANDORA's policy for Group Treasury to monitor and manage these credit risks.

Liquidity risk

Liquidity risk is the risk that PANDORA will have insufficient funds to meet its liabilities when due.

The aim of liquidity management is to maintain optimal cash resources to fund PANDORA's commitments at all times, to minimise interest and bank costs and to avoid financial distress. Group Treasury is responsible for monitoring and managing PANDORA's total liquidity position. PANDORA currently does use cash pools, and in addition intercompany loans exist between PANDORA A/S and its subsidiaries. Whenever possible, liquidity is accumulated in PANDORA A/S.

PANDORA's cash resources comprise cash and unutilised committed and uncommitted credit facilities. It is Management's opinion that the cash resources of the Group and the Parent Company are adequate. It is PANDORA's policy to ensure adequate cash resources in case of unforeseen cash fluctuations.

PANDORA has committed revolving credit facilities of 7,500 million. DKK 1,000 million are committed until June 2019 and DKK 6,500 million are committed until June 2021. Furthermore, PANDORA has minor local uncommitted credit facilities to ensure efficient and flexible local liquidity management. These credits are facilitated by Group Treasury.

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.4 FINANCIAL RISKS, CONTINUED

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. Interest rate risk is minimised by managing the overall duration of interest rate-sensitive assets and liabilities. At the reporting date, all interest-bearing loans and borrowings were unhedged.

Contractual maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Obligations to require non-controlling interests relate to the acquisitions in Japan in January 2015 and China in

July 2015. The highest amounts payable according to the respective contracts are for Japan DKK 200 million and China DKK 317 million. Based on Management assessment, the fair value of the obligation in Japan is calculated considering the revenue at the end of the contract based on the latest available information. Discounted fair value at the reporting date was recognised at DKK 81 million (2015: DKK 71 million), while the obligation relating to China was recognised at DKK 253 million (2015: DKK 132 million). Based on the positive development of the activities in China, Management has reassessed the obligation to acquire the remaining non-controlling interests, and the recognised fair value was increased by DKK 103 million. Included in the table below is the earn-out payment relating to the non-controlling interest in PANDORA Jewelry Central Western Europe A/S recognised at DKK 0 (2015: DKK 0).

Commitments regarding operating leases have not been included in the table below. Information regarding operating leases can be found in note 3.2.

Based on the Group's expectations for the future operation and the Group's current cash resources, no other significant liquidity risks have been identified.

Liabilities fall due as follows

DKK million	Falling due within 1 year	Falling due within 1-5 years	Falling due after 5 years	Total
2016				
Non-derivatives				
Loans and borrowings	3	3,008	-	3,011
Trade payables	1,622	-	-	1,622
Other payables	964	474	-	1,438
Derivatives				
Derivative financial instruments	256	-	-	256
Total at 31 December	2,845	3,482	-	6,327
2015				
Non-derivatives				
Loans and borrowings	257	2,350	-	2,607
Trade payables	1,329	-	-	1,329
Other payables	814	282	-	1,096
Derivatives				
Derivative financial instruments	214	-	-	214
Total at 31 December	2,614	2,632	-	5,246

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.5 DERIVATIVE FINANCIAL INSTRUMENTS

Financial assets and liabilities are measured at cost with the exception of derivative financial instruments (forward contracts etc.), which are measured at fair value.

PANDORA uses a number of derivative financial

instruments to hedge its exposure to fluctuations in commodity prices and exchange rates.

Derivative financial instruments include forward commodity contracts and forward exchange contracts.

DKK million	Assets	Liabilities	Carrying amount	Hedge reserve, net of tax
2016				
Commodities	20	-158	-138	-109
Foreign exchange	141	-98	43	35
Total derivative financial instruments	161	-256	-95	-74
2015				
Commodities	4	-127	-123	-92
Foreign exchange	61	-87	-26	-19
Total derivative financial instruments	65	-214	-149	-111

Classification according to the fair value hierarchy

The fair value at 31 December 2016 and 2015 of PANDORA's derivative financial instruments was measured in accordance with level 2 in the fair value hierarchy (IFRS 7). Level 2 is based on non-quoted prices, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). PANDORA uses input from third-party valuation specialists to quote prices for unrealised derivative financial instruments. The value of unrealised silver and gold instruments is tested against the prices observable at LBMA (London Bullion Market Association). The value of unrealised foreign exchange instruments is tested against observable foreign exchange forward rates.

§ Accounting policies

Derivative financial instruments are initially recognised at fair value at the date on which a contract is entered into and are subsequently measured at fair value. For derivative financial instruments not traded in an active market, the fair value is determined using appropriate valuation methods. Such methods may include comparison with recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same or discounted cash flow analysis.

PANDORA has designated certain derivative financial instruments as cash flow hedges as defined under IAS 39. Hedge accounting is classified as a cash flow hedge when hedging variability in cash flow is attributable to a highly probable forecast transaction. PANDORA uses a range of 80% to 125% for hedge effectiveness, and any relationship with an effectiveness that falls outside this range is deemed to be ineffective and hedge accounting is suspended. PANDORA designates and documents all hedging relationships between commodity contracts and transactions.

Derivative financial instruments that qualify for cash flow hedge accounting

The effective portion of the unrealised gain or loss on all hedging instruments is recognised directly as other comprehensive income in the equity hedging reserve. The ineffective portion is recognised in net financials.

The effective portion of the realised gain or loss on a commodity hedging transaction is recognised in Group inventories whereas the ineffective portion is realised in net financials. The realised gain or loss on all forward exchange contracts is recognised in net financials.

NOTES

SECTION 4: CAPITAL STRUCTURE AND NET FINANCIALS, CONTINUED

4.6 NET FINANCIALS

Finance income

DKK million	2016	2015
Finance income from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	203	2
Total finance income from derivative financial instruments	203	2
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	121	79
Interest income, bank	3	3
Interest income, loans and receivables	1	-
Total finance income from loans and receivables	125	82
Total finance income	328	84

Finance costs

DKK million	2016	2015
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	15	199
Total finance costs from derivative financial instruments	15	199
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	22	234
Interest on loans and borrowings	23	10
Other finance costs	22	110
Total finance costs from loans and borrowings	67	354
Total finance costs	82	553

§ Accounting policies

Finance income and costs comprise interest income and expenses, realised and unrealised gains and losses on payables/receivables and transactions in foreign currencies.

For all financial instruments measured at amortised cost, interest income or expense is recognised using the effective

interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

4.7 OTHER NON-CASH ADJUSTMENTS

Other non-cash adjustments

DKK million	2016	2015
Other non-cash adjustments can be split into the following:		
Effects from exchange rate adjustments	58	-297
Effects from derivative financial instruments	182	-131
Other, including gains/losses from the sale of property, plant and equipment	1	-4
Total other non-cash adjustments	241	-432

SECTION 5

OTHER DISCLOSURES

This section includes other statutory notes, which are of secondary importance to the understanding of the financial performance of PANDORA.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.1 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 expired on 31 December 2015. Distribution in the Philippines continues under a new agreement with the existing distributor, whereas 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 costs of DKK 3 million have been 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.

DKK million	2016 Total	2015 Total
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 non-current liabilities	-	7
Liabilities assumed	8	52
Total identifiable net assets acquired	73	244
Goodwill arising on acquisitions	115	281
Purchase consideration	188	525
Cash movements on acquisitions:		
Prepaid, previous year ¹	-7	-
Consideration transferred regarding previous years ²	29	-
Deferred payment (including earn-out)	-	-222
Cash acquired	-1	-21
Net cash flows on acquisitions for the year	209	282
Prepayments, acquisitions ³	1	7
Net cash flows on acquisitions	210	289
Cash flow from sale of businesses ⁴	-	-29
Net cash flows from business combinations	210	260

¹ Prepayments 2015 relate to the acquisitions in Singapore, Macau and the Philippines on 1 January 2016. The amount paid was DKK 7 million.

² The consideration transferred in 2016 was the final payment for the transfer of assets regarding the acquisition in China in 2015, DKK 29 million.

³ Prepayments 2016 relate to the acquisition of a store in Australia on 4 January 2017. The amount paid was DKK 1 million.

⁴ Sale of businesses in 2015 includes mainly inventories, DKK 18 million and goodwill, DKK 9 million.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.1 BUSINESS COMBINATIONS, CONTINUED

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

Acquisitions in 2015

Strategic alliance in Japan

On 1 January 2015, PANDORA acquired assets related to distribution in Japan from Bluebell in a business combination. In addition to the distribution rights, assets included branded stores – one concept store and nine shop-in-shops. 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 put option is estimated at DKK 58 million.

Intangible assets comprise reacquired distribution rights (remaining lifespan around three years) of DKK 30 million. The fair value is based on comparison of peer markets and the EBITDA that can be expected from similar stores in these markets.

Inventories, DKK 6 million, have been measured at market value based on the saleability of the inventory.

Goodwill of DKK 20 million is attributable to the expected synergies from combining PANDORA's willingness and ability to invest in the Japanese market with Bluebell's in-depth knowledge of the Japanese retail market, Japanese consumers and insight into the Japanese real estate market, to build a considerable presence in Japan. None of the goodwill recognised is deductible for income tax purposes.

Transaction costs, DKK 3 million, have been recognised as administrative expenses in profit or loss for 2014.

The contribution to Group revenue and net profit for the period 1 January – 31 December 2015 was insignificant.

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 three shop-in-shops in the UAE and the distribution rights.

Intangible assets comprise reacquired distribution rights (with a remaining lifespan of around one year) of DKK 5 million. The fair value is based on comparison of peer markets and the EBITDA that can be expected from similar stores in these markets.

Inventories of DKK 25 million have been measured at market value based on the saleability of the inventory. Receivables mainly consist of prepayments and other receivables, which are recognised at the value of the expected cash inflow. Goodwill, DKK 55 million, is attributable to the expected synergies from PANDORA's direct involvement in the region and establishing Dubai as the future hub for PANDORA's activities in the Middle East and North Africa. None of the goodwill recognised is deductible for income tax purposes.

Transaction costs, DKK 2 million, have been recognised as administrative expenses, mainly in 2014.

The contribution to Group revenue and net profit for the period 16 January – 31 December 2015 was insignificant.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.1 BUSINESS COMBINATIONS, CONTINUED

UK

On 2 April 2015, PANDORA acquired 100% of the shares in four Everal 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. Goodwill is attributable to the increased margins from owning these already well-performing stores. None of the goodwill recognised is deductible for income tax purposes.

Transaction costs, DKK 3 million, have been recognised as sales expenses.

The contribution to Group revenue and net profit for the period 2 April – 31 December 2015 was insignificant.

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 distribution rights, assets comprised inventories and assets related to 49 branded stores - 30 concept stores and 19 shop-in-shops. The acquisition was part of a strategic alliance with Oracle in China to jointly distribute PANDORA jewellery in China until 31 December 2018. On expiry of the agreement, PANDORA will take over the full distribution of PANDORA jewellery in China. Some stores are operated by Oracle under consignment agreements with PANDORA until licenses and other sanctions are obtained. PANDORA thus obtained control of all stores at the acquisition date 1 July 2015.

Assets acquired are mainly inventories, the reacquired distribution rights (0.5 year remaining) and other non-current assets related to the acquired stores. The total price will be calculated based on revenue in 2018 and is expected to be DKK 208 million. Assets and inventories acquired will be paid when transferred. The remaining payment – the put option – will be delayed until the distribution agreement ends in 2018.

Goodwill of DKK 94 million is attributable to the expected synergies from PANDORA being able to accelerate the store roll-out, enhance the retail focus and make significant marketing investments in the Chinese market. Oracle will contribute with its in-depth knowledge of the retail market and the Chinese consumer as well as its insight into the Chinese real estate market, which will help PANDORA secure the most attractive locations.

Transaction costs were DKK 13 million, which have been recognised as administrative expenses.

The contribution to Group revenue and net profit for the period 1 July – 31 December 2015 was DKK 251 million and a loss of DKK 57 million respectively.

Other business combinations in 2015

PANDORA acquired concept stores in the US and Germany in 2015. These were accounted for as business combinations. Assets acquired mainly consist of inventories and other assets relating to the stores. Of the purchase price, DKK 38 million was allocated to goodwill. None of the goodwill recognised is deductible for income tax purposes.

The contribution to Group revenue and net profit for the period 1 January – 31 December 2015 from the acquired stores was insignificant.

If all the acquisitions in 2015 had been made on 1 January 2015, consolidated pro-forma revenue and net profit would have been DKK 17.0 billion and DKK 3.7 billion respectively.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.1 BUSINESS COMBINATIONS, CONTINUED

Acquisition after the reporting period

In January 2017, PANDORA acquired 18 concept stores in US, 9 concept stores in the UK and 1 concept store in Australia in three business combinations. The total purchase price was DKK 230 million. Assets acquired are mainly non-current assets relating to the stores and inventory. Expected goodwill from the acquisition, based on the preliminary purchase price allocation was DKK 130 million.

§ Accounting policies

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree.

For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to those of PANDORA's CGUs that are expected to benefit from the combination. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is recognised in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

If any part of the cost of an acquisition is contingent on future events or achievements, the cost is recognised at fair value at the time of acquisition. Changes to the fair value of the contingent payment is recognised in net financials in the income statement.

Any changes to the fair value of obligations to acquire non-controlling interests (put options) are recognised directly in equity.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.2 CONTINGENT LIABILITIES

Litigation

PANDORA is a party to various legal proceedings, which are not expected to significantly affect PANDORA's financial position or future earnings.

Contractual obligations

PANDORA is a party to a number of long-term purchase, sales and supply contracts entered into in the course of the Group's ordinary business. In addition to the lease commitments disclosed in note 3.2, contractual obligations amounted to DKK 193 million (2015: DKK 388 million).

Apart from the liabilities already recognised in the balance sheet, no significant financial losses are expected to be incurred as a result of these contracts.

! Significant accounting estimates

Litigation

The factors taken into account when estimating a potential liability in connection with litigation include the nature of the litigation or claim. Other factors taken into account are the development of the case, the judgements and recommendations of legal or other advisers, experience from similar cases, and Management's decision on how the Group will react to the litigation or claim.

5.3 RELATED PARTIES

Related parties with significant interests

At 31 December 2016, treasury shares accounted for 4.4% of the share capital, see note 4.1.

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

Transactions with related parties

As part of the share buyback carried out in 2016,

PANDORA purchased own shares from major shareholders. The shares were purchased at the volume-weighted average purchase price for the shares purchased under the share buyback programme in the market on the relevant day of trading.

PANDORA did not enter into any significant transactions with members of the Board of Directors or the Executive Management, except for compensation and benefits received as a result of their membership of the Board of Directors, employment with PANDORA or shareholdings in PANDORA. Reference is made to notes 2.3 and 2.4.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.4 FEES TO INDEPENDENT AUDITOR

DKK million	2016	2015
Fee for statutory audit	7	5
Other assurance engagements	1	2
Total audit related services	8	7
Tax consultancy	5	9
Other services	3	4
Total non-audit services	8	13
Total fees to independent auditor	16	20

The costs are recognised in the consolidated income statement as administrative expenses.

PANDORA has implemented a policy regarding non-audit services delivered by the auditor appointed at the Annual General Meeting. The policy states that the ratio between non-audit and audit services does not exceed 1 over a period of three consecutive years unless otherwise approved by the Audit Committee. The policy also states which services are allowed or prohibited.

Other services include fees for advisory services related to acquisitions and include both accounting and tax as well as due diligence-related work. All non-audit services have been approved by the Audit Committee in 2016.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.5 COMPANIES IN THE PANDORA GROUP

The table below shows information about the Group entities at 31 December 2016

Company	Ownership	Registered office	Date of consolidation
AD Astra Holdings Pty Ltd.	100%	Australia	1 July 2009
AD Astra IP Pty Ltd.	100%	Australia	1 July 2009
PANDORA Retail Pty Ltd.	100%	Australia	1 July 2009
PANDORA Jewelry Pty Ltd.	100%	Australia	1 July 2009
PANDORA Property Leasing Ltd.	100%	Australia	1 July 2009
PANDORA Österreich GmbH	100%	Austria	23 May 2012
PANDORA do Brasil Participações Ltda.	100%	Brazil	24 October 2013
PANDORA do Brasil Comércio e Importação Ltda.	100%	Brazil	24 October 2013
PANDORA Jewelry Ltd.	100%	Canada	7 March 2008
PANDORA Franchising Canada Ltd.	100%	Canada	19 January 2011
PANDORA Retail Canada Ltd.	100%	Canada	4 February 2014
PANDORA Jewelry (Shanghai) Company Ltd.	100%	China	4 February 2015
PANDORA Jewelry Design (Beijing) Company Ltd.	100%	China	1 March 2016
PANDORA Jewelry CR sro.	100%	Czech Republic	2 December 2009
PANDORA Int. ApS	100%	Denmark	1 October 2009
PANDORA Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
PAN ME A/S	100%	Denmark	16 January 2015
PANDORA Jewellery DMCC	100%	Dubai	8 October 2014
Panmeas Jewellery LLC	100%	Dubai	16 January 2015
PANDORA Jewelry Finland Oy	100%	Finland	1 January 2012
PANDORA France SAS	100%	France	25 February 2011
PANDORA EMEA Distribution Center GmbH	100%	Germany	5 December 2011
PANDORA Jewelry GmbH	100%	Germany	5 January 2010
PANDORA Jewelry Asia-Pacific Limited	100%	Hong Kong	1 November 2009
PANDORA Jewelry Hong Kong Company Ltd.	100%	Hong Kong	4 February 2015
PANDORA Jewelry Hungary Kft.	100%	Hungary	2 June 2010
PANDORA Italia SRL	100%	Italy	23 May 2012
PANDORA Jewelry Japan Ltd.	100%	Japan	29 October 2014
PANDORA Jewelry Macau Company Ltd.	100%	Macau	1 January 2016
PANDORA Jewelry B.V.	100%	Netherlands	20 September 2010
PANDORA Norge AS	100%	Norway	17 August 2010
PANDORA Jewelry Panama S.A.	100%	Panama	5 July 2016
PANDORA Jewelry Shared Services CEE Sp. z.o.o.	100%	Poland	7 February 2012
PANDORA Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
PANDORA Jewelry Romania SRL	100%	Romania	18 August 2011
PANDORA Jewelry Singapore Pte. Ltd.	100%	Singapore	1 January 2016
PANDORA Jewelry Slovakia s.r.o	100%	Slovakia	6 September 2016
PANDORA Sweden AB	100%	Sweden	4 November 2013
PANDORA Schweiz AG	100%	Switzerland	6 December 2011
PANDORA Production Co. Ltd.	100%	Thailand	7 March 2008
PANDORA Services Co. Ltd.	100%	Thailand	15 October 2010
PANDORA Jewelry Mücevherat Anonim Şirketi	100%	Turkey	4 November 2013
PANDORA Jewellery UK Limited	100%	England	1 December 2008
PANDORA Jewelry Inc.	100%	USA	1 July 2008
PANDORA ECOMM LLC	100%	USA	21 August 2014
PANDORA Jewelry LLC	100%	USA	7 March 2008
PANDORA Franchising LLC	100%	USA	1 November 2009
PANDORA Ventures LLC	100%	USA	10 May 2012

PANDORA has six dormant companies, which have been omitted from the table.

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

5.6 FINANCIAL DEFINITIONS

Key figures and financial ratios stated in the consolidated financial statements have been calculated in accordance with the Danish Finance Society's guidelines 'Recommendations & Financial Ratios 2015':

Revenue growth, %	$\frac{(\text{This year's revenue} - \text{last year's revenue})}{\text{Last year's revenue}}$ (rolling 12 months)
Gross profit growth, %	$\frac{(\text{This year's gross profit} - \text{last year's gross profit})}{\text{Last year's gross profit}}$ (rolling 12 months)
Net profit growth, %	$\frac{(\text{This year's net profit} - \text{last year's net profit})}{\text{Last year's net profit}}$ (rolling 12 months)
Gross margin, %	Gross profit / revenue
Effective tax rate, %	Income tax expense / profit before tax
Equity ratio, %	Equity / total assets
Payout ratio	Dividends paid for the year / net profit
Total payout ratio	Dividends paid for the year plus value of share buyback / net profit
EPS basic	Net profit / average number of shares outstanding
EPS diluted	Net profit / average number of shares outstanding, including the dilutive effect of share options 'in the money'

NOTES

SECTION 5: OTHER DISCLOSURES, CONTINUED

PANDORA presents the following alternative performance measures not defined according to IFRS (non-GAAP measures) in the annual report:

EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment losses
EBIT	Earnings before interest and tax (operating profit)
EBITDA growth, %	$\frac{(\text{This year's EBITDA} - \text{last year's EBITDA})}{\text{Last year's EBITDA}}$ (rolling 12 months)
EBIT growth, %	$\frac{(\text{This year's EBIT} - \text{last year's EBIT})}{\text{Last year's EBIT}}$ (rolling 12 months)
EBITDA margin, %	EBITDA / revenue
EBIT margin, %	EBIT / revenue
NIBD	Cash less Loans and borrowings and other liabilities relating to obligations to acquire non-controlling interests (current and non-current)
NIBD to EBITDA	NIBD / EBITDA (rolling 12 months)
Capital expenditure (CAPEX)	Purchase of intangible assets and property, plant and equipment for the year, excluding acquisitions of subsidiaries
Return on invested capital (ROIC), %	EBIT / invested capital incl. goodwill
Cash conversion, %	Free cash flow before acquisitions / EBIT
Like-for-like sales-out	Revenue from concept stores that have been operating for more than 12 months

Further 'Operating working capital', 'Net working capital' and 'Invested capital' are specified on the section 3 front page.

Forward-looking statements

The annual report contains forward-looking statements, which include estimates of financial performance and targets. These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this report due to a variety of factors.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2016	2015
INCOME STATEMENT			
Revenue		11,763	10,834
Cost of sales		-5,654	-5,548
Gross profit		6,109	5,286
Sales, distribution and marketing expenses	2.1	-414	-466
Administrative expenses	2.1	-933	-764
Operating profit		4,762	4,056
Dividends from subsidiaries		871	1,490
Finance income	4.4	375	185
Finance costs	4.4	-58	-570
Profit before tax		5,950	5,161
Income tax expense	2.3	-1,108	-1,473
Net profit for the year		4,842	3,688
STATEMENT OF COMPREHENSIVE INCOME			
Net profit for the year		4,842	3,688
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Commodity hedging instruments:			
- Realised in cost of sales		-	-9
- Realised in net financials		-	-1
- Fair value adjustments		1	5
Foreign exchange hedging instruments:			
- Realised in net financials		-167	175
- Fair value adjustments		236	-156
Tax on other comprehensive income, hedging instruments, income/expense	2.3	-15	-4
Other comprehensive income, net of tax		55	10
Total comprehensive income for the year		4,897	3,698

BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2016	2015
ASSETS			
Intangible assets	3.2	3,134	2,990
Property, plant and equipment	3.3	97	17
Investments in subsidiaries	3.1	2,895	2,850
Loans to subsidiaries		186	180
Other financial assets		9	20
Total non-current assets		6,321	6,057
Inventories	3.4	1,074	797
Derivative financial instruments	4.2	161	65
Trade receivables	3.5	26	27
Receivables from subsidiaries		3,074	3,274
Income tax receivable		45	82
Other receivables		39	104
Cash		75	66
Total current assets		4,494	4,415
Total assets		10,815	10,472
EQUITY AND LIABILITIES			
Share capital	4.1	117	122
Treasury shares		-4,334	-4,152
Reserves		183	-19
Dividend proposed		1,007	1,511
Retained earnings		6,189	6,198
Total equity		3,162	3,660
Provisions	3.6	-	30
Loans and borrowings	4.3	3,007	2,350
Deferred tax liabilities	2.3	310	283
Total non-current liabilities		3,317	2,663
Provisions	3.6	646	441
Loans and borrowings	4.3	-	227
Derivative financial instruments	4.2, 4.3	256	214
Payables to subsidiaries	4.3	2,968	2,958
Trade payables	4.3	383	231
Other payables	4.3	83	78
Total current liabilities		4,336	4,149
Total liabilities		7,653	6,812
Total equity and liabilities		10,815	10,472

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	Share capital	Share premium	Treasury shares	Hedging reserve	Other reserves ¹	Dividend proposed	Retained earnings	Total equity
2016									
Equity at 1 January		122	-	-4,152	-19	-	1,511	6,198	3,660
Net profit for the year		-	-	-	-	-	-	4,842	4,842
Fair value adjustment of hedging instruments		-	-	-	70	-	-	-	70
Tax on other comprehensive income	2.3	-	-	-	-15	-	-	-	-15
Other comprehensive income, net of tax		-	-	-	55	-	-	-	55
Total comprehensive income for the year		-	-	-	55	-	-	4,842	4,897
Transfers		-	-	-	-	147	-	-147	-
Additions from Group internal merger		-	-	-	-	-	-	11	11
Share-based payments	2.2	-	-	-	-	-	-	76	76
Share-based payments (realised)		-	-	230	-	-	-	-229	1
Share-based payments (tax)		-	-	-	-	-	-	24	24
Purchase of treasury shares		-	-	-4,000	-	-	-	-	-4,000
Reduction of share capital		-5	-	3,588	-	-	-	-3,583	-
Dividend paid		-	-	-	-	-	-1,511	4	-1,507
Dividend proposed		-	-	-	-	-	1,007	-1,007	-
Equity at 31 December		117	-	-4,334	36	147	1,007	6,189	3,162
2015									
Equity at 1 January		128	1,229	-2,679	-29	-	1,088	5,080	4,817
Net profit for the year		-	-	-	-	-	-	3,688	3,688
Fair value adjustment of hedging instruments		-	-	-	14	-	-	-	14
Tax on other comprehensive income	2.3	-	-	-	-4	-	-	-	-4
Other comprehensive income, net of tax		-	-	-	10	-	-	-	10
Total comprehensive income for the year		-	-	-	10	-	-	3,688	3,698
Transfers ²		-	-1,229	-	-	-	-	1,229	-
Share-based payments	2.2	-	-	-	-	-	-	75	75
Share-based payments (realised)		-	-	266	-	-	-	-266	-
Share-based payments (tax)		-	-	-	-	-	-	58	58
Purchase of treasury shares		-	-	-3,900	-	-	-	-	-3,900
Reduction of share capital		-6	-	2,161	-	-	-	-2,155	-
Dividend paid		-	-	-	-	-	-1,088	-	-1,088
Dividend proposed		-	-	-	-	-	1,511	-1,511	-
Equity at 31 December		122	-	-4,152	-19	-	1,511	6,198	3,660

¹ Other reserves include non-distributable reserves under Danish legislation relating to the capitalisation of internally developed projects.

² The 'Share premium' is a distributable reserve under Danish regulation and has therefore been transferred to 'Retained earnings' in 2015.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2016	2015
Profit before tax		5,950	5,161
Finance income	4.4	-375	-185
Finance costs	4.4	58	570
Dividends from subsidiaries		-871	-1,490
Depreciation, amortisation and impairment losses		123	88
Share-based payments	2.2	26	28
Change in inventories		-277	13
Change in intercompany receivables/payables		-1,344	-1,059
Change in receivables		62	-6
Change in payables and other liabilities		256	299
Other non-cash adjustments	4.5	362	-295
Interest etc. received		61	66
Interest etc. paid		-36	-131
Income tax paid		-1,034	-1,907
Cash flows from operating activities, net		2,961	1,152
Acquisition of subsidiaries and activities, net of cash acquired	3.1	-15	-436
Purchase of intangible assets		-227	-209
Purchase of property, plant and equipment		-94	-10
Change in other non-current assets		11	-
Proceeds from sale of property, plant and equipment		14	11
Dividends received		871	1,490
Cash flows from investing activities, net		560	846
Dividend paid		-1,507	-1,088
Purchase of treasury shares		-4,000	-3,900
Proceeds from loans and borrowings		3,763	4,510
Repayment of loans and borrowings		-1,768	-1,981
Cash flows from financing activities, net		-3,512	-2,459
Net increase/decrease in cash		9	-461
Cash at 1 January ¹		66	527
Net increase/decrease in cash		9	-461
Cash at 31 December¹		75	66
Unutilised credit facilities		4,836	2,863

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

¹ Cash comprises cash at bank and in hand.

NOTES FOR THE PARENT COMPANY

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NOTES FOR THE PARENT COMPANY

1.1 SUPPLEMENT TO MANAGEMENT'S REVIEW FOR THE GROUP

Gross profit

The Parent Company operates as the principal of PANDORA, and all inventories are consequently traded from the crafting facilities in Thailand to wholesalers and retailers through the Parent Company. Similarly, all inventories are returned from subsidiaries through the Parent Company for the purpose of remelting any excess inventory.

Gross profit is therefore significantly impacted by realised losses from re-melting activities and unrealised losses from inventory write-downs. Fluctuations in market prices of silver and gold also have a major impact on gross profit.

The effective portion of realised and unrealised gains and

losses on all commodity hedge contracts is recognised in cost of sales as the Group's commodity price risk is hedged by the Parent Company. This can significantly impact gross profit. The net gain in 2016 amounts to DKK 122 million (2015: loss of DKK 304 million).

Hedging transactions

The ineffective portion of realised and unrealised gains and losses on all commodity hedge instruments is recognised in net financials. The net gain in 2016 amounts to DKK 21 million (2015: loss of DKK 23 million).

1.2 BASIS OF REPORTING

Parent Company financial statements

The accounting policies of the Parent Company are unchanged from last year and identical to the accounting policies in PANDORA's consolidated financial statements, with the following exceptions:

Foreign currency translation

Foreign exchange adjustments of balances accounted for as part of the total net investment in enterprises that have a functional currency other than DKK are recognised in profit for the year as net financials in the Parent Company financial statements.

Derivative financial instruments

The effective portion of realised and unrealised gains and losses on all commodity hedging instruments is recognised as cost of goods sold, while the ineffective portion of realised and unrealised gains and losses is recognised in net financials. Derivative financial instruments are treated as economic hedging if the hedge accounting requirements in IAS 39 are not met.

Dividends from subsidiaries

Dividends from investments in subsidiaries are recognised in the financial year in which they are received.

Investments in subsidiaries

Investments in subsidiaries are measured at cost in the Parent Company financial statements. Impairment testing is carried out if there is any indication of impairment, as described in PANDORA's consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the recoverable amount. The impairment loss is recognised as a finance cost in profit for the year. If the Parent Company has a legal or constructive obligation to cover a deficit in subsidiaries, a provision for this is recognised.

! Significant accounting estimates

In the process of preparing the Parent Company financial statements, a number of accounting estimates and judgements have been made that affect assets and liabilities at the reporting date and income and expenses for the reporting period. Management regularly reassesses these estimates and judgements, partly on the basis of historical experience and a number of other factors in the given circumstances, please also refer to note 1.1 of the consolidated financial statements.

New standards and interpretations

Reference is made to the description in note 1.1 to the consolidated financial statements.

PANDORA has estimated the impact of IFRS 9 'Financial Instruments' with expected effective date 1 January 2018 and

NOTES FOR THE PARENT COMPANY

1.2 BASIS OF REPORTING, CONTINUED

concluded that it will have an expected material impact on the Parent Company financial statements.

The new hedge accounting rules are expected to increase PANDORA's opportunity for aligning financial risk management and hedge accounting. The initial assessment

is that the current hedge relationships entered into by the parent company to hedge the Groups exposure relating to commodity prices would also qualify as hedges to a higher extent in the parent company following the adoption of IFRS 9. As part of this assessment PANDORA is assessing whether to early adopt IFRS 9.

2.1 STAFF COSTS

DKK million	2016	2015
Wages and salaries	282	269
Pensions	19	11
Share-based payments	26	28
Social security costs	2	2
Other staff costs	60	40
Total staff costs	389	350
Staff costs have been recognised in the income statement:		
Sales, distribution and marketing expenses	127	125
Administrative expenses	262	225
Total staff costs	389	350
Average number of full-time employees during the year	299	291

Key management personnel at PANDORA A/S represent the same persons as key management personnel of the PANDORA Group. For information regarding compensation of key management personnel of PANDORA A/S, see note 2.3 to the consolidated financial statements.

2.2 SHARE-BASED PAYMENTS

The share option programme described in note 2.4 to the consolidated financial statements is issued by PANDORA A/S. The value of share options granted to employees in the Parent Company's subsidiaries is recognised in

investments in subsidiaries. Of the total expense of DKK 76 million (2015: DKK 75 million), DKK 50 million relates to subsidiaries (2015: DKK 47 million).

NOTES FOR THE PARENT COMPANY

2.3 TAXATION

Income tax expense

DKK million	2016	2015
Current income tax charge	1,127	937
Adjustment concerning previous years	-4	569
Change in deferred tax	-15	-33
Total income tax expense	1,108	1,473
Tax reconciliation:		
Profit before tax	5,950	5,161
Corporate tax rate in Denmark, 22% (2015: 23.5%)	1,309	1,213
Tax effect of:		
Non-taxable income and non-deductible expenses	-197	-309
Adjustment concerning previous years	-4	569
Total income tax expense	1,108	1,473
Effective income tax rate	18.6%	28.5%

Tax from other comprehensive income	15	4
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Deferred tax

DKK million	2016	2015
Deferred tax at 1 January	-283	-361
Change in deferred tax - recognised in income statement	17	23
Change in deferred tax - recognised in statement of other comprehensive income, hedging instruments	-15	-4
Change in deferred tax - recognised in statement of changes in equity, share-based payments	-29	59
Deferred tax at 31 December	-310	-283
Deferred tax liabilities	-310	-283
Deferred tax, net	-310	-283
Specification of deferred tax		
Intangible assets	-595	-561
Property, plant and equipment	10	32
Other assets and liabilities	275	246
Deferred tax, net	-310	-283

Refer to note 2.5 to the consolidated financial statements for further information.

NOTES FOR THE PARENT COMPANY

3.1 INVESTMENTS IN SUBSIDIARIES

DKK million	Investments in subsidiaries
2016	
Cost at 1 January	2,850
Additions	15
Disposals	-14
Disposals from Group internal merger	-6
Additions relating to share-based payments	50
Cost at 31 December	2,895
2015	
Cost at 1 January	2,367
Additions	436
Additions relating to share-based payments	47
Cost at 31 December	2,850

Subsidiaries	Registered office
PANDORA do Brasil Participações Ltda.	Brazil
PANDORA Jewelry Ltd.	Canada
PANDORA Int. ApS	Denmark
PANDORA Jewelry Central Western Europe A/S	Denmark
PAN ME A/S	Denmark
PANDORA Jewellery DMCC	Dubai
PANDORA Finland Oy	Finland
PANDORA France SAS	France
PANDORA EMEA Distribution Center GmbH	Germany
PANDORA Jewelry Asia-Pacific Limited	Hong Kong
PANDORA Jewelry Panama S.A.	Panama
PANDORA Jewelry CEE Sp. z.o.o.	Poland
PANDORA Jewelry Shared Services CEE Sp. z.o.o.	Poland
PANDORA Jewelry Slovakia s.r.o.	Slovakia
PANDORA Sweden AB	Sweden
PANDORA Production Co. Ltd.	Thailand
PANDORA Services Co. Ltd.	Thailand
PANDORA Jewelry Mücevherat Anonim Şirketi	Turkey
PANDORA Jewellery UK Limited	England
PANDORA Jewelry Inc.	USA

The Company has one dormant company, which has been omitted from the table above.

NOTES FOR THE PARENT COMPANY

3.2 INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
2016						
Cost at 1 January	462	1,044	453	1,087	370	3,416
Additions	-	-	-	-	254	254
Cost at 31 December	462	1,044	453	1,087	624	3,670
Amortisation and impairment losses at 1 January	-	-	239	36	152	427
Amortisation for the year	-	-	31	-	78	109
Amortisation and impairment losses at 31 December	-	-	270	36	230	536
Carrying amount at 31 December	462	1,044	183	1,051	394	3,134
2015						
Cost at 1 January	423	1,040	453	1,087	227	3,230
Additions	39	4	-	-	166	209
Disposals	-	-	-	-	-23	-23
Cost at 31 December	462	1,044	453	1,087	370	3,416
Amortisation and impairment losses at 1 January	-	-	207	36	106	349
Amortisation for the year	-	-	32	-	45	77
Amortisation and impairment losses at 31 December	-	-	239	36	151	426
Carrying amount at 31 December	462	1,044	214	1,051	219	2,990

Refer to note 3.1, intangible assets, to the consolidated financial statements for a description of impairment testing.

DKK million	2016	2015
Amortisation have been recognised in the income statement as follows:		
Sales, distribution and marketing expenses	46	41
Administrative expenses	63	36
Total	109	77

NOTES FOR THE PARENT COMPANY

3.3 PROPERTY, PLANT AND EQUIPMENT

DKK million	Plant and equipment	Assets under construction	Total
2016			
Cost at 1 January	72	3	75
Additions	-	94	94
Disposals	-4	-	-4
Transfers	97	-97	-
Cost at 31 December	165	-	165
Depreciation and impairment losses at 1 January	58	-	58
Depreciation for the year	13	-	13
Disposals	-3	-	-3
Depreciation and impairment losses at 31 December	68	-	68
Carrying amount at 31 December	97	-	97
2015			
Cost at 1 January	66	-	66
Additions	7	3	10
Disposals	-1	-	-1
Cost at 31 December	72	3	75
Depreciation and impairment losses at 1 January	48	-	48
Depreciation for the year	11	-	11
Disposals	-1	-	-1
Depreciation and impairment losses at 31 December	58	-	58
Carrying amount at 31 December	14	3	17

The Company did not pledge assets in 2016 and 2015.

Operating leases

DKK million	2016	2015
Future minimum lease payments on existing contracts at 31 December		
Within 1 year	23	22
Between 1 and 5 years	68	67
After 5 years	90	106
Total	181	195

PANDORA A/S' other financial obligations mainly relate to leases for office premises and operating equipment.

3.4 INVENTORIES

DKK million	2016	2015
Finished goods	899	694
Point-of-sales materials	175	103
Total inventories at 31 December	1,074	797
Inventory write-downs at 1 January	121	103
Write-downs during the year	184	210
Utilised in the year	-189	-190
Reversal of write-downs in the year	-	-2
Inventory write-downs at 31 December	116	121

Write-downs of inventories are recognised in cost of sales, DKK 143 million (2015: DKK 190 million), and distribution expenses, DKK 41 million (2015: DKK 18 million).

NOTES FOR THE PARENT COMPANY

3.5 TRADE RECEIVABLES

DKK million	2016	2015
Analysis of trade receivables at 31 December		
Not past due	25	26
Up to 30 days	1	-
Between 30 and 60 days	-	-
Between 60 and 90 days	-	-
Over 90 days	-	1
Total past due, not impaired	1	1
Total trade receivables at 31 December	26	27
Analysis of movements in bad debt write-downs		
Write-downs at 1 January	1	4
Additions	-	1
Utilised	-	-4
Write-downs at 31 December	1	1

Historically, PANDORA A/S has not suffered any significant bad debt losses.

3.6 PROVISIONS

DKK million	Sales return provisions	Other provisions	Total
2016			
Provisions at 1 January	438	33	471
Made in the year	601	-	601
Utilised in the year	-364	-13	-377
Unused provisions reversed	-29	-20	-49
Provisions at 31 December	646	-	646
Provisions are recognised in the balance sheet as follows:			
Current	646	-	646
Non-current	-	-	-
Total provisions at 31 December	646	-	646
2015			
Provisions at 1 January	141	15	156
Made in the year	438	18	456
Utilised in the year	-139	-	-139
Unused provisions reversed	-2	-	-2
Provisions at 31 December	438	33	471
Provisions are recognised in the balance sheet as follows:			
Current	438	3	441
Non-current	-	30	30
Total provisions at 31 December	438	33	471

Sales return provisions

According to the distribution agreements, a provision is made for expected sales returns from customers and subsidiaries. The provision is based on historical experience

and is measured at the gross margin on expected sales returns, including write-downs related to remelting of returns that are not expected to be sold.

NOTES FOR THE PARENT COMPANY

4.1 SHARE CAPITAL

Reference is made to note 4.1 to the consolidated financial statements.

4.2 DERIVATIVE FINANCIAL INSTRUMENTS

Reference is made to note 4.5 to the consolidated financial statements.

4.3 FINANCIAL RISKS

As a consequence of its operations, investments and financing, PANDORA A/S is exposed to a number of financial risks that are monitored and managed by PANDORA's Group Treasury.

The Company's financial risks and the management of these are in all material aspects identical to the disclosures made in note 4.4 to the consolidated financial statements, unless otherwise stated below.

Credit risk

The Company's credit risk also includes the risk related to receivables from subsidiaries.

Contractual maturities of financial liabilities

The table below analyses PANDORA A/S's financial liabilities similar to note 4.4 to the consolidated financial statements.

Liabilities fall due as follows:

DKK million	Falling due within 1 year	Falling due within 1-5 years	Falling due after 5 years	Total
2016				
Non-derivatives				
Loans and borrowings	-	3,007	-	3,007
Payables to subsidiaries	2,968	-	-	2,968
Trade payables	383	-	-	383
Other payables	83	-	-	83
Derivatives				
Derivative financial instruments	256	-	-	256
Total at 31 December	3,690	3,007	-	6,697
2015				
Non-derivatives				
Loans and borrowings	227	2,350	-	2,577
Payables to subsidiaries	2,958	-	-	2,958
Trade payables	231	-	-	231
Other payables	78	-	-	78
Derivatives				
Derivative financial instruments	214	-	-	214
Total at 31 December	3,708	2,350	-	6,058

NOTES FOR THE PARENT COMPANY

4.4 NET FINANCIALS

Finance income

DKK million	2016	2015
Finance income from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	203	2
Total finance income from derivative financial instruments	203	2
Finance income from loans and receivables measured at amortised cost:		
Interest income from subsidiaries	61	66
Foreign exchange gains	111	117
Total finance income from loans and receivables	172	183
Total finance income	375	185

Finance costs

DKK million	2016	2015
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	15	200
Total finance costs from derivative financial instruments	15	200
Finance costs from financial liabilities measured at amortised cost:		
Interest costs to subsidiaries	5	5
Foreign exchange losses	7	239
Interest on loans and borrowings	22	9
Other finance costs	9	117
Total finance costs from loans and borrowings	43	370
Total finance costs	58	570

4.5 OTHER NON-CASH ADJUSTMENTS

Other non-cash adjustments

DKK million	2016	2015
Other non-cash adjustments can be split into the following:		
Effects from exchange rate adjustments	104	-122
Effects from derivative financial instruments	258	-184
Other, including gains/losses from the sale of property, plant and equipment	-	11
Total other non-cash adjustments	362	-295

NOTES FOR THE PARENT COMPANY

5.1 CONTINGENT LIABILITIES

Litigation

PANDORA A/S is a party to a number of legal proceedings, which are not expected to have material impact on future earnings.

Contractual obligations

PANDORA A/S has entered into a number of long-term purchase, sales and supply contracts in the course of the Company's ordinary business. In addition to the lease commitments disclosed, contractual obligations amount to DKK 149 million (2015: DKK 272 million). Apart from the liabilities recognised in the balance sheet, the Company does not expect to incur any significant financial losses as a result of these contracts.

Other contingent liabilities

PANDORA has issued letters of support in favour of certain subsidiaries. Furthermore, the Company has issued guarantees totalling DKK 495 million at 31 December 2016 in favour of certain subsidiaries related to securing local credit lines, direct debit withdrawals and rental agreements (2015: DKK 426 million).

The Company is jointly taxed with Danish subsidiaries. The Company is jointly and severally liable with other jointly taxed Danish companies within the Group for income tax and withholding taxes due on or after 1 July 2012 in the joint taxation.

In 2016 PANDORA A/S has not provided bank guarantees on behalf of subsidiaries (2015: DKK 373 million).

NOTES FOR THE PARENT COMPANY

5.2 RELATED PARTIES

In addition to the related parties disclosed in note 5.3 to the consolidated financial statements, related parties of PANDORA A/S include the subsidiaries listed in the Group structure in note 5.5 to the consolidated financial statements.

The table below shows transactions entered into with related parties.

DKK million	Subsidiaries	
	2016	2015
Income statement:		
Sales to related parties	11,750	10,821
Purchases from related parties	-5,975	-5,085
Dividend	871	1,490
Finance income	61	66
Finance costs	-5	-5
Total	6,702	7,287
Balance sheet:		
Receivables	3,260	3,454
Payables	-2,968	-2,958
Total	292	496

5.3 FEES TO INDEPENDENT AUDITOR

DKK million	2016	2015
Fee for statutory audit	2	1
Tax consultancy	2	-
Other services	2	1
Total fees to independent auditor	6	2

The costs are recognised in the income statement as an administrative expense.

MANAGEMENT STATEMENT

Today, the Board of Directors and Executive Management have discussed and approved the Annual Report of PANDORA for the financial year 1 January – 31 December 2016.

The Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2016.

In our opinion, the Management's Review includes a true and fair review of the development in the Group's and the Parent Company's operations and financial conditions, of the results for the year and of the financial position of the Group and the Parent Company, as well as a description of the more significant risks and uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be approved at the Annual General Meeting.

Copenhagen, 7 February 2017

Executive Management

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

Michael Hauge Sørensen

Per Bank

Ronica Wang

INDEPENDENT AUDITORS' REPORT

To the shareholders of PANDORA A/S

OUR OPINION

We have audited the consolidated financial statements and the parent company financial statements of PANDORA A/S for the financial year 1 January – 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies, for the Group as well as the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditors' responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report, including in relation to these

matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements and the parent company financial statements

Revenue and sales return

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and it is measured at fair value of the expected consideration to be received, less rebates, discounts, sales taxes, duties and expected sales returns. Revenue recognition and measurement of the related expected sales returns was a matter of most significance in our audit due to the inherent risk in the estimates and judgements which Management makes in the normal course of business as to timing of revenue and measurement of expected sales returns. Details on revenue recognition and expected sales returns are provided in sections 2.1 and 3.5 of the consolidated financial statements and in section 3.6 of the parent company financial statements, to which we refer.

Our procedures in relation to revenue recognition and measurement of expected sales returns included considering the Group's accounting policies for revenue recognition, including those related to expected sales returns, and assessing compliance of policies with applicable accounting standards. We identified and assessed internal controls related to the timing of revenue recognition and measurement of expected sales returns. We tested the effectiveness of the Group's internal controls in relation to calculation of expected sales returns and timing of revenue recognition. On a sample basis, we tested sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether those transactions were recognised in the correct period. We assessed the key assumptions applied by Management regarding expected sales returns based on our knowledge of the business and by reviewing the supporting documentation prepared by Management. Furthermore, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.

Taxation

The Group has extensive international operations and in the normal course of business, Management makes judgements and estimates in determining the recognition of income taxes, deferred taxes and provisions for uncertain tax positions. In Thailand, the Group is subject to Board of Investment agreements (BOIs), where many, but not all, types of net income are tax-exempt, and therefore, changes in profit allocation could significantly impact the Group's consolidated tax expense. On this basis, taxation was a matter of most significance in our audit. Additional details on income taxes are provided in section 2.5 of the consolidated financial statements, to which we refer.

Our procedures in relation to recognition of income taxes, deferred taxes and provisions for uncertain tax positions included assessing the Group's processes for recording and continual re-assessment of provisions for uncertain tax positions. Our procedures also covered evaluating the assumptions applied by Management in determining the recognition and measurement of income taxes and deferred taxes while taking into account relevant correspondence with tax authorities and third parties. Our own tax specialists performed an assessment of the Group's correspondence with relevant tax authorities in order to consider the completeness of the tax provisions. We also assessed the assumptions used, taking into consideration our own tax specialists' knowledge and experience. In addition, we assessed relevant opinions obtained by Management from third parties related to the requirements for tax exemptions under BOIs in Thailand. Further, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review. Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements. As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

-
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 7 February 2017

Ernst & Young

Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen
State Authorised Public Accountant

Anders Stig Lauritsen
State Authorised Public Accountant

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