2018 ANNUAL REPORT

Contents

FRONT PAGE: Jessica is among seven customers who we have met around the world. Meet them throughout the report and learn more about their relationship with Pandora jewellery. The customers portrayed in this Annual Report have participated on their own will and share their personal experience, regardless of Pandora.

Pandora at a Glance

As the **world's biggest jewellery** brand, we touch the lives of millions of people every day. Bringing together traditional craftsmanship and state-of-the-art innovation, our **affordable jewellery** is made to the highest environmental and ethical standards.

>100
countries sell our jewellery

~32,000
employees

2,705
concept stores

85%
brand awareness in key markets

112
million pieces of jewellery crafted

100%
gold grains recycled

1.7
billion stones used

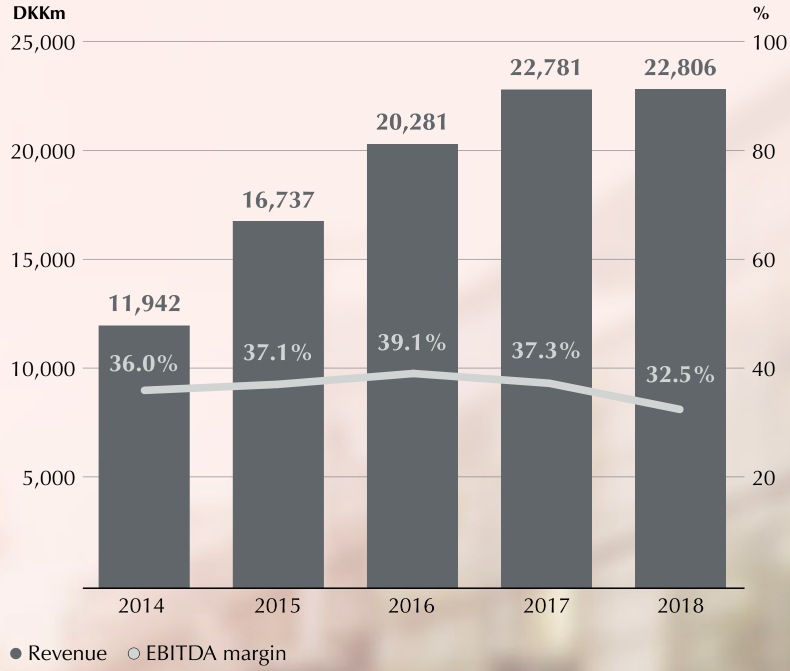
88%
silver grains recycled

22.8
DKK billion in revenue

5.9
DKK billion returned to shareholders

32.5%
EBITDA margin

REVENUE AND EBITDA MARGIN (DKKm and %)



CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Transforming Pandora to Deliver Long-Term Value

Global retail is changing rapidly. Experiences, e-commerce and globalisation impact shopping and consumers' way of making purchasing decisions. Especially the interplay between physical and online retail is developing fast. More customer relationships become digital first, and consumers demand high convenience, great experiences and seamless integration between stores and the online universe. A dynamic market reality that poses challenges as well as opportunities for Pandora.

2018 was a tough year for Pandora. This is evident in our financial results. 3% revenue growth in local currency, an EBITDA margin of 32.5%, and negative total like-for-like are not satisfactory. Our main growth initiative of refreshing the product portfolio did not improve sales. And as the year unfolded, we decided to establish a temporary joint executive leadership team with Anders Boyer stepping in as Chief Financial Officer in August and Jeremy Schwartz joining as Chief Operating Officer in September.

The Board and the new executive team have since conducted a health check of the business and our position in the changing retail space. We found that our brand has high awareness, but lacks clear positioning. We also found that Pandora can improve its relevance to consumers and deliver better on their demands for a unique shopping experience. And we could see that Pandora has an opportunity to leverage its unique product assortment more impactfully. Essentially, challenges that are mostly due to internal limitations which can be overcome through forceful action.

With the comprehensive two-year Programme NOW, we will make several fundamental changes to restore sustainable growth in the long-term and protect profitability. The first step of the programme was to change our network expansion strategy and significantly reduce the number of store openings and franchise acquisitions. As the next important steps, we will invest to reignite a passion for Pandora and reduce costs. We will base management incentives on organic growth, total like-for-like, and total shareholder return to align with shareholder interests on this important journey.

I am also pleased that we have found two new and highly qualified candidates for the Board of Directors in Ms. Isabelle Parize and Sir John Peace, both with excellent retail and brand experience.

Many of the changes we make during 2019 will not become visible to consumers until late in the year or next year, and our financial results will be negatively impacted before we see improvements. The jewellery industry is expected to grow in the years to come, and with our firm actions we will restore sustainable growth at industry level, asserting our position as the biggest jewellery brand in the world.

Peder Tuborgh
Chairman of the Board of Directors

EXECUTIVE SUMMARY

Towards Sustainable Growth

28%

of the total revenue came from Rings, Earrings and Necklaces & Pendants

Pandora today announces the next steps of Programme NOW, following the important changes in 2018 with a new interim joint leadership team and a refocusing of the network strategy.

A thorough analysis of the challenges facing the company, we have found that: the brand has high awareness, but lacks a clear positioning; we can improve our relevance to consumers and better deliver on their demands for an inspiring shopping experience; we have an opportunity to leverage our unique product assortment for more impact.

These challenges are within the control of the company and by addressing these issues with determination, Pandora can return to positive like-for-like growth in the medium term and continue to deliver industry-leading margins. Programme NOW will deliver the transformation required, including the change of the network expansion strategy as announced in November 2018, significant investments to "Reignite a Passion for Pandora", a necessary commercial reset, DKK 1.2 billion in cost reductions, and a new global-local operating model.

A key part of Programme NOW will be to Reignite a Passion for Pandora building on our strong fundamentals and Pandora's unique position as the world's biggest jewellery brand. Pandora will infuse new energy to the brand, and inspire and attract more people with a passion to collect and wear Pandora jewellery.

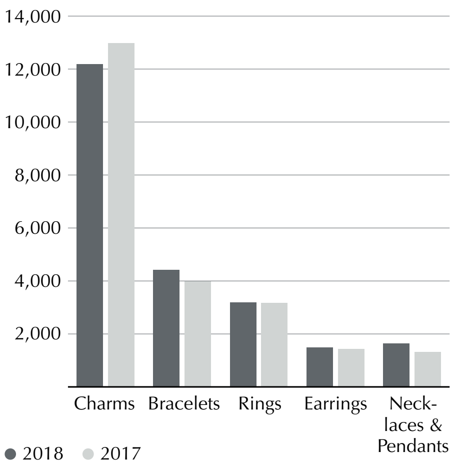
Read more about Programme NOW in Our Strategy

Capacity expansion programme being finalised

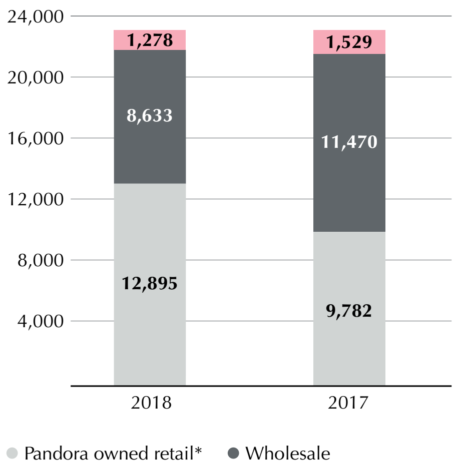
One of our key competitive advantages is the world-class crafting facilities in Thailand. Since 2015, we have invested close to DKK 1.5 billion to improve and expand the facilities. This investment has enabled us to maintain our leading position within jewellery crafting, while allowing us to produce increasingly innovative designs at affordable prices.

In 2017, Pandora opened a new crafting facility in Lamphun near Chiang Mai with a capacity of up to 5,000 employees. In 2018, Pandora opened a four-storey innovation centre and a new major crafting facility, both located in Gemopolis near Bangkok. The new crafting facility is built on flow principles and is optimised for high volume production. Just like our facility in Lamphun, it is Leadership in Energy and Environmental Design (LEED) Gold certified and together the two facil-

PRODUCT CATEGORY REVENUE (DKKm)



REVENUE BY CHANNEL (DKKm)



* Including revenue from Pandora eSTOREs

ities set new standards in the jewellery industry in terms of craft, scale, speed and low environmental impact.

Financial performance

In 2018, total reported revenue was DKK 22.8 billion (3% growth in local currency compared with 2017) on par with reported revenue in 2017.

Organic growth in 2018 was -2% in local currency, due to total like-for-like of -4% as well as changes to inventory levels at our wholesale partners. Total revenue growth of 3% in local currency was supported by 259 new concept store openings and a net contribution of DKK 1.1 billion from forward integration. The development was assisted by a solid performance within Rings, Earrings and Necklaces & Pendants. In combination, the three categories grew 9% in local currency, contributing 28% of total revenue. Development in Charms and Bracelets was flat in local currency, generating 72% of total revenue.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were DKK 7.4 billion in 2018 compared with DKK 8.5 billion in 2017. The EBITDA margin for the year was 32.5%, compared with 37.3% in 2017. The decrease in EBITDA margin compared with 2017 was mainly due to the negative like-for-like growth.

Capital expenditure (CAPEX) in 2018 was 5% of revenue or DKK 1.1 billion compared with 6% of revenue and DKK 1.4 billion in 2017. As in previous years, CAPEX continued to be impacted by the development of our crafting facilities and innovation centre in Thailand, investments in our distribution network and the global implementation of a new Enterprise Resource Planning (ERP) system.

The effective tax rate was 23.4% for 2018, slightly down from 24.8% in 2017. The tax rate in 2017 was impacted by a US tax reform that was signed in December 2017 and by a withholding tax related to the repatriation of dividend from Thailand.

Financial guidance for 2019

Pandora provides the following financial guidance for 2019:

- Organic revenue growth of -3% to -7%, including 3-5 percentage points negative one-off impact related to the commercial reset initiative, which is part of Programme NOW
- EBIT margin of 26%-28%, excluding restructuring costs of DKK 1.5 billion related to Programme NOW

Pandora expects reported revenue growth to be impacted positively by 2 percentage points from acquisitions, where the majority is the run-rate effect from acquisitions made in 2018.

Read more about our financial guidance in Financial Outlook for 2019

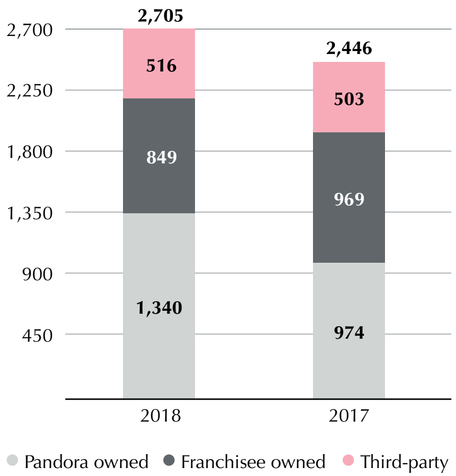
Long-Term Incentive Programme 2019

Pandora plans to introduce changes to the KPI structure for the long-term incentive plan to closer align with long-term value creation and shareholder interest. The KPIs decided for the Long-Term Incentive Programme will be announced in a company announcement following the Annual General meeting in March 2019.

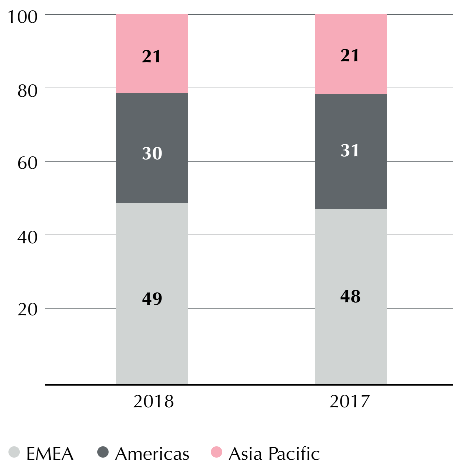
The short-term incentive plan is cash based and designed to support our business objectives for 2019 with focus on profitability and like-for-like, instead of total revenue growth. EBIT margin is assessed to be more suitable for measuring performance than EBITDA in the future, as it better reflects performance following implementation of IFRS 16 accounting regulations and drives more focus towards capital expenditure.

Our latest **remuneration policy** and the guidelines for incentive pay are available at: https://pandoragroup.gcs-web.com/remuneration-reports

NUMBER OF CONCEPT STORES (No.)



REGIONAL SHARE OF REVENUE (%)



Five-Year Summary

(DKK million)	2018	2017[1]	2016[1]	2015	2014
Consolidated income statement					
Revenue	22,806	22,781	20,281	16,737	11,942
Gross profit	16,942	16,966	15,223	12,193	8,423
Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,421	8,505	7,922	6,214	4,294
Operating profit (EBIT)	6,431	7,784	7,404	5,814	4,072
Net financials	151	-117	246	-469	-200
Net profit for the year	5,045	5,768	6,025	3,674	3,098
Consolidated balance sheet					
Total assets	19,244	17,428	15,321	13,311	10,556
Invested capital[2]	12,071	11,369	9,242	8,047	5,911
Operating working capital	2,555	2,988	2,782	2,388	1,990
Net interest-bearing debt (NIBD)[2]	5,652	4,855	2,448	1,909	-1,121
Equity	6,419	6,514	6,794	6,139	7,032
Consolidated cash flow statement					
Cash flow related to mergers and acquisitions	-1,071	-1,843	-210	-260	-155
Free cash flow	5,558	5,294	5,358	2,449	3,868
Cash conversion, %	86.4%	68.0%	72.4%	42.1%	95.0%
Ratios					
Revenue growth, %	0%	12%	21%	40%	33%
Revenue growth, local currency, %	3%	15%	24%	29%	33%
Total like-for-like sales-out, %	-4%	0%	8%	15%	20%
Retail like-for-like sales-out, %	0%	10%	16%	29%	35%
Effective tax rate, %	23.4%	24.8%	21.2%	31.3%	20.0%
Equity ratio, %	33.4%	37.4%	44.3%	46.1%	66.6%
NIBD to EBITDA[2], x	0.8x	0.6x	0.3x	0.3x	-0.3x
Return on invested capital (ROIC)[2], %	53.3%	68.5%	80.1%	72.3%	68.9%
Days sales outstanding	50	47	37	32	32

(DKK million)	2018	2017[1]	2016[1]	2015	2014
Margins					
Gross margin, %	74.3%	74.5%	75.1%	72.9%	70.5%
EBITDA margin, %	32.5%	37.3%	39.1%	37.1%	36.0%
EBIT margin, %	28.2%	34.2%	36.5%	34.7%	34.1%
Share information					
Dividend per share[3], DKK	9.00	9.00	9.00	13.00	9.00
Quarterly dividend per share[4], DKK	9.00	27.00	-	-	-
Total payout ratio (incl. share buyback), %	103.7%	99.1%	91.5%	135.8%	104.1%
Earnings per share, basic, DKK	47.2	52.0	52.8	30.9	25.0
Earnings per share, diluted, DKK	47.0	51.8	52.5	30.7	24.7
Share price at year-end, DKK	265.3	675.5	924.0	872.0	504.5
Other key figures					
Capital expenditure (CAPEX)	1,129	1,388	1,199	1,109	455
Capital expenditure, tangible assets (CAPEX)	753	946	828	706	297
Store network, total number of concept stores	2,705	2,446	2,138	1,802	1,410
Average number of full-time employees	24,030	20,904	17,770	13,971	9,957

[1] Figures have been restated to reflect the adoption of IFRS 15.
[2] For 2014, 2015, 2016 and 2017, Invested capital and NIBD have been restated due to immaterial reclassifications. Consequently, NIBD to EBITDA and ROIC have been recalculated.
[3] Proposed dividend per share for 2018.
[4] Quarterly dividend per share for 2018, paid in 2018.

Key Events 2018

Q1

Capital Markets Day

In January, Pandora hosted a Capital Markets Day in Copenhagen for analysts, institutional investors and media.

Pandora Shine launched

In March, we launched a new concept, Pandora Shine. Evolving our affordable luxury offering, Pandora Shine is a collection of 18k gold-plated sterling silver jewellery. Made to the same high-quality craftsmanship standards as other Pandora collections, Pandora Shine is crafted in a combination of electroplating – a traditional artisan technique – and modern technology that sees a sterling silver core coated first with palladium and then a final layer of deep, rich 18k gold.

Q2

Taking over distribution in Ireland

In May, we announced an agreement with B.J. FitzPatrick Holdings Ltd. to acquire the Pandora store network in Ireland. Pandora jewellery has been available in Ireland since 2007, and with the agreement, we will take over 24 Pandora owned concept stores and one shop-in-shop in Ireland.

New LEED Gold crafting facility inaugurated

In June, we officially inaugurated our new crafting facility, Triple A, in Bangkok, Thailand. The LEED (Leadership in Energy and Environmental Desgin) Gold certified facility sets new standards in the global jewellery industry in terms of craftsmanship, scale, speed and environmental impact.

Q3

New interim joint leadership

In August, Anders Colding Friis stepped down as President and CEO. An interim joint leadership team was formed with Anders Boyer as CFO and Jeremy Schwartz as COO.

Taking over Taiwan distribution

In August, we announced that we are taking over the distribution of our jewellery in Taiwan. Pandora now has complete ownership of the brand in Greater China (Mainland China, Hong Kong, Macau and Taiwan). For many years, Taiwan has been an important market for us and a complete ownership in Greater China will support our growth and development strategy in the entire Asia Pacific region.

Taking top spot for responsible sourcing

For the second year running, Pandora was the highest ranking company in Morgan Stanley Capital International's annual Environmental, Social and Governance (ESG) rating of the fashion industry. In September, Pandora was commended for its focus on the responsible sourcing of gold and silver and our good working conditions.

Q4

Programme NOW initiated

In November, we launched Programme NOW to accelerate the strategic transformation of Pandora and drive sustainable growth.

Launch of Pandora Reflexions concept

In October, we launched our latest concept – Pandora Reflexions – a collection of flat bracelets with interchangeable charms. The bracelet is our second new concept for 2018 and part of our strategy to innovate our offering across all jewellery categories.

10th anniversary of Pandora Club

In December, we celebrated the 10th anniversary of Pandora Club. We introduced Pandora Club in 2008 to give our customers exclusive insights and access to limited editions, and today the community has nearly 13 million members.

Financial Outlook for 2019

2019 will be a transition year for Pandora, and the financial outlook will be significantly impacted by the actions taken in Programme NOW.

Changing guidance metrics to organic growth and EBIT margin

To strengthen performance management and better reflect where shareholder value is created, Pandora changes its revenue guidance metric from total revenue growth in local currency to organic revenue growth[1] (which excludes all impacts from forward integration and M&A activities). We will also change our profitability metric to EBIT margin (from EBITDA margin) thereby sharpening the focus on cash allocation and minimising fluctuations related to the new accounting standard for leases (IFRS 16) which is effective from 1 January 2019. As a rule of thumb, the EBIT margin will be around 0.3 percentage points higher going forward while the EBITDA margin will be around 4.5 percentage points higher due to IFRS 16.

Financial guidance for the full year of 2019

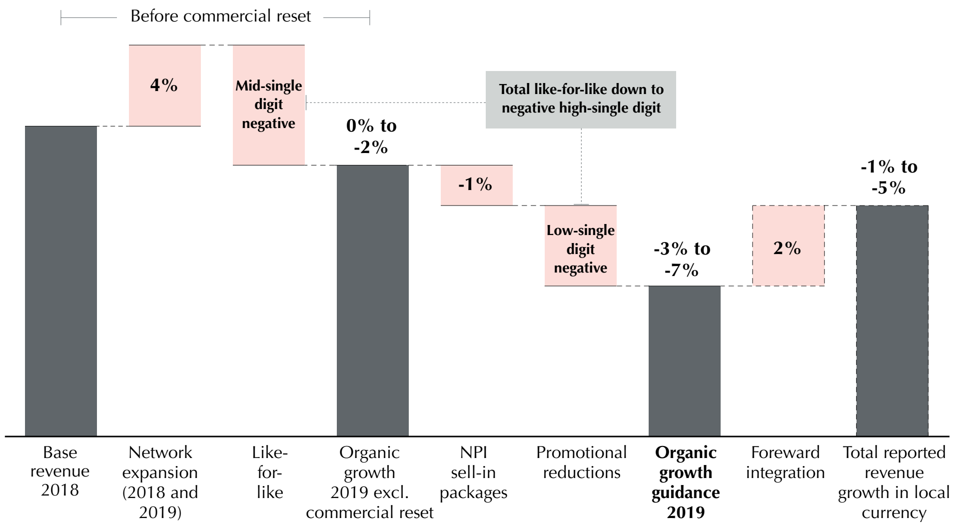
- Organic revenue growth is expected to be in the range from -3% to -7%, which includes negative one-offs of 3-5 percentage points from the combined impact of the reduced sell-in packages (1 percentage point) and the decision to reduce promotional activities (2-4 percentage points).
- The EBIT margin is expected to be between 26%-28% excluding restructuring costs of up to DKK 1.5 billion related to Programme NOW. For comparison, this corresponds to an EBITDA margin – before IFRS 16 impact – of 30.5%-32.5%. Including restructuring costs, the reported EBIT margin in 2019 is expected to be 20%-22%.

[1] Organic growth is an alternative financial measure not defined by IFRS, see note 1.1

Building blocks to full year 2019 guidance

In 2019, Pandora expects to add around net 75 concept stores to the network. The store openings will mainly be in Latin America and China. The expansion of the network is expected to add around 4 percentage points of organic growth.

ORGANIC GROWTH GUIDANCE - BUILDING BLOCKS



FINANCIAL GUIDANCE FOR 2019 (%)	2019 Guidance	2018 Guidance development	FY 2018 Actual	Q3 2018 Guidance	Q2 2018 Guidance	2018 Guidance
Organic revenue growth, %	-3% to -7%	Total revenue growth (local currency)	3%	2-4%	4-7%	7-10%
		EBITDA margin, approximately %	32.5%	32%	32%	35%
EBIT margin excl. restructuring costs	26%-28%	EBIT margin, %	28.2%	N/A	N/A	N/A
		CAPEX, approximately % of revenue	5%	5%	5%	5%

Forward integration, which is not included in organic growth, will positively impact total revenue growth by around 2 percentage points, which mainly includes acquisitions already completed in 2018, as well as Taiwan. Consequently total revenue growth in local currency is expected to be -1% to -5%.

Total like-for-like is expected to be negative mid-single digit before the impact from the commercial reset. It is expected that the initiatives in Programme NOW will impact like-for-like from late 2019 and forward. Excluding the impact from the commercial reset, organic growth is expected to be between 0% and -2%. The New Product Introduction (NPI) sell-in packages impact organic growth by around -1 percentage point while the reduction of promotions will impact total like-for-like and organic growth equally by negative 2-4 percentage points. In 2019, total reported like-for-like could therefore be down to negative high-single digit.

The waterfall chart to the right outlines the most important building blocks of the EBIT margin development in 2019, supported by the following explanations:

- In connection with the Q2 2018 announcement, Pandora stated the opportunity to improve the margin by 3 percentage points due to among others less forward integration, lapping wholesale destocking, cost reductions etc. That is still the case, except that wholesale inventories are expected to destock further and thus the margin improvement in 2019 from these factors is only 2 percentage points
- "Other" includes margin impact from among others higher production time on new products, inflation etc.
- Restructuring costs of around 6 percentage points (up to DKK 1.5 billion) in 2019, consists of:
  - The wholesale inventory buyback programme for selected markets will be impacting the EBIT margin negatively by around 2 percentage points.
  - Around 4 percentage points will be related to programme execution and reducing costs. The majority of the restructuring costs will be recognised as OPEX.

CAPEX for the year is expected to be in the range of DKK 1.2-1.5 billion. This includes investments in both Pandora's own distribution network, IT and continued optimisation of our crafting facilities in Thailand. CAPEX directly related to Programme NOW is expected to be around DKK 200 million and relates primarily to the investments in e-commerce and omnichannel features as well as commercial projects related to Reigniting a Passion for Pandora.

The effective tax rate in 2019 is expected to be around 22%-23%.

Assuming current exchange rates versus the Danish Krone, growth reported in DKK is expected to be 0-1 percentage point higher than in local currency.

Mid-term financial aspirations

All financial targets including all of the sub-components communicated in relation to the Capital Markets Day on 16 January 2018 are cancelled as a result of Programme NOW.

Pandora's aspiration for the mid-term horizon is to deliver sustainable positive organic growth and industry-leading profitability. Organic growth will be driven by low- to mid-single digit total like-for-like growth combined with a continued controlled expansion of the store network in less penetrated areas.

Cash distribution in 2019

Pandora will continue its strong cash return to shareholders. For 2019, the Board of Directors proposes a total cash return to shareholders of DKK 4 billion, which is around 13% of the company's market cap based on the time of writing. The DKK 4 billion includes the following split:

- DKK 1.8 billion in dividend equal to DKK 18 per share. DKK 9 per share in ordinary dividend and an interim dividend of DKK 9 per share in relation to H1 2019 results
- DKK 2.2 billion in share buyback programme

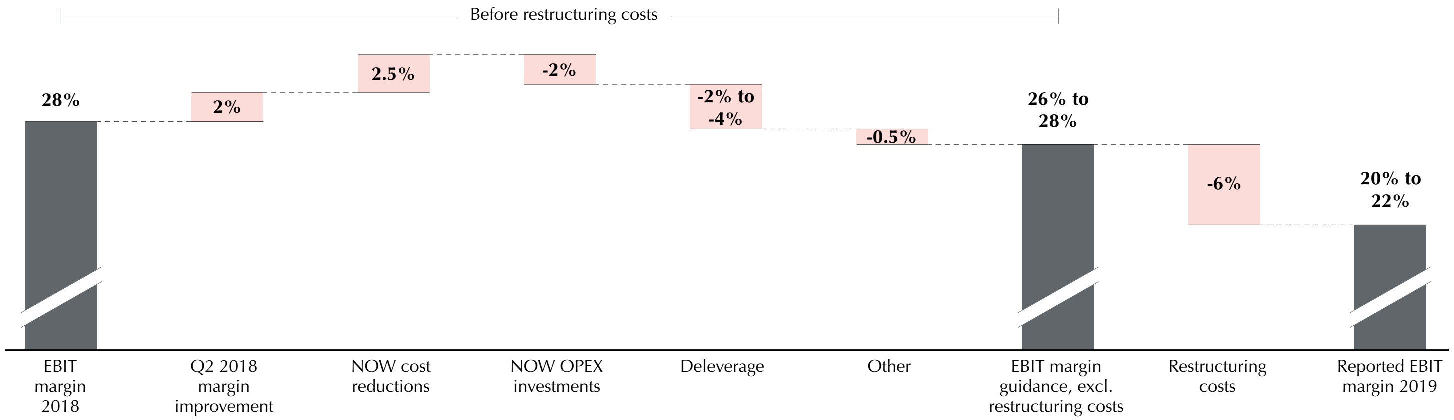
Cash distribution in 2018

In total, Pandora has committed to pay out DKK 5.9 billion in 2018 with the following split:

- DKK 1.9 billion in dividend equal to DKK 18 per share. DKK 9 per share in ordinary dividend and an interim dividend of DKK 9 per share in relation to H1 2018 results
- DKK 4 billion in share buyback programme

Read more about cash distribution and capital structure in Shareholder Information

EBIT MARGIN GUIDANCE - BUILDING BLOCKS (%)



“

Triple A is all about speed, cost efficiency and agility. With our flowline production and realtime data capturing system, our facility is designed to respond and adapt quickly to our customer needs.

- Nattapol Maharakkhaka, Manager, Production Finishing, Thailand

PANDORA IN DETAIL

Setting New Standards in **Jewellery Crafting**

In 2018, we opened our new Triple A crafting facility in Gemopolis, just outside Bangkok in Thailand. Based on the principles of our new crafting facility in Northern Thailand, Triple A integrates modern production techniques and robots with Pandora's DNA of hand-finished jewellery, enabling the facility to cut production lead times from eight weeks to approximately four.

Triple A introduces new ways of jewellery crafting that combine state-of-the-art technology with centuries-old craftsmanship. At its heart are 39 flowlines, a concept borrowed from lean manufacturing. Each flowline accommodates craftspeople with different crafting skills, linking them by a conveyor belt so they can quickly perform the necessary steps to complete a piece in a single 'flow'. An advanced data system captures performance data from each flowline to ensure the most efficient use of resources. Robots perform repeat tasks such as handling casting moulds, where it is important to remove the jewellery with stones from the mould at exactly the right temperature to avoid flaws in the stones.

This highly automated 'front-end' connects with our finishing department. Here, our skilled craftspeople grind and polish the jewellery and apply enamel and stones by hand. In our previous crafting facilities, a piece of jewellery would travel up to 1,000 metres during production, spending many hours waiting or in transit. In Triple A, most of that unproductive time has been eliminated, as it has been designed to reduce transportation and has as little transit as possible between each production process.

Like our new crafting facility in Chiang Mai in Northern Thailand, Triple A is certified according to Leadership in Energy and Environmental Design (LEED) Gold and meets the highest sustainability standards. Wastewater is recycled, modern exhaust systems reduce energy consumption and a rooftop garden cuts air conditioning requirements.

19,386
square metres

>5,000
employees

39
flowlines

30
pairs of hands on average contribute to the creation of one piece of jewellery

02/ Our Business

“

Whenever I am at a social gathering, I can always rely on my Pandora bracelet to connect with people. My stories for each charm, and those that others have on their bracelets, mean we can talk for hours about the meaning behind each of our charms.

Meet our customers

Amanda is 30 years old, from **Shanghai** and has been a Pandora customer for **3 years**.

Amanda works in advertising and she wants her style to be cool, modern and authentic. That is why she loves Pandora, because each piece holds a memory, meaning or special blessing that is unique to her.

Pandora in the Jewellery Industry

The total value of the jewellery industry grew by 7% between 2017 and 2018 to EUR 292 billion[1], and is expected to grow at a similar rate in 2019. Most regions saw single-digit growth, however Asia Pacific (APAC) and the Middle East and Africa stood out, experiencing around 9% and 15% year-on-year growth respectively.

The industry remains fragmented with the 10 largest players only making up 12% of the global market and with only 20% of the jewellery market being branded. With the highest brand awareness, Pandora is the world's biggest jewellery brand and has a physical and online store network across all continents with a global market share of 1.5%. A number of other large players have started to explore international opportunities as well. However, the larger brands from China and Hong Kong still focus on their home markets, opening stores in other parts of the world mainly to target Chinese tourists.

The global market

China represents 30% of the global jewellery market and almost half of the market in APAC. India, the second-largest market in the region, is on the rise, and the Indian jewellery market is expected to double in size within the next five years. In Europe, growth is expected to continue at a steady rate with the UK remaining the largest market. In the US, growth is expected to slow in the next five years, but should still see single-digit growth. The market in South America is growing but remains small. Europe, Middle East and Africa (EMEA) is Pandora's largest region in terms of revenue. In the UK, Italy, and Australia, we have market share of around 10%, whereas the share in the US is around 1.5% and in China 0.4%.

[1] Fixed 2018 exchange rates.

Jewellery channels

Compared with other retail categories, like apparel, the percentage of jewellery sold online is relatively small. In most markets, e-commerce represents less than 10% of sales, as consumers prefer to touch and feel the jewellery before their purchase. In 2018, 10% of Pandora's total revenue came from online sales, which is more than many of our competitors. The online share of Pandora's revenue is expected to increase in the years to come.

Jewellery sales categories

There are two main jewellery categories, fine jewellery and costume jewellery. Due to its lower quality, lower price and higher rates of repeat purchase, the costume jewellery category is more penetrated by e-commerce than fine jewellery, and online sales of costume jewellery tend to be higher than in the fine jewellery category.

Pandora operates in the fine jewellery category. However, compared with other fine jewellery brands, our jewellery is generally more affordable while retaining high-quality craftsmanship, making fine jewellery accessible to the many.

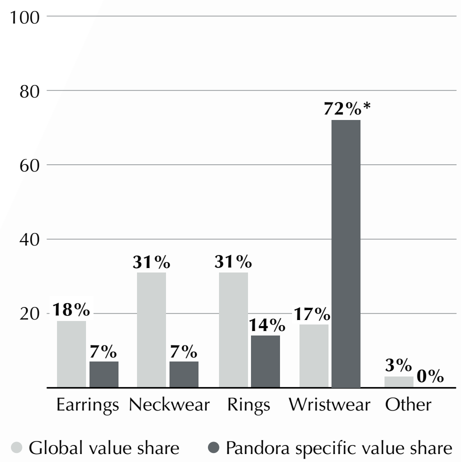
Fine jewellery represents around 85% of the total jewellery industry, but costume jewellery is growing at a faster pace. However, since there is a large difference in price between the two categories, the relative value of the fine jewellery category is only expected to decrease by one percentage point over the next five years.

In addition to costume and fine jewellery, the jewellery market can also be segmented by product category. Pandora mainly operates within the wrist wear category, but has the capabilities to expand in other categories like rings, earrings and neckwear.

10%

of our total revenue came from online sales in 2018

% VALUE SHARE OF FINE JEWELLERY CATEGORIES IN 2018



* Charms and Bracelets fall under this category

Key industry trends

Conversational commerce

Today's consumers expect personalised products and services. Around 40% of consumers are likely to become repeat buyers if they experience personalised shopping, however, many brands' personalisation features fail to inspire consumers to make a purchase. As a result, the concept of conversational commerce is on the rise. Chatbots are increasingly adopted by brands to guide and help customers more efficiently on their shopping journey, a feature Pandora has recently implemented as well. As 3 out of 4 consumers rely on social media to guide their purchases, conversational commerce is an opportunity for us to provide a highly personal customer experience. Read more on page 26.

The evolving store

The role of the brick-and-mortar store continues to change as more consumer spending moves online. Retailers are emphasising the in-store experience to drive footfall and keep the store a relevant channel in the consumer journey and, as the experience economy grows, retail spaces are becoming much more than places of transaction. Retailers are reimagining their stores and experimenting with smaller formats, brand experiences and seamless shopping across platforms. At Pandora, we prioritise in-store customer experience and continuously work on ways to make the consumer journey seamless and convenient.

Convenience

Convenience is a critical factor that is increasingly influencing purchasing decisions. Consumers seek what they need, when and where they want it. The abundance of choice makes it easy for them to choose the most convenient option. Omnichannel has therefore become standard for many retail brands to always reach the consumer and provide a seamless shopping experience. At Pandora, we are currently rolling out online viewing of inventory on our eSTORE and implementing in-store tablets to better meet each consumer's need for convenience.

Sustainability on the rise

Consumer expectations to environmental and social performance continued to grow in 2018. Young people see the private sector as a potential force for positive impact and use purchasing decisions as levers for social change. New technologies are driving down costs and enabling sustainable innovation. Lab-grown diamonds and blockchain for better supply chain traceability are two examples that impact the jewellery industry. At Pandora, our dedication within environmental, social and governance standards has been recognised by Morgan Stanley Capital International, which ranked Pandora number one in the fashion industry in 2018.

40%

of consumers are more likely to buy again if they experience personalised shopping

> Omnichannel is a natural evolution for Pandora. We need to be where the customer wants to be, when they want to be there.
>
> - Karl Walsh, Senior Vice President of Digital Consumer Experience & E-commerce

PANDORA IN DETAIL

The **Experience** our Customers Want

Online shopping has been growing rapidly over the past few years, and 2018 was no exception. Revenue from Pandora's US eSTORE rose more than 30% in local currency year-on-year to make up 13% of overall sales in the US. In this market, we now have more visitors to our eSTORE than in our physical stores, highlighting the important role our website plays not only in online sales, but also in driving traffic and sales to our stores.

As online continues to grow, we want to provide our customers with an engaging experience that connects them with the brand and makes it easy for them to understand our products online. In parallel, we will ensure our physical stores to offer the same selection and flexibility.

In 2018, we introduced a number of new omnichannel services that connect our online universe with our stores to create a seamless experience for customers. We saw an increase in our mobile conversion rate of more than 30%.

In the US, we launched a digital bracelet builder concept, allowing our customers to experiment with our jewellery. Customers can also buy jewellery in our stores and order it to be shipped to their home, whether it is in stock or not. In 2019, we will also make it possible for customers who buy online to return or exchange in a store, and introduce click-and-collect and ship-from-store services.

Most of these new omnichannel features will be run as pilots in the US to then potentially be expanded to other key markets.

The Pandora Business Model

Known by more consumers and crafting more jewellery than any other jewellery brand, Pandora is the undisputed leader in affordable jewellery. Our business model is built on competitive strengths across the full value chain, spanning design, sourcing, crafting, marketing, stores and eSTOREs.

Product, design & development

WORLD LEADER IN AFFORDABLE JEWELLERY

>280 thousand pieces of jewellery sold per day

2 new innovative product concepts introduced in 2018

Sourcing & production

STRONGEST CRAFTING CAPACITY IN THE INDUSTRY

5x manufacturing capacity of the nearest competitor

4 weeks average production lead time at new facilities

Marketing & brand

THE WORLD'S BIGGEST JEWELLERY BRAND

#1 jewellery brand in the world

85% aided awareness in key markets

Stores & eSTOREs

GLOBAL NETWORK OF STORES AND DIGITAL TOUCHPOINTS

2,705 concept stores worldwide

>300 million visits on our consumer websites

Product, design & development

Taking inspiration from the world around us, we create beautiful jewellery that is modern and relevant. New designs are conceived based on insights from our entire value chain. Our Product, Production, Marketing and Retail teams evaluate previous collections and study consumer trends within jewellery, fashion and popular culture. They pair this with the latest innovations in material and jewellery design from the Pandora Innovation Centre, while also considering sustainability aspects of materials and crafting processes. The Design team works closely with our Product Development department and Innovation Centre in Thailand to create individual designs and incorporate innovative concepts into the collections.

Sourcing & production

Pandora jewellery is made with care and attention to detail. The magic happens at our crafting facilities in Thailand, where we combine centuries-old crafting traditions and high-quality materials with modern production techniques. Every piece is hand-finished by experienced and skilled craftspeople – and we can quickly upscale production of high-demand products when needed.

We employ a strict quality process during production and only source high-quality raw materials, taking into account sustainable sourcing, business ethics, cost and delivery time. To meet ongoing demand throughout the year, our supply chain teams monitor sales and optimise our distribution to ensure products are in the right locations at the right time. We are able to make new jewellery, from design to final product, in four months.

Marketing & brand

We engage with consumers in our stores and eSTOREs in over 100 countries, as well as through advertising and on social media, to offer best-in-class service before, during and after their purchase. Our close connection with consumers give us a unique opportunity to listen and better understand their needs. We use these insights to continuously improve and personalise the consumer experience and tailor our marketing activities.

Stores & eSTOREs

Pandora jewellery is available in over 100 countries through our concept stores, eSTOREs, online partners and other points of sale. Our concept stores remain the ultimate place for inspiration, guidance and personal advice. Here, customers can fully explore our jewellery universe with inspiration and guidance by store employees to choose the right jewellery. Our concept stores are either owned and operated (O&O) or franchised. In parallel, our eSTOREs service customers across the world and continuously offer new and personalised services to allow the customer to decide how, when and where to visit and shop at Pandora.

Sustainability as core to our business

Sustainability is an essential part of Pandora's business and an increasingly important value-add for consumers. As we control the majority of our value chain, we can factor sustainability into every aspect of our business model. Responsible business practices begin in the design phase with the choice of materials and suppliers, and continue through to how we craft, distribute and sell our jewellery.

PANDORA IN DETAIL

The Brilliance of **Silver**

Pandora's path to success has been paved with silver, a material which remains at the core of our jewellery offering today. Mining and processing of precious metals can be associated with adverse social and environmental impacts, and as a jewellery industry leader, we are committed to responsible sourcing. We believe we have an obligation to help develop a more responsible supply chain for core jewellery materials, and we work actively with the industry to make this happen.

In addition to the alluring look and fantastic crafting potential, using silver can also have environmental benefits. Unlike most other materials, silver can be perpetually recycled without its quality being diminished. The environmental impact of recycled silver is 95% lower than that of virgin (newly mined) silver. In 2018, 88% of the silver entering our crafting facilities in Thailand was recycled, while the remaining 12% was virgin silver from certified suppliers. Most of the recycled silver comes from scrap electronics. We buy all our silver from reputable refining companies, certified by the Responsible Jewellery Council or London Bullion Market Association.

"

A sustainable future depends on our ability to use and reuse resources smartly. Silver is the ideal metal for jewellery. Not just because it is beautiful, but also because it is infinitely recyclable.

- Thomas Touborg, SVP Group Operations

Our dedication to the responsible sourcing of raw materials was recognised in 2018 in Morgan Stanley Capital International's Environmental, Social and Governance rating, which ranked Pandora as no.1 in the fashion industry for the second year running.

Learn more about our sustainable sourcing in our latest Sustainability Report, available at our website: https://pandoragroup.com/CSR/Publications

Our Strategy

Our four strategic pillars set our long-term direction and put the consumer at the centre of everything we do. To drive Pandora's future transformation and restore sustainable growth, we have initiated Programme NOW, which will transform the company across all parts of the organisation and value chain over a two-year period.

Our four strategic pillars

1 INNOVATE AFFORDABLE JEWELLERY

We offer timely and affordable jewellery that caters to the diversity among our customers. Charms & Bracelets constitute our largest product category, while we continue to build up Necklaces & Pendants, Rings and Earrings for a complete and balanced jewellery portfolio. We continuously create new concepts and design features and launch new, culturally relevant products for different seasons and occasions. The majority of our jewellery is crafted from sterling silver, but we are also introducing other metals, mixed metals and other materials to increase the relevance for consumers.

2 AGILE MANUFACTURING

With the largest jewellery crafting facilities in the world, we are able to achieve agile and efficient production, reduce our environmental impact, and shorten lead times. They also allow us to respond even quicker to trends and to introduce new techniques, designs and ways of working, combining advanced automation technology with traditional craftsmanship.

3 DIGITALISED BRAND EXPERIENCE

We want to provide our customers with a shopping experience that is personal, inspiring and seamless across our different touch points. We use data to recognise consumers and remember their purchase history, so we can tailor relevant product recommendations and provide consumers with information that inspires their imaginations. We are increasingly using digital one-to-one marketing tools to tailor content to the individual customer and enable a more personal consumer experience.

4 WINNING IN OMNICHANNEL RETAIL

The Pandora concept store continues to be our customers' preferred channel, providing an inspiring and personal in-store experience. However, online is gaining importance and the two channels reinforce each other. We continuously work to improve the shopping experience to allow customers to choose when and where to visit Pandora with great service and multiple delivery options, no matter where they buy our products.

Programme NOW to ensure sustainable growth

During the second half of 2018, we carried out a thorough analysis of the business and the challenges facing the company.

The analysis showed that Pandora continues to have a strong business model, the highest brand awareness in the industry, global retail network, excellent creative and innovation capabilities, and an unrivalled production set-up with high craftsmanship, low cost and flexibility. However, it revealed significant opportunities to improve our relevance to consumers and our cost efficiency.

To address these needs, we have launched Programme NOW, a comprehensive two-year roadmap to deliver long-term sustainable growth. The programme will transform the company across all parts of the organisation.

Programme NOW will deliver the fundamental changes required to **"Reignite a Passion for Pandora"** and return to positive like-for-like growth while continuing to deliver **industry-leading margins**

As a first step in the programme, we changed our network expansion strategy in November 2018.

Over the course of 2019, Pandora will take four major additional steps as part of Programme NOW.

Programme NOW highlights

CHANGE OF NETWORK STRATEGY

- Significantly reduce franchise acquisitions to focus on improving like-for-like growth in existing network
- Open fewer stores focusing on selected key markets with white space areas. These markets include China, India and Latin America among others

COMMERCIAL RESET

- Reduce the number of non-value adding promotions to protect the brand and increase full-price sell-out
- Reduce slow-moving stock and initiate an inventory buyback programme in selected markets to improve inventories at wholesale partners

REIGNITE A PASSION FOR PANDORA

- Develop a new brand promise and visual identity that will appeal across consumer generations
- Introduce new bracelet platform and an online bracelet builder
- Increase marketing spend significantly in 2019 to increase customer traffic
- Redesign the store and eSTORE experiences to become more inspirational and engaging

REDUCE COSTS

- Reduce annual costs by a total of DKK 1.2 billion by the end of 2020 to fund growth initiatives and support profitability. The cost reduction comes on top of the DKK 0.35 billion reductions as communicated in connection with the Q2 2018 announcement
- Larger cost reduction areas are IT, cost of sales, costs in own concept stores, and administrative expenses

IMPLEMENT NEW WAYS OF WORKING

- Anchor product and marketing responsibilities with the Chief Creative & Brand Officer to provide one holistic strong customer experience across markets and channels
- Set up global end-to-end merchandising function to optimise assortment and inventory in stores and aid full price sell-out
- Operate with one global trading calendar worldwide, accommodating local holidays and celebrations to enhance in-store execution
- Introduce new performance management routines across Pandora

Risks

In 2018, we strengthened our risk management process and reassessed the risks Pandora is facing.

Taking action to mitigate risks

The Board of Directors regularly assesses the overall and specific risks associated with Pandora's business and operations. The Board also regularly reviews Pandora's established internal control systems – including our Pandora Whistleblower function – to ensure that they remain appropriate and sufficient.

RISK MANAGEMENT GOVERNANCE

The Audit Committee assists the Board 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 direction and scope for our risk management, while managers at all levels are responsible for identifying and appropriately managing risks related to their business areas.

The Group Governance, Risk and Compliance (GRC) function facilitates the risk management process, while Group functions are responsible for implementing it.

RISK MANAGEMENT ACTIVITIES AND STATUS

In 2018, we focused on mitigating and managing the key risks reported in the 2017 Annual Report. The GRC function continued to drive its risk and control agenda as set out in 2017. The process of quantifying, assessing, executing and monitoring risks was strengthened in 2018 and will be further enhanced in 2019. Key elements are timely involvement of management and dedicated resources to ensure adequate mitigating actions.

KEY RISKS

At Pandora, we prioritise risks to ensure we focus on the most relevant ones. Risks are evaluated on the basis of impact and likelihood analyses, and relevant actions are implemented to manage or mitigate the respective risks.

The process of quantifying, assessing, executing and monitoring risks was **strengthened** in 2018 and will be further **enhanced** in 2019.

Key risks

Brand relevance

Markets & channels

Product development & innovation

Crafting & supply chain

Sustainability & regulatory compliance

Brand relevance

DESCRIPTION
As the world's most known jewellery brand, the strength and integrity of our brand among consumers are a fundamental assets for our business. It requires constant focus on developing and protecting our brand, and the way in which we connect with consumers.

RISK
Providing a unique brand experience to consumers around the world, Pandora faces the risk of brand deterioration and loss of relevance for our customers. A potential dilution of the Pandora brand value could entail reduced traffic in stores and eSTOREs, decreased basket size and reduced revenue. A risk that is accentuated by the current changes in the retail sector with rapid shifts towards more personalised consumer engagement across physical and online channels.

MITIGATING ACTIONS
- As part of Programme NOW, Pandora is making significant investments to sharpen the brand and increase its relevance to consumers. The initiatives include increased marketing spend, gathering full global responsibility for creative and brand with our Chief Creative & Brand Officer, a redesigned store and online experience, as well as a new 'one ecosystem' company-franchise model for seamless customer experience. Read more about Programme NOW on page 22.
- Pandora's legal department continuously work to protect our brand integrity with for example global monitoring of relevant trademarks and patents as well as handling of infringements, while our Consumer Insights team continuously work to identify new consumer trends.

Markets & channels

DESCRIPTION
We sell our products globally and are dependent on a strong market and channel network where we can meet our consumers in their preferred marketplace. Whether it is in physical stores or through e-commerce, we want to make it possible for our customers to experience a solid omnichannel retail platform.

We have an online presence in all major markets and a strategic ambition to balance our physical store network between franchise and owned and operated concept stores.

RISK
Traditional retail channels must be enhanced on an ongoing basis to meet consumers' ever-changing expectations, and failure to build relevant channels will constitute a material risk. There can be potential negative impacts on revenue and margins if our network presence limits consumers' easy and intuitive access to our products or if we fail to succeed in our digital transformation. The upcoming Brexit entails an increased risk for our UK market, but the potential effect, timeline and financial impact are still unknown. We are continuously monitoring this to ensure an adequate reaction to protect our revenue, margins and consumer experience where applicable.

MITIGATING ACTIONS
- A balanced retail market strategy, between wholesale and Pandora owned and operated stores
- Significant investment in our digital transformation, ensuring our ability to meet customer demands for an integrated omnichannel platform
- An omnichannel retail strategy, enhancing e-commerce sales as well as ensuring a link to physical stores
- Frequent business reviews and consumer research, ensuring close and timely market insight
- Strengthening the team responsible for the consumer experience in the stores
- Significant additional investments in our online presence as part of Programme NOW
- Attracting digital talent to support our strategic roadmap

Product development & innovation

DESCRIPTION
A major part of our revenue comes from products which have been on the market for less than a year. Because we design and craft the majority of our jewellery ourselves, we are dependent on an efficient design and innovation process which ensures that our designs match our consumers' preferences and market trends, as well as excellence in marketing and retail.

Charms & Bracelets remains our core product category, but we continue to build up Necklaces & Pendants, Rings and Earrings to ensure that we have a balanced portfolio.

RISK
Potential negative impact on sales if we fail to predict and drive consumer preference, and if our jewellery designs do not meet consumer expectations or gain the desired traction in our markets. Lack of innovation can have a negative impact on consumer perception and thus entail reduced relevance.

MITIGATING ACTIONS
- Establishment of a large Innovation Centre in Thailand to support our crafting facilities, developing production methods and use of materials
- Expanding product assortment in all categories, such as Necklaces & Pendants, Rings and Earrings
- New concept innovations, including introducing other metals and materials
- Extensive use of consumer research, product lifecycle data and portfolio analysis

Crafting & supply chain

DESCRIPTION

Pandora designs, produces, distributes and sells affordable jewellery globally. Consequently, we are highly dependent on efficient and robust crafting facilities with agile manufacturing capabilities. A lean distribution network is a prerequisite for ensuring timely deliveries of our products to consumers worldwide.

Efficient manufacturing and distribution are also dependent on a stable and reliable supply chain that can guarantee a steady supply of raw materials. As our products are crafted from high-quality materials, we are affected by the cost of raw materials, especially gold and silver.

RISK

Potential disruption within our sourcing, manufacturing or distribution activities. Potential increase in cost of goods sold if commodity prices increase.

MITIGATING ACTIONS

- Robust procurement process implemented, including risk assessment and screening of suppliers, as well as actively monitoring key suppliers
- Dual sourcing for all key supply areas, spread across geographies to avoid bottlenecks due to natural disasters, trade wars, etc.
- Large investments in our Thai crafting facilities, including flowlines and an innovation centre, to ensure robust, stable and efficient production
- Two crafting facilities in Thailand - in Bangkok and in Lamphun near Chiang Mai - addressing risk of dependency on a single production facility
- Reviewing and upgrading response and recovery plans for business continuity management
- Implementing new and upgraded ERP system
- External manufacturing (OEM/ODM) as appropriate to meet market demand
- Short-term exposure to raw material price fluctuations reduced through commodity hedging

Sustainability & regulatory compliance

DESCRIPTION

Pandora is founded on its reputation for sustainable and ethical business practices. Our reputation relies on our ability to ensure that these practices are maintained throughout our value chain – and to provide internal and external transparency about our ethical aspirations and performance.

As a global company, we are dedicated to ensuring a high level of ethical responsibility and adherence to regulatory compliance by our partners and suppliers. Our employees are our most valuable asset in Pandora, and we ensure a good and safe working environment.

RISK

Potential negative impact – financial or reputational – if regulatory compliance or sustainability or other ethical business practices are violated.

MITIGATING ACTIONS

- Code of Conduct policies implemented globally, including policies on employee rights, diversity and non-discrimination, human rights, business integrity, money laundering and bribery and facilitation payments etc.
- Mandatory ethics and compliance training for new and existing employees
- Whistleblower hotline in all major languages
- Responsible Supplier Programme, including training and vendor auditing
- Robust corporate sustainability procedures to ensure compliance with all relevant standards
- Regulatory compliance requirements governed through a control environment monitored by Group Legal, Corporate Sustainability and Global Governance, Risk & Compliance
- Implementation of Internal Control Framework throughout the company
- Membership of the Responsible Jewellery Council, entailing recurring certification through independent audit
- Largest crafting facilities in Thailand are Leadership in Energy and Environmental Design (LEED) Gold certified
- Vast product compliance and regulatory & performance product testing in Quality Assurance process

PANDORA IN DETAIL

Connecting with Customers on **Social Media**

We use social media channels such as Facebook, Instagram and Twitter to communicate our brand story, build relationships with our customers, and inspire consumers to be a part of our growing community. These channels are an integral part of our digital marketing strategy and an increasing source of online sales.

Research suggests that around 80% of consumers conduct research online before making an in-store purchase, and about 50% read product reviews before buying a product. Social search is increasingly important in this respect and has eclipsed search engines as the preferred research channel in certain markets.

To take advantage of this, we showcase our products and share other engaging content around our brand on social media channels. This not only increases brand awareness, but also enables us to direct customers straight to our online stores. In 2018, around 3% of our online sales came from direct clicks on social media. Social media also contribute to offline sales, as customers are inspired to visit our physical stores after engaging with online content.

When it comes to Facebook, we lead the jewellery industry with more than twice as many followers than our nearest competitor. But we can still do more. So, in 2018 we implemented a number of initiatives to further grow our base of followers.

This included introducing a Facebook Messenger chatbot in the UK. The chatbot uses artificial intelligence to simulate a brand representative that can take requests, answer questions and ultimately guide the customer to the right product. This kind of 'conversational commerce' is an important competitive parameter, as customers increasingly demand 24-hour customer service.

We also introduced dynamic product advertisements on Facebook and Instagram. This mobile-friendly ad format allows us to deliver better timed and more relevant ads to potential customers as they browse through their social media feed, resulting in higher click-through rates and store traffic.

14.8

million followers on Facebook

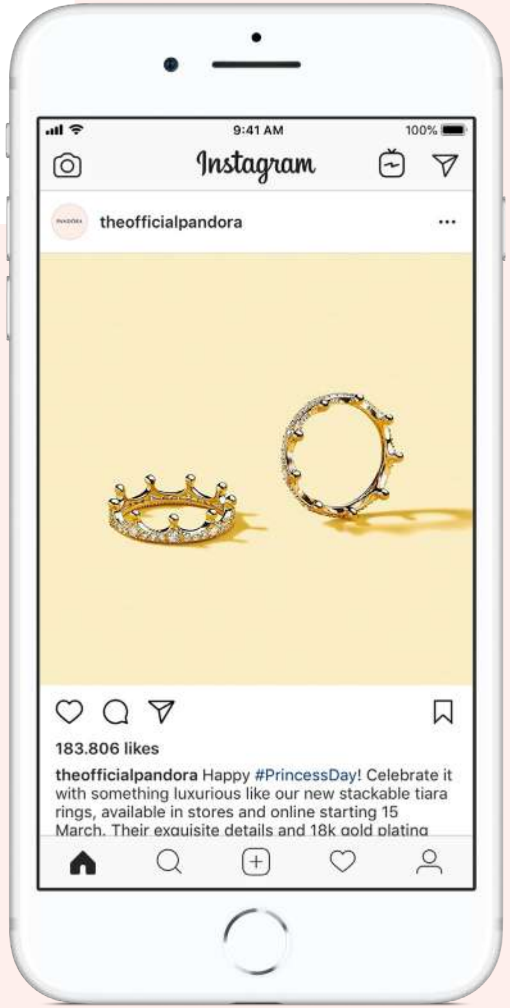
2017: 13 million

5.6

million followers on Instagram

2017: 3.7 million

> Followers love to see our products up close to get a better look at the intricate details. An Instagram post with these Pandora Shine crown rings from our Spring 2018 collection generated 187,000 interactions[1].
>
> \- Laura Olesen, Social Marketing Manager



For the fourth consecutive year, the industry magazine **Professional Jeweller declared** Pandora the brand with the highest reach on **social media** in the UK jewellery trade in 2018.

[1] 'Interactions' includes likes and comments to a post.

03/ Governance & Management

"She has one part. I have the other. We met 30 years ago, and when I look at this charm I am warmly reminded of my second 'sister'.

Meet our customers

Cristina and Sonia are 50 and 44 years old, come from **Portugal** and have both been Pandora customers for more than **12 years**.

Openness, laughs and warmth. When these two friends explore their collection of charms, one charm stands out. It is a symbol of their enduring friendship and love for each other.

Corporate Governance

We work to constantly improve transparency and accountability to ensure that Pandora meets its obligations to its stakeholders and maximises long-term value creation.

Pandora strives to exercise good corporate governance at all times, and Pandora assesses its practices against the Corporate Governance Recommendations of the Danish Committee on Corporate Governance. As a publicly listed company, Pandora is subject to the disclosure requirements in applicable legislation and the regulations of Nasdaq Copenhagen.

The Board of Directors remains committed to, and complies with, all the Danish Corporate Governance Recommendations as adopted in November 2017.

Board and Executive Management

Corporate authority is divided between the Board of Directors and Executive Management. These two bodies exist independently of each other as is normal practice in Denmark. The Board is elected at the Annual General Meeting and all Board members are up for election every year. The Executive Management team is appointed by the Board. Executive Management is responsible for day-to-day management; the Board supervises the Executive Management's work and is responsible for Pandora's general and strategic direction. The Board's primary tasks are to ensure that Pandora has a strong management team, optimal organisational and capital structures, efficient business processes, transparent bookkeeping and practices, and responsible asset management. Additionally, the Board oversees Pandora's financial development, related planning and reporting systems as well as internal controls and risk 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 Pandora faces. Together, the Board and Executive Management develop the overall strategy and ensure that the competencies and resources are in place to enable Pandora to achieve its objectives.

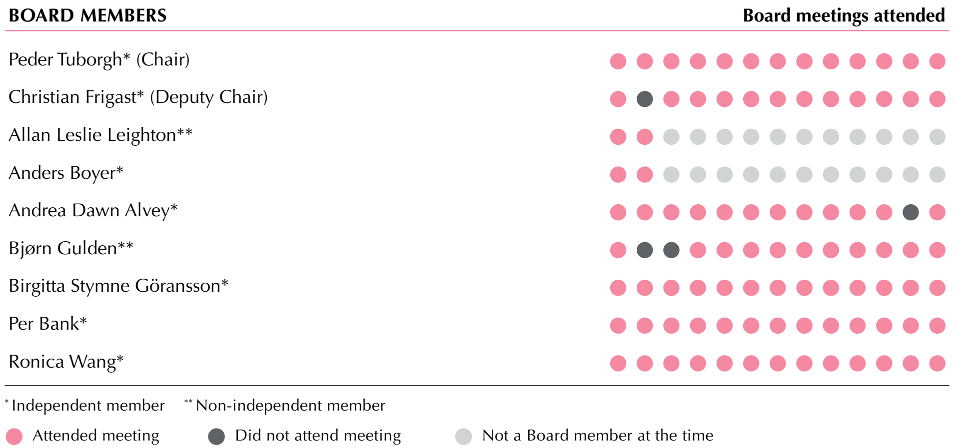
Board activities in 2018

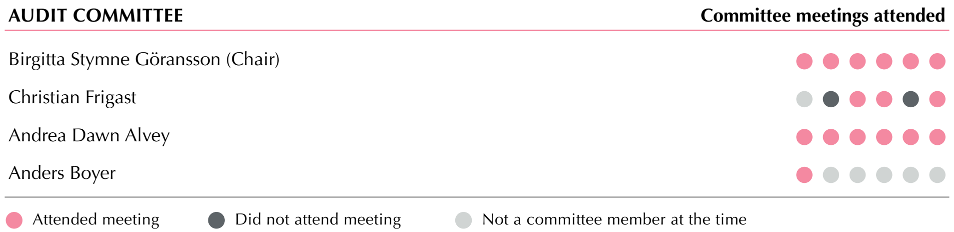
In 2018, the Board of Directors held 13 Board meetings and its primary focus area was to plan and launch Programme NOW to accelerate strategic transformation, changing the Executive Management and searching for new Board members. In addition, the Board focused on digitalised and conventional brand marketing, product innovation, amplification of full product offerings and leveraging Pandora's manufacturing capabilities to secure continued growth.

The Board has an Audit Committee, a Remuneration Committee and a Nomination Committee – and it appoints members and chairs to these committees. The committees' terms of reference are disclosed on the company's website.

AUDIT COMMITTEE

The members of the Audit Committee are Birgitta Stymne Göransson (Chair), Christian Frigast and Andrea Dawn Alvey. The Audit Committee re-





REMUNERATION COMMITTEE	Committee meetings attended
Peder Tuborgh (Chair)	Attended, Attended, Attended
Christian Frigast	Did not attend, Attended, Attended
Allan Leighton	Attended, Not a committee member, Not a committee member
Bjørn Gulden	Did not attend, Attended, Attended
Andrea Dawn Alvey	Attended, Attended, Attended

● Attended meeting ● Did not attend meeting ● Not a committee member at the time

NOMINATION COMMITTEE	Committee meetings attended
Christian Frigast (Chair)	Attended, Attended, Attended, Attended
Peder Tuborgh	Attended, Attended, Attended, Attended
Ronica Wang	Attended, Attended, Attended, Attended
Per Bank	Did not attend, Attended, Attended, Attended

● Attended meeting ● Did not attend meeting ● Not a committee member at the time

views and assesses Pandora's financial reporting and audit process and internal control systems, and evaluates the adequacy of control procedures. More specifically, the Audit Committee supervises the following areas:

- The financial reporting process
- Internal control and risk management systems
- The independent audit

In 2018, the Audit Committee met six times. Its main activities were:

- Meetings with Executive Management and independent auditors to review the audited Annual Report
- Meetings with Executive Management to review quarterly financial statements
- Reviewing key accounting principles, significant accounting estimates, key financial risks and compliance with tax regulations
- Monitoring the adequacy and effectiveness of Pandora's internal controls and risk management systems
- Reviewing the company's whistleblowing reporting system and whistleblowing cases
- Recommendations for the appointment of independent auditors, including evaluation of independence, competencies and compensation
- Reviewing updates to the financial reporting structure

REMUNERATION COMMITTEE

The members of the Remuneration Committee are Peder Tuborgh (Chair), Christian Frigast, Bjørn Gulden and Andrea Dawn 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 Executive Management with respect to fixed and variable pay components
- To submit proposals to the Board for the remuneration packages of individual pay of Board members and Executive Management
- To verify that the information on remuneration in the Annual Report and Remuneration Report is true, accurate and adequate

The Remuneration Committee met three times in 2018. Its main activities were: the annual review of the remuneration policy and guidelines on incentive payments, including giving directions for future remuneration reports; approval of incentive payments for 2017; design and approval of Pandora's Long- and Short-Term Incentive Programmes for 2018; and benchmarking of executive pay.

Our Remuneration Report 2018 is available at our Investor website: https://pandoragroup.gcs-web.com/remuneration-reports

NOMINATION COMMITTEE

The members of the Nomination Committee are Christian Frigast (Chair), Peder Tuborgh, Ronica Wang and Per Bank. The Nomination Committee assists the Board in fulfilling its responsibilities with regards to:

- Continuous evaluation of the qualifications and competencies required of members of the Board and Executive Management
- Nomination of candidates for the Board and Executive Management
- Self-evaluation of the Board
- Assessment of the performance of Executive Management and the cooperation between the Board and Executive Management
- Succession planning for top executive positions

In 2018, the Nomination Committee met four times. Its main activities were: an extensive evaluation of the qualifications and competencies of the Board and Executive Management; appointment of a new CFO, Anders Boyer, and a new COO, Jeremy Schwartz, search for a new CEO, the annual self-evaluation and assessment of the cooperation between the Board and Executive Management, as well as assessment of the performance of each member of the Board, including search for new Board members. In December, the Board proposed two new candidates, Ms. Isabelle Parize and Sir John Peace, to the Board for election at the Annual General Meeting on 13 March 2019.

BOARD SELF-EVALUATION

The Board conducts an annual self-assessment to constantly improve its performance and its cooperation with the Executive Management. The chairman of the Nomination Committee directs the assessment process, and from 2019 the assessment will be facilitated by external consultants every third year. In 2018, the assessment was carried out by the Board by having each Board member complete an anonymous questionnaire.

The assessment covered topics such as Board composition, nomination process, competencies and overboarding. The assessment also included topics such as the Board's involvement in risk and financial management, control and strategy, and committee work and personal contributions.

Ratings and comments are consolidated and shared with the Board and Executive Management, followed by a Board discussion where improvements are discussed. The chairman also holds one-to-one conversations with each Board member.

The self-assessment conducted in 2018 identified that the Board continues to demonstrate wide experience, broad industry knowledge and backgrounds well suited to Pandora's business and strategy. The Board structure and committee work are effective and well-functioning, including interactions with the Executive Management. The assessment indicated that further competencies within retail and e-commerce would be beneficial in order to continually meet the rapidly-changing consumer landscape and diving deeper into brand execution, digitisation and operational matters. As a result of this, two new Board members have now been proposed.

ADDITIONAL INFORMATION

The Corporate Governance Statement for 2018, cf. section 107b of the Danish Financial Statements Act, is available at our Investor website:

https://investor.pandoragroup.com/governance-statement

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 and 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 requirements of the Danish Financial Statements Act. 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 controls and risk management systems are under continuous development and are described below.

CONTROL ENVIRONMENT

The Board has established an Audit Committee that assists the Board 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.

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

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

The composition of the Board, the Audit Committee and Executive Management together with the GRC function ensure the availability of relevant competencies with respect to internal controls and risk management systems in relation to the financial reporting process.

RISK ASSESSMENT

The Board and Executive Management assess risks on an ongoing basis, including risks related to financial reporting, and assess measures to manage, reduce or eliminate identified risks. The Audit Committee reviews certain high-risk areas quarterly, including significant accounting estimates and 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 a global Finance Forum that meets regularly throughout the year. This forum sets the finance strategy for the Group and discusses the latest developments in relation to significant accounting matters and best practice regarding internal controls.

The Corporate Finance function reports to the Chief Financial Officer. Controlling functions within the Corporate Finance function are responsible for controlling the financial reporting from the Parent Company and its subsidiaries, and monitoring compliance with relevant legislation on an ongoing basis.

The company 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 or fraudulent behaviour. The control procedures are tested on an ongoing basis and reported to the Audit Committee.

INFORMATION AND COMMUNICATION

The GRC function is present at all Audit Committee meetings and provides regular status updates to the committee. Furthermore, the head of GRC has regular meetings with the Chief Financial Officer. This setup ensures transparency and that communication is shared with the Audit Committee on a timely basis. The Board has adopted an Investor Relations policy that requires that all communication to stakeholders, including financial reporting, must be conducted adequately, timely and openly – both internally and 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 process 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. Prior to recommendation, the Board assesses, in consultation with Executive Management, the independence, 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 and the auditors following recommendation from the Audit Committee.

Corporate Sustainability

We believe that high ethical standards and high-quality jewellery go hand in hand. We want women to be able to express themselves with responsibly crafted jewellery made from ethically sourced materials.

We control the majority of our value chain from design to stores. This enables us to incorporate sustainability into every aspect of our operations. We work closely with our partners and suppliers to ensure high ethical standards – and, to inspire partners and peers, we communicate our efforts and performance externally.

Pandora Sustainability

The Pandora Sustainability Programme is integrated into our entire value chain through policies, guidelines and tools. In 2018, we focused on:

- Starting production at our second Leadership in Energy and Environmental Design (LEED) Gold certified green crafting facility, in Bangkok, Thailand
- Successfully extending our global Responsible Jewellery Council (RJC) certification to 2021
- Code of Conduct training (completed by all employees)
- Supplier due diligence and supplier development

We regularly perform sustainability risk assessments within business integrity, human rights, labour rights and the environment. We communicate our aspirations and requirements in these areas to employees through our internal Code of Conduct, which is supported by awareness campaigns and mandatory training for all staff. In addition, our Pandora Whistleblower function enables staff to raise concerns if they believe our ethical standards are potentially being breached.

Our two new main crafting facilities are now **Leadership in Energy and Environmental Design** (LEED) Gold certified

Product, People, Planet

We are committed to crafting our products with integrity, providing proper working conditions for our employees and minimising our impact on the planet.

Learn more in our latest Sustainability Report, available on our website: https://pandoragroup.com/CSR/Publications

The Sustainable Development Goals

Pandora contributes to progress on several of the 17 United Nations Sustainable Development Goals. We focus on the seven goals where we believe our business can have the largest positive, as well as adverse, impacts.

Product

Responsible business practices begin in the design phase with the choice of materials, and continue through ethical sourcing and crafting. When suppliers enter into an agreement with Pandora, they sign our Suppliers' Code of Conduct, which addresses business integrity, human rights and environmental issues. Pandora has continued its work with ensuring ethical business practices in 2018 through our Responsible Supplier Programme. The programme ensures compliance with the Code, which covers screening and risk assessment, training, dialogue and supplier audits, as well as timely follow-up if non-compliance is identified.

Business integrity

We believe in fair and honest competition, and we are dedicated to working against corrupt practices in our operations in the societies in which we operate. The risk of corruption in our procurement process is countered by our Business Integrity Policy and our Responsible Supplier Programme. In 2018, there has been zero identified corruption non-conformaties found in our audits. Our Business Integrity Policy instructs us to: never offer, give or accept gifts, entertainment or any other advantages exceeding locally defined triviality limits; never offer, authorise, give or accept bribes or extortion; refuse to pay facilitation payments, even if this could mean a loss of business; and not contribute to money laundering.

SUPPLY CHAIN AND RAW MATERIALS

Silver is the most used material in our products. In 2018, 88% of the silver grains sourced by Pandora came from recycled sources. The remaining 12% came from mined silver supplied by certified responsible refiners. We work with suppliers to ensure that as much silver as possible comes from recycling. In 2018, 100% of the gold grains used in our products were recycled.

Planet

Our Environmental Policy commits us to minimising our environmental footprint by seeking new ways to reduce emissions, waste and consumption of resources. 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. In addition, we have environmental and energy teams at our crafting facilities.

We are regularly audited by the RJC, and environmental risks in our supply chain are mitigated through our Responsible Supplier Programme. Primary environmental and climate risks in our industry are CO_2 emissions and the depletion of natural resources, both associated with mining. We minimise this by sourcing recycled gold and silver and predominantly using man-made stones, which have less environmental impact than mined stones.

RESOURCE CONSUMPTION

We are building for the future, also in terms of resource efficiency. With significant investments over the past years, Pandora today operates state-of-the-art green crafting facilities and work to continuously optimise the use of energy, water and other resources. Our crafting facility in Lamphun opened in 2017, and our new facility in Bangkok opened in June 2018. Both facilities are LEED Gold certified.

- Our facility in Lamphun has reached its target of recycling 45% of the water it uses and solar panels produce 10% of the energy it uses. An innovative air conditioning and ventilation system reduces ventilation energy loss by up to 80%.
- Our new facility in Bangkok achieved LEED Gold certification in 2018, scoring 10 out of 10 in the Water Efficiency category and 6 out of 6 in the Innovation Design category. The results will be validated next year, when the facility has been running at full capacity for a longer period.

Total energy and water use in 2018 increased, reflecting our increasingly more advanced jewellery designs and a widening portfolio of jewellery. However, thanks to our LEED certified crafting facilities, our consumption of energy and especially water is considered very efficient and well below the average in the luxury, apparel and accessories sectors.

Partnerships

Pandora is a member of the United Nations Global Compact (UNGC), and we report yearly on progress within the programme. Pandora is also a member of the RJC – an industry-leading initiative that strives to develop and implement responsible business practices throughout the jewellery industry. In 2018, we initiated a two-year partnership with the Youth Fashion Summit in cooperation with the Global Fashion Agenda and UNGC, which brings fashion and business students from around the world together to drive sustainability in fashion.

People

We are a global brand and our activities impact the lives of people worldwide. Our Human Rights Policy guides us in how to ensure that all human rights are respected throughout our value chain. Specifically, it instructs us to: never engage in, solicit or accept child labour or forced labour in any form; recognise and respect the right to freedom of movement, the right to associate and the right to enter into collective bargaining; prohibit discrimination or any other inappropriate behaviour that might undermine the dignity of our employees and the communities in which we operate; provide employment and development opportunities for staff through fair and objective performance criteria; and respond openly and transparently to perceived human rights violations.

Potential human rights violations within the jewellery supply chain, like safety and health hazards and poor working conditions, are mostly associated with mining. To minimise this risk, we source recycled gold and silver grains and predominantly use man-made stones. All the gold, silver and diamonds that we use can be traced back to certified responsible suppliers. Human rights risks related to other goods and service providers are covered by our Responsible Supplier Programme.

In Thailand, pregnant employees receive extra breaks and have regular check-ups by onsite nurses.

TRAINING

Using an in-house e-learning platform, we offer training to our employees, including new product training for store staff. We also offer specific training courses for production staff covering technical skills, safety, health, business continuity, the environment, leadership and life skills such as motherhood and private economy.

PRODUCTION

At our facilities in Thailand, we provide employees with safe and healthy working conditions and competitive compensation and benefits. We strive to keep working hours below International Labour Organisation (ILO) standards of 60 hours per week. In 2018, working hours periodically exceeded 60, and to counter this, while keeping our production agile, we introduced night shifts among other initiatives.

~14,000

employees in Thailand

PANDORA IN DETAIL

Making a Difference through **Education**

> Every week, I visit local farmers to teach and support them in how to run a chicken farm. When I provide training, I feel great because I can share my knowledge with others.
>
> - Sangkaew, member of the Organic Farm & Learning Centre since its foundation in June 2018

In 2018, Pandora was recognised as 'Outstanding Disability Empowerment Organisation' for the second year by Thailand's Ministry of Social Development and Human Security. It acknowledged our commitment and focus on empowering people with disabilities. One way we do this is through our support of the Organic Farm & Learning Centre in Thailand.

The Organic Farm & Learning Centre, located not far from our crafting facility in Northern Thailand, is an educational hub around sustainable farming that is funded and supported by Pandora. The centre was set up by Rathee Chaiyapornpathana, former Head of Social Development at McKean Rehabilitation Centre Chiang Mai. In 2016, we decided to help build teaching facilities. At the time, the centre covered just 400 square metres of land. Today, it occupies 3,072 square metres and consists of three buildings – including eight rooms for accommodation, a canteen and a two-storey activity and training centre – all built with funds donated by Pandora and the hard work of more than 100 Pandora volunteers.

The Organic Farm & Learning Centre has become an inspiration for the local community. Much of the farmland in this area is devoted to rice production and lies fallow between growing seasons. The Organic Farm & Learning Centre hosts sustainable farming courses for local farmers on how to use organic agriculture and crop rotation to grow other crops, which they can eat themselves or sell in order to improve their self-sufficiency and quality of life.

Sangkaew is one of five people with disabilities who live and work at the centre, making it possible to be self-sufficient thanks to their crops and animals. However, the centre has a further goal: by 2020, it should have fully distributed the training among local farmers and be able to grow enough food to supply canteens at local businesses, including Pandora, making it a thriving local business. It is a goal we are proud to support.

100

Pandora volunteers helped build the centre

Sangkaew visits a local farmer. He works and lives at the facility to conduct self-sufficiency courses in the local community.

Sustainability Performance Indicators

Product

	2018	2017	2016	2015
Sourcing suppliers subject to Pandora's "Responsible Supplier Programme", %	100	100	100	100
Total sourcing value audited by external CSR experts, %	>85	>85	>85	>80
Silver and gold grain suppliers certified by the RJC/LBMA, %	100	100	100	100

People

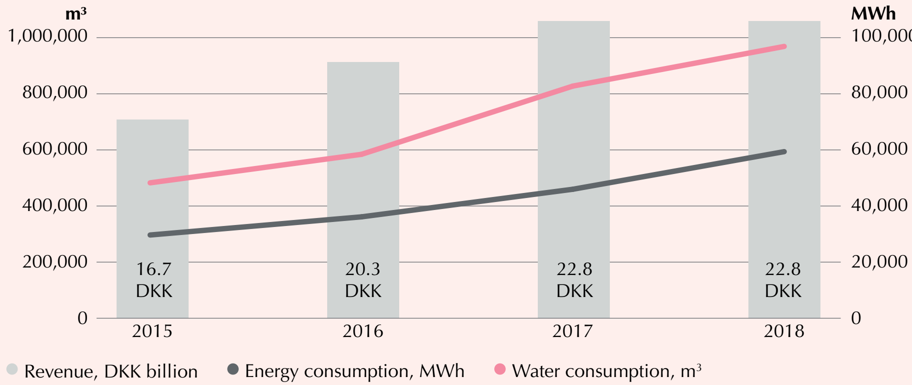
In 2018, turnover among employees at our crafting facilities has risen to 7.7% reflecting different organisational changes, but still well below the industry level of more than 15%. Training hours per employee at our crafting facilities have gone down due to optimisation of hours spent on classroom training. Job training comes on top of this and is not included in this number. Our global incident rate remains well below average industry levels.

	2018	2017	2016	2015
Craftspeople turnover, %	7.70	4.20	3.20	3.30
Global incident rate (OSHA standard)	0.45	0.30	0.30	0.18
Training hours per employee at our crafting facilities	5.20	8.20	14.20	14.50

Planet

Reflecting our continued focus on advanced jewellery designs and a widening portfolio of jewellery, our use of energy and water increased from 2017 to 2018. Our 2018 collections were more complex with more elements per piece of jewellery and with more extensive use of plating.

In addition, we continued to broaden our product assortment beyond charms and bracelets to include more rings, earrings and necklaces which involves a more resource intensive process. However, thanks to our LEED certified crafting facilities, our consumption of energy and water is very efficient and well below the average in the luxury, apparel and accessories sectors.



	2018	2017	2016	2015
Water consumption at crafting facilities, m³	967,046	826,289	584,108	483,000
Energy consumption at crafting facilities, MWh	59,021	45,689	35,907	29,472
Global transport emissions, tonnes of CO_2	9,562	12,734	8,665	5,435
Recycled silver/gold grains used at our crafting facilities, %	88/100	97/74	91/86	83/96
Recycled crafting waste, %	89	80	86	83

Intellectual Capital

Protecting the Pandora brand

Pandora is the biggest jewellery brand in the world, and protecting this brand is crucial to the continued success of the company. This work entails retaining and training our people, as well as safeguarding intellectual property rights, such as trademarks, copyrights, design rights and patents.

INTELLECTUAL PROPERTY RIGHTS AND POLICIES

Our intellectual property rights are mainly vested in trademarks, copyrights, patents and designs. These are strengthened in a number of ways, such as through business secrets, visually distinct products and non-disclosure procedures.

Intellectual property rights are crucial to our business, competitive advantage and future development. Therefore, we protect these intellectual property rights by all available means. These include comprehensive global trademark and patent monitoring, an internet monitoring programme and a Brand Protection Tip-line. We have an end-to-end enforcement programme and a zero tolerance policy towards infringement of our intellectual property rights, including counterfeit products, both offline and online. No distributors, dealers or others are permitted to register or use Pandora's intellectual property without our prior consent.

Fighting fakes and frauds in 2018

Our Brand Protection Tip-line receives several notifications about potential infringements of intellectual property rights every single day. We investigate these notifications, assess the potential infringements and take appropriate action, both offline and online. Our network of lawyers and investigators assists with enforcement in a number of ways, including through raid actions and civil procedures. With regards to online infringements, we remove fake commercial sites, as well as fake, counterfeit or fraudulent listings on auction sites and social media on a daily basis.

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.

TRADEMARKS

We hold an almost global trademark portfolio for the Pandora trademark and our Crowned "O" logo, as well as a significant trademark portfolio for our collection brands, such as Pandora ESSENCE Collection and Pandora Rose. In 2018, we added Pandora Shine and Pandora Reflexions to our brand trademark portfolio.

COPYRIGHTS AND DESIGN RIGHTS

We hold a significant portfolio of copyright and design registrations in the US, China and the EU, protecting our unique and distinctive jewellery designs.

Human Resources

TRAINING AND PERSONAL DEVELOPMENT

The ongoing development of our employees is important to the development of our company. To counter the risk of a working environment which does not offer development, we use a variety of training methods. We provide training programmes, developed for various levels and areas within the organisation, to help ensure that all members of our global team feel empowered in their daily work and are equipped for future challenges.

Our people aspiration

Read more about our commitment to give our people a safe workplace where they can develop, in our latest Sustainability Report, available on our website:

https://pandoragroup.com/CSR/Publications

To ensure that training is directly relevant to our employees, most training is run by regional HR departments. These locally offered curriculums include globally developed training courses, which cover a range of topics from personal effectiveness to leadership, to help prepare the next generation of Pandora leaders and specialists. In 2018, our training courses had more than 19,000 participants worldwide.

We also offer global training programmes, which bring together people from around the world. One example is our Life Leadership Programme – a one-year development curriculum for vice presidents and potential vice presidents, which includes a module developed and facilitated specifically for Pandora by Harvard Business School. In 2018, 16 managers completed the programme.

We launched a new programme in 2018 called Passion in Leadership to help directors get the best from their teams and make a greater contribution to Pandora. In 2018, 69 managers completed the programme.

Pandora LINK, our digital learning platform, is another essential training tool. The company-wide system gives more than 49,000 people worldwide access to training, including Pandora employees in our offices and crafting facilities, and people working in retail. More than 272,000 Pandora LINK e-learning modules were completed globally in 2018.

GRADUATE PROGRAMME

Our dynamic and growing organisation requires a steady flow of new talent. To ensure that we have a pipeline of external talent – and can continue to attract the best people – we initiated a number of projects in 2017 that help us define the benefits and opportunities that we offer, including comprehensive professional development and experience in a global company. We continued these initiatives in 2018.

In 2018, our Finance and Marketing graduate programme welcomed four newly graduated participants, who will experience challenging job assignments as part of the programme.

GENDER DIVERSITY IN MANAGEMENT

We believe that our company benefits from a diverse management team. We have a number of gender diversity objectives and we review progress once a year. Our goals in this area are the following:

- At least 40% of the Board members should be of the under-represented sex. At the end of 2018, women made up 43% of Board members (3 out of 7), compared with 33% in 2017 (3 out of 9), which places Pandora well above the average of 16% for all Danish public listed companies.
- At least 40% of senior management (members of the Management Board, general managers and vice presidents) should be of the under-represented sex. At the end of 2018, 30% of senior management were women, a decline compared with 39% in 2017. Pandora will continue to strive for a better gender balance in senior management.
- The gender balance on Pandora's leadership programmes should mirror the balance among vice presidents and directors. In 2018, 45% of vice presidents and directors and 49% of leadership programme participants were women.

Each Pandora Graduate spent several days in one of our stores to meet customers in the most personal way and view the business from a different perspective.

272

thousand e-learning modules completed globally in 2018

Board of Directors

Peder Tuborgh

Year of birth: 1963
Member since: 2014

Previous executive positions with Pandora
None.

Professional position
CEO of Arla Foods amba.

Non-executive functions
Vice Chairman of Aarhus University; member of the Board Directors of Global Dairy Platform.

Competencies
Experience within areas such as general management, digital and e-commerce, global supply chain and global and cross-platform branding, sales & marketing.

Christian Frigast

Year of birth: 1951
Member since: 2010

Previous executive positions with Pandora
None.

Professional position
Executive Chair and Partner of Axcel Management A/S.

Non-executive functions
Chairman Axcel Management, Denmark's Export Credit Agency (EKF), Danish Ship Finance Holding and Board Leadership Society in Denmark; Deputy Chairman of PostNord, the Danish Venture Capital and Private Equity Association (DVCA) and Axcel Advisory Board; Member of the Boards of Danish Ship Finance and Nissens; Co-founder and Chairman of Axcelfuture; Associate Professor at Copenhagen Business School.

Competencies
Experience within areas such as general management, capital markets, consumer sales and retail execution.

Andrea Dawn Alvey

Year of birth: 1967
Member since: 2010

Previous executive positions with Pandora
None.

Professional position
President of Kitabco Investments, Inc. and Regional Developer for Peak Franchising.

Non-executive functions
None.

Competencies
Experience within areas such as digital and e-commerce, global supply chain, IT and financial insights.

Birgitta Stymne Göransson

Year of birth: 1957
Member since: 2016

Previous executive positions with Pandora
None.

Professional position
Senior Industrial Advisor and non-executive board member.

Non-executive functions
Chair of the Boards of Directors of BCB Medical Oy and MAG Interactive. Director of the Boards of Elekta AB, Midsona AB and Sportamore AB.

Competencies
Experience within areas such as general management, financial insights, capital markets and retail execution.

Board of Directors (continued)

Bjørn Gulden

Year of birth: 1965
Member since: 2013

Previous executive positions with Pandora
CEO of Pandora from 1 March 2012 to 1 July 2013.

Professional position
CEO of Puma SE.

Non-executive functions
Member of the Boards of Directors of Tchibo GmbH, Borussia Dortmund (BVB) GmbH & Co., KGaA, Deichmann SE and Salling Group A/S.

Competencies
Experience within areas such as general management, fashion, retail execution and capital markets.

Per Bank

Year of birth: 1967
Member since: 2014

Previous executive positions with Pandora
None.

Professional position
CEO of Salling Group A/S.

Non-executive functions
Chair of the Boards of Directors of F. Salling A/S and Købmand Ferdinand Sallings Mindefond; member of the Board of Directors of Danmarks Nationalbank.

Competencies
Experience within areas such as general management, digital and e-commerce, manufacturing and retail execution.

Ronica Wang

Year of birth: 1962
Member since: 2012

Previous executive positions with Pandora
None.

Professional position
Co-founder, Chair and Managing Director of The InnoGrowth Group Ltd.

Non-executive functions
Member of the Board of Directors GN Store Nord A/S, GN Hearing A/S, GN Audio A/S as well as Hotelbeds Group.

Competencies
Experience within areas such as fashion and jewellery, digital and e-commerce, retail strategy and execution, global and cross-platform branding, sales & marketing.

Management Team

Executive Management

Also members of the Management Board

Jeremy Schwartz

Executive Vice President & Chief Operating Officer (COO)

Year of birth: 1963

Joined: September 2018

Jeremy Schwartz has 35 years of experience in management with positions in global retail companies. Prior to joining Pandora, he was Chairman of the Board of Directors and Chief Executive Officer of The Body Shop. Before that he was Country Manager of L'Oreal in the UK for seven years. Jeremy has also held senior leadership roles in companies such as News International, Sainsbury's and Coca-Cola. Jeremy started his career in The Boston Consulting Group, where he worked for three years.

Anders Boyer

Executive Vice President & Chief Financial Officer (CFO)

Year of birth: 1970

Joined: August 2018

Anders Boyer has 30 years of experience in finance and business management. Prior to joining Pandora, Anders held positions as Chief Financial Officer at Hempel and GN Store Nord and as Finance Director and subsequently Regional Director in ISS. From 2012 and until March 2018, he was a member of the Board of Directors of Pandora. Anders started his career at A.P. Moller-Maersk, where he worked for ten years.

Management Board

David Allen

President, Pandora EMEA

Kenneth Madsen

President, Pandora Asia Pacific

Sid Keswani

President, Pandora Americas

Stephen Fairchild

SVP, Chief Creative & Brand Officer

Jesper Damsgaard

Chief Marketing Officer (interim)

Rasmus Brix

SVP, Chief Transformation Officer

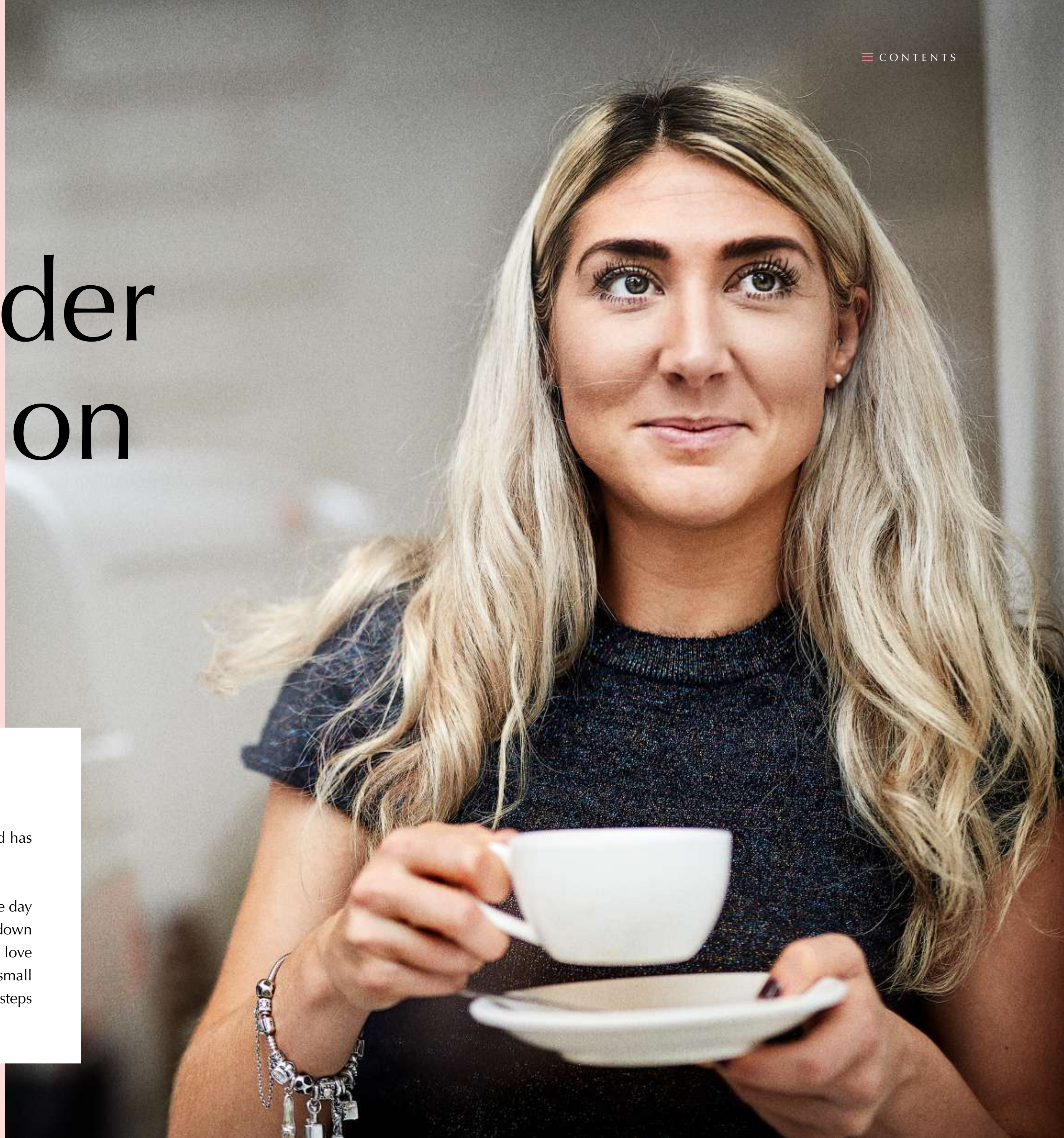
Thomas Touborg

SVP, Group Operations

Karl Walsh

SVP, Digital Consumer Experience & E-commerce

04/ Shareholder Information



“

Sometimes I forget how much effort I put into things. Each charm on my Pandora bracelet symbolises the successes and unique stepping stones in my life.

Meet our customers

Jessica is 27 years old, comes from the **United Kingdom** and has been wearing Pandora jewellery for **9 years**.

Jessica’s first Pandora charm was a gift from her parents on the day she moved away from home. Now, every time she looks down at it, it reminds her that she will always have her parents’ love and support. For Jessica, life is a journey, made up of many small steps. Her Pandora charms are a way of remembering all the steps she has taken along the way.

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 C25 and has around 60,000 registered shareholders.

In addition to being listed in Copenhagen, Pandora has a sponsored level 1 American Depository Receipt (ADR) programme. The ADRs are traded in the US over-the-counter under the symbol PANDY. Further information regarding the ADR programme can be found on the Pandora Group website.

In 2018, the lowest closing price was DKK 256.7 on 27 December 2018 and the highest closing price was DKK 700.0 on 18 April 2018. At the end of 2018, the share price was DKK 265.3, corresponding to a decrease of 61% compared with the end of 2017 (DKK 675.5).

Around 198 million Pandora shares were traded in 2018, with an average trading volume of around 790,000 shares per day.

Capital structure and cash allocation

Pandora's capital structure serves to ensure that the company has sufficient financial flexibility to pursue its strategic goals and preserving a stable financial structure based on a strong balance sheet.

CAPITAL STRUCTURE POLICY ADJUSTED DUE TO IFRS 16

With the implementation of IFRS 16, fixed lease obligations (e.g. rent) will be classified as debt. Consequently, Pandora's net interest-bearing debt increases by approximately DKK 4.2 billion.

Furthermore, lease expenses previously recognised as OPEX will primarily be recognised as depreciations going forward. This will increase EBITDA by around DKK 1 billion.

The combined effect will increase the NIBD to EBITDA ratio by roughly 0.5. Reflecting the accounting impact of IFRS 16, the company's capital structure policy will be adjusted accordingly from currently 0 to 1 times NIBD to EBITDA to 0.5 to 1.5 times.

EFFECT OF PROGRAMME NOW ON CAPITAL STRUCTURE POLICY

Pandora will continue to generate significant cash during Programme NOW and distribute excess cash to shareholders.

During the transition, the financials will be impacted by significant restructuring costs. As these are of temporary nature only, Pandora is also looking at the leverage ratio excluding restructuring costs when determining the level of cash to be distributed to the shareholders. Based on the reported leverage ratio, Pandora expects to temporarily exceed the upper end of the capital structure interval in 2019.

CASH DISTRIBUTION OF DKK 4 BILLION TO SHAREHOLDERS IN 2019

For 2019, the Board of Directors proposes a total cash return to shareholders amounting to DKK 4 billion, which is around 13% of the company's market cap based on the time of writing.

In line with the cash distribution policy announced with the Annual Report 2016 – a stable to growing nominal dividend and all excess cash to be distributed via share buyback – the Board of Directors proposes a dividend of DKK 18 per share (DKK 1.8 billion) and a share buyback programme of up to DKK 2.2 billion.

DIVIDEND – 2019 MAINTAINED AT DKK 18 PER SHARE

In 2018, Pandora paid out an ordinary dividend of DKK 9 per share and an interim dividend of DKK 9 per share in relation to the H1 2018 results. In total, Pandora paid out DKK 18 per share (DKK 1.9 billion) in 2018.

ANNUAL COMMITMENT (DKK billion)	**FY 2019 Proposed**	**FY 2018 Actual**	**FY 2017 Actual**	**FY 2016 Actual**
Dividend (Ordinary + interim)	1.8	1.9	4.0	1.5
Nominal dividend per share, DKK	18	18	36	13
Share buy-back programme	2.2	4.0	1.8	4.0
Total cash return	4.0	5.9	5.8	5.5

SHARE PRICE DEVELOPMENT 2018

Based on the financial results in 2018, the Board of Directors proposes to return a total of DKK 1.8 billion in dividend during 2019. This includes an ordinary dividend of DKK 9 per share and one additional interim dividend of DKK 9 per share in relation to the H1 2019 results.

2018 SHARE BUYBACK PROGRAMME OF DKK 4 BILLION

In connection with the Annual Report 2017, Pandora announced its intention to buy back own shares of up to DKK 4.0 billion in a share buyback programme from 14 March 2018 to 13 March 2019. In 2018, a total of 7,437,025 shares have been bought back, corresponding to a transaction value of DKK 3.2 billion. The purpose of the programme is to reduce Pandora's share capital and to meet obligations arising from employee incentive programmes. At the Annual General Meeting 2019, the Board of Directors will propose to reduce the company's share capital by a nominal amount of DKK 10,029,003 by cancellation of 10,029,003 own shares of DKK 1, equal to 9.1% of the company's total share capital.

2019 SHARE BUYBACK PROGRAMME OF DKK 2.2 BILLION PROPOSED

The Board of Directors proposes to launch a new share buyback programme in 2019, under which Pandora will buy back own shares to a maximum consideration of DKK 2.2 billion. The shares acquired during the programme will as in previous years primarily be used to reduce Pandora's share capital and to meet obligations arising from employee incentive programmes. The share buyback programme will run from the Annual General Meeting (13 March 2019) to 19 March 2020 at the latest.

Shareholders

As of 31 December 2018, Pandora A/S was the only shareholder owning more than 5% of the share capital and voting rights in Pandora A/S.

As of 31 December 2018, Pandora A/S owned a total of 7,825,553 treasury shares of nominally DKK 1 (in total nominally DKK 7,825,553), corresponding to 7.1% of the total shares outstanding.

As of 31 December 2018, the geographical split of institutional investors was:

- Institutional investors in Europe held 43% of the share capital
  - Hereof institutional investors in Denmark held 12% of the share capital
  - Hereof institutional investors in the UK held 13% of the share capital
- Institutional investors in North America held 16% of the share capital.

As of 31 December 2018, Danish retail investors held 14% of the Pandora shares.

As of 31 December 2018, Pandora's Board of Directors and Executive Management held a total of 104,664 and 24,071 Pandora shares respectively, corresponding to 0.1% of the total share capital.

Investor Relations

The Executive Management is responsible for the existence of an Investor Relations (IR) function, which is responsible for ensuring compliance with the Pandora's Investor Relations Policy. IR is separately organised 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. Prior to the interim and annual reports, a four-week silent period is set in place. Additionally, members of Executive Management and the Board of Directors are only allowed to trade shares in a four-week trading window following the interim and annual reports.

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 as well as Pandora's internal policies.

Company website

The Pandora Group website (www.pandoragroup.com) provides comprehensive information about the company, its activities, share performance and shareholders. Additionally, all company announcements, including interim and annual reports, as well as investor presentations, webcasts and conference call transcripts are made available on the website in due time. Furthermore, the website contains a constantly updated financial and event calendar showing events and actions related to investors.

A comprehensive list of the 19 analysts covering the Pandora share is maintained, including names, institutions and contact details.

FINANCIAL CALENDAR 2019

13 March 2019	Annual General Meeting
18 March 2019	Payment of annual dividend
07 May 2019	Interim Report Q1 2019
20 August 2019	Interim Report Q2/H1 2019
30 August 2019	Ex dividend date
03 September 2019	Payment date
05 November 2019	Interim Report Q3/9M 2019

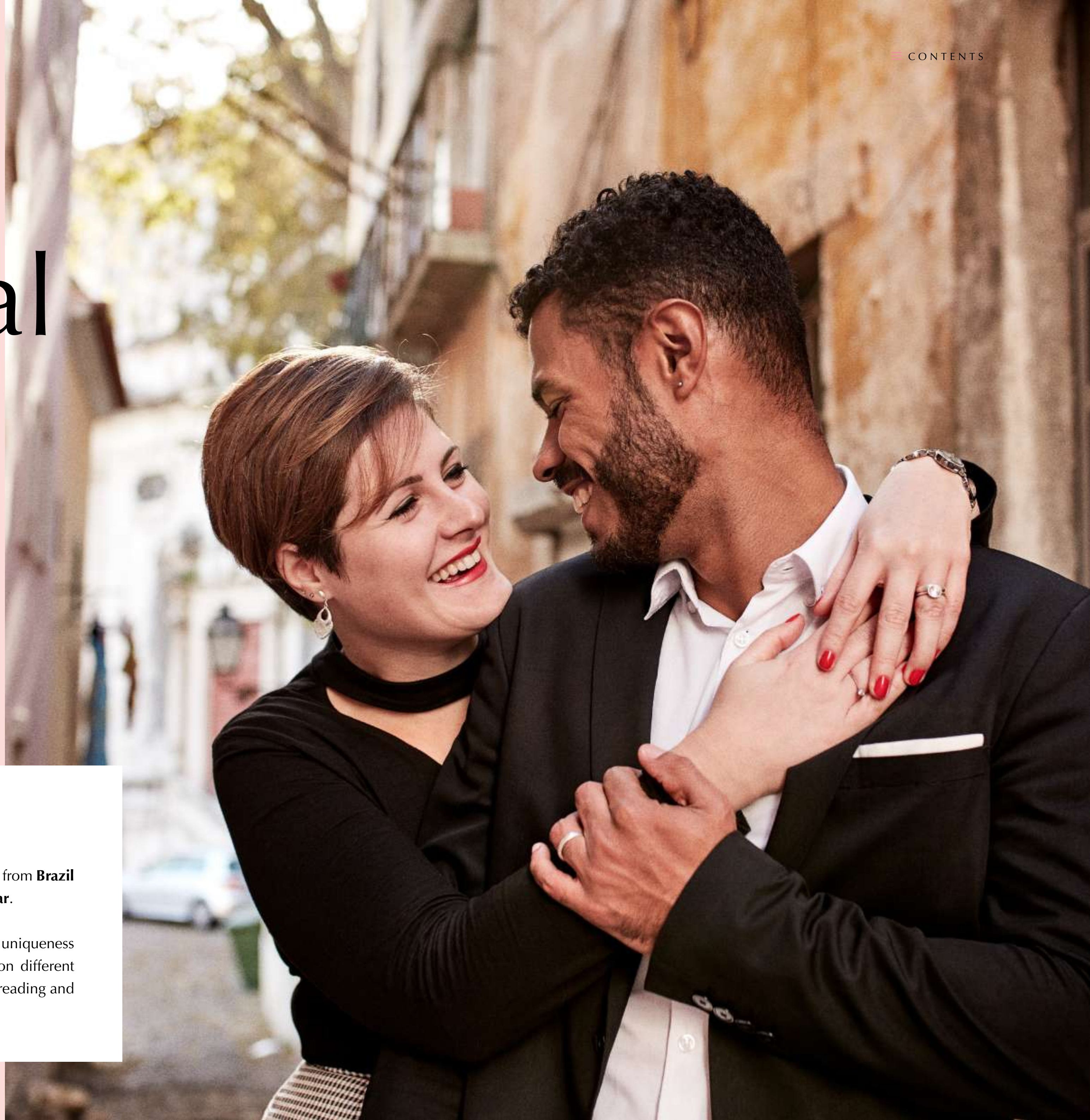
SHARE INFORMATION

Exchange:	Nasdaq Copenhagen
Trading symbol:	PANDORA
Identification number/ISIN:	DK0060252690
Number of shares:	110,029,003 of DKK 1, each with one vote
Share classes:	1
GICS:	25203010
Sector:	Apparel, Accessories & Luxury Goods
Segment:	Large

ADR INFORMATION

ADR trading symbol	PANDY
Programmetype	Sponsered level 1 programme (J.P. Morgan)
Ratio (ADR:ORD)	4 ADRs : 1 ordinary share (4:1)
ADR ISIN	US 698 341 2031

05/ Financial Review



“

The ring Mauricio gave me is simple, beautiful and without complication. Looking at it makes me happy, like Mauricio.

Meet our customers

Deborah and Mauricio are 29 and 27 years old, come from **Brazil** and have been Pandora customers for more than **a year**.

For Deborah, her Pandora engagement ring marks the uniqueness of her relationship with Mauricio. They once lived on different sides of the world, but got united by their passion for reading and studying, for learning and discovering more.

Revenue

Revenue by store network

Total revenue for 2018 was DKK 22,806 million, an increase of 3% in local currency compared with DKK 22,781 million in 2017. Organic growth was -2%. Revenue for 2018 included a net impact of DKK 1,109 million related to the acquisition of franchise concept stores and distributors.

PANDORA OWNED RETAIL

Revenue from Pandora owned retail was DKK 12,895 million in 2018, representing 57% of Group revenue. This was an increase of 35% in local currency compared with 2017.

Revenue from Pandora owned concept stores (incl. Pandora eSTOREs) was DKK 12,269 million in 2018 an increase of 36% in local currency compared with 2017. Local currency growth was driven by growth from network expansion of 7% and growth from acquisition of stores of 5%. During 2018, Pandora added net 366 Pandora owned concept stores to the network, including 169 acquired stores.

Revenue from Pandora eSTOREs grew 39% in local currency to DKK 2,304 million in 2018, corresponding to 10% of total revenue (7% in 2017).

WHOLESALE

Revenue from Pandora's wholesale channel was DKK 8,633 million, a decrease of 23% in local currency compared with 2017. Reported revenue in the wholesale channel was negatively impacted by negative like-for-like, negative impact from franchise acquisitions, as well as changes in inventory levels at wholesalers.

Revenue from franchise concept stores was DKK 5,010 million, a 23% decrease in local currency compared with 2017. Revenue from franchise concept stores was negatively impacted by DKK 634 million from Pandora's acquisition of franchise stores.

Revenue from other points of sale in the wholesale channel was DKK 3,623 million, a 23% decrease in local currency compared with 2017. Pandora continued to close other points of sale as a part of its strategy to clean up its network and increase the focus on concept stores.

THIRD-PARTY DISTRIBUTORS

Revenue from third-party distributors was DKK 1,278 million, a decrease of 15% in local currency compared with 2017. The decrease primarily reflected the distributor acquisitions in Spain, Belgium and South Africa in 2017, and Ireland in 2018.

DISTRIBUTION NETWORK

At the end of 2018, Pandora had 2,705 concept stores globally, of which 1,340 were Pandora owned stores. During 2018, Pandora added net 259 new concept stores, mainly driven by store openings in China, Southern Europe and Latin America.

At the end of 2018, Pandora had 5,023 other points of sale. During 2018, Pandora closed net 325 other points of sale globally.

REVENUE PER SALES CHANNEL (DKK million)	**2018**	**2017**	**Growth in DKK**	**Growth in local currency**	**Share of revenue 2018**	**Share of revenue 2017**
Pandora owned concept stores	12,269	9,214	33%	36%	54%	40%
- of which eSTOREs	2,304	1,678	37%	39%	10%	7%
Other points of sale (retail)	626	568	10%	11%	3%	3%
Total Pandora owned retail revenue	**12,895**	**9,782**	**32%**	**35%**	**57%**	**43%**
Franchise concept stores	5,010	6,678	-25%	-23%	22%	29%
Other points of sale (wholesale)	3,623	4,792	-24%	-23%	16%	21%
Total wholesale revenue	**8,633**	**11,470**	**-25%**	**-23%**	**38%**	**50%**
Third-party distribution	**1,278**	**1,529**	**-16%**	**-15%**	**6%**	**7%**

Revenue by region

In 2018, 49% of revenue was generated in EMEA (48% in 2017), 30% in Americas (31% in 2017) and 21% in Asia Pacific (21% in 2017).

EMEA

Revenue in EMEA was DKK 11,190 million in 2018, an increase of 4% in local currency compared with 2017. The revenue growth in EMEA was driven by a positive impact from 213 new Pandora owned concept stores and a 14% positive impact from forward integration offset by negative like-for-like.

Revenue in the UK was DKK 2,746 million, a decrease of 2% in local currency. The development in the UK was mainly driven by an increase in revenue from Pandora owned stores due to the addition of 89 Pandora owned concept stores in the period, offset by a decrease in the wholesale channel driven by negative like-for-like and fewer stores due to forward integration.

Revenue in Italy was DKK 2,461 million, a decrease of 6% in local currency. This reflected continued strong network growth including the addition of net 27 Pandora owned concept stores, which was more than offset by total negative like-for-like of 8%.

Revenue in France was DKK 1,253 million, a decrease of 2% in local currency, while revenue from Germany decreased 2% in local currency to DKK 1,041 million.

Growth in EMEA was supported by the addition of 117 new concept stores in the last 12 months, partly offset by the closure of around 119 other points of sale.

4%

Growth in local currency

2017: 15%

1,464

Concept stores

2017: 1,347

0%

Growth in local currency

2017: 6%

AMERICAS

Revenue in Americas was DKK 6,807 million in 2018, a 0% development in local currency compared with 2017.

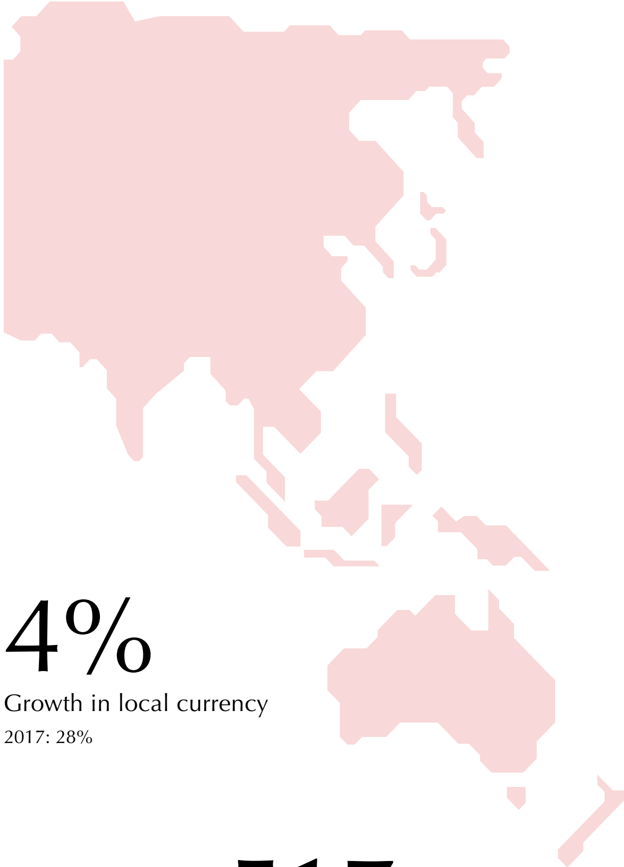
Revenue from the US was DKK 4,880 million, a decrease of 5% in local currency. The revenue development was mainly driven by a positive impact from the net 67 new concept stores in the region including a strong eSTORE performance, however offset by destocking in the wholesale channel and a negative development in the other points of sale. The retail environment in the US improved in 2018, and Pandora delivered a flat like-for-like. However, this was driven by a strong performance in the eSTORE as the physical network experienced negative like-for-like. The affordable space in which Pandora operates is increasingly promotional, a direction that Pandora will review going forward, with the ambition to reduce promotions to increase brand equity and product full price sell-through.

724

Concept stores

2017: 657

Revenue in Latin America increased 25%. This was predominantly driven by Pandora's growing presence in Latin America, with the addition of net 49 concept stores in this part of the region in 2018. In 2018, Latin America represented 17% of revenue from Americas.



4%
Growth in local currency

2017: 28%

517
Concept stores

2017: 442

ASIA PACIFIC

Revenue in Asia Pacific was DKK 4,809 million in 2018, an increase of 4% in local currency compared with 2017.

Revenue in Australia was DKK 1,361 million, a decrease of 12% in local currency. The underlying performance in Australia continues to be challenged by the decline in revenue from Chinese consumers and total like-for-like for 2018 was -15%.

Revenue from China was DKK 1,969 million, an increase of 26% in local currency. Growth was assisted by the addition of 55 new concept stores in China during 2018. Furthermore, the collaboration with Alibaba owned Tmall has continued to drive significant growth in the market. Total like-for-like in China was -2%, but accelerating positively throughout the year, ending on a high note with 4% like-for-like in Q4 2018.

REVENUE BY REGION (DKK million)	**2018**	**2017**	**Growth in DKK**	**Growth in local currency**	**Share of revenue 2018**	**Share of revenue 2017**
EMEA	11,190	10,832	3%	4%	49%	48%
Americas	6,807	7,111	-4%	0%	30%	31%
Asia Pacific	4,809	4,838	-1%	4%	21%	21%
Total revenue	**22,806**	**22,781**	**0%**	**3%**	**100%**	**100%**

STORE NETWORK, NUMBER OF POINTS OF SALE (DKK million)	**2018**	**2017**	**Growth**
Concept stores	2,705	2,446	259
- of which Pandora owned	1,340	974	366
- of which franchise owned	849	969	-120
- of which third-party distributors	516	503	13
Other points of sale	5,023	5,348	-325

Revenue by Product Category

Revenue growth in 2018 was driven by double digit growth rates in both Bracelets and Necklaces & Pendants. In fact, all categories except for Charms grew revenue in local currency compared with 2017. Pandora launched around 600 new products in 2018, which combined delivered 1% like-for-like revenue growth compared with new launches in 2017. The new products included two new jewellery concepts: Shine, a gold-plated jewellery concept launched in March, and Reflexions, a Charms Bracelet concept launched in October. The two new concepts delivered 6% of sell-out and generated a lot of excitement around the new product portfolio.

Revenue from Charms was DKK 12,126 million, a decrease of 4% in local currency compared with 2017. Charms continues to be challenged by the changing demand pattern for Pandora Moments, with consumers typically wearing fewer charms on the same bracelet.

Revenue from Bracelets was DKK 4,393 million, an increase of 13% in local currency compared with 2017. This reflected a strong performance in all three regions, supported by the launch of 14 innovative bracelets during 2018, including the Reflexions concept.

Revenue from Rings was DKK 3,168 million, an increase of 3% in local currency. Rings accounted for 14% of Group revenue, making it a significant category for Pandora today. Rings generated a revenue share matching the global jewellery market share of rings.

Revenue from Earrings and Necklaces & Pendants grew 7% in local currency and 27% in local currency respectively, also partly driven by strengthened focus on Necklaces, in particular.

REVENUE BY PRODUCT CATEGORY (DKK million)	**2018**	**2017**	**Growth in DKK**	**Growth in local currency**	**Share of revenue 2018**	**Share of revenue 2017**
Charms	12,126	12,920	-6%	-4%	53%	57%
Bracelets	4,393	3,965	11%	13%	19%	17%
Rings	3,168	3,161	0%	3%	14%	14%
Earrings	1,486	1,418	5%	7%	7%	6%
Necklaces & Pendants	1,633	1,317	24%	27%	7%	6%
Total revenue	**22,806**	**22,781**	**0%**	**3%**	**100%**	**100%**

Income Statement

Cost of sales and gross profit

Gross profit in 2018 was DKK 16,942 million (DKK 16,966 million in 2017) corresponding to a gross margin of 74.3% compared with 74.5% in 2017.

Furthermore, the change in gross margin compared with 2017 was positively impacted by an increasing share of revenue from Pandora owned retail, and negatively impacted by a change in metal mix mainly related to an increasing share of revenue from the Pandora Rose collection and higher production costs for the latest collections.

Excluding hedging and the time lag effect from inventories, the underlying gross margin in 2018 would have been approximately 74.8% based on average gold (USD 1,268.54/oz) and silver (USD 15.71/oz) market prices in 2018. Under these assumptions, a 10% deviation in average gold and silver prices would impact our gross margin by approximately +/- 1 percentage point.

Operating expenses

Total operating expenses for 2018 were DKK 10,511 million, equivalent to an OPEX ratio of 46.1% compared with 40.3% in 2017.

Sales and distribution expenses increased to DKK 6,080 million in 2018, an increase of 26%. The increase mainly reflected a higher number of Pandora owned concept stores (1,340 stores in 2018 compared with 974 stores in 2017). The increase in costs in Pandora owned stores mainly reflected property and staff costs.

Marketing expenses in 2018 were 9.4% of revenue, compared with 9.8% in 2017, corresponding to DKK 2,142 million in 2018 and DKK 2,235 million in 2017. The decrease was the result of the strong efforts to reduce costs through better procurement. Thus, consumer-facing activities were on par with 2018, with especially an increase in digital media spend at the expense of print.

Administrative expenses were 10.0% of revenue in 2018, compared with 9.4% in 2017, corresponding to DKK 2,289 million in 2018 and DKK 2,137 million in 2017. Share of administrative expenses was impacted by deleverage related to negative total like-for-like.

COST OF SALES AND GROSS PROFIT (DKK million)	**2018**	**2017**	**Growth in DKK**	**Share of revenue 2018**	**Share of revenue 2017**
Revenue	22,806	22,781	0%	100.0%	100.0%
Cost of sales	-5,864	-5,815	1%	25.7%	25.5%
Gross profit	**16,942**	**16,966**	**0%**	**74.3%**	**74.5%**

OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION (DKK million)	**2018**	**2017**	**Growth in DKK**	**Share of revenue 2018**	**Share of revenue 2017**
Sales and distribution expenses	-6,080	-4,810	26%	26.7%	21.1%
Marketing expenses	-2,142	-2,235	-4%	9.4%	9.8%
Administative expenses	-2,289	-2,137	7%	10.0%	9.4%
Total operating expenses	**-10,511**	**-9,182**	**14%**	**46.1%**	**40.3%**

EBITDA

EBITDA was DKK 7,421 million in 2018, corresponding to an EBITDA margin of 32.5% (37.3% in 2017).

Across regions, the EBITDA margin was impacted by negative total like-for-like as well as the changes in inventory levels at wholesale level.

EBIT

EBIT for 2018 was DKK 6,431 million, a decrease of 17% compared with 2017, resulting in an EBIT margin of 28.2% for 2018 (34.2% in 2017).

NET FINANCIALS

In 2018, net financials amounted to a gain of DKK 151 million (loss of DKK 117 million in 2017).

INCOME TAX EXPENSE

Income tax expense was DKK 1,537 million in 2018 compared with DKK 1,899 million in 2017, corresponding to an effective tax rate of 23.4% for 2018 compared with 24.8% in 2017.

The effective tax rate was negatively impacted by a DKK 106 million reversal of the deferred tax asset related to the transfer of assets from Kasi Group that the Supreme Court of Denmark on 4 October 2018 has ruled as tax exempt. The higher income tax expense in 2017 was affected by an extraordinarily high tax expense of DKK 323 million related to US tax reform and 10% withholding tax on repatriation of dividend related to pre-2013 earnings from Pandora Production Co. Ltd. in Thailand.

REGIONAL EBITDA MARGINS (%)	**2018**	**2017**	**2018 vs. 2017 (%-points)**
EMEA	33.8%	39.6%	-5.8%
Americas	29.7%	32.5%	-2.8%
Asia Pacific	33.7%	39.4%	-5.7%
Group	**32.5%**	**37.3%**	**-4.8%**

Balance Sheet and Cash Flow

In 2018, Pandora delivered a cash conversion of 86%, up from 68% in 2017. The cash conversion was among others driven by a renegotiation of the supplier payment terms as well as a stabilisation of the days sales outstanding (DSO). In 2018, Pandora generated a free cash flow of DKK 5,558 million compared with DKK 5,294 million in 2017.

Operating working capital at the end of 2018 was 11.2% of revenue, compared with 13.1% at the end of 2017. Inventories were DKK 3,158 million, an increase of DKK 429 million compared with 2017, corresponding to 13.8% of revenue compared with 12.0% for 2017. The higher inventory levels compared with last year are primarily driven by the increasing number of Pandora owned stores as well as an increase in the average cost price per unit on stock. As part of Programme NOW, the ambition is to reduce inventories by taking a global approach to the management hereof. As a result of a significant additional focus on trade receivables, DSO end 2018 at 50 days in line with the level seen in 2017 (47 days). Wholesale DSO was 40 days and also on par with last year. Trade receivables at the end of 2018 corresponded to 7.2% of the last twelve months' revenue (8.6% in 2017). Trade payables increased to -9.9% of revenue (-7.4% in 2017).

Pandora invested a total of DKK 1,129 million in CAPEX in 2018, including intangible assets of DKK 376 million which was mainly related to IT investments. Investments in property, plant and equipment of DKK 753 million mainly consisted of investments in the crafting facilities in Thailand and leasehold improvements related to the opening of 197 stores during the year. CAPEX was 5.0% of 2018 revenue compared with 6.1% in 2017.

Net interest-bearing debt (NIBD) at the end of 2018 was DKK 5,652 million, corresponding to a NIBD to EBITDA ratio of 0.8x of the last twelve months' EBITDA compared with DKK 4,855 million at the end of 2017, corresponding to a NIBD to EBITDA ratio of 0.6x.

DEVELOPMENT IN OPERATING WORKING CAPITAL (DKK million)	**2018**	**2017**	**Growth in DKK**	**Share of revenue 2018**	**Share of revenue 2017**
Inventories	3,158	2,729	15.7%	13.8%	12.0%
Trade receivables	1,650	1,954	-15.6%	7.2%	8.6%
Trade payables	-2,253	-1,695	32.9%	-9.9%	-7.4%
Total	**2,555**	**2,988**	**-14.5%**	**11.2%**	**13.1%**

Parent Company

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 remelting activities and unrealized losses from inventory write-downs. Fluctuations in market prices of silver and gold also have a major impact on gross profit.

Apart from the sale of jewellery, the Parent Company is maintaining and developing group functions including administration, distribution, business development, retail setup, product development as well as risk management, which all determine the activity level in the Parent Company. Part of risk management activities carried out by the Parent Company is hedging the Group's risk relating to commodity prices and exchange rates.

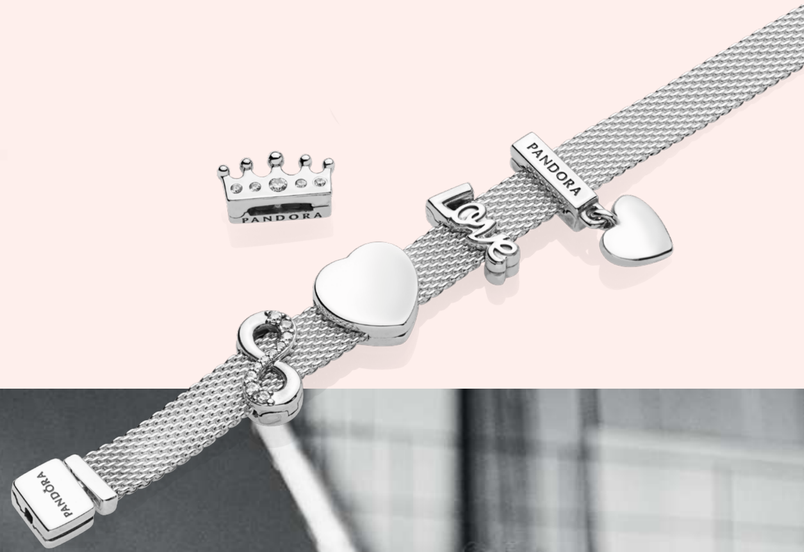
The effective portion of realised and unrealized gains and losses on all commodity hedge contracts is recognised in cost of sales as the Group's commodity price risk is hedged by the Parent Company. This can significantly impact gross profit. The net loss in 2018 amounted to DKK 92 million (2017: gain of DKK 86 million).

The ineffective portion of realised and unrealized gains and losses on all commodity hedge instruments is recognised in net financials. The net gain in 2018 amounted to DKK 3 million (2017: loss of DKK 7 million).

Revenue was in line with last year, DKK 12,933 million (2017: DKK 12,810 million), while net profit was DKK 5,665 million (2017: DKK 9,501 million). The decrease in net profit was mainly related to dividend received. In 2018, Pandora A/S received DKK 1,883 million (2017: DKK 5.686 million).

Other events and impacts in 2018:

- Executive Management was replaced in 2018, the effect of this is described in the Remuneration report available at the Pandora website
- New accounting standards were implemented, see note 1.2 to the consolidated statement. Of these, only IFRS 9 Financial instruments, with the exemption of additional disclosures on revenue and related assets and liabilities, impacted the Parent Company due to the new standard's requirement to recognize the lifetime expected loss rather than the incurred loss model used for the reporting in 2017. Expected loss recognized on the internal receivable was DKK 40 million (2017: DKK 0).



> Our design is inspired by the differences in our customers – not their similarities. They want relevance in their jewellery, with room to create their own personal style.
>
> - A. Filippo Ficarelli, Head Designer

PANDORA IN DETAIL

Beautiful Design. Uniting Craftsmanship and Innovation

With Pandora Shine and Pandora Reflexions, we released two concepts in 2018 that break new ground, but are still Pandora at heart. This combination of classic Pandora style and new innovation is essential if we are to continue to attract a wide range of new customers – and to strike a chord with existing customers.

Pandora Shine is a collection of new, affordable gold-plated jewellery, made to the same high-quality craftsmanship standards and ethics as our other Pandora collections. Solid sterling silver is double plated in pure 18k gold. The designs are brought to life by a combination of traditional artisan techniques and modern high-end technology. All our materials are ethically sourced, and each piece is meticulously hand-finished to perfection.

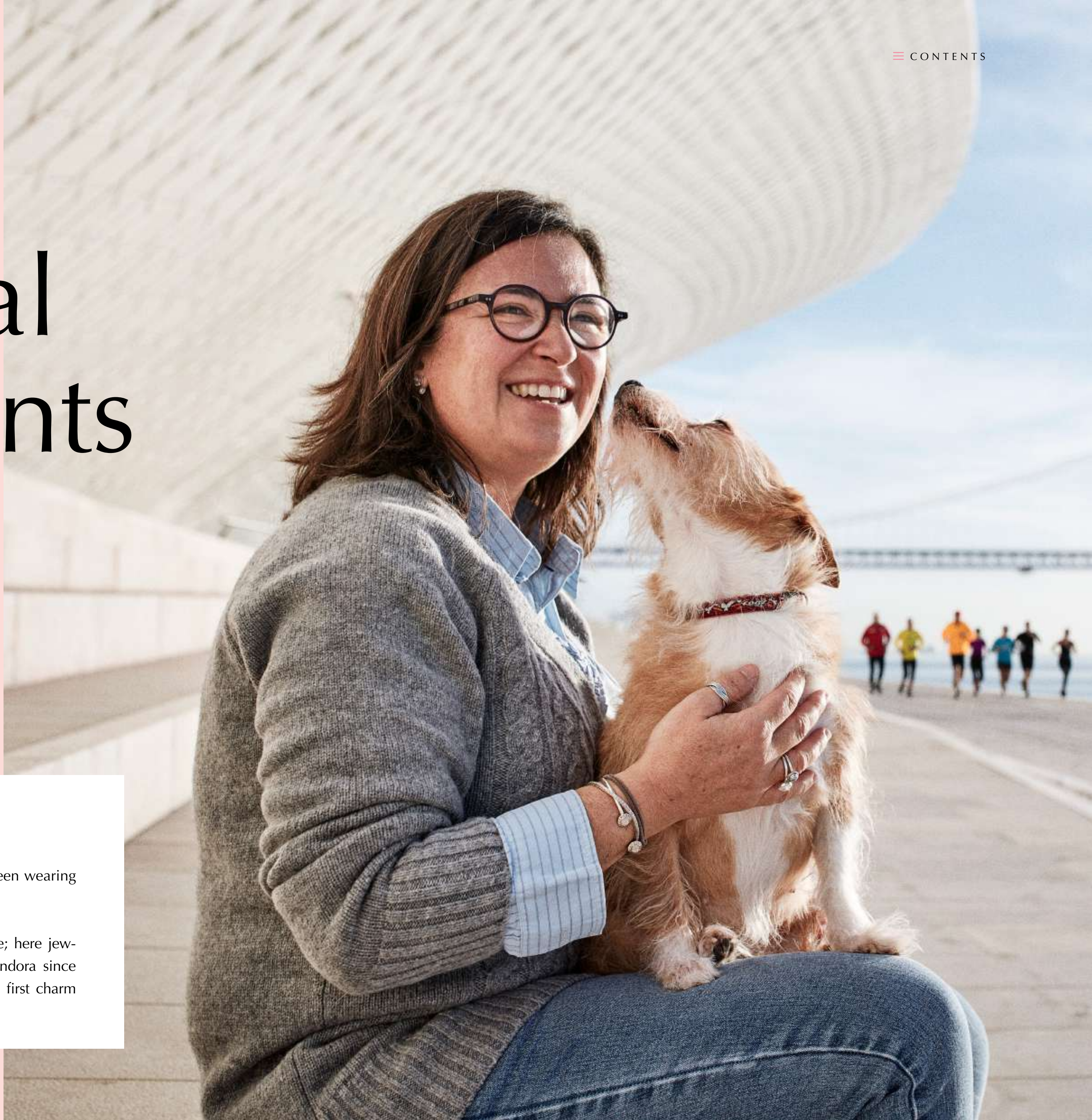
Pandora Reflexions is the first new charm bracelet concept in five years. It utilises the new technological advances that have been built in our crafting facilities over the last two years, including new plating techniques. The new bracelets come in sterling silver, Pandora Rose and Pandora Shine. They are crafted in a flexible mesh-style, and can be matched with clip-on interchangeable charms that can be tailored to the customer's own preference. The charms have built-in silicone grips that keep them in place.

The driving force behind the new concepts are head designers Francesco Terzo and A. Filippo Ficarelli. Since joining Pandora in 2017, Francesco and Filippo have put together a design team in Milan and Copenhagen with a diverse mix of ages, skills and nationalities.

9%

of our Charms & Bracelets revenue came from Reflexions since its launch in October 2018

06/ Financial Statements



"

My big passion is dogs because they awake a happiness in me that no other animal can. When I take photos, I love capturing their special essence through their looks and expressions.

Meet our customers

Ana is 46 years old, comes from **Portugal** and has been wearing Pandora jewellery for more than **10 years**.

Nature, photography and her dogs are her free space; here jewellery is a form of self-expression. She has worn Pandora since our very first store opened in Portugal in 2008. Her first charm was a dog to mark her passion.

Consolidated statement of comprehensive income

(For the year ended 31 December)

CONSOLIDATED INCOME STATEMENT (DKK million)	Notes	2018	2017
Revenue	2.1, 2.2	22,806	22,781
Cost of sales	2.3, 3.1, 3.2	-5,864	-5,815
Gross profit		**16,942**	**16,966**
Sales, distribution and marketing expenses	2.3, 3.1, 3.2	-8,222	-7,045
Administrative expenses	2.3, 3.1, 3.2	-2,289	-2,137
Operating profit	2.2	**6,431**	**7,784**
Finance income	4.6	533	198
Finance costs	4.6	-382	-315
Profit before tax		**6,582**	**7,667**
Income tax expense	2.5	-1,537	-1,899
Net profit for the year		**5,045**	**5,768**
Earnings per share, basic (DKK)	4.2	47.2	52.0
Earnings per share, diluted (DKK)	4.2	47.0	51.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (DKK million)	Notes	2018	2017
Net profit for the year		**5,045**	**5,768**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		1	-343
Commodity hedging instruments:			
- Realised in net cost of sales		-6	-
- Realised in net financials		-3	7
- Realised in inventories		117	43
- Fair value adjustments		-84	75
Foreign exchange hedging instruments:			
- Realised in net financials		-97	-117
- Fair value adjustments		129	101
Tax on other comprehensive income, hedging instruments, income/expense	2.5	-12	-25
Items that may be reclassified to profit/loss for the year, net of tax		**45**	**-259**
Items not to be reclassified to profit/loss for the year			
Actuarial gain/loss on defined benefit plans, net of tax	2.3	12	-2
Items not to be reclassified to profit/loss for the year, net of tax		**12**	**-2**
Other comprehensive income, net of tax		**57**	**-261**
Total comprehensive income for the year		**5,102**	**5,507**

Consolidated balance sheet

(At 31 December)

ASSETS (DKK million)	Notes	2018	2017[1]
Goodwill		4,278	3,522
Brand		1,057	1,057
Distribution network		124	154
Distribution rights		1,047	1,153
Other intangible assets		1,272	1,113
Total intangible assets	3.1	**7,778**	**6,999**
Property, plant and equipment	3.2	2,634	2,324
Deferred tax assets	2.5	1,050	884
Other financial assets		323	289
Total non-current assets		**11,785**	**10,496**
Inventories	3.4	3,158	2,729
Trade receivables	3.5	1,650	1,954
Right-of-return assets	3.7	94	188
Derivative financial instruments	4.4, 4.5	162	153
Income tax receivable		86	143
Other receivables		922	772
Cash	4.3	1,387	993
Total current assets		**7,459**	**6,932**
Total assets		**19,244**	**17,428**

EQUITY AND LIABILITIES (DKK million)	Notes	2018	2017[1]
Share capital	4.1	110	113
Treasury shares	4.1	-3,469	-1,999
Reserves		967	922
Dividend proposed		920	987
Retained earnings		7,891	6,491
Total equity		**6,419**	**6,514**
Provisions	3.6	279	150
Loans and borrowings	4.3, 4.4	6,421	5,283
Deferred tax liabilities	2.5	461	501
Other payables	4.4	172	481
Total non-current liabilities		**7,333**	**6,415**
Provisions	3.6	28	47
Refund liabilities	3.7	869	791
Contract liabilities	3.7	66	64
Loans and borrowings	4.3, 4.4	248	164
Derivative financial instruments	4.4, 4.5	83	143
Trade payables	4.4	2,253	1,695
Income tax payable		543	572
Other payables	4.4	1,402	1,023
Total current liabilities		**5,492**	**4,499**
Total liabilities		**12,825**	**10,914**
Total equity and liabilities		**19,244**	**17,428**

[1] Figures have been restated to reflect the adoption of IFRS 15.

Consolidated statement of changes in equity

(For the year ended 31 December)

(DKK million)	Notes	Share capital	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2018								
Equity at 1 January		113	-1,999	912	10	987	6,491	6,514
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**5,045**	**5,045**
Exchange rate adjustments of investments in subsidiaries		-	-	1	-	-	-	1
Fair value adjustments of hedging instruments		-	-	-	56	-	-	56
Actuarial gain/loss	2.3	-	-	-	-	-	12	12
Tax on other comprehensive income	2.5	-	-	-	-12	-	-	-12
Other comprehensive income, net of tax		**-**	**-**	**1**	**44**	**-**	**12**	**57**
Total comprehensive income for the year		**-**	**-**	**1**	**44**	**-**	**5,057**	**5,102**
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	77	77
Share-based payments	2.3, 2.4	-	-	-	-	-	-31	-31
Share-based payments (exercised)		-	105	-	-	-	-105	-
Share-based payments (tax)		-	-	-	-	-	-11	-11
Purchase of treasury shares		-	-3,289	-	-	-	-	-3,289
Reduction of share capital		-3	1,714	-	-	-	-1,711	-
Dividend paid	4.2	-	-	-	-	-1,954	11	-1,943
Dividend proposed	4.2	-	-	-	-	1,887	-1,887	-
Equity at 31 December		**110**	**-3,469**	**913**	**54**	**920**	**7,891**	**6,419**
2017								
Equity at 1 January		117	-4,334	1,255	-74	1,007	8,823	6,794
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**5,768**	**5,768**
Exchange rate adjustments of investments in subsidiaries		-	-	-343	-	-	-	-343
Fair value adjustments of hedging instruments		-	-	-	109	-	-	109
Actuarial gain/loss	2.3	-	-	-	-	-	-2	-2
Tax on other comprehensive income	2.5	-	-	-	-25	-	-	-25
Other comprehensive income, net of tax		**-**	**-**	**-343**	**84**	**-**	**-2**	**-261**
Total comprehensive income for the year		**-**	**-**	**-343**	**84**	**-**	**5,766**	**5,507**
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	-126	-126
Share-based payments	2.3, 2.4	-	-	-	-	-	66	66
Share-based payments (exercised)		-	217	-	-	-	-215	2
Share-based payments (tax)		-	-	-	-	-	-13	-13
Purchase of treasury shares		-	-1,721	-	-	-	-	-1,721
Reduction of share capital		-4	3,839	-	-	-	-3,835	-
Dividend paid	4.2	-	-	-	-	-4,004	9	-3,995
Dividend proposed	4.2	-	-	-	-	3,984	-3,984	-
Equity at 31 December		**113**	**-1,999**	**912**	**10**	**987**	**6,491**	**6,514**

Dividend paid in 2018 relating to the 2017 results was DKK 9 per share, corresponding to DKK 986 million (2017: DKK 1,007 million). Furthermore, DKK 957 million was paid as part of the commitment to pay bi-annual dividend in 2018 relating to the 2018 results. In 2019, Pandora will pay a dividend of DKK 9 per share, corresponding to DKK 920 million, relating to the 2018 results as well as a bi-annual dividend of DKK 9 per share, corresponding to an expected payout of DKK 0.9 billion. The bi-annual dividend is in accordance with section 182 of the Danish Companies Act.

Consolidated statement of cash flows

(For the year ended 31 December)

(DKK million)	Notes	2018	2017[1]
Profit before tax		6,582	7,667
Finance income	4.6	-533	-198
Finance costs	4.6	382	315
Depreciation and amortisation		990	721
Share-based payments	2.4	-31	66
Change in inventories		-18	145
Change in receivables		224	-237
Change in payables and other liabilities		762	-166
Other non-cash adjustments	4.7	59	102
Interest etc. received		4	3
Interest etc. paid		-58	-44
Income taxes paid		-1,739	-1,768
Cash flows from operating activities, net		**6,624**	**6,606**
Acquisition of subsidiaries and activities, net of cash acquired	3.3	-1,071	-1,843
Purchase of intangible assets		-380	-427
Purchase of property, plant and equipment		-727	-890
Change in other non-current assets		-23	-48
Proceeds from sale of property, plant and equipment		10	12
Cash flows from investing activities, net		**-2,191**	**-3,196**
Dividend paid	4.2	-1,943	-3,995
Purchase of treasury shares	4.1	-3,289	-1,721
Proceeds from loans and borrowings	4.3	4,413	4,981
Repayment of loans and borrowings	4.3	-3,191	-2,542
Cash flows from financing activities, net		**-4,010**	**-3,277**
Net increase/decrease in cash		**423**	**133**
Cash at 1 January[2]		993	897
Exchange gains/losses on cash		-29	-37
Net increase/decrease in cash		423	133
Cash at 31 December[2]		**1,387**	**993**

(DKK million)	Notes	2018	2017[1]
Cash flows from operating activities, net		6,624	6,606
- Interest etc. received		-4	-3
- Interest etc. paid		58	44
Cash flows from investing activities, net		-2,191	-3,196
- Acquisition of subsidiaries and activities, net of cash acquired		1,071	1,843
Free cash flow		**5,558**	**5,294**
Unutilised credit facilities		1,833	3,085

The above cannot be derived directly from the income statement and the balance sheet.
[1] Figures have been restated to reflect the adoption of IFRS 15.
[2] 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.

NOTE 1.1

Principal accounting policies

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.

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

The Annual Report for the period 1 January - 31 December 2018 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 requirements of the Danish Financial Statements Act.

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.

Apart from the changes due to the implementation of new or amended standards and interpretations as described in note 1.2, 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 may 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, see 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 the accounting policies of Pandora:

- 2.1 Revenue from contracts with customers
- 2.3 Staff costs
- 2.4 Share-based payments
- 2.5 Taxation, income taxes
- 2.5 Taxation, deferred tax
- 3.1 Intangible assets
- 3.2 Property, plant and equipment
- 3.3 Business combinations
- 3.4 Inventories
- 3.5 Trade receivables
- 3.6 Provisions
- 3.7 Contract assets and liabilities
- 4.2 Earnings per share and dividend
- 4.3 Net interest-bearing debt
- 4.5 Derivative financial instruments
- 4.6 Net financials

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.

FUNCTIONAL AND PRESENTATION 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 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.

NOTE 1.1

Principal accounting policies (continued)

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.

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 and allocation of depreciation and impairment losses from tangible assets in note 3.2.

NOTE 1.2

New accounting policies and disclosures

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 2018. Except for the implementation of IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers described below, the implementation of new or amended standards and interpretations has not had any material impact on Pandora's Annual Report in 2018.

EFFECT OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 supersedes the previous revenue standards (IAS 11 Construction Contracts and IAS 18 Revenue) and related interpretations and established a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which Pandora expects to be entitled in exchange for transferring goods or services to the customer.

Compared with the previous standards, the following material items in IFRS 15 are relevant for Pandora:

- In general, revenue is recognised when control is transferred to the customer. This can be either at a point in time or over time. However, when the sales transaction includes variable consideration such as return rights, trade discounts and volume rebates, IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. In 2018 and 2017, no material variable consideration that should be deferred was identified.
- Furthermore, IFRS 15 requires Pandora to present refund liability and an asset for the right to recover products from the customer separately in the balance sheet.

Pandora adopted the new standard using the full retrospective method of adoption.

The new standard had no material impact on the recognition and measurement of revenue for the year, but several new disclosures have been added in notes 2.1 Revenue from contracts with customers and 3.7 Contract assets and liabilities. The effect of adopting the standard is presented in the table below.

Aside from the reclassifications following the implementation of IFRS 15, the adoption has had no material impact on the statement of cash flows and no impact on basic and diluted EPS.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaces IAS 39, which changes the classification, measurement and impairment of financial assets, and introduces new rules for hedge accounting.

IFRS 9 requires Pandora to record expected credit losses on all its debt securities, loans and trade

NOTE 1.2

New accounting policies and disclosures (continued)

(DKK million)	1 January 2017 Previously reported	1 January 2017 IFRS 15 effect	1 January 2017 Restated	31 December 2017 Previously reported	31 December 2017 IFRS 15 effect	31 December 2017 Restated
ASSETS						
Current assets						
Right-of-return assets	-	236	236	-	188	188
TOTAL ASSETS	**15,085**	**236**	**15,321**	**17,240**	**188**	**17,428**
EQUITY AND LIABILITIES						
Current liabilities						
Provisions	1,004	-911	93	649	-602	47
Refund liabilities	-	1,147	1,147	-	791	791
Contract liabilities	-	47	47	-	64	64
Trade payables	1,622	-2	1,620	1,706	-11	1,695
Other payables	964	-45	919	1,077	-54	1,023
TOTAL EQUITY AND LIABILITIES	**15,085**	**236**	**15,321**	**17,240**	**188**	**17,428**

receivables, either on a 12-month or lifetime basis. Pandora applied the simplified method upon adoption of IFRS 9 on 1 January 2018 and records lifetime expected losses on all trade receivables. Based on the portfolio of financial assets and liabilities and the historically low realised loss on loans and trade receivables, the adoption of the new standard did not have a material impact on Pandoras consolidated financial statements and therefore no effect on retained earnings at 1 January 2018. In 2017 Pandora reported impairment on receivables based on the incurred loss model, IAS 39.

No other elements from the adoption of the standard have affected recognition and measurement, but new disclosures have been implemented.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 LEASES

IFRS 16 Leases is effective for the annual reporting period beginning 1 January 2019, and Pandora has not early adopted the standard. The standard materially changes the accounting for operating leases as it requires lessees to recognise all operating leases – with a few exemptions – on the balance sheet as assets with a corresponding lease liability.

Pandora will apply the simplified transition approach without restating comparative figures when adopting the standard on 1 January 2019.

Pandora has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The material part of Pandora's leases relates to stores. The term of leases used for calculating right-of-use assets and lease liabilities has been based on analysis of the lease term, including options to extend the lease where Pandora is reasonably certain to extend. Of leases related to stores and offices, around 23% include extension options. Around 75% of these are expected to be exercised. At the reporting date, Pandora had non-cancellable operating lease commitments of DKK 3,843 million, of which, DKK 10-15 million are either short-term leases or low-value leases.

Pandora will recognise right-of-use assets of around DKK 4.5 billion and lease liabilities of around DKK 4.2 billion on 1 January 2019. Overall, invested capital will increase by DKK 4.2 billion. The impact from the implementation of the standard is affecting the EBITDA margin, by an increase of around 4.5 percentage points as the classification of fixed lease expenses will change from currently operating expenses in the income statement, to depreciation of the right-of-use asset and interest related to the liability. The implementation will only have a very marginal but positive impact on EBIT margin, around 0.3%.

In 2018, around 30% of the lease payments recognised in the income statement were variable rent and this will continue to be presented as rent costs included in EBITDA. Aside from EBITDA, IFRS 16 will also impact the balance sheet and balance sheet-related ratios such as ROIC and NIBD due to the recognition of the lease asset and lease liability.

As lessee, Pandora will be required to separately recognise interest expenses on the lease liability and depreciation expenses on the right-of-use asset. Further, Pandora will also be required to account for lease modifications such as changes to the lease term as well as changes to the future lease payments resulting from a change in an index or rate used to determine those payments. The amount of the re-measurement will be recognised as an adjustment to the lease liability and right-of-use asset.

The measured discounted value of lease liabilities is calculated applying incremental borrowing rates, which average around 3-4%.

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

NOTE 1.3

Management's judgements and estimates under IFRS

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.

The areas that involve a high degree of judgement and estimation and are material to the financial statements are described in more detail in the related notes.

2.1 Revenue from contracts with customers
2.5 Taxation
3.7 Contract assets and liabilities
5.1 Contingent liabilities

SECTION 2

Results for the Year

32.5%
EBITDA margin
2017: 37.3%

3%
Revenue growth, local currency
2017: 15%

2,705
Concept stores
2017: 2,446

74.3%
Gross margin
2017: 74.5%

5,045
Net profit (DKK million)
2017: 5,768

23.4%
Effective tax rate
2017: 24.8%

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 2018, Group revenue was DKK 22,806 million compared with DKK 22,781 million in 2017.

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

NOTE 2.1

Revenue from contracts with customers

REVENUE BY REGION (DKK million)	**2018**	**2017**
EMEA	11,190	10,832
Americas	6,807	7,111
Asia Pacific	4,809	4,838
Total revenue	**22,806**	**22,781**

REVENUE BY SALES CHANNEL (DKK million)	**2018**	**2017**
Pandora owned retail*	12,895	9,782
Wholesale	8,633	11,470
Third-party distribution	1,278	1,529
Total revenue	**22,806**	**22,781**

* Including revenue from Pandora eSTOREs

REVENUE BY PRODUCT CATEGORY (DKK million)	**2018**	**2017**
Charms	12,126	12,920
Bracelets	4,393	3,965
Rings	3,168	3,161
Earrings	1,486	1,418
Necklaces & Pendants	1,633	1,317
Total revenue[1]	**22,806**	**22,781**
Goods transferred at a point in time	22,707	22,660
Services transferred over time	99	121
Total revenue	**22,806**	**22,781**

[1] Figures include franchise fees etc. of DKK 103 million (2017: DKK 130 million), which are allocated to the product categories.

Revenue by category of Pandora products is not materially different between segments. Product offerings are also similar between segments. Local products not sold globally make up less than 5% of total sales. The use of sales channels for the distribution of Pandora jewellery depends on the underlying market maturity and varies within the segments but is consistent when viewed between segments.

§ Accounting policies

WHOLESALE AND THIRD-PARTY DISTRIBUTORS - PRODUCTS

Pandora manufactures and sells jewellery to wholesalers and third-party distributors. Revenue is recognised when control of the products has been transferred to the wholesaler or third-party distributor. Change of control of the products occurs when the products have been delivered to the wholesaler or distributor and no further obligation exists that can affect the transfer of control. Delivery has taken place when the products have been shipped to the location of the wholesaler or distributor and control of the goods has been transferred to the buyer. Revenue from the sale is recognised based on the price specified in the contract. Revenue is only recognised to the extent it is highly probable that a significant reversal will not occur. A refund liability and right-of-return asset is recognised for the products expected to be returned, see note 3.7 Contract assets and liabilities. The estimate for returned products is based on historic experience and expectations. Based on knowledge of the nature of returns in the wholesale and distributor channels, it is considered highly probable that a significant reversal of the cumulative revenue recognised will not occur. Provisions for rebates and discounts granted to wholesalers and franchisees are recognised as a reduction in revenue.

The Group's obligation to repair or replace faulty products is recognised gross in the income statement as both a reduction in revenue and a decrease in cost of goods sold. This is due to the handling of warranty claims, which leads to replacements instead of repairs. Revenue is further measured excluding sales taxes and duties when they are passed on to customers. Sales taxes and duties incurred on sales that are not recoverable from the local taxation authorities are reported gross as part of revenue and cost of sales.

When control has been transferred, a receivable is recognised as the consideration to be paid is only relying on the passage of time. Payment terms for sales to wholesalers and third-party distributors normally comprise current month + 1-2 months. The specified price in the contract is not adjusted for any financing element as payment terms never exceed 12 months.

RETAIL SALES - PRODUCTS

Revenue from the sale of products through Pandora's owned and operated stores is recognised when a store sells a product to the customer. Pay-

NOTE 2.1

Revenue from contracts with customers (continued)

ment is usually due when the customer picks up the product in the store or the product is delivered from an eSTORE. However, in some instances collection is delayed and a receivable recognised, see note 3.5.

A refund liability and right-of-return asset is recognised for the products expected to be returned, see note 3.7 Contract assets and liabilities. The estimate for returned products is based on historic experience and expectations. Based on knowledge of the nature of returns, it is considered highly probable that a significant reversal of the cumulative revenue recognised will not occur. Provisions for rebates and discounts granted to customers are recognised as a reduction in revenue.

The Group's obligation to repair or replace faulty products is part of the standard terms and is therefore recognised as a contract liability, see note 3.7 Contract assets and liabilities. Revenue is further measured excluding sales taxes and duties when they are passed on to customers. Sales taxes and duties incurred on sales that are not recoverable from the local taxation authorities are reported gross as part of revenue and cost of sales.

! 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 recognised revenue as well as the level of the refund liability. 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.

NOTE 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 three operating segments: EMEA, Americas and Asia Pacific, each segment represented by its own segment president on the Management Board. All three operating segments comprise wholesale, retail and e-commerce business activities relating to the distribution and sale of Pandora products.

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 measured at segment level and EBIT as the secondary performance measure, only measured at group level.

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.

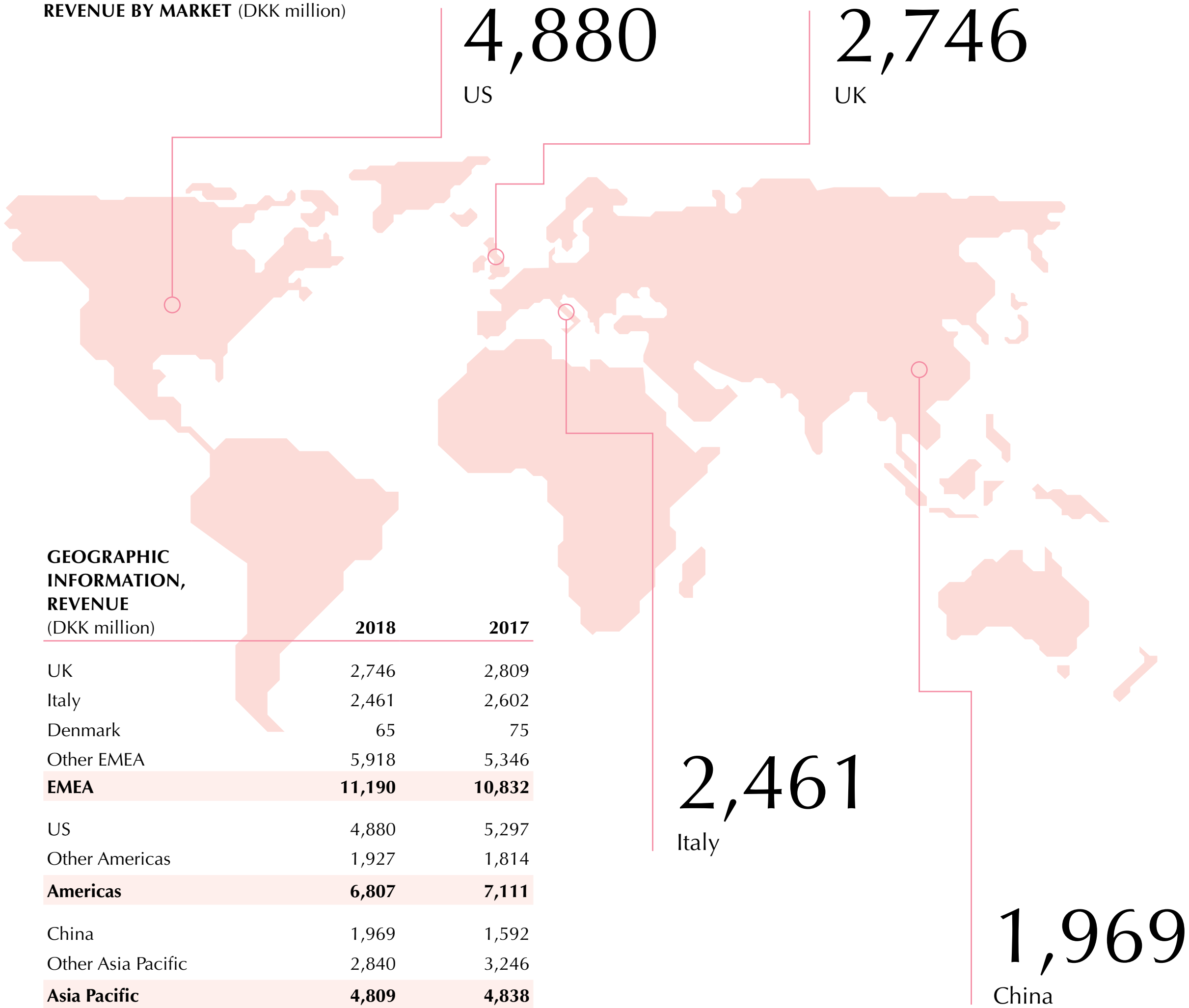
Segment information is recognised and measured in accordance with IFRS.

INCOME STATEMENT (DKK million)	**EMEA**	**Americas**	**Asia Pacific**	**Total Group**
2018				
Total revenue	**11,190**	**6,807**	**4,809**	**22,806**
Segment profit (EBITDA)	**3,778**	**2,022**	**1,621**	**7,421**
Depreciation, amortisation and impairment losses				-990
Consolidated operating profit (EBIT)				**6,431**
2017				
Total revenue	**10,832**	**7,111**	**4,838**	**22,781**
Segment profit (EBITDA)	**4,288**	**2,313**	**1,904**	**8,505**
Depreciation, amortisation and impairment losses				-721
Consolidated operating profit (EBIT)				**7,784**

NOTE 2.2

Segment information (continued)

REVENUE BY MARKET (DKK million)



GEOGRAPHIC INFORMATION, REVENUE (DKK million)

	2018	2017
UK	2,746	2,809
Italy	2,461	2,602
Denmark	65	75
Other EMEA	5,918	5,346
EMEA	**11,190**	**10,832**
US	4,880	5,297
Other Americas	1,927	1,814
Americas	**6,807**	**7,111**
China	1,969	1,592
Other Asia Pacific	2,840	3,246
Asia Pacific	**4,809**	**4,838**
Total revenue	**22,806**	**22,781**

GEOGRAPHIC INFORMATION, INTANGIBLE ASSETS (DKK million)

	2018	2017
Germany	701	722
Denmark	2,474	2,462
Other EMEA	1,495	981
EMEA	**4,670**	**4,165**
US	1,712	1,591
Other Americas	116	98
Americas	**1,828**	**1,689**
Australia	443	418
Thailand	612	512
Other Asia Pacific	225	215
Asia Pacific	**1,280**	**1,145**
Total intangible assets[1]	**7,778**	**6,999**
Property, plant and equipment[2]	2,634	2,324
Deferred tax assets	1,050	884
Other non-current financial assets	323	289
Current assets	7,459	6,932
Total consolidated assets	**19,244**	**17,428**

[1] Allocation of intangible assets in the table above reflects the country in which the assets were acquired in order to capture the values, including goodwill, in the functional currency in which it is denominated. This is different from the presentation in note 3.1 where goodwill is allocated in accordance with Management reporting and monitoring.

[2] The crafting facilities in Thailand accounted for DKK 1,215 million (2017: DKK 1,123 million), corresponding to 46.1% of property, plant and equipment (2017: 48.3%).

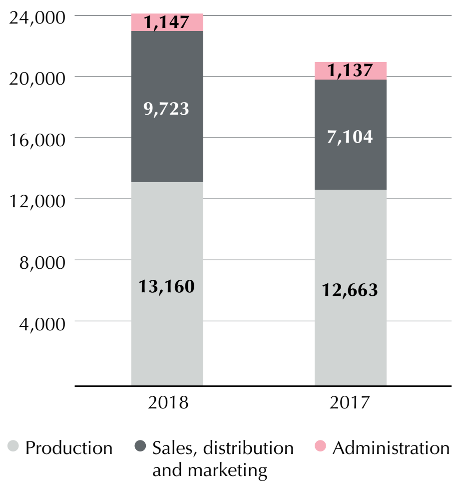
NOTE 2.3
Staff costs

(DKK million)	2018	2017
Wages and salaries	3,697	3,170
Pensions	173	145
Share-based payments	-31	66
Social security costs	247	177
Other staff costs	455	445
Total staff costs	**4,541**	**4,003**
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	1,071	961
Sales, distribution and marketing expenses	2,631	2,122
Administrative expenses	839	920
Total staff costs	**4,541**	**4,003**
Average number of full-time employees during the year	24,030	20,904

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 2018, these obligations amounted to DKK 75 million (2017: DKK 60 million).

Actuarial gain was DKK 12 million (2017: loss of DKK 2 million) recognised in equity. The increased obligation was primarily due to more employees.

AVERAGE FTE PER FUNCTION



	2018					
(DKK million)	Base pay	Bonus	Shares	Benefits	Other	Total
Total compensation of Executive Management	**36.9**	**21.6**	**7.6**	**1.4**	**5.6**	**73.1**

	2017					
(DKK million)	Base pay	Bonus	Shares	Benefits	Other	Total
Total compensation of Executive Management	**12.7**	**10.7**	**6.6**	**0.7**	**0.7**	**31.4**

The above compensation to Executive Management in 2018 includes severance pay to Anders Colding Friis and Peter Vekslund in the amount of DKK 24.5 million related to base pay, DKK 17.2 million related to expected future bonuses in the notice period and DKK 5.6 million in share-based payment. Furthermore, 'Other' in the table above includes DKK 3.3 million (5 out of 9 months) related to a replacement reward to Anders Boyer. 'Other' also includes DKK 2.3 million as part of a DKK 7 million cash bonus to Jeremy Schwartz, which is payable after 12 months of service. For further details, see the Remuneration Report available on the Pandora website.

(DKK million)	2018	2017
Total compensation of Board of Directors	**6.8**	**8.4**

Certain board members received a fixed travel fee as compensation when attending board meetings abroad in 2018. Total travel fee for 2018 amounted to DKK 0.9 million (2017: DKK 1.2 million).

For further details, see the Remuneration Report available on the Pandora website.

§ 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 rendered by the employee in exchange for the benefits.

NOTE 2.4
Share-based payments

Decisions to grant performance shares are made by the Board in accordance with general guidelines on incentive pay for Pandora. Performance shares have been granted to members of the Executive Management and other employees in Pandora.

Costs related to share-based payments was DKK 14 million offset by the reversal of cost related to programs not expected to vest as targets are or will not be reached, net reversal of cost was DKK 31 million (2017: expense of DKK 66 million). Programs that will not vest are the 2016 program as the targets for 2018 were not met and the 2017 and March 2018 programs where the targets for 2019 and 2020 respectively are not expected to be met. The cost of share-based payments and this year's corresponding reversal of costs is included in staff costs. In the remaining vesting periods, an amount of DKK 2 million (2017: DKK 87 million) is expected to be recognised in respect of the current programmes.

For shares exercised in 2018, the average share price at the time of vesting was DKK 584.

LONG-TERM INCENTIVE PROGRAMMES

Each year, two incentive programmes are launched targeting either Executive Management or Other employees. The calculated value of each programme is recognised over the vesting period (3 years) based on the likelihood that targets for the programmes will be met. For Executive Management a further two-year holding period apply.

SHARES OUTSTANDING	Executive Management	Other employees	Total	Average exercise price per performance share, DKK
2018				
Shares outstanding at 1 January	129,406	284,132	413,538	6.35
Shares granted during the year	25,171	114,307	139,478	6.68
Shares exercised during the year	-34,061	-118,449	-152,510	4.16
Shares lapsed during the year	-19,313	-108,222	-127,535	7.47
Shares outstanding at 31 December	**101,203**	**171,768**	**272,971**	**6.83**
2017				
Shares outstanding at 1 January	192,116	389,136	581,252	4.07
Shares granted during the year	14,106	90,364	104,470	9.11
Shares exercised during the year	-76,816	-179,396	-256,212	1.94
Shares lapsed during the year	-	-15,972	-15,972	7.11
Shares outstanding at 31 December	**129,406**	**284,132**	**413,538**	**6.35**

NOTE 2.4

Share-based payments (continued)

NUMBER OF PERFORMANCE SHARES IN PANDORA A/S

Programme start date	Expiry date	Exercise price, DKK	Shares 31 December 2018	Shares 31 December 2017	Expected volatility	Risk-free interest rate	Dividend per share	Market value at launch, (DKK million)	Cost recognised 31 December (DKK million)	Remaining value to be expensed, (DKK million)
February 2013	2018	1.25	-	34,061	48%	0.16%	5.50	12	-	-
February 2014	2019	2.99	31,314	31,314	46%	0.47%	6.50	14	14	-
March 2015	2018	5.00	-	119,572	33%	0.02%	9.00	85	-	-
March 2015	2020	5.00	32,061	32,061	33%	-0.22%	9.00	20	20	-
March 2016	2019	8.50	-	79,886	31%	-0.15%	13.00	71	-	-
March 2016	2021	8.50	-	17,864	31%	0.10%	13.00	15	-	-
March 2017	2020	9.11	71,887	84,674	31%	-0.40%	9.00	68	-	-
March 2017	2022	9.11	14,106	14,106	31%	-0.19%	9.00	11	-	-
March 2018	2021	6.68	99,881	-	35%	0.21%	9.00	67	-	-
March 2018	2023	6.68	15,857	-	35%	-0.17%	9.00	10	-	-
November 2018	2023	2.65	7,865	-	43%	-0.13%	9.00	2	-	2
Total number of performance shares outstanding			**272,971**	**413,538**				**375**	**34**	**2**

The weighted average remaining contractual life of shares at the end of the period was 1.7 years (2017: 1.2 years).

§ 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 performance share equals 1% of the market price of one share at grant date, the fair value almost equals the market value of one share at grant date. The assumptions in the table therefore have very limited impact on the estimated fair value of performance shares granted.

NOTE 2.5
Taxation

INCOME TAXES

INCOME TAX EXPENSE
Income tax expense was DKK 1,537 million in 2018, corresponding to an effective tax rate of 23.4% (2017: DKK 1,899 million, 24.8%). The tax rate of 23.4% was negatively impacted by a deviation in foreign subsidiaries' tax rates compared with the Danish tax rate and by a DKK 106 million reversal of the deferred tax asset related to the transfer of assets from Kasi Group that the Supreme Court of Denmark on 4 October 2018 has ruled as tax exempt. The effective tax rate is reduced by the non-taxable income in Thailand due to the Board of Investment agreements (BOIs).

! 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.

As part of Pandora conducting business globally, tax and transfer pricing 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. Management believes that the provision made for uncertain tax positions is adequate. However, the actual obligation may deviate from this and is dependent on the result of litigations and settlements with the relevant tax authorities.

TAX APPROACH
Pandora is committed to ensure compliance with the letter and spirit of tax laws in the markets in which we operate, while striving to maximise shareholder value in a responsible way. Pandora will only engage in reasonable tax planning that is aligned with its commercial and economic activities. Tax will be an outcome of the business strategy and will not drive business strategy. Pandora will evaluate opportunities for tax incentives offered by tax authorities to support economic development, transfer of knowledge, creation of employment and maintaining good corporate citizenship.

§ Accounting policies

The income tax expense for the year comprises current tax and changes in deferred tax, including changes in tax rate, adjustment to prior years and changes in provision for uncertain tax positions. Tax is recognised in the income statement, except to the extent that it is related to items recognised in equity or other comprehensive income. 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.

INCOME TAX EXPENSE (DKK million)	**2018**	**2017**
Current income tax charge for the year	1,709	1,860
Deferred tax change for the year	-293	-88
Deferred tax impact of change in tax rates	6	135
Adjustment to current tax for prior years	58	-46
Adjustment to deferred tax for prior years	57	38
Total income tax expense	**1,537**	**1,899**
Deferred tax on other comprehensive income	12	25
Tax on other comprehensive income	**12**	**25**

	2018		**2017**	
RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	%	(DKK million)	%	(DKK million)
Profit before tax		6,582		7,667
Corporate tax rate in Denmark, 22%	22.0%	1,448	22.0%	1,687
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	0.6%	40	0.9%	71
Deferred tax impact of change in tax rates	0.1%	6	1.8%	135
Non-taxable income and non-deductible expenses	-1.2%	-81	-1.1%	-83
Adjustment to tax for prior years	1.8%	115	-0.1%	-8
Non-capitalised tax assets, net	0.0%	-	-1.3%	-98
Withholding taxes	0.1%	9	2.6%	195
Effective income tax rate/income tax expense	**23.4%**	**1,537**	**24.8%**	**1,899**

NOTE 2.5

Taxation (continued)

DEFERRED TAX (DKK million)	**2018**	**2017**
Deferred tax at 1 January	383	553
Exchange rate adjustments	-1	-19
Recognised in the income statement	236	50
Recognised in other comprehensive income	-12	-25
Recognised in equity, share-based payments	-11	-41
Impact of change in tax rates	-6	-135
Deferred tax at 31 December	**589**	**383**
Deferred tax assets	1,050	884
Deferred tax liabilities	-461	-501
Deferred tax, net	**589**	**383**

BREAKDOWN OF DEFERRED TAX (DKK million)	**2018**	**2017**
Intangible assets	-663	-484
Property, plant and equipment	-6	66
Current assets	963	579
Non-current assets and liabilities	284	193
Tax loss carryforwards	11	29
Deferred tax, net	**589**	**383**

DEFERRED TAX

Of the total deferred tax assets recognised, DKK 11 million (2017: DKK 29 million) is related to tax loss carryforwards, where the utilisation depends on future positive taxable income exceeding realised deferred tax liabilities. It is Management´s opinion that these tax loss carryforwards can be utilised.

Tax assets not recognised, DKK 35 million (2017: DKK 36 million), relate to tax loss carryforwards that are not expected to be utilised in the foreseeable future. Tax losses that can expire amounted to DKK 10 million (2017: DKK 12 million).

No deferred tax has been recognised in respect of entities' earnings that are intended for distribution in the short term, as no tax will be payable on distribution.

Subsequent to the repatriation of dividend from Thailand in 2017, only insignificant latent tax liabilities remained at 31 December 2018.

§ Accounting policies

Deferred tax on all temporary differences between the carrying amounts for financial reporting purposes and the tax base of assets and liabilities is measured using the balance sheet liability method. No deferred tax is recognised on temporary differences that arise 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.

The recognition of deferred tax assets includes the expected tax value of tax loss carryforwards to the extent that these tax assets can be offset against positive taxable income in the foreseeable future. The same applies to deferred tax assets related to investments in subsidiaries. Management has considered future taxable income and applied judgements to determine whether deferred tax assets should be recognised.

Deferred tax assets and liabilities are measured according to current tax rules and at the tax rates expected to be in force on elimination of the temporary differences. 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.

SECTION 3

Invested Capital and Working Capital Items

11.2%

Operating working capital / revenue

2017: 13.1%

1,129

CAPEX (DKK million)

2017: 1,388

12,071

Invested capital (DKK million)

2017: 11,369

WORKING CAPITAL (DKK million)	**Notes**	**2018**	**2017**
Inventories	3.4	3,158	2,729
Trade receivables	3.5	1,650	1,954
Trade payables		-2,253	-1,695
Operating working capital		**2,555**	**2,988**
Other receivables		1,016	960
Current provisions	3.6	-28	-47
Net tax payable		-457	-429
Other payables		-2,029	-1,878
Net working capital		**1,057**	**1,594**

INVESTED CAPITAL (DKK million)	**Notes**	**2018**	**2017**
Intangible assets	3.1	7,778	6,999
Property, plant and equipment	3.2	2,634	2,324
Other non-current financial assets		323	289
Non-current provisions	3.6	-279	-150
Net working capital[1]		1,057	1,594
Deferred tax, net	2.5	589	383
Derivative financial instruments, net		79	10
Other liabilities[1]		-110	-80
Invested capital[1]		**12,071**	**11,369**

[1] For 2017 figures have been restarted due to reclassifications.

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

Around 64% 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 2018 included acquisitions described in note 3.3 for a total consideration of DKK 1,108 million.

Operating working capital at the end of 2018 was 11.2% of revenue, compared with 13.1% at the end of 2017.

Financial risks are described in note 4.4.

NOTE 3.1

Intangible assets

(DKK million)	Goodwill	Brand	Distri-bution network	Distri-bution rights	Other intangible assets	Total
2018						
Cost at 1 January	3,522	1,057	455	1,557	1,789	8,380
Acquisition of subsidiaries and activities	739	-	-	-	26	765
Additions	-	-	-	-	376	376
Disposals	-	-	-	-136	-36	-172
Exchange rate adjustments	17	-	-	3	22	42
Cost at 31 December	**4,278**	**1,057**	**455**	**1,424**	**2,177**	**9,391**
Amortisation and impairment losses at 1 January	-	-	301	404	676	1,381
Amortisation for the year	-	-	30	106	260	396
Disposals	-	-	-	-136	-36	-172
Exchange rate adjustments	-	-	-	3	5	8
Amortisation and impairment losses at 31 December	**-**	**-**	**331**	**377**	**905**	**1,613**
Carrying amount at 31 December	**4,278**	**1,057**	**124**	**1,047**	**1,272**	**7,778**
2017						
Cost at 1 January	2,571	1,057	455	1,435	1,360	6,878
Acquisition of subsidiaries and activities	1,109	-	-	131	17	1,257
Additions	-	-	-	-	442	442
Disposals	-	-	-	-	-9	-9
Exchange rate adjustments	-158	-	-	-9	-21	-188
Cost at 31 December	**3,522**	**1,057**	**455**	**1,557**	**1,789**	**8,380**
Amortisation and impairment losses at 1 January	-	-	271	374	467	1,112
Amortisation for the year	-	-	31	38	219	288
Disposals	-	-	-	-	-3	-3
Exchange rate adjustments	-	-	-1	-8	-7	-16
Amortisation and impairment losses at 31 December	**-**	**-**	**301**	**404**	**676**	**1,381**
Carrying amount at 31 December	**3,522**	**1,057**	**154**	**1,153**	**1,113**	**6,999**

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

(DKK million)	2018	2017
Amortisation has been recognised in the income statement as follows:		
Cost of sales	39	16
Sales, distribution and marketing expenses	206	134
Administrative expenses	151	138
Total	**396**	**288**

GOODWILL

Additions in 2018 relate to acquisitions of companies and activities. Note 3.3 includes an overview of acquired goodwill for the year.

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 2018 (2017: DKK 1,034 million).

OTHER INTANGIBLE ASSETS

Other intangible assets mainly comprise software and key money.

NOTE 3.1

Intangible assets (continued)

§ Accounting policies

All intangible assets are tested for impairment if there is any indication 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 cannot be reversed.

BRAND

Brand is initially recognised as cost based on the "Relief from Royalty" method, which is considered to have an indefinite useful life and is impairment tested annually.

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 initially recognised at cost based on the "Multi-period Excess Earnings" model and amortised over their expected useful lives.

OTHER INTANGIBLE ASSETS

Software is initially recognised 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 impairment 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 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.

Goodwill is, equal to the brand described above, reported and managed internally at Group level. Due to the constraint in IAS 36 Impairment, goodwill is allocated to the grouped CGU's in the three operational segments for impairment testing purposes. It is the managements opinion, that this best reflects the value creation of Pandora.

METHOD FOR IMPAIRMENT TESTING

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 is 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.

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.

NOTE 3.1
Intangible assets (continued)

ALLOCATION OF INTANGIBLE ASSETS TO CGUS (DKK million)	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
2018						
EMEA	2,493	-	-	-	269	2,762
Americas	954	-	-	1,034	81	2,069
Asia Pacific	831	-	-	13	21	865
Group	-	1,057	124	-	901	2,082
Total	**4,278**	**1,057**	**124**	**1,047**	**1,272**	**7,778**
2017						
EMEA	1,902	-	-	105	256	2,263
Americas	822	-	-	1,034	73	1,929
Asia Pacific	798	-	-	14	17	829
Group	-	1,057	154	-	767	1,978
Total	**3,522**	**1,057**	**154**	**1,153**	**1,113**	**6,999**

DISCOUNT RATES AND GROWTH RATES IN TERMINAL PERIOD	Discount rate before tax	Growth rate in terminal period
2018		
EMEA	12.3%	2%
Americas	14.6%	2%
Asia Pacific	13.4%	2%
Group	**13.1%**	**2%**
2017		
EMEA	10.5%	2%
Americas	12.2%	2%
Asia Pacific	12.4%	2%
Group	**11.4%**	**2%**

In the table above, Group is included for the purpose of overall impairment testing and impairment testing of the Brand and the Distribution network.

ASSUMPTIONS

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 or group of CGUs. The Group discount rates have been estimated based on a weighted average cost of capital for the industry. The rates have also been adjusted to reflect the market assessment of any risk specific to each group of CGUs.

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

The 2% growth rate applied is an estimate of the expected average inflation in the terminal period. As such no real growth is applied to the terminal period when calculating the recoverable amounts.

The EBIT margin in the budget of each group of CGUs is based on historical experience and expectations concerning:

- revenue development taking into account development in network (store openings, retail/wholesale share), product mix and market share
- cost of sales based on raw materials consumption affected 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 each group of CGUs, is based on historical experience and is maintained for the remainder of the expected lives. Net working capital thus increases on a linear basis as the level of activity increases.

The impairment test of the Brand at Group level is based on the "Relief from Royalty" method.

The impairment tests did not present 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 amounts of grouped CGUs or at Group level to exceed the recoverable amount.

NOTE 3.2

Property, plant and equipment

(DKK million)	Land and buildings	Plant and equipment	Assets under construction	Total
2018				
Cost at 1 January	732	2,370	341	3,443
Acquisition of subsidiaries and activities	-	104	5	109
Additions	4	331	418	753
Disposals	-8	-95	-	-103
Transfers	233	409	-642	-
Exchange rate adjustments	47	29	-	76
Cost at 31 December	**1,008**	**3,148**	**122**	**4,278**
Depreciation and impairment losses at 1 January	112	1,007	-	1,119
Depreciation for the year	49	544	-	593
Disposals	-2	-84	-	-86
Exchange rate adjustments	7	11	-	18
Depreciation and impairment losses at 31 December	**166**	**1,478**	**-**	**1,644**
Carrying amount at 31 December	**842**	**1,670**	**122**	**2,634**
2017				
Cost at 1 January	732	1,747	59	2,538
Acquisition of subsidiaries and activities	-	149	3	152
Additions	-	354	592	946
Disposals	-4	-48	-	-52
Transfers	29	279	-308	-
Exchange rate adjustments	-25	-111	-5	-141
Cost at 31 December	**732**	**2,370**	**341**	**3,443**
Depreciation and impairment losses at 1 January	84	687	-	771
Depreciation for the year	32	401	-	433
Disposals	-1	-40	-	-41
Exchange rate adjustments	-3	-41	-	-44
Depreciation and impairment losses at 31 December	**112**	**1,007**	**-**	**1,119**
Carrying amount at 31 December	**620**	**1,363**	**341**	**2,324**

(DKK million)	2018	2017
Depreciation has been recognised in the income statement as follows:		
Cost of sales	141	106
Sales, distribution and marketing expenses	359	249
Administrative expenses	93	78
Total	**593**	**433**

OPERATING LEASES (DKK million)	Land and buildings	Plant and equipment	Total
Future minimum lease payments on existing contracts at 31 December 2018			
Less than 1 year	1,035	16	1,051
Between 1 and 5 years	2,346	12	2,358
More than 5 years	434	-	434
Total	**3,815**	**28**	**3,843**
Future minimum lease payments on existing contracts at 31 December 2017			
Less than 1 year	849	22	871
Between 1and 5 years	1,920	16	1,936
More than 5 years	548	-	548
Total	**3,317**	**38**	**3,355**

NOTE 3.2

Property, plant and equipment (continued)

Pandora has a large number of individually insignificant leases (typically 2-9 years and averaging 5 years). The leases are mainly for stores, offices, office equipment etc.

The increase in commitments in 2018 is mainly related to new owned and operated concept stores.

Lease expense recognised in the year was DKK 1,430 million (2017: DKK 1,194 million). Of this amount DKK 429 million was variable lease payments based on store sales (2017: DKK 423 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 according to the table below.

Asset	Useful life
Land	Indefinite
Buildings	20-50 years
Leasehold improvements	Lease period
Plant and equipment	3-5 years
Other fixtures and fittings	3-5 years

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.

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.

Pandora had no finance leases at the reporting date.

In 2019 the accounting for operational leases changes with the implementation of IFRS 16 Leases. The effects from this change is described in note 1.2.

NOTE 3.3

Business combinations

ACQUISITIONS IN 2018

On 1 June 2018, Pandora acquired 95% of the shares in PAN Jewelry Holding, which held the rights to distribute Pandora Jewellery in Ireland and the territory of Northern Ireland, from BJ Fitz-Patrick Holdings Ltd. as the distribution agreement ended. The acquisition comprised inventories and non-current assets relating to 24 concept stores and one shop-in-shop. The purchase price was DKK 146 million of which DKK 124 million was paid in cash. 10% of the purchase price, DKK 15 million, was deferred for 15 months. A simultaneous put/call option for the remaining 5% of the shares, DKK 7 million, will be exercised in the period 6 February – 31 March 2019. None of the goodwill is deductable for income tax purposes.

Pandora further acquired 145 stores in the period 1 January – 31 December 2018 (87 concept stores in the UK, 27 in the US, 12 in Canada, 8 in Australia, 5 in South Africa, 4 in France, and 1 in Italy and Brazil respectively) in 30 business combinations. Net assets acquired mainly consisted of inventories and other non-current assets and liabilities relating to the stores.

The total purchase price for the acquisitions made during 2018 was DKK 1,108 million. Based on the purchase price allocations, goodwill was DKK 739 million. Goodwill from the acquisitions is mainly related to the synergies from converting the stores from wholesale to Pandora owned retail.

Of the goodwill acquired, DKK 157 million is deductible for income tax purposes.

Costs relating to the acquisitions were DKK 11 million and were recognised as operating expenses in the income statement.

Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 31 December 2018 was DKK 1.0 billion and DKK 0.3 billion, respectively.

Had all acquisitions in 2018 taken place on 1 January 2018, Group revenue and net earnings for the period 1 January – 31 December 2018 would have been approximately DKK 23.2 billion and DKK 5.2 billion.

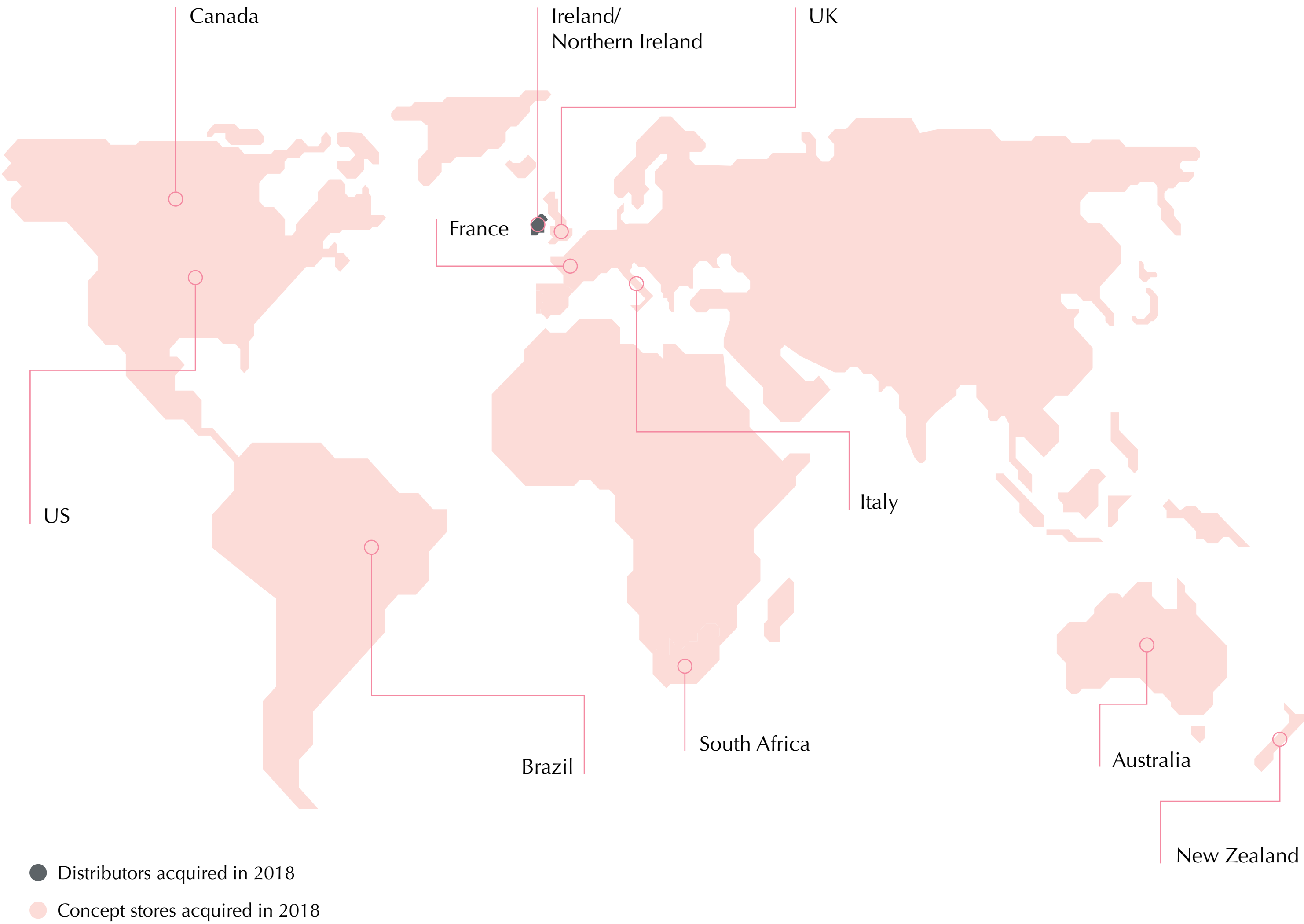
Due to the continued activity related to stores and small business acquisitions there will, at any given time, be purchase price allocations that have not been finalised at the time of reporting. Outstanding items in these are considered immaterial.

ACQUISITIONS IN 2017

CITY TIME S.L.

On 28 September 2017, Pandora acquired 100% of the share capital in City Time S.L. in Spain. The purchase price, DKK 786 million (EUR 106 million), was finally agreed between the parties and paid in December 2017. With this acquisition Pandora will gain full control of the distribution

NOTE 3.3
Business combinations (continued)



in Spain, Gibraltar and Andorra. In addition, Pandora will add 50 concept stores and 14 shop-in-shops to its retail chain.

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

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

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

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

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

NOTE 3.3

Business combinations (continued)

ACQUISITIONS (DKK million)	**Total 2018**	**Total 2017**
Distribution rights	-	131
Other intangible assets	26	17
Property, plant and equipment	109	152
Other non-current receivables	2	6
Trade receivables and other receivables	38	111
Inventories	302	470
Cash	4	10
Assets acquired	**481**	**897**
Non-current liabilities	23	17
Payables	31	94
Other current liabilities	58	35
Liabilities assumed	**112**	**146**
Total identifiable net assets acquired	**369**	**751**
Goodwill arising on the acquisitions	739	1,109
Purchase consideration	**1,108**	**1,860**
Cash movements on acquisitions:		
Prepaid, previous year [1]	-	-1
Consideration transferred regarding previous years	2	-
Deferred payment (including earn-out) [2]	-35	-6
Cash acquired	-4	-10
Net cash flows on acquisitions	**1,071**	**1,843**

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

[2] For 2017, the deferred payment is related to store acquisitions in Italy in September and South Africa in December, DKK 6 million. For 2018, the deferred payment relates to the acquisition of the distributor in Ireland, DKK 22 million, and store acquisitions in UK and Italy.

OTHER ACQUISITIONS IN 2017

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

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

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

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

Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 31 December 2017 was DKK 0.9 billion and DKK 0.2 billion, respectively.

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

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

ACQUISITIONS AFTER THE REPORTING PERIOD

On 1 January 2019, Pandora acquired the distribution in Taiwan in an asset deal from the previous distributor, Carrera Corporation, as the distribution agreement ended. The acquisition comprised inventories and non-current assets relating to five concept stores and 13 shop-in-shop. The purchase price was DKK 96 million of which DKK 7 million

NOTE 3.3

Business combinations (continued)

was paid in cash. DKK 7 million, was deferred for 6 months. Goodwill from the acquisition based on the preliminary purchase price allocation is DKK 52 million. All goodwill is expected to be deductible for income tax purposes. Goodwill mainly consists of know-how, future growth expectations and the effect of converting the acquired business from distribution to Pandora owned retail.

Pandora further acquired five stores in Italy after the reporting period in two business combinations. The total purchase price was DKK 20 million. Assets acquired are mainly non-current assets relating to the stores and inventories. Due to the timing between acquisition dates and the announcement of the financial statements, it has not been possible to finalise the purchase price allocations. Expected goodwill from the acquisitions, based on the preliminary purchase price allocation, was DKK 3 million, which is expected to be deductible in full for income tax purposes.

§ 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.

As goodwill is reported and managed internally at Group level, goodwill acquired should also be allocated to the group. Goodwill acquired is however allocated to the grouped CGU's in the three operational segments for impairment testing purposes due to the constraint in IAS 36 Impairment.

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.

NOTE 3.4

Inventories

(DKK million)	2018	2017
Raw materials and consumables	548	506
Work in progress	185	244
Finished goods	2,234	1,814
Point-of-sale materials	191	165
Total inventories at 31 December	**3,158**	**2,729**
Inventory write-downs at 1 January	447	323
Write-downs during the year	366	404
Utilised in the year	-274	-280
Inventory write-downs at 31 December	**539**	**447**

WRITE-DOWNS

Write-downs of inventories are recognised in cost of sales, DKK 294 million (2017: DKK 304 million), and operating expenses, DKK 72 million (2017: DKK 100 million). Included in the write-downs are remelt costs. It is Pandora's option to remelt 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 prices of silver and gold. Remelting of goods (realised and unrealised) had a negative impact on gross profit of DKK 230 million (2017: DKK 240 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.

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.

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 at the reporting date.

NOTE 3.5

Trade receivables

(DKK million)	2018	2017
Receivables related to third-party distribution and wholesale	1,301	1,679
Receivables related to retail sales	349	275
Total trade receivables at 31 December	**1,650**	**1,954**
Ageing of trade receivables at 31 December		
Not past due	**1,303**	**1,669**
Up to 30 days	245	209
Between 30 and 60 days	85	50
Between 60 and 90 days	13	21
Over 90 days	4	5
Total past due, not impaired	**347**	**285**
Total trade receivables at 31 December	**1,650**	**1,954**
Development in impairment losses on trade receivables		
Impairment at 1 January	37	48
Additions	87	23
Utilised	-8	-1
Unused amounts reversed	-13	-32
Exchange rate adjustments	-	-1
Impairment at 31 December	**103**	**37**

Trade receivables are amounts due from the sale of goods sold in the ordinary course of business to wholesalers and distributors, or landlords, malls or e-commerce providers responsible for the collection of cash on behalf of Pandora related to retail sales. Receivables are generally due for settlement within 30-60 days and therefore all receivables are classified as current.

While realised losses are immaterial and low still, Pandora has applied an increased risk factor due to the increased past due receivables, which has led to an increased impairment on receivables for the year. Realised losses are still within the expected range.

§ Accounting policies

Trade receivables are initially recognised at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

With the implementation of IFRS 9 Financial instruments, Pandora has applied the simplified approach to measure the expected credit loss and a a lifetime expected loss allowance for all trade receivables. In 2017 the incurred loss model was used for impariment of receivables. Based on the low realised losses on receivables historically, adjusting to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivable such as GDP and unemployment rates does not increase the risk of losses significantly. The low risk is further supported by the compilation of receivables as these consist of a large population of immaterial amounts. The ransition to the expected loss model did not have a material impact, mainly do to the low historically realised losses.

Management continues to assess the credit risks in order to ensure the credit risk never exceeds the recognised write-down on trade receivables. For a further description of credit risk, see note 4.4 Financial risks. Changes in impairment are presented in the table to the left.

NOTE 3.6
Provisions

(DKK million)	2018	2017
2018		
Provisions at 1 January	197	194
Additions in the year	160	78
Additions from acquisitions	22	19
Utilised in the year	-8	-22
Unused provisions reversed	-67	-60
Exchange rate adjustments	3	-12
Provisions at 31 December	**307**	**197**
Provisions are recognised in the consolidated balance sheet as follows:		
Current	28	47
Non-current	279	150
Provisions at 31 December	**307**	**197**

PROVISIONS
Provisions include provisions for defined benefit 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.

NOTE 3.7

Contract assets and liabilities

(DKK million)	2018	2017
Contract assets		
Receivables from sale of products, see note 3.5	1,650	1,954
Right-of-return assets	94	188
Contract assets, total	**1,744**	**2,142**
Contract liabilities		
Prepayments from customers	8	11
Coupons, gift cards etc.	58	53
Refund liabilities	869	791
Contract liabilities, total	**935**	**855**

§ Accounting policies

Pandora recognises a refund and warranty liability related to return rights provided to customers in most countries. A corresponding right-of-return asset is also included as part of contract assets. The value of the right-of-return asset is determined by how many of the returned products are expected to be sold. Remaining products are written down to remelt value together with returns covered by warranties.

The refund liability 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 effect recognised is the gross margin of the expected returns and the potential effect of writing down parts of the returned goods to remelt value. Changes to the right-of-return asset and refund liability are recognised gross in the income statement, i.e. as both revenue and cost of sales.

Refund liability to cover warranty claims is based on expected replacements provided for products still covered by warranty at the end of the period. The liability is recognised gross in the income statement, as both a reduction in revenue and a decrease in cost of goods sold. This is due to the handling of warranty claims, which lead to replacements instead of repairs.

No costs to obtain contracts with customers have been capitalised as part of contracts with customers either in 2018 or previous years. This is common practice in Pandora.

! Significant accounting estimates

In most countries, Pandora has provided return and warranty rights to customers. The recognised refund liability relating to return rights is assessed to a large extent based on historical return patterns, and changes in actual return patterns will therefore impact revenue and cost of sales at the time of the return. Liabilities are recognised on a case-by-case basis when Pandora expects to take back specific goods for commercial reasons.

SECTION 4

Capital Structure and Net Financials

86.4%
Cash conversion
2017: 68.0%

103.7%
Total payout ratio
2017: 99.1%

3,289
Share buyback (DKK million)
2017: 1,721

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. See page 42 in Shareholder information and note 4.4 for further description. At 31 December 2018, the ratio was 0.8x compared with 0.6x at 31 December 2017. The cash conversion was 86.4% in 2018 compared with 68.0% in 2017.

NOTE 4.1
Share capital

SHARE CAPITAL	Number of shares	Nominal value (DKK)
2018		
Balance at 1 January	112,507,391	112,507,391
Reduction of share capital	-2,478,388	-2,478,388
Balance at 31 December	**110,029,003**	**110,029,003**
2017		
Balance at 1 January	117,056,821	117,056,821
Reduction of share capital	-4,549,430	-4,549,430
Balance at 31 December	**112,507,391**	**112,507,391**

TREASURY SHARES	Number of shares	Nominal value (DKK)	Purchase/ sales price	% of shares
2018				
Balance at 1 January	2,891,926	2,891,926	1,999,226,958	2.6%
Used to settle performance shares	-152,510	-152,510	-105,432,194	-0.1%
Reduction of share capital	-2,478,388	-2,478,388	-1,713,342,631	-2.2%
Purchase of treasury shares	7,564,525	7,564,525	3,288,952,124	6.9%
Balance at 31 December	**7,825,553**	**7,825,553**	**3,469,404,257**	**7.1%**
2017				
Balance at 1 January	5,130,682	5,130,682	4,333,588,278	4.4%
Used to settle performance shares	-256,212	-256,212	-216,407,355	-0.2%
Reduction of share capital	-4,549,430	-4,549,430	-3,839,125,732	-3.9%
Purchase of treasury shares	2,566,886	2,566,886	1,721,171,767	2.3%
Balance at 31 December	**2,891,926**	**2,891,926**	**1,999,226,958**	**2.6%**

At 31 December 2018, the share capital comprised 110,029,003 shares with a par value of DKK 1. No shares have special rights.

In 2018, Pandora launched a share buyback programme under which Pandora expected to buy back own shares to a value of DKK 4,000 million. Pandora bought 7,564,525 treasury shares in 2018, corresponding to a total purchase price of DKK 3,289 million. Hereof 127,500 treasury shares corresponding to a total purchase price of DKK 79 million related to the 2017 programme, and 7,437,025 treasury shares corresponding to a total purchase price of DKK 3,210 million related to the 2018 programme.

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.

NOTE 4.2

Earnings per share and dividend

(DKK million)	2018	2017
Profit attributable to equity holders	**5,045**	**5,768**
Weighted average number of ordinary shares	106,956,155	110,962,355
Effect of performance shares	272,971	413,538
Weighted average number of ordinary shares adjusted for the effect of dilution	**107,229,126**	**111,375,893**
Basic earnings per share, DKK	47.2	52.0
Diluted earnings per share, DKK	47.0	51.8

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 2018, proposed dividend (not yet declared) was DKK 9 per share (2017: DKK 9 per share), corresponding to DKK 920 million. Declared dividend of DKK 9 per share, corresponding to DKK 986 million in 2017, was paid to the shareholders in 2018. No dividend was paid on treasury shares.

Furthermore, DKK 957 million was paid as part of the commitment to pay bi-annual dividend in 2018 relating to the 2018 result.

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). Bi-annual dividend is recognised as a liability at the declaration date.

NOTE 4.3

Net interest-bearing debt

(DKK million)	2018	2017
Loans and borrowings, non-current	6,421	5,283
Other liabilities, non-current	62	401
Loans and borrowings, current	248	164
Other liabilities, current	308	-
Cash	-1,387	-993
Net interest-bearing debt	**5,652**	**4,855**

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 loan agreements with 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. See page 42 in Shareholder information and note 4.4 for further description. At 31 December 2018, the NIBD to EBITDA ratio was 0.8x (2017: 0.6x).

Total committed credit facilities amount to DKK 7,500 million (2017: DKK 7,500 million), of which DKK 1,000 million are committed until June 2021 and DKK 6,500 million until June 2022.

NOTE 4.3

Net interest-bearing debt (continued)

TOTAL LIABILITIES FROM FINANCING ACTIVITIES (DKK million)	**Financial liabilities 1 January**	**Cash flows, net**	**Foreign exchange adjustments**	**Financial liabilities 31 December**
2018				
Borrowings, falling due after 1 year	5,283	1,138	-	6,421
Borrowings, falling due within 1 year	164	84	-	248
Total liabilities from financing activities	**5,447**	**1,222**	**-**	**6,669**
2017				
Borrowings, falling due after 1 year	3,008	2,275	-	5,283
Borrowings, falling due within 1 year	3	164	-3	164
Total liabilities from financing activities	**3,011**	**2,439**	**-3**	**5,447**

§ Accounting policies

On initial recognition, interest-bearing debt and borrowings are measured at fair value less transaction costs. 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 are measured at fair value as if the put options have been exercised already. The value is determined using 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 will be 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 transactions 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.

NOTE 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.

The table below illustrates the sensitivity on 2018 revenue, EBITDA and EBITDA margin from currency rates and commodity price movements. In addition, the sensitivity of assets and liabilities as of 31 December from currency movements is illustrated on next page.

To manage financial risks, Pandora may use 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.

It is Pandora's policy to hedge at least 50% of the combined commodity, currency and interest rate risk. However, 70% of the commodity purchase must be hedged.

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 general policy is for Group Treasury to hedge 70% of the Group's expected purchases.

		2018			**2017**		
SENSITIVITY ANALYSIS ON CURRENCY AND COMMODITY[1] (DKK million)	**Change in exchange rate and commodity prices**	**Revenue**	**EBITDA**	**EBITDA margin impact**	**Revenue**	**EBITDA**	**EBITDA margin impact**
USD	+10%	603	114	-0.4%	645	185	-0.2%
CAD	+10%	76	52	0.1%	88	70	0.2%
AUD	+10%	136	95	0.2%	165	124	0.3%
GBP	+10%	275	196	0.5%	281	223	0.5%
EUR	+1%	70	41	0.1%	66	43	0.1%
CNY	+10%	197	97	0.1%	159	90	0.1%
THB	+10%	-	-281	-1.2%	-	-309	-1.4%
GOLD and SILVER	+10%	-	-147	-0.6%	-	-194	-0.8%

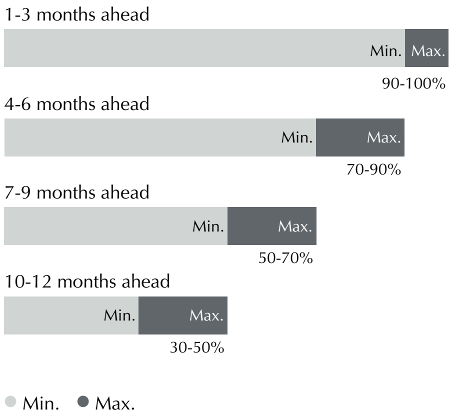
[1] Revenue and EBITDA would have been impacted by the above amounts if exchange rates and commodity prices in 2018 had been higher than the realised exchange rates and commodity prices. The impact would have been the opposite if exchange rates and commodity prices had been decreasing with similar percentages. The analysis is based on the transaction currency. The analysis excludes effect from hedging and time lack of inventory.

NOTE 4.4

Financial risks (continued)

Purchases are hedged from 1 to 12 months forward with a hedge ratio target that decreases with time to maturity as illustrated in the table. Any deviation from the policy must be approved by the Group CFO.

COMMODITY HEDGE RATIO TARGET (%)



For 2019, hedging of expected purchases of silver have been increased to 85%, equivalent to 100% hedging of the cost of goods related to silver due to time lag effect from inventory.

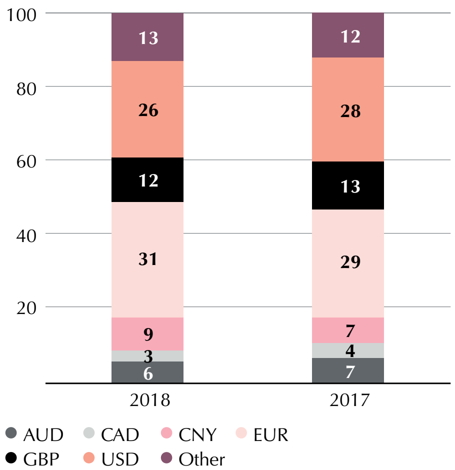
Commodity hedging is updated at the end of each month or in connection with revised 12-month rolling production plans. Actual production may deviate from the 12-month rolling production plan. In case of deviations, the realised commodity hedge ratio may deviate from the estimated hedge ratio. For the fair value of hedging instruments, see note 4.5.

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, CNY and EUR. A substantial portion of Pandora's costs relates to raw materials purchased in USD. Pandora also purchases raw materials and pays other costs in THB. Exchange rate changes to these currencies will result in changes to the translated value of future EBITDA and cash flows.

REVENUE BREAKDOWN BY CURRENCY (%)



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.

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. For 2019, 70% of the cash flow from the main currencies are hedged based on a rolling 12-month liquidity forecast. Cash flows are hedged from 1 to 12 months forward with a hedge ratio that decreases with time to maturity. Foreign currency hedging is updated at the end of each month or in connection with revised 12-month rolling cash forecasts.

The table below illustrates the currency revaluation impact in DKK million on net profit and changes in equity resulting from a change in the Group's primary foreign currencies after the effect of hedge accounting.

CURRENCY EXPOSURE FROM ASSETS AND LIABILITIES (DKK million)	**Change in exchange rate**	**31 December 2018** Profit (loss) before tax	**31 December 2018** Equity	**31 December 2017** Profit (loss) before tax	**31 December 2017** Equity
USD	+10%	243	84	316	216
CAD	+10%	7	-28	7	-40
AUD	+10%	30	-24	25	-64
GBP	+10%	50	-103	3	-163
EUR	+1%	-	-	3	3
THB	+10%	70	350	-11	265
CNY	+10%	39	-34	31	30

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. The impact would have been the opposite if exchange rates had been decreasing by similar percentages. The analysis is based on the transaction currency.

NOTE 4.4

Financial risks (continued)

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. With the implementation of IFRS 9 Financial instruments, Pandora now recognises the expected credit losses up front also considering changes in the macro environment that might impose an increased risk of losses. This is compared to the previous model where indications of credit losses were needed for Pandora to recognise an expected loss.

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 3.5 includes an overview of the credit risk related to trade receivables. Rating of trade receivables does not differ materially either by type of customer or geographic location. The risk of further impairment is considered to be 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

Pandora's cash conversion is high and Pandora maintains an adequate level of cash, debt and un-utilised credit facilities to meet financial obligations when due. The liquidity risk of Pandora is considered low.

Pandora has committed revolving credit facilities of DKK 7,500 million, of which DKK 1,000 million is committed until June 2021 and DKK 6,500 million until June 2022. Furthermore, Pandora has uncommitted credit facilities to ensure efficient and flexible local liquidity management. These credit facilities are managed by Group Treasury.

Pandora's loan and credit agreements contain one financial covenant. The covenant has not been breached in 2018.

INTEREST RATE RISK

Interest rate risk is the risk of interest rate fluctuations resulting in changed costs related to floating-rate loans. At the reporting date, all interest-bearing loans and borrowings were based on floating interest rates.

Pandora's conservative capital structure policy is to maintain a leverage ratio between 0 and 1. Due to the limited amount of debt level the interest rates risk is considered low.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

The table on the following page breaks the Group's financial liabilities down 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 insignificant.

Obligations to acquire non-controlling interests mainly relate to the acquisitions in Japan in January 2015 and China in July 2015. The highest amounts payable according to the respective contracts are DKK 183 million for Japan and for China, DKK 376 million less the price paid for the assets transferred.

Based on Management assessment, the fair value of the obligation in Japan is calculated considering the expected revenue at the end of the contract based on the latest available information. Discounted fair value at the reporting date was recognised at DKK 59 million (2017: DKK 76 million), while the obligation relating to China was recognised at DKK 286 million (2017: DKK 325 million). As the put option for China was exercised in January 2019, the obligation to acquire the remaining non-controlling interests, was recognised at the amount paid. The obligation was decreased by DKK 39 million in 2018.

The put/call option regarding the remaning 5% of the share capital in the Irish distributor is included in the value below at the contractual amount, as this will be paid in Q1 2019. The value is DKK 7 million. Included in the following table is also the earn-out payment relating to Pandora Jewelry Central Western Europe A/S recognised at DKK 0 (2017: DKK 0).

Commitments relating to operating leases have not been included in the table. Details relating to 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.

NOTE 4.4

Financial risks (continued)

LIABILITIES FALL DUE AS FOLLOWS (DKK million)	**Falling due within 1 year**	**Falling due between 1 and 5 years**	**Falling due more than 5 years**	**Total**
2018				
Non-derivatives				
Loans and borrowings	248	6,421	-	6,669
Trade payables	2,253	-	-	2,253
Other payables	1,109	113	-	1,222
Contract liabilities	66	-	-	66
Derivatives				
Derivative financial instruments	83	-	-	83
Fair value of obligation to acquire non-controlling interests (put-options)	293	62	-	355
Total at 31 December	**4,052**	**6,596**	**-**	**10,648**
2017				
Non-derivatives				
Loans and borrowings	164	5,283	-	5,447
Trade payables	1,695	-	-	1,695
Other payables	1,023	80	-	1,103
Contract liabilities	64	-	-	64
Derivatives				
Derivative financial instruments	143	-	-	143
Fair value of obligation to acquire non-controlling interests (put-options)	-	449	-	449
Total at 31 December	**3,089**	**5,812**	**-**	**8,901**

NOTE 4.5

Derivative financial instruments

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**
2018				
Commodities	55	-33	22	9
Foreign exchange	107	-50	57	44
Total derivative financial instruments	**162**	**-83**	**79**	**53**
2017				
Commodities	10	-26	-16	-10
Foreign exchange	143	-117	26	20
Total derivative financial instruments	**153**	**-143**	**10**	**10**

CLASSIFICATION ACCORDING TO THE FAIR VALUE HIERARCHY

The fair value at 31 December 2018 and 2017 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 London Bullion Market Association (LBMA). The value of unrealised foreign exchange instruments is tested against observable foreign exchange forward rates.

Put options related to non-controlling interests are measured in accordance with level 3 in the fair value hierarchy (non-observable data) based on projected revenue derived from the approved budget for 2019 for Japan and actual revenue in 2018 for China, assuming the options are exercised by the non-controlling interests at year end in the current financial year.

NOTE 4.5

Derivative financial instruments (continued)

§ 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 IFRS 9. Hedge accounting is classified as a cash flow hedge when the hedges of a particular risk is associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

Pandora designates and documents all hedging relationships between commodity contracts and purchase transactions.

The full value of financial instruments on equity is released from equity at the time the instrument is settled, i.e. within 12 months.

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.

NOTE 4.6

Net financials

FINANCE INCOME (DKK million)	**2018**	**2017**
Finance income from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	115	153
Total finance income from derivative financial instruments	**115**	**153**
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	414	42
Interest income, bank	3	2
Interest income, loans and receivables	1	1
Total finance income from loans and receivables	**418**	**45**
Total finance income	**533**	**198**

FINANCE COSTS (DKK million)	**2018**	**2017**
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	43	43
Total finance costs from derivative financial instruments	**43**	**43**
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	276	227
Interest on loans and borrowings	30	21
Other finance costs	33	24
Total finance costs from loans and borrowings	**339**	**272**
Total finance costs	**382**	**315**

NOTE 4.6

Net financials (continued)

§ 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 over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

NOTE 4.7

Other non-cash adjustments

OTHER NON-CASH ADJUSTMENTS (DKK million)	**2018**	**2017**
Effects from exchange rate adjustments	-47	-112
Effects from derivative financial instruments	124	228
Other, including gains/losses from the sale of property, plant and equipment	-18	-14
Total other non-cash adjustments	**59**	**102**

SECTION 5

Other Disclosures

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

NOTE 5.1

Contingent liabilities

LITIGATION

Pandora is a party to various legal proceedings related to copyrights, marketing conduct and pricing. None of these proceedings are expected to have a material effect on Pandora's financial position or future earnings.

CONTRACTUAL OBLIGATIONS

Pandora is a party to a number of long-term purchases, 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 357 million (2017: DKK 350 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.

NOTE 5.2

Related parties

RELATED PARTIES WITH SIGNIFICANT INTERESTS

At 31 December 2018, treasury shares accounted for 7.1% of the share capital (2017: 2.6%), see note 4.1.

Other related parties of Pandora with significant influence include the Board, 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 2018, 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 or the Executive Management, except for compensation and benefits received as a result of their membership of the Board, employment with Pandora or shareholdings in Pandora. See notes 2.3 and 2.4.

NOTE 5.3

Fees to independent auditor

(DKK million)	2018	2017
Fee for statutory audit	9	9
Other assurance engagements	1	1
Total audit related services	**10**	**10**
Tax consultancy	-	1
Other services	1	2
Total non-audit services	**1**	**3**
Total fees to independent auditor	**11**	**13**

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 must 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.

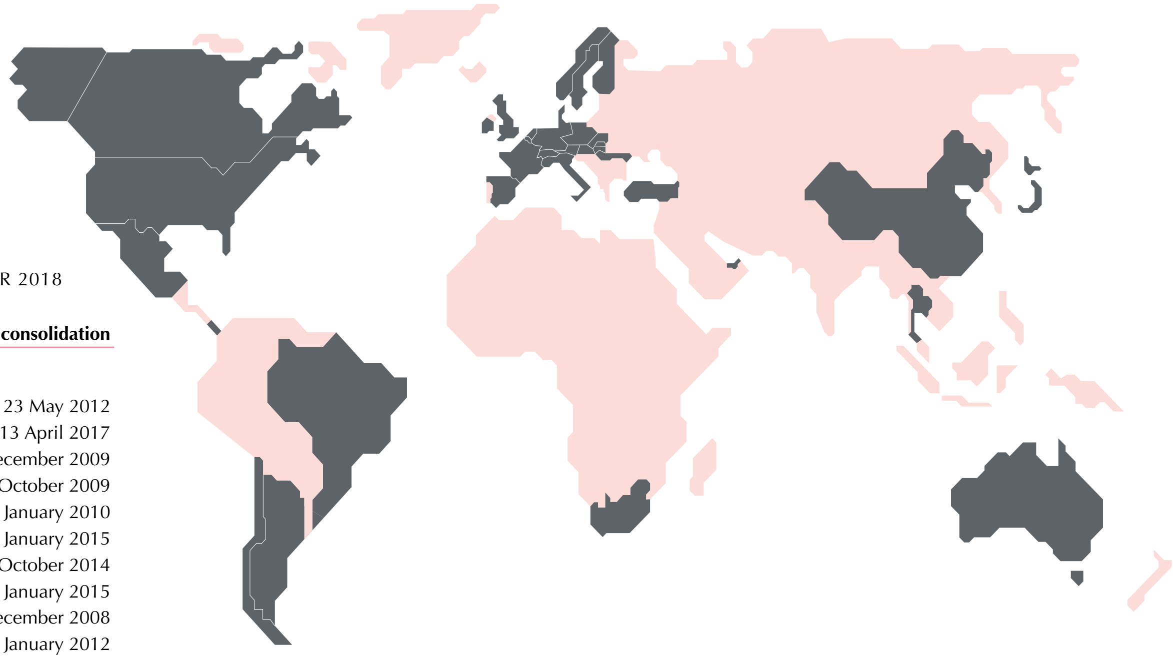
Other non-audit services include fees for advisory services related to acquisitions and include both accounting and tax as well as due diligence-related work. All non-audit services have been approved by the Audit Committee in 2018.

NOTE 5.4

Events occuring after the reporting period

On 1 January 2019, Pandora acquired the distribution in Taiwan in an asset deal from the previous distributor Carrera Corporation as the distribution agreement ended. The acquisition comprised inventory and non-current assets relating to five concept stores and 13 shop-in-shop. Further, Pandora acquired 5 stores in Italy. See note 3.3 for more information.

On 8 January 2019, Pandora acquired the remaning 25% of the shares in the Chinese entity from the previous Chinese distributor Oracle for DKK 286 million equal to the liability recognised, see note 4.4. Pandora now own 100% of the shares.



NOTE 5.5

Companies in the Pandora Group

THE TABLE BELOW SHOWS INFORMATION ABOUT THE GROUP ENTITIES AT 31 DECEMBER 2018

Company	Ownership	Registered office	Date of consolidation
EMEA			
Pandora Österreich GmbH	100%	Austria	23 May 2012
Pandora Jewellery Belgium NV	100%	Belgium	13 April 2017
Pandora Jewelry CR s.r.o.	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 Jewellery UK Limited	100%	England	1 December 2008
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 Hungary Ltd.	100%	Hungary	2 June 2010
Pandora Jewelry Limited	100%	Ireland	10 January 2018
Pandora Italia SRL	100%	Italy	23 May 2012
Pandora Jewelry B.V.	100%	Netherlands	20 September 2010
Pandora Norge AS	100%	Norway	17 August 2010
Pandora Jewelry Shared Services 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 Slovakia s.r.o.	100%	Slovakia	6 September 2016
Pandora Jewellery Spain S.L	100%	Spain	28 September 2017
Pandora Jewellery South Africa Pty Ltd.	100%	South Africa	31 January 2017
Pandora Sweden AB	100%	Sweden	4 November 2013
Pandora Schweiz AG	100%	Switzerland	6 December 2011
Pandora Jewelry Mücevherat Anonim Şirketi	100%	Turkey	4 November 2013
AMERICAS			
Pandora Jewelry Argentina SRL	100%	Argentina	27 September 2017
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 Franchise Canada Ltd.	100%	Canada	19 January 2011
Pandora Retail Canada Ltd.	100%	Canada	4 February 2014
Pandora Jewelry Chile SpA	100%	Chile	7 May 2017
Pandora Jewelry Mexico Import, S.A. de C.V.	100%	Mexico	4 April 2018
Pandora Jewelry Mexico, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Mexico Servicios, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Panama S.A.	100%	Panama	5 July 2016
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
ASIA PACIFIC			
AD Astra Holdings 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 Jewelry (Shanghai) Company Ltd.	100%	China	4 February 2015
Pandora Jewelry Design (Beijing) Company Ltd.	100%	China	1 March 2016
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 Japan Ltd.	100%	Japan	29 October 2014
Pandora Jewelry Macau Company Ltd.	100%	Macau	1 January 2016
Pandora Jewelry Singapore Pte. Ltd.	100%	Singapore	1 January 2016
Other (Production)			
Pandora Production Co. Ltd.	100%	Thailand	7 March 2008
Pandora Services Co. Ltd.	100%	Thailand	15 October 2010

Pandora has seven dormant companies, which have been omitted from the table.

NOTE 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.

Revenue growth, %	(This year's revenue - last year's revenue) (rolling 12 months) / Last year's revenue
Revenue growth, local currency, %	(This year's revenue at last years exchanges rates - last year's revenue) (rolling 12 months) / Last year's revenue
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'

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.

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 and amortisation
EBIT	Earnings before interest and tax (operating profit)
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
Retail like-for-like sales-out growth, %	Revenue from Pandora owned concept stores and eSTOREs (excluding outlets) that have been owned and operated for more than 12 months relative to the same period last year
Total like-for-like sales-out growth, %	Revenue from concept stores and eSTOREs across all channels (excluding outlets) that have been operated for more than 12 months relative to the same period last year
Organic growth, %	Growth in external revenue in local currency relative to the same period last year adjusted for the acquisition/divestment of distributors and franchisee stores (the effect of converting wholesale to retail revenue and vice versa)
Days sales outstanding (DSO)	Last three months of wholesale and third-party distribution revenue relative to trade receivables

Furthermore, a breakdown of 'Operating working capital', 'Net working capital' and 'Invested capital' is given on the section 3 front page.

Parent Company

Statement of comprehensive income

(For the year ended 31 December)

INCOME STATEMENT (DKK million)	**Notes**	**2018**	**2017**
Revenue	2.1	12,933	12,810
Cost of sales		-6,314	-6,134
Gross profit		**6,619**	**6,676**
Sales, distribution and marketing expenses	2.2, 3.1	-450	-423
Administrative expenses	2.2, 3.1	-1,615	-1,076
Operating profit		**4,554**	**5,177**
Dividends from subsidiaries	3.3	1,883	5,686
Finance income	4.5	669	265
Finance costs	4.5	-324	-310
Profit before tax		**6,782**	**10,818**
Income tax expense	2.4	-1,117	-1,317
Net profit for the year		**5,665**	**9,501**

STATEMENT OF COMPREHENSIVE INCOME (DKK million)	**Notes**	**2018**	**2017**
Net profit for the year		**5,665**	**9,501**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Commodity hedging instruments:			
- Realised in net cost of sales		-6	-
- Realised in net financials		-1	-
- Fair value adjustments		7	-4
Foreign exchange hedging instruments:			
- Realised in net financials		-97	-117
- Fair value adjustments		129	101
Tax on other comprehensive income, hedging instruments, income/expense	2.4	-7	4
Other comprehensive income, net of tax		**25**	**-16**
Total comprehensive income for the year		**5,690**	**9,485**

Balance sheet

(At 31 December)

ASSETS (DKK million)	Notes	2018	2017[1]
Intangible assets	3.1	3,405	3,383
Property, plant and equipment	3.2	55	73
Investments in subsidiaries	3.3	4,738	3,914
Loans to subsidiaries	5.2	1,201	164
Other financial assets		9	9
Total non-current assets		**9,408**	**7,543**
Inventories	3.4	1,175	974
Trade receivables	3.5	15	33
Receivables from subsidiaries	5.2	6,694	7,477
Right-of-return assets	3.6	200	128
Derivative financial instruments	4.3, 4.4	162	153
Income tax receivable		20	244
Other receivables		231	144
Cash		-	68
Total current assets		**8,497**	**9,221**
Total assets		**17,905**	**16,764**

EQUITY AND LIABILITIES (DKK million)	Notes	2018	2017[1]
Share capital	4.1	110	113
Treasury shares		-3,469	-1,999
Reserves		531	355
Dividend proposed		920	987
Retained earnings		9,306	7,530
Total equity		**7,398**	**6,986**
Provisions		8	-
Loans and borrowings	4.2, 4.4	6,421	5,283
Deferred tax liabilities	2.4	386	467
Other payables	4.4	11	3
Total non-current liabilities		**6,826**	**5,753**
Provisions		4	-
Refund liabilities	3.6	1,260	731
Loans and borrowings	4.2, 4.4	125	125
Derivative financial instruments	4.3, 4.4	83	143
Payables to subsidiaries	4.4, 5.2	1,537	2,391
Trade payables	4.4	563	368
Income tax payable		-	191
Other payables	4.4	109	76
Total current liabilities		**3,681**	**4,025**
Total liabilities		**10,507**	**9,778**
Total equity and liabilities		**17,905**	**16,764**

[1] Figures have been restated to reflect the adoption of IFRS 15.

Statement of changes in equity

(For the year ended 31 December)

(DKK million)	Notes	Share capital	Treasury shares	Hedging reserve	Other reserves[1]	Dividend proposed	Retained earnings	Total equity
2018								
Equity at 1 January		113	-1,999	20	335	987	7,530	6,986
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**5,665**	**5,665**
Fair value adjustments of hedging instruments		-	-	32	-	-	-	32
Tax on other comprehensive income	2.4	-	-	-7	-	-	-	-7
Other comprehensive income, net of tax		**-**	**-**	**25**	**-**	**-**	**-**	**25**
Total comprehensive income for the year		**-**	**-**	**25**	**-**	**-**	**5,665**	**5,690**
Transfers		-	-	-	151	-	-151	-
Share-based payments	2.3	-	-	-	-	-	-31	-31
Share-based payments (exercised)		-	105	-	-	-	-105	-
Share-based payments (tax)		-	-	-	-	-	-15	-15
Purchase of treasury shares		-	-3,289	-	-	-	-	-3,289
Reduction of share capital		-3	1,714	-	-	-	-1,711	-
Dividend paid		-	-	-	-	-1,954	11	-1,943
Dividend proposed		-	-	-	-	1,887	-1,887	-
Equity at 31 December		**110**	**-3,469**	**45**	**486**	**920**	**9,306**	**7,398**
2017								
Equity at 1 January		117	-4,334	36	147	1,007	6,189	3,162
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**9,501**	**9,501**
Fair value adjustments of hedging instruments		-	-	-20	-	-	-	-20
Tax on other comprehensive income	2.4	-	-	4	-	-	-	4
Other comprehensive income, net of tax		**-**	**-**	**-16**	**-**	**-**	**-**	**-16**
Total comprehensive income for the year		**-**	**-**	**-16**	**-**	**-**	**9,501**	**9,485**
Transfer		-	-	-	188	-	-188	-
Share-based payments	2.3	-	-	-	-	-	66	66
Share-based payments (exercised)		-	217	-	-	-	-215	2
Share-based payments (tax)		-	-	-	-	-	-13	-13
Purchase of treasury shares		-	-1,721	-	-	-	-	-1,721
Reduction of share capital		-4	3,839	-	-	-	-3,835	-
Dividend paid		-	-	-	-	-4,004	9	-3,995
Dividend proposed		-	-	-	-	3,984	-3,984	-
Equity at 31 December		**113**	**-1,999**	**20**	**335**	**987**	**7,530**	**6,986**

[1] Other reserves include non-distributable reserves under Danish legislation relating to the capitalisation of projects developed in-house.

Dividend paid in 2018 relating to the 2017 results was DKK 9 per share, corresponding to DKK 986 million (2017: DKK 1,007 million). Furthermore, DKK 957 million was paid as part of the commitment to pay bi-annual dividend in 2018 relating to the 2018 results. In 2019, Pandora will pay a dividend of DKK 9 per share, corresponding to DKK 920 million, relating to the 2018 results as well as a bi-annual dividend of DKK 9 per share, corresponding to an expected payout of DKK 0.9 billion. The bi-annual dividend is in accordance with section 182 in the Danish Companies Act.

Statement of cash flows

(For the year ended 31 December)

(DKK million)	Notes	2018	2017[1]
Profit before tax		6,782	10,818
Finance income	4.5	-669	-265
Finance costs	4.5	324	310
Dividends from subsidiaries		-1,883	-5,686
Depreciation and amortisation		201	179
Share-based payments	2.3	-10	22
Change in inventories		-200	114
Change in intercompany receivables/payables		2,754	-2,884
Change in receivables		-151	-101
Change in payables and other liabilities		689	-180
Other non-cash adjustments	4.6	291	-89
Interest etc. received		125	63
Interest etc. paid		-38	-40
Income tax paid		-1,187	-1,176
Cash flows from operating activities, net		**7,028**	**1,085**
Acquisitions of subsidiaries and activities, net of cash acquired	3.3	-823	-1,081
Purchase of intangible assets		-195	-310
Purchase of property, plant and equipment		-5	-
Dividends received		1,883	5,686
Cash flows from investing activities, net		**860**	**4,295**
Dividend paid		-1,943	-3,995
Purchase of treasury shares	4.1	-3,289	-1,721
Proceeds from loans and borrowings	4.2	4,372	5,071
Repayment of loans and borrowings	4.2	-7,096	-4,742
Cash flows from financing activities, net		**-7,956**	**-5,387**
Net increase/decrease in cash		**-68**	**-7**
Cash at 1 January[2]		68	75
Net increase/decrease in cash		-68	-7
Cash at 31 December[2]		**-**	**68**

(DKK million)	Notes	2018	2017[1]
Cash flows from operating activities, net		7,028	1,085
- Interest etc. received		-125	-63
- Interest etc. paid		38	40
Cash flows from investing activities, net		860	4,295
- Acquisition of subsidiaries and activities, net of cash acquired		823	1,081
Free cash flow		**8,624**	**6,438**
Unutilised credit facilities		1,595	2,761

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

[1] Figures have been restated to reflect the adoption of IFRS 15.

[2] Cash comprises cash at bank and in hand.

Notes for the Parent Company

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. For some notes, reference is made to notes in the consolidated financial statements.

NOTE 1.1

Principal accounting policies

PARENT COMPANY FINANCIAL STATEMENTS

The accounting policies of the Parent Company have changed with the implementation of IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers, as described in detail in note 1.2 to the consolidated financial statements. All other accounting policies 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 entities 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 IFRS 9 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.

NOTE 1.2

New accounting policies and disclosures

NEW STANDARDS AND INTERPRETATIONS

The description in note 1.2 to the consolidated financial statements regarding new standards issued effective for the Annual Report for 2018 fully covers the Parent Company as well, with the following exceptions:

Hedge accounting of commodity contracts for the purchase of silver and gold provide an option to apply hedge accounting according to IFRS 9. It has been decided not to apply hedge accounting of commodity contracts in the Parent Company.

Write-downs of loans and receivables according to IFRS 9 require the Parent Company to record expected credit losses on Group internal loans and receivables. The effect of recognising these was considered immaterial at the time of implementation. At year end, this has been reassessed as the risk premium has been increased slightly and an impairment of DKK 40 million was recorded. See note 5.2.

Except for the new presentation of contract assets and liabilities, the implementation of IFRS 15 has not had any impact on the Parent Company, as all performance obligations - the sale of products - take place at a point in time and no variable consideration has been identified that should be deferred.

IFRS 16 Leases is effective for the annual reporting period beginning 1 January 2019. Main changes to the reporting in Pandora A/S is equal to that described for the Group in note 1.2.

Pandora A/S will apply the simplified transition approach without restating comparative figures when adopting the standard on 1 January 2019.

Leases in Pandora A/S is mainly related to the lease of the Head Quarter in Copenhagen. At the reporting date, Pandora had non-cancellable operating lease commitments of DKK 155 million. Pandora will recognise right-of-use assets of around DKK 155 million and lease liabilities of around DKK 155 million on 1 January 2019. Overall, invested capital will increase by DKK 155 million. The impact from the implementation of the standard is affecting the EBITDA margin, by around 4% points increase as the classification of fixed lease expenses will change from operating expenses in the income statement, to depreciation of the right-of-use asset and interest related to the liability. The implementation will only have a very marginal impact on EBIT.

The measured discounted value of lease liabilities is calculated applying incremental borrowing rates, which averages around 0.5-1.0 %.

NOTE 1.3

Management's judgements and estimates under IFRS

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, see note 1.3 to the consolidated financial statements.

NOTE 2.1

Revenue from contracts with customers

REVENUE BY COUNTRY (DKK million)	**2018**	**2017**
EMEA	5,939	6,520
Americas	4,710	3,601
Asia Pacific	2,284	2,689
Total revenue	**12,933**	**12,810**

REVENUE BY SALES CHANNEL (DKK million)	**2018**	**2017**
Third-party distribution	12,933	12,810
Total revenue	**12,933**	**12,810**

REVENUE PER PRODUCT CATEGORY (DKK million)	**2018**	**2017**
Charms	6,395	6,897
Bracelets	2,934	2,389
Rings	1,859	1,948
Earrings	796	833
Necklaces & Pendants	949	743
Total revenue[1]	**12,933**	**12,810**
Goods transferred at a point in time	12,933	12,810
Total revenue	**12,933**	**12,810**

[1] Figures included franchise fees of DKK 6 million (2017: DKK 8 million), which are allocated to the product categories.

Revenue by category of the sale of Pandora products is not materially different between the regions.

Revenue mainly comprice the sale of jewellery to subsidiaries carrying out the distribution. All sales are thus group internal. Contracts are generally 5 years distribution contracts.

§ Accounting policies

Revenue is recognised when control of the products has been transferred to the subsidiaries. Change of control of the products occurs when the products have been delivered to the subsidiary and no further obligation exists that can affect the transfer of control. The parent provide return rights to subsidiaries, which cover products received in subsidiaries for both returns and warranty, based on historic return rates and current provisions in subsidiaries.

NOTE 2.2
Staff costs

(DKK million)	2018	2017
Wages and salaries	343	329
Pensions	25	22
Share-based payments	-10	22
Social security costs	5	2
Other staff costs	37	95
Total staff costs	**400**	**470**
Staff costs have been recognised in the income statement:		
Sales, distribution and marketing expenses	133	143
Administrative expenses	267	327
Total staff costs	**400**	**470**
Average number of full-time employees during the year	448	386

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.

NOTE 2.3
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. As described in note 2.4 to the consolidated financial statements, the reversal of cost exceeds the recorded cost in the year and results in a total positive effect of DKK 31 million (2017: cost of DKK 66 million), of which DKK 21 million relates to subsidiaries (2017: DKK 44 million).

NOTE 2.4
Taxation

INCOME TAX EXPENSE (DKK million)	2018	2017
Current income tax charge for the year	1,195	1,205
Deferred tax change for the year	-78	114
Adjustment to current tax for prior years	25	-9
Adjustment to deferred tax for prior years	-25	7
Total income tax expense	**1,117**	**1,317**
Deferred tax on other comprehensive income	7	-4
Tax on other comprehensive income	**7**	**-4**

RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	%	(DKK million)	%	(DKK million)
Profit before tax		6,782		10,818
Corporate tax rate in Denmark, 22%	22.0%	1,492	22.0%	2,380
Non-taxable dividend income	-6.1%	-414	-11.6%	-1,251
Other adjustments including adjustment to tax for prior years	0.5%	34	0.0%	-5
Withholding taxes	0.1%	5	1.8%	193
Effective income tax rate/income tax expense	**16.5%**	**1,117**	**12.2%**	**1,317**

§ 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. The jointly taxed Danish companies are taxed under the on-account tax scheme.

Further information is provided in note 2.5 to the consolidated financial statements.

CONTENTS

NOTE 2.4

Taxation (continued)

DEFERRED TAX (DKK million)	**2018**	**2017**
Deferred tax at 1 January	-467	-310
Recognised in the income statement	103	-121
Recognised in other comprehensive income	-7	4
Recognised in equity, share-based payments	-15	-40
Deferred tax at 31 December	**-386**	**-467**
Deferred tax liabilities	-386	-467
Deferred tax, net	**-386**	**-467**

BREAKDOWN OF DEFERRED TAX (DKK million)	**2018**	**2017**
Intangible assets	-647	-637
Property, plant and equipment	10	10
Provisions	233	133
Other assets and liabilities	18	27
Deferred tax, net	**-386**	**-467**

NOTE 3.1

Intangible assets

(DKK million)	**Goodwill**	**Brand**	**Distri-bution network**	**Distri-bution rights**	**Other intangible assets**	**Total**
2018						
Cost at 1 January	549	1,044	453	1,087	941	4,074
Additions	-	-	-	-	325	325
Disposals	-	-	-	-	-156	-156
Cost at 31 December	**549**	**1,044**	**453**	**1,087**	**1,110**	**4,243**
Amortisation and impairment losses at 1 January	-	-	301	36	354	691
Amortisation for the year	-	-	30	-	151	181
Disposals	-	-	-	-	-34	-34
Amortisation and impairment losses at 31 December	**-**	**-**	**331**	**36**	**471**	**838**
Carrying amount at 31 December	**549**	**1,044**	**122**	**1,051**	**639**	**3,405**
2017						
Cost at 1 January	462	1,044	453	1,087	624	3,670
Acquisition of activities	87	-	-	-	-	87
Additions	-	-	-	-	317	317
Cost at 31 December	**549**	**1,044**	**453**	**1,087**	**941**	**4,074**
Amortisation and impairment losses at 1 January	-	-	270	36	230	536
Amortisation for the year	-	-	31	-	124	155
Amortisation and impairment losses at 31 December	**-**	**-**	**301**	**36**	**354**	**691**
Carrying amount at 31 December	**549**	**1,044**	**152**	**1,051**	**587**	**3,383**

For a description of impairment testing, see note 3.1, intangible assets, to the consolidated financial statements.

(DKK million)	**2018**	**2017**
Amortisation has been recognised in the income statement as follows:		
Sales, distribution and marketing expenses	48	44
Administrative expenses	133	111
Total	**181**	**155**

NOTE 3.2

Property, plant and equipment

(DKK million)	Plant and equipment	Assets under construction	Total
2018			
Cost at 1 January	165	-	165
Additions	1	5	6
Disposals	-42	-3	-45
Transfers	1	-1	-
Cost at 31 December	**125**	**1**	**126**
Depreciation and impairment losses at 1 January	92	-	92
Depreciation for the year	20	-	20
Disposals	-41	-	-41
Depreciation and impairment losses at 31 December	**71**	**-**	**71**
Carrying amount at 31 December	**54**	**1**	**55**
2017			
Cost at 1 January	165	-	165
Acquisition of activities	4	-	4
Disposals	-4	-	-4
Cost at 31 December	**165**	**-**	**165**
Depreciation and impairment losses at 1 January	68	-	68
Depreciation for the year	24	-	24
Depreciation and impairment losses at 31 December	**92**	**-**	**92**
Carrying amount at 31 December	**73**	**-**	**73**

OPERATING LEASES (DKK million)	**2018**	**2017**
Future minimum lease payments on existing contracts at 31 December		
Less than 1 year	20	23
Between 1 and 5 years	73	68
More than 5 years	61	74
Total	**154**	**165**

Pandora A/S's other financial obligations mainly relate to leases for office premises and operating equipment.

NOTE 3.3

Investment in subsidiaries and business combinations

INVESTMENTS IN SUBSIDIARIES (DKK million)	**2018**	**2017**
Cost at 1 January	3,914	2,895
Additions[1]	845	975
Additions relating to share-based payments	-21	44
Cost at 31 December	**4,738**	**3,914**

[1] Of the additions, DKK 146 million relates to the acquisition of 100% of the share capital of the Irish distributor. In 2017, DKK 786 million relates to the acquisition of 100% of the share capital in City Time S.L. in Spain (changed to Pandora Jewelry Spain S.L. post-acquisition). See note 3.3 to the consolidated financial statements for further information on the acquisition.

Subsidiaries	**Ownership**	**Registered office**
Pandora Jewelry Argentina SRL	100%	Argentina
Pandora Jewellery Belgium NV	100%	Belgium
Pandora do Brasil Participações Ltda.	100%	Brazil
Pandora Jewelry Ltd.	100%	Canada
Pandora Jewelry Chile SpA	100%	Chile
Pandora Int. ApS	100%	Denmark
Pandora Jewelry Central Western Europe A/S	100%	Denmark
Pan Me A/S	100%	Denmark
Pandora Jewellery DMCC	100%	Dubai
Pandora Finland Oy	100%	Finland
Pandora France SAS	100%	France
Pandora EMEA Distribution Center GmbH	100%	Germany
Pandora Jewelry Asia-Pacific Limited	100%	Hong Kong
Pandora Jewelry Limited	100%	Ireland
Pandora Jewelry Import S.A. de C.V.	100%	Mexico
Pandora Jewelry Mexico, S.A. de C.V.	100%	Mexico
Pandora Jewelry Mexico Servicios, S.A. de C.V.	100%	Mexico
Pandora Jewelry Panama S.A.	100%	Panama
Pandora Jewelry CEE Sp. z.o.o.	100%	Poland
Pandora Jewelry Shared Services CEE Sp. z.o.o.	100%	Poland
Pandora Jewelry Slovakia s.r.o.	100%	Slovakia
Pandora Jewellery South Africa Pty Ltd.	100%	South Africa
Pandora Jewellery Spain S.L.	100%	Spain
Pandora Sweden AB	100%	Sweden
Pandora Production Co. Ltd.	100%	Thailand
Pandora Services Co. Ltd.	100%	Thailand
Pandora Jewelry Mücevherat Anonim Şirketi	100%	Turkey
Pandora Jewellery UK Limited	100%	England
Pandora Jewelry Inc.	100%	USA

The company has three dormant companies, which have been omitted from the table above.

NOTE 3.3

Investment in subsidiaries and business combinations

(continued)

DIVIDEND RECEIVED

In 2018, Pandora A/S received a total of DKK 1.9 billion in dividend from subsidiaries in Thailand (DKK 0.7 billion), Denmark (DKK 0.7 billion), the UK (DKK 0.2 billion) and DKK 0.1 billion from Poland, France and Canada respectively. In 2017, Pandora A/S received a total of DKK 5.7 billion in dividend from subsidiaries in Thailand (DKK 3.0 billion), Denmark (DKK 1.0 billion), the UK (DKK 0.9 billion), the US (DKK 0.7 billion) and Hong Kong (DKK 0.1 billion).

BUSINESS COMBINATIONS

ACQUISITIONS IN 2018

Pandora A/S did not acquire any businesses in 2018.

ACQUISITIONS IN 2017

On 30 June 2017, Pandora A/S acquired the distribution in Belgium in an asset deal, when the previous distribution agreement with Gielen Trading BVBA ended. The acquisition comprised inventories and non-current assets relating to 13 concept stores and three shop-in-shops.

The purchase price was DKK 106 million. Based on the purchase price allocations, goodwill was DKK 87 million. Goodwill is mainly related to the synergies from converting the stores from distribution to Pandora owned retail and wholesale. Cost relating to the acquisition of the distribution in Belgium was DKK 1 million and is recognised as operating expenses in the income statement.

The goodwill, DKK 87 million, is expected to be deductible for income tax purposes.

Following the acquisition, assets and inventories related to the acquired stores were transferred to the local subsidiary, increasing the investment equal to the fair value of the assets contributed. For this reason, there was no contribution to revenue and net earnings.

(DKK million)	2018	2017
Property, plant and equipment	-	4
Inventories	-	15
Assets acquired	**-**	**19**
Total identifiable net assets acquired	**-**	**19**
Goodwill arising from the acquisitions		87
Purchase consideration	**-**	**106**
Net cash flows on acquisition for the period	**-**	**106**

NOTE 3.4

Inventories

(DKK million)	2018	2017
Finished goods	1,045	845
Point-of-sale materials	130	129
Total inventories at 31 December	**1,175**	**974**
Inventory write-downs at 1 January	165	116
Write-downs during the year	213	282
Utilised in the year	-197	-233
Inventory write-downs at 31 December	**181**	**165**

Write-downs of inventories are recognised in cost of sales, DKK 199 million (2017: DKK 245 million), and operating expenses, DKK 14 million (2017: DKK 37 million).

NOTE 3.5

Trade receivables

(DKK million)	2018	2017
Ageing of trade receivables at 31 December		
Not past due	**15**	**33**
Total past due, not impaired	**-**	**-**
Total trade receivables at 31 December	**15**	**33**
Development in impairment losses in trade receivables		
Impairment at 1 January	-	1
Additions	1	-
Unused amounts reversed	-	-1
Impairment at 31 December	**1**	**-**

Historically, Pandora A/S has not suffered any significant losses.

NOTE 3.6

Contract assets and liabilities

(DKK million)	2018	2017
Contract assets		
Receivables from sale of products, see notes 3.5 and 5.2	1,924	4,271
Right-of-return assets	200	128
Contract assets, total	**2,124**	**4,399**
Contract liabilities		
Refund liabilities	1,260	731
Contract liabilities, total	**1,260**	**731**

REFUND LIABILITIES

The Parent Company recognises a refund liability related to return rights provided to subsidiaries. A corresponding right-of-return asset is also included as part of contract assets. The value of the right-of-return asset is determined by how many of the returned products are expected to be sold. Remaining products are written down to remelt value.

NOTE 4.1

Share capital

See note 4.1 to the consolidated financial statements.

NOTE 4.2

Liabilities from financing activities

TOTAL LIABILITIES FROM FINANCING ACTIVITIES (DKK million)	**Financial liabilities 1 January 2018**	**Cash flows, net[1]**	**Financial liabilities 31 December 2018**
Borrowings, falling due after 1 year	5,283	1,138	6,421
Borrowings, falling due within 1 year	125	-	125
Total liabilities from financing activities	**5,408**	**1,138**	**6,546**

(DKK million)	**Financial liabilities 1 January 2017**	**Cash flows, net[1]**	**Financial liabilities 31 December 2017**
Borrowings, falling due after 1 year	3,007	2,276	5,283
Borrowings, falling due within 1 year	-	125	125
Total liabilities from financing activities	**3,007**	**2,401**	**5,408**

[1] Cash flows from loans and borrowings in the statement of cash flows include internal loan movements. The effect was DKK -3,862 million in 2018 (DKK -2,072 million in 2017).

NOTE 4.3

Derivative financial instruments

All hedging is carried out by the Treasury department located in the Parent Company. As all instruments are also recorded in the Parent Company, all effects from financial instruments are available in note 4.5 to the consolidated financial statements.

NOTE 4.4

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 provides a breakdown of 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 less than 1 year**	**Falling due between 1 and 5 years**	**Falling due more than 5 years**	**Total**
2018				
Non-derivatives				
Loans and borrowings	125	6,421	-	6,546
Payables to subsidiaries	1,537	-	-	1,537
Trade payables	563	-	-	563
Other payables	102	8	-	110
Derivatives				
Derivative financial instruments	83	-	-	83
Fair value of obligation to acquire non-controlling interests (put-options)	7			7
Total at 31 December	**2,417**	**6,429**	**-**	**8,846**
2017				
Non-derivatives				
Loans and borrowings	125	5,283	-	5,408
Payables to subsidiaries	2,391	-	-	2,391
Trade payables	368	-	-	368
Other payables	76	-	-	76
Derivatives				
Derivative financial instruments	143	-	-	143
Total at 31 December	**3,103**	**5,283**	**-**	**8,386**

NOTE 4.5

Net financials

FINANCE INCOME (DKK million)	**2018**	**2017**
Finance income from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	115	153
Total finance income from derivative financial instruments	**115**	**153**
Finance income from loans and receivables measured at amortised cost:		
Interest income from subsidiaries	123	63
Foreign exchange gains	429	49
Interest income, bank	2	-
Total finance income from loans and receivables	**554**	**112**
Total finance income	**669**	**265**

FINANCE COSTS (DKK million)	**2018**	**2017**
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	43	43
Total finance costs from derivative financial instruments	**43**	**43**
Finance costs from financial liabilities measured at amortised cost:		
Interest costs to subsidiaries	4	7
Foreign exchange losses	243	227
Interest on loans and borrowings	23	21
Other finance costs	11	12
Total finance costs from loans and borrowings	**281**	**267**
Total finance costs	**324**	**310**

NOTE 4.6

Other non-cash adjustments

OTHER NON-CASH ADJUSTMENTS (DKK million)	**2018**	**2017**
Effects from exchange rate adjustments	187	-179
Effects from derivative financial instruments	102	90
Other, including gains/losses from sale of property, plant and equipment	2	-
Total other non-cash adjustments	**291**	**-89**

NOTE 5.1

Contingent liabilities

LITIGATION

Pandora A/S is party to various legal proceedings related to copyrights, marketing conduct and pricing. None of these proceedings are expected to have a material effect on Pandora A/S' financial position or 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 311 million (2017: DKK 300 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 A/S has issued letters of support in favour of certain subsidiaries. Furthermore, the company has issued guarantees totalling DKK 711 million at 31 December 2018 in favour of certain subsidiaries related to securing local credit lines and rental agreements (2017: DKK 629 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.

NOTE 5.2

Related parties

In addition to the related parties disclosed in note 5.2 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.

NOTE 5.2

Related parties (continued)

	Subsidiaries	
(DKK million)	2018	2017
Income statement:		
Sales to subsidiaries	12,924	12,798
Purchases from subsidiaries	-6,126	-5,961
Dividend	1,883	5,686
Finance income	123	63
Finance costs	-4	-7
Total	**8,800**	**12,579**
Balance sheet:		
Loans to subsidiaries, non-current	1,201	164
Trade receivables from subsidiaries	1,909	4,238
Loans to subsidiaries, current	4,785	3,239
Payables to subsidiaries	-1,537	-2,391
Total	**6,358**	**5,250**
Development in impairment losses in trade receivables		
Impairment at 1 January	-	-
Additions	40	-
Impairment at 31 December	**40**	**-**

NOTE 5.3

Fees to independent auditor

(DKK million)	2018	2017
Fee for statutory audit (audit related)	3	3
Tax consultancy (non-audit services)	-	-
Other services (non-audit services)	-	2
Total fees to independent auditor	**3**	**5**

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

For description of other non-audit services, see note 5.3 to the consolidated financial statements.

Management statement

The Board of Directors and the Executive Management have today discussed and approved the Annual Report of Pandora A/S for 2018.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

It is our opinion that 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 2018 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 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's activities and financial matters, results of operations, cash flows and financial position as well as a description of material risks and uncertainties that the Group and the Parent Company face.

We recommend that the Annual Report be approved at the Annual General Meeting.

Copenhagen, 5 February 2019

EXECUTIVE MANAGEMENT

Jeremy Schwartz
Chief Operating Officer

Anders Boyer
Chief Financial Officer

BOARD

Peder Tuborgh
Chairman

Christian Frigast
Deputy Chairman

Andrea Alvey

Birgitta Stymne Göransson

Bjørn Gulden

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 2018, which comprise statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes, including accounting policies, for the Group and 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 requirements of 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 2018 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 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

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 "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

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.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

APPOINTMENT OF AUDITOR

Subsequent to Pandora A/S being listed on Nasdaq OMX Copenhagen, EY was appointed auditors of Pandora A/S on 8 April 2011. We were re-appointed annually at the general meeting for a total period of eight years up to and including the financial year 2018.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. 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 our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the 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 financial statements.

REVENUE AND SALES RETURN

Revenue is recognised when control 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 3.7 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.

Independent auditors' report (continued)

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 (BOI) agreements, 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 relevant tax authorities. Our own tax specialists performed an assessment of the Group's recognition of income taxes and deferred taxes, including correspondence with relevant tax authorities in order to consider the completeness of the tax provisions. In addition, we assessed the assumptions used, taking into consideration our own tax specialists' knowledge and experience. 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 financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the 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 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 conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE 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 requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.

Independent auditors' report (continued)

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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 financial statements, including the note disclosures, and whether the 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 auditor's 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, 5 February 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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State Authorised
Public Accountant
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