2017 ANNUAL REPORT

PANDORA

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PANDORA AT A GLANCE

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

THE PANDORA VISION

To be the branded manufacturer that delivers the most personal jewellery experience

THE PANDORA MISSION

We inspire every woman to feel creative in her self-expression

PANDORA JEWELLERY IS SOLD IN MORE THAN

100

COUNTRIES

2,446

CONCEPT STORES

117

MILLION PIECES OF JEWELLERY CRAFTED IN 2017

27,350

EMPLOYEES IN 2017

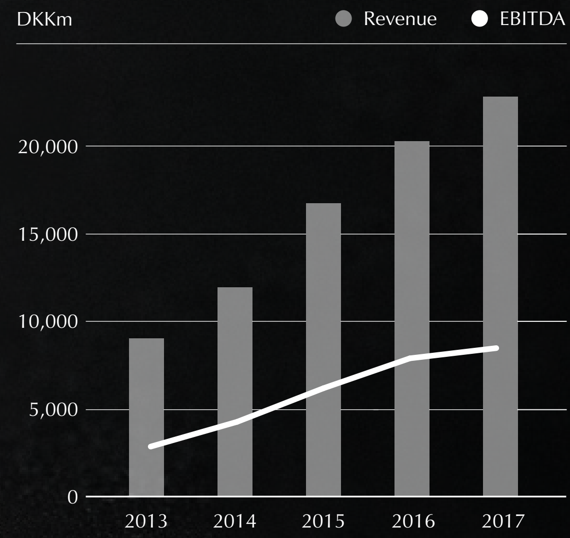
2.6 bn
STONES USED

83%
BRAND AWARENESS

97%
RECYCLED SILVER GRAINS IN 2017

43%
REVENUE FROM PANDORA OWNED RETAIL

REVENUE AND EBITDA



REVENUE
22.8
DKK BILLION

EBITDA MARGIN
37.3%

GROSS MARGIN
74.5%

ROIC
68.0%

RETURNED TO SHAREHOLDERS
5.7
DKK BILLION

FREE CASH FLOW
5.3
DKK BILLION

SOLID GROWTH AS WE LOOK TO THE FUTURE

WE GREW REVENUE BY 12% TO DKK 22.8 BILLION AND RETURNED DKK 5.7 BILLION TO OUR SHAREHOLDERS.

In 2017 we strengthened the foundation for future growth with several strategic initiatives across our business. However, we also faced an increasingly challenging retail environment in the US. Still, all regions contributed to growth. EMEA and Asia Pacific both delivered double-digit growth, driven by continued solid momentum throughout the store network as well as a strong online performance. The Americas increased revenue despite the slower US consumer market, as Latin America got off to a strong start, operating from the new office in Panama in 2017.

(Continued on next page)

Photo (from left): Anders Colding Friis (President & CEO) and Peder Tuborgh (Chairman of the Board)

We continued to improve our global store network and opened net 308 new concept stores. During the year, we have increased our focus on retail to improve consumer-facing activities and to reap the full financial potential as well. More than 50% of the concept store openings in 2017 were PANDORA owned. Furthermore, we acquired 200 concept stores, including 79 stores as part of the acquisition of the distribution in Spain, Belgium and South Africa. Going forward, we expect to add around 200 predominantly PANDORA owned concept stores annually, while at the same time refining our network of other points of sale to make it more branded.

Our eSTOREs performed well with strong development across regions. Sales from eSTOREs increased 61% compared with last year, and now make up 7% of our revenue. We will continue to focus on eSTOREs going forward as we seek to strengthen the link between our physical and online stores. The aim is to increase the share of revenue from our eSTOREs to more than 10% within 5 years. Furthermore, we are increasing our focus on digital marketing, working with influencers on social media to inspire consumers, while using data to create a personal customer experience across channels.

A lack of newness in our product assortment turned out to be a challenge in 2017. This was most evident in our more developed markets like the US and the UK. We have therefore updated our innovation and product development process to make it more consumer-centric and ensure we deliver more new jewellery concepts in the future. We are enthusiastic about the launch of the first concepts and products to come out of the updated process early in 2018. To strengthen our future even further, we have built a new PANDORA Innovation Centre in Bangkok, which incorporates the latest technology in jewellery crafting and design, and where we can explore new innovations and develop new concepts. Finally, we have continued to widen our product focus to include Necklaces & Pendants in 2017 and we now have an ambition to increase the share of revenue from Rings, Earrings and Necklaces & Pendants to around 50% of our revenue by 2022.

WE CONTINUED TO WIDEN OUR PRODUCT FOCUS TO INCLUDE NECKLACES & PENDANTS IN 2017 AND WE NOW HAVE AN AMBITION TO INCREASE THE SHARE OF REVENUE FROM RINGS, EARRINGS AND NECKLACES & PENDANTS TO AROUND 50% OF OUR REVENUE BY 2022.

To support demand, we continued to invest in our crafting facilities. We were proud to open our new crafting facility in Lamphun, near Chiang Mai, in Northern Thailand early in 2017. Besides being LEED (Leadership in Energy and Environmental Design) Gold certified, we are already reaping the benefits of the facility's leaner crafting process which enables us to increase efficiency and reduce lead times. In addition, we built a new facility in Gemopolis, Bangkok, which opened for commercial production early in 2018. This will further strengthen our position as the world's largest jewellery manufacturer.

Looking ahead, we believe we have positioned PANDORA well for the future and we expect to deliver solid profitable growth for the years to come. Despite our transformation towards more owned retail, our business model will remain asset light, and with the highly cash-generative nature of our company we plan to continue to deliver solid annual cash returns to our shareholders.

Finally, we would like to thank our employees for their contribution to our results in 2017, our customers who have stayed loyal to our brand throughout the year, and our shareholders for their support in what proved to be a more challenging year.

ANDERS COLDING FRIIS
President & Chief Executive Officer

PEDER TUBORGH
Chairman of the Board of Directors

376
PANDORA OWNED CONCEPT STORES ADDED
IN 2017

61%
INCREASE IN ESTORE SALES
IN 2017

EXECUTIVE SUMMARY

2017 WAS AN EVENTFUL YEAR FOR PANDORA. WE SUCCESSFULLY DELIVERED ON OUR STRATEGY TO INCREASE OUR BRANDED PRESENCE, WHILE DIVERSIFYING OUR BUSINESS BOTH GEOGRAPHICALLY AND ACROSS JEWELLERY CATEGORIES.

We opened net 308 new concept stores during the year and took over distribution in Spain, Belgium, South Africa and a number of smaller markets, as part of our plan to control more of the network and brand. In total, we acquired 200 concept stores from franchisees and distributors around the globe. At the end of 2017, PANDORA had 2,446 concept stores, of which 974 are PANDORA owned.

During 2017, we continued to focus on expanding our product collection beyond charms and bracelets. The seven jewellery collections launched in 2017 included a total of 160 new rings, earrings, necklaces and pendants. In addition, we expanded our collaboration with The Walt Disney Company to include the EMEA region, where the Disney collection was launched in October. Revenue from our Rings, Earrings and Necklaces & Pendants categories increased by 28%, making up 26% of revenue for the year compared with 23% in 2016.

We still see potential to further expand our business around the globe, with significant opportunities in Latin America and Asia. In 2017, we established a regional office in Panama as a hub for our Latin American markets and opened 34 new concept stores in these markets. We also continued our expansion in China, with 58 new concept stores during the year, while we opened our first concept stores in India.

Read more about our strategy towards 2022 on page 23

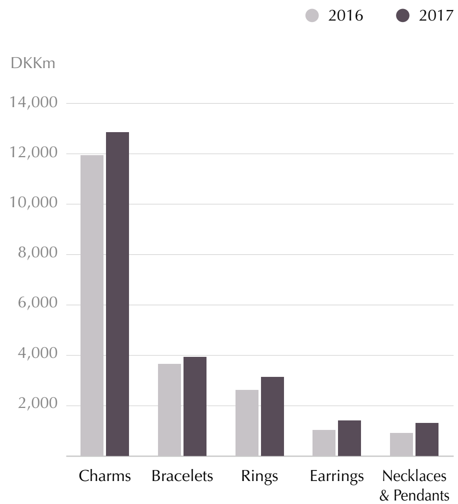
EXPANDING PRODUCTION CAPACITY

In 2017, we crafted around 117 million pieces of jewellery at our crafting facilities in Thailand and we continue to expand our production capacity through a number of activities. With a total investment of DKK 1.8 billion, the capacity expansion programme will double our production capacity to more than 200 million pieces a year by the end of 2019 and introduce flow principles to shorten lead times by 50%. In 2017, we opened a new crafting facility in Lamphun, near Chiang Mai, Thailand. The facility is built for a maximum of 5,000 employees and is primarily optimised for rings, earrings and more complex products. It incorporates flow principles and semi-automated areas and is LEED Gold certified. We are also optimising our existing crafting facilities in Gemopolis, Bangkok, by building a new facility due for commercial production in early 2018.

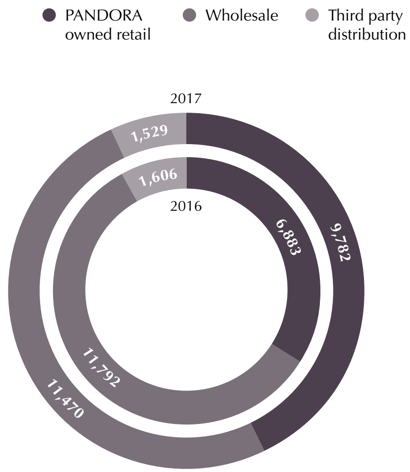
FINANCIAL PERFORMANCE

PANDORA's revenue for 2017 increased 12% compared with 2016 to DKK 22.8 billion.

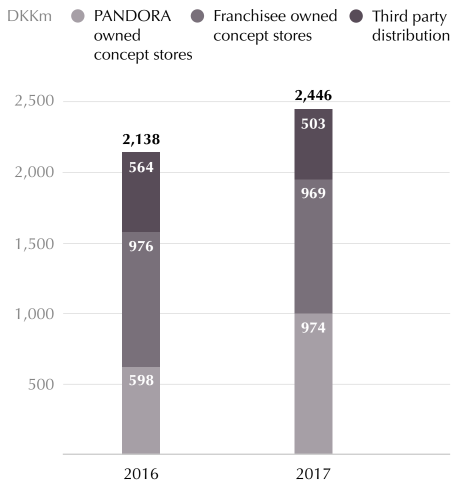
PRODUCT CATEGORY REVENUE



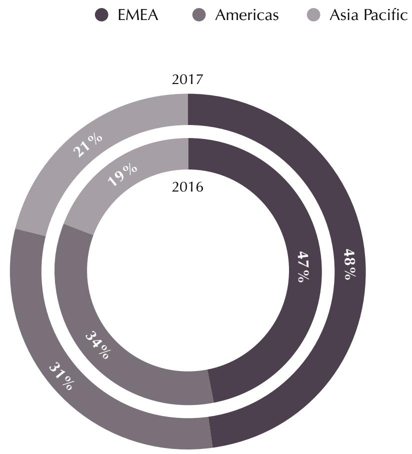
REVENUE SALES BY CHANNEL



NUMBER OF CONCEPT STORES



REGIONAL SHARE OF REVENUE



In local currency, revenue increased 15%. Increased headwind from currency throughout the year, impacted revenue with around DKK 0.8 billion compared with initial currency assumptions, and consequently revenue was below PANDORA's initial financial guidance of DKK 23-24 billion set in February 2017.

Organic growth[1] was 11% in local currency, while acquisitions of stores generated additional revenue of DKK 765 million. Revenue growth was driven by all three regions. EMEA revenue increased by 15%, Americas by 6%, and Asia Pacific by 28% in local currency. In addition, revenue from all product categories experienced positive growth, driven by new as well as existing products.

[1] An alternative performance measure not defined by IFRS, refer to note 1.1.

Read more about the financial review on page 48

Earnings before interest, tax, depreciation and amortisation (EBITDA)[1] were DKK 8.5 billion in 2017, up 7% from 2016. The EBITDA margin for the year was 37.3%, compared with 39.1% in 2016. The decrease was mainly due to unfavourable currency fluctuations, which had a negative impact of around 1 percentage point compared with 2016.

Capital expenditure (CAPEX)[1] was DKK 1,388 million compared with DKK 1,199 million in 2016. As in 2016, the level of CAPEX continued to be impacted by the development of our crafting facilities in Thailand, investments in our distribution network and IT.

The effective tax rate was 24.8% for 2017 compared with the initial guidance of around 21%. The deviation from guidance was due to the new US tax reform, signed in December 2017, as well as a 10% withholding tax on the repatriation of dividend, related to earnings before 2013 from PANDORA Production Co. Ltd. in Thailand. Excluding these two items, the underlying tax rate was approx. 21%.

DIVIDEND AND SHARE BUYBACK PROGRAMME

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

During the financial year 2017, PANDORA paid out DKK 4.0 billion in dividend through an ordinary dividend of DKK 9 per share and three quarterly dividends of DKK 9 per share, respectively. Furthermore, PANDORA launched a share buyback programme in 2017 under which PANDORA expects to buy back own shares to a maximum consideration of DKK 1.8 billion.

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

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

> IN 2017, PANDORA RETURNED A TOTAL OF DKK 5.7 BILLION TO SHAREHOLDERS IN DIVIDEND AND SHARE BUYBACK

FINANCIAL GUIDANCE 2018

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

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

GUIDANCE ASSUMPTIONS

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

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

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

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

FINANCIAL GUIDANCE

	FY 2018 GUIDANCE	FY 2017 ACTUAL	FY 2017 GUIDANCE
REVENUE, DKK BILLION /LOCAL CURRENCY GROWTH	7-10%	22.8	23-24
EBITDA MARGIN	Approx. 35%	37.3%	Approx. 38%
CAPEX, % OF REVENUE	Approx. 5%	6.1%	Approx. 5%

LONG TERM INCENTIVE PROGRAMME 2018

In accordance with PANDORA's guidelines for incentive pay, the Board of Directors of PANDORA has approved a potential grant corresponding to a maximum of one years salary to the Company's Executive Management related to the 2018 long term incentive programme.

The grant is subject to performance targets related to revenue and EBITDA in the period 2018-2020. A compound annual growth rate in revenue of 10% and a minimum aggregated yearly EBITDA margin of 34% are required to release all stock options. If revenue is below 7% and the aggregated EBITDA margin below 34%, no stock options are released under the programme. The performance shares will be granted as stock options at 1% of the average market price of the PANDORA share five days prior to the vesting and grant. If the 2020 performance conditions are met, members of Executive Management are subject to a 2 year vesting period before the stock options can be exercised. There are no performance targets tied to the additional 2-year vesting period.

PANDORA's Short Term Incentive Programme for 2018 is in addition to revenue and EBITDA targets, also measuring the Management performance based on quarterly like-for-like sales.

EVENTS AFTER THE REPORTING PERIOD

ORGANISATIONAL CHANGE

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

CAPITAL MARKETS DAY 2018

In January, PANDORA hosted a Capital Markets Day in Copenhagen, Denmark, for analysts, institutional investors and media. At the event, PANDORA presented the strategic direction towards 2022, which includes an ambition to increase revenue annually in the period 2018-2022 by 7-10% in local currency, while maintaining a solid EBITDA margin of around 35% beginning from 2018. For further information please refer to company announcement no 426.

FINANCIAL HIGHLIGHTS

DKK million	2017	2016	2015	2014	2013
Consolidated income statement					
Revenue	22,781	20,281	16,737	11,942	9,010
Gross profit	16,966	15,223	12,193	8,423	5,999
Earnings before interest, tax, depreciation and amortisation (EBITDA)	8,505	7,922	6,214	4,294	2,881
Operating profit (EBIT)	7,784	7,404	5,814	4,072	2,681
Net financials	-117	246	-469	-200	61
Net profit for the year	5,768	6,025	3,674	3,098	2,220
Consolidated balance sheet					
Total assets	17,240	15,085	13,311	10,556	9,275
Invested capital	11,439	9,396	8,255	6,080	5,976
Operating working capital	2,977	2,780	2,388	1,990	1,846
Net interest-bearing debt (NIBD)	4,855	2,448	1,921	-1,121	-637
Equity	6,514	6,794	6,139	7,032	6,462
Consolidated cash flow statement					
Net increase/decrease in cash	133	5	-245	431	361
Free cash flow	5,294	5,358	2,449	3,868	1,956
Cash conversion, %	68.0%	72.4%	42.1%	95.0%	73.0%
Growth ratios					
Revenue growth, %	12%	21%	40%	33%	35%
Gross profit growth, %	11%	25%	45%	40%	35%
EBITDA growth, %	7%	27%	45%	49%	74%
EBIT growth, %	5%	27%	43%	52%	82%
Net profit growth, %	-4%	64%	19%	40%	85%

DKK million	2017	2016	2015	2014	2013
Margins					
Gross margin, %	74.5%	75.1%	72.9%	70.5%	66.6%
EBITDA margin, %	37.3%	39.1%	37.1%	36.0%	32.0%
EBIT margin, %	34.2%	36.5%	34.7%	34.1%	29.8%
Other ratios					
Effective tax rate, %	24.8%	21.2%	31.3%	20.0%	19.0%
Equity ratio, %	37.8%	45.0%	46.1%	66.6%	69.7%
NIBD to EBITDA	0.6x	0.3x	0.3x	-0.3x	-0.2x
Return on invested capital (ROIC), %	68.0%	78.8%	70.4%	67.0%	44.9%
Share information					
Dividend per share[1], DKK	9.00	9.00	13.00	9.00	6.50
Quarterly dividend per share[2], DKK	27.00	-	-	-	-
Total payout ratio (incl. share buyback), %	99.1%	91.5%	135.8%	104.1%	63.7%
Earnings per share, basic, DKK	52.0	52.8	30.9	25.0	17.2
Earnings per share, diluted, DKK	51.8	52.5	30.7	24.7	17.0
Share price at year-end, DKK	675.5	924.0	872.0	504.5	294.0
Other key figures					
Capital expenditure (CAPEX)	1,388	1,199	1,109	455	490
Capital expenditure, tangible assets (CAPEX)	946	828	706	297	182
Store network, total number of points of sale	7,794	8,131	9,271	9,906	10,279
Store network, total number of concept stores	2,446	2,138	1,802	1,410	1,100
Average number of full-time employees	20,904	17,770	13,971	9,957	6,910

[1] Proposed dividend per share for 2017.
[2] Quarterly dividend per share for 2017, paid in 2017.

2017 KEY EVENTS

Q1

CUTTING THE RIBBON ON OUR NEW CRAFTING FACILITY IN NORTHERN THAILAND

We opened our new crafting facility in Lamphun, near Chiang Mai, in March. Employing up to 5,000 people, the facility introduces new ways of combining production efficiency with PANDORA's craftsmanship. It will enable us to expand our product range of high-quality jewellery and improve lead times, while continuing our commitment to sustainability.

BRAND EVOLUTION TO INSPIRE WOMEN

PANDORA has long been associated with celebrating moments. In March 2017, we evolved our marketing platform to focus on encouraging and inspiring women to be true to who they are by acknowledging and celebrating their every day personal triumphs.

Q2

REGIONAL OFFICE OPENS IN PANAMA

Latin America represents an exciting opportunity for PANDORA as it is a growing jewellery market with great potential. In April, we opened a regional office in Panama which will be our hub to the Latin American markets. We opened 34 PANDORA stores in Latin America in 2017.

ESTABLISHING THE PANDORA BRAND IN INDIA

We entered the second-largest jewellery market in the world with the opening of our first concept store in India in April. Increasing our global footprint is an integral part of our strategy as it brings our brand closer to our consumers around the world.

ACQUIRING OUR STORE NETWORK IN BELGIUM AND LUXEMBOURG IN JUNE

Q3

PANDORA AT THE FOREFRONT OF RESPONSIBLE SOURCING

In August, Morgan Stanley Capital International (MSCI) recognised PANDORA's dedication to responsible sourcing of jewellery materials. In the Environmental, Social and Governance rating, PANDORA is now in the top percentile in the jewellery industry.

OUR CRAFTING FACILITY IN LAMPHUN ACHIEVED LEED GOLD CERTIFICATION IN AUGUST

TAKING OVER DISTRIBUTION IN SPAIN

In September, we added one of the largest jewellery markets in Europe to our business with the acquisition of our distribution in Spain. The acquisition was in line with our strategic intent to take over distributors, and enables us to realise the full potential of our brand in this promising market.

TOTAL PAY-OUT OF DKK 5.7 BILLION TO SHAREHOLDERS

In 2017, the total dividend equalled DKK 36 per share, corresponding to a total dividend of DKK 4.0 billion and a share buyback of DKK 1.7 billion.

Q4

PANDORA DISNEY COLLECTION LAUNCHES IN EMEA

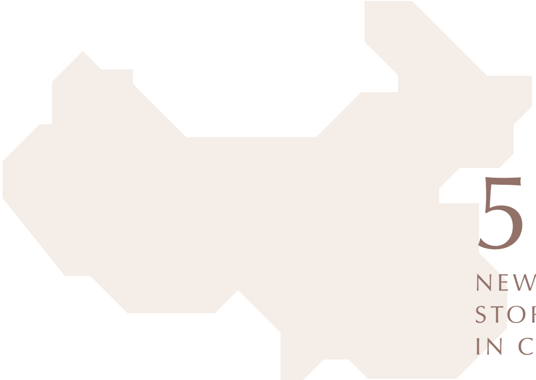
We expanded our strategic corporate alliance with The Walt Disney Company in October to also cover our markets in Europe, the Middle East and Africa. Since 2014, our alliance with Disney has seen us create an original jewellery collection for our consumers inspired by Disney's beloved characters.

ESTORE NO. 19 OPENS IN SINGAPORE

Following the launch of our eSTORE in Singapore in November, PANDORA eSTOREs are now available in 19 countries, including the US, China, Italy and the UK. In 2017, 7% of PANDORA's revenue was generated from eSTOREs.

NEW CENTRE IN THAILAND TAKES INNOVATION TO A NEW LEVEL

At the new PANDORA Innovation Centre in Bangkok, Thailand, we use the latest technology in jewellery crafting and design to explore new innovations and develop new concepts.



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NEW CONCEPT STORES OPENED IN CHINA IN 2017

PANDORA IN DETAIL

GROWING FAST IN THE WORLD'S LARGEST JEWELLERY MARKET

Since entering China back in 2010, PANDORA has continued to deliver double or triple-digit growth year-on-year as we open more stores, enter new cities, expand our online presence and increase brand awareness across the country. Despite this growth, China still holds significantly more potential for PANDORA. The country remains the world's largest jewellery market, worth an estimated DKK 637 billion in 2017, and is expected to grow to DKK 775 billion by 2022[1]. PANDORA currently has less than 1% market share, and this gives us a huge opportunity over the coming years.

We are continuing to build the foundations of our business in China. In 2017, we opened 58 new concept stores and expanded into 14 new cities, including smaller tier 2 cities in regions where we have not previously had a presence. In total, we had 155 concept stores in China by the end of the year. At the same time, we hired new store staff and invested in training to ensure we give our Chinese consumers the optimum shopping experience.

[1] Euromonitor 2017.

In line with our strategy – and the needs of the Chinese market – this experience should seamlessly connect our physical stores with online channels. In 2016, we launched an eSTORE in China and entered into an agreement with Tmall, a Chinese online shopping platform that enables us to showcase our products in a PANDORA branded space. This double e-commerce approach is common in China and, as Tmall is the biggest online shopping platform in China in terms of turnover and traffic, it is the ideal partner for our brand.

Our two online channels outperformed our expectations in 2017. In just one year since starting up, our Tmall site has attracted more than 1 million fans, and sales from our two online channels combined to generate more than 10% of our total retail revenue in China in 2017.

China remains one of our key markets and we expect to continue our growth in the country at a fast but controlled pace.

"

WE PARTICIPATED IN CHINESE SINGLES' DAY FOR THE FIRST TIME IN 2017, GENERATING DKK 10 MILLION IN REVENUE IN THE FIRST 7 MINUTES AND FINISHING AS THE NO. 1 BRAND IN THE JEWELLERY & ACCESSORIES CATEGORY.

KENNETH MADSEN, PRESIDENT, ASIA PACIFIC

“

MY BEST FRIENDS LIVE IN BRAZIL AND DENMARK NOW. BEFORE THEY LEFT, I RECEIVED A BIRTHSTONE NECKLACE FROM THEM. NOW, MY PANDORA NECKLACE REMINDS ME THAT, ALTHOUGH WE’RE KEPT APART BY DISTANCE, OUR FRIENDSHIP IS AS STRONG AS EVER.

- EMILIE (24) HAS BEEN WEARING PANDORA JEWELLERY FOR 3 YEARS

02/ OUR BUSINESS

PANDORA IN THE JEWELLERY INDUSTRY

THE GLOBAL JEWELLERY INDUSTRY AT A GLANCE

As of 2017, the total value of the jewellery industry exceeded around DKK 2,100 billion (EUR 282 billion)[1]. However, the market remains fragmented, with the top five players only having a single-digit global market share when combined. These players are, however, growing above market average. In addition to market fragmentation, a few large players focus on specific regions rather than global presence. As a result, there are some brands that are widely known and well positioned in one part of the world, but have no or few points of sale in other regions.

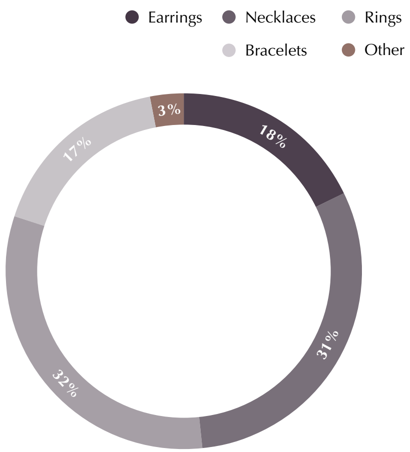
China represents more than 30% of the global market value, making it the single largest market, followed by India and the US. Together, China and India are driving growth in the Asia Pacific region, and this region is expected to remain the main growth driver for jewellery worldwide over the next five years[1]. Growth is also expected to continue in the EMEA region as well as in countries in Latin America, such as Argentina and Mexico. The slow growth in the US is predicted to continue as a result of low consumer confidence, a decrease in tourism, and changes in consumer behaviour[2].

The various distribution channels that are most frequently used for purchasing jewellery can vary significantly from market to market. In the US, specialty stores and mass merchandisers are the main sales channels; however, online retailing has almost doubled in five years, resulting in online sales generating more than 20% of total US jewellery sales. In China, sales are generated by department and specialty stores, whereas in India sales are almost exclusively generated through specialty stores. In Australia, jewellery sales are primarily generated through jewellery specialty retail stores, whereas in the US, distribution channels, such as the US jewellery chain Jared® - The Galleria of Jewelry, are more common.

With regard to product categories, the demand for a specific category can differ slightly depending on the country. With the exclusion of bridal occasions, necklaces are generally the most popular type of fine jewellery, followed by rings as the second-largest category within fine jewellery. Earrings and bracelets make up a similar share, depending on the market, while charms is a small sub-category of bracelets.

There are two main jewellery categories, fine jewellery and costume jewellery. Fine jewellery generates around 87% of the total value of the global jewellery industry. Both categories have grown in recent years and are expected to maintain a single-digit growth rate. PANDORA operates in the fine jewellery segment.

% VALUE SHARE OF FINE JEWELLERY CATEGORIES (GLOBAL)



Source: Euromonitor 2017

FINE AND COSTUME JEWELLERY

Fine jewellery is made from high-quality metals, such as gold and silver. With a global value share of 87%, it is produced in smaller numbers with high price points compared with costume jewellery.

Costume jewellery is made from inexpensive components such as non-precious metals and beads. With a global value share of 13%, it is produced in larger quantities and has lower price points.

[1] Euromonitor 2017.
[2] Changes in consumer behaviour: the younger generation prefers to spend money on experiences and is showing less interest in jewellery as luxury items, preferring to buy technology instead. Consumers do not mind buying jewellery at fast fashion retailers.

KEY MACRO TRENDS

THE PHYSICAL STORE EXPERIENCE

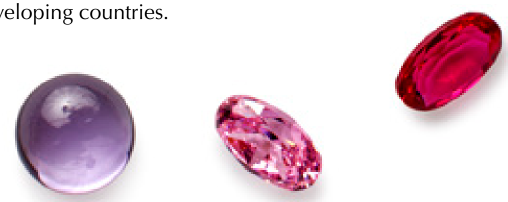
While it is estimated that online shopping will generate 10-15% of total jewellery sales globally by 2020, up from around 6% in 2017, the physical store remains important. It offers social interaction and is more local and convenient. In addition, it enables a higher level of personal service and provides a stronger emotional connection with the product. However, consumers need a reason to go to the store and the physical retail space must adapt to this by offering an interactive, visual and dynamic space that attracts consumers.

BLENDING METALS AND MIXING MATERIALS

Traditionally, most jewellery pieces have been made either using high-quality metals and materials, or inexpensive materials, such as non-precious metals. However, the lines are becoming more blurred, with more jewellery combining semi-precious gems and pearls with non-precious metals. With the rise of a larger middle class, demand for this type of jewellery is increasing, particularly in developing countries.

BUILDING BRANDS IN AN UNBRANDED WORLD

Competition in the jewellery industry is fragmented and, while multiple smaller jewellery brands continuously enter the market, the bigger players have established their names and significant market positions across the world. In addition, a number of smaller brands are growing significantly, primarily in a few markets.



AT INDUSTRY LEVEL, ONLINE GLOBAL JEWELLERY SALES ARE INCREASING BY

14%

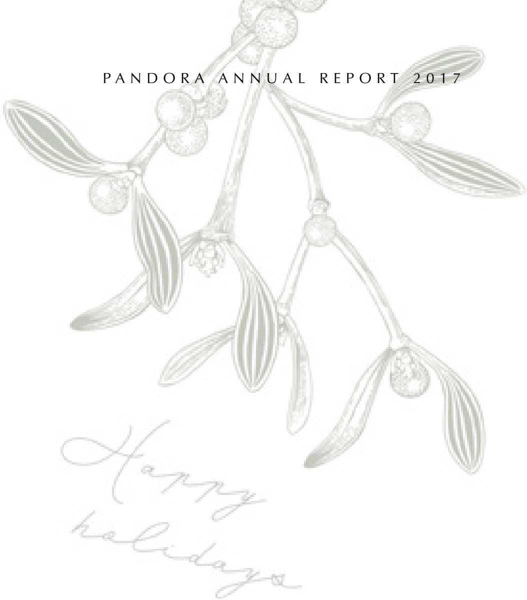
CONSUMER DEMAND FOR A SEAMLESS ONLINE AND OFFLINE EXPERIENCE

Empowered by digital technology, consumers have more access to information and choices than ever before, leading to a change in shopping behaviour and expectations. Consumers see brands, not channels, and they want a seamless, convenient and personalised shopping experience that combines online and offline as they desire. While physical stores remain an important cornerstone for jewellery shopping, jewellery brands of all sizes are developing omni-channel strategies that can inspire and support consumers from the moment they express interest in a product to after the transaction has been completed. Companies must offer an excellent journey to maximise value to their customers across channels. The jewellery market is relatively less developed in terms of digital platforms compared with other consumer goods industries. In 2017, online jewellery sales increased 14%, which is slower than other industries such as apparel and home care.

THE SUSTAINABLE CONSUMER

Ethical living was an influential megatrend in 2017. More consumers are aware and interested in the production standards and transparency of a company. Companies that prioritise sustainability early in their development appear more genuine to consumers than those who only change once it is necessary[3]. Consumers no longer see positive impact as the sole responsibility of non-government organisations; instead they believe an integrated CSR strategy and profit generation do not need to be mutually exclusive, and so feel companies should also drive positive change.

[3] Source: Euromonitor – Megatrends: Ethical Living.



PANDORA IN DETAIL

THE PERFECT HINT

Christmas is a very important season for PANDORA, as it is for many other consumer brands, and we are constantly looking to inspire our consumers to choose PANDORA during the festive season. In 2017, this included a Christmas campaign that takes a unique approach to targeting both gifters and receivers.

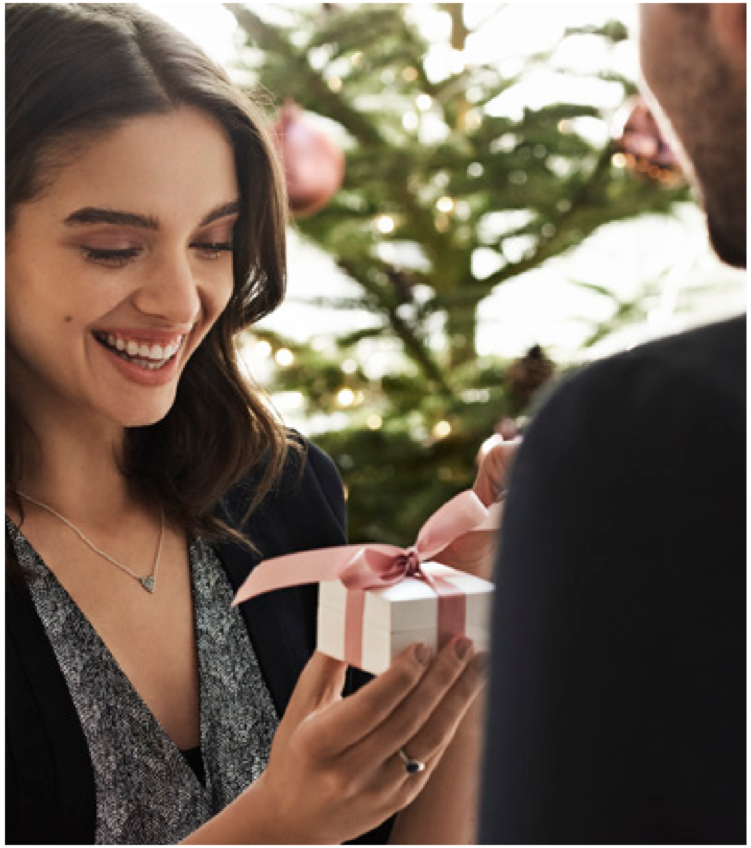
While PANDORA is for every woman, it is very often men that makes the purchases – in fact, around 60% of our sales come from men buying gifts for their loved ones. But research shows that when it comes to presents, men are not very good at taking hints; a woman often has to drop a 'hint' several times before a man takes notice.

The *Do get what you wish for* campaign celebrates the great lengths that women go to when subtly (or not so subtly) asking their loved ones for the special PANDORA jewellery they have been wishing for. It includes a unique feature on our consumer websites called *Drop a Hint* that enables women to send personalised hints directly to their loved ones, and the male-targeted elements of the campaign directly challenge men to buy their loved ones what they want for Christmas, or any other occasion.

By the end of 2017, the 'Do get what you wish for' film had received more than 12 million views on YouTube, and during the campaign, the conversion rate on our consumer websites was four times higher than average marketing activities.

The *Do get what you wish for* campaign builds on our *Do* marketing platform, launched in March, which encourages and inspires women to be true to who they are by acknowledging and celebrating those every day personal triumphs that often go unnoticed.

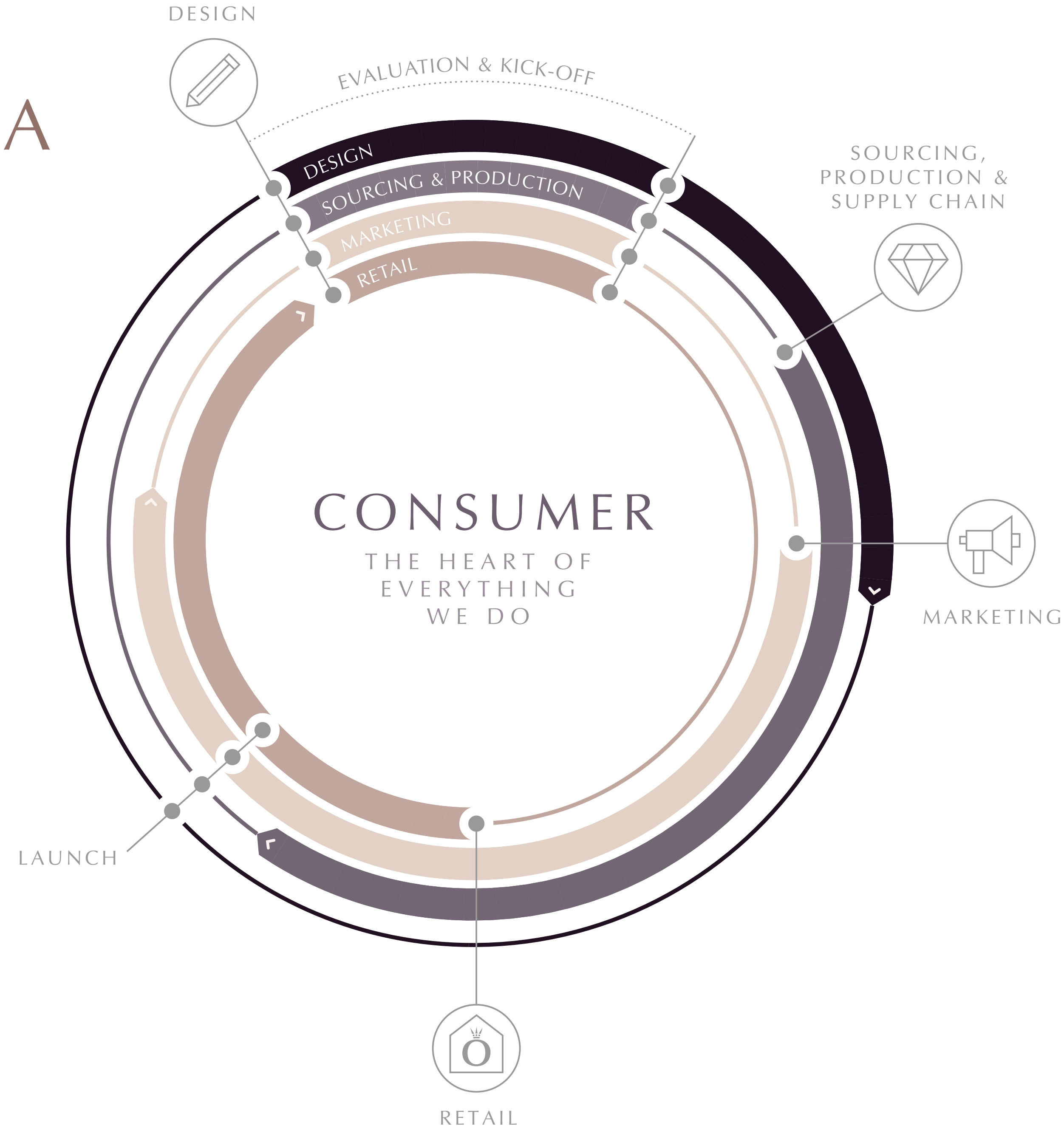
> IN 2017, AROUND 40% OF WOMEN WHO OWN PANDORA JEWELLERY RECEIVED IT AS A GIFT, AND MORE THAN 60% OF THE GIVERS WERE MEN.



THE PANDORA BUSINESS MODEL

OUR INTEGRATED BUSINESS MODEL MEANS WE OWN AND OPERATE THE FULL VALUE CHAIN, FROM DESIGN AND RAW MATERIAL SOURCING THROUGH TO PRODUCTION, DISTRIBUTION, MARKETING AND RETAIL.

As a company and a brand, we have many competitive strengths, from the design and quality of our jewellery to the agility of our value chain and our focus on sustainability. We are a leader in the affordable jewellery segment and the largest producer of jewellery worldwide in terms of pieces crafted. We are known for our quality and craftsmanship, and we are innovative in our designs and how we work across the value chain.



DESIGN

Our jewellery is designed with both future trends and previous collections in mind, which enables us to offer contemporary and innovative designs, while also activating our existing assortment to balance sales of existing and new, aspirational products. We have a strategy for our product collection that ensures we continue to build and enhance our full jewellery universe to meet the needs of our consumers.

Our design process begins when our Design, Production, Marketing and Retail teams gather to plan the year. We begin by evaluating the performance of previous collections, using input from our regions and franchisees, as well as up-to-date sales-out figures from our concept stores. This enables us to see which products, designs, materials, colours and price points performed particularly well, and to create new designs with this in mind. We combine this information with insights into global trends within jewellery, fashion and all aspects of consumer behaviour, as well as information about the latest innovations in material and jewellery design from the PANDORA Innovation Centre in Bangkok and machine and material suppliers.

WORLD LEADER IN AFFORDABLE JEWELLERY

Our Design team then begins to sketch out a vision for the collection that will be realised by our entire value chain on its way to the consumer. The Design team works closely with our Innovation team to create individual designs and incorporate large innovative concepts. This holistic approach enables us to accommodate the latest consumer trends and take advantage of innovative products, materials and production processes.

2017 IN NUMBERS

~200
THOUSAND
CHARMS SOLD PER DAY

~40
THOUSAND
BRACELETS SOLD PER DAY

62
NEW RINGS INTRODUCED

54
NEW EARRINGS INTRODUCED

44
NEW NECKLACES & PENDANTS INTRODUCED

SOURCING, PRODUCTION & SUPPLY CHAIN

Almost all our jewellery is produced at our own facilities in Thailand, where we combine standardised, scalable and modern production methods with centuries-old crafting techniques. Every piece is hand-finished by experienced and skilled craftspeople – and we can quickly upscale production of high-demand products when needed.

During the product development phase, each new piece is drawn in 3D at the PANDORA Innovation Centre in Bangkok. These are then tested with consumer panels and selected store staff on a global scale, and the first prototypes are made. At the same time, our team analyses each design to establish the most efficient crafting process. Our Design and Product Development teams then work together to refine the designs.

In order to maintain the quality for which we are renowned for, we employ a strict quality testing process, and source high-quality raw materials from around the globe, taking into account many aspects from cost and delivery times through to sustainable sourcing and business ethics. This ensures we have timely access to the materials and equipment we need – and that it comes from suppliers who share our ethical approach.

THE WORLD'S LARGEST BRANDED MANUFACTURER OF JEWELLERY WITH A FULL VALUE CHAIN

Once a collection is locked, the pieces go into production at our crafting facilities in Thailand, using lean production principles to ensure short lead times. A small number of products are produced by carefully selected third-party suppliers in Thailand, China and Italy.

When a collection is launched, it is available in every store across more than 100 countries. To meet ongoing demand throughout the year, our Supply Chain teams constantly assess sell-out rates, and optimise our distribution to ensure our products are in the right locations at the right time.

2017 IN NUMBERS

117
MILLION
PIECES OF JEWELLERY CRAFTED

88%
OF PIECES PRODUCED AT OUR OWN FACILITIES

2.6
BILLION
STONES HAND-SET

97%
OF THE SILVER GRAINS USED ORIGINS FROM RECYCLED SOURCES

MARKETING

THE WORLD'S MOST RECOGNISED JEWELLERY BRAND

In order to strengthen our brand and drive consumer traffic, we engage with consumers through a wide variety of channels, from TV advertising and social media through to our interactions with them in our stores and websites. Through these interactions, we listen to our consumers to ensure we provide a better personalised shopping experience and understand what they want from PANDORA as both a product retailer and a brand. These insights are fed back into relevant parts of the value chain through our Consumer Insights team.

With the PANDORA brand experience, we want to inspire women across all consumer touch points. It is a unique experience that gives PANDORA a distinct and competitive market position, and is based on our consumers' needs and desires, as well as the PANDORA brand values and brand pillars. We focus on a personal and relevant experience for every one of our customers, and tell inspiring and engaging product stories. We also strive to take care of each of our customers, giving them best-in-class service across all touch points before, during and after their purchase. These elements create a unique brand experience that sets us apart from our competitors.

Each new collection is supported by an extensive marketing and sales toolkit, including a full range of materials, from advertisements and PR to point-of-sale materials, that enhances the consumer experience and tells the full story of our product collections. Our Marketing teams start this work when the collection is still in the design phase. Prior to launch, we promote new products through our digital channels, including our network of bloggers and influencers.

2017 IN NUMBERS

10.7 MILLION PANDORA CLUB MEMBERS BY YEAR END

570 THOUSAND ONLINE WISH-LISTS CREATED

13 MILLION FACEBOOK FOLLOWERS BY YEAR END

250 MILLION VISITS ON OUR CONSUMER WEBSITES

8 out of 10 WOMEN KNOW PANDORA

RETAIL

LARGE AND PROFITABLE DISTRIBUTION NETWORK

PANDORA jewellery are available in thousands of points of sale in over 100 countries through our concept stores, eSTOREs, online partners and other points of sale.

We work to ensure that our consumers have a personal PANDORA shopping experience wherever they meet us, whether in a PANDORA concept store, online or other points of sale. Our concept stores are the ultimate place for inspiration, guidance and personal advice. Here, our consumers can touch and feel our products to fully explore our jewellery universe.

Our concept stores are either owned and operated (O&O) or franchised. O&O is our preferred model, but whether we choose to own and operate stores ourselves or work with franchise partners depends on a number of factors, including store location and market needs.

Our franchise partners and regional retail teams see a collection a few months before launch. Whether they work in O&O stores or franchise stores, we see the dedicated people in our stores as PANDORA ambassadors. Every day, they inspire and guide our consumers, helping them to choose the right jewellery for any moment or occasion. Prior to launching a new collection, we provide the people in our stores with the knowledge and information they need to understand the new products, so that they can inspire each individual consumer they deal with.

With a large number of O&O stores, we are a fully integrated retailer with control of our distribution. This enables us to analyse how our in-store product presentation best inspires consumers – and means we can balance our inventory across the entire value chain to ensure that the right products are available at the right stores.

2017 IN NUMBERS

2,446 CONCEPT STORES

974 O&O CONCEPT STORES

5,348 OTHER POINTS OF SALE

19 ESTORES

170,000 E-LEARNING MODULES COMPLETED GLOBALLY

Owning and operating the greater part of our value chain gives us control and transparency over the process, and strengthens collaboration across teams, functions and geographies – and so increases overall efficiency. Data and insight from each team create a unique knowledge base that is processed back into the value chain, enabling us to adapt quickly to market changes and take advantage of new opportunities.

We have seven product launches, centred around traditional fashion and gift-giving seasons to ensure our consumers have a constant variety of new PANDORA products to choose from. This set-up refreshes the assortment frequently and drives traffic into the stores. Slow-moving items are retired, while fast-moving products are replenished with short production lead times.

We have built in agility in our value chain, meaning that we differentiate in how we bring products to market. In general, developing a new collection takes around 11 months. To be agile towards the macro trends and cultural movements that continuously arise, we also operate an open capacity process that enables us to turn around new jewellery, from design to final product, in 4 months. This gives us the agility needed to quickly take advantage of the knowledge we gain from high-performing products so that we can quickly accommodate new consumer needs, and ensures we are ahead of the field when new trends arise.

IT TAKES AROUND 11 MONTHS FOR A COLLECTION TO GO FROM INITIAL IDEA TO PRODUCTS IN STORE – IF NEW TRENDS ARISE WE CAN CUT THAT TIME FOR STANDARD PRODUCTS TO 4 MONTHS.

A number of important factors run through our entire value chain, including forecasting and sustainability. Forecasting is actively applied at all stages of the process, from anticipating new trends and product demand through to forecasting raw material prices and assessing stock replenishment requirements on a store-by-store basis. This allows us to adjust our actions as needed. By combining forecasting with responsiveness in our Supply Chain, for example, we are able to ensure that our stores have the right products in stock and do not carry too large inventories.

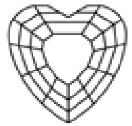
Sustainability is an essential part of the PANDORA way and an increasing value-add for consumers. As we own and operate the full value chain, we can factor sustainability into every aspect of our business model. Responsible business practices begin in the design phase with the choice of materials and suppliers, and continue through to how we craft, distribute and sell our jewellery.

2.6

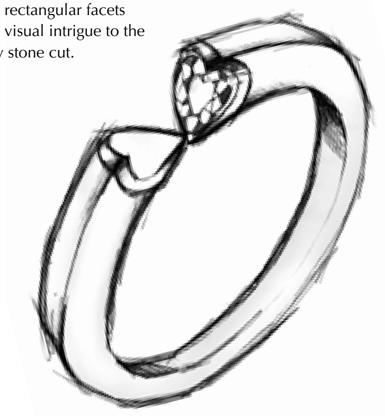
BILLLION STONES WERE SET INTO OUR JEWELLERY

THE VAST MAJORITY BEING MAN-MADE, OFTEN EXHIBITING THE SAME BASIC CRYSTAL STRUCTURE AS NATURAL STONES.

> “
>
> CONSUMER-CENTRIC INNOVATION IS NOT JUST ABOUT DELIVERING WHAT CONSUMERS WANT; IT’S ABOUT DELIVERING THE THINGS THEY DON’T YET KNOW THEY WANT.
>
> - STEPHEN FAIRCHILD,
> SVP & CHIEF CREATIVE OFFICER



The new heart-shaped stone cut. Domed profile and rectangular facets add visual intrigue to the new stone cut.



PANDORA IN DETAIL

WELCOME TO THE PANDORA INNOVATION JEWELLERY PLAYGROUND

At the PANDORA Innovation Centre in Bangkok, Thailand, we make the (almost) impossible possible. In 2017, we invested in a new innovation centre and ‘jewellery playground’ to drive innovation at PANDORA.

The centre incorporates all the latest jewellery technologies and equipment, and is a place where our Design, Manufacturing and Innovation teams can push the boundaries of what’s possible like never before, exploring new innovations, developing new concepts, building prototypes and experimenting with new ways of crafting jewellery.

The PANDORA Innovation Centre also includes 3D printers, which are important in the product development process. 3D printers allow us to quickly print new designs, make alterations and test them with consumer groups, making the entire design process significantly faster and more clearly focused on the consumer than ever before.

Our investment in the PANDORA Innovation Centre was part of our work on redesigning our innovation process in 2017 to put the consumer even more strongly at the centre. In the updated process, innovation starts with consumer needs and is integrated into the entire value chain. Innovative ideas can come from any part of the company, and all parts of the value chain must work together to take that idea from inspiration to finished product.

As a result of our new consumer-centric process, there are a number of commercially strong and innovative concepts in the pipeline, and the first of these will be launched in 2018.

OUR STRATEGY

DRIVING OUR STRATEGY FORWARD

Our strategic pillars form the basis of our work. These keep us moving in the right direction by putting the consumer at the centre of everything we do.

INNOVATE AFFORDABLE JEWELLERY

We are expanding our timely jewellery offering to cater for the diversity among our multifaceted consumers, and reflect what is going on in their lives – with all designs based on the distinct PANDORA design code. Charms & Bracelets, launched in 2000, remains our core product category, but we continue to build up Necklaces & Pendants and Rings and Earrings to ensure we have a balanced product portfolio.

To inspire our consumers, we bring a continual flow of product newness by creating new concepts and design features, and launching new, culturally relevant products for different seasons and occasions. We are also increasing the frequency with which we go to market with new products. By 2022, we will increase our product launches from seven to ten per year, while we will launch at least one new concept per year.

The majority of our jewellery is crafted from sterling silver, but we will introduce other metals, mixed metals and other materials to increase the relevance for our consumers. We provide affordable and inclusive prices that allow for high purchase frequency, including for gifting.

We are expanding our manufacturing capabilities and leveraging the PANDORA Innovation Centre in Thailand. We are investing in innovation while also becoming more commercially responsive through an agile value chain that enables us to respond faster to new trends and opportunities to inspire our consumers.

AT A GLANCE

- Lead the charms category
- Win the other jewellery categories
- Fast, timely and wide design newness
- New concept innovation

OUR VALUE PROPOSITION

We inspire every woman to express the many different facets that make her, who she is. We do this through:

AFFORDABLE REAL JEWELLERY

Offering her quality craftsmanship at prices she can afford

PERSONAL SHOPPING EXPERIENCE

Providing a convenient, welcoming and inspiring journey

TIMELY DESIGN

Offering contemporary jewellery in a wide variety of styles and with cultural relevance

SELF-EXPRESSION

Addressing her past, present and future, her relationships and her multifaceted identity

AGILE MANUFACTURING

We have built two of the largest jewellery crafting facilities in the world. In these, we are expanding our manufacturing capabilities to deliver on our product and design vision. This enables us to be more efficient in production and more agile in our product development and launch new jewellery faster - in as little as 4 months. In that way we can respond even more quickly to new trends and opportunities for our consumers. Our PANDORA Innovation Centre in Thailand is leveraged to design and manufacture jewellery in ways that are completely new to the industry.

AT A GLANCE

- Next-level product innovation
- Industry leading crafting facilities
- Manufacturing capability expansion
- Operational efficiency

DIGITALISED BRAND EXPERIENCE

We are focusing our efforts on providing a consumer journey that is personal, inspiring and seamless across our different consumer touch points.

We seek to inspire existing consumers and attract new ones with a timely view on trend and style in a PANDORA context, and communicate this view through influencers on social media, as well as through PR, events and sponsorships.

We are increasingly utilising inspiring product design stories and providing a more comprehensive product presentation. This helps guide the gifter, who is an important customer for PANDORA, as well as our target consumer.

Our consumers should be able to navigate across channels and across online and offline touch points with the same personal experience. We strive to use data to recognise consumers both online and offline and to remember their purchase history and rationales, so that we can tailor relevant product recommendations and content, and provide them with product information and visualisation that inspire their imaginations. We are increasingly tailoring our marketing efforts to enable a more personal and inspiring consumer experience. We use traditional print and TV media, but are moving further into digital one-to-one marketing to tailor the content to the individual customer.

AT A GLANCE

- Strengthened brand leadership position
- Marketing reach and efficiency
- Inspirational consumer journey
- Digital 1:1 marketing

WINNING IN OMNI-CHANNEL RETAIL

PANDORA is a globally balanced business and, historically, we have entered many markets with success. We are continuing to pursue growth in our existing markets, while balancing our business even further as we grow in newer markets.

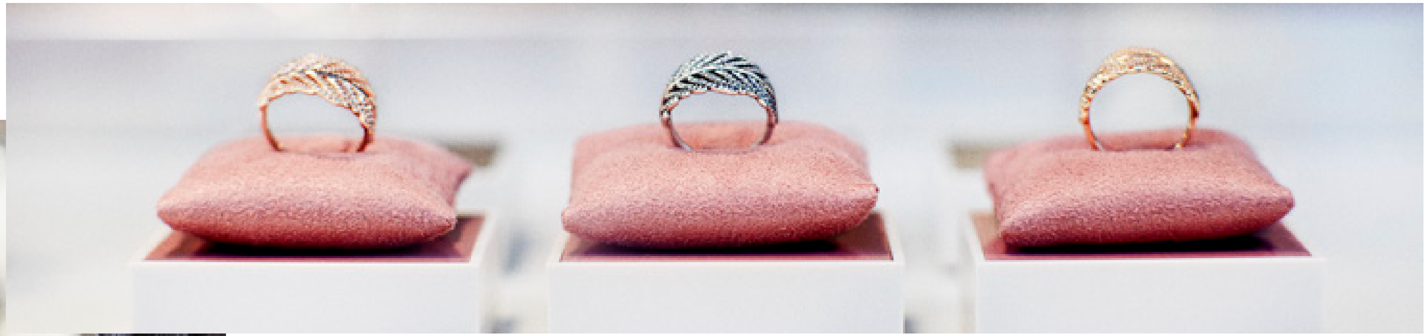
The PANDORA concept store continues to be our preferred channel, providing an inspiring and personal in-store experience. The concept store is the ultimate place for inspiration and personal advice from PANDORA people. Here, we welcome the consumer with an opportunity to touch and feel our new products and we can guide the gifter in their choice of gift. We maintain a presence in multi-branded distribution channels where needed to serve our consumers if it ensures us a branded presence and inspirational product presentation.

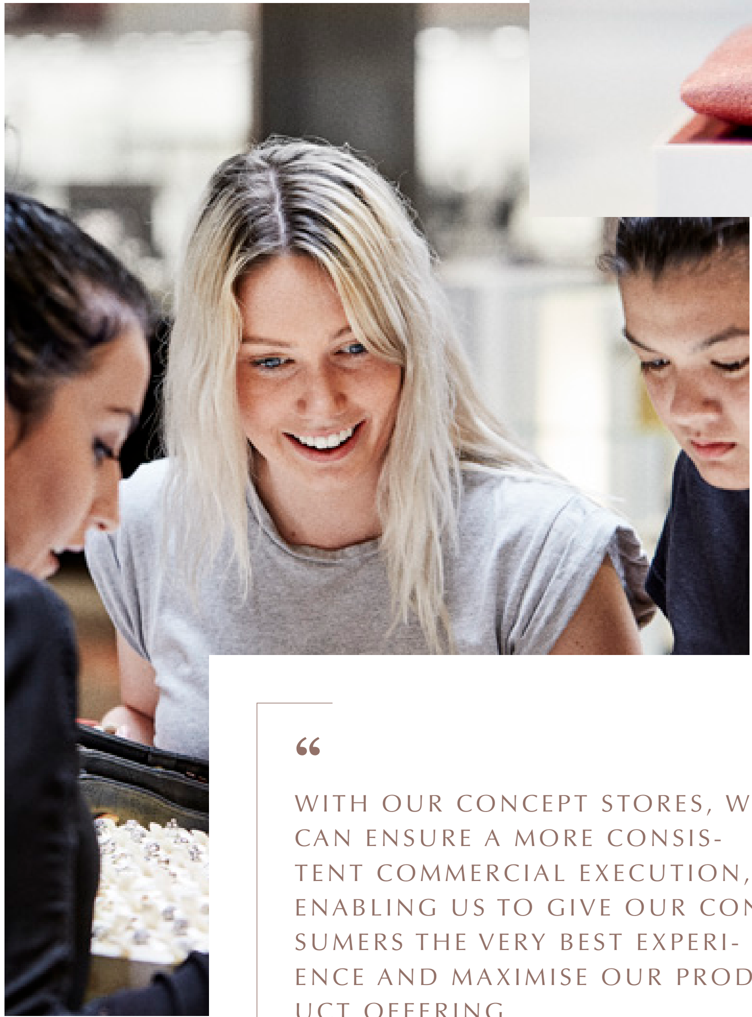
We are expanding the number of PANDORA owned concept stores (O&O). With more O&O stores as our preferred channel, we can better secure the consumer journey and experience, both in store and across channels, implement commercial decisions faster and plan across the full value chain to ensure availability of the right products at the right time while reducing surplus inventory.

We are improving our online performance to be more relevant to digital savvy consumers. In addition, we are working to integrate our physical and online channels further to deliver an integrated omni-channel experience, making it significantly more convenient for our consumers to shop across our physical and online stores. Consumers should be able to buy PANDORA easily on their different devices, and they should be offered multiple delivery options and great consumer service, no matter where they buy our products.

AT A GLANCE

- Expand and balance our O&O footprint
- Retail excellence
- E-commerce growth
- Omni-channel fulfillment and experience





PANDORA IN DETAIL

BRINGING THE PANDORA EXPERIENCE TO THE WORLD

When a customer enters a PANDORA concept store, the customer is entering a PANDORA world: a beautifully designed space that shows our universe of jewellery at its best.

PANDORA concept stores are an important part of our drive towards branded retail excellence. Branded sales, including concept stores, eSTOREs and shop-in-shops, continue to outperform non-branded sales, in part because they enable us to offer the best intended shopping experience.

But the benefits go much further. With full control over the entire value chain, from design and sourcing through to production and sales, we have a constant flow of data that enables us to react quickly to market needs. If we identify a high-performing product, for example, we can quickly step-up production and push that product to stores that are particually selling well.

We continued to expand our owned and operated (O&O) concept store network in 2017. We took over City Time S.L., which holds distribution rights to PANDORA jewellery in Spain, Gibraltar and Andorra. The transaction included 50 concept stores, giving us better control of what is one of the larger jewellery markets in Europe. In addition, we took over distribution in Belgium and South Africa, and expanded our Latin America network by opening net 34 concept stores. In total, we took over or opened 376 O&O concept stores around the globe and, by the end of the year, our O&O network totalled 974 stores, making up 40% of our concept store network.

> "
>
> WITH OUR CONCEPT STORES, WE CAN ENSURE A MORE CONSISTENT COMMERCIAL EXECUTION, ENABLING US TO GIVE OUR CONSUMERS THE VERY BEST EXPERIENCE AND MAXIMISE OUR PRODUCT OFFERING.
>
> - DAVID ALLEN, PRESIDENT, EMEA

03/ GOVERNANCE & MANAGEMENT

"

MY PANDORA CHARMS SYMBOLISE SOMETHING WARM AND MEANINGFUL TO ME. IT IS IMPORTANT FOR ME TO WEAR CHARMS THAT HAVE A SPIRITUAL MEANING; THEY BRING WORTH AND LUCK TO MY FAMILY AND I.

- RENEE (25) HAS BEEN WEARING PANDORA JEWELLERY FOR 5 YEARS

CORPORATE GOVERNANCE

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

PANDORA intends to exercise good corporate governance at all times and to assess its practices according to the corporate governance recommendations of the Danish Committee on Corporate Governance. As a publicly listed company, PANDORA is subject to the disclosure requirements laid down by applicable legislation as well as by Nasdaq Copenhagen, which has included the Corporate Governance recommendations in its 'Rule Book for Issuers of Shares'.

The Board remains committed to following the Danish Corporate Governance Recommendations as adopted in May 2013 with minor revisions in 2014. In 2017, PANDORA chose to deviate partly from Clause 3.4.6 as the Chairman of the Nomination Committee is not the Chairman of the Board.

At PANDORA, the Nomination Committee elects a chairman, who must be either the Chairman or one of the Deputy Chairmen of the Board.

BOARD AND EXECUTIVE MANAGEMENT

Powers are divided between the Board and the Executive Management and 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 is appointed by the Board. The Executive Management handles the day-to-day management, while the Board supervises the work of the Executive Management and is responsible for the general and strategic direction of PANDORA. The primary tasks for the Board are to ensure that PANDORA has a strong management team, an adequate organisational structure, efficient business processes, an optimal capital structure, transparent bookkeeping and practices, and responsible asset management. Furthermore, the Board oversees the financial development of PANDORA and the related planning and reporting systems.

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

BOARD ACTIVITIES IN 2017

During 2017, the Board held eight ordinary Board meetings. The total attendance rate was 93%. In 2017, the primary focus areas for the Board were continued growth, geographic expansion, product diversification (full jewellery brand), IT, expansion of manufacturing footprint, strategy and organisational development of the Company. The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee. The Board appoints the Committee members and the Committees' chairmen. The Committees' terms of reference are disclosed on the Company's website.

THE AUDIT COMMITTEE

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

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

In 2017, the Audit Committee met six times and had an attendance rate of 100%. The main activities in 2017 were:

- meetings with the Executive Management and independent auditors to review the audited Annual Report
- meetings with the Executive Management to review quarterly financial statements, the key accounting policies and significant accounting estimates
- monitor the adequacy and effectiveness of PANDORA's internal controls and risk management systems
- review of significant financial risks of PANDORA
- reassessment of the need for an internal audit function and approval of the charter for the Governance, Risk & Compliance department
- recommendation for the selection of independent auditors, including evaluation of independence, competencies and compensation
- the Audit Committee's annual self-assessment
- review of updates to the financial reporting structure

THE REMUNERATION COMMITTEE

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

- to prepare recommendations to the Board on the pay and remuneration policy applicable to the Board and the Executive Management with respect to fixed and variable pay components
- to submit proposals to the Board for the total individual pay and remuneration packages of the Board members and the Executive Management
- to verify that the information on remuneration in the Annual Report is true, accurate and adequate

The Remuneration Committee met four times in 2017 and had an attendance rate of 95%. The main activities were the annual review of the remuneration policy and guidelines on incentive payments as well as approval of PANDORA's overall wage regulation. The Committee also performed a review of the Long-Term Incentive Programme.

THE NOMINATION COMMITTEE

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

- description of the qualifications and competencies required for members of the Board and the Executive Management
- nomination of candidates for the Board and the Executive Management
- self-evaluation of the Board
- assessment of the performance of the Executive Management and the cooperation between the Board and the Executive Management
- succession planning for top executive positions

In 2017, the Nomination Committee met twice and had an attendance rate of 100%. The main activities were the annual self-evaluation, and assessment of the cooperation between the Board and the Executive Management as well as assessment of the performance of each member of the Board and the Executive Management.

BOARD SELF-EVALUATION

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

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

The self-assessment conducted in 2017 identified the following strengths and development areas for the Board. In general, the Board demonstrates a breath of experience and broad industry knowledge and backgrounds well fitted to PANDORA's business and strategy. The Board structure and committee work are effective and well-functioning, as well as the interaction with the Executive Management. In 2017, the Board has been deeply involved in setting the coming strategy for PANDORA going forward. The primary focus points for 2017/2018 are therefore strategy, brand marketing as well as execution, monitoring and involvement in the business in order to provide support on product development, digitalisation and growth tactics.

ADDITIONAL INFORMATION

The Corporate Governance Statement for 2017 cf. section 107b of the Danish Financial Statements Act, is available at http://investor.pandora.net/107bstatement2017EN.cfm.

CORPORATE SOCIAL RESPONSIBILITY

We believe that high ethical standards and our aspiration to offer high-quality real jewellery go hand in hand. We want women to be able to celebrate their personal stories with jewellery that is made from ethically sourced materials and crafted responsibly, because we care about our planet and our people.

Our integrated business model means we control the majority of our value chain, and so can incorporate sustainability into every aspect of our operations. We also work closely with our suppliers and partners to ensure high ethical standards – and we communicate our efforts and performance externally to inspire partners and peers to initiate similar measures.

PANDORA ETHICS

PANDORA's Ethics Programme is integrated into our entire value chain through policies, guidelines and tools. In 2017, the PANDORA Ethics Programme focused on:

- Production start-up at our Leadership in Energy and Environmental Design (LEED) Gold certified green crafting facility in Lamphun, Thailand
- Initiating construction on another LEED-certified green crafting facility in Bangkok
- Chairing the multi-stakeholder Standards Committee of the Responsible Jewellery Council (RJC), where the 2017 work plan included developing a new Chain of Custody standard for gold
- Supplier due diligence and supplier development

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

PANDORA CONTRIBUTES TO PROGRESS ON MOST 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, IMPACT.

PRODUCT, PEOPLE, PLANET

We are committed to crafting our *Products* with integrity, providing proper working conditions for our *People* and minimising our impact on the *Planet*. Our Product, People, Planet platform ensures consistency across our communication channels, from consumer-facing websites and the Annual PANDORA Ethics Report to internal training.

PRODUCT

Responsible business practices begin in the design phase with the choice of materials and continue through ethical sourcing, procurement and crafting. When entering into an agreement with PANDORA, suppliers sign our Suppliers' Code of Conduct, which addresses business integrity, human rights and environmental issues. To ensure compliance with the Code, we have a comprehensive "Responsible Supplier Programme", which includes screening and risk assessment, training, dialogue and supplier audits, and also ensures timely follow-up when non-compliance is identified.

SUPPLY CHAIN AND RAW MATERIALS

Silver is by far the most used material in our products. In 2017, 97% of silver grains sourced by PANDORA originated from recycled or reused sources. The remaining 3% came from mined silver provided by certified responsible refiners. We work with specialised silver product suppliers to ensure that the highest possible percentage of the silver used in their products originates from reused sources. In 2017, 74% of the gold grains used in PANDORA's products originated from recycling. The remaining gold originated from mining certified according to the RJC's Chain of Custody standard or the Good Delivery List standard issued by the London Bullion Market Association.

13,250

EMPLOYEES IN THAILAND

PEOPLE

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

Potential adverse human rights impacts within the jewellery supply chain are predominantly associated with mining. We minimise this risk by sourcing recycled gold and silver grains and by predominantly using man-made stones. All the gold, silver and diamonds that we use can be traced back to certified responsible suppliers.

Human rights risks related to other goods and service providers are covered by our "Responsible Supplier Programme".

TRAINING

We offer training to our employees through a global network of PANDORA trainers and our in-house e-learning platform. We have specific training courses for production staff that span technical skills, safety, health, business continuity, the environment, leadership and life skills.

PRODUCTION

The vast majority of the 117 million jewellery pieces we produced in 2017 were crafted at our own facilities in Thailand. Here, Employee Welfare Committees are responsible for coordinating employee interests related to compensation and benefits, employee relations and social activities. The committee members are elected by their colleagues every second year.

PANDORA Production Thailand (PPT) offers employees safe and healthy working conditions and competitive compensation and benefits. The increase in the amount of jewellery produced means specialised departments periodically exceed the average weekly working hours defined by international standards. We addressed this in 2017 by focusing on efficiency and hiring additional people.

PLANET

Our Environmental Policy commits us to minimising the environmental footprint of our operations by seeking new ways to reduce our consumption of resources, our emissions and waste. We acquire and maintain certificates for internationally recognised environmental management systems at our crafting facilities, and 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.

BUSINESS INTEGRITY

We believe in fair and honest competition, and we are dedicated to working against corrupt practices in our operations and 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". Most importantly, our Business Integrity Policy instructs us never to offer, give or accept gifts, entertainment or any other advantages exceeding locally defined triviality limits; never to offer, authorise, give or accept bribes or extortion; to refuse to pay facilitation payments, even if this could mean a loss of business; and not to contribute to money laundering.

MORE INFORMATION ON ETHICS PROGRAMME, POLICIES, "RESPONSIBLE SUPPLIER PROGRAMME", ANNUAL ETHICS REPORTS IS AVAILABLE AT **WWW.PANDORAGROUP.COM/CSR**.

We are regularly audited by the RJC, and environmental risks in our supply chain are mitigated through our "Responsible Supplier Programme". Primary environmental risks within our industry are CO2 emissions and the depletion of natural resources associated with mining. We minimise CO2 emissions by sourcing recycled gold and silver and predominantly using man-made stones, which have less environmental impact than mined stones.

RESOURCE CONSUMPTION

Our crafting facilities are by far our most resource-consuming entities in terms of energy, water, construction materials, etc. By investing heavily in two new LEED-certified facilities in Thailand – one in Lamphun, which opened for production in 2017, and one in Bangkok opening for production early in 2018 – we are building for the future, also in terms of resource efficiency.

Our LEED Gold certified facility in Lamphun was built with 30% recycled materials, and 75% of construction waste was recycled. The sustainable features of the building result in a 45% reduction in water consumption. Solar panels generate 14% of the facility´s energy consumption when running at full capacity, and an innovative air-conditioning and ventilation system reduces ventilation energy loss by up to 80%.

PARTNERSHIPS

PANDORA is a member of the United Nations Global Compact (UNGC). In 2017, we were part of the steering committee entrusted with preparing a new chapter of the UNGC in Denmark. Further, PANDORA is certified according to the provisions of the RJC's Code of Practices, which includes the UN Guiding Principles on Business and Human Rights. We invest considerable time and resources in these bodies and initiatives to share efforts and lessons learnt with peers and so help promote ethical business conduct. In 2017, the RJC, with PANDORA as Chair of the Standards Committee, developed a new and improved Chain of Custody standard for responsible gold.

PANDORA IN DETAIL

GIVING BACK TO HOMETOWN COMMUNITIES

In 2017, PANDORA employees contributed to improving education for children in a rural area of Thailand as part of PANDORA's My School Project. My School Project has been giving back to the hometowns of our employees in Thailand for 11 years, making it the longest-running charitable initiative in PANDORA.

With around 13,250 PANDORA employees in Thailand, the country holds a unique place in our company's heart. Each year, our employees in Thailand can nominate a school they attended for renovation work. The employees then complete fieldwork studies at the different schools and one is chosen from the scores of nominees. Then the real work begins. PANDORA pays to renovate or build new facilities; other equipment, such as blackboards, desks, chairs and water filters, are donated by our employees.

This year, Ban Non Bok Elementary School was chosen, a school in a rural area of northeastern Thailand that a number of our employees attended. My School Project gave these employees a chance to give something back to their hometown community and the teachers who inspired them. And, by using local construction workers, the project also helped create jobs in the community. When the new building was handed over, the employees prepared a ceremony and the whole village came together to celebrate.

My School Project has helped improve 11 schools across Thailand since it began in 2006, with more than 10,000 of our Thai employees participating by nominating their schools, completing fieldwork surveys and donating their money and time.

11

SCHOOLS HAVE BEEN IMPROVED SINCE 2006

"

WHEN I FIRST SAW THE SCHOOL THAT WE HAD BUILT, I WAS VERY IMPRESSED. NOT ONLY BECAUSE A FOREIGN COMPANY HAD DECIDED TO MAKE SUCH A DIFFERENCE TO A LOCAL COMMUNITY, BUT SEEING THIS BEAUTIFUL BUILDING IN THE MIDDLE OF RICE FIELDS WAS SOMETHING I WILL ALWAYS REMEMBER.

- APIRADEE POOPIROM, MANAGER, COMMUNICATIONS & COMMUNITY RELATIONS, AND ONE OF THE MY SCHOOL PROJECT VOLUNTEERS

KEY PERFORMANCE INDICATORS

PRODUCT

	2017	2016	2015	2014
Sourcing suppliers subject to PANDORA's "Responsible Supplier Programme", %	100	100	100	100
Total sourcing value audited by external CSR experts, %	>85	>85	>80	>80
Silver and gold grain suppliers certified by the RJC/LBMA, %	100	100	100	100
Suppliers trained in ethical business practices at annual PANDORA supplier conferences	0	199	150	-

PEOPLE

	2017	2016	2015	2014
Craftspeople turnover, %	4.20	3.20	3.30	5.0
Global incident rate (OSHA standard)	0.30	0.30	0.18	0.17
Employees offered annual personal development reviews, %	100	100	-	-
Training hours per craftsperson	8.20	14.20	14.50	-

PLANET

	2017	2016	2015	2014
Water consumption at crafting facilities Lamphun/Bangkok, m^3	196,000/630,289*	584,108	483,000	379,000
Recycled crafting waste, %	80	86	83	81
Energy consumption at crafting facilities Lamphun/Bangkok, MWh	8,867/36,822*	35,907	29,472	23,243
Global transport emissions, tonnes of CO2	12,734	8,665	5,435	4,324
Recycled silver/gold grains used at our crafting facilities, %	97/74	91/86	83/96	99/90

In 2017, we saw an increase in our water and electricity consumption. We expect a continuous increase in resource consumption as our strategy is to keep growing within Rings, Earrings and Necklaces & Pendants, which are resource intensive categories to craft. We will partly offset this by resource efficiency initiatives; Leadership in Energy and Environmental Design (LEED) Gold certified crafting facilities and improved production processes.

PRODUCT ASPIRATIONS

To craft our product with integrity

PEOPLE ASPIRATIONS

To ensure our people have a safe workplace where they can develop

PLANET ASPIRATIONS

To minimise our environmental impact

INTELLECTUAL CAPITAL

PROTECTING THE PANDORA BRAND

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

INTELLECTUAL PROPERTY RIGHTS AND POLICIES

Our intellectual property rights are mainly vested in trademarks, copyrights, patents and designs. These are strengthened by business secrets, visually distinct products, non-disclosure procedures and non-competition regulations.

Intellectual property rights are crucial to our business, competitive advantage and future development. We therefore protect these intellectual property rights using all available means, including a comprehensive global trademark and patent monitoring watch, 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 prior agreement.

PATENTS

We protect our relevant innovations by patents in our main markets and country of production. PANDORA holds several patent families, including for the Moments bracelet, PANDORA ESSENCE COLLECTION charms, and innovative new clips. In 2017, a large number of patents were granted on the PANDORA ESSENCE COLLECTION charms, and patent applications on our innovative clips were filed in key geographical areas.

TRADEMARKS

We hold an almost global trademark portfolio for the PANDORA trademark, as well as a significant trademark portfolio for the crowned O logo and our collection brands, such as PANDORA ESSENCE COLLECTION and PANDORA Rose. At the end of 2017, our trademark portfolio consisted of around 1,200 trademark applications and registrations. Of these, around 50 trademark applications were filed in 2017.

COPYRIGHTS AND DESIGN RIGHTS

We hold a significant portfolio of copyright and design right registrations in the US, China and the EU, protecting our unique and distinctive jewellery designs. In 2017, we added registrations for many new designs to the portfolio.

BATTLING FAKES AND FRAUDS IN 2017

We received around 30 tips a day about intellectual property right infringements via our Brand Protection Tip-line

We removed more than 6,000 fake commercial websites from the internet

We removed more than 100,000 fake item advertisements from internet auction sites

HUMAN RESOURCES

TRAINING AND PERSONAL DEVELOPMENT

Our people are the heart of our company and their continual development has always been a main driver in our success. To help every member of our global team feel empowered in their daily work and prepare them for future challenges, we offer a number of training programmes developed for various levels and areas within the organisation. Most training is run by local HR departments, ensuring that content is directly related to our employees' daily work.

This locally offered curriculum includes a centrally developed management training course designed to help prepare the next generation of PANDORA leaders. The course covers a range of topics, from personal effectiveness to leadership. Around the world, we had more than 20,000 participants in the training courses in 2017.

Global training programmes bring together people from around the world and include the Life Leadership Programme – a one-year development curriculum for vice presidents and potential vice presidents launched in 2012. In 2017, 19 managers started the programme, which includes a module developed and facilitated specifically for PANDORA by Harvard Business School.

Our digital learning platform, PANDORA LINK, is another essential tool. It enables more than 46,000 users worldwide, including shop associates in non-PANDORA owned points of sale, to follow a wide range of training modules. This year, PANDORA LINK was made available to all PANDORA employees in our offices and crafting facilities – in addition to people working in retail – making it a truly company-wide system. More than 170,000 PANDORA LINK e-learning modules were completed globally in 2017.

SUCCESSION PLANNING

We continued working with our HR succession tool in 2017, which helps us identify candidates for leadership and critical positions around the globe and ensures we can create a robust internal pipeline for the future. In addition, we launched a number of initiatives to improve our focus on ensuring stability of succession and bolstering our reputation as an attractive place to work.

The continual addition of new talent is essential to our dynamic and growing organisation. To ensure that we can create a pipeline of external talent for our company – and continue to attract the best people – we initiated a number of projects in 2017 that help us define the benefits and opportunities that we offer our people, including comprehensive professional development and experience in a global company.

GENDER DIVERSITY IN MANAGEMENT

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

- By 2020, the percentage of women in senior management positions (members of the Management Board, general managers and vice presidents) should be at least 40%. At the end of 2017, 39% of senior management were women, compared with 37% in 2016, 33% in 2015 and 34% in 2014.

- The gender composition of the Group's leadership programmes should mirror the gender composition of employees in vice president and director positions. Since we started our leadership programmes in 2012, the gender split has on aggregate been close to 50/50. In 2017, women accounted for 64% of this management group, and made up 60% of the enrolment in our leadership programmes.

- By 2018, our objective is that at least 35% of Board members elected at the Annual General Meeting should be women. At the end of 2017, women made up 33% of our Board members (3 out of 9), compared with 30% in 2016 (3 out of 10). This means we are well above the average of 16% for Danish listed companies. The Board will continue to consider gender composition when appointing new members.

MAKING LEARNING ACCESSIBLE AND RELEVANT

Our new PANDORA LINK digital learning platform makes training easily accessible online to all PANDORA employees around the globe. The online training modules cover everything from media education to crafting skills tests, and employees have the opportunity to learn in a range of ways, from webinars, videos, quizzes, games and online discussions to signing up for face-to-face courses.

In a recent survey of PANDORA's retail employees, 92% said they found the product knowledge learning modules directly relevant to their roles, and 94% found the modules easy to understand.

RISKS

TAKING ACTION TO MITIGATE RISKS

The PANDORA Board of Directors makes regular assessments of the overall and specific risks associated with the Group's business and operations to ensure significant risks are managed in a proactive and efficient manner. The Board of Directors regularly reviews the Group's established internal control systems – including a whistleblowing function – to ensure that they remain appropriate and sufficient. In the case of highly complex transactions and contracts, we work with advisers to mitigate risks.

RISK MANAGEMENT GOVERNANCE

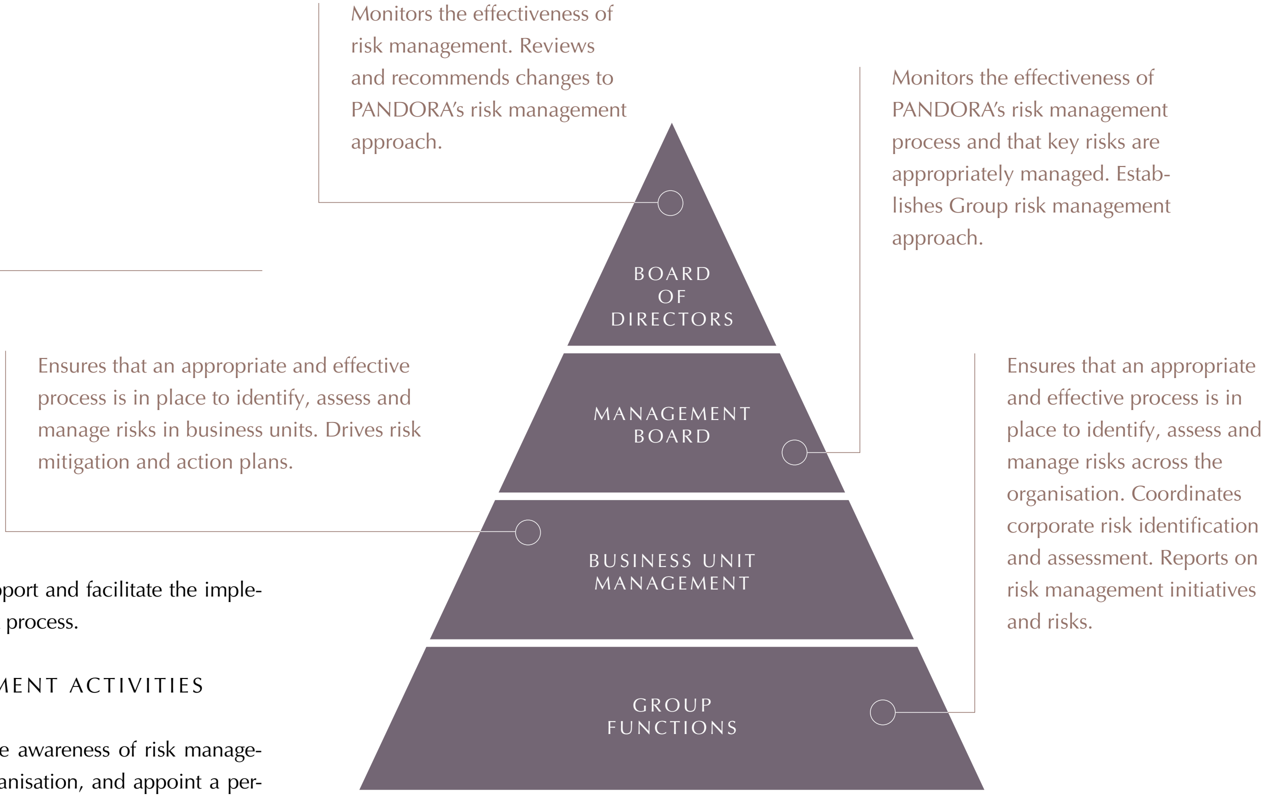
The Audit Committee assists the Board of Directors in supervising the financial reporting process and the effectiveness of PANDORA's internal controls and risk management systems. The Audit Committee reviews significant risks related to PANDORA's business, activities and operations, as well as risks related to financial reporting. The Management Board is responsible for setting the tone for risk management. Management at all levels is responsible for identifying and appropriately managing risks related to their business area. Group functions support and facilitate the implementation of the risk process.

RISK MANAGEMENT ACTIVITIES AND STATUS

We work to increase awareness of risk management across the organisation, and appoint a person in each region who is responsible for enhancing risk awareness in our entities. In 2017, we focused on mitigating and managing the key risks reported in the 2016 Annual Report. The Group Governance, Risk and Compliance (GRC) function continued to drive forward its risk and control agenda as set out in 2016.

KEY RISKS

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



GROUP PRIORITISED RISKS

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

COMMODITY

DESCRIPTION

We aim to provide consumers with high-quality products at affordable prices. We are highly dependent on a stable cost of goods sold for the products currently on or close to market. As we produce most of our products at our crafting facilities in Thailand from high-quality materials, we are very dependent on the cost of raw materials, especially gold and silver.

RISK

Potential increase in cost of goods sold for our product range if commodity prices increase.

ACTIONS TAKEN

- PANDORA policies covering management of raw material price fluctuation risk
- PANDORA Pricing Board ensures relevant pricing of products in the design process
- Group commodity and currency hedging policies ensure exposure is within defined limits. (The Group hedges 70% of the Group's expected consumption for the following 12 months)

CRAFTING AND SUPPLY CHAIN

DESCRIPTION

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

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

There are a number of events that may affect the stability of our supply chain, including but not limited to a loss of suppliers; disasters at physical IT infrastructure sites, at our crafting facilities or distribution centres; geopolitical unrest.

RISK

Potential disruption within our sourcing, manufacturing and/or distribution activities.

ACTIONS TAKEN

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

MAJOR MARKET DEPENDENCIES

DESCRIPTION

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

Our major markets have experienced solid growth for a substantial period. To sustain our Group growth, we are dependent on continued access to and positive development in all major markets. Major markets accounting for 5% or more of Group revenue include Australia, China, France, Germany, Italy, the US and the UK.

We have online presence in all major markets and have a strategic ambition to transform our physical store network from franchise to predominantly owned and operated concept stores. This can have a negative impact on franchise partner relationships. Also, we are in process of transforming our marketing model from classical mass marketing to personalised consumer engagement across digital channels.

RISK

Potential impact on revenue if one or more of our major markets decline.

ACTIONS TAKEN

- Quarterly business review meetings
- Monthly management reports
- Market-specific strategies
- Strong focus on developing PANDORA's jewellery brand in all our markets
- Agreements and dialogue with franchise partners
- Attracting digital talent

PRODUCT DEVELOPMENT

DESCRIPTION

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

RISK

Risk that new jewellery designs do not meet customer expectations or gain the desired traction in the markets.

ACTIONS TAKEN

- PANDORA new product introduction process
- PANDORA drop strategy and collection management based on retail insight and product life cycle data and portfolio analysis, throughout the value chain
- Use of external and internal design talent

RESPONSIBLE BUSINESS PRACTICES AND TRANSPARENCY

DESCRIPTION

The design, sourcing, crafting and distribution of our products relies on our ability to maintain and develop responsible business practices throughout our value chain. We rely on our ability to provide internal and external clarity and transparency about our ethical aspirations, performance and results.

RISK

Potential non-conformity with our Code of Ethics and external regulatory requirements.

ACTIONS TAKEN

- As a leading member of the Responsible Jewellery Council (RJC), PANDORA works closely with peers, independent experts and non-government organisations to create shared value by identifying generic risks within the jewellery supply chain, set auditable standards to counter these risks and inspire the entire jewellery supply chain to commit to responsible business practices
- Risks in our own supply chain are handled through our "Responsible Supplier Programme", which focuses on training, dialogue, audits and continuous improvements
- Responsible business practices are governed internally through PANDORA's Code of Ethics, supported by Group-wide staff training and our Ethics Hotline
- Our new crafting facility in Lamphun is LEED Gold certified
- Increased transparency and consumer-oriented communication

For more information on PANDORA's ethical aspirations, efforts and results, please refer to the section on Corporate Social Responsibility.

TAX

DESCRIPTION

PANDORA operates globally with a vertically integrated supply chain organisation and so has a significant number of intercompany transactions, which are subject to tax legislation that is complex and open to interpretation. We put a great deal of effort into complying with local tax legislation, but we also recognise that situations may arise in which the tax authorities' understanding of how the legislation should be applied differs from ours.

RISK

The risk for PANDORA includes:

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

ACTIONS TAKEN

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

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 Danish disclosure requirements for annual reports of listed companies. While the internal controls and risk management systems are designed and aim to ensure that material misrepresentation of assets, losses and/or significant errors or irregularities and omissions in the financial reporting are avoided, they provide no absolute assurance that all errors are detected and corrected.

Internal 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 has taken the necessary steps 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 compositions of the Board, the Audit Committee, 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, as well as assess measures to manage or eliminate and/or reduce 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 with a global Finance Management Forum that meets monthly during 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.

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

The Group has adopted and defined an internal control framework that identifies key processes, inherent risks and control procedures in order to secure appropriate accounting processes. The control procedures include a variety of processes in order to prevent any misrepresentation, significant errors, omissions or fraudulent behaviours. The control procedures are tested bi-annualy and reported to the Audit Committee annually.

INFORMATION AND COMMUNICATION

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

MONITORING

PANDORA's internal controls and risk management systems are continuously monitored, tested, documented and subject to quality control. The Audit Committee monitors the internal controls and risk management 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.

BOARD OF DIRECTORS

PEDER TUBORGH

Chairman and independent member of the Board
Year of birth: 1963
Member since: 2014

Board committees
Chairman of the Remuneration Committee and member of the Nomination Committee.

Previous executive positions with PANDORA
None.

Professional position
CEO of Arla Foods amba.

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

CHRISTIAN FRIGAST

Deputy Chairman and independent member of the Board
Year of birth: 1951
Member since: 2010

Board committees
Chairman of the Nomination Committee and member of the Remuneration Committee.

Previous executive positions with PANDORA
None.

Professional position
Executive Chairman of Axcel Management A/S.

Non-executive functions
Chairman of Danmarks Skibskredit Holding A/S and Eksportkreditrådet (EKF); Deputy Chairman of the Danish Venture Capital and Private Equity Association (DVCA); Member of the management of AXII Holding ApS; Board member of Frigast ApS, Nordic Waterproofing, Danmarks Skibskredit, Nissens A/S and Bestyrelsesforeningen; Co-founder and Chairman of Axcelfuture; Associate Professor at Copenhagen Business School.

ALLAN LESLIE LEIGHTON

Co-Deputy Chairman and non-independent member of the Board
Year of birth: 1953
Member since: 2015

Board committees
Member of the Remuneration Committee.

Previous executive positions with PANDORA
CEO of PANDORA (1 July 2013 - 1 March 2015).

Professional position
None.

Non-executive functions
Chairman of the Co-Operative Group, Entertainment One plc, Element Materials Technology Group Ltd., Wagamama Ltd. and The Canal and River Trust.

ANDERS BOYER

Independent member of the Board
Year of birth: 1970
Member since: 2012

Board committees
Member of the Audit Committee.

Previous executive positions with PANDORA
None.

Professional position
CFO of Hempel A/S.

Non-executive functions
None.

More information about competencies is available at www.pandoragroup.com

BOARD OF DIRECTORS (CONTINUED)

ANDREA DAWN ALVEY

Independent member of the Board
Year of birth: 1967
Member since: 2010

Board committees
Member of the Audit Committee and the Remuneration Committee.

Previous executive positions with PANDORA
None.

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

Non-executive functions
None.

BIRGITTA STYMNE GÖRANSSON

Independent member of the Board
Year of birth: 1957
Member since: 2016

Board committees
Chairman of the Audit Committee.

Previous executive positions with PANDORA
None.

Professional position
Senior Industrial Advisor.

Non-executive functions
Chairman of HL Display AB; Board member of Elekta AB, Capio AB, Midsona AB, Advania AB and Sportamore AB.

BJØRN GULDEN

Non-independent member of the Board
Year of birth: 1965
Member since: 2013

Board committees
Member of the Remuneration Committee.

Previous executive positions with PANDORA
CEO of PANDORA (21 February 2011 - 1 July 2013).

Professional position
CEO of Puma SE.

Non-executive functions
Board member of Tchibo GmbH, Borussia Dortmund (BVB) GmbH & Co. KGaA, Deichmann SE and Dansk Supermarked A/S.

PER BANK

Independent member of the Board
Year of birth: 1967
Member since: 2014

Board committees
Member of the Nomination Committee.

Previous executive positions with PANDORA
None.

Professional position
Managing Director of Dansk Supermarked A/S.

Non-executive functions
Chairman of F. Salling A/S and Købmand Ferdinand Sallings Mindefond; member of Nationalbankens Repræsentantskab.

RONICA WANG

Independent member of the Board
Year of birth: 1962
Member since: 2012

Board committees
Member of the Nomination Committee.

Previous executive positions with PANDORA
None.

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

Non-executive functions
Chairman of The InnoGrowth Group Ltd; Board member of GN Store Nord A/S, including certain subsidiaries, and Hotelbeds Group.

More information about competencies is available at www.pandoragroup.com

EXECUTIVE MANAGEMENT

ANDERS COLDING FRIIS

President &
Chief Executive Officer

Year of birth: 1963
Joined: 2015

Anders Colding Friis has 30 years of experience in business and management. He has held numerous positions in a number of Danish and international companies. Prior to joining PANDORA, he was Group Chief Executive and Managing Director of Scandinavian Tobacco Group A/S for nine years.

Anders also holds a number of non-executive functions. He is a member of the Confederation of Danish Industry's Executive Committee and Central Board; and Vice Chairman of Industriens Arbejdsgivere i København (IAK).

PETER VEKSLUND

Executive Vice President &
Chief Financial Officer

Year of birth: 1967
Joined: 2014

Peter Vekslund has 30 years of experience in business, finance and management. Prior to joining PANDORA, he worked in H. Lundbeck A/S for nine years, holding numerous positions within finance, with the most recent being Senior Vice President, Group Finance. Prior to that, he worked for KPMG Management Consulting for seven years, holding various positions, including Director. He began his career at KPMG Audit, where he worked for 11 years, including two years with KPMG in the USA.

More information about competencies is available at www.pandoragroup.com

MANAGEMENT BOARD

ANDERS COLDING FRIIS
President & Chief Executive Officer
Nationality: Danish
Residence: Denmark

PETER VEKSLUND
EVP & Chief Financial Officer
Nationality: Danish
Residence: Denmark

DAVID ALLEN
President, EMEA
Nationality: Australian
Residence: Denmark

KENNETH MADSEN
President, Asia Pacific
Nationality: Danish
Residence: Hong Kong

MINNA PHILIPSON
SVP & Chief Marketing Officer
Nationality: Swedish
Residence: Germany

SCOTT BURGER
President, Americas
Nationality: American
Residence: The US

STEPHEN FAIRCHILD
SVP & Chief Creative Officer
Nationality: American
Residence: Belgium

THOMAS TOUBORG
SVP, Group Operations
Nationality: Danish
Residence: Denmark

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.

- JESSICA (26) HAS BEEN WEARING PANDORA JEWELLERY FOR 8 YEARS

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 as of 21 February 2017. The ADRs will be 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 2017, the lowest closing price was DKK 552.5 on 21 November 2017 and the highest closing price was DKK 930 on 2 January 2017. At the end of 2017, the share price was DKK 675.5, corresponding to a decrease of 27% compared with the end of 2016.

Around 197 million PANDORA shares were traded in 2017, with an average trading volume of around 787,000 shares per day.

CAPITAL STRUCTURE AND CASH ALLOCATION

PANDORA's capital structure serves to ensure the Company has sufficient financial flexibility to pursue its strategic goals, while preserving a stable financial structure based on a strong balance sheet.

Accordingly, PANDORA targets a net interest-bearing debt (NIBD) to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio of 0-1x. PANDORA aims to be at the lower end of the target interval, while the range allows for financial flexibility throughout the year. PANDORA's financial gearing ratio may temporarily exceed the targeted range in case of larger acquisitions.

NIBD to EBITDA was 0.6x as of 31 December 2017.

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

- Repayment of interest-bearing debt or additional cash distribution if the Company is out side the target interval of the capital structure
- Funding of organic growth opportunities or other value-creating opportunities, including forward integration
- Distribution of cash to the Company's shareholders through dividend and share buyback programmes aimed at reducing the Company's share capital.

DIVIDEND

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

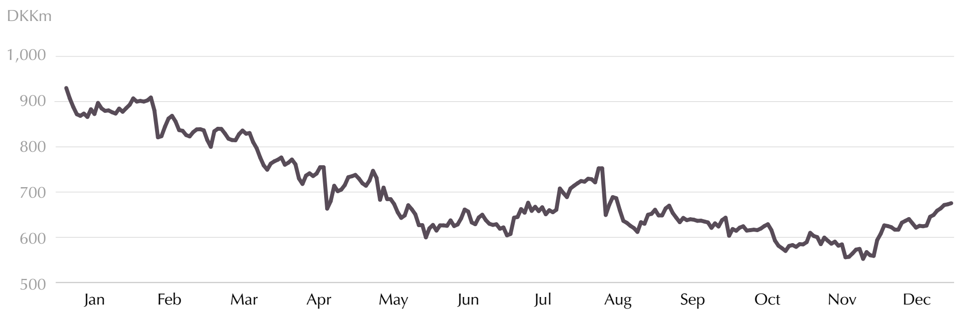
Based on the financial results in 2017, the Board proposes to return DKK 2.0 billion in dividend in 2018. This includes an ordinary dividend of DKK 9 per share and one additional bi-annual dividend of DKK 9 per share in relation to the first half 2018 results. In total, PANDORA will pay out DKK 18 per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

SHARE BUYBACK PROGRAMME

ANNOUNCED IN 2017

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

SHARE PRICE DEVELOPMENT 2017



ANNOUNCED IN 2018

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

SHAREHOLDERS

As of 31 December 2017, there were no single shareholders owning more than 5% of the share capital and voting rights in PANDORA.

As of 31 December 2017, PANDORA A/S owned a total of 2,891,926 treasury shares of nominally DKK 1 (in total nominally DKK 2,891,926), corresponding to 2.6% of the total shares outstanding.

As of 31 December 2017, institutional investors in Denmark held 12% of the share capital, institutional investors in Europe held 47% of the share capital (of which 29% was held by UK investors), and institutional investors in North America held 16%. As of 31 December 2017, 12% of the PANDORA shares were held by Danish retail investors.

As of 31 December 2017, PANDORA's Board and Executive Management held a total of 108.671 and 28,782 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 Company's Investor Relations Policy. IR is seperately 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 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 Group, 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.

CONTACT

Magnus Thorstholm Jensen
Vice President, Head of Investor Relations
Phone: +45 7219 5739
Email: mtje@pandora.net

Brian Granberg
Investor Relations Officer
Phone: +45 7219 5344
Email: brgr@pandora.net

Christian Møller
Investor Relations Officer
Phone: +45 7219 5361
Email: chmo@pandora.net

FINANCIAL CALENDAR 2018

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

SHARE INFORMATION

Exchange:	Nasdaq Copenhagen
Trading symbol:	PANDORA
Identification number/ISIN:	DK0060252690
Number of shares:	112,507,391 of DKK 1, each with one vote
Share classes:	1
GICS:	25203010
Sector:	Apparel, Accessories & Luxury Goods
Segment:	Large

05/ FINANCIAL REVIEW

"THE PANDORA UNIVERSE FASCINATES ME; MEETING THE PEOPLE IN THE STORES IS AN EXTRAORDINARY EXPERIENCE. THESE PEOPLE HAVE HELPED ME PUT BRACELETS AND CHARMS TOGETHER THAT REMIND ME OF THE PAST AND CELEBRATE WHAT IS YET TO COME.

- JETTE (74) HAS BEEN WEARING PANDORA JEWELLERY FOR 1.5 YEARS

FINANCIAL REVIEW

Total revenue for 2017 was DKK 22,781 million, an increase of 12% (15% in local currency) compared with DKK 20,281 million in 2016. Organic growth was 11% in local currency. Moreover, revenue for 2017 included a net impact of DKK 765 million related to the acquisition of franchise concept stores and distributors.

PANDORA OWNED RETAIL

Revenue from PANDORA owned retail was DKK 9,782 million in 2017 and represented 43% of Group revenue. This was an increase of 42% (46% in local currency) compared with 2016.

Revenue from PANDORA owned concept stores (incl. PANDORA eSTOREs) was DKK 9,214 million in 2017 an increase of 47% (51% in local currency) compared with 2016. Local currency growth was driven by like-for-like sales-out growth of 11%, growth from network expansion of 23% and growth from acquisition of stores of 17%. During 2017, PANDORA opened net 176 PANDORA owned concept stores and acquired 200 concept stores.

Revenue from PANDORA eSTOREs increased 61% (67% in local currency) to DKK 1,678 million in 2017, corresponding to 7% of total revenue (5% in 2016).

WHOLESALE

Revenue from PANDORA's wholesale channel was DKK 11,470 million, a decrease of 3% (or 1% in local currency) compared with 2016.

Revenue from franchise concept stores was DKK 6,678 million and decreased 5% (3% in local currency) compared with 2016. Revenue from franchise concept stores was negatively impacted by DKK 356 million from PANDORA's acquisition of franchise stores.

Revenue from other points of sale in the wholesale channel was DKK 4,792 million and increased 1% compared with 2016 (2% in local currency). The development was driven by the acquisition of PANDORA's Spanish distributor, while we continued to close other points of sale.

PANDORA OWNED RETAIL REVENUE

DKK MILLION	2017	2016	GROWTH IN DKK	GROWTH IN LOCAL CURRENCY	SHARE OF REVENUE
PANDORA OWNED CONCEPT STORES	9,214	6,266	47%	51%	40%
– OF WHICH ESTORES	1,678	1,045	61%	67%	7%
OTHER POINTS OF SALE (RETAIL)	568	617	-8%	-6%	3%
TOTAL PANDORA OWNED RETAIL REVENUE	**9,782**	**6,883**	**42%**	**46%**	**43%**

WHOLESALE REVENUE

DKK MILLION	2017	2016	GROWTH IN DKK	GROWTH IN LOCAL CURRENCY	SHARE OF REVENUE
FRANCHISE CONCEPT STORES	6,678	7,040	-5%	-3%	29%
OTHER POINTS OF SALE (WHOLESALE)	4,792	4,752	1%	2%	21%
TOTAL WHOLESALE REVENUE	**11,470**	**11,792**	**-3%**	**-1%**	**50%**

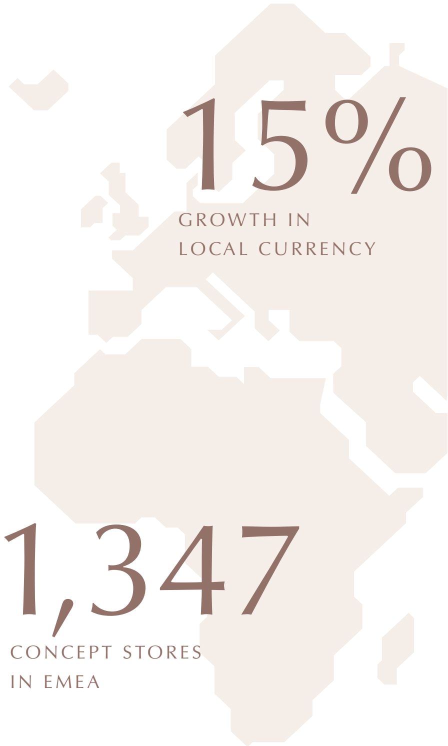
THIRD-PARTY DISTRIBUTORS

Revenue from third-party distributors was DKK 1,529 million, a decrease of 5% (4% in local currency) compared with 2016. The decrease was due to PANDORA's acquisition of the distributors in Spain, Belgium and South Africa in 2017.

DISTRIBUTION NETWORK

At the end of 2017, PANDORA had 2,446 concept stores globally, of which 974 were PANDORA owned stores. During 2017, PANDORA added net 308 new concept stores, mainly driven by store openings in China, Italy, the US, France and Latin America.

At the end of 2017, PANDORA had 5,348 other points of sale. During 2017, PANDORA closed net 645 other points of sale globally.



15%

GROWTH IN LOCAL CURRENCY

1,347

CONCEPT STORES IN EMEA

REVENUE BY REGION

In 2017, 48% of revenue was generated in EMEA (47% in 2016), 31% in Americas (34% in 2016) and 21% in Asia Pacific (19% in 2016).

EMEA

Revenue in EMEA was DKK 10,832 million in 2017, an increase of 13% (15% in local currency) compared with 2016. Growth in EMEA was driven by a positive development in all major markets in the region, with Italy being the main driver.

Revenue in the UK was DKK 2,809 million, an increase of 4% (10% in local currency). Growth was mainly driven by a strong performance in the UK eSTORE as well as the acquisition of 23 franchise stores in 2017.

Revenue in Italy was DKK 2,602 million, an increase of 30% (30% in local currency). Growth in Italy was driven by continued strong brand momentum as well as the addition of net 37 concept stores in the last 12 months.

Revenue in France was DKK 1,272 million and increased 13% (13% in local currency), while revenue from Germany increased 9% (9% in local currency) to DKK 1,065 million.

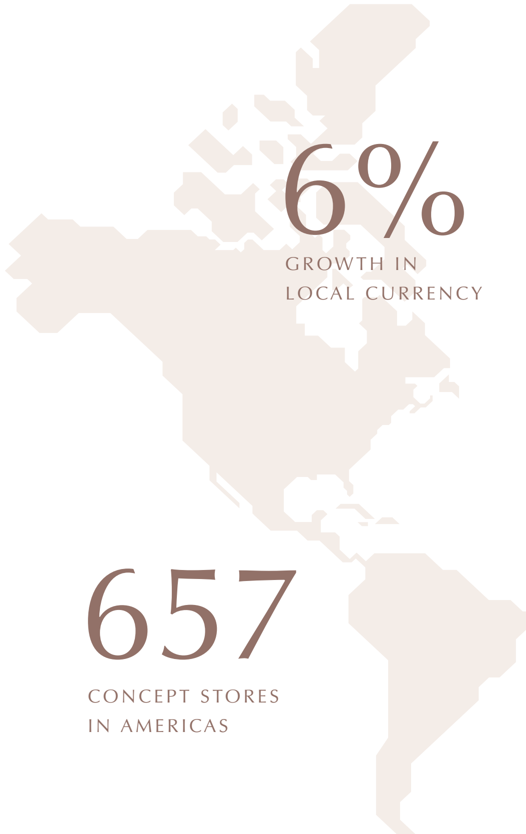
Growth in EMEA was supported by the addition of 141 new concept stores in the last 12 months, partly offset by the closure of around 569 other points of sale (corresponding to around 15% of other points of sale in the region).

AMERICAS

Revenue in the Americas was DKK 7,111 million in 2017, an increase of 4% (6% in local currency) compared with 2016.

Revenue from the US was DKK 5,297 million, an increase of 3% (6% in local currency). Growth was mainly driven by network expansion including acquisition of franchise stores as well as a strong performance by the US eSTORE. The retail environment in the US remained challenging throughout 2017, with decreasing mall traffic and most brands in the affordable space being increasingly promotional. Like-for-like sales-out growth in the US in PANDORA's owned concept stores, including the eSTORE, stayed positive in all quarters in 2017. However, this was driven by a strong performance in the eSTORE as the physical network experienced negative like-for-like.

Revenue in other Americas increased 8%. This was mainly driven by PANDORA's increasing presence in Latin America, with the addition of net 34 concept stores in this part of the region in 2017. In 2017, revenue from Latin America represented 13% of revenue from Americas.



6%

GROWTH IN LOCAL CURRENCY

657

CONCEPT STORES IN AMERICAS

28%

GROWTH IN LOCAL CURRENCY

442

CONCEPT STORES IN ASIA PACIFIC

ASIA PACIFIC

Revenue in Asia Pacific was DKK 4,838 million in 2017, an increase of 25% (28% in local currency) compared with 2016.

Revenue in Australia was DKK 1,647 million, an increase of 8% (8% in local currency). The increase was mainly driven by support from Chinese tourism as well as the expanded store network, with the addition of net 11 new concept stores in 2017.

Revenue from China was DKK 1,592 million, an increase of 75% (82% in local currency). Growth was supported by the addition of 58 new concept stores in China during 2017. Furthermore, revenue was positively impacted by the online launch of PANDORA jewellery in China in Q4 2016, including presence on Alibaba owned Tmall.

REVENUE BREAKDOWN BY GEOGRAPHY

DKK MILLION	2017	2016	GROWTH IN DKK	GROWTH IN LOCAL CURRENCY	SHARE OF REVENUE
EMEA	10,832	9,556	13%	15%	48%
AMERICAS	7,111	6,852	4%	6%	31%
ASIA PACIFIC	4,838	3,873	25%	28%	21%
TOTAL	**22,781**	**20,281**	**12%**	**15%**	**100%**

STORE NETWORK, NUMBER OF POINTS OF SALE

	2017	2016	GROWTH
CONCEPT STORES	2,446	2,138	308
- OF WHICH PANDORA OWNED	974	598	376
- OF WHICH FRANCHISE OWNED	969	976	-7
- OF WHICH THIRD-PARTY DISTRIBUTORS	503	564	-61
OTHER POINTS OF SALE	5,348	5,993	-645

REVENUE BY PRODUCT CATEGORY

Revenue growth in 2017 was underpinned by all jewellery categories, including Charms, Bracelets, Rings, Earrings and Necklaces & Pendants. In fact, all categories showed double-digit growth rates in local currency compared with 2016. Growth was driven by continued newness across all categories, including PANDORA Rose as well as the launch of PANDORA's Disney collection in EMEA in October 2017.

Revenue from Charms was DKK 12,920 million, an increase of 8% (10% in local currency) compared with 2016. This was driven by a positive trend in the EMEA and the Asia Pacific region.

Revenue from Bracelets was DKK 3,965 million and increased 8% (10% in local currency) compared with 2016. This was driven by a good performance across all main markets in EMEA and the Asia Pacific region, which was supported by the launch of a number of innovative bracelets during 2017.

Revenue from Rings was DKK 3,161 million, an increase of 20% (22% in local currency). Growth was driven by a positive trend in all regions, supported by an increasing focus on the Rings category.

Revenue from Earrings and Necklaces & Pendants increased 35% (38% in local currency) and 43% (46% in local currency) respectively, also driven by strengthened focus on these categories.

Read more about our strategy towards 2022 on page 23

PRODUCT CATEGORY DEVELOPMENT

DKK MILLION	2017	2016	GROWTH IN DKK	GROWTH IN LOCAL CURRENCY	SHARE OF REVENUE
CHARMS	12,920	11,991	8%	10%	57%
BRACELETS	3,965	3,672	8%	10%	17%
RINGS	3,161	2,643	20%	22%	14%
EARRINGS	1,418	1,052	35%	38%	6%
NECKLACES & PENDANTS	1,317	923	43%	46%	6%
TOTAL REVENUE	**22,781**	**20,281**	**12%**	**15%**	**100%**

INCOME STATEMENT

COST OF SALES AND GROSS PROFIT

Gross profit in 2017 was DKK 16,966 million (2016: DKK 15,223 million) corresponding to a gross margin of 74.5% compared with 75.1% in 2016. The decrease compared with last year includes a negative impact from currency of approximately 1 percentage point.

Furthermore, the change in gross margin compared with 2016 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.

Excluding hedging and the time lag effect from inventory, the underlying gross margin in 2017 would have been approximately 74% based on the average gold (USD 1,257/oz) and silver (USD 17.05/oz) market prices in 2017. 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 2017 were DKK 9,182 million, equivalent to an OPEX ratio of 40.3% compared with 38.6% in 2016.

Sales and distribution expenses increased to DKK 4,810 million in 2017, an increase of 20%. The increase was mainly driven by increased number of PANDORA owned concept stores (974 stores in 2017 compared with 598 stores in 2016). The higher costs in PANDORA owned stores mainly relate to property and staff costs.

Marketing expenses in 2017 were 9.8% of revenue, compared with 9.0% in 2016, and corresponded to DKK 2,235 million in 2017 and DKK 1,827 million in 2016. The increase was mainly due to an increase in digital media spend.

Administrative expenses were 9.4% of revenue in 2017, compared with 9.8% in 2016, and corresponded to DKK 2,137 million in 2017 and DKK 1,981 million in 2016. The relative decrease was mainly due to leverage on costs across regions.

COST OF SALES AND GROSS PROFIT

DKK MILLION	2017	2016	GROWTH IN DKK	SHARE OF REVENUE 2017	SHARE OF REVENUE 2016
REVENUE	22,781	20,281	12%	100.0%	100.0%
COST OF SALES	-5,815	-5,058	15%	-25.5%	-24.9%
GROSS PROFIT	**16,966**	**15,223**	**11%**	**74.5%**	**75.1%**

OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION

DKK MILLION	2017	2016	GROWTH IN DKK	SHARE OF REVENUE 2017	SHARE OF REVENUE 2016
SALES AND DISTRIBUTION EXPENSES	-4,810	-4,011	20%	-21.1%	-19.8%
MARKETING EXPENSES	-2,235	-1,827	22%	-9.8%	-9.0%
ADMINISTRATIVE EXPENSES	-2,137	-1,981	8%	-9.4%	-9.8%
TOTAL OPERATING EXPENSES	**-9,182**	**-7,819**	**17%**	**-40.3%**	**-38.6%**

EBITDA

EBITDA was DKK 8,505 million in 2017, corresponding to an EBITDA margin of 37.3% (39.1% in 2016). The EBITDA margin was negatively impacted by around 1 percentage point due to unfavourable currency fluctuations.

The EBITDA margin in EMEA was 39.6%, a decrease of 2.2 percentage points compared with 2016. This was mainly driven by the decrease in gross margin, impacted by the acquisition of PANDORA's Spanish distributor, as well as higher marketing expenses.

The EBITDA margin in Americas was 32.5%, a decrease of 4.0 percentage points compared with 2016. This reflected a decline in the gross margin, temporarily impacted by the effect of the acquisition of concept stores where initial inventory in the stores was acquired at wholesale prices, and higher marketing expenses. Additionally, the EBITDA margin in Americas was impacted by the expansion in Latin America.

The EBITDA margin in Asia Pacific was 39.4%, an increase of 2.7 percentage points. This was driven by improved leverage on costs mainly in China and Australia. Furthermore, the EBITDA margin for 2016 was negatively impacted by the acquisition of PANDORA's distributor in Singapore.

EBIT

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

NET FINANCIALS

In 2017, net financials amounted to a loss of DKK 117 million (gain of DKK 246 million in 2016). The development was primarily related to unrealised exchange rate losses.

INCOME TAX EXPENSE

Income tax expense was DKK 1,899 million in 2017 compared with DKK 1,625 million in 2016, corresponding to an effective tax rate of 24.8% for 2017 compared with 21.2% in 2016. The increase compared with 2016 was due to the new US tax reform signed in December 2017, which led to a decrease in defered tax assets of DKK 132 million relating to inventories, as well as a 10% withholding tax, DKK 191 million, on the repatriation of dividend related to earnings before 2013 from PANDORA Production Co. Ltd. in Thailand. Excluding these two items, the underlying tax rate was approx. 21%.

REGIONAL EBITDA MARGINS

	2017	2016	2017 VS. 2016 (% PTS)
EMEA	39.6%	41.8%	-2.2%
AMERICAS	32.5%	36.5%	-4.0%
ASIA PACIFIC	39.4%	36.7%	2.7%
GROUP	**37.3%**	**39.1%**	**-1.8%**

SENSITIVITY ANALYSIS ON CURRENCY[1]

DKK MILLION	CHANGE IN EXCHANGE RATE	REVENUE	EBITDA
USD	+10%	645	185
CAD	+10%	88	70
AUD	+10%	165	124
GBP	+10%	281	223
EUR	+1%	66	43
CNY	+10%	159	90
THB	+10%	-	-309

[1] Revenue and EBITDA would have been impacted by the above amounts if exchange rates in 2017 had been higher than the realised exchange rates. The impact would have been the opposite if exchange rates had been decreasing with similar percentages. The analysis is based on the transaction currency.

BALANCE SHEET AND CASH FLOW

PANDORA generated a free cash flow of DKK 5,294 million in 2017 compared with DKK 5,358 million in 2016, corresponding to a cash conversion of 68.0% compared with 72.4% in 2016.

Operating working capital at the end of 2017 was 13.1% of revenue, compared with 13.7% at the end of 2016. Inventories were DKK 2,729 million, unchanged compared with 2016, and corresponding to 12.0% of revenue compared with 13.5% for 2016. The improvement was mainly due to optimisation of inventories relative to revenue. Trade receivables increased to DKK 1,954 million, an increase of 17% compared with 2016 and corresponding to 8.6% of revenue compared with 8.2% in 2016. The increase in trade receivables was mainly due to revenue in fourth quarter being skewed towards the end of the quarter as well as trade receivables being impacted by the acquisition of the Company's Spanish distributor in 2017. Trade payables increased to DKK 1,706 million in 2017 compared with DKK 1,622 million in 2016. The increase in trade payables mainly reflected higher level of activity.

PANDORA invested a total of DKK 1,388 million in CAPEX in 2017, including intangible assets of DKK 442 million mainly related to key money in connection with the opening of PANDORA owned stores and IT investments. Investments in property, plant and equipment of DKK 946 million mainly consisted of investments in the crafting facilities in Thailand and leasehold improvements related to the opening of several stores during the year. CAPEX was 6.1% of 2017 revenue compared with 5.9% in 2016.

Interest-bearing debt was DKK 5,848 million at the end of 2017 compared with DKK 3,345 million at the end of 2016, and cash amounted to DKK 993 million compared with DKK 897 million at the end of 2016. Net interest-bearing debt (NIBD) at the end of 2017 was DKK 4,855 million, corresponding to a NIBD to EBITDA ratio of 0.6x of the last twelve months' EBITDA compared with DKK 2,448 million at the end of 2016, corresponding to a NIBD to EBITDA ratio of 0.3x.

DEVELOPMENT IN OPERATING WORKING CAPITAL

DKK MILLION	2017	2016	GROWTH IN DKK	SHARE OF REVENUE 2017	SHARE OF REVENUE 2016
INVENTORIES	2,729	2,729	-	12.0%	13.5%
TRADE RECEIVABLES	1,954	1,673	17%	8.6%	8.2%
TRADE PAYABLES	-1,706	-1,622	5%	-7.5%	-8.0%
TOTAL	**2,977**	**2,780**	**7%**	**13.1%**	**13.7%**

> "THE US JEWELLERY MARKET STILL HOLDS SIGNIFICANT POTENTIAL FOR PANDORA, PARTICULARLY IN THE NON-CHARM AND BRACELET CATEGORIES. WE HAVE ONLY TOUCHED THE SURFACE OF WHAT WE CAN ACHIEVE.
>
> - SCOTT BURGER, PRESIDENT, AMERICAS

In 2017, the square silver stud earrings with clear cubic zirconia were among our best-selling earrings globally.

PANDORA IN DETAIL

CATERING TO THE UNIQUE US CONSUMER

Our performance in the US in 2017 was roughly in line with the single-digit growth seen across the country's consumer market. The US retail environment has experienced unique challenges over the last few years, and these affected PANDORA for the first time. Retail overcapacity is acute – five times the levels seen in Western Europe – and foot traffic to malls has seen a double-digit decline since 2014 as consumers increasingly move towards e-commerce.

With this in mind, we worked in 2017 to cater more directly to the US consumer. 25% of US women have purchased earrings for themselves in the past 12 months, 6 percentage points above the global average. In addition, US internet retailing in the jewellery category has seen a 14% compound annual growth rate (CAGR) since 2014 – almost double the growth in Western Europe – and consumers indicate that this will continue in the future.

These trends make the US jewellery consumer unique. We have catered to this over the last few years by expanding our jewellery universe and refining our eSTORE concept. In 2017, for example, we launched 54 new earring styles to our collection, created earring promotions to encourage trial, and expanded our digital marketing efforts to increase traffic to our eSTOREs.

These initiatives had a meaningful effect. Revenue from our Earrings category accounted for 6% of our total revenue in the US in 2017, compared with 5% in 2016, and the share of revenue from our eSTORE increased from 7% to 9%. However, earrings comprise about a third of the total jewellery market in the US, and US consumers spend around 20% of their annual total jewellery budget online, so both areas still hold significant future potential.

06/ FINANCIAL STATEMENTS

"

JUST AFTER MY PARENTS DIVORCED, MY DAD GAVE ME A PANDORA BRACELET TO REMIND ME TO ALWAYS HAVE STRENGTH. IT BECAME VERY SYMBOLIC TO ME, AND SINCE THEN I ALWAYS WEAR IT WHEN I NEED TO FEEL CONFIDENT.

- CECILIE (29) HAS BEEN WEARING PANDORA JEWELLERY FOR 8 YEARs

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2017	2016
CONSOLIDATED INCOME STATEMENT			
Revenue	2.1, 2.2	22,781	20,281
Cost of sales	2.3	-5,815	-5,058
Gross profit		**16,966**	**15,223**
Sales, distribution and marketing expenses	2.3	-7,045	-5,838
Administrative expenses	2.3	-2,137	-1,981
Operating profit	**2.2**	**7,784**	**7,404**
Finance income	4.6	198	328
Finance costs	4.6	-315	-82
Profit before tax		**7,667**	**7,650**
Income tax expense	2.5	-1,899	-1,625
Net profit for the year		**5,768**	**6,025**
Earnings per share, basic (DKK)	4.2	52.0	52.8
Earnings per share, diluted (DKK)	4.2	51.8	52.5

DKK million	Notes	2017	2016
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Net profit for the year		**5,768**	**6,025**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		-343	121
Commodity hedging instruments:			
- Realised in net financials		7	-21
- Realised in inventories		43	-145
- Fair value adjustments		75	144
Foreign exchange hedging instruments:			
- Realised in net financials		-117	-167
- Fair value adjustments		101	236
Tax on other comprehensive income, hedging instruments, income/expense	2.5	-25	-10
Items that may be reclassified to profit/loss for the year, net of tax		**-259**	**158**
Items not to be reclassified to profit/loss for the year			
Actuarial gain/loss on defined benefit plans, net of tax	2.3	-2	-
Items not to be reclassified to profit/loss for the year, net of tax		**-2**	**-**
Other comprehensive income, net of tax		**-261**	**158**
Total comprehensive income for the year		**5,507**	**6,183**

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER

DKK million	Notes	2017	2016
ASSETS			
Goodwill		3,522	2,571
Brand		1,057	1,057
Distribution network		154	184
Distribution rights		1,153	1,061
Other intangible assets		1,113	893
Total intangible assets	**3.1**	**6,999**	**5,766**
Property, plant and equipment	3.2	2,324	1,767
Deferred tax assets	2.5	884	946
Other financial assets		289	250
Total non-current assets		**10,496**	**8,729**
Inventories	3.4	2,729	2,729
Derivative financial instruments	4.4, 4.5	153	161
Trade receivables	3.5	1,954	1,673
Income tax receivable		143	142
Other receivables		772	754
Cash	4.3	993	897
Total current assets		**6,744**	**6,356**
Total assets		**17,240**	**15,085**

DKK million	Notes	2017	2016
EQUITY AND LIABILITIES			
Share capital	4.1	113	117
Treasury shares		-1,999	-4,334
Reserves		922	1,181
Dividend proposed		987	1,007
Retained earnings		6,491	8,823
Total equity		**6,514**	**6,794**
Provisions	3.6	150	101
Loans and borrowings	4.3, 4.4	5,283	3,008
Deferred tax liabilities	2.5	501	393
Other payables		481	393
Total non-current liabilities		**6,415**	**3,895**
Provisions	3.6	649	1,004
Loans and borrowings	4.3, 4.4	164	3
Derivative financial instruments	4.4, 4.5	143	256
Trade payables	4.4	1,706	1,622
Income tax payable		572	547
Other payables		1,077	964
Total current liabilities		**4,311**	**4,396**
Total liabilities		**10,726**	**8,291**
Total equity and liabilities		**17,240**	**15,085**

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
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 adjustment 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**
2016								
Equity at 1 January		122	-4,152	1,134	-111	1,511	7,635	6,139
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**6,025**	**6,025**
Exchange rate adjustments of investments in subsidiaries			-	121	-	-	-	121
Fair value adjustment of hedging instruments		-	-	-	47	-	-	47
Tax on other comprehensive income	2.5	-	-	-	-10	-	-	-10
Other comprehensive income, net of tax		**-**	**-**	**121**	**37**	**-**	**-**	**158**
Total comprehensive income for the year		**-**	**-**	**121**	**37**	**-**	**6,025**	**6,183**
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	-123	-123
Share-based payments	2.3, 2.4	-	-	-	-	-	76	76
Share-based payments (exercised)		-	230	-	-	-	-229	1
Share-based payments (tax)		-	-	-	-	-	25	25
Purchase of treasury shares		-	-4,000	-	-	-	-	-4,000
Reduction of share capital		-5	3,588	-	-	-	-3,583	-
Dividend paid	4.2	-	-	-	-	-1,511	4	-1,507
Dividend proposed	4.2	-	-	-	-	1,007	-1,007	-
Equity at 31 December		**117**	**-4,334**	**1,255**	**-74**	**1,007**	**8,823**	**6,794**

Dividend paid in 2017 relating to the 2016 results was DKK 9 per share, corresponding to DKK 1,007 million (2016: DKK 1,507 million). Furthermore, DKK 2,988 million was paid as part of the commitment to pay quarterly dividends in 2017 relating to the 2017 results. In 2018, PANDORA will pay a dividend of DKK 9 per share, corresponding to DKK 987 million, relating to the 2017 results and further pay a bi-annual dividend of DKK 9 per share, corresponding to an expected payout of DKK 1.0 billion. The quarterly and bi-annual dividends are in accordance with The Danish Company Act §182.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2017	2016
Profit before tax		7,667	7,650
Finance income	4.6	-198	-328
Finance costs	4.6	315	82
Depreciation and amortisation		721	518
Share-based payments	2.4	66	76
Change in inventories		145	-206
Change in receivables		-285	-327
Change in payables and other liabilities		-118	327
Other non-cash adjustments	4.7	102	241
Interest etc. received		3	3
Interest etc. paid		-44	-43
Income taxes paid		-1,768	-1,462
Cash flows from operating activities, net		**6,606**	**6,531**
Acquisition of subsidiaries and activities, net of cash acquired	3.3	-1,843	-210
Purchase of intangible assets		-427	-344
Purchase of property, plant and equipment		-890	-825
Change in other non-current assets		-48	-75
Proceeds from sale of property, plant and equipment		12	31
Cash flows from investing activities, net		**-3,196**	**-1,423**
Dividend paid	4.2	-3,995	-1,507
Purchase of treasury shares	4.1	-1,721	-4,000
Proceeds from loans and borrowings	4.3	4,981	3,777
Repayment of loans and borrowings	4.3	-2,542	-3,373
Cash flows from financing activities, net		**-3,277**	**-5,103**
Net increase/decrease in cash		**133**	**5**
Cash at 1 January[1]		897	889
Exchange gains/losses on cash		-37	3
Net increase/decrease in cash		133	5
Cash at 31 December[1]		**993**	**897**

DKK million	Notes	2017	2016
Cash flows from operating activities, net		6,606	6,531
- Interest etc. received		-3	-3
- Interest etc. paid		44	43
Cash flows from investing activities, net		-3,196	-1,423
- Acquisition of subsidiaries and activities, net of cash acquired		1,843	210
Free cash flow		**5,294**	**5,358**
Unutilised credit facilities		3,085	5,120

The above cannot be derived directly from the income statement and the balance sheet.
[1] Cash comprises cash at bank and in hand.

§ ACCOUNTING POLICIES

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

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

NOTES

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

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 2017 comprises the consolidated financial statements of PANDORA A/S and its subsidiaries (the Group) as well as separate financial statements for the Parent Company, PANDORA A/S.

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

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

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

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

ORDER OF NOTES

The order of the notes has been changed in the Annual Report for 2017. In 2017, PANDORA re-acquired the distribution in three countries and increased the number of stores acquired due to the strategy to increase the retail share of the business. As a result, the note relating to business combinations has been moved from section 5 'Other disclosures' to section 3 'Invested capital and working capital items' as note 3.3 Business combinations. As a consequence, the order of the other notes in sections 3 and 5 have changed.

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, refer to note 5.5.

§ 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
2.3	Staff costs
2.4	Share-based payments
2.5	Income taxes
2.5	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
4.2	Earnings per share and dividend
4.3	Net interest-bearing debt
4.5	Derivative financial instruments
4.6	Net financials

THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

THE CONSOLIDATED INCOME STATEMENT

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

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

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

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

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 2017. The implementation of these new or amended standards has not had any material impact on PANDORA's Annual Report in 2017.

STANDARDS ISSUED, BUT NOT YET EFFECTIVE

The most significant standards and interpretations that are issued, but not yet effective, are disclosed below. PANDORA intends to adopt these standards when they become effective.

IFRS 9 'FINANCIAL INSTRUMENTS'

With effective date 1 January 2018, IFRS 9 Financial instruments changes the classification, measurement and impairment of financial assets, and introduces new rules for hedge accounting. PANDORA will adopt the new standard on the required effective date and will not restate comparative information.

During 2017, PANDORA has performed a detailed impact assessment of IFRS 9. Based on the current portfolio of financial assets and liabilities there will be no significant changes to the classification and measurement of financial assets. The current portfolio consists of loans and trade receivables held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. As such, it is concluded that these meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification of these are not required.

IFRS 9 requires PANDORA to record expected credit losses on all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. PANDORA will apply the simplified approach and record lifetime expected losses on all trade receivables. Based on the historical low realised loss on loans and trade receivables in the range of DKK 0 - 15 million, the new approach will not have a significant impact on PANDORA's consolidated financial statements.

PANDORA has determined that all existing hedge relationships that are currently designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. While IFRS 9 changes the accounting treatment for cost of hedging, hedge of risk components etc., PANDORA does not currently have any hedging relationships which will be impacted by the changes to the hedge accounting requirements. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on PANDORA's consolidated financial statements.

NOTE 1.2

NEW ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

With effective date 1 January 2018, IFRS 15 introduces a 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 an entity expects to be entitled in exchange for transferring goods or services to a customer. PANDORA will adopt the new standard on the required effective date using the full retrospective method.

PANDORA sells jewellery either directly to the end consumers or through distributors or wholesalers. During 2016, PANDORA performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017. The analysis was performed based on reviews of current types of contracts and product mix in order to determine the impact of the new standard. Overall, PANDORA expects no significant impact on the recognition and measurement of revenue.

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, PANDORA recognises revenue from the sale measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. PANDORA expects that application of the constraint potentially will result in more revenue being deferred than under current IFRS, however based on the detailed analysis of the current types of contracts and product mix, no variable consideration has been identified which is to be deferred as of 1 January 2018.

Furthermore, the standard requires PANDORA to present the sales return provision and an asset for the right to recover products from the customer separately in the statement of financial position. On transition to IFRS 15, PANDORA will reclassify the right to recover the inventory from customers when returning the goods from the sales returns provision, current, to inventories, DKK 188 million at 1 January 2018, while the liability will be labelled Refund liability. Further, deferred income will be reclassified to contract liabilities, amounting to DKK 65 million at 1 January 2018. This reclassification will not impact equity as of January 2018.

The presentation and disclosure requirements in IFRS 15 are more detailed than under the current standards, which are to increase the volume of disclosures required. In particular, PANDORA expects that the notes will be expanded because of the disclosure of significant judgements in relation to variable consideration as explained above.

IFRS 16 'LEASES'

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

As lessee, PANDORA will be required to separately recognise interest expenses on the finance 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 in 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.

As a result of the new standard, EBITDA as the primary performance measure in PANDORA will be impacted by the reclassification of expensed rent to depreciation and interest expenses. Free cash flow will be impacted positively as the classification of the leasing payments changes from operating cash flow to cash flow from financing. In 2017, around one third of the leasing payments recognised 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 finance liability.

At the reporting date, PANDORA had non-cancellable operating lease commitments of DKK 3,355 million (note 3.2). During 2017, PANDORA performed a preliminary assessment and it is expected that most of the current leases will qualify as leases to be recognised in the balance sheet under IFRS 16 and only insignificant commitments may be covered by exceptions. Based on the preliminary assessment, PANDORA expects a positive impact on the EBITDA margin between 3-4%. In 2018, PANDORA will continue to assess the potential effect of IFRS 16 on its consolidated financial statements, including the impact from the change in the definition of the lease term, extension and termination options. As a result, no reliable amounts have been calculated which are expected to have any quantitative effect on PANDORA's profit and classification of cash flows.

PANDORA intends to adopt the standard on 1 January 2019 applying the simplified transition approach without restating comparative amounts for the year prior to first adoption.

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
2.5	Taxation
3.6	Provisions, sales return
5.1	Contingent liabilities

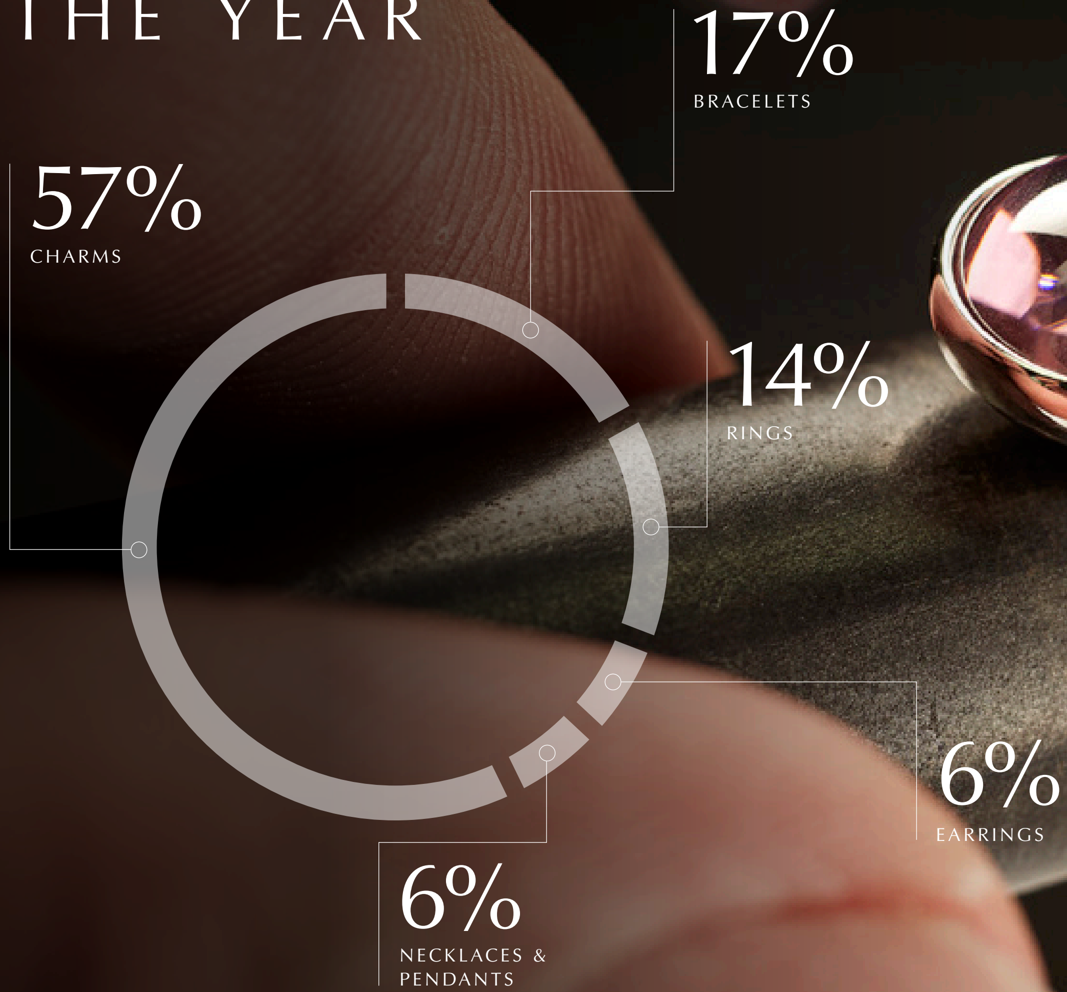
SECTION 2

RESULTS FOR THE YEAR

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

In 2017, Group revenue was DKK 22,781 million compared with DKK 20,281 million in 2016. The continued growth in revenue was driven by all regions.

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



EBITDA MARGIN
37.3%

REVENUE GROWTH
12%

NUMBER OF CONCEPT STORES
2,446

GROSS MARGIN
74.5%

NET PROFIT
5,768
DKK MILLION

EFFECTIVE TAX RATE
24.8%
EXCLUDING ONE-OFFS THE UNDERLYING TAX RATE WAS APPROX. 21%

NOTE 2.1

REVENUE

REVENUE BY PRODUCT CATEGORY

DKK million	2017	2016
Charms	12,920	11,991
Bracelets	3,965	3,672
Rings	3,161	2,643
Earrings	1,418	1,052
Necklaces & Pendants	1,317	923
Total revenue[1]	**22,781**	**20,281**

[1] Figures include franchise fees of DKK 130 million (2016: DKK 155 million), which are allocated to the product categories.

§ ACCOUNTING POLICIES

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

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

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

The Group operates with two performance measures with EBITDA as the primary performance measure and EBIT as the secondary performance measure.

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

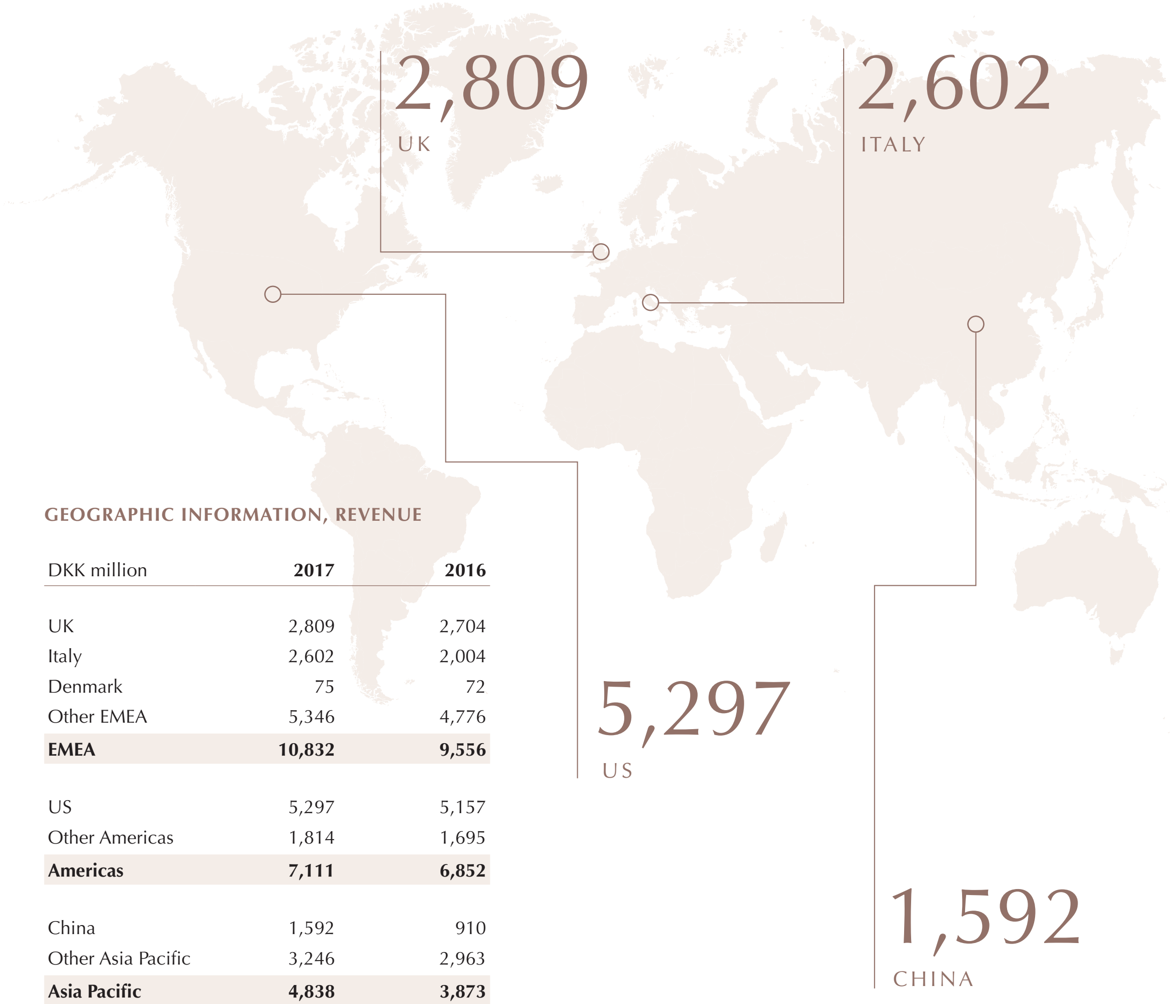
Segment information is recognised and measured in accordance with IFRS.

INCOME STATEMENT

DKK million	EMEA	Americas	Asia Pacific	Total Group
2017				
External 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**
2016				
External revenue	**9,556**	**6,852**	**3,873**	**20,281**
Segment profit (EBITDA)	**3,996**	**2,503**	**1,423**	**7,922**
Depreciation, amortisation and impairment losses				-518
Consolidated operating profit (EBIT)				**7,404**

NOTE 2.2
SEGMENT INFORMATION (CONTINUED)

REVENUE BY MARKET (DKK MILLION)



GEOGRAPHIC INFORMATION, REVENUE

DKK million	2017	2016
UK	2,809	2,704
Italy	2,602	2,004
Denmark	75	72
Other EMEA	5,346	4,776
EMEA	**10,832**	**9,556**
US	5,297	5,157
Other Americas	1,814	1,695
Americas	**7,111**	**6,852**
China	1,592	910
Other Asia Pacific	3,246	2,963
Asia Pacific	**4,838**	**3,873**
Total revenue	**22,781**	**20,281**

GEOGRAPHIC INFORMATION, INTANGIBLE ASSETS

DKK million	2017	2016
Germany	722	730
Denmark	2,462	2,117
Other EMEA	981	239
EMEA	**4,165**	**3,086**
US	1,591	1,502
Other Americas	98	57
Americas	**1,689**	**1,559**
Australia	418	317
Thailand	512	559
Other Asia Pacific	215	245
Asia Pacific	**1,145**	**1,121**
Total intangible assets	**6,999**	**5,766**
Property, plant and equipment[1]	2,324	1,767
Deferred tax assets	884	946
Other non-current financial assets	289	250
Current assets	6,744	6,356
Total consolidated assets	**17,240**	**15,085**

[1] The crafting facilities in Thailand accounted for DKK 1,123 million (2016: DKK 875 million), corresponding to 48.3% of property, plant and equipment (2016: 49.5%).

NOTE 2.3

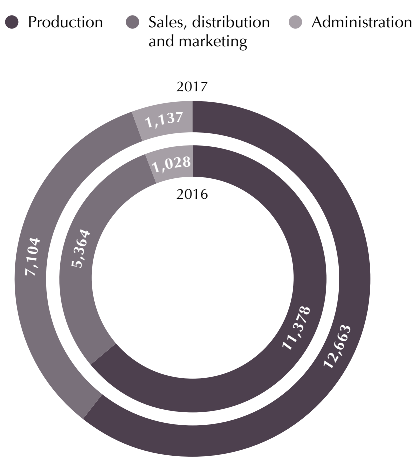
STAFF COSTS

DKK million	2017	2016
Wages and salaries	3,170	2,825
Pensions	145	127
Share-based payments	66	76
Social security costs	177	151
Other staff costs	445	409
Total staff costs	**4,003**	**3,588**
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	961	891
Sales, distribution and marketing expenses	2,122	1,827
Administrative expenses	920	870
Total staff costs	**4,003**	**3,588**
Average number of full-time employees during the year	20,904	17,770

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 2017, these obligations amounted to DKK 60 million (2016: DKK 44 million).

Actuarial loss was DKK 2 million (2016: loss of DKK 2 million) recognised in equity. The increased obligation is primarily due to more employees.

AVERAGE FTE PER FUNCTION



DKK million	2017 Salary	2017 Bonus	2017 Shares[1]	2017 Total	2016 Total
Anders Colding Friis[2]	9.1	8.0	4.6	21.7	24.7
Peter Vekslund	4.3	3.4	2.0	9.7	11.1
Total compensation of Executive Management	**13.4**	**11.4**	**6.6**	**31.4**	**35.8**

[1] The amount reported as shares is the recognised cost for the year for current share option programmes.
[2] The comparison figures for 2016 for Anders Colding Friis include DKK 4 million related to a sign-on bonus paid in March 2017, of which DKK 0.7 million was recognised in 2017.

DKK million	2017	2016
Peder Tuborgh, Chairman	1.5	1.5
Christian Frigast, Deputy Chairman	0.9	0.9
Allan Leighton, Deputy Chairman[1]	0.9	0.9
Anders Boyer	0.7	0.6
Andrea Alvey[1]	1.0	0.7
Birgitta Stymne Göransson[1]	0.8	0.6
Bjørn Gulden[1]	0.7	0.6
Per Bank	0.6	0.6
Ronica Wang[1]	0.9	0.7
Michael Hauge Sørensen[1, 2]	0.4	0.7
Total compensation of Board	**8.4**	**7.8**

[1] Board member has received a fixed travel fee when attending boardmeetings abroad in 2017. Total travel fee for 2017 amounts to DKK 1.2 million.
[2] Michael Hauge Sørensen retired from the Board in March 2017.

§ ACCOUNTING POLICIES

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

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

NOTE 2.4

SHARE-BASED PAYMENTS

The decision to grant share options is made by the Board in accordance with general guidelines on incentive pay for PANDORA. Share options have been granted to members of the Executive Management and other employees in PANDORA.

The total cost of share-based payments was DKK 66 million (2016: DKK 76 million). The cost of share-based payments is included in staff costs. In the remaining vesting periods, an amount of DKK 87 million (2016: DKK 86 million) is expected to be recognised in respect of the current share option programmes.

For options exercised in 2017, the average share price was DKK 848 at the time of vesting.

LONG-TERM INCENTIVE PROGRAMMES

Each year, two incentive programmes are launched targeting either Executive Management (5 years) or Other employees (3 years). The calculated value of each programme is recognised over the vesting period based on the likelihood that targets for Group revenue and EBITDA in the third year following the launch will be met and the options will vest. While the financial targets are the same, the required service period is different between the two programmes. The basis for recognising the different programmes is listed below.

SHARE OPTIONS OUTSTANDING

	Executive Management	Other employees	Total	Average exercise price per option, DKK
2017				
Share options outstanding at 1 January	192,116	389,136	581,252	4.07
Share options granted during the year	14,106	90,364	104,470	9.11
Share options exercised during the year	-76,816	-179,396	-256,212	1.94
Share options lapsed during the year	-	-15,972	-15,972	7.11
Share options outstanding at 31 December	**129,406**	**284,132**	**413,538**	**6.35**
2016				
Share options outstanding at 1 January	194,262	629,305	823,567	2.34
Share options granted during the year	17,864	87,801	105,665	8.50
Share options exercised during the year	-20,010[1]	-314,867	-334,877	1.25
Share options lapsed during the year	-	-13,103	-13,103	6.18
Share options outstanding at 31 December	**192,116**	**389,136**	**581,252**	**4.07**

[1] Former CDO Steen Daugaard was granted the right to exercise his share options in 2016 according to his severance agreement.

NUMBER OF SHARE OPTIONS IN PANDORA A/S

Programme start date	Expiry date	Exercise price, DKK	Share options 31 December 2017	Share options 31 December 2016	Expected volatility	Risk-free interest rate	Dividend per share	Market value at launch, DKK million	Remaining value to be expensed, DKK million
May 2012	2017	0.52	-	76,816	100%	1.34%	5.50	14	-
February 2013	2018	1.25	34,061	34,061	48%	0.16%	5.50	12	-
February 2014	2017	2.99	-	181,652	46%	0.47%	6.50	64	-
February 2014	2019	2.99	31,314	31,314	46%	0.47%	6.50	14	-
March 2015	2018	5.00	119,572	123,334	33%	0.02%	9.00	85	-
March 2015	2020	5.00	32,061	32,061	33%	-0.22%	9.00	20	5
March 2016	2019	8.50	79,886	84,150	31%	-0.15%	13.00	71	21
March 2016	2021	8.50	17,864	17,864	31%	0.10%	13.00	15	7
March 2017	2020	9.11	84,674	-	31%	-0.40%	9.00	68	45
March 2017	2022	9.11	14,106	-	31%	-0.19%	9.00	11	9
Total number of share options			**413,538**	**581,252**				**374**	**87**

Weighted average remaining contractual life of share options at the end of the period was 1.2 years (2016: 1.1 years).

ASSUMPTIONS

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

NOTE 2.4

SHARE-BASED PAYMENTS (CONTINUED)

SHARE PLAN

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

§ ACCOUNTING POLICIES

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

EQUITY-SETTLED TRANSACTIONS

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

NUMBER OF SHARES IN PANDORA A/S

	2016	Changes during the year	Purchase of shares	Sale of shares	2017	Market value[1] DKK million
Executive Management						
Anders Colding Friis	15,620	-	3,225	-	18,845	12.7
Peter Vekslund	3,027	-	6,910	-	9,937	6.7
Total number of shares	**18,647**	**-**	**10,135**	**-**	**28,782**	**19.4**
Board						
Peder Tuborgh, Chairman	4,147	-	1,467	-	5,614	3.8
Christian Frigast, Deputy Chairman	46,000	-	2,500	-	48,500	32.8
Allan Leighton, Deputy Chairman[2]	-	-	-	-	-	-
Anders Boyer	4,121	-	7,000	-	11,121	7.5
Andrea Alvey	6,107	-	-	-	6,107	4.1
Birgitta Stymne Göransson	500	-	500	-	1,000	0.7
Bjørn Gulden	10,014	-	37,393	-19,000	28,407	19.2
Per Bank	1,923	-	-	-	1,923	1.3
Ronica Wang	4,511	-	1,488	-	5,999	4.1
Michael Hauge Sørensen[3]	1,200	-1,200	-	-	-	-
Total number of shares	**78,523**	**-1,200**	**50,348**	**-19,000**	**108,671**	**73.5**

[1] Calculation of the market value is based on the quoted share price of DKK 675.5 at the end of the year.
[2] Allan Leighton sold his shares at hand during 2016. The obligation to own shares is fulfilled by share options appointed to him as part of the severance agreement in 2014.
[3] Michael Hauge Sørensen retired from the Board in March 2017.

NOTE 2.5

TAXATION

INCOME TAXES

INCOME TAX EXPENSE

The income tax expense was DKK 1,899 million in 2017, corresponding to an effective tax rate of 24.8% (2016: DKK 1,625 million, 21.2%). The tax rate of 24.8% was negatively impacted by a reduction in the value of the deferred tax asset related to US activities, due to the reduction in the US tax rate, and withholding tax on repatriation of dividend from Thailand related to profit arising before 2013. The effective tax rate is slightly reduced by the non-taxable income in Thailand due to the Board of Investment agreements (BOIs) and the adjusted non-capitalised tax assets.

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 asset 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 are 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 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	2017	2016
Current income tax charge for the year	1,860	1,692
Deferred tax change for the year	-88	-87
Deferred tax impact of change in tax rates	135	3
Adjustment to tax for prior years	-8	17
Total income tax expense	**1,899**	**1,625**
Deferred tax on other comprehensive income	25	10
Tax on other comprehensive income	**25**	**10**

RECONCILIATION OF EFFECTIVE TAX RATE AND TAX

	2017		2016	
	%	DKK million	%	DKK million
Profit before tax		7,667		7,650
Corporate tax rate in Denmark, 22%	22.0	1,687	22.0	1,683
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	0.9	71	1.0	77
Deferred tax impact of change in tax rates	1.8	135	0.0	3
Non-taxable income and non-deductible expenses	-1.1	-83	-1.7	-133
Adjustment to tax for prior years	-0.1	-8	0.2	17
Non-capitalised tax assets, net	-1.3	-98	-0.3	-22
Withholding taxes	2.6	195	0.0	-
Effective income tax rate/income tax expense	**24.8**	**1,899**	**21.2**	**1,625**

NOTE 2.5

TAXATION (CONTINUED)

DEFERRED TAX

DKK million	2017	2016
Deferred tax at 1 January	553	485
Exchange rate adjustments	-19	5
Recognised in the income statement	50	105
Recognised in other comprehensive income	-25	-10
Recognised in equity, share-based payments	-41	-29
Impact of change in tax rates	-135	-3
Deferred tax at 31 December	**383**	**553**
Deferred tax assets	884	946
Deferred tax liabilities	-501	-393
Deferred tax, net	**383**	**553**

SPECIFICATION OF DEFERRED TAX

DKK million	2017	2016
Intangible assets	-484	-627
Property, plant and equipment	66	-25
Current assets	579	792
Non-current assets and liabilities	193	395
Tax loss carryforwards	29	18
Deferred tax, net	**383**	**553**

DEFERRED TAX

Of the total deferred tax assets recognised, DKK 29 million (2016: DKK 18 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 36 million (2016: DKK 72 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 12 million (2016: DKK 0 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 repatriation of dividend from Thailand, only insignificant latent tax liabilities remains as of 31 December 2017.

§ 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 carry forward 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 judgement 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

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

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

Additions to invested capital in 2017 included acquisitions described in note 3.3 for a total consideration of DKK 1,860 million.

Operating working capital at the end of 2017 was 13.1% of revenue, compared with 13.7% at the end of 2016.

Financial risks are described in note 4.4.

OPERATING WORKING CAPITAL / REVENUE
13.1%

CAPEX
1,388
DKK MILLION

INVESTED CAPITAL
11,439
DKK MILLION

WORKING CAPITAL

DKK million	Notes	2017	2016
Inventories	3.4	2,729	2,729
Trade receivables	3.5	1,954	1,673
Trade payables		-1,706	-1,622
Operating working capital		**2,977**	**2,780**
Other receivables		772	754
Current provisions	3.6	-649	-1,004
Net tax payable		-429	-405
Other payables		-1,077	-964
Net working capital		**1,594**	**1,161**

INVESTED CAPITAL

DKK million	Notes	2017	2016
Intangible assets	3.1	6,999	5,766
Property, plant and equipment	3.2	2,324	1,767
Other non-current financial assets		289	250
Non-current provisions	3.6	-150	-101
Net working capital		1,594	1,161
Deferred tax, net	2.5	383	553
Invested capital		**11,439**	**9,396**

NOTE 3.1

INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distri-bution network	Distri-bution rights	Other intangible assets	Total
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**
2016						
Cost at 1 January	2,424	1,057	455	1,432	988	6,356
Acquisition of subsidiaries and activities	115	-	-	-	-	115
Additions	-	-	-	-	371	371
Disposals	-	-	-	-	-8	-8
Exchange rate adjustments	32	-	-	3	9	44
Cost at 31 December	**2,571**	**1,057**	**455**	**1,435**	**1,360**	**6,878**
Amortisation and impairment losses at 1 January	-	-	239	363	305	907
Amortisation for the year	-	-	31	8	164	203
Disposals	-	-	-	-	-3	-3
Exchange rate adjustments	-	-	1	3	1	5
Amortisation and impairment losses at 31 December	**-**	**-**	**271**	**374**	**467**	**1,112**
Carrying amount at 31 December	**2,571**	**1,057**	**184**	**1,061**	**893**	**5,766**

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

DKK million	2017	2016
Amortisation has been recognised in the income statement as follows:		
Cost of sales	16	11
Sales, distribution and marketing expenses	134	115
Administrative expenses	138	77
Total	**288**	**203**

GOODWILL

Additions in 2017 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 2017 (2016: 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.

In 2017, PANDORA finalised its organisational changes into three regions (EMEA, Americas and Asia Pacific) in order to support the growth of the business as well as the transition towards an increased owned and operated network, where PANDORA is in control of the entire value chain from design/production to the sale to the end-consumer. Therefore, compared with 2016, PANDORA has revisited the allocation of goodwill to CGUs and changed the allocation to the group of CGUs in the three regions as this reflects the value creation of PANDORA and is in line with the way the Group is managed internally.

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
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**
2016						
EMEA	1,106	-	-	13	235	1,354
Americas	692	-	-	1,034	73	1,799
Asia Pacific	722	-	-	14	9	745
Group	51	1,057	184	-	576	1,868
Total	**2,571**	**1,057**	**184**	**1,061**	**893**	**5,766**

DISCOUNT RATES AND GROWTH RATES IN TERMINAL PERIOD[1]

	Discount rate before tax	Growth rate in the terminal period
2017		
EMEA	10.5%	2%
Americas	12.2%	2%
Asia Pacific	12.4%	2%
Group	**11.4%**	**2%**
2016		
US and Caribbean	10.9%	2%
Other Americas	9.9%-21.3%	2%-8%
Northern Europe	8.4%	2%
Other EMEA	9.8%-16.7%	2%
Asia	7.3%-12.3%	2%
Pacific	11.4%	2%
Group	**11.2%**	**2%**

[1] In 2017, PANDORA has finalised its organisational changes into three regions and consequently impairment testing have been performed on these CGUs.

In the table above, Group is included for the purpose of overall impairment testing and the impairment test of the Brand and 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 expectations for the two subsequent years.

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

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

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

The impairment 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
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**
2016				
Cost at 1 January	420	1,266	124	1,810
Acquisition of subsidiaries and activities	-	6	-	6
Additions	32	267	529	828
Disposals	-46	-120	-	-166
Transfers	304	298	-602	-
Exchange rate adjustments	22	30	8	60
Cost at 31 December	**732**	**1,747**	**59**	**2,538**
Depreciation and impairment losses at 1 January	96	477	-	573
Depreciation for the year	19	295	-	314
Disposals	-34	-94	-	-128
Exchange rate adjustments	3	9	-	12
Depreciation and impairment losses at 31 December	**84**	**687**	**-**	**771**
Carrying amount at 31 December	**648**	**1,060**	**59**	**1,767**

PANDORA has pledged assets relating to land and buildings in the amount of DKK 0 million (2016: DKK 155 million) as collateral for tax surcharges in Thailand.

DKK million	2017	2016
Depreciation has been recognised in the income statement as follows:		
Cost of sales	106	78
Sales, distribution and marketing expenses	249	178
Administrative expenses	78	58
Total	**433**	**314**

OPERATING LEASES

DKK million	Land and buildings	Plant and equipment	Total
Future minimum lease payments on existing contracts at 31 December 2017			
Within 1 year	849	22	871
Between 1- 5 years	1,920	16	1,936
After 5 years	548	-	548
Total	**3,317**	**38**	**3,355**
Future minimum lease payments on existing contracts at 31 December 2016			
Within 1 year	661	28	689
Between 1- 5 years	1,543	20	1,563
After 5 years	641	-	641
Total	**2,845**	**48**	**2,893**

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

PANDORA has a large number of individually insignificant leases. The leases are mainly for stores, offices, office equipment etc. The increase in commitments in 2017 is mainly related to new owned and operated concept stores.

Lease expense recognised in the year was DKK 1,194 million (2016: DKK 934 million). Of this amount DKK 423 million was variable lease payments based on store sales (2016: DKK 292 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.

NOTE 3.3

BUSINESS COMBINATIONS

ACQUISITIONS IN 2017

CITY TIME S.L.

On 28 September, PANDORA acquired 100% of the share capital in City Time S.L. in Spain. The purchase price, DKK 786 million (EUR 106 million), was finally agreed between the parties and paid in December 2017. With this acquisition PANDORA will gain full control of the distribution in Spain, Gibraltar and Andorra. In addition, PANDORA will add 50 concept stores and 14 shop-inshops 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-down of DKK 3 million, and prepayments of DKK 6 million. The net receivables acquired, DKK 105 million, are considered to be stated at fair value and are expected to be collected.

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

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

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

OTHER ACQUISITIONS IN 2017

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

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

NOTE 3.3
BUSINESS COMBINATIONS (CONTINUED)

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, South Africa and the stores was DKK 3 million and is recognised as operating expenses in the income statement.

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

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

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

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

NOTE 3.3
BUSINESS COMBINATIONS (CONTINUED)

ACQUISITIONS

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

[1] Prepayment in 2016 relates to the acquisition of a store in Australia 4 January 2017. The amount paid was DKK 1 million.
[2] Prepayment in 2015 relates to the acquisitions in Singapore, Macau and the Philippines on 1 January 2016. The amount paid was DKK 7 million.
[3] The consideration transferred in 2016 was the final payment for the transfer of assets regarding the acquisition in China in 2015, DKK 29 million.
[4] The deferred payment is related to store acquisitions in Italy in September and South Africa in December and are expected to be paid in Q1 2018, DKK 6 million.

ACQUISITIONS IN 2016

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

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

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

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

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

ACQUISITIONS AFTER THE REPORTING PERIOD

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

NOTE 3.3

BUSINESS COMBINATIONS (CONTINUED)

§ ACCOUNTING POLICIES

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

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

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

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

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

NOTE 3.4

INVENTORIES

DKK million	2017	2016
Raw materials and consumables	506	392
Work in progress	244	168
Finished goods	1,814	1,950
Point-of-sale materials	165	219
Total inventories at 31 December	**2,729**	**2,729**
Inventory write-downs at 1 January	323	269
Write-downs during the year	404	289
Utilised in the year	-280	-235
Inventory write-downs at 31 December	**447**	**323**

WRITE-DOWNS

Write-downs of inventories are recognised in cost of sales, DKK 304 million (2016: DKK 179 million), and distribution expenses, DKK 100 million (2016: DKK 110 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 240 million (2016: DKK 138 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	2017	2016
Age analysis of trade receivables at 31 December		
Not past due	**1,669**	**1,394**
Up to 30 days	209	211
Between 30 and 60 days	50	41
Between 60 and 90 days	21	19
Over 90 days	5	8
Total past due, not impaired	**285**	**279**
Total trade receivables at 31 December	**1,954**	**1,673**
Analysis of movements in bad debt write-downs		
Write-downs at 1 January	48	24
Additions	23	50
Utilised	-1	-3
Unused amounts reversed	-32	-22
Exchange rate adjustments	-1	-1
Write-downs at 31 December	**37**	**48**

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

§ ACCOUNTING POLICIES

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

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

NOTE 3.6
PROVISIONS

DKK million	Sales return and warranty provisions	Other provisions	Total
2017			
Provisions at 1 January	911	194	1,105
Additions in the year	773	97	870
Utilised in the year	-773	-22	-795
Unused provisions reversed	-278	-60	-338
Exchange rate adjustments	-31	-12	-43
Provisions at 31 December	**602**	**197**	**799**
Provisions are recognised in the consolidated balance sheet as follows:			
Current	602	47	649
Non-current	-	150	150
Provisions at 31 December	**602**	**197**	**799**
2016			
Provisions at 1 January	902	166	1,068
Additions in the year	813	96	909
Utilised in the year	-749	-33	-782
Unused provisions reversed	-60	-38	-98
Exchange rate adjustments	5	3	8
Provisions at 31 December	**911**	**194**	**1,105**
Provisions are recognised in the consolidated balance sheet as follows:			
Current	911	93	1,004
Non-current	-	101	101
Provisions at 31 December	**911**	**194**	**1,105**

SALES RETURN AND WARRANTY PROVISIONS

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

PANDORA provides sales return and warranty rights to customers in most countries. Sales return and warranty provisions mainly relate to the Americas, DKK 328 million (2016: DKK 576 million).

The provision for sales returns from franchisees was updated based on the expected future sales returns, which was mainly impacted by a change in product return policies in the US effective from January 2017. The expected effect of the updated return policy materialised in 2017 and the sales return provision was adjusted accordingly.

OTHER PROVISIONS

Other 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.

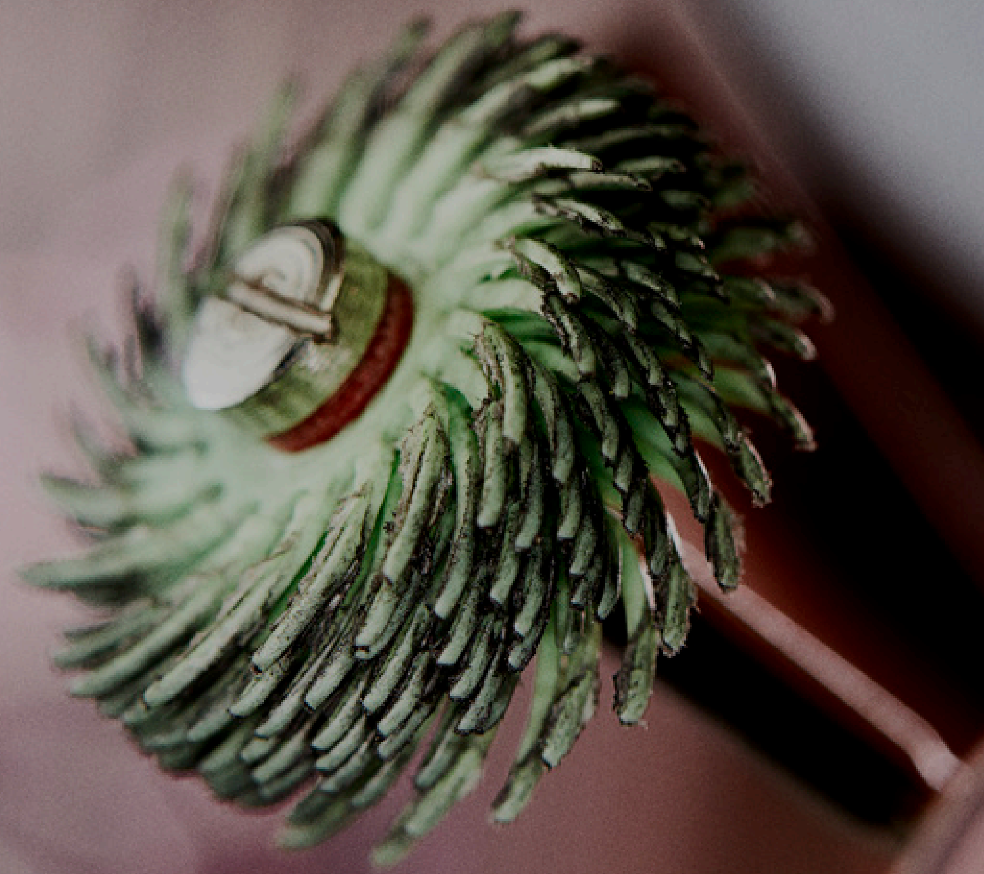
A provision for estimated sales returns is recognised when there is historical experience or when a reasonably accurate estimate of expected future returns can otherwise be made. The provision is recognised at the gross margin of the expected returns. Changes to provisions are recognised gross in the income statement i.e. as both revenue and cost of sales. The part of estimated sales returns that is not expected to be sold is written down to remelt value.

! SIGNIFICANT ACCOUNTING ESTIMATES

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

SECTION 4

CAPITAL STRUCTURE AND NET FINANCIALS



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

The basis of PANDORA's capital management is the NIBD to EBITDA ratio, which Management seeks to maintain between 0 and 1. At 31 December 2017, the ratio was 0.6x compared with 0.3x at 31 December 2016. PANDORA's ability to keep this low ratio is based on the high cash conversion. The cash conversion was 68.0% in 2017 compared with 72.4% in 2016.

CASH CONVERSION

68.0%

TOTAL PAYOUT RATIO

99.1%

SHARE BUYBACK

1,721

DKK MILLION

NOTE 4.1
SHARE CAPITAL

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

Treasury shares	Number of shares	Nominal value (DKK)	Purchase price	% of shares
2017				
Balance at 1 January	5,130,682	5,130,682	4,333,588,278	4.4%
Used to settle share options	-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%**
2016				
Balance at 1 January	6,063,915	6,063,915	4,152,220,853	5.0%
Used to settle share options	-334,877	-334,877	-230,344,441	-0.3%
Reduction of share capital	-5,240,348	-5,240,348	-3,588,289,454	-4.3%
Purchase of treasury shares	4,641,992	4,641,992	4,000,001,320	4.0%
Balance at 31 December	**5,130,682**	**5,130,682**	**4,333,588,278**	**4.4%**

At 31 December 2017, the share capital comprised 112,507,391 shares with a par value of DKK 1. No shares have special rights.

In 2017, PANDORA launched a share buyback programme under which PANDORA expected to buy back own shares of DKK 1,800 million. PANDORA bought 2,566,886 treasury shares in 2017, corresponding to a total purchase price of DKK 1,721 million.

TREASURY SHARES

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

NOTE 4.2

EARNINGS PER SHARE AND DIVIDEND

DKK million	2017	2016
Profit attributable to equity holders	**5,768**	**6,025**
Weighted average number of ordinary shares	110,962,355	114,162,672
Effect of share options	413,538	581,252
Weighted average number of ordinary shares adjusted for the effect of dilution	**111,375,893**	**114,743,924**
Basic earnings per share, DKK	52.0	52.8
Diluted earnings per share, DKK	51.8	52.5

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 2017, proposed dividend (not yet declared) was DKK 9.00 per share (2016: DKK 9.00 per share), corresponding to DKK 987 million. Declared dividend of DKK 9.00 per share, corresponding to DKK 1,007 million in 2016, was paid to the shareholders in 2017. No dividend was paid on treasury shares.

Furthermore, DKK 2,988 million was paid as part of the commitment to pay quarterly dividends in 2017 relating to the 2017 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). Quarterly dividend is recognised as a liability at the declaration date.

NOTE 4.3

NET INTEREST-BEARING DEBT

DKK million	2017	2016
Loans and borrowings, non-current	5,283	3,008
Other liabilities, non-current	401	334
Loans and borrowings, current	164	3
Cash	-993	-897
Net interest-bearing debt	**4,855**	**2,448**

CAPITAL MANAGEMENT

The principal objectives of PANDORA's capital management are to ensure shareholders a competitive return on their investment and to ensure that PANDORA will be able to meet all the commitments set out in the loan agreements with the banks. The basis of PANDORA's capital management is the NIBD to EBITDA ratio. It is the policy of the Group that this ratio should be between 0 and 1 on a 12-month rolling basis. At 31 December 2017, the NIBD to EBITDA ratio was 0.6x (2016: 0.3x).

Total committed credit facilities amount to DKK 7,500 million (2016: DKK 7,500 million), of which DKK 1,000 million are committed until June 2020 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 2017	Cash flows, net	Foreign exchange adjustments	Financial liabilities 31 December 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 is measured at fair value as if the put options have been exercised already. The value is determined by means of the estimated present value of the expected cash outflows required to settle the put options. The value is based on projected revenue and assuming that the put options are exercised by the non-controlling interests at year end in the current financial year. Changes in the value of these liabilities as well as differences on settlement between actual cash outflows and expected cash outflows are accounted for as 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.

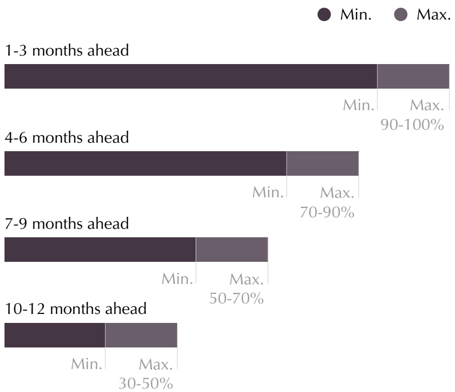
NOTE 4.4

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.

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.

COMMODITY HEDGE RATIO TARGET



COMMODITY PRICE RISK

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

It is the policy of PANDORA to ensure stable, predictable raw material prices. Based on a rolling 12-month production plan, the policy is for Group Treasury to hedge 70% of the Group's expected consumption. The exposure is 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 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, refer to note 4.5.

NOTE 4.4

FINANCIAL RISKS (CONTINUED)

FOREIGN CURRENCY RISK

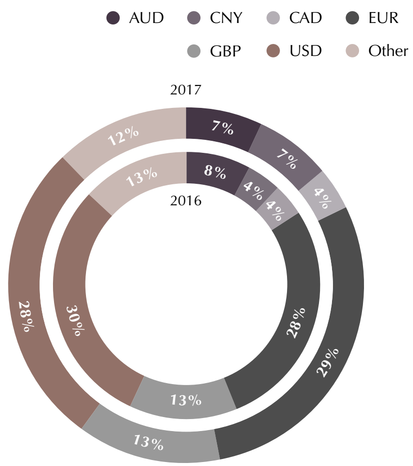
PANDORA's presentation currency is DKK, but the majority of PANDORA's activities and investments are denominated in other currencies. Consequently, there is a substantial risk of exchange rate fluctuations having an impact on PANDORA's reported cash flows, profit (loss) and/or financial position in DKK.

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

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

It is PANDORA's policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. PANDORA basically does not hedge balance sheet items or ownership interests in foreign subsidiaries. It is PANDORA's policy for Group Treasury to hedge 70% of the risk based on a rolling 12-month liquidity budget. The exposure is 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.

REVENUE BREAKDOWN BY CURRENCY



Below is an illustration of the 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.

CREDIT RISK

Credit risk is primarily related to trade receivables, cash and unrealised gains on financial contracts.

The maximum credit risk related to financial assets corresponds to the carrying amounts recognised in the consolidated balance sheet.

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

ANALYSIS OF ASSETS AND LIABILITIES

		31 December 2017		31 December 2016	
DKK million	Change in exchange rate	Profit (loss) before tax	Equity	Profit (loss) before tax	Equity
USD	+10%	316	216	0	-68
CAD	+10%	7	-40	13	-33
AUD	+10%	25	-64	-18	-94
GBP	+10%	3	-163	-53	-223
EUR	+1%	3	3	0	3
THB	+10%	-11	265	-12	266
CNY	+10%	31	30	15	15

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 opposite if exchange rates had been decreasing with similar percentages. The analysis is based on the transaction currency.

NOTE 4.4

FINANCIAL RISKS (CONTINUED)

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

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

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

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

PANDORA has committed revolving credit facilities of DKK 7,500 million, of which DKK 1,000 million is committed until June 2020 and DKK 6,500 million until June 2022. Furthermore, PANDORA has minor local uncommitted credit facilities to ensure efficient and flexible local liquidity management. These credit facilities are facilitated by Group Treasury.

INTEREST RATE RISK

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

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

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

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

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is insignificant.

Obligations to acquire non-controlling interests relate to the acquisitions in Japan in January 2015 and China in July 2015. The highest amounts payable according to the respective contracts are DKK 175 million for Japan and DKK 376 million for China. Based on Management assessment, the fair value of the obligation in Japan is calculated considering the revenue at the end of the contract based on the latest available information. Discounted fair value at the reporting date was recognised at DKK 76 million (2016: DKK 81 million), while the obligation relating to China was recognised at DKK 325 million (2016: DKK 253 million). Based on the positive development of the activities in China, Management has reassessed the obligation to acquire the remaining non-controlling interests, and the recognised fair value has been increased by DKK 112 million. The exchange rate translation impact reduced the payable by DKK 45 million. Included in the table below is the earn-out payment relating to the non-controlling interest in PANDORA Jewelry Central Western Europe A/S recognised at DKK 0 (2016: DKK 0).

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

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

NOTE 4.4
FINANCIAL RISKS (CONTINUED)

LIABILITIES FALL DUE AS FOLLOWS

DKK million	Falling due within 1 year	Falling due within 1-5 years	Falling due after 5 years	Total
2017				
Non-derivatives				
Loans and borrowings	164	5,283	-	5,447
Trade payables	1,706	-	-	1,706
Other payables	1,077	451	-	1,528
Derivatives				
Derivative financial instruments	143	-	-	143
Total at 31 December	**3,090**	**5,734**	**-**	**8,824**
2016				
Non-derivatives				
Loans and borrowings	3	3,008	-	3,011
Trade payables	1,622	-	-	1,622
Other payables	964	474	-	1,438
Derivatives				
Derivative financial instruments	256	-	-	256
Total at 31 December	**2,845**	**3,482**	**-**	**6,327**

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
2017				
Commodities	10	-26	-16	-10
Foreign exchange	143	-117	26	20
Total derivative financial instruments	**153**	**-143**	**10**	**10**
2016				
Commodities	20	-158	-138	-109
Foreign exchange	141	-98	43	35
Total derivative financial instruments	**161**	**-256**	**-95**	**-74**

CLASSIFICATION ACCORDING TO THE FAIR VALUE HIERARCHY

The fair value at 31 December 2017 and 2016 of PANDORA's derivative financial instruments was measured in accordance with level 2 in the fair value hierarchy (IFRS 7). Level 2 is based on non-quoted prices, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). PANDORA uses input from third-party valuation specialists to quote prices for unrealised derivative financial instruments. The value of unrealised silver and gold instruments is tested against the prices observable at LBMA (London Bullion Market Association). The value of unrealised foreign exchange instruments is tested against observable foreign exchange forward rates.

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 2018 for China and 2019 for Japan, 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 IAS 39. Hedge accounting is classified as a cash flow hedge when hedging variability in cash flow is attributable to a highly probable forecast transaction. PANDORA uses a range of 80% to 125% for hedge effectiveness, and any relationship with an effectiveness that falls outside this range is deemed to be ineffective and hedge accounting is suspended. PANDORA designates and documents all hedging relationships between commodity contracts and transactions.

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	**2017**	**2016**
Finance income from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	153	203
Total finance income from derivative financial instruments	**153**	**203**
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	42	121
Interest income, bank	2	3
Interest income, loans and receivables	1	1
Total finance income from loans and receivables	**45**	**125**
Total finance income	**198**	**328**

FINANCE COSTS

DKK million	**2017**	**2016**
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	43	15
Total finance costs from derivative financial instruments	**43**	**15**
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	227	22
Interest on loans and borrowings	21	23
Other finance costs	24	22
Total finance costs from loans and borrowings	**272**	**67**
Total finance costs	**315**	**82**

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

NOTE 4.7
OTHER NON-CASH ADJUSTMENTS

OTHER NON-CASH ADJUSTMENTS

DKK million	**2017**	**2016**
Effects from exchange rate adjustments	-112	58
Effects from derivative financial instruments	228	182
Other, including gains/losses from the sale of property, plant and equipment	-14	1
Total other non-cash adjustments	**102**	**241**

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, which are not 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 purchase, sales and supply contracts entered into in the course of the Group's ordinary business. In addition to the lease commitments disclosed in note 3.2, contractual obligations amounted to DKK 350 million (2016: DKK 193 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 2017, treasury shares accounted for 2.6% of the share capital (2016: 4.4%), refer to 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 2017, 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. Refer to notes 2.3 and 2.4.

NOTE 5.3

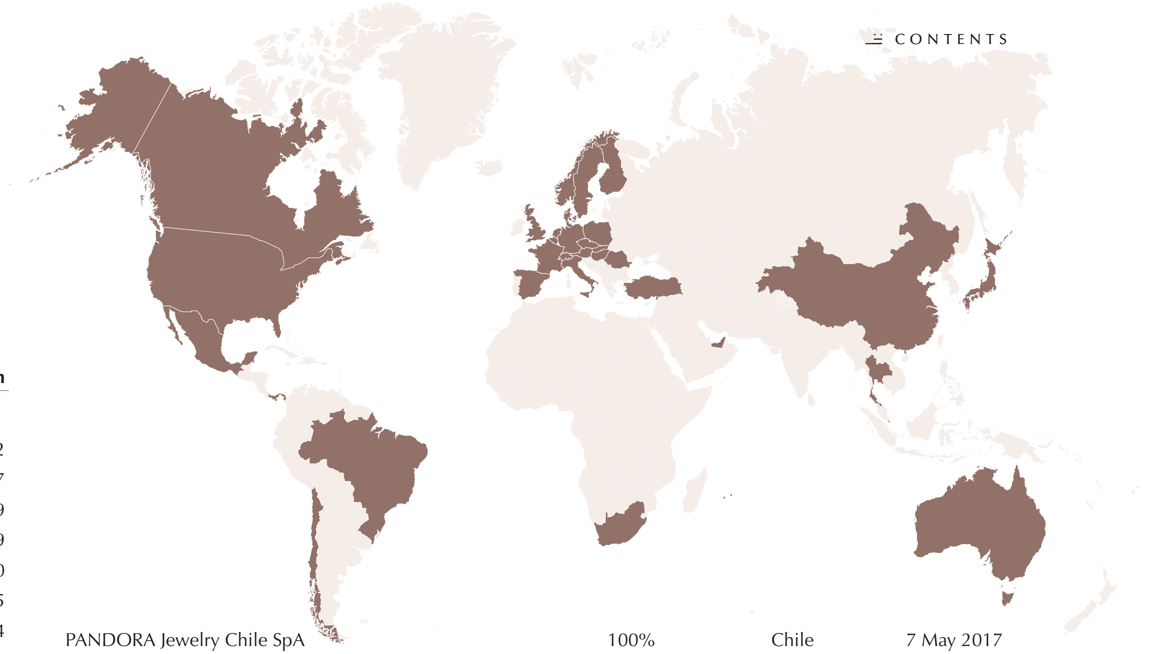
FEES TO INDEPENDENT AUDITOR

DKK million	2017	2016
Fee for statutory audit	9	7
Other assurance engagements	1	1
Total audit related services	**10**	**8**
Tax consultancy	1	5
Other services	2	3
Total non-audit services	**3**	**8**
Total fees to independent auditor	**13**	**16**

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 2017.



NOTE 5.4
COMPANIES IN THE PANDORA GROUP

THE TABLE BELOW SHOWS INFORMATION ABOUT THE GROUP ENTITIES AT 31 DECEMBER 2017

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 sro.	100%	Czech Republic	2 December 2009
PANDORA Int. ApS	100%	Denmark	1 October 2009
PANDORA Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
PAN ME A/S	100%	Denmark	16 January 2015
PANDORA Jewellery DMCC	100%	Dubai	8 October 2014
Panmeas Jewellery LLC	100%	Dubai	16 January 2015
PANDORA 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 Kft.	100%	Hungary	2 June 2010
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 CEE Sp. z.o.o.	100%	Poland	7 February 2012
PANDORA Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
PANDORA Jewelry Romania SRL	100%	Romania	18 August 2011
PANDORA Jewelry 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 Jewellery 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 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, 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 8 dormant companies, which have been omitted from the table.

NOTE 5.5

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

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 growth, %	(This year's EBITDA - last year's EBITDA) / Last year's EBITDA (rolling 12 months)
EBIT growth, %	(This year's EBIT - last year's EBIT) / Last year's EBIT (rolling 12 months)
EBITDA margin, %	EBITDA / revenue
EBIT margin, %	EBIT / revenue
NIBD	Cash less Loans and borrowings and other liabilities relating to obligations to acquire non-controlling interests (current and non-current)
NIBD to EBITDA	NIBD / EBITDA (rolling 12 months)
Capital expenditure (CAPEX)	Purchase of intangible assets and property, plant and equipment for the year, excluding acquisitions of subsidiaries
Return on invested capital (ROIC), %	EBIT / invested capital incl. goodwill
Cash conversion, %	Free cash flow before acquisitions / EBIT
Like-for-like sales-out	Revenue from PANDORA owned concept stores and eSTOREs (excluding outlets) that have been owned and operated for more than 12 months
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, 'Operating working capital', 'Net working capital' and 'Invested capital' are specified on the section 3 front page.

PARENT COMPANY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2017	2016
INCOME STATEMENT			
Revenue		12,810	11,763
Cost of sales		-6,134	-5,654
Gross profit		**6,676**	**6,109**
Sales, distribution and marketing expenses	2.1	-423	-414
Administrative expenses	2.1	-1,076	-933
Operating profit		**5,177**	**4,762**
Dividends from subsidiaries	3.3	5,686	871
Finance income	4.5	265	375
Finance costs	4.5	-310	-58
Profit before tax		**10,818**	**5,950**
Income tax expense	2.3	-1,317	-1,108
Net profit for the year		**9,501**	**4,842**

DKK million	Notes	2017	2016
STATEMENT OF COMPREHENSIVE INCOME			
Net profit of the year		**9,501**	**4,842**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Commodity hedging instruments:			
- Fair value adjustments		-4	1
Foreign exchange hedging instruments:			
- Realised in net financials		-117	-167
- Fair value adjustments		101	236
Tax on other comprehensive income, hedging instruments, income/expense	2.3	4	-15
Other comprehensive income, net of tax		**-16**	**55**
Total comprehensive income for the year		**9,485**	**4,897**

BALANCE SHEET
AT 31 DECEMBER

DKK million	Notes	2017	2016
ASSETS			
Intangible assets	3.1	3,383	3,134
Property, plant and equipment	3.2	73	97
Investments in subsidiaries	3.3	3,914	2,895
Loans to subsidiaries		164	186
Other financial assets		9	9
Total non-current assets		**7,543**	**6,321**
Inventories	3.4	974	1,074
Derivative financial instruments	4.3, 4.4	153	161
Trade receivables	3.5	33	26
Receivables from subsidiaries		7,477	3,074
Income tax receivable		244	45
Other receivables		144	39
Cash		68	75
Total current assets		**9,093**	**4,494**
Total assets		**16,636**	**10,815**

DKK million	Notes	2017	2016
EQUITY AND LIABILITIES			
Share capital	4.1	113	117
Treasury shares		-1,999	-4,334
Reserves		355	183
Dividend proposed		987	1,007
Retained earnings		7,530	6,189
Total equity		**6,986**	**3,162**
Loans and borrowings	4.2, 4.4	5,283	3,007
Deferred tax liabilities	2.3	467	310
Other payables		3	-
Total non-current liabilities		**5,753**	**3,317**
Provisions	3.6	603	646
Loans and borrowings	4.2, 4.4	125	-
Derivative financial instruments	4.3, 4.4	143	256
Payables to subsidiaries	4.4	2,391	2,968
Trade payables	4.4	368	383
Income tax payable		191	-
Other payables		76	83
Total current liabilities		**3,897**	**4,336**
Total liabilities		**9,650**	**7,653**
Total equity and liabilities		**16,636**	**10,815**

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
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 adjustment of hedging instruments		-	-	-20	-	-	-	-20
Tax on other comprehensive income	2.3	-	-	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	2.2	-	-	-	-	-	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**
2016								
Equity at 1 January		122	-4,152	-19	-	1,511	6,198	3,660
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**4,842**	**4,842**
Fair value adjustment of hedging instruments		-	-	70	-	-	-	70
Tax on other comprehensive income	2.3	-	-	-15	-	-	-	-15
Other comprehensive income, net of tax		**-**	**-**	**55**	**-**	**-**	**-**	**55**
Total comprehensive income for the year		**-**	**-**	**55**	**-**	**-**	**4,842**	**4,897**
Transfers		-	-	-	147	-	-147	-
Additions from Group internal merger		-	-	-	-	-	11	11
Share-based payments	2.2	-	-	-	-	-	76	76
Share-based payments (exercised)		-	230	-	-	-	-229	1
Share-based payments (tax)		-	-	-	-	-	24	24
Purchase of treasury shares		-	-4,000	-	-	-	-	-4,000
Reduction of share capital		-5	3,588	-	-	-	-3,583	-
Dividend paid		-	-	-	-	-1,511	4	-1,507
Dividend proposed		-	-	-	-	1,007	-1,007	-
Equity at 31 December		**117**	**-4,334**	**36**	**147**	**1,007**	**6,189**	**3,162**

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

Dividend paid in 2017 relating to the 2016 results was DKK 9 per share, corresponding to DKK 1,007 million (2016: DKK 1,507 million). Furthermore, DKK 2,988 million was paid as part of the commitment to pay quarterly dividends in 2017 relating to the 2017 results. In 2018, PANDORA will pay a dividend of DKK 9 per share, corresponding to DKK 987 million, relating to the 2017 results and further pay a bi-annual dividend of DKK 9 per share, corresponding to an expected payout of DKK 1.0 billion. The quarterly and bi-annual dividends are in accordance with The Danish Company Act §182.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2017	2016
Profit before tax		10,818	5,950
Finance income	4.5	-265	-375
Finance costs	4.5	310	58
Dividends from subsidiaries		-5,686	-871
Depreciation and amortisation		179	123
Share-based payments	2.2	22	26
Change in inventories		114	-277
Change in intercompany receivables/payables		-2,884	-1,344
Change in receivables		-101	62
Change in payables and other liabilities		-180	256
Other non-cash adjustments	4.6	-89	362
Interest etc. received		63	61
Interest etc. paid		-40	-36
Income tax paid		-1,176	-1,034
Cash flows from operating activities, net		**1,085**	**2,961**
Acquisitions of subsidiaries and activities, net of cash acquired	3.3	-1,081	-15
Purchase of intangible assets		-310	-227
Purchase of property, plant and equipment		-	-94
Change in other non-current assets		-	11
Proceeds from sale of property, plant and equipment		-	14
Dividends received		5,686	871
Cash flows from investing activities, net		**4,295**	**560**
Dividend paid		-3,995	-1,507
Purchase of treasury shares	4.1	-1,721	-4,000
Proceeds from loans and borrowings	4.2	5,071	3,763
Repayment of loans and borrowings	4.2	-4,742	-1,768
Cash flows from financing activities, net		**-5,387**	**-3,512**
Net increase/decrease in cash		**-7**	**9**
Cash at 1 January[1]		75	66
Net increase/decrease in cash		-7	9
Cash at 31 December[1]		**68**	**75**

DKK million	Notes	2017	2016
Cash flows from operating activities, net		1,085	2,961
- Interest etc. received		-63	-61
- Interest etc. paid		40	36
Cash flows from investing activities, net		4,295	560
- Acquisition of subsidiaries and activities, net of cash acquired		1,081	15
Free cash flow		**6,438**	**3,511**
Unutilised credit facilities		2,761	4,836

The above cannot be derived directly from the income statement and the balance sheet.
[1] Cash comprises cash at bank and in hand.

NOTES FOR THE PARENT COMPANY

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

SUPPLEMENT TO MANAGEMENT'S REVIEW FOR THE GROUP

GROSS PROFIT

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

Gross profit is therefore significantly impacted by realised losses from remelting activities and unrealised losses from inventory write-downs. Fluctuations in market prices of silver and gold also have a major impact on gross profit.

The effective portion of realised and unrealised gains and losses on all commodity hedge contracts is recognised in cost of sales as the Group's commodity price risk is hedged by the Parent Company. This can significantly impact gross profit. The net gain in 2017 amounts to DKK 86 million (2016: gain of DKK 122 million).

HEDGING TRANSACTIONS

The ineffective portion of realised and unrealised gains and losses on all commodity hedge instruments is recognised in net financials. The net loss in 2017 amounts to DKK 7 million (2016: gain of DKK 21 million).

NOTE 1.2

PRINCIPAL ACCOUNTING POLICIES

PARENT COMPANY FINANCIAL STATEMENTS

The accounting policies of the Parent Company are unchanged from last year and identical to the accounting policies in PANDORA's consolidated financial statements, with the following exceptions:

FOREIGN CURRENCY TRANSLATION

Foreign exchange adjustments of balances accounted for as part of the total net investment in 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 IAS 39 are not met.

DIVIDENDS FROM SUBSIDIARIES

Dividends from investments in subsidiaries are recognised in the financial year in which they are received.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are measured at cost in the Parent Company financial statements. Impairment testing is carried out if there is any indication of impairment, as described in PANDORA's consolidated financial statements. The carrying amount is written down to the recoverable amount whenever the carrying amount exceeds the recoverable amount. The impairment loss is recognised as a finance cost in profit for the year. If the Parent Company has a legal or constructive obligation to cover a deficit in subsidiaries, a provision for this is recognised.

ORDER OF THE NOTES

The notes in the Parent Company financial statements have been changed to reflect the order of the Group. The previous note 3.1 Investment in subsidiaries has thus been moved to 3.3 Investment in subsidiaries and business combinations and now also includes business combinations. Note 3.2 Intangible assets has consequently been moved to 3.1, and 3.3 Property, plant and equipment is now 3.2.

NOTE 1.3

NEW ACCOUNTING POLICIES AND DISCLOSURES

NEW STANDARDS AND INTERPRETATIONS

The description in note 1.2 to the consolidated financial statements regarding new standards issued but not yet effective fully covers the Parent Company as well except for the below listed differences:

Hedge accounting of commodity hedge contracts for purchase of silver and gold. An option provided with the implementation of IFRS 9 will not be applied in the Parent Company.

The write-down of loans and receivables is expected to be slightly higher in the Parent Company than in the Group due to the recognition of provisions for losses on intercompany on the Group internal loans and receivables. The effect of recognising this is still considered immaterial.

NOTE 1.4

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, refer to note 1.3 to the consolidated financial statements.

NOTE 2.1

STAFF COSTS

DKK million	**2017**	**2016**
Wages and salaries	329	282
Pensions	22	19
Share-based payments	22	26
Social security costs	2	2
Other staff costs	95	60
Total staff costs	**470**	**389**
Staff costs have been recognised in the income statement:		
Sales, distribution and marketing expenses	143	127
Administrative expenses	327	262
Total staff costs	**470**	**389**
Average number of full-time employees during the year	386	299

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, refer to note 2.3 to the consolidated financial statements.

NOTE 2.2

SHARE-BASED PAYMENTS

The share option programme described in note 2.4 to the consolidated financial statements is issued by PANDORA A/S. The value of share options granted to employees in the Parent Company's subsidiaries is recognised in investments in subsidiaries. Of the total expense of DKK 66 million (2016: DKK 76 million), DKK 44 million relates to subsidiaries (2016: DKK 50 million).

NOTE 2.3

TAXATION

INCOME TAX EXPENSE

DKK million	2017	2016
Current income tax charge for the year	1,205	1,127
Deferred tax change for the year	114	-15
Adjustment to tax for prior years	-2	-4
Total income tax expense	**1,317**	**1,108**
Deferred tax on other comprehensive income	-4	15
Tax on other comprehensive income	**-4**	**15**

Reconciliation of effective tax rate and tax	%	DKK million	%	DKK million
Profit before tax		10,818		5,950
Corporate tax rate in Denmark, 22%	22.0	2,380	22.0	1,309
Non-taxable dividend income	-11.6	-1,251	-3.2	-192
Other adjustments including adjustments to tax prior years	0.0	-5	-0.2	-10
Withholding taxes	1.8	193	0.0	1
Effective income tax rate/income tax expense	**12.2**	**1,317**	**18.6**	**1,108**

DEFERRED TAX

DKK million	2017	2016
Deferred tax at 1 January	-310	-283
Recognised in the income statement	-121	17
Recognised in other comprehensive income	4	-15
Recognised in equity, share-based payments	-40	-29
Deferred tax at 31 December	**-467**	**-310**
Deferred tax assets	-	-
Deferred tax liabilities	-467	-310
Deferred tax, net	**-467**	**-310**
Specification of deferred tax		
Intangible assets	-637	-595
Property, plant and equipment	10	10
Other assets and liabilities	160	275
Deferred tax, net	**-467**	**-310**

§ 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.

NOTE 3.1

INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distri-bution network	Distri-bution rights	Other intangible assets	Total
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**
2016						
Cost at 1 January	462	1,044	453	1,087	370	3,416
Additions	-	-	-	-	254	254
Cost at 31 December	**462**	**1,044**	**453**	**1,087**	**624**	**3,670**
Amortisation and impairment losses at 1 January	-	-	239	36	152	427
Amortisation for the year	-	-	31	-	78	109
Amortisation and impairment losses at 31 December	**-**	**-**	**270**	**36**	**230**	**536**
Carrying amount at 31 December	**462**	**1,044**	**183**	**1,051**	**394**	**3,134**

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

DKK million	2017	2016
Amortisation has been recognised in the income statement as follows:		
Sales, distribution and marketing expenses	44	46
Administrative expenses	111	63
Total	**155**	**109**

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT

DKK million	Plant and equipment	Assets under construction	Total
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**
2016			
Cost at 1 January	72	3	75
Additions	-	94	94
Disposals	-4	-	-4
Transfers	97	-97	-
Cost at 31 December	**165**	**-**	**165**
Depreciation and impairment losses at 1 January	58	-	58
Depreciation for the year	13	-	13
Disposals	-3	-	-3
Depreciation and impairment losses at 31 December	**68**	**-**	**68**
Carrying amount at 31 December	**97**	**-**	**97**

The Company did not pledge any assets in 2017 and 2016.

DKK million	2017	2016
Future minimum lease payments on existing contracts at 31 December		
Within 1 year	23	23
Between 1 and 5 years	68	68
After 5 years	74	90
Total	**165**	**181**

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	2017	2016
Cost at 1 January	2,895	2,850
Additions[1]	975	15
Disposals	-	-14
Disposals from Group internal merger	-	-6
Additions relating to share-based payments	44	50
Cost at 31 December	**3,914**	**2,895**

[1] Of the addition, 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). Refer to note 3.3 to the consolidated financial statements for further information on the acquisition.

Subsidiaries	**Ownership**	**Registered office**
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 Mexico, 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 two dormant companies, which have been omitted from the table above.

DIVIDEND RECEIVED

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), UK (DKK 0,9 billion), US (DKK 0,7 billion) and Hong Kong (DKK 0.1 billion). In 2016 the total amount of received dividend of DKK 0,9 billion was paid from Thailand.

BUSINESS COMBINATIONS

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 inventory and non-current assets relating to 13 concept stores and 3 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	2017	2016
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	2017	2016
Finished goods	845	899
Point-of-sale materials	129	175
Total inventories at 31 December	**974**	**1,074**
Inventory write-downs at 1 January	116	121
Write-downs during the year	282	184
Utilised in the year	-233	-189
Inventory write-downs at 31 December	**165**	**116**

Write-downs of inventories are recognised in cost of sales, DKK 245 million (2016: DKK 143 million), and distribution expenses, DKK 37 million (2016: DKK 41 million).

NOTE 3.5
TRADE RECEIVABLES

DKK million	2017	2016
Age analysis of trade receivables at 31 December		
Not past due	**33**	**25**
Up to 30 days	-	1
Between 30 and 60 days	-	-
Between 60 and 90 days	-	-
Over 90 days	-	-
Total past due, not impaired	**-**	**1**
Total trade receivables at 31 December	**33**	**26**
Analysis of movements in bad debt write-downs		
Write-downs at 1 January	1	1
Additions	-	-
Unused write-downs reversed	-1	-
Write-downs at 31 December	**-**	**1**

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

NOTE 3.6
PROVISIONS

DKK million	Sales return provisions	Other provisions	Total
2017			
Provisions at 1 January	646	-	646
Additions in the year	436	-	436
Utilised in the year	-452	-	-452
Unused provisions reversed	-27	-	-27
Provisions at 31 December	**603**	**-**	**603**
Provisions are recognised in the balance sheet as follows:			
Current	603	-	603
Non-current	-	-	-
Total provisions at 31 December	**603**	**-**	**603**
2016			
Provisions at 1 January	438	33	471
Additions in the year	601	-	601
Utilised in the year	-364	-13	-377
Unused provisions reversed	-29	-20	-49
Provisions at 31 December	**646**	**-**	**646**
Provisions are recognised in the balance sheet as follows:			
Current	646	-	646
Non-current	-	-	-
Total provisions at 31 December	**646**	**-**	**646**

SALES RETURN PROVISIONS

According to the distribution agreements, a provision is made for expected sales returns from customers and subsidiaries.

The provision is based on historical experience and is measured at the gross margin on expected sales returns, including write-downs related to re-melting of returns that are not expected to be sold.

NOTE 4.1

SHARE CAPITAL

Refer to 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 2017	Cash flows[1]	Foreign exchange adjustments	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] In the cash flows from Loans and borrowings in the Cash Flow statement, internal loan movements are included. The effect was DKK 2,072 million in 2017.

NOTE 4.3

DERIVATIVE FINANCIAL INSTRUMENTS

Refer to 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 analyses PANDORA A/S's financial liabilities similar to note 4.4 to the consolidated financial statements.

LIABILITIES FALL DUE AS FOLLOWS

DKK million	Falling due within 1 year	Falling due within 1-5 years	Falling due after 5 years	Total
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**
2016				
Non-derivatives				
Loans and borrowings	-	3,007	-	3,007
Payables to subsidiaries	2,968	-	-	2,968
Trade payables	383	-	-	383
Other payables	83	-	-	83
Derivatives				
Derivative financial instruments	256	-	-	256
Total at 31 December	**3,690**	**3,007**	**-**	**6,697**

NOTE 4.5
NET FINANCIALS

FINANCE INCOME

DKK million	2017	2016
Finance income from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	153	203
Total finance income from derivative financial instruments	**153**	**203**
Finance income from loans and receivables measured at amortised cost:		
Interest income from subsidiaries	63	61
Foreign exchange gains	49	111
Total finance income from loans and receivables	**112**	**172**
Total finance income	**265**	**375**

FINANCE COSTS

DKK million	2017	2016
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	43	15
Total finance costs from derivative financial instruments	**43**	**15**
Finance costs from financial liabilities measured at amortised cost:		
Interest costs to subsidiaries	7	5
Foreign exchange losses	227	7
Interest on loans and borrowings	21	22
Other finance costs	12	9
Total finance costs from loans and borrowings	**267**	**43**
Total finance costs	**310**	**58**

NOTE 4.6
OTHER NON-CASH ADJUSTMENTS

OTHER NON-CASH ADJUSTMENTS

DKK million	2017	2016
Effects from exchange rate adjustments	-179	104
Effects from derivative financial instruments	90	258
Total other non-cash adjustments	**-89**	**362**

NOTE 5.1

CONTINGENT LIABILITIES

LITIGATION

PANDORA A/S is a party to a number of legal proceedings, which are not expected to have material impact on future earnings.

CONTRACTUAL OBLIGATIONS

PANDORA A/S has entered into a number of long-term purchase, sales and supply contracts in the course of the Company's ordinary business. In addition to the lease commitments disclosed, contractual obligations amount to DKK 300 million (2016: DKK 149 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 629 million at 31 December 2017 in favour of certain subsidiaries related to securing local credit lines and rental agreements (2016: DKK 495 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 5.4 to the consolidated financial statements.

The table below shows transactions entered into with related parties.

	Subsidiaries	
DKK million	**2017**	**2016**
Income statement:		
Sales to related parties	12,798	11,750
Purchases from related parties	-5,961	-5,975
Dividend	5,686	871
Finance income	63	61
Finance costs	-7	-5
Total	**12,579**	**6,702**
Balance sheet:		
Receivables	7,641	3,260
Payables	-2,391	-2,968
Total	**5,250**	**292**

NOTE 5.3

FEES TO INDEPENDENT AUDITOR

DKK million	**2017**	**2016**
Fee for statutory audit (audit related)	3	2
Tax consultancy (non-audit services)	-	2
Other services (non-audit services)	2	2
Total fees to independent auditor	**5**	**6**

The costs are recognised in the income statement as an administrative expense.

Refer to note 5.3 to the consolidated financial statements for description of other non-audit services.

MANAGEMENT STATEMENT

Today, the Board and Executive Management have discussed and approved the Annual Report of PANDORA A/S for the financial year 1 January – 31 December 2017.

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

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 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 2017.

In our opinion, the Management's Review includes a true and fair review of the development in the Group's and the Parent Company's operations and financial conditions, of the results for the year and of the financial position of the Group and the Parent Company, as well as a description of the more significant risks and uncertainty facing the Group and the Parent Company.

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

Copenhagen, 6 February 2018

EXECUTIVE MANAGEMENT

Anders Colding Friis
Chief Executive Officer

Peter Vekslund
Chief Financial Officer

BOARD

Peder Tuborgh
Chairman

Christian Frigast
Deputy Chairman

Allan Leighton
Deputy Chairman

Anders Boyer

Andrea Alvey

Birgitta Stymne Göransson

Bjørn Gulden

Per Bank

Ronica Wang

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 2017, 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 2017 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 2017 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 period of seven years up to and including the financial year 2017.

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 2017. 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 the significant risks and rewards of ownership of the goods have been transferred to the buyer and it is measured at fair value of the expected consideration to be received, less rebates, discounts, sales taxes, duties and expected sales returns. Revenue recognition and measurement of the related expected sales returns was a matter of most significance in our audit due to the inherent risk in the estimates and judgements which Management makes in the normal course of business as to timing of revenue and measurement of expected sales returns. Details on revenue recognition and expected sales returns are provided in sections 2.1 and 3.6 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 agreements (BOIs), where many, but not all, types of net income are tax-exempt, and therefore, changes in profit allocation could significantly impact the Group's consolidated tax expense. In addition the US tax reform changes the tax environment in one of the Group´s largest markets specific affecting the recognised deferred tax asset in 2017. On this basis, taxation was a matter of most significance in our audit. Additional details on income taxes are provided in section 2.5 of the consolidated financial statements, to which we refer.

Our procedures in relation to recognition of income taxes, deferred taxes and provisions for uncertain tax positions included assessing the Group's processes for recording and continual re-assessment of provisions for uncertain tax positions. Our procedures also covered evaluating the assumptions applied by Management in determining the recognition and measurement of income taxes and deferred taxes while taking into account relevant correspondence with tax authorities and third parties. Our own tax specialists performed an assessment of the Group's correspondence with relevant tax authorities in order to consider the completeness of the tax provisions. We also assessed the assumptions used, taking into consideration our own tax specialists' knowledge and experience. In addition, we assessed relevant opinions obtained by Management from third parties related to the requirements for tax exemptions under BOIs in Thailand. Further, we evaluated the disclosures provided by Management in the consolidated financial statements and the Parent Company financial statements to applicable accounting standards.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review.

Our opinion on the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the 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, 6 February 2018

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Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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State Authorised Public Accountant
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