

Company Announcement No. 522

Interim Financial Report Q1 2019

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PANDORA

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Our Equity Story

Pandora has built a cross-generational jewellery brand with an unmatched recognition that caters to all women. Bringing together traditional craftsmanship and state-of-the-art innovation, our affordable jewellery is made to the highest environmental and ethical standards, all to inspire women to feel creative in their self-expression.

With fundamentals intact and by executing on our transformation roadmap, Programme NOW, Pandora will return to sustainable growth and maintain industry-leading margins. A strong cash generation and an attractive cash return will remain.

Solid progress on Programme NOW – preparing for brand re-launch

Financial highlights

- As expected, Q1 2019 financials were weak and impacted by the commercial reset initiated as part of Programme NOW. The commercial reset includes fewer promotional activities (discounting) and reduced size of sell-in packages
- Financial guidance for 2019 is unchanged
- Total like-for-like sales-out growth (like-for-like) was -10% driven by lower traffic in physical stores. Like-for-like in the eSTORE was 7%. Organic growth ended at -12% reflecting the decrease of wholesalers' inventory partly driven by the reduced sell-in packages
- EBIT margin excluding restructuring costs was 22.5%. As expected, the EBIT margin was negatively impacted by operational deleverage (partly non-recurring)

Business highlights

During Q1 2019, Pandora progressed well with Programme NOW – Pandora's business transformation programme that has comprehensive impact on the organisation, operations and culture. As a foundation for the upcoming important brand re-launch, Pandora initiated a commercial reset including fewer promotional activities, reduction of sell-in packages and improvement of inventory levels. The reduced sell-in packages and other wholesale inventory movements are estimated to have impacted organic growth by -5 percentage point in Q1 2019.

While Programme NOW will mainly support revenue growth from late 2019, Pandora is currently testing a number of commercial initiatives as preparation for the brand re-launch. The initiatives show encouraging results and include pilots with celebrity and influencer collaborations. The most important test is the initiation of significant marketing investments in key countries, which are launching in May 2019. The investments are expected to demonstrate the potential to drive profitable revenue growth.

Programme NOW cost reduction initiatives tracked well in the first quarter. Pandora is rapidly changing the cost mindset and performance culture and has made significant progress in several areas including productivity improvements in Thailand.

Alexander Lacik, President and CEO of Pandora, says:

"I'm very excited to join Pandora. We have some very strong fundamentals in terms of a world-class supply chain, a strong product proposition as well as a deep reaching distribution network that gives consumers all around the globe quality access to Pandora. The brand as well as the company has reached a point of maturity and it is not without some serious challenges. The recently announced transformation programme NOW, which I fully support, is a great transition into the future."

Anders Boyer, CFO of Pandora, says:

"Programme NOW is progressing rapidly and is creating a real transformation of our business, culture and organisation. As expected, the first quarter was characterised by continued weak like-for-like further burdened by our deliberate commercial reset. While the first quarter emphasises the need for our planned brand re-launch, it is encouraging to see that our initial commercial pilots and marketing tests to Reignite a Passion for Pandora show good results."

FINANCIAL HIGHLIGHTS – NOTE THAT COMPARISON FIGURES HAVE NOT BEEN RESTATED TO IFRS 16 (FOOTNOTE 1)

Q1 2019 (1 JANUARY - 31 MARCH 2019)

DKK million	Q1 2019	Q1 2018 ¹	FY 2018 ¹	FY 2019 guidance
Key financial highlights				
Organic growth	-12%	0%	-2%	-3% to -7%
Total like-for-like, %	-10%	-5%	-4%	
Revenue	4,804	5,115	22,806	
Revenue growth, % in local currency	-8%	6%	3%	
Gross profit excl. restructuring costs	3,645	3,876	16,942	
Gross margin excl. restructuring costs, %	75.9%	75.8%	74.3%	
EBIT excl. restructuring costs	1,083	1,441	6,431	
EBIT margin excl. restructuring costs, %	22.5%	28.2%	28.2%	26% to 28%
Free cash flow	673	439 ¹	5,558	
Cash conversion, %	70.1%	30.5% ¹	86.4% ¹	
Operating working capital, % of last 12 months revenue	12.1%	14.6%	11.2% ¹	
Capital expenditure (CAPEX)	178	244	1,129	
Capital expenditure, tangible assets (CAPEX), DKK million	108	161	753	
Dividend per share, DKK	-	-	9.0	
Quarterly dividend per share, DKK	-	-	9.0	
Earnings per share, basic, DKK	7.9	10.6	47.2	
Earnings per share, diluted, DKK	7.9	10.5	47.0	

Other financial highlights

Consolidated income statement

Revenue	4,804	5,115	22,806
Gross profit	3,620	3,876	16,942
Gross margin, %	75.4%	75.8%	74.3%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,474	1,667 ¹	7,421 ¹
EBITDA margin, %	30.7%	32.6% ¹	32.5% ¹
Operating profit (EBIT)	960	1,441	6,431
EBIT margin, %	20.0%	28.2%	28.2%
Net financials	68	36	151
Net profit for the period	797	1,159	5,045

Consolidated balance sheet

Total assets	22,408	17,214 ¹	19,244 ¹
Invested capital	16,919	12,189 ¹	12,071 ¹
Operating working capital	2,712	3,311	2,555
Net interest-bearing debt (NIBD)	11,450	5,776 ¹	5,652 ¹
Equity	5,469	6,413 ¹	6,419 ¹

Ratios

Revenue growth, %	-6%	-1%	0%
Effective tax rate, %	22.5%	21.5%	23.4%
Equity ratio, %	24.4%	37.3%	33.4%
NIBD to EBITDA ² , x	1.4x	0.7x ¹	0.8x ¹
Return on invested capital (ROIC), %	35.2%	61.5% ¹	53.3% ¹
Total pay-out ratio, %	224.2%	105.3%	103.7%

¹ Comparison figures have not been restated following the implementation of IFRS 16 Leases. Note 1 provides comparison figures according to the old standard.

² For key figures using last twelve months of EBITDA/EBIT, figures have been recalculated to include nine months effect of the implementation of IFRS 16 on 2018 figures.

UPDATE ON PROGRAMME NOW

COST REDUCTION PROGRAMME ON TRACK

The cost reduction programme is tracking well leading to material cost reductions already in Q1 2019. The execution of the necessary commercial reset has been initiated, and the preparations for the brand re-launch are ongoing, which include a number of commercial pilots running in key markets.

Network strategy

Pandora announced a change of its network strategy in November 2018, significantly reducing franchise acquisitions and new store openings. In Q1 2019, Pandora opened net 8 concept stores compared with 39 net openings in Q1 2018. Pandora has decided to close 50 concept stores with low or negative margins. The closing of stores span across different countries and each of them will at the latest be closed when the committed lease agreements expire. The impact on organic growth and EBIT margin in 2019 is expected to be limited. As previously mentioned, the general network strategy - including store ownership, store types and catchment area strategy – will be reviewed at a later point in time.

Commercial reset

In Q1 2019, the promotional activity was reduced for most key markets while the large promotions in January and February (New Year clearance and Valentine’s) were largely unchanged in quantity and depth. The previously “always-on” sales-tab on the eSTORE was removed in selected periods throughout the quarter, and the number of products and discount levels were also decreased during promotional periods. The share of revenue coming from products on discount in the eSTORE was 50% lower in February and March of 2019 compared to February and March of 2018. The full-year impact from reduced discount-related promotional activity is still estimated to be negative 2-4% on the like-for-like as previously communicated.

In Q1 2019, Pandora initiated the implementation of the planned reduction of sell-in packages from 8 to 4 weeks of cover, negatively impacting organic growth. Additionally, wholesale inventories generally decreased as indicated by the organic growth being lower than like-for-like in Q1 2019. The structure and details of the announced inventory buyback (to be included in cost of sales and reported as restructuring costs) are being defined, with planned launch in selected markets in late Q2 2019.

Furthermore, Pandora is reviewing the structure of its product portfolio. Initial tests have shown that fewer design variations in stores are favourable to both revenue and cost structure. Pandora is consequently evaluating a more structural change of the product portfolio with fewer design variations. This may entail certain restructuring costs in 2019.

Reignite a Passion for Pandora

In the first quarter and beginning of the second quarter of 2019, Pandora has continued to develop the plan for a brand re-launch. Several commercial initiatives were tested and when scaled, aim to create a positive disruption of the Pandora brand. Pilots related to celebrity and influencer collaborations have shown encouraging results. These initiatives are new opportunities that have not been utilised systematically in the past. Additionally, the analysis and diagnosis ahead of launching Programme NOW showed that Pandora has underinvested in marketing and branding. Consequently, significant additional marketing investments have been initiated in Italy and the UK in May 2019, with a similar initiative to be executed in China later in Q2 2019. The initiative is a test ahead of the larger and broader elevation of Pandora’s marketing investments.

The brand re-launch - “Reignite a Passion for Pandora” - will include a new brand campaign platform, new store design, new eSTORE expression and navigation, collaborations, and the largest marketing investment in the history of Pandora. During Q1 2019, preparatory progress has been made in several areas including signing of a new celebrity collaboration contract and signing of a partnership with another global franchise. Furthermore, the number of marketing agencies have been significantly reduced and going forward, marketing campaigns will be developed in partnership with one main global marketing agency with the purpose to stand out clearer, more consistently and improve Pandora’s relevance amongst consumers.

Reduce costs

Cost reduction initiatives have been identified across Pandora and most notably within cost of sales, retail expenses, administrative expenses and IT. During Q1 2019, the cost reduction initiatives tracked well and in line with plans reducing costs by around DKK 100 million. Around 25% of the cost reduction is related to cost of sales and tied to the production facilities in Thailand. The OPEX reductions are mainly related to retail expenses including store staff and POS material as well as lower administrative costs as a result of a tightened travel policy and employee benefits. The prospects to reduce IT expenses are also encouraging with good early indications from several large tenders.

The efficiency improvements at the facilities in Thailand are tracking particularly well leading to higher productivity in Q1 2019 than planned. Combined with the aim to lower wholesale as well as Pandora owned inventories, the capacity and employees in Thailand will be adjusted accordingly. On 5 February 2019, Pandora laid off 700 craftsmen from the facilities in Thailand as communicated in connection with the Annual Report 2018. Today, it has been announced that approximately 1,200 additional employees will be laid off in Thailand. In addition to the permanent reduction of employees, selected craftsmen will be asked to take leave from work in one week in May, one week in June and an additional 5 working days in June and July while still being compensated 75% of their normal salary.

The cost reduction target for 2019 of DKK 600 million and the run-rate target of DKK 1.2 billion by the end of 2020 are confirmed.

Implement new ways of working

As an important stepping stone for the cultural and organisational transformation, the key performance indicators of both the Short-term Incentive Programme (cash bonus) and the Long-term Incentive Programme (performance shares) were changed in Q1 2019 to improve alignment with long-term shareholder value creation. The Short-term Incentive Programme is now based on like-for-like and EBIT margin while the Long-term Incentive Programme is based on like-for-like, EBIT margin and Total Shareholder Return.

During Q1, Pandora developed a platform for data-driven customer growth and personalisation as part of the ambition to leverage data to build personal relationships. In the US, pilots were run in three separate tracks with the purposes of acquiring new customers, improving awareness and increasing conversion. Once the current pilots are operationalised in the US, the platform will be scaled to the top five markets.

David Walmsley was appointed as SVP and Chief Digital & Omni-channel Officer and included in the Management Board. David has extensive online and retail experience among others after having served as Global Digital Director at Marks and Spencer. David Walmsley will be key in driving the eSTORE and omni-channel improvements planned as part of Programme NOW.

Overview of Programme NOW restructuring costs

DKK million	Q1 2019 reported	Restructuring costs	Q1 2019 excl. restructuring costs	Q1 2018 ¹
Revenue	4,804		4,804	5,115
Cost of sales	-1,184	25	-1,159	-1,239
Gross profit	3,620	25	3,645	3,876
Sales, distribution and marketing expenses	-2,039	5	-2,034	-1,858
Administrative expenses	-621	92	-529	-577
Operating profit (EBIT)	960	122	1,083	1,441

¹ Comparison figures have not been restated following the implementation of IFRS 16 Leases. Note 1 provide comparison figures according to the old standard.

COMMERCIAL REVIEW

ENCOURAGING RESULTS OF COMMERCIAL PILOTS

The like-for-like was -10% in Q1 2019 as a result of continued negative like-for-like in physical stores and positive like-for-like in the eSTORE of +7%. The like-for-like deceleration in the eSTORE was partly driven by the deliberate decision to reduce promotional activity (share of revenue sold at discount was halved in February and March). The negative like-for-like in physical stores (O&O and wholesale) was driven by lower traffic as the conversion rate slightly improved. The general retail environment continues to be muted with declining mall traffic and adverse impact from the macroeconomic environment, particularly in Italy, the UK and Australia.

In Q1 2019, Pandora launched three drops (Valentine’s, Pre-Spring and Spring) based on the new trading calendar that focuses on trading periods rather than product launches. In the US, Drop 3 was launched later than the global launch to separate it from the “Spend More, Save More” promotion with the purpose of amplifying the product launch and extracting the full value of it. The launches in Q1 2019 did not improve like-for-like, emphasising again that product newness alone is not enough to drive like-for-like. To further simplify and amplify each product launch, the initially planned Drop 9 and Drop 10 have been consolidated and hence only nine drops are now planned to be launched in 2019.

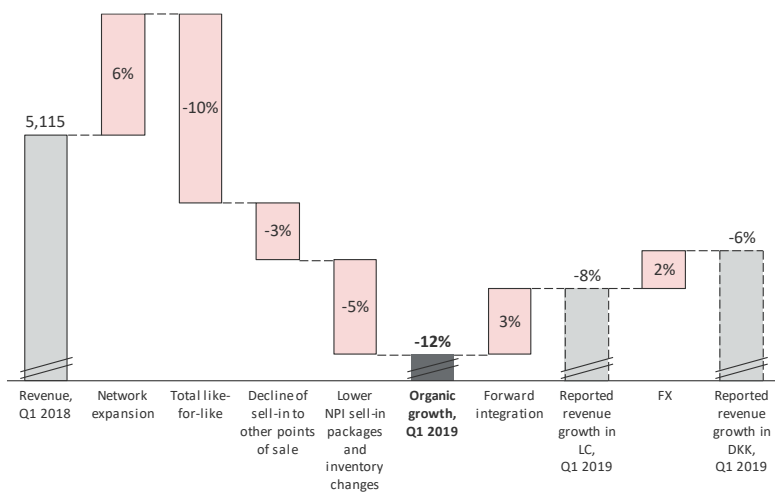
Pilots to re-energise the brand such as celebrity and influencer collaborations and more country focused product launches showed positive results in Q1 2019 and April. New omni-channel capabilities were implemented in O&O stores in the US including both Endless aisle (Go In Store, Buy Online) and Return in store (Buy Online, Return In Store). In April, the US roll-out of omni-channel capabilities to franchise stores were discussed and supported by the Franchisee Council.

The organic growth was -12% in the quarter and thereby lower than like-for-like. A significant reduction of inventory at the wholesale level impacted the organic growth negatively, primarily driven by the reduced sell-in packages (non-recurring). Organic growth was also impacted by a significant reduction of sales to other points of sales in the wholesale channel.

Forward integration positively impacted the revenue and total reported revenue growth in local currency was -8%. The foreign exchange development contributed positively by 2pp implying DKK revenue growth of -6%. Reported revenue thereby ended at DKK 4,804 million for the quarter.

REVENUE DEVELOPMENT COMPOSITION

DKK million, %-p growth



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REVENUE BY CHANNELS

Pandora-owned retail revenue increased by 16% in local currency and comprised 64% of the revenue. The growth was driven by network expansion and forward integration partly offset by retail like-for-like of -10%. Like-for-like in the eSTORE (+7%) contributed positively to like-for-like and organic growth.

Wholesale revenue declined by 34% in the quarter driven by double-digit negative organic growth as well as a -7% impact from forward integration. The negative organic growth in the wholesale channel was driven by negative like-for-like, a significant decline in wholesale inventory and a decline in revenue from other points of sale.

The rate of the decline in traffic in physical stores is relatively consistent across Pandora owned stores and franchisee stores.

DKK million	Q1 2019	Q1 2018	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
Pandora owned retail	3,061	2,592	-10%	3%	16%	64%
- of which concept stores	2,404	2,007		2%	18%	50%
- of which eSTOREs	477	438		6%	6%	10%
- of which other points of sale	181	147		1%	21%	4%
Wholesale	1,503	2,178	-11%*	-27%	-34%	31%
- of which concept stores	854	1,226		-21%	-33%	18%
- of which other points of sale	649	952		-34%	-34%	14%
Third-party distribution	239	345	-11%*	-23%	-32%	5%
Total revenue	4,804	5,115	-10%	-12%	-8%	100%

*Like-for-Like for wholesale and third-party distribution is based on consolidated estimation

STORE NETWORK

The number of concept stores increased by 8 representing a material slow-down in growth compared with previous quarters. Pandora-owned concept stores increased by 24 in the quarter of which 15 related to forward integration from deals signed in 2018 (including the take-over of Taiwan distribution as of 1 January 2019) while the net store openings amounted to 9, which were predominantly in China.

Number of points of sale	Q1 2019	Q4 2018	Q1 2018	Growth Q1 2019 /Q4 2018	Growth Q1 2019 /Q1 2018
Concept stores	2,713	2,705	2,485	8	228
- of which Pandora owned	1,364	1,340	1,022	24	342
- of which franchise owned	834	849	958	-15	-124
- of which third-party distribution	515	516	505	-1	10
Other points of sale	4,845	5,023	5,233	-178	-388

REVENUE BY KEY MARKETS

The important US market continued to perform better than the rest of the Group. Although like-for-like in the US ended slightly negative in Q1 2019 (-2%), several pilots and initiatives were successful and can be expanded to other markets. In the beginning of the year, a commercial initiative in the US targeting the Hispanic population in collaboration with Colombian singer Shakira had positive effects on traffic. Additionally, the marketing spend level in the US was well above the rest of the Group and better aligned with both peer-group benchmarks and the optimal level according to Pandora's econometric modelling. The US eSTORE generated more than 20% like-for-like in Q1 2019.

China revenue increased by 15% in local currency in Q1 2019 driven by network expansion. Like-for-like was -4% representing a slight deceleration compared with previous quarters. The slow-down was driven by lower growth in the online channel (mainly

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Tmall) which was impacted by elevated competitive advertisements. Regardless hereof, online sales in China continued to grow by double-digit rates and comprised 16% of total China revenue in Q1 2019. On 11 April, Pandora launched a dedicated Chinese collection, Peach Blossom. It is the first time, Pandora is launching a collection specifically for one country. The collection consists of 15 pieces of jewellery incl. charms, bracelets, earrings and necklaces. During Q2, Pandora will significantly increase marketing spend in China thereby testing the predictions from Pandora's econometric modelling.

The UK market was negatively impacted by the general uncertainty related to Brexit. Traffic in physical stores was the driver of the negative like-for-like at -13% as the conversion rate in physical stores was stable. The revenue growth in the UK eSTORE was flat compared with Q1 2018. In line with China (and Italy), Pandora will significantly increase marketing spend in the UK during Q2 2019.

As part of Programme NOW, the US, China and the UK have been defined as Beacon countries where new initiatives and commercial pilots will be conducted at high pace with subsequent roll-out globally if the pilots prove successful.

DKK million	Q1 2019	Q1 2018	Like-for-like sales-out	Organic growth	Local currency growth	Share of revenue
UK	579	534	-13%	-6%	7%	12%
Italy	443	606	-22%	-27%	-27%	9%
France	225	276	-23%	-21%	-18%	5%
Germany	188	234	-20%	-20%	-20%	4%
US	977	1,018	-2%	-14%	-12%	20%
Australia	237	311	-19%	-25%	-22%	5%
China	548	467	-4%	15%	15%	11%
Total top-7 markets	3,198	3,446	-	-	-	67%
Total revenue	4,804	5,115	-10%	-12%	-8%	100%

Revenue split by region and by product category is provided in Note 3 Segment information of the Financial Statements.

PROFITABILITY

EBIT MARGIN IN LINE WITH PLAN

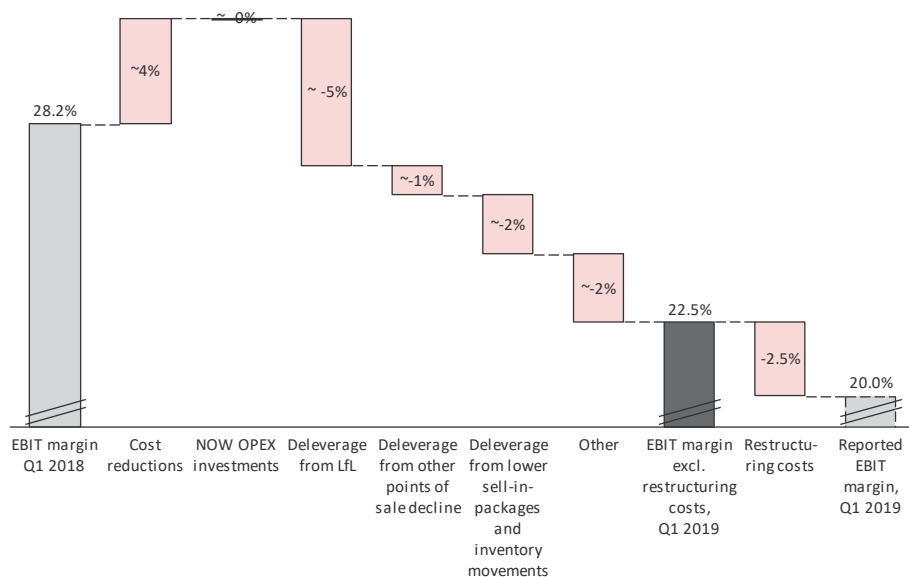
In Q1 2019, EBIT excl. restructuring costs was DKK 1,083 million compared with DKK 1,441 million in Q1 2018. The EBIT margin excl. restructuring costs ended at 22.5% compared with 28.2% in the same quarter last year reflecting a slightly increasing gross margin and a 5.7pp increase in the OPEX/Revenue ratio.

The negative EBIT margin development is driven by significant operational leverage impacting the EBIT margin by around -8pp. The deleverage from lower sell-in packages and reduction of inventory at wholesale partners should be considered as non-recurring. The deleverage impact was partly offset by cost reductions both related to initiatives announced in the Q2 2018 Interim Report (approximately DKK 75 million) and the cost reductions executed as part of Programme NOW (approximately DKK 100 million).

Restructuring costs amounted to DKK 122 million in the quarter mainly related to severance payments and consultancy costs. DKK 25 million of the restructuring costs are impacting cost of sales (including severance payments in Thailand) while DKK 97 million are impacting operating expenses.

EBIT Margin development

%-points, approx.



From 1 January 2019, Pandora adopted the new accounting standard IFRS 16 Leases materially changing the accounting for operational leasing contracts. Pandora now recognises almost all leasing contracts as right-of-use assets in the balance sheet as well as the corresponding lease liability. The impact on EBIT is immaterial. At the end of Q1 2019, right-of-use assets was DKK 4.4 billion and lease liabilities amounted to DKK 4.3 billion.

GROSS PROFIT

Gross profit excluding restructuring costs in Q1 2019 was DKK 3,645 million (DKK 3,876 million in Q1 2018) corresponding to a gross margin of 75.9% compared with 75.8% in Q1 2018. The gross margin was the highest quarterly gross margin ever achieved in the history of Pandora. The declining gross margin trend realised since Q3 2018 has been offset and even reversed in Q1 2019. The gross margin was positively impacted by several initiatives in particular improved production productivity as part of Programme NOW but also by channel mix and a lower number of discounted products. Compared to Q1 2018, the positive drivers were almost offset by higher product complexity and the negative effect from a larger revenue share of plated products.

COST OF SALES AND GROSS PROFIT

DKK million	Q1 2019	Q1 2018	Growth	Share of revenue	Share of revenue
				Q1 2019	Q1 2018
Revenue	4,804	5,115	-6%	100.0%	100.0%
Cost of sales	-1,159	-1,239	-6%	24.1%	24.2%
Gross profit excl. restructuring costs	3,645	3,876	-6%	75.9%	75.8%
Restructuring costs	-25	-	-	0.5%	-
Total gross profit incl. restructuring costs	3,620	3,876	-7%	75.4%	75.8%

OPERATING EXPENSES

Total operating expenses excluding restructuring costs were DKK 2,563 million in Q1 2019 (DKK 2,435 million in Q1 2018), equivalent to an OPEX/revenue ratio of 53.3%. Administration costs declined by DKK 48 million in the quarter as Programme NOW cost reductions take effect, including the reset of employee benefits and a change of travel policy. The favourable development in administrative expenses was more than offset by an increase in sales and distribution expenses of DKK 178 million driven by network expansion and forward integration. Marketing expenses were approximately flat in the quarter.

The OPEX/revenue ratio increased by 5.7pp compared with Q1 2018. This is partially a reflection of the share of retail revenue increasing from 51% in Q1 2018 to 64% in Q1 2019 combined with revenue being impacted by one-off effects from destocking and reduced sell-in packages in Q1 2019. Given the margin development, it is clear that the cost reduction efforts as part of Programme NOW must and will continue.

OPERATING EXPENSES DEVELOPMENT INCLUDING DEPRECIATION AND AMORTISATION

DKK million	Q1 2019	Q1 2018	Growth	Share of revenue	Share of revenue
				Q1 2019	Q1 2018
Sales and distribution expenses	-1,551	-1,373	13%	32.3%	26.8%
Marketing expenses	-483	-485	0%	10.1%	9.5%
Administrative expenses	-529	-577	-8%	11.0%	11.3%
Total operating expenses excl. restructuring costs	-2,563	-2,435	5%	53.3%	47.6%
Restructuring costs	-97	-	-	2.0%	-
Total operating expenses incl. restructuring costs	-2,660	-2,435	9%	55.4%	47.6%

CASH FLOW & BALANCE SHEET

CONTINUED STRONG CASH FLOW AND SIGNIFICANT CASH DISTRIBUTION TO SHAREHOLDERS

The free cash flow was DKK 673 million in Q1 2019 corresponding to a cash conversion of 70.1%. The free cash flow is positively impacted by the implementation of IFRS 16 as the cash paid for committed rent is no longer deducted from cash flow from operating activities. Adjusting for the IFRS 16 implementation, the cash conversion was 43% in Q1 2019 and still improved compared with 30% in Q1 2018. The improved cash conversion was mainly driven by better working capital development.

The operating working capital improved materially from DKK 3,311 million in Q1 2018 (14.6% of revenue) to DKK 2,712 million in Q1 2019 (12.1% of revenue). The improvement was driven by trade receivables and trade payables as a result of the initiatives taken as part of Programme NOW with a change of mindset in considering cash as a scarce resource.

Q1 is traditionally a quarter with relatively low cash conversion mainly due to payments following the higher activity in the fourth quarter and the payment of income tax in March, mainly in Denmark. Payment of tax amounted to DKK 364 million for the Group in Q1 2019. Cash flow from investing activities was DKK -335 million of which DKK -135 million was related to forward integration signed in 2018 (mainly the acquisition of the Taiwan distribution as of 1 January 2019) and DKK -165 million related to regular property, plant and equipment CAPEX.

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

Share of preceding 12 months' revenue	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Inventories	13.9%	13.8%	16.6%	13.5%	12.4%
Trade receivables	5.6%	7.2%	8.0%	5.9%	8.1%
Trade payables	-7.4%	-9.9%	-8.2%	-5.6%	-5.9%
Total	12.1%	11.2%	16.4%	13.8%	14.6%

A dividend of DKK 9 per share (DKK 896 million) was approved at the 2019 Annual General Meeting and paid out in March. On 11 March, Pandora finalised the share buyback programme of DKK 4,000 million announced in connection with the 2017 Annual Report. A new share buyback programme of DKK 2,200 million was initiated on 13 March 2019. During Q1 2019, the cash outflow related to the share buyback programmes amounted to DKK 891 million.

In addition to the ordinary dividend of DKK 9 per share and the DKK 2.2 billion share buyback programme, an interim dividend of DKK 9 per share will be paid following the announcement of the Q2 2019 Interim Report. Total cash distribution in 2019 will amount to around 15% of current market capitalisation.

As announced in the Annual Report for 2018, Pandora has revisited the capital structure policy due to the implementation of the IFRS 16 accounting standard and adjusted the target for NIBD to be between 0.5 and 1.5 times EBITDA. At the end of Q1 2019, NIBD was DKK 11,450 million corresponding to a NIBD to EBITDA ratio of 1.4 times (EBITDA recalculated as if IFRS 16 was in force throughout the period). Recognising lease contracts on the balance sheet increased total non-current assets by DKK 4.3 billion, recognised as Right-of-use assets.

Further information regarding the implementation of IFRS 16 is available in Note 1 and Note 11 in the financial statements.

FINANCIAL GUIDANCE

FINANCIAL GUIDANCE 2019 IS UNCHANGED

The business development and financial performance were in line with expectations in the first quarter of 2019, and the financial guidance for the year is unchanged.

	2019 Guidance	2018 metrics	FY 2018 Actual
Organic revenue growth, %	-3% to -7%	Total revenue growth (local currency)	3%
		EBITDA margin, approximately %	32.5%
EBIT margin excl. restructuring costs	26-28%	EBIT margin, %	28.2%
		CAPEX, approximately % of revenue	5%

The guidance continues to assume that Programme NOW will have visible positive impact on the like-for-like in late 2019. As previously communicated the like-for-like for full year 2019 could be down by up to high single-digit negative.

Pandora still expects to add around net 75 concept stores to the network, although depending on the exact timing of the additional 50 store closures. The expansion of the network is expected to add around 4 percentage points of organic growth. Forward integration – which is not included in organic growth – will positively impact total revenue growth by around 2 percentage points.

Restructuring costs are expected to be up to DKK 1.5 billion in 2019, which includes the wholesale inventory buyback programme for selected markets.

CAPEX for the year is expected to be in the range of DKK 1.2 – 1.5 billion. The effective tax rate is expected to be around 22-23%. Assuming current exchange rates versus the Danish Krone, growth reported in DKK is expected to be 0-1 percentage point higher than in local currency, unchanged since Q4 2018 announcement.

The 2019 financial guidance was based on foreign exchange rates at the time of the announcement of the Annual Report for 2018. The development of the foreign exchange rates since the announcement of the Annual Report for 2018 has limited impact on the expected financial results for 2019.

OTHER EVENTS

OTHER IMPORTANT EVENTS IN Q1 2019 AND AFTER THE REPORTING PERIOD

Alexander Lacik announced as CEO

On 14 February 2019, Alexander Lacik was announced as CEO of Pandora and on 2 April 2019 Jeremy Schwartz stepped down as COO. Alexander Lacik took office effective as of 23 April 2019.

Share buyback programme

On 11 March 2019, Pandora finalised the share buyback programme of DKK 4,000 million announced in connection with the Annual Report 2017. A new share buyback programme of DKK 2,200 million was initiated on 13 March 2019.

Annual General Meeting

On 13 March 2019, the Annual General Meeting in Pandora was held. At the Annual General Meeting, all proposals from the shareholders and the Board of Directors were adopted. Following the Annual General Meeting and with due reference to company announcement no. 505, the Board of Directors elected its officers with Peder Tuborgh as chairman and Christian Frigast as deputy chairman.

Reduction of Pandora’s share capital

At the Annual General Meeting on 13 March 2019, it was resolved to reduce the Company’s share capital by a nominal amount of DKK 10,029,003 through cancellation of 10,029,003 treasury shares of DKK 1. The share capital decrease was announced in the Danish Business Authority’s IT-system on 14 March 2019 and the 4-week notification period expired on 12 April with no objections. The Board of Directors therefore resolved to effectuate the share capital reduction on 12 April. After reduction of the share capital, the Company’s share capital is nominally DKK 100,000,000, divided into shares of DKK 1.

As a consequence of the share capital reduction resolved at the Company’s Annual General Meeting on 13 March 2019, which was effectuated 12 April 2019, Pandora now owns less than 5% of the total share capital and the total voting rights in Pandora.

Others

Pandora announced on 13 March that the Chairman of the Board, Peder Tuborgh, has requested the Nomination Committee to initiate preparations during 2019 to appoint his successor as Chairman.

On 23 April 2019, Pandora announced that Blackrock Inc. holds 5,301,957 shares corresponding to 5.3% of the entire share capital and voting rights.

FINANCIAL CALENDAR 2019

20 August 2019	Interim Report for the second quarter/first 6 months 2019
30 August 2019	Ex-dividend date
03 September 2019	Payment of dividend
05 November 2019	Interim Report for the third quarter/first 9 months 2019

CONTACT

CONFERENCE CALL

A conference call for investors and financial analysts will be held today at 11.00 CEST and can be joined online at www.pandoragroup.com. The presentation for the call will be available on the website one hour before the call.

The following numbers can be used by investors and analysts:

DK: +45 35 44 55 83

UK (International): +44 (0) 203 194 0544

US: +1 855 269 2604

ABOUT PANDORA

Pandora designs, manufactures and markets hand-finished and contemporary jewellery made from high-quality materials at affordable prices. Pandora jewellery is sold in more than 100 countries on six continents through more than 7,500 points of sale, including more than 2,700 concept stores.

Founded in 1982 and headquartered in Copenhagen, Denmark, Pandora employs more than 28,000 people worldwide of whom more than 13,000 are located in Thailand, where the Company manufactures its jewellery. PANDORA is publicly listed on the Nasdaq Copenhagen stock exchange in Denmark. In 2018, Pandora's total revenue was DKK 22.8 billion (approximately EUR 3.1 billion).

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FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

DKK million	Notes	Q1 2019	Q1 2018 ¹	FY 2018 ¹
Revenue	3,4	4,804	5,115	22,806
Cost of sales		-1,184	-1,239	-5,864
Gross profit		3,620	3,876	16,942
Sales, distribution and marketing expenses		-2,039	-1,858	-8,222
Administrative expenses		-621	-577	-2,289
Operating profit		960	1,441	6,431
Finance income		132	115	533
Finance costs		-63	-79	-382
Profit before tax		1,028	1,477	6,582
Income tax expense		-231	-318	-1,537
Net profit for the period		797	1,159	5,045
Earnings per share, basic, DKK		7.9	10.6	47.2
Earnings per share, diluted, DKK		7.9	10.5	47.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Q1 2019	Q1 2018	FY 2018
Net profit for the period	797	1,159	5,045
Other comprehensive income:			
Items that may be reclassified to profit/loss for the period			
Exchange rate adjustments of investments in subsidiaries	126	-67	1
Fair value adjustment of hedging instruments	-109	46	56
Tax on other comprehensive income, hedging instruments, income/expense	24	-10	-12
Items that may be reclassified to profit/loss for the period, net of tax	41	-31	45
Items not to be reclassified to profit/loss for the period			
Actuarial gain/loss on defined benefit plans, net of tax	-	-	12
Items not to be reclassified to profit/loss for the period, net of tax	-	-	12
Other comprehensive income, net of tax	41	-31	57
Total comprehensive income for the period	838	1,128	5,102

¹ Comparison figures have not been restated following the implementation of IFRS 16 Leases. Note 1 provide comparison figures according to the old standard.

CONSOLIDATED BALANCE SHEET

DKK million	Notes	2019 31 March	2018 31 March ¹	2018 31 December ¹
ASSETS				
Goodwill	10	4,404	3,536	4,278
Brand		1,057	1,057	1,057
Distribution network		116	146	124
Distribution rights		1,047	1,125	1,047
Other intangible assets		1,018	1,139	1,272
Total intangible assets		7,642	7,003	7,778
Property, plant and equipment		2,669	2,358	2,634
Right-of-use assets	11	4,419	-	-
Deferred tax assets		1,025	858	1,050
Other financial assets		318	307	323
Total non-current assets		16,073	10,526	11,785
Inventories		3,116	2,810	3,158
Trade receivables	8	1,269	1,850	1,650
Right-of-return assets		72	139	94
Derivative financial instruments	6,7	125	213	162
Income tax receivable		155	193	86
Other receivables		781	760	922
Cash		819	723	1,387
Total current assets		6,336	6,688	7,459
Total assets		22,408	17,214	19,244
EQUITY AND LIABILITIES				
Share capital		110	113	110
Treasury shares		-4,348	-2,127	-3,469
Reserves		1,008	891	967
Dividend proposed		-	-	920
Retained earnings		8,699	7,536	7,891
Total equity		5,469	6,413	6,419
Provisions		269	162	279
Loans and borrowings	11	8,766	5,633	6,421
Deferred tax liabilities		425	541	461
Other payables		4	163	172
Total non-current liabilities		9,465	6,499	7,333
Provisions		25	21	28
Refund liabilities		679	676	869
Contract liabilities		68	57	66
Loans and borrowings	11	3,402	449	248
Derivative financial instruments	6,7	152	152	83
Trade payables		1,673	1,349	2,253
Income tax payable		455	348	543
Other payables		1,022	1,250	1,402
Total current liabilities		7,475	4,302	5,492
Total liabilities		16,939	10,801	12,825
Total equity and liabilities		22,408	17,214	19,244

¹Comparison figures have not been restated following the implementation of IFRS 16 Leases. Note 1 provide comparison figures according to the old standard.

Executive summary	Financial highlights	Update on Programme NOW	Commercial review	Profitability	Cash Flow & Balance sheet	Financial guidance	Other events	Contact	Financial statements	Accounting notes
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2019							
Equity at 1 January	110	-3,469	913	54	920	7,891	6,419
Net profit for the period	-	-	-	-	-	797	797
Exchange rate adjustments of investments in subsidiaries	-	-	126	-	-	-	126
Fair value adjustments of hedging instruments	-	-	-	-109	-	-	-109
Tax on other comprehensive income	-	-	-	24	-	-	24
Other comprehensive income, net of tax	-	-	126	-85	-	-	41
Total comprehensive income for the period	-	-	126	-85	-	797	838
Fair value adjustments of obligation to acquire non-controlling interests	-	-	-	-	-	18	18
Share-based payments	-	-	-	-	-	-24	-24
Share-based payments (exercised)	-	13	-	-	-	-13	-
Share-based payments (tax)	-	-	-	-	-	6	6
Purchase of treasury shares	-	-891	-	-	-	-	-891
Dividend paid	-	-	-	-	-920	24	-896
Equity at 31 March	110	-4,348	1,039	-31	-	8,699	5,469
2018							
Equity at 1 January	113	-1,999	912	10	987	6,491	6,514
Net profit for the period	-	-	-	-	-	1,159	1,159
Exchange rate adjustments of investments in subsidiaries	-	-	-67	-	-	-	-67
Fair value adjustments of hedging instruments	-	-	-	46	-	-	46
Tax on other comprehensive income	-	-	-	-10	-	-	-10
Other comprehensive income, net of tax	-	-	-67	36	-	-	-31
Total comprehensive income for the period	-	-	-67	36	-	1,159	1,128
Fair value adjustments of obligation to acquire non-controlling interests	-	-	-	-	-	-31	-31
Share-based payments	-	-	-	-	-	29	29
Share-based payments (exercised)	-	105	-	-	-	-105	-
Share-based payments (tax)	-	-	-	-	-	-8	-8
Purchase of treasury shares	-	-233	-	-	-	-	-233
Dividend paid	-	-	-	-	-987	1	-986
Equity at 31 March	113	-2,127	845	46	-	7,536	6,413

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CONSOLIDATED STATEMENT OF CASH FLOW

DKK million	Notes	Q1 2019	Q1 2018 ¹	FY 2018 ¹
Profit before tax		1,028	1,477	6,582
Finance income		-132	-115	-533
Finance costs		63	79	382
Depreciation and amortisation		514	226	990
Share-based payments		1	29	-31
Change in inventories		249	-95	-18
Change in receivables		589	67	224
Change in payables and other liabilities		-931	-520	762
Other non-cash adjustments		-147	117	59
Interest etc. received		1	1	4
Interest etc. paid		-51	-13	-58
Income taxes paid		-364	-548	-1,739
Cash flows from operating activities, net		823	705	6,624
Acquisitions of subsidiaries and activities, net of cash acquired	9	-135	-99	-1,071
Purchase of intangible assets		-79	-90	-380
Purchase of property, plant and equipment		-165	-177	-727
Change in other non-current assets		36	-17	-23
Proceeds from sale of property, plant and equipment		9	6	10
Cash flows from investing activities, net		-335	-377	-2,191
Acquisitions of non-controlling interests		-254	-	-
Dividend paid		-896	-986	-1,943
Purchase of treasury shares		-891	-233	-3,289
Proceeds from loans and borrowings		2,079	633	4,413
Repayment of loans and borrowings		-851	-1	-3,191
Payment of lease commitments		-262	-	-
Cash flows from financing activities, net		-1,075	-587	-4,010
Net increase/decrease in cash		-587	-259	423
Cash at beginning of period ²		1,387	993	993
Exchange gains/losses on cash		19	-11	-29
Net increase/decrease in cash		-587	-259	423
Cash at end of period²		819	723	1,387
Cash flows from operating activities, net		823	705	6,624
- Interests etc. received		-1	-1	-4
- Interests etc. paid		51	13	58
Cash flows from investing activities, net		-335	-377	-2,191
- Acquisition of subsidiaries and activities, net of cash acquired		135	99	1,071
Free cash flow		673	439	5,558
Unutilised credit facilities		2,753	2,512	1,833

¹Comparison figures have not been restated following the implementation of IFRS 16 Leases. Note 1 provide comparison figures according to the old standard.

²Cash comprises cash at bank and in hand.

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

ACCOUNTING NOTES

NOTE 1 – Accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as endorsed by the European Union and consistent with the accounting policies set out in the Annual Report 2018, except for the adoption of new standards effective as of 1 January 2019 as described below.

Furthermore, the condensed consolidated interim financial statements and Management’s review are prepared in accordance with additional requirements in the Danish Financial Statements Act.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals and percentages may not precisely reflect the absolute figures.

Pandora presents financial measures in the interim report that are not defined according to IFRS. Pandora believes that these non-GAAP measures provide valuable information to investors and Pandora’s management when evaluating performance. Since other companies might calculate these differently from Pandora, they may not be comparable to the measures used by other companies. These financial measures should therefore not be considered a replacement for measures defined under IFRS. For definitions of other alternative performance measures used by Pandora which are not defined by IFRS, refer to note 5.6 in the consolidated financial statement in the Annual Report 2018.

New standards, interpretations and amendments adopted by Pandora

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 2019. Except for the implementation of IFRS 16 Leases described below, the implementation of new or amended standards and interpretations has not had any material impact on Pandora’s condensed consolidated interim financial statements.

Effect of IFRS 16 Leases

Pandora has implemented IFRS 16 Leases effective for the annual reporting period beginning 1 January 2019. Pandora has applied the simplified retrospective transition approach without restating comparative figures, which are still presented as previously required by IAS 17 and IFRIC 4.

Pandora has elected to use the following exemptions proposed by the standard:

- Not to reconsider if existing contracts are, or include, a lease
- Not to recognise lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value
- Apply only one discount rate for a group of similar lease assets

Pandora recognises all operating leases – with the few exemptions listed above – on the balance sheet as assets with a corresponding lease liability. The lease liability is equal to the discounted value of all futures lease payments. The lease assets, right of use assets, corresponds to the lease liability adjusted by the amount of any prepaid or accrued lease payments recognised in the statement of financial position immediately before the date of initial application.

When reviewing the lease payments, only those related to lease components have been included if fixed or variable, but pending on an index or rate. Payments relating to services are not included in the right of use asset.

Payments related to short-term leases and leases of low-value assets continue to be recognised on a straight-line basis as an expense in income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise some IT-equipment and other office equipment.

When assessing the life of the leases, the Group considers the non-cancellable lease term and options to extend the lease where Pandora is reasonably certain to extend. Leases in Pandora mainly comprise stores, office buildings, cars, IT and other office equipment. Usual lease contracts on stores average 5 years with a 3-5 year option to extend in approximately 30% of the current contracts. The lease period of stores is assessed to be up to 10 years depending on an internal store rating considering the location, revenue and earnings. For office buildings the contract is usually 5 – 15 years. For other assets the life is equal to the non-cancellable lease period and extensions are not considered for these. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities are measured as the present value of the remaining lease payments, discounted using Pandoras incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3-4%. Lease payments are allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

DKK million	Leases
Operating lease commitments as disclosed as at 31 December 2018	3,843
Discounted using the incremental borrowing rate	-345
Short term and low value leases, recognised on a straight line basis as an expense	-10
Lease payments relating to extension options that Pandora is reasonably certain to exercise	915
Lease liabilities reported as of 1 January 2019	4,403

Cash flows relating to the lease liability are presented as either interest payments under operating cash flow or repayment of debt under financing cash flow.

When recognising the right of use assets as part of the implementation, prepaid or accrued lease payments and key money paid to obtain a lease have been reclassified to the right of use asset. The effect on the balance sheet from the implementation is illustrated below.

Table 1.1: Effect from implementation of IFRS 16:

DKK million	Reported 31 December 2018	IFRS 16 effect	Restated 1 January 2019
ASSETS			
Non-current assets			
Intangible assets	7,778	-245	7,533
Property, plant and equipment, including right of use assets	2,634	4,562	7,196
Other non-current assets	1,373	23	1,396
Total non-current assets	11,785	4,340	16,125
Current assets	7,459	-41	7,418
Total assets	19,244	4,299	23,543
EQUITY AND LIABILITIES			
Total equity	6,419	-	6,419
Non-current liabilities			
Loans and borrowings	6,421	3,322	9,743
Other non-current liabilities	912	-105	807
Total non-current liabilities	7,333	3,217	10,550
Current liabilities			
Loans and borrowings	248	1,082	1,330
Other current liabilities	5,244	-	5,244
Total current liabilities	5,492	1,082	6,574
Total equity and liabilities	19,244	4,299	23,543

Impact on reported key figures and comparison to previous reporting:

Below is a short overview of the results for the period had the new leasing standard not been implemented as of 1 January 2019.

CONSOLIDATED INCOME STATEMENT

DKK million	Q1 2019 reported	Q1 2019 Acc. IAS 17
Revenue	4,804	4,804
Cost of sales	-1,184	-1,184
Gross profit	3,620	3,620
Sales, distribution and marketing expenses	-2,039	-2,063
Administrative expenses	-621	-624
Operating profit	960	933
Finance income	132	132
Finance costs	-63	-37
Profit before tax	1,028	1,028
Income tax expense	-231	-231
Net profit for the period	797	797
Depreciation on right of use assets	-277	-
EBITDA	1,474	1,170
EBITDA margin, %	30.7%	24.4%
EBIT	960	933
EBIT margin, %	20.0%	19.4%
Repayment for the period	262	-
Free cash flow, adjusted for repayment of lease liability	673	411
Invested capital	16,919	12,454
Return on invested capital (ROIC), %	35.2%	47.6%
Net interest-bearing debt (NIBD)	11,450	7,197
EBITDA/NIBD, x	1.4x	1.0x

All other new or amended standards and interpretations not yet effective are not expected to have a material impact on Pandora's Annual Report 2019.

NOTE 2 – Significant accounting estimates and judgements

In preparing the interim financial report, Management makes various accounting estimates and assumptions, which form the basis of presentation, recognition and measurement of Pandora's assets and liabilities.

All significant accounting estimates and judgements are consistent with the description in the Annual Report 2018. Refer to the descriptions in the individual notes to the consolidated financial statement in the Annual Report 2018.

With the implementation of the new lease standard described in note 1, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option when determining the lease term of stores and office buildings. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. No contracts were revised during Q1 2019.

NOTE 3 – Segment information

Pandora’s activities are segmented based on geographical areas in accordance with the management reporting structure. The operating segments of the Group are divided into 3 operating segments: EMEA, Americas and Asia Pacific. Each operating segment comprises wholesale, retail and e-commerce business activities relating to the distribution and sale of Pandora products.

As announced in the Annual Report for 2018, the Group has chosen to measure performance going forward (from 1 January 2019) based on EBIT rather than EBITDA.

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 EBIT, corresponding to ‘operating profit’ in the consolidated financial statements after depreciation, amortisation and impairment losses in respect of non-current assets.

As Programme NOW restructuring costs cannot be meaningfully allocated to the segments, the segment performance is measured and reported excluding restructuring costs.

For information on revenue from the different products and sales channels reference is made to note 4.

SEGMENT INFORMATION

DKK million	EMEA	Americas	Asia Pacific	Total Group
Q1 2019				
Total revenue	2,245	1,439	1,120	4,804
Segment profit (EBIT) before restructuring costs	495	334	254	1,083
Segment profit margin (EBIT margin) before restructuring costs	22.0%	23.2%	22.6%	22.5%
Restructuring costs				-122
Consolidated operating profit (EBIT)				960
Segment profit margin (EBIT margin)				20.0%
Q1 2018				
Total revenue	2,534	1,422	1,159	5,115
Segment profit (EBIT) before restructuring costs	712	329	400	1,441
Segment profit margin (EBIT margin) before restructuring costs	28.1%	23.1%	34.5%	28.2%
Restructuring costs				-
Consolidated operating profit (EBIT)				1,441
Segment profit margin (EBIT margin)				28.2%

REVENUE DEVELOPMENT IN PANDORA'S 7 LARGEST MARKETS (BASED ON FY 2018 REVENUE)

DKK million	Q1 2019	Q1 2018	Growth in local currency	FY 2018
UK	579	534	7%	2,746
Italy	443	606	-27%	2,461
France	225	276	-18%	1,253
Germany	188	234	-20%	1,041
US	977	1,018	-12%	4,880
Australia	237	311	-22%	1,361
China	548	467	15%	1,969

NOTE 4 – Revenue from contracts with customers

REVENUE BY SALES CHANNEL

DKK million	Q1 2019	Q1 2018	Growth in local currency	FY 2018
Pandora owned retail*	3,061	2,592	16%	12,895
Wholesale	1,503	2,178	-34%	8,633
Third-party distribution	239	345	-32%	1,278
Total revenue	4,804	5,115	-8%	22,806

*Including revenue from Pandora eSTORES

REVENUE BY REGION

DKK million	Q1 2019	Q1 2018	Growth in local currency	FY 2018
EMEA	2,245	2,534	-11%	11,190
Americas	1,439	1,422	-5%	6,807
Asia Pacific	1,120	1,159	-6%	4,809
Total revenue	4,804	5,115	-8%	22,806

REVENUE BY PRODUCT CATEGORY

DKK million	Q1 2019	Q1 2018	Growth in local currency	FY 2018
Charms	2,434	2,854	-17%	12,126
Bracelets	893	891	-2%	4,393
Rings	762	736	1%	3,168
Earrings	335	309	6%	1,486
Necklaces & Pendants	380	325	14%	1,633
Total revenue¹	4,804	5,115	-8%	22,806

Goods transferred at a point in time 4,790 5,093 22,707

Services transferred over time 14 22 99

Total revenue 4,804 5,115 22,806

¹ Figures include franchise fees etc., which are allocated to the product categories. Q1 2019 DKK 17 million, Q1 2018 DKK 23 million and FY 2018 DKK 103 million.

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

NOTE 5 – Seasonality of operations

Due to the seasonal nature of the jewellery business, higher revenue is historically realised in the second half of the year.

NOTE 6 – Financial risks

Pandora’s overall risk exposure and financial risks, including risks related to commodity prices, foreign currency, credit, liquidity and interest rate, are unchanged compared with the disclosures in note 4.4 in the consolidated financial statement in the Annual Report 2018.

NOTE 7 – Derivative financial instruments

Derivative financial instruments are measured at fair value and in accordance with level 2 in the fair value hierarchy (IFRS 7). 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 approved budgets.

See note 4.5 to the consolidated financial statement in the Annual Report 2018.

NOTE 8 – Trade receivables

DKK million	2019 31 March	2018 31 March
Receivables related to third-party distribution and wholesale	925	1,626
Receivables related to retail revenue sales	344	224
Total trade receivables	1,269	1,850

NOTE 9 – Business combinations

On 1 January 2019, Pandora acquired the distribution in Taiwan in an asset deal from the previous distributor, Carrera Corporation, as the distribution agreement ended. The acquisition comprised of inventories and non-current assets relating to five concept stores and 13 shop-in-shops. The purchase price was DKK 94 million of which DKK 89 million was paid in cash. DKK 5 million, was deferred 6 months. Goodwill from the acquisition based on the preliminary purchase price allocation is DKK 50 million. All goodwill is expected to be deductible for income tax purposes. Goodwill mainly consists of know-how, future growth expectations and the effect of converting the acquired business from distribution to Pandora owned retail.

Pandora further acquired 10 stores in the period 1 January – 31 March 2019 (eight concept stores in Italy and two in Germany) in 4 business combinations. Net assets acquired mainly consists of inventory and other non-current assets and liabilities relating to the stores.

The total purchase price for acquisitions made in the period 1 January – 31 March 2019 was DKK 128 million. Based on the purchase price allocations, goodwill was DKK 57 million. Goodwill from the acquisitions is mainly related to the synergies from converting the stores from wholesale to Pandora owned retail.

Of the goodwill acquired, DKK 57 million is deductible for income tax purposes. Costs relating to the acquisitions was DKK 2 million and is recognised as operating expenses in the income statement. Contribution to Group revenue and net earnings from acquisitions for the period 1 January – 31 March 2019 was immaterial.

Had all acquisitions in 2019 taken place on 1 January 2019, impact on Group revenue and net earnings for the period 1 January – 31 March 2019 would have been equally immaterial.

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

Acquisitions

DKK million	Q1 2019	FY 2018
Other intangible assets	-	26
Property, plant and equipment	11	109
Other non-current receivables	-	2
Trade receivables and other receivables	-	38
Inventories	61	302
Cash	-	4
Assets acquired	72	481
Non-current liabilities	-	23
Payables	-	31
Other current liabilities	1	58
Liabilities assumed	1	112
Total identifiable net assets acquired	71	369
Goodwill arising on the acquisitions	57	739
Purchase consideration	128	1,108
Cash movements on acquisitions:		
Consideration transferred regarding previous years ¹	12	2
Deferred payment (including earn-out) ²	-5	-35
Cash acquired	-	-4
Net cash flow on acquisitions	135	1,071

¹ Consideration paid related to acquisitions in 2018 was final payment for acquired stores in UK. The amount paid in 2019 was DKK 12 million.

² For 2018, the deferred payment relates to the acquisition of the distributor in Ireland, DKK 22 million, and store acquisitions in UK and Italy. For 2019, the deferred payment is related to the acquisition of the distribution in Taiwan, DKK 5 million.

Acquisitions in 2018

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

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

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

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

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

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

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

Acquisitions after the reporting period

No acquisitions took place after the reporting period.

NOTE 10 – Goodwill

DKK million	31 March 2019	31 March 2018
Cost at 1 January	4,278	3,522
Acquisition of subsidiaries and activities in the period	57	64
Exchange rate adjustments	69	-50
Cost at the end of the period	4,404	3,536

Impairment testing of goodwill is performed in Q1 2019. As of Q1 2019 there are no indications of impairment.

NOTE 11 – Assets and liabilities related to leases

Amount recognised in the balance sheet:

Right of use assets

DKK million	31 March 2019
Property	4,390
IT	1
Cars	23
Other	5
Total right- of-use assets	4,419

Additions of right of use assets in the period 1 January – 31 March 2019 was DKK 80 million.

Lease liabilities

DKK million	31 March 2019
Non-current	3,184
Current	1,069
Total lease liabilities	4,253

Lease liabilities are recognised in Loans and borrowings.

Amounts recognised in the income statement

Recognised depreciation on right of use assets charged to the income statement for the period 1 January – 31 March:

DKK million	1 January – 31 March 2019
Property	273
IT	-
Cars	3
Other	1
Total depreciation on right of use assets for the period	277

Other Items relating to leases:

DKK million	1 January – 31 March 2019
Interest income from sub-leases	-
Interest expense	-27
Total interest for the period	-27

Costs recognised in the period for short term and low value leases were DKK 10 million. Expenses are recognised on a straight line basis.

Expenses related to variable leases were DKK 101 million for the period. These are not included in the lease liability.

Total cash outflow relating to lease was DKK 262 million for the period.

NOTE 12 – Contingent liabilities

Reference is made to note 5.1 to the consolidated financial statements in the Annual Report 2018. Compared with Q4 2018, leasing commitments decreased by DKK 3,837 million in Q1 2019 to DKK 6 million at the end of Q1 2019 as almost all leases following the implementation of IFRS 16 (see note 1) are recognised in the balance sheet.

NOTE 13 – Related parties

Related parties with significant interests

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

Transactions with related parties

Pandora did not enter any significant transactions with members of the Board or the Executive Management, except for compensation and benefits received because of their membership of the Board, employment with Pandora or shareholdings in Pandora.

NOTE 14 – STORE NETWORK, OTHER POINTS OF SALE DEVELOPMENT

	Q1 2019	Q4 2018	Q1 2018	Growth Q1 2019 / Q4 2018	Growth Q1 2019 / Q1 2018
Other points of sale (retail)	195	183	149	12	46
Other points of sale (wholesale)	3,982	4,158	4,416	-176	-434
Other points of sale (third-party)	668	682	668	-14	-
Other points of sale, total	4,845	5,023	5,233	-178	-388

NOTE 15 – STORE NETWORK, CONCEPT STORE DEVELOPMENT*

	Total concept stores					O&O concept stores		
	Number	Number	Number	Growth	Growth	Number	Growth	Growth
	of concept	of concept	of concept	Q1 2019	Q1 2019	of concept	O&O stores	O&O
	stores	stores	stores	/Q4 2018	/Q1 2018	stores	Q1 2019	stores
	Q1 2019	Q4 2018	Q1 2018			O&O	/Q4 2018	Q1 2019
UK	233	236	233	-3	-	126	-	81
Italy	143	138	116	5	27	102	9	32
France	120	120	98	-	22	74	1	27
Germany	152	153	152	-1	-	146	1	3
US	399	397	380	2	19	154	-	37
Australia	127	127	124	-	3	36	-	9
China	220	210	171	10	49	213	10	48
All markets	2,713	2,705	2,485	8	228	1,364	24	342

*Includes 7 key markets measured on revenue for FY 2018. All markets with 10 or more concept stores can be found in the Excel appendix.

NOTE 16 – Commodity hedging

It is Pandora’s policy to hedge 70% of the Group’s expected consumption, based on a rolling 12-months production plan.

HEDGED AND REALISED PURCHASE PRICES

USD / OZ	Realised in Q1 2019	Hedged Q2 2019	Hedged Q3 2019	Hedged Q4 2019	Hedged Q1 2020
Gold price	1,338	1,249	1,232	1,315	1,309
Silver price	16.70	15.94	15.00	15.42	15.41
Commodity hedge ratio (target), %	Realised	90-100%	70-90%	50-70%	30-50%

To increase certainty and visibility on the profitability for 2019, Pandora has decided to hedge 100% of expected silver related costs for 2019. The targeted hedge ratios are unchanged except for silver in 2019.

Excluding hedging and the time lag effect from the inventory, the underlying gross margin would have been approximately 75.9% based on the average gold (USD 1,304/oz) and silver (USD 15.57/oz) market prices in Q1 2019. Under these assumptions, a 10% deviation in quarterly average gold and silver prices would impact our gross margin by approximately +/- 1 percentage point.

NOTE 17 – Subsequent events

Other than as described in “Other events” in the Management review, Pandora is not aware of events after 31 March 2019, which are expected to materially impact the Group’s financial position.

QUARTERLY OVERVIEW

DKK million	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Key financial highlights					
Organic growth, %	-12%	-1%	-8%	-2%	0%
Total like-for-like sales out, %	-10%	-7%	-3%	-1%	-5%
Total reported revenue	4,804	7,890	4,982	4,819	5,115
Total reported revenue growth, local currency, %	-8%	3%	-3%	4%	6%
Gross profit excl. restructuring costs	3,645	5,826	3,602	3,638	3,876
Gross margin excl. restructuring costs, %	75.9%	73.8%	72.3%	75.5%	75.8%
EBIT excl. restructuring costs	1,083	2,528	1,196	1,266	1,441
EBIT margin excl. restructuring costs, %	22.5%	32.0%	24.0%	26.3%	28.2%
Free cash flow, DKK	673	2,911	1,059	1,149	439
Cash conversion, %	70.1%	115.2%	88.5%	90.8%	30.5%
Operating working capital, % of last 12 months revenue	12.1%	11.2%	16.4%	13.8%	14.6%
Capital expenditure (CAPEX), DKK million	178	324	265	296	244
Capital expenditure, tangible assets (CAPEX), DKK million	108	227	168	197	161
Other financial highlights					
Consolidated income statement					
Revenue	4,804	7,890	4,982	4,819	5,115
Gross profit	3,620	5,826	3,602	3,638	3,876
<i>Gross margin, %</i>	<i>75.4%</i>	<i>73.8%</i>	<i>72.3%</i>	<i>75.5%</i>	<i>75.8%</i>
Earnings before interests, tax, depreciations and amortisations (EBITDA)	1,474	2,813	1,445	1,496	1,667
<i>EBITDA margin, %</i>	<i>30.7%</i>	<i>35.7%</i>	<i>29.0%</i>	<i>31.1%</i>	<i>32.6%</i>
Operating profit (EBIT)	960	2,528	1,196	1,266	1,441
<i>EBIT margin, %</i>	<i>20.0%</i>	<i>32.0%</i>	<i>24.0%</i>	<i>26.3%</i>	<i>28.2%</i>
Net financials	68	10	24	81	36
Net profit for the period	797	1,891	951	1,044	1,159
Consolidated balance sheet					
Total assets	22,408	19,244	19,530	17,584	17,214
Invested capital	16,919	12,071	12,802	12,451	12,189
Operating working capital	2,712	2,555	3,696	3,134	3,311
Net interest-bearing debt (NIBD)	11,450	5,652	7,535	6,190	5,776
Equity	5,469	6,419	5,267	6,260	6,413
Ratios					
Revenue growth, %	-6%	4%	-4%	0%	-1%
Effective tax rate, %	22.5%	25.5%	22.0%	22.5%	21.5%
Equity ratio, %	24.4%	33.4%	27.0%	35.6%	37.3%
NIBD to EBITDA ¹ , x	1.4x	0.8x	1.0x	0.8x	0.7x
Return on invested capital (ROIC) ¹ , %	35.2%	53.3%	52.5%	58.8%	61.6%
Total payout ratio (incl. share buyback), %	224.2%	54.4%	198.8%	104.6%	105.3%

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

MANAGEMENT STATEMENT

The Board and the Executive Management have reviewed and approved the interim financial report of Pandora A/S for the period 1 January – 31 March 2019.

The consolidated interim financial statement, which has not been audited or reviewed by the Company’s auditor, has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’, as adopted by the EU, and additional requirements in the Danish Financial Statements Act.

It is our opinion that the consolidated interim financial statement gives a true and fair view of the financial position for the Pandora Group at 31 March 2019 and the results of the Pandora Group’s operations and cash flow for the period 1 January – 31 March 2019.

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

Copenhagen, 7 May 2019

EXECUTIVE MANAGEMENT

Alexander Lacik
Chief Executive Officer

Anders Boyer
Chief Financial Officer

BOARD

Peder Tuborgh
Chairman

Christian Frigast
Deputy Chairman

Andrea Alvey

Birgitta Stymne Göransson

Isabelle Parize

Per Bank

Ronica Wang

Sir John Peace

DISCLAIMER

This company announcement 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.

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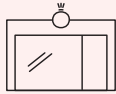
An Ethical Brand with a Big Heart

Pandora

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



~32,000
PEOPLE GLOBALLY

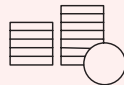


7,700
POINTS OF SALE
>2,700 of these are
PANDORA concept stores



112
MILLION
PIECES OF JEWELLERY
CRAFTED

That equates to more than
13,000 pieces every hour
of every day



DKK 22.8
BILLION
IN REVENUE

People

We want to provide a proper environment for our people



OUR CRAFTING
FACILITIES
IN THAILAND



272,000

E-LEARNING MODULES
COMPLETED

That is almost 800 modules
every day in 2018



+13

SCHOOLS HAVE BEEN
RENOVATED

Every year since 2006,
My School Project has enabled a
Pandora colleague in Thailand to give
back to their local community

Product

We want to craft our hand-finished products with integrity



30
PAIRS OF HANDS
on average contribute to creating
one piece of jewellery

8 out of 10
WOMEN KNOW PANDORA
IN KEY MARKETS



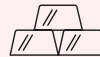
1.7
BILLION
STONES SPARKLING ON
OUR JEWELLERY
The vast majority are man-made stones,
which often exhibit the same basic
crystal structure as natural stones



100%
CERTIFIED
silver and gold grain suppliers

Planet

We want to minimise our environmental impact



95%
ENVIRONMENTAL SAVING
for every kg of recycled gold used

95%
ENVIRONMENTAL SAVING
for every kg of recycled silver used



99%
ENVIRONMENTAL SAVING
for every kg of cubic zirconia
used compared to mined diamonds



100%
PAPER BAGS &
GIFT WRAPPING PAPER
originate from wood from
sustainable forestry



89%
OF WASTE
was recycled at our
crafting facilities

88%
RECYCLED SILVER GRAINS

100%
RECYCLED GOLD GRAINS



PANDÖRA

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