# 2010 ANNUAL REPORT

PANDORA
UNFORGETTABLE MOMENTS

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# A STORY WORTH SHARING

The PANDORA story has been peppered with unforgettable moments. In 2010, we added a few more to an already remarkable company history, each designed to ensure we are well placed to enter our next phase of growth with the capabilities and resources essential for our continued success.

Our reshaped Board of Directors has, within it, a complementary mix of skills, expertise and global business experience. We have added similar talent to our management team at our new headquarters and across our global business units, all the time seeking to secure that perfect blend of continuity and additional skills that will take PANDORA forward.

Last year, we took another step towards realising our vision of becoming the world's most recognised jewellery brand. We acquired full ownership of two key former distributor markets, Central Western Europe and Australia, while taking a tailored approach to entering new markets – alone or with close partners where it makes sense. Thereby further unifying the ownership of the PANDORA brand, ensuring that we deliver a consistent brand experience across our more than 10,000 points of sale.

Our investment in two new factories in Thailand, bringing our total to four, is a clear signal of our ambition for future sales and, in turn, allowed us to welcome over 1,000 new, highly skilled Thai employees to the PANDORA family. And a similar number of new colleagues elsewhere around the globe.

While delivering growth from our existing products and markets, we have taken action to expand both of these growth venues, by entering new markets such as Italy, Russia and China, and by launching our first range of PANDORA watches.

Also in 2010, PANDORA entered the NASDAQ OMX Copenhagen after a successful Initial Public Offering of shares in the company. Although a key point in the company's history, the stock market flotation merely marks the beginning of a new chapter in our story.

We are proud of these achievements made by the PANDORA organisation and our partners. Not least against the backdrop of a downturn in the global economy and financial challenges for many of the markets where we do business.

One thing is for sure, our ethos has not changed. We still believe that providing our customers with high-quality, hand-finished, modern jewellery - made from genuine materials, and at prices they can afford - is the soundest way to ensure that our cherished customers stay with us.

We also believe that there is something truly special about PANDORA and our product concepts. You only have to glance at the conversations that take place every day on our Facebook page to realise that.

What this company represents is a perfect match between an organisation that understands its customers and knows what they expect from us, and a product range that elicits trust and intimacy from customers in return.

At the heart of all of this is our brand – a brand based on the concept of unforgettable moments. We all have them, to each of us they are unique, special. Yet they also represent stories worth sharing, and PANDORA allows our customers to do just that.

As we plan the next chapter in our history, this will remain at the core of our thinking. And, although the company is evolving, it is remaining true to its simple beginnings too – entrepreneurial yet professional; creative and global, using our intimate customer insights to create new products that have worldwide appeal.

Our customers' stories, our success so far, our plans for the future – they all have one thing in common. It's all about people, and we never forget that. As we will never forget our heritage. The unique driving forces of the founding fathers of PANDORA, with the founder Per Enevoldsen as a leading example to us all. Per, who under a planned retirement has now passed his daily responsibility on to a new generation but who will fortunately still be actively involved at local Board level in PANDORA Thailand.

Allan Leighton
*Chairman*

Mikkel Vendelin Olesen
*Chief Executive Officer*

# FINANCIAL HIGHLIGHTS

| DKK million | 2010 | 2009 | 2008 12 months adjusted * | 2008 |
|---|---|---|---|---|
| **Consolidated income statement** | | | | |
| Revenue | 6,666 | 3,461 | 1,904 | 1,658 |
| EBITDA | 2,684 | 1,572 | 778 | 666 |
| Operating profit (EBIT) | 2,416 | 1,424 | 738 | 633 |
| Net financial income and expenses | -164 | -235 | | -217 |
| Profit before tax | 2,252 | 1,189 | 496 | 416 |
| **Net Profit** | **1,871** | **1,005** | **356** | **306** |
| **Consolidated balance sheet** | | | | |
| Total assets | 8,959 | 5,816 | | 4,282 |
| Invested capital | 5,659 | 3,826 | | 3,115 |
| Net working capital | 1,266 | 547 | | 267 |
| Shareholders equity | 4,315 | 1,649 | | 428 |
| Net interest-bearing debt | 1,102 | 2,151 | | 2,688 |
| Net interest-bearing debt excl. subordinated loan from parent company | 1,102 | 751 | | 1,372 |
| **Consolidated cash flow statement** | | | | |
| Net cash flow from operating activities | 1,316 | 1,066 | | 393 |
| Net cash flow from investing activities | -304 | -207 | | -2,972 |
| Free cash flow | 1,388 | 1,144 | | 492 |
| Cash flow from financing activities | -644 | -343 | | 2.889 |
| **Net cash flow for the year** | **368** | **516** | | **304** |
| **Ratios** | | | | |
| Revenue growth, % | 92.6% | 81.8% | | |
| EBITDA growth, % | 70.7% | 102.1% | | |
| EBIT growth, % | 69.7% | 93.0% | | |
| Net profit growth, % | 86.2% | 182.3% | | |
| EBITDA margin, % | 40.3% | 45.4% | 40.9% | 40.2% |
| EBIT margin, % | 36.2% | 41.1% | 38.8% | 38.2% |
| Cash conversion, % | 74.2% | 113.8% | | 160.6% |
| Net interest-bearing debt to EBITDA | 0.4 | 1.4 | | 4,0 |
| Equity ratio, % | 48.2% | 28.4% | | 10.0% |
| ROIC, % | 42.7% | 37.2% | | 20.3% |
| **Other key figures** | | | | |
| Average number of employees | 4,336 | 2,337 | | 1,288 |
| Dividend per share, DKK (proposed) | 5 | - | | - |
| Earnings per share, basic | 15 | 8 | | - |
| Share price at year-end | 336 | - | | - |

Key figures and financial ratios are defined and calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, 'Recommendations and Financial Ratios 2010'. Please refer to note 27.

* The Group structure below PANDORA A/S originates from transactions taking place on 7 March 2008 whereby PANDORA A/S acquired the PANDORA activities in Denmark, Thailand, the United States and Canada from the former shareholders of these entities. Before this date PANDORA A/S was a dormant company. The operations of the acquired entities have been consolidated into the financial statements of PANDORA A/S since 7 March 2008 only. As a result, the audited financial statements for 2008 reflect only approximately 10 months of results of operations beginning on 7 March 2008 to 31 December 2008. The 2008 (12 months adjusted) figures reflect certain hypothetical key financial figures as if the acquisitions had taken place on 1 January 2008, i.e. on a 12 months basis.

# MANAGEMENT'S REVIEW

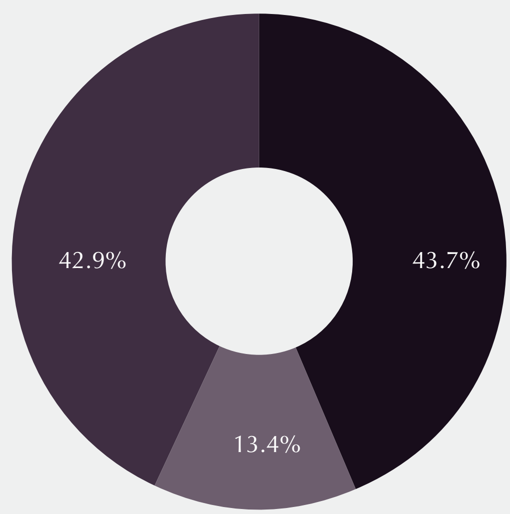
## FINANCIAL HIGHLIGHTS 2010

In 2010, PANDORA experienced strong growth in both revenue and EBITDA. The growth resulted from increasing demand for PANDORA's products in established markets, expansion into new markets and structural changes as described in the section on key events in 2010. Due to the structural changes in 2009 and 2010, direct comparison between the two periods is not necessarily meaningful or indicative of future growth. Please refer to the financial review for a more detailed discussion on drivers behind the development in figures.

- Total revenue was DKK 6,666 million in 2010 compared to DKK 3,461 million in 2009, a growth of 92.6%.
- The geographical distribution of revenue in 2010 was 43.7% for the Americas, 42.9% for Europe, and 13.4% for Asia Pacific.
- Gross margin was 70.9% in 2010, slightly below the gross margin of 71.4% in 2009. EBITDA was DKK 2,684 million in 2010 compared to DKK 1,572 million in 2009, resulting in an EBITDA margin of 40.3% in 2010 and a growth in EBITDA of 70.7%.
- EBIT was DKK 2,416 million in 2010 compared to an EBIT of DKK 1,424 million in 2009, resulting in an EBIT margin of 36.2% in 2010 and a growth in EBIT of 69.7%.
- Profit before tax was DKK 2,252 million in 2010, an increase of 89.4% from DKK 1,189 million in 2009.
- Net profit increased by 86.2% to DKK 1,871 million in 2010 from DKK 1,005 million in 2009.

**REVENUE GEOGRAPHIC**

| | |
|---|---|
| Americas | 43.7% |
| Europe | 42.9% |
| Asia Pacific | 13.4% |




- In 2010, PANDORA invested DKK 210 million in our business (excl. acquisitions of minority interests in distribution companies) corresponding to 3.2% of revenue. Furthermore, investments of DKK 593 million were made related to acquisitions of minority interests in distribution companies.
- In 2010, free cash flow was DKK 1,388 million compared to DKK 1,144 million in 2009. Cash conversion was 74.2% in 2010 compared to 113.8% in 2009.

## FINANCIAL OUTLOOK FOR 2011

For 2011, PANDORA expects a revenue increase of no less than 25% and an EBITDA margin of minimum 40%.

We expect CAPEX to account for approximately 3% of total Group revenue and the effective tax rate to be approximately 18%.

## KEY EVENTS IN 2010

**Initial public offering**

On 5 October, PANDORA announced an offer price of DKK 210 per share for its Initial Public Offering of new and existing shares corresponding to a market capitalisation of DKK 27 billion. Admission to trading and official listing on NASDAQ OMX Copenhagen also took place on 5 October, under the symbol "PNDORA".

2,857,142 new shares were issued by PANDORA, raising gross proceeds of approximately DKK 600 million, 44,552,785 existing shares were sold by Prometheus Invest ApS, and an overallotment option of additional 6,682,917 existing shares at the offer price, granted by the selling shareholder, was fully exercised.

After the exercise of the overallotment option on 8 October, the total offering amounted to DKK 11,359 million.

The free float, representing the proportion of the share capital held by new investors, was 42.6% after exercise of overallotment option and exercise of warrants, and the number of shares was 130,143,258.

In addition, PANDORA has purchased 190,476 treasury shares for DKK 40 million for the purpose of PANDORA's long-term incentive program.

**Major structural changes**

*PANDORA Jewelry Central Western Europe*

In January 2010, PANDORA formed PANDORA Jewelry Central Western Europe A/S (" PANDORA CWE") together with the former independent German distributor.

The former German distributor transferred its exclusive distribution rights for PANDORA products in Germany, Austria, Switzerland and PANDORA transferred the exclusive distribution rights in the Netherlands and Italy, the latter being a new market, and granted an extension of the rights for the German, Austrian and Swiss markets to PANDORA CWE. At the time of formation of this new entity PANDORA owned 51% of PANDORA CWE.

In connection with the Initial Public Offering PANDORA exercised the call option to buy out the non-controlling interest in PANDORA CWE. The purchase price is based on an earn-out model, currently estimated at a total net present value of DKK 883 million, of which DKK 385 million was paid in connection with the Initial Public Offering. The remaining part of the earn-out payment is to be settled in 2015.

*Ad Astra Holding (PANDORA Australia)*

In connection with the Initial Public Offering PANDORA exercised the call option to buy out the non controlling interest in Ad Astra Holdings Pty Ltd. (PANDORA Australia) and purchased the remaining 40% of the shares for AUD 40 million (DKK 200 million).

**Establishment of direct distribution in France from the second half of 2011**

On 22 December 2010, PANDORA terminated the distribution agreement with the existing distributor in France with a six months' notice whereby the agreement will terminate on 30 June 2011.

PANDORA will start direct distribution in France from the second half of 2011 through a wholly owned French subsidiary. Until the end of June 2011, PANDORA will continue to market its jewellery on the French market through the existing distributor.

**Expansion of production capacity**

We currently produce almost all of our jewellery products in-house. As of end 2009, we operated two in-house production facilities located in Gemopolis, a jewellery business zone outside of Bangkok, Thailand. In the first quarter of 2010, we opened a third production facility in Gemopolis, and a fourth facility in Gemopolis became operational in November 2010.

In June 2010, the construction began of a fifth production facility, which is expected to become operational late in Q4 2011.

**New products**

In October 2010, PANDORA launched watches in selected PANDORA branded sales channels in most markets. The watches are produced to a standard that allows them to be labelled as "Swiss made". The watches generally use sapphire glass and all are including a black diamond. The "Create & Combine" concepts are maintained through interchangeable bezels and bands in certain models. A range of styles are offered, three of which come with interchangeable options. The prices of our watches are accessible to a broad range of end-consumers while at the same time reflecting a product of high quality. The target group is the existing PANDORA consumers.

**Expansion into new geographical markets**

PANDORA entered and prepared entrance into a number of new markets during 2010, some of which having significant market potential, especially Italy, China, Russia and Japan. Please refer to the section "Tailor approach to new geographical markets" in the section on development in key strategic objectives.

**Tax exemptions in Thailand**

In recognition of PANDORA's high level of investments in Thailand, the Thailand Board of Investment has granted PANDORA an eight-year extension of the company's current tax exemptions in Thailand.

PANDORA benefits from certain tax based incentives, tax exemptions and tariff exemptions granted, subject to certain conditions, by the Thailand Board of Investment under the Thai Investment Promotion Act B.E. 2520 to our Thai production subsidiary, PANDORA Production Co., Ltd.

These concessions include exemptions from Thai income tax assessed on PANDORA Production Co., Ltd. and on dividends paid by PANDORA Production Co., Ltd. to its shareholders until August 2012, as well as exemptions from import duties paid on certain machinery and raw materials imported into Thailand.

With the Thailand Board of Investment's new decision, PANDORA expects the extended tax exemptions period to run into the fourth quarter of 2019.

**Refinancing**

In February 2010, PANDORA completed a refinancing through borrowing of DKK 2,200 million under a new senior facility agreement. The proceeds were used to repay existing credit facilities, to repay the subordinated loan from the parent company, Prometheus Invest ApS, to pay related fees and expenses and to pay DKK 200 million of a declared dividend to Prometheus Invest ApS. The total declared dividend was DKK 1,000 million and in June 2010, DKK 800 million of the remaining unpaid dividend to Prometheus Invest ApS was converted into equity.

## DEVELOPMENT IN KEY STRATEGIC OBJECTIVES

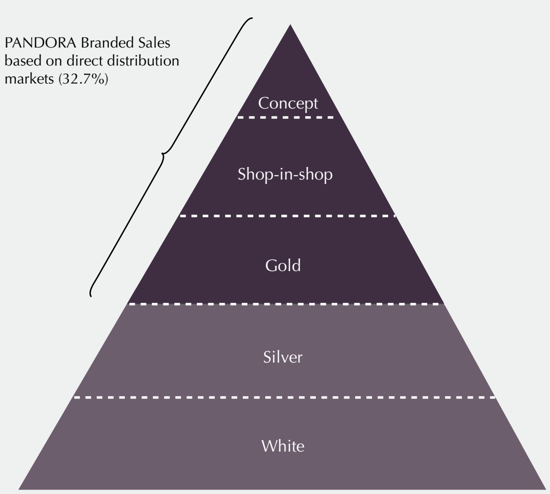
PANDORA's long-term vision is to become the world's most recognised jewellery brand. To achieve this PANDORA pursues four strategic objectives:

- Focus on PANDORA branded sales channels
- Capitalise on our product offering
- Tailor approach to new geographical markets
- Build a global brand

**Focus on PANDORA branded sales channels**
PANDORA focus strategically on increasing the number of PANDORA-branded points of sale as branded sales strengthen the perception of the brand in the retail environment and allow PANDORA to expand the product offering further than through unbranded points of sale.

In 2010, PANDORA continued upgrading the existing customer base as well as rolling out new stores. This substantially increased the number of branded points of sale in 2010 compared to 2009. Branded points of sale include Concept stores, Shop-in-Shops and Gold stores.

## THE PANDORA SALES & DISTRIBUTION MODEL




**Concept stores**
- 40-100 $m^2$
- Sell full product assortment
- PANDORA facade, fixtures, displays and staff

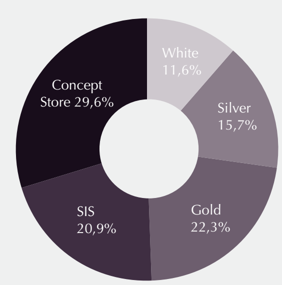
**Shop-in-shop**
- 8-15 $m^2$ clearly defined area in store
- Sell 4-5 collections
- PANDORA fittings and displays

**Gold level retailers**
- 4-5 $m^2$ dedicated space in store
- Sell 4-5 collections
- PANDORA fittings and displays

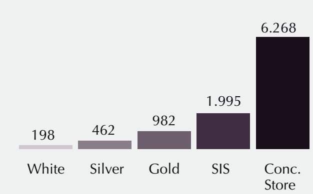
**Silver level retailers**
- +2 $m^2$ space
- Sell 3 collections
- PANDORA fittings and displays

**White level retailers**
- Window space atminimum
- Sell 1-2 collections
- Basic PANDORA displays

**Revenue split by channel based on direct distribution markets**




**Revenue per point of sale by channel based on direct distribution markets in 2010 (DKK 1,000)**




The PANDORA distribution channels are ranked after the level of support and requirements, with PANDORA branded Concept stores and Shop-in-Shops characterised by better commercial locations, more square meters, stronger visual branding and wider assortments.

On a net basis, the number of points of sale increased by 792 from 2009 to 2010. This net increase included 849 PANDORA-branded points of sale, of which Concept stores constituted 225, Shop-in-Shops 446 and Gold stores constituted 178. Of the new branded points of sale 39.8% were established by upgrading existing unbranded points of sale. Upgrading of stores mainly took place in established markets.

Unbranded points of sale include Silver, White and travel retail customers. The numbers of unbranded points of sale decreased by 57 in 2010 – 397 Silver stores were estab-

| Number of points of sale | Number of PoS 31/12 2009 | Net upgrades | Net openings | Number of PoS 31/12 2010 | Change |
|---|---|---|---|---|---|
| Concept stores[1] | 196 | 9 | 216 | 421 | 225 |
| SiS[2] | 512 | 320 | 126 | 958 | 446 |
| Gold | 1,345 | 47 | 131 | 1,523 | 178 |
| **Total branded** | **2,053** | **376** | **473** | **2,902** | **849** |
| **Total branded as a % of total** | **20.9%** | | | **27.3%** | |
| Silver | 2,061 | 340 | 57 | 2,458 | 397 |
| White and travel retail[3] | 5,712 | -716 | 262 | 5,258 | -454 |
| **Total** | **9,826** | **0** | **792** | **10,618** | **792** |

[1] Includes 57 PANDORA-owned Concept stores at 31/12 2010 (31/12 2009: 43)
[2] Includes 35 PANDORA-owned Shop-in-Shops at 31/12 2010 (31/12 2009: 20)
[3] Travel retail includes distribution through in-flight magazines, cruise ships etc.

| | Americas | | Europe | | Asia Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|
| Number of points of sale | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Concept stores | 136 | 70 | 219 | 93 | 66 | 33 | 421 | 196 |
| SiS | 301 | 133 | 528 | 280 | 129 | 99 | 958 | 512 |
| Gold | 583 | 605 | 776 | 588 | 164 | 152 | 1,523 | 1,345 |
| **Total branded** | **1,020** | **808** | **1,523** | **961** | **359** | **284** | **2,902** | **2,053** |
| Silver | 1,110 | 929 | 1,238 | 1,040 | 110 | 92 | 2,458 | 2,061 |
| White & travel retail | 543 | 800 | 4,378 | 4,515 | 337 | 397 | 5,258 | 5,712 |
| **Total** | **2,673** | **2,537** | **7,139** | **6,516** | **806** | **773** | **10,618** | **9,826** |

lished while White stores and travel retail were reduced by 454 points of sale.

The share of branded points of sale increased in all markets in 2010. End 2010, branded points of sale constituted 38.2% in Americas, 21.3% in Europe and 44.5% in Asia Pacific. Globally, branded points of sale constituted 27.3% of the total number of points of sale, including third party distribution markets.

In direct distribution markets, branded points of sale constituted 32.7% by the end of 2010. On a regional basis this was 38.1% in Americas, 27.6% in Europe and 44.5% in Asia Pacific.

The share of revenue from branded sales in direct distribution markets was 72.7% in 2010.

**Capitalise on our product offering**

In recent years, PANDORA has significantly broadened its jewellery offering via the introduction of Compose, LovePods, Liquid Silver and watches collections in 2007, 2008, 2009 and 2010 respectively.

Commencing with the annual report for 2010, PANDORA will provide segment revenue data for product categories that represent more than 5% of PANDORA's aggregate consolidated revenue in a full financial year. The charms, silver and gold charms bracelets and rings product categories fulfil this criterion for the 2010 financial year.

Set out below is historical revenue data by quarter, retrospectively reclassified among these new product categories. When reclassifying historical revenue data among the new product categories, certain minor misallocations among the previous product category segments for the Q4 2009, Q1 2010 and Q2 2010 reporting periods were identified. Total revenue for each period was unaffected.

In 2010, a very strong momentum in sales of both charms and silver and gold charm bracelets led to an increase in revenue from these two categories of 82.5% and 50.3% respectively - the two categories now representing 81.3% of total revenue compared to 88.4% in 2009.

Revenue from rings – now being reported as a separate product category – grew by 281.8% in 2010 and represented 6.3% of total revenue compared to 3.2% in 2009. Contributing to this development was our Ring-Upon-Ring campaign including specific marketing activities and the introduction of a Touch and Feel Display for rings.

| | | | 2009 | | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DKK million | Q1 | Q2 | Q3 | Q4 | Full Year | Share | Q1 | Q2 | Q3 | Q4 | Full Year | Share | Growth |
| Charms | 432 | 526 | 611 | 968 | 2,537 | 73.3% | 899 | 960 | 1,184 | 1,587 | 4,630 | 69.5% | 82.5% |
| Silver and gold charms bracelets | 104 | 87 | 128 | 204 | 523 | 15.1% | 153 | 156 | 235 | 242 | 786 | 11.8% | 50.3% |
| Rings | 14 | 21 | 30 | 45 | 110 | 3.2% | 41 | 75 | 146 | 158 | 420 | 6.3% | 281.8% |
| Other jewellery[1] | 37 | 41 | 56 | 157 | 291 | 8.4% | 145 | 152 | 223 | 310 | 830 | 12.4% | 185.2% |
| **Total** | **587** | **675** | **825** | **1,374** | **3,461** | **100.0%** | **1,238** | **1,343** | **1,788** | **2,297** | **6,666** | **100.0%** | **92.6%** |

[1] Also includes revenue from non-jewellery sources, such as repair and cleaning of jewellery and freight charges.

Other jewellery grew by 185.2% and now represents 12.4% of revenue – up from 8.4% in 2009. Contributing to this development was the continued success of our leather bracelet , the introduction of a new display system for earrings and the introduction of watches.

**Tailor approach to new geographical markets**
PANDORA intends to continue entering new geographical markets and expanding the presence in existing markets. PANDORA adopts a specific market entry strategy for each new market with the aim of promoting sales and establishment as quickly as possible given the market, while ensuring consistent brand positioning. In well-established markets, we expect to develop our market presence mainly through existing retail outlets. In emerging markets, we expect to primarily use PANDORA-branded points of sale (franchise and directly operated).

In 2010 PANDORA entered and prepared entry into a number of new markets:

- China
- Croatia
- Indonesia
- Italy
- Japan
- Malaysia
- Republic of the Philippines
- Russia
- Ukraine
- Serbia
- South Korea
- Taiwan
- Turkey
- UAE

Some of the above-mentioned markets have significant market potential:

- Italy; In July 2010, PANDORA entered the Italian market, thereby establishing a presence in Europe's largest market for fine jewellery. Based in Milan, a team of sales representatives and visual merchandisers covers the Italian market, primarily focusing on multi-brand points of sale. By the end of 2010, we sell PANDORA products through 1 concept store, 12 Shop-in-Shops, 7 Gold stores, 70 Silver stores and 362 White stores.

- Russia; PANDORA entered into a Master Distribution and Franchise Agreement for Russia. The retail expansion will be based on a geographical cluster strategy to optimise branding exposure. Focus has initially been on Moscow and St. Petersburg and 6 concept stores were opened in 2010.

- China; PANDORA signed agreements with 4 Master Franchisees in 2010, with 1 store opening conducted in Q3 2010. Expansion will initially focus around key cities such as Beijing, Shanghai, Guangzhou and Hangzhou.

- Japan; In Q4 2010, PANDORA entered into a Master Distribution and Franchise Agreement for Japan. Market entry in Japan is expected during first half of 2011, with a key city strategy, anchoring the initial PANDORA stores in Tokyo and Osaka.

**Build a global brand**
PANDORA pursues a global brand strategy focusing on creating consistency of brand perception across all com-

munication channels and markets to support the vision of becoming the world's most recognised jewellery brand.

PANDORA's branding and marketing initiatives seek to increase sales by developing the brand identity as inspiring individuality, cultivating the attachment of emotional significance to PANDORA's jewellery, increasing brand awareness that stimulates interest in PANDORA's product range and establishing the position as a leading affordable luxury brand.

In 2010, PANDORA continued to build brand awareness in all markets supporting respect of the product quality and the reputation as an "affordable luxury" jewellery brand through TV, print, outdoor, brochures, digital and points of sale as the primary communication channels.

Through PANDORA's marketing and communication efforts, PANDORA has gained an international presence and increased brand awareness in PANDORA's markets. To further strengthen the brand, PANDORA will continue to invest in a high degree of visibility, with brand messaging coordinated at the international, national and local levels.

Based on a global brand manual, supply of all marketing materials to distribution subsidiaries, franchisees, third party distributors and other points of sale is coordinated through PANDORA's headquarter in Denmark to ensure coherent messaging and brand building across the markets.

In 2010, the number of members of the online PANDORA Club increased by 110%. Our online visitors spent 50% more time per visit and the fan base on Facebook significantly increased more than 20 times. Furthermore, PANDORA has successfully launched an iPhone application attracting traffic to the retail stores.

In 2011, PANDORA will increase the focus on translating our marketing strategies to the digital space, building a meaningful relationship with the target audiences through an engaging digital experience – whether it will be through our website, ecommerce, the PANDORA Club or social media.

# FINANCIAL REVIEW

## REVENUE

PANDORA demonstrated strong revenue growth in 2010. This growth resulted from increasing demand for our products in established markets and expansion into new markets. The growth was also impacted by structural changes to increase the share of direct distribution, including the acquisition of PANDORA CWE in January 2010.

Total revenue increased 92.6% to DKK 6,666 million in 2010 (2009: DKK 3,461 million), of which 8.7% was related to foreign exchange movements. 15.3% of the growth is related to the acquisition of PANDORA CWE in 2010 and the full year effect from taking over direct distribution in Australia. Organic growth was 68.6% of which 20.5% was related to price as well as product and market mix changes.

Volumes sold grew by 37.6% as 57 million stock keeping units (SKUs) were sold in 2010 versus 41 million SKUs sold in 2009.

Revenue per point of sale increased by 67.7% to approximately DKK 652,123 in 2010 from DKK 388,964 in 2009 (calculated based on the average number of PoS between the beginning and end of the period).

Volume per point of sale increased by 19.8% as volume per point of sale increased to 5,576 SKUs in 2010 from 4,654 SKUs in 2009 (calculated by the average of PoS between the beginning and end of period).

**Revenue breakdown by geography**

The geographical distribution of revenue in 2010 was 43.7% for the Americas, 42.9% for Europe and 13.4% for Asia Pacific.

| | 2010 | | 2009 | | | |
|---|---|---|---|---|---|---|
| | DKK million | Share of revenue | DKK million | Share of revenue | % Growth | % Growth in local currency |
| **Americas** | **2,914** | **43.7%** | **1,558** | **45.0%** | **87.0%** | **74.9%** |
| United States | 2,518 | 37.8% | 1,459 | 42.2% | 72.6 % | |
| Other | 396 | 5.9% | 99 | 2.9% | 300.0% | |
| **Europe** | **2,859** | **42.9%** | **1,207** | **34.9%** | **136.9%** | **132.8%** |
| United Kingdom | 995 | 14.9% | 472 | 13.6% | 110.8% | |
| Germany[1] | 679 | 10.2% | 348 | 10.1% | 95.1% | |
| Other | 1,185 | 17.8% | 387 | 11.2% | 206.2% | |
| **Asia Pacific** | **893** | **13.4%** | **696** | **20.1%** | **28.3%** | **2.8%** |
| Australia | 786 | 11.8% | 649 | 18.8% | 21.1% | |
| Other | 107 | 1.6% | 47 | 1.4% | 127.7% | |
| **Total** | **6,666** | **100.0%** | **3,461** | **100.0%** | **92.6%** | **77.2%** |

[1] Includes in 2009 revenue relating to products purchased by the former independent German distributor for sale in Austria and Switzerland prior to the formation of PANDORA CWE, established in January 2010. Austria and Switzerland are from 1 January 2010 included in "Other".

*Americas*

In the Americas, the increase in revenue of 87.0 % reflected strong organic growth as a result of high store sales growth (including upgrading) in the United States as well as the establishment of new points of sale in the United States and in other countries. The growth reflected, in part, increased demand for our products, price increases and a significant trend in the upgrading of stores to devote greater space for PANDORA products as well as to offer additional PANDORA collections. The United States continues to be the single largest market accounting for 37.8% of 2010 revenue, with a growth rate of 72.6% in 2010 compared to last year.

*Europe*

In Europe, the increase in revenue of 136.9% was predominantly related to strong organic growth in the United Kingdom and Other Europe, especially Spain and Portugal. The increase in Germany reflects organic growth as well as the establishment of PANDORA CWE in January 2010. The United Kingdom is now the largest single market in Europe accounting for 14.9% of 2010 global revenue, with a growth rate of 110.8% in 2010.

*Asia Pacific*

In Asia Pacific, the increase in revenue of 28.3% was primarily attributable to the acquisition of a controlling interest in the Australian distributor in July 2009 and a strengthening of the Australian dollar as well as strong growth in the rest of the Asian region. On a comparable full year basis our Australian subsidiary experienced a decline in revenue in local currency of 11.2%. PANDORA has throughout 2010 experienced challenging trading conditions in the Australian market with retailers destocking and being very cautious on ordering. Nonetheless, PANDORA still has a strong brand and market position in Australia.

**Revenue breakdown by distribution**

PANDORA mainly derives revenue from direct distribution of the jewellery products to PANDORA's sales channels. After the establishment of direct distribution in PANDORA CWE in January 2010, direct distribution accounted for 89.7% of revenue in 2010, up from 75.4% in 2009.

| | Revenue | | Number of PoS | |
|---|---|---|---|---|
| DKK million | 2010 | 2009 | 2010 | 2009 |
| Direct distribution | 5,980 | 2,608 | 8,054 | 7,529 |
| Third party distribution | 686 | 853 | 2,564 | 2,297 |
| **Total** | **6,666** | **3,461** | **10,618** | **9,826** |

In direct distribution markets PANDORA trades directly with the retailer which includes markets such as China and Russia. In third party distributor markets we trade with a wholesaler. Main distributor markets are Spain and Portugal.

## GROSS PROFIT AND GROSS MARGIN

The principal components of cost of sales are the direct costs we incur in respect of purchased raw materials and semi-finished goods, direct wages as well as personnel and other expenses incurred in connection with production and depreciation of our production facilities.

Cost of sales amounted to DKK 1,941 million in 2010 versus DKK 1,073 million in 2009.

Gross profit was DKK 4,725 million in 2010 compared to DKK 2,471 million in 2009, resulting in a gross margin of 70.9% in 2010 against 71.4% in 2009. In 2009 the gross margin was impacted by an unrealised gain on raw materials derivatives of DKK 20 million and negative one-off effects totalling DKK 74 million from consolidating previous distributor markets in Australia and Holland. In 2010 gross margin was negatively impacted by one-off effects from the establishment of PANDORA CWE of DKK 50 million and IPO bonus of DKK 10 million. Adjusting for these effects the gross margin was 71.8% in 2010 and 73.0% in 2009. The decrease is primarily due to increasing raw material prices not completely offset by sales price increases and the positive effect from taking over direct distribution in Australia and PANDORA CWE.

The average gold and silver prices in 2010 were 1,157 USD/oz for gold and 18.5 USD/oz for silver. For the following four quarters of 2011 PANDORA has in accordance with the hedging policy hedged 100%, 80%, 60% and 40% of the expected gold and silver consumption at 1,267 USD/oz, 1,330USD/oz, 1,372 USD/oz and 1,400 USD/oz for gold and 22.2 USD/oz, 23.3 USD/oz, 27.1 USD/oz and 27.9 USD/oz for silver.

## DISTRIBUTION EXPENSES

Distribution expenses comprise expenses related to the distribution of goods sold and sales and marketing campaigns, including packaging, brochures, displays and fixtures and fittings, pay and other expenses relating to sales and distribution staff and amortisation/depreciation.

Distribution expenses increased to DKK 1,733 million in 2010 from DKK 743 million in 2009 mainly as a result of increased activity and the full year effect from taking over direct distribution in Australia and PANDORA CWE. In 2010, distribution expenses were affected by DKK 183 million from amortisation of acquired distribution rights in PANDORA CWE. These distribution rights will be fully amortised by 30 June 2011. In 2009, distribution expenses were affected by DKK 78 million from amortisation of acquired distribution rights in the Australian subsidiary.

Distribution expenses as a percentage of revenue was 26.0% in 2010 compared to 21.5% in of 2009. This increase primarily relates to structural changes. Furthermore, distribution expenses are impacted by DKK 57 million from IPO bonus paid in Q4.

PANDORA spent DKK 743 million on marketing corresponding to 11.1% of revenue (2009: DKK 288 million). Marketing spending was impacted by structural changes and additional investments in marketing in Q4, particularly in the US and Germany. Going forward, PANDORA estimates that marketing spending will constitute a high single digit percentage of our revenues.

## ADMINISTRATIVE EXPENSES

Administrative expenses comprise expenses paid to manage and administer the operations, including expenses related to administrative staff and depreciation.

Administrative expenses amounted to DKK 576 million in 2010 versus DKK 304 million 2009, representing 8.6% and 8.8% of 2010 and 2009 revenue, respectively. Administrative expenses are negatively impacted mainly by structural changes as well as payment of IPO bonus in Q4 of DKK 24 million and positively impacted by improved overall cost efficiency.

## EBITDA

EBITDA for 2010 increased by 70.7% to DKK 2,684 million from DKK 1,572 million in 2009, resulting in an EBITDA margin of 40.3% - down from 45.4% in 2009. Main factors negatively influencing the EBITDA margin are increasing raw material prices not completely offset by sales price increases, structural changes relating to Australia and PANDORA CWE and payment of IPO bonus of DKK 91 million funded by the Selling Shareholder, Prometheus Invest ApS.

Regional EBITDA margins for 2010 before allocation of central overheads were 50.8% in Americas, 44.8% in Europe and 45.0% in Asia Pacific. Compared to 2009 Europe and Asia Pacific are impacted by structural changes. Furthermore particularly Europe is impacted by investments in marketing activities in PANDORA CWE in the last part of 2010.

## EBIT

EBIT increased by 69.7% to DKK 2,416 million resulting in an EBIT margin of 36.2%. EBIT is impacted by an increase in depreciation of DKK 6 million and increase in amortisation of DKK 111 million, including DKK 105 million from increase in amortisation related to acquisition of distribution rights in previous distributor markets.

## NET FINANCIAL INCOME AND EXPENSES

Net financial income and expenses primarily includes interest income and expenses, realised and unrealised exchange gains and losses and allowances under the advance-payment-of-tax scheme. From Q4 2010 net financial income and expenses also includes an adjustment of the financial liability related to the earn-out on the non-controlling interests in PANDORA CWE (DKK 20 million). The net financial income and expenses were DKK -164 million in 2010 against DKK -235 million in 2009. The improvement is primarily driven by lower interest expenses as a consequence of the refinancing in February 2010 on more favourable terms.

## INCOME TAX EXPENSES

Income tax expenses increased to DKK 381 million in 2010, implying an effective tax rate of approximately 16.9%. In 2009, income tax expenses were DKK 184 million and the effective tax rate was 15.5%. The effective tax is increasing compared to 2009 as the growth in earnings in 2010 is generated in countries with a higher tax rate than the Group average.

## LIQUIDITY AND CAPITAL RESOURCES

PANDORA relies primarily on cash flow from operating activities to finance our operations and expansion. The primary cash needs relate to the meeting of debt service requirements, funding of working capital requirements, the expansion of production capacity, and the establishment of directly operated Concept stores and Shop-in-Shops in selected markets. The most significant components of the working capital are product inventories, trade and other receivables, trade and other payables and other current liabilities.

In 2010, PANDORA generated a free cash flow of DKK 1,388 million compared to DKK 1,144 million in 2009.

The following table presents primary components of our cash flow for the periods indicated:

| Main components of cash flow | 2010 | 2009 |
|---|---|---|
| Cash flow from operating activities | 1,316 | 1,066 |
| Cash flow from investing activities | -304 | -207 |
| Cash flow from financing activities | -644 | -343 |
| **Net cash flow for the year** | **368** | **516** |

In 2010, cash flow from operating activities was DKK 1,316 million compared to DKK 1,066 million in 2009. The development in operating working capital in 2010 was as follows:

| DKK million | 2010 | 2009 |
|---|---|---|
| Inventory | 1,272 | 433 |
| Trade receivables | 834 | 622 |
| Trade payables | 245 | 106 |
| **Operating working capital** | **1,861** | **949** |
| % of revenue | 27.9% | 27.4% |

Compared to 31 December 2009 performance on trade receivables has improved significantly relative to the increase in revenue. Inventory performance is negatively impacted by consolidation of distributors as well as increasing raw material prices.

Derivatives with a fair value of DKK 304 million on 31 December 2010 are included in other receivables (2009: DKK 0 million). The value of these derivatives reflects that PANDORA has commodity contracts, which gives PANDORA the obligation to buy silver and gold in 2011 to a price that is lower than the market price on 31 December 2010.

In 2010, PANDORA invested a total of DKK 210 million in property, plant and equipment equalling 3.2% of revenue compared to DKK 103 million or 3.0% of revenue in 2009. The majority of the investments were in our third and fourth production facilities in Gemopolis, which became operational in February and November 2010 respectively.

In 2010, DKK 200 million was paid in dividend to Prometheus Invest ApS in connection with the refinancing taking place in February 2010. Furthermore, a dividend of DKK 40 million was paid to non controlling shareholders in Ad Astra Holdings Pty Ltd.

Total interest bearing loans and borrowings were DKK 2,326 million as at 31 December 2010. In March 2011 a refinancing is carried through replacing the previous senior facility agreement with a revolving credit facility. The interest bearing loans and borrowings are reclassified as short term debt at 31 December 2010.

Furthermore, PANDORA invested DKK 593 million to acquire non controlling interests in distribution companies.

Cash and short-term deposits amounted to DKK 1,224 million.

Net interest bearing debt as at 31 December 2010 was DKK 1,102 million compared to DKK 751 million as at 31 December 2009 (excl. subordinated loan from parent company).

## EVENTS AFTER THE BALANCE SHEET DATE

### New organisational setup in PANDORA CWE & CEE

PANDORA has decided to optimise its organisational structure in Europe by merging the central leadership functions of PANDORA CWE and PANDORA Central Eastern Europe.

### Refinancing

A refinancing was completed in March 2011 where a new revolving credit facility of 2,500 million with 3 years maturity was agreed. The revolving credit facility was partly used to repay the senior facility agreement.

**Formal handover of management responsibility in PANDORA Production**

With the employment of Thomas Nyborg as General Manager of PANDORA Production in Thailand in September 2008 a process was initiated to gradually transfer responsibility for the operations in Thailand from PANDORA's founder Per Enevoldsen to Thomas Nyborg. Thomas Nyborg has since his employment focused on strengthening the management of PANDORA Production through employment of directors within the various functional areas of PANDORA Production as well as through establishing robust structures and processes to support the rapid ramp up of PANDORA's production in Thailand. As an example PANDORA Production was ISO 9001:2008 certified in July 2009.

Today Thomas Nyborg effectively has full responsibility for PANDORA Production and as at 1 April 2011 Thomas Nyborg will also take over the formal responsibility as Managing Director of PANDORA Production as Per Enevoldsen transitions into a role as chairman of PANDORA Production. Per Enevoldsen will still be part of the organisation in Thailand with a main focus on specific project oriented tasks, e.g. further implementation of ERP and optimisation of production systems.

# PANDORA'S BUSINESS MODEL

PANDORA controls every step of the value chain of almost all our jewellery products from in-house design to production. PANDORA also maintains responsibility for the distribution of jewellery products to sales channels primarily through own distribution subsidiaries, secondly through third party distributors, and thirdly through a limited number of directly operated stores.

PANDORA's vertically integrated business model is scalable while remaining subject to stringent supervision and quality control standards. PANDORA closely monitors distribution channels agreeing with third party distributors, franchisees and other sales channels on detailed sales and marketing requirements to allow PANDORA to protect the brand and ensure a strong retail-driven assortment. Through these attributes, PANDORA believes that we are able to secure our high quality standards throughout the value chain.

**DESIGN AND PRODUCT DEVELOPMENT**

The design and development process is one of the most important aspects of PANDORA's operations. PANDORA's in-house design and development teams develop continuously the portfolio of jewellery products consistent with the core brand values: Affordable luxury, contemporary design and personal storytelling.

To develop the product collections, the designers seek to combine their knowledge and keen attention to trends in fashion and style while building on the success of prior collections to design product collections that exemplify the PANDORA brand.

Specialised product managers in Denmark work closely with the designers and coordinate the development of prototypes with the head of development in Thailand. The spe-

**VERTICALLY INTEGRATED BUSINESS MODEL**

In-house 90%
Third party 10%

**Design & Product Development**

- In-house design team
- Sales-driven product development process
- Semi-annual launches
- Seven annual gifting events

**Consistently relevant**

**Procurement & Production**

- Efficient commodity procurement
- High quality, in-house production in Thailand for more than 20 years
- Highly skilled workforce with hand-finished craftsmanship
- Standardised production processes to maximise efficiency

**Low cost, scalable**

**Distribution & Marketing**

- Primarily direct distribution:
- Strong retailer control
- Consistent visual merchandising and marketing
- Strategic third party distributors
- Franchise based concept

**Asset light, but controlled**

cialised product managers also coordinate with the heads of sales, marketing and production teams in weekly steering committee meetings.

PANDORA typically updates the collections twice a year (spring and fall) with an additional five gifting opportunities, but production is an ongoing process that is not geared generally towards specific annual events. To maintain an attractive and innovative assortment, PANDORA continuously evaluates the assortment and retires and introduces designs in order to cater for the requirements for a product portfolio to serve even the largest concept stores and to contemplate geographic diversity.

## PRODUCTION AND PROCUREMENT

PANDORA's global supply management system consists of demand planning, raw material procurement, raw material warehousing, production and shipping. The global supply function manages all aspects of this supply system and works in close cooperation with the design and development teams to establish the manufacturing and product specifications, procure the raw materials and control the production in Thailand.

Each process is carefully planned in order to secure highest possible efficiency in every step of the production. PANDORA's finished products are generally stored at the site in Thailand until a shipment is ready for delivery to its geographic location, which is typically done on a weekly basis.

## DISTRIBUTION AND MARKETING

PANDORA's distribution strategy is designed to maintain control over the brand image and marketing strategy as PANDORA continues to grow, partly utilising opportunistically the strengths of third party distributors when appropriate.

In some instances, PANDORA has entered a market using a third party distributor and then taken over the distribution in that market, either through PANDORA's own operations or through the acquisition of the distributor's business or the distributor itself. Despite the benefits of having achieved full control of these markets, PANDORA remains confident that in some markets the preferred strategy is to partner with third party distributors.

PANDORA's arrangements with third party distributors are governed by distribution agreements and master franchise agreements granting the third party distributors exclusive rights to promote and sell our products to retailers in specified geographies in a specified period.

# INTELLECTUAL CAPITAL

Due to the value of the PANDORA brand and the nature of products and manufacturing, it is crucial to develop and safeguard our intellectual capital, especially human resources and intellectual property rights.

## HUMAN RESOURCES

PANDORA designs, manufactures and markets hand-finished and modern jewellery on a global scale. The global reach makes sharing of knowledge and cross-border cooperation between local units, and between local units and head office, imperative, and with the rapid growth in number of employees during recent years including in 2010, the predominant human resource task is to ensure that new employees are integrated into the company.

At the production facilities in Thailand, PANDORA provides technical, supervisory and managerial training to the employees in general, and PANDORA provides opportunities for individual career development. Numerous forums have been established to make suggestions, discuss issues and raise concerns, both informally and formally. An Employee Welfare Committee has been established comprising representatives voted for and elected by the employees themselves.

## INTELLECTUAL PROPERTY

### Intellectual property rights and policies

PANDORA's intellectual property rights are considered substantial to the value creation, competitive advantage, freedom to operate and future business development, and thus, they are safeguarded with all available means, including a comprehensive global surveillance, registration and control programme. The intellectual property rights are mainly vested in trademarks, copyrights, patents, business secrets, visually distinct products, non-disclosure procedures and non-competition regulations.

No distributors, dealers or others are permitted to register or use PANDORA's intellectual property without prior agreement. Enforcement and defence mechanisms have been further strengthened in 2010 by implementing a zero-tolerance policy towards infringement of PANDORA's intellectual property rights on the Internet and in general towards counterfeit products and trademarks.

### Trademarks

PANDORA has registered and applied for a number of word and figurative marks in various jurisdictions worldwide, hereunder in the EU, USA, Australia and Asia. The trademarks cover various international product and business classes, primarily in international class 14, which covers jewellery and watches.

The trademark portfolio also covers the EU-registrations ”PANDORA” and our logo ”PANDORA with a crowned O” in various international classes considered to be relevant for the sale and marketing of PANDORA's products, hereunder the international classes for jewellery, leather and clothing.

### Patents

PANDORA's international patent families encompass patent rights relating to the functionality of the charm bracelet. Patents have been granted by the European Patent Office (hereunder for the European Union), USA, Australia, New Zealand, South Africa, China and Norway. Generally, the patents protect a jewellery chain, i.e. a necklace or a bracelet, to which a stop joint has been affixed, a so-called “stopper.” A detachable holder, a so-called “keeper” (e.g. the clam joint of a charm) is affixed to the stopper and forms a component, which is bigger than the chain and therefore works as a spacer, dividing the charms along the necklace or the bracelet. The purpose is to prevent moveable charms from bundling on one side of the chain. In the USA the company's patent expires in 2023 and in 2024 in other jurisdictions.

# CORPORATE SOCIAL RESPONSIBILITY

PANDORA is committed to promote and encourage responsible business practices from the sourcing of precious metals and gemstones to the crafting and marketing of our jewellery. PANDORA believes that corporate social responsibility (CSR) and PANDORA's aspiration to offer high quality and genuine jewellery go hand in hand. Furthermore, PANDORA believes that our growth should also benefit our stakeholders and not least our customers. Therefore, PANDORA has a social commitment to support charitable purposes and to improve the lives of women around the world.

## MANAGING OUR COMMITMENTS

Responsible business practices and social commitment has always been part of PANDORA's DNA and they are virtues, which we continuously strive to honour in our daily operations. In 2010, PANDORA decided to further strengthen our CSR activities in order to increase our positive impact on society.

As a first step, PANDORA established a global CSR Steering Committee, which coordinates and monitors responsible business practices across the value chain, from sourcing and procurement through responsible manufacturing to the trading of our jewellery. The Committee is headed by a dedicated, experienced CSR manager, and further consists of the Heads of production, Supply chain, Sales, HR, Communications and with our Chief Development Officer representing Executive Management.

In April 2010, PANDORA joined the United Nations Global Compact targeting human rights, working conditions, environmental impact and ethical business practices. By joining the Global Compact, PANDORA aims to deliver on our social commitment within a widely accepted and recognisable framework. PANDORA's first mandatory "communication on progress" to Global Compact is due in April 2011 and will be accessible on www.pandoragroup.com.

In August 2010, PANDORA joined the Responsible Jewellery Council (RJC), an international non-profit organisation that aims to reinforce consumer and stakeholder confidence in jewellery products. PANDORA perceives RJC to be the most ambitious CSR initiative within the industry, dedicated to translate the more generic Global Compact principles into responsible business conduct in the jewellery supply chain. Thus, our RJC membership will allow us to benchmark our CSR efforts with the highest industry standards. By joining the RJC, we have made a commitment to comply with the RJC Code of Practices, become certified under the RJC system during the second half of 2012 and accept continuous audits by RJC accredited third party auditors.

As one of the world's largest jewellery brands, PANDORA is obliged to support and advance the introduction of new responsible business practices throughout the jewellery industry. PANDORA actively engages in RJC initiatives such as the endeavour to introduce chain-of-custody certifications within the diamond, gold and platinum metals supply chain. Furthermore, PANDORA proactively engages in dialogue with stakeholders within the jewellery supply chain and wish to support new and innovative ways of raising the bar for responsible business practices.

## SOURCING AND MANUFACTURING

PANDORA is committed to prevent and mitigate CSR related risks in the supply chain in general - and in the sourcing of precious metals and gemstones in particular. In 2010, PANDORA developed a "code of conduct for suppliers" which is consistent with RJC requirements. The code of conduct has been sent to all our main suppliers obligating them to sign and adhere to the code of conduct and further accept audits by independent third party auditors. The first audits are planned to take place in Q2 2011. In cases of non-compliance, PANDORA will initiate joint actions to enable the supplier to meet PANDORA's high standards.

PANDORA's manufacturing facilities in Thailand provide sound working conditions, competitive employment terms and a range of social and welfare benefits for our more than 3,600 employees and their families. PANDORA places significant importance on ensuring a safe working environment and continuously strives to improve our performance in maintaining and enhancing employee health and safety as well as implementing initiatives to reduce our environmental impact. Being already certified according to ISO 9001:2008, PANDORA in 2010 initiated the process of being certified according to both OHSAS 18001: Occupational Health and Safety and ISO14001: Environmental Management. By embracing these standards - and concurrently acquiring the RJC certificate on responsible business practices – PANDORA strives to introduce a best practice system for jewellery manufacturing.

**CHARITY**

PANDORA supports charitable purposes and PANDORA puts special focus on initiatives that have a positive life changing impact for women. PANDORA's entities throughout the world have unified behind the fight against breast cancer, also known as the Pink Ribbon Campaign. At the local level, PANDORA engages in initiatives like the "Tree of Life" Appeal, the Queensland Flood Relief, various school renovation and community based projects in Thailand and the "Denmark Collects Campaign" which supports the United Nations Millennium Development Goals – not least by empowering women in Africa.

# CORPORATE GOVERNANCE AND RISK MANAGEMENT

The aim of good corporate governance and communication hereof is to ensure that PANDORA 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.

The Board of Directors has adopted a set of corporate governance principles, which are laid down in the corporate governance policy.

PANDORA intends to exercise good corporate governance at all times and to comply with the corporate governance recommendations of the Danish Committee on Corporate Governance issued in April 2010 (the "recommendations"). Accordingly, PANDORA has adopted the "comply or explain" principle to our communication of corporate governance practices.

## DEVIATIONS

Due to PANDORA's wish to encourage common and persistent long-term goals for the Management and shareholders in accordance with PANDORA's strategy, PANDORA has chosen to deviate from the recommendations regarding Management's remuneration in the following areas:

- The Chairman of the Board of Directors is eligible for a one-off additional bonus in a share amount of DKK 6.5 million if certain EBITDA (on an adjusted basis) targets defined in PANDORA's business plan are met for the full year periods of 2013, 2014 or 2015.

- PANDORA has established a board member share plan according to which the Chairman and the other members of the Board of Directors each are to own a minimum number of shares corresponding to the amount of their respective initial gross annual compensation.

- The remuneration policy for Executive Board contains no specific clause on the repayment of variable remuneration components on the basis of misstated information as PANDORA considers the rules in Danish law to be sufficient in such cases.

## THE ROLE OF THE SHAREHOLDERS AND THEIR INTERACTION WITH THE EXECUTIVE BOARD OF THE COMPANY

PANDORA is committed to maintaining a constructive dialogue with the shareholders and other stakeholders and exercising a high level of transparency when communicating with the shareholders.

For information on communication with shareholders, see the shareholder information section.

## CAPITAL AND SHARE STRUCTURES

The Board of Directors will regularly assess whether the share capital and share capital structure is in accordance with PANDORA's and its shareholders' best interest and will include such assessment in the Annual Report. There is one single class of shares and all shares rank pari passu. Each share of DKK 1 carries one vote.

## GENERAL MEETINGS

In accordance with the articles of association, notice of the Annual General Meeting must be given not less than three weeks and not more than five weeks prior to the date of the General Meeting. The notice must contain a complete agenda and an explanation of the items on the agenda where such explanation is relevant. Notices convening general meetings will be published, posted on PANDORA's website and mailed to all registered shareholders who have so requested.

Proposals for agenda items for the Annual General Meeting must be submitted to the Board of Directors in writing no later than six weeks before the General Meeting. Prior to the General Meeting, the shareholders are entitled to ask questions in writing regarding the agenda or documents to be discussed at the General Meeting. Such questions must be received by the Board of Directors one week prior to the General Meeting. Furthermore, at General Meetings the shareholders will be able to ask questions to the Board of Directors and Executive Board concerning the items on the agenda.

## THE ROLE OF STAKEHOLDERS AND THEIR IMPORTANCE TO PANDORA

PANDORA maintains an open approach to stakeholders and the surrounding society. At all times, PANDORA complies with rules and regulations in the countries where PANDORA has activities, and PANDORA acknowledges our corporate social responsibility ("CSR"). PANDORA seeks to persistently create business value while ensuring our employees a good working environment and minimising any adverse impact on society. Please refer to the separate section on CSR.

## TASKS AND RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board of Directors has the overall management responsibility for PANDORA. As is current practice in Denmark, powers are distributed between the Board of Directors and the Executive Board and independence exists between these two bodies. The Executive Board handles day-to-day management, while the Board of Directors supervises the work of the Executive Board and is responsible for general strategic management. Detailed procedures for board meetings, including the tasks and responsibilities of the chairmanship, are laid down in the rules of procedure of the Board of Directors. The procedures will be reassessed on a yearly basis.

## THE COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors consists of eight members elected by the shareholders. Currently, five of the members, including the Chairman of the Board are independent, while the other three members are affiliated with the majority shareholder. All Board members stand for election each year. The Board of Directors holds a minimum of six meetings each year with the participation of the Executive Board, together with ad hoc meetings as required. In 2010, the Board held 7 ordinary meetings. The members of the Board of Directors comprise a group of experienced, international business people. The age limit for members of the Board of Directors is 70.

The Chairman evaluates the work of the Board of Directors on an ongoing basis. PANDORA does not limit the number of directorships Board members may have, however, Board members are expected and required to devote sufficient time and resources to their responsibilities in PANDORA.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which have charters setting forth the functions and responsibilities of such committees. The committees report to the Board of Directors.

## AUDIT COMMITTEE

The Audit Committee consists of at least three members of the Board of Directors. The Board of Directors appoints committee members and the committee chair. The current members are Sten Daugaard (Chairman), Andrea Alvey, Erik D. Jensen and Nikolaj Vejlsgaard. The Audit Committee reviews and assesses the financial reporting and audit process, as well as the internal control systems, and evaluates the adequacy of control procedures including the need for an internal audit function.

The Audit Committee meets at least 4 times a year.

## NOMINATION COMMITTEE

The Nomination Committee consists of at least three members of the Board of Directors elected by the Board of Directors. The current members of the Nomination Committee are Allan Leighton (Chairman), Torben Ballegaard Sørensen, Marcello V. Bottoli and Christian Frigast.

The Nomination Committee assists the Board of Directors in fulfilling its responsibilities with regard to (i) nominations and appointments to the Board of Directors and the Executive Board, (ii) securing that the Board of Directors and the Executive Board at all times have the appropriate size and are composed of individuals having the professional qualifications and experience required and (iii) conducting frequent evaluations of the performance of the Board of Directors and the Executive Board.

The Nomination Committee meets minimum once a year.

## REMUNERATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The Board of Directors has set up a Remuneration Committee. The Remuneration Committee consists of at least three members of the Board of Directors elected by the Board of Directors. The current members of the Remuneration Committee are Allan Leighton (Chairman), Torben Ballegaard Sørensen, Marcello Bottoli and Christian Frigast. Remuneration Committee will meet minimum twice a year.

PANDORA's remuneration policy establishes the guidelines for the different components of the remuneration, including fixed salary, pensions schemes, benefits, stay-on bonuses, severance and incentive schemes as well as bonus targets and evaluation criteria in relation thereto for members of the Board of Directors and the Executive Board which will be presented for the approval of the shareholders at the Annual General Meeting and subsequently published on our website.

**General principles**

The remuneration of the Board of Directors is reported in detail in note 6 to the consolidated financial statements. The remuneration of board members is presented for approval by the Annual General Meeting under a separate agenda item. The actual remuneration of the Board of Directors for the previous year and the level for the current year is approved.

Remuneration for Executive Board is proposed by the Remuneration Committee and requires approval by the entire Board of Directors. Remuneration for Executive Board for 2010 is reported in detail in note 6 to the consolidated financial statements. Levels are evaluated annually against large Danish companies with international activities as well as other international luxury goods companies. Executive remuneration packages consist of a fixed base salary, a short-term cash bonus, a long-term share-based incentive and other benefits. Executive Board members have notice periods of 24 months in case of termination by the company with no additional severance payments.

Under section 139 of the Danish Companies Act, the supreme management body of a listed company is required, before it enters into a specific incentive payment agreement with a member of its management, to lay down general guidelines governing incentive payment to the Board of Directors and the Executive Board. The guidelines shall be considered and adopted at the company's general meeting.

These guidelines set out the general rules relating to incentive payment of the Board of Directors and the Executive Board of PANDORA.

With a view to balancing the interests of PANDORA's Board of Directors and Executive Board and the shareholders, and in order to promote both short-term and long-term objectives, PANDORA considers it appropriate to conclude agreements about incentive payment systems for PANDORA's Board of Directors and Executive Board.

Agreements on incentive payment systems with the Board of Directors and Executive Board may include any kind of flexible remuneration, e.g. different share-based instruments such as share options, warrants and phantom shares as well as non-share-based bonus agreements, whether ongoing, isolated or event-based.

If PANDORA wishes to enter into a specific incentive payment agreement with members of management, such agreement shall be subject to these guidelines.

The guidelines only cover agreements on incentive payment systems with PANDORA's Board of Directors and registered Executive Board. Incentive payment systems regarding other managerial employees or key employees are not covered by these guidelines.

Whether a member of the Board of Directors or Executive Board is found eligible for an incentive programme will depend on a specific assessment as to whether this is appropriate in order to balance the interests of PANDORA's management and its shareholders, and to promote both short-term and long-term objectives. To this end, the expected performance of the management, incentive and loyalty considerations and PANDORA's position and development shall generally also be taken into account.

**Share based instruments**

***The Board of Directors***

*Share options*

The Chairman of the Board of Directors has been granted a bonus programme, payable with share options to the extent that certain EBITDA performance results are attained (on an adjusted basis) as defined in PANDORA's business plan for the financial years 2013, 2014 or 2015. The total value of the programme is DKK 6.5 million.

The share options shall become exercisable two years after the date of grant. The exercise price of share options is 1% of the shares' market value at the date of grant. The Chairman of the Board of Directors shall pay no consideration for the share options.

The share option scheme and the share options shall automatically lapse if PANDORA has not obtained the agreed target performance results before the financial year 2015.

The Chairman of the Board of Directors may not sell shares, which the Chairman has purchased or acquired as a result of the exercise of share options, until the Chairman resigns as Chairman of the Board of Directors.

*Obligation to invest in shares*

The Board of Directors must own a number of shares corresponding to the gross amount of their fixed annual cash remuneration for one year.

The Chairman of the Board of Directors must invest in PANDORA by buying shares on the market for an amount corresponding to half of the gross amount of the Chairman's fixed annual cash remuneration for one year for a three-year period after the listing.

The Chairman of the Board of Directors and the other Directors must retain ownership of all purchased shares until they resign as Chairman of the Board of Directors and Directors, respectively.

***Executive Board***

*Share options*

From January 2011 the Executive Board will participate in PANDORA's long-term incentive programme (LTIP).

The vesting of share options will be based on attainment of EBITDA and consolidated revenue targets by the end of the second financial year after the year in which the targets are set, i.e. targets for 2013 were defined in January 2011.

No share options will vest unless the EBITDA and consolidated revenue targets are exceeded by more than 10%. The number of share options to vest for the members of the Executive Board depends on how much more than 10% excess is attained. Granting of the maximum number of share options requires that both the EBITDA and consolidated revenue targets are exceeded by more than 20%.

The maximum number of share options to vest will be such that the Executive Board will be able to buy shares in PANDORA at a total market price (at the date of the fixing of LTIP targets) of up to 50% of each Executive Board member's current basic salary at the said time.

The exercise price of granted share options is set at 1% of the shares' market value at the date of grant.

The vested share options shall become exercisable during one exercise window of four weeks from the first weekday after publication of PANDORA's announcement of financial statements for the financial year ending two years after the financial year before the date in which the share options are granted, or any earlier publication of announcements after the end of the financial year in question, but before publication of the financial statements for that year. This will allow exercise in accordance with the rules on insider information. After that period the share options will lapse automatically without further notice and without compensation.

Share options for the Executive Board can only vest under LTIP if at the vesting date the recipient is employed by PANDORA or has resigned their position in PANDORA as a so-called "good leaver".

*Obligation to invest in shares*

The members of the Executive Board are obligated to remain at all times a - direct or indirect - owner of shares in PANDORA at a market value equal to five times their annual pre-tax basic salary from time to time. In the calculation of the value of the Executive Board members' shareholdings, the value of shares that the members are entitled to acquire under share options granted shall be included, vested or not.

If an Executive Board member is found at the beginning of a trade window to own shares (including potential shares to be acquired under share options granted) of a fair market value which is less than five times his or her annual salary before tax at that time, such member shall be obliged to immediately acquire additional shares in PANDORA so as to bring his or her shareholding to an aggregate fair market value of at least five times his or her annual salary before tax.

In extraordinary circumstances, the Board of Directors may choose to exempt an Executive Board member from the obligation to acquire additional shares.

**Non-share based instruments**

*Executive Board*

The Executive Board may receive a yearly cash bonus. A cash bonus scheme will fix the annual maximum bonus available to the Executive Board subject to fulfilment of criteria based on PANDORA's financial performance. For 2011, the targets are set on consolidated revenue, EBITDA and working capital. The terms of the bonus shall be fixed in a separate bonus agreement prior to the commencement of the financial year.

The cash bonus in 2010 could not exceed 33% and 30% of the annual basic salaries of the Chief Executive Officer and the Chief Financial Officer, respectively. In 2011 the cash bonus cannot exceed 50% and 40% of the annual basic salaries of the Chief Executive Officer and the Chief Financial Officer, respectively.

**Change to and termination of incentive programmes**
The Board of Directors may change or terminate the share option scheme introduced under these guidelines. Among the criteria to be considered prior to any such decision is the development of PANDORA, changes to statutes, foreign currency control, authority regulation, etc. Any such change, however, must be within the limits set by these guidelines. Anything beyond this will be subject to adoption by the general meeting.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors regularly assesses the overall and specific risks associated with PANDORA's business and operations and seeks to ensure that such risks are managed in a proactive and efficient manner. Internal control systems, including a whistle blower function, are established and regularly reviewed by the Board of Directors to ensure that such systems are appropriate and sufficient.

The significant current risks are as followed (alphabetical order):

**Brand and reputation**
The ability of PANDORA to achieve its future goals is dependent on the PANDORA brand and reputation. The brand strategy is to attract, engage and retain the end-consumers in our branded channels and influence direct sales in own-controlled brand shops and through digital media.

In 2010, PANDORA focused on building brand awareness in all markets and positioning the brand as an affordable luxury jewellery brand through TV, printed and outdoor advertisements, brochures, digital media, and points of sale. In 2011, translating marketing strategies to the digital world will be further strengthened through website, ecommerce, PANDORA Club and social media activities.

We have taken steps to further align our corporate and social responsibility standards globally among other things by formally adhering to the UN Global Compact. However, if we fail to adhere to our corporate and social responsibility standards or if we or any one of our suppliers fail to operate in compliance with applicable laws and regulations, are perceived by the public as failing to meet certain labour standards, or employ unfair labour practices, our reputation and business could be affected.

**Financial risks**
For information on financial risks, see note 21.

**Fluctuations in prices of raw materials**
PANDORA offers handmade jewellery products made, in particular, of sterling silver and gold, which account for a significant part of cost of goods sold. An increase in these prices together with a limited ability to transfer such increased costs to end-consumers may have a material adverse effect on PANDORA's business and results.

PANDORA's finance policy requires that exposure is mitigated. We use future contracts related to both silver and gold. These contracts mitigate between 100% and 40% of the exposure from 1 to 12 months forward with a hedge ratio decreasing with time to maturity.

**Global economic conditions**
An economic downturn or an uncertain economic outlook in one or more of our geographical markets could adversely affect consumer spending habits. PANDORA has entered new markets in 2010 and will continue the expansion in 2011. This will decrease the dependency on individual markets.

**Intellectual property rights**
We rely on a combination of patents, trademarks, trade secrets, copyrights and contractual restrictions to protect our intellectual property rights. We aim to use and safeguard our intangible assets by securing all key trademarks globally, patenting key innovations in key geographies, vigorously defending our patents and trademarks, and selectively registering and defending our designs.

**Political unrest in Thailand**
The concentration of production facilities in Thailand means that PANDORA's operations are dependent on the degree to which raw materials can be imported into Thailand, manufacturing is uninterrupted and products can be exported from Thailand. The political situation in Thailand in the beginning of 2010 did not affect our operations. Previously, political unrest in Thailand has caused a few days of temporarily disruption of the supply chain, e.g. in late 2008. PANDORA continuously evaluates the benefit and risk of the concentration of production in Thailand, although PANDORA has not experienced any material disruptions during more than 20 years of production.

**Internal controls and risk management systems in relation to the financial reporting process**
The purpose of PANDORA's internal controls and risk management systems in relation to the financial reporting process is to ensure that the internal and external financial statements are presented in accordance with IFRS as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies, and to ensure that the financial statements give a true and fair view free from material misstatement. While the internal control and risk management system aims to ensuring that material errors or irregularities are identified and corrected, it provides no absolute assurance that all errors are detected and corrected.

The internal control and risk management systems are under continuous development and comprise the following areas:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

*Control environment*
The Board of Directors has set up an Audit Committee that assists the Board of Directors in supervising the financial reporting process and the efficiency of PANDORA's internal control and risk management systems.

The Executive Board is responsible for maintaining efficient controls and risk management system. The Executive Board has implemented the controls necessary to address the risks identified in relation to financial reporting.
The composition of the Board of Directors, Audit Committee and the Executive Board ensures the availability of relevant competencies with respect to internal controls and risk management in relation to the financial reporting process.

*Risk assessment*
The Board of Directors and Executive Board assess risks on an ongoing basis, including risks related to financial reporting.

The Audit Committee reviews certain high-risk areas at least once a year, including the following:

- Significant accounting estimates
- Material changes to the accounting policies

At least once a year, the Audit Committee oversees the current internal controls to consider whether they are effective in relation to the risks identified in the financial reporting process. Based on the size and complexity of PANDORA, it has been decided to work towards establishment of an internal audit function.

*Control activities*
PANDORA operates with four global core finance teams in the largest operating entities within the Group. The core teams are the finance organisations in Australia, USA and Central Eastern Europe together with the Danish finance organisation.

Controlling functions in the corporate finance function, reporting to the Cheif Financial Officer, are responsible for controlling the financial reporting from the Parent Company and the subsidiaries. The skills of the corporate finance function are reviewed on an ongoing basis in order to ensure an appropriate and satisfactory control environment.

*Information and communication*
PANDORA has established corporate accounting guidelines for all local finance managers.

At least twice a year, PANDORA carries through a finance manager conference in order to discuss updates on latest development within significant accounting matters and best practice regarding internal controls.

*Monitoring*
Financial reporting from subsidiaries is controlled on an ongoing basis and procedures are established for control and testing of such reporting. Procedures are also set up to ensure that any errors are communicated to and corrected by the reporting companies.

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

**AUDIT**

PANDORA's external auditors are appointed for a term of one year by the Annual General Meeting upon recommendation from the Audit Committee. Before such recommendation, the Board of Directors assesses, in consultation with Executive Board, the independence and competencies and other matters pertaining to the auditors.

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

# SHAREHOLDER INFORMATION

PANDORA shares are listed on the NASDAQ OMX Copenhagen stock exchange and are included in the NASDAQ OMX blue chip index OMXC20.

## TURNOVER

First trading day for the PANDORA shares on NASDAQ OMX Copenhagen was 5 October 2010 after being offered at the IPO at DKK 210. From first trading day until end 2010, total trading in PANDORA shares amounted to approximately DKK 11 billion. The lowest average price was DKK 240 on 18 October 2010 and highest average price was DKK 345 on 14 December 2010.

## DIVIDEND

It is our policy to pay a dividend of approx. 35% of the profit for the year after tax, with due consideration to PANDORA's growth plan and liquidity. For the financial year 2010, the Board of Directors proposes a dividend of 35% of profit for the year after tax, corresponding to DKK 5 per share.

PANDORA shares are traded ex-dividend the day after the Annual General Meeting, which will be held on 8 April 2011. The dividend will be paid automatically via the VP Securities on 14 April 2011.

## SHAREHOLDERS

As of 31 December 2010, PANDORA's largest shareholder was Prometheus Invest ApS, company registration number (CVR. no.) 28 48 30 23, holding 74,700,850 shares with a nominal value of DKK 1 each in PANDORA A/S equivalent to 57% of the share capital and the corresponding number of voting rights as announced 8 October 2010.

## INVESTOR RELATIONS

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

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

PANDORA will ensure that it is perceived as visible, accessible, reliable and professional by the stock market and that PANDORA is regarded among the best relative to comparable companies. This will be achieved while observing the rules and legislation for listed companies on NASDAQ OMX and by complying with PANDORA's internal policies.

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

**Spokes persons**

The following functions are authorised to communicate with the investment community (including analysts, stockbrokers, individuals and institutional investors) unless otherwise agreed:

- Chairman of Board of Directors
- Executive Board
- Investor relations

**Company announcement**
The publication of company announcements takes place in accordance with the rules set forth in Danish legislation. Immediately after publication, the information is published on PANDORA's website. Regulatory company announcements and financial reports appear in English and Danish. All other information appears in English only.

**Meetings**
It is the policy to hold meetings with interested investors and analysts regularly in both large and small groups and individually. At such meetings, PANDORA's general circumstances are discussed, but insider information is never disclosed.

When asked to review analyst drafts reports, PANDORA will limit its review and comments to the following:

- Correcting historical factual information only
- Pointing out information that is in the public domain
- Provide information that PANDORA believes is clearly non-material
- Discussing generally factors that might influence the underlying assumptions used for future projections

**Silent period**
For a period of four weeks prior to the planned release of full year and three weeks prior to quarterly financial reports, PANDORA does not comment on matters related to financial results or expectations.

**Conference call**
Upon the release of the financial statements and other major news, PANDORA holds conference calls or video transmissions that can be followed from the website at the same time as the meeting, along with accompanying presentations.

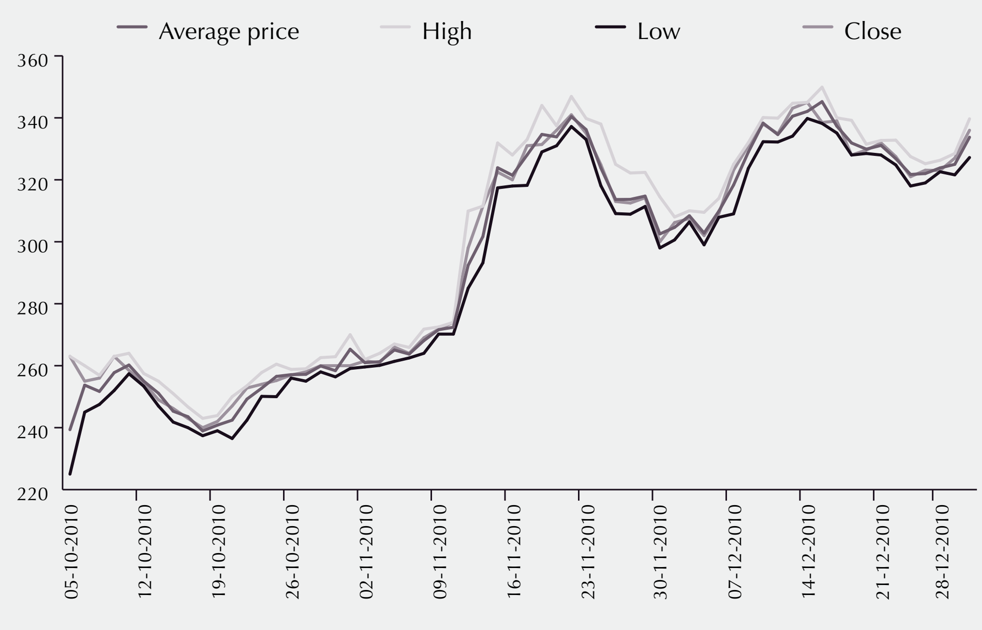
**External conferences and presentations**
Speeches and presentations from conferences, road shows, investor meetings and the like are available on the website at the same time as the event or as soon as possible afterwards. It is also possible to track planned activities and events via the online financial calendar.

**Capital markets days and similar events**
PANDORA holds capital markets days and similar events as needed. All speeches and presentations are available at the same time as the event or as soon as possible afterwards.

**SHAREHOLDERS (FREE FLOAT)**

| | Shares | Ownership |
|---|---|---|
| Prometheus Invest ApS | 74,700,850 | 57% |
| Treasury shares | 182,925 | 0% |
| Free float | 55,259,483 | 43% |
| **Total** | **130,143,258** | **100%** |

## SHARE PRICE 2010




**Financial calendar 2011**

| | |
|---|---|
| 08-04-2011 | Annual General Meeting |
| 14-04-2011 | Payment of annual dividend |
| 19-05-2011 | Interim report for the first quarter of 2011 |
| 16-08-2011 | Interim report for the second quarter of 2011 |
| 22-11-2011 | Interim report for the third quarter of 2011 |

**Share information**

| | |
|---|---|
| Exchange: | NASDAQ OMX Copenhagen |
| Trading symbol: | PNDORA |
| Identification number/ISIN: | DK0060252690 |
| Number of Shares: | 130,143,258 |
| GICS : | 25203010 |
| Sector: | Apparel, Accessories & Luxury Goods |
| Segment: | Large |

## ANALYSTS COVERING PANDORA

| Firm | Analyst | Contact Information |
|---|---|---|
| ABG Sundal Collier | Frans Høyer | frans.hoyer@abgsc.dk<br>Phone: +45 33 18 61 16 |
| Berenberg Bank | Seth Peterson | seth.peterson@berenberg.com<br>Phone: +44 78 3343 9402 |
| Bryan Garnier & Co | Peter Farren | pfarren@bryangarnier.com<br>Phone: +33 (0)1 56 68 75 72 |
| Carnegie | Jesper Breitenstein | jesper.breitenstein@carnegie.dk<br>Phone: +45 32 88 02 43 |
| Danske Bank | Kenneth Leiling | kele@danskebank.dk<br>Phone: +45 51 24 23 67 |
| Goldman Sachs | William Hutchings | william.hutchings@gs.com<br>Phone: +44 20 7051 3017 |
| Jyske Bank | Jens Houe Thomsen | jht@jyskebank.dk<br>Phone: +45 89 89 70 42 |
| Morgan Stanley | Louise Singlehurst | louise.singlehurst@morganstanley.com<br>Phone: +44 20 7425 7239 |
| Nordea | Dan Wejse | dan.wejse@nordea.com<br>Phone: +45 33 33 24 09 |
| SEB Enskilda | Michael K. Rasmussen | michael.rasmussen@enskilda.dk<br>Phone: +44 207 246 4420 |
| Sydbank | Søren Løntoft Hansen | s.loentoft@sydbank.dk<br>Phone: +45 74 37 44 64 |

# BOARD OF DIRECTORS

**Allan Leighton (born 1953)**
*Chairman*
*Independent member of Board since 2010*
*Member of Remuneration and Nomination Committees*

Other board memberships:
- Loblaw Companies (P and DC)
- Selfridges & Co (DC)
- George Weston (DC)
- BskyB Group (BM)

**Torben Ballegaard Sørensen (born 1951)**
*Deputy Chairman*
*Independent member of Board since 2008*
*Member of Remuneration and Nomination Committees*

Other board memberships:
- Realfiction (C)
- Tajco Group (C)
- Thomas (C)
- CAT Forsknings- og Teknologipark (C)
- Monberg & Thorsen (DC)
- Systematic (DC)
- AB Electrolux (BM)
- AS3 Companies (BM)
- Egmont International Holding (BM)
- LEGO (BM)
- Årstiderne Arkitekter Herning (BM)

**Andrea Alvey (born 1967)**
*Independent member of Board since 2010*
*Member of Audit Committee*

Other board memberships:
- Kitabco (P)

**Marcello V. Bottoli (born 1962)**
*Independent member of Board since 2010*
*Member of Remuneration and Nomination Committees*

Other board memberships:
- International Flavour & Fragrances (BM)
- True Religion Apparel (BM)

**Sten Daugaard (born 1957)**
*Independent member of Board since 2010*
*Chairman of Audit Committee*

Other board memberships:
- LEGO (Chief Financial Officer)
- LEGO System (BM)

**Christian Frigast (born 1951)**
*Member of Board since 2010*
*Member of Remuneration and Nomination Committees*

Other board memberships:
- Royal Scandinavia (DC)
- Torm (DC)
- DVCA (DC)
- Axcel Management (Managing partner)
- Noa Noa (BM)
- Prometheus Invest (BM)

**Erik D. Jensen (born 1943)**
*Member of Board since 2008*
*Member of Audit Committee*

Other board memberships:

- MLA Gruppen (C)
- PBI Holding (C)
- Royal Scandinavia (C)
- Royal Copenhagen (BM)
- Ejnar og Meta Thorsens Fonden (BM)

**Nikolaj Vejlsgaard (born 1971)**
*Member of Board since 2008*
*Member of Audit Committee*

Other board memberships:

- Axcel Management (Partner)
- Georg Jensen (DC)
- Royal Copenhagen (DC)
- Royal Scandinavia (BM)
- Prometheus Invest (Chief Executive Officer and BM)

(P) President
(C) Chairman
(DC) Deputy Chairman
(BM) Board member

# EXECUTIVE MANAGEMENT

**Mikkel Vendelin Olesen**
*Chief Executive Officer*

Other board memberships:
- Svendsen Sport (BM)

**Henrik Holmark**
*Chief Financial Officer*

**Thomas Ryge Mikkelsen**
*Chief Development Officer*

Other board memberships:
- Prokura (BM)

(BM) Board member

# MANAGEMENT STATEMENT

Today, the Board of Directors and Executive Board have discussed and approved the annual report of PANDORA A/S for the financial year 1 January 2010 - 31 December 2010.

The annual report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports, cf. the financial reporting requirements issued by NASDAQ OMX Copenhagen for listed companies and the IFRS order issued in accordance with 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 Group's and the Parent Company's financial position as at 31 December 2010 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January 2010 - 31 December 2010.

In our opinion, the Management report includes a fair review of the development in the Parent Company's and the Group's operations and economical conditions, the results for the year and the Parent Company's financial position, and the position as a whole for the entities included in the consolidated financial statements, as well as a review of the more significant risks and uncertainty the Parent Company and the Group face, in accordance with Danish disclosure requirements for listed companies. We recommend that the annual report is approved at the Annual General Meeting of shareholders.

Copenhagen, 15 March 2011

**Executive Board:**

Mikkel Vendelin Olesen
*Chief Executive Officer*

Henrik Holmark
*Chief Financial Officer*

**Board of Directors**

Allan Leighton
*Chairman*

Torben Ballegaard Sørensen
*Deputy Chairman*

Andrea Alvey

Marcello V. Bottoli

Sten Daugaard

Christian Frigast

Erik D. Jensen

Nikolaj Vejlsgaard

# INDEPENDENT AUDITORS' REPORT

**To the shareholders of PANDORA A/S**

**REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS**

We have audited the consolidated financial statements and the Parent Company financial statements of PANDORA A/S for the financial year 1 January 2010 to 31 December 2010, which comprise the income statement, comprehensive income statement, balance sheet, statement of changes in shareholders equity, cash flow statement for the year then ended and notes, including a summary of significant accounting policies, for the Group and the Parent Company. The consolidated financial statements and the Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

**THE BOARD OF DIRECTORS AND EXECUTIVE BOARD'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS**

The Board of Directors and Executive Board are responsible for the preparation and presentation 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 Danish disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of consolidated financial statements and Parent Company financial statements that give a true and fair view, free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**AUDITOR'S RESPONSIBILITY AND BASIS OF OPINION**

Our responsibility is to express an opinion on the consolidated financial statements and the Parent Company financial statements based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the Parent Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and Parent Company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of consolidated financial statements and Parent Company financial statements that give a true and fair view 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 entity's internal control. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit did not result in any qualification.

**OPINION**

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 2010 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January 2010 to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

**STATEMENT ON THE MANAGEMENT'S REVIEW**

The Board of Directors and Executive Board are responsible for the preparation of a management's review that includes a fair review in accordance with the Danish disclosure requirements for listed companies.

The audit has not included the Management's review. Pursuant to the Danish Financial Statements Act, we have, however, read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the Parent Company financial statements.
On this basis, it is our opinion that the information in the Management's review is consistent with the consolidated financial statements and the Parent Company financial statements.

Copenhagen, 15 March 2011

**Ernst & Young**
Godkendt Revisionspartnerselskab

Robert Christensen
*State Authorised Public Accountant*

Niels-Jørgen Andersen
*State Authorised Public Accountant*

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# CONSOLIDATED INCOME STATEMENT

**1 JANUARY - 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
| --- | --- | --- | --- |
| Revenue | 2 | 6,666 | 3,461 |
| Cost of sales | | -1,941 | -1,073 |
| Gain and losses on raw material derivatives | | - | 83 |
| **Gross profit** | | **4,725** | **2,471** |
| Distribution expenses | | -1,733 | -743 |
| Administrative expenses | | -576 | -304 |
| **Operating profit** | | **2,416** | **1,424** |
| Financial income | 10 | 54 | 44 |
| Financial expenses | 11 | -218 | -279 |
| **Profit before tax** | | **2,252** | **1,189** |
| Income tax expenses | 12 | -381 | -184 |
| **Net profit for the year** | | **1,871** | **1,005** |
| **Attributable to:** | | | |
| Equity holders of PANDORA A/S | | 1,846 | 970 |
| Non-controlling interests | | 25 | 35 |
| | | **1,871** | **1,005** |
| **Earnings per share** | 13 | | |
| Profit for the year attributable to ordinary equity holders of the parent, basic | | 15 | 8 |
| Profit for the year attributable to ordinary equity holders of the parent, diluted | | 15 | 8 |

# CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

**1 JANUARY - 31 DECEMBER**

| DKK million | 2010 | 2009 |
|---|---|---|
| **Net profit for the year** | **1,871** | **1,005** |
| Exchange differences on translation of foreign subsidiaries | 402 | 45 |
| Value adjustment of hedging instruments | 299 | - |
| Income tax on other comprehensive income | 3 | - |
| **Other comprehensive income, net of tax** | **704** | **45** |
| **Total comprehensive income for the year** | **2,575** | **1,050** |
| **Attributable to:** | | |
| Equity holders of PANDORA A/S | 2,519 | 1,015 |
| Non-controlling interests | 56 | 35 |
| **Total** | **2,575** | **1,050** |

# CONSOLIDATED BALANCE SHEET

**AT 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 14 | 1,905 | 1,208 |
| Brand | 14 | 1,052 | 1,047 |
| Distribution network | 14 | 366 | 396 |
| Distribution rights | 14 | 1,128 | 884 |
| Other intangible assets | 14 | 39 | - |
| Property, plant and equipment | 16 | 374 | 205 |
| Deferred tax assets | 17 | 107 | 77 |
| Other non-current financial assets | | 28 | 21 |
| **Total non-current assets** | | **4,999** | **3,838** |
| **Current assets** | | | |
| Inventories | 18 | 1,272 | 433 |
| Trade receivables | 19 | 834 | 622 |
| Other receivables | | 533 | 58 |
| Tax receivables | | 97 | 41 |
| Cash and short-term deposits | | 1,224 | 824 |
| **Total current assets** | | **3,960** | **1,978** |
| **Total assets** | | **8,959** | **5,816** |

# CONSOLIDATED BALANCE SHEET

**AT 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 22 | | |
| Share capital | | 130 | 1 |
| Share premium | | 1,248 | - |
| Treasury shares | | -38 | - |
| Foreign currency translation reserve | | 521 | 164 |
| Other reserves | | 390 | 11 |
| Proposed dividend for the year | | 650 | - |
| Retained earnings | | 1,414 | 1,276 |
| **Equity attributable to equity holders of the Parent Company** | | **4,315** | **1,452** |
| Non-controlling interests | | - | 197 |
| **Total shareholders' equity** | | **4,315** | **1,649** |
| **Non-current liabilities** | | | |
| Subordinated loan from parent company | | - | 1,363 |
| Interest-bearing loans and borrowings | | - | 1,340 |
| Provisions | 23 | 536 | 4 |
| Deferred tax liabilities | 17 | 606 | 559 |
| Other long-term liabilities | | 18 | - |
| **Total non-current liabilities** | | **1,160** | **3,266** |
| **Current liabilities** | | | |
| Subordinated loan from parent company | | - | 37 |
| Interest-bearing loan and borrowings | | 2,326 | 235 |
| Provisions | 23 | 76 | 64 |
| Trade payables | | 245 | 106 |
| Income tax payables | | 351 | 207 |
| Other payables | | 486 | 252 |
| **Total current liabilities** | | **3,484** | **901** |
| **Total liabilities** | | **4,644** | **4,167** |
| **Total equity and liabilities** | | **8,959** | **5,816** |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| DKK million | Notes | Share capital | Share premium | Treasury shares | Foreign currency translation reserve | Other reserves | Proposed dividend | Retained earnings | Atributable to equity holders of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity at 1 January 2010 | | 1 | - | - | 164 | 11 | - | 1,276 | 1,452 | 197 | 1,649 |
| Reclassification *) | | | | | -14 | | | 21 | 7 | -7 | - |
| Net profit for the year | | | | | | | | 1,846 | 1,846 | 25 | 1,871 |
| Other comprehensive income | | | | | 371 | 302 | | | 673 | 31 | 704 |
| **Total comprehensive income for the year** | | | | | **371** | **302** | | **1,846** | **2,519** | **56** | **2,575** |
| Sharebased payments | 7 | | | | | 6 | | | 6 | | 6 |
| Capital increase | 22 | 125 | 675 | | | | | | 800 | | 800 |
| Capital increase , Initial Public Offering | 22 | 3 | 573 | | | | | | 576 | | 576 |
| Capital increase, bonus shares and warrants | 22 | 1 | | | | -1 | | | - | | - |
| Proposed and Declared dividend | 13 | | | | | | 1,650 | -1,650 | - | | - |
| Paid dividend | 13 | | | | | | -1,000 | | -1,000 | | -1,000 |
| Capital infusion | 22 | | | | | 74 | | | 74 | | 74 |
| Non-controlling interests arising on business combination | 4 | | | | | | | | - | 820 | 820 |
| Minority shareholder with put-option reclassified to provision | | | | | | | | | - | -410 | -410 |
| Remeasurement of put-option | | | | | | | | | - | -39 | -39 |
| Dividend paid to non-controlling interests | | | | | | | | | - | -53 | -53 |
| Acquisition of non-controlling interests | 4 | | | | | | | -79 | -79 | -564 | -643 |
| Purchase of treasury shares | 22 | | | -40 | | - | | | -40 | | -40 |
| Disposal of treasury shares | 22 | | | 2 | | -2 | | | - | | - |
| **Shareholders' equity at 31 December 2010** | | **130** | **1,248** | **-38** | **521** | **390** | **650** | **1,414** | **4,315** | **-** | **4,315** |
| Shareholders' equity at 1 January 2009 | | | | | 119 | 2 | | 307 | 428 | | 428 |
| Net profit for the year | | | | | | | | 970 | 970 | 35 | 1,005 |
| Other comprehensive income | | | | | 45 | | | | 45 | | 45 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **45** | **-** | **-** | **970** | **1,015** | **35** | **1,050** |
| Share-based payments | 7 | | | | | 8 | | | 8 | | 8 |
| Capital increase | | 1 | | | | | | -1 | - | | - |
| Sale of warrants | | | | | | 1 | | | 1 | | 1 |
| Non-controlling interests arising on business combination | 4 | | | | | | | | - | 162 | 162 |
| Capital contribution, non-controlling interest | | | | | | | | | - | | - |
| **Shareholders' equity at 31 December 2009** | | **1** | **-** | **-** | **164** | **11** | **-** | **1,276** | **1,452** | **197** | **1,649** |

*) Non-controlling interests part of depreciation of distribution right including tax effect and foreign currency translation reserve as of 31 December 2009.

# CONSOLIDATED CASH FLOW STATEMENT

**1 JANUARY - 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| Profit before tax | | 2,252 | 1,189 |
| Financial income | 10 | -54 | -44 |
| Financial expenses | 11 | 218 | 279 |
| Amortisation/depreciation | | 265 | 148 |
| Warrants | 6 | 6 | 8 |
| Change in inventories | | -665 | -139 |
| Change in receivables | | -308 | -174 |
| Change in trade payables | | 37 | 199 |
| Change in other liabilities | | 192 | 28 |
| | | **1,943** | **1,494** |
| Other non-cash adjustments | | 31 | 17 |
| Interest paid | | -299 | -238 |
| Interest received | | 17 | 28 |
| Income tax paid | | -376 | -235 |
| **Cash flow from operating activities** | | **1,316** | **1,066** |
| Acquisition of subsidiaries, net of cash acquired | | -94 | -75 |
| Purchase of intangible assets | 14 | -52 | -15 |
| Purchase of property, plant and equipment | 16 | -210 | -103 |
| Change in other non-current assets | | 3 | -14 |
| Proceeds from sale of property, plant and equipment | | 49 | - |
| **Cash flow from investing activities** | | **-304** | **-207** |
| Capital increase including share premium net of transaction costs | | 651 | - |
| Dividend paid to parent company | | -200 | - |
| Dividend paid to non-controlling interests | | -40 | - |
| Purchase and disposal of treasury shares | | -38 | - |
| Proceeds from selling warrants | | - | 1 |
| Acquisition of non-controlling interests | | -593 | - |
| Proceeds from borrowings | | 2,775 | - |
| Repayment of borrowings | | -3,199 | -344 |
| **Cash flow from financing activities** | | **-644** | **-343** |
| **Net cash flow for the year** | | **368** | **516** |
| Cash and short-term deposits at 1 January | | 824 | 305 |
| Net exchange rate adjustment | | 32 | 3 |
| Net cash flow for the year | | 368 | 516 |
| **Cash and short-term deposits at 31 December** | | **1,224** | **824** |
| Unutilised credit facilities inclusive cash and cash equivalents | | 1,382 | 859 |

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

# NOTES

# NOTES

## NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

**Significant accounting estimates and judgements**
In preparing the consolidated financial statements, Management makes various accounting estimates and assumptions which form the basis of presentation, recognition and measurement of PANDORA's assets and liabilities. The most significant accounting estimates and judgements are presented below. PANDORA's significant accounting policies are described in detail in note 27 to the consolidated financial statements.

**Accounting estimates and estimation uncertainty**
Determining the carrying amount of some assets and liabilities requires estimates and assumptions concerning future events. The estimates and assumptions made are based on historical experience and other factors which Management assesses to be reliable, but which by their nature are associated with uncertainty and unpredictability. These assumptions may prove to be incomplete or incorrect, and unexpected events or circumstances may arise.

PANDORA is also subject to risks and uncertainties which 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 key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date which involve a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are presented below.

*Business combination*
For acquisitions of new entities, the assets, liabilities and contingent liabilities of the acquiree are recognised using the acquisition method. In January 2010 PANDORA acquired 51% of the former German distributor. The acquisition were performed through a contribution from the Group of distribution rights in the Netherlands, Italy and an increase in the distribution right for Germany, Austria and Switzerland, while the former German distributor contributed the ongoing business in Germany, Austria and Switzerland, including the distribution rights for PANDORA products for the remaining 1.5 year of the distribution agreement. The Management estimated the fair value of the consideration transferred (part of the Group's distribution rights) in the formation at DKK 820 million. The fair value was estimated based on a call and a put option for the remaining 49% of the shares with a shared strike price. The most significant assets acquired in this business combination were the distribution right for Germany, Austria and Switzerland and the residual goodwill.

The distribution right for Germany, Austria and Switzerland is a reacquired right. The measurement of the distribution rights at fair value is done on the basis of the remaining contractual term of the contract for 1.5 year regardless of potential contract renewal. The distribution right is measured based on the Multi-period Excess Earnings Model and is amortised over the remaining useful life of 1.5 year.

As of 31 December 2010, the carrying amount of the distribution right is DKK 91 million.

As of 31 December 2010, the carrying amount of goodwill related to the purchase of the former German distributor is DKK 591 million.

## NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS, CONTINUED

*Earn out in connection with the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe A/S*

The purchase price of the 49% non-controlling interests in PANDORA Jewelry Central Western Europe A/S is based on an earn-out on the future earnings of PANDORA Jewelry Central Western Europe A/S. The earn-out is calculated as adjusted EBITDA 2014 in PANDORA Jewelry Central Western Europe A/S multiplied with 3, with subtraction of net interest bearing debt as at 31 December 2014 and a subtraction of DKK 15 million.

PANDORA's obligation to settle the earn-out payment in 2015 is treated as a provision. The present value of the earn-out provision is based on a discount rate of 11.9 %. It is expected that the value of this provision will increase over time until payment due to unwinding of the discount. Changes in the value of the earn-out, whether as a result of discounting, actual results or otherwise as a result of revised budgeting and forecasting in future periods, is reflected in the income statement as financial income or expenses.

As of 31 December 2010, the carrying amount of the earn-out provision is DKK 518 million.

*Tax*

Executive Board applies certain estimates based on historical practice in setting up PANDORA's transfer pricing policy. The estimates affects the calculated tax and the recognized assets and liabilities related to this. Due to significant differences in tax rates between the Group entities, a change in the distribution of the Group's profit could have significant impact on the Group's consolidated tax payments.

**Judgements in applying the accounting policies**

In applying PANDORA's accounting policies, Management makes judgements which may significantly influence the amounts recognised in the consolidated financial statements.

In the process of applying PANDORA's accounting policies, Management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

*Measurement of non-controlling interests*

Management has decided to measure the non-controlling interests in PANDORA Jewelry Central Western Europe A/S at fair value including goodwill. This has impacted the size of goodwill as well as the non-controlling interests from the date of acquisition.

Likewise, in 2009 Management measured the non-controlling interests in Ad Astra holdings Pty Limited at fair value. This has impacted the size of goodwill as well as the non-controlling interests.

*Put option*

Management decided that the potential purchase price obligations from put options granted to minority shareholders of fully consolidated companies are recognised at their present value of the amount payable upon exercise of the option in provisions, if PANDORA does not have an unconditional right to avoid delivering cash or other assets. If PANDORA still has present access to the benefits associated with the interests, the non-controlling interests

# NOTES

## NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS, CONTINUED

are still attributed its share of profits and losses (and other changes in equity). The financial liability is recognised at the acquisition date and reclassified from non-controlling interests to provisions. At the end of all subsequent reporting periods, the financial liability is remeasured as if the option had been exercised at that date. Subsequent changes to measurement are accounted for as a change in non-controlling interests.

*Hedging*
PANDORA has begun to use hedge accounting for commodity contracts designated as cash flow hedges from 1 January 2010, since from this date PANDORA formally designates and documents hedge relationships between commodity contracts and transactions.

## NOTE 2. OPERATING SEGMENT INFORMATION

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

In determining the reporting segments, a number of operating segments have been aggregated. All segments derive their revenues from the types of products shown in the product information provided below.

Management monitors the segment profit of the operating segments separately for the purpose of making decisions about resource allocation and performance management. Segment profit is measured consistently with the operating profit in the consolidated financial statement before non-current assets are amortised/depreciated (EBITDA).

AT 31 DECEMBER 2010

| DKK million | Americas | Europe | Asia Pacific | Unallocated cost | Total Group |
|---|---|---|---|---|---|
| **Income Statement:** | | | | | |
| **External revenue** | **2,914** | **2,859** | **893** | **-** | **6,666** |
| **Segment profit (EBITDA)** | **1,479** | **1,282** | **402** | **-479** | **2,684** |
| Adjustments: | | | | | |
| Amortisation/depreciation | | | | | -265 |
| Gain/losses from sale of non-current assets | | | | | -3 |
| **Consolidated operating profit** | | | | | **2,416** |

## NOTE 2. OPERATING SEGEMENT INFORMATION, CONTINUED

AT 31 DECEMBER 2009

| DKK million | Americas | Europe | Asia Pacific | Unallocated cost | Total Group |
|---|---|---|---|---|---|
| **Income Statement:** | | | | | |
| **External revenue** | **1,558** | **1,207** | **696** | **-** | **3,461** |
| **Segment profit (EBITDA)** | **792** | **642** | **404** | **-264** | **1,574** |
| Adjustments: | | | | | |
| Amortisation/depreciation | | | | | -148 |
| Gain/losses from sale of non-current assets | | | | | -2 |
| **Consolidated operating profit** | | | | | **1,424** |

**Product information:**
Revenue from external customers

| DKK million | 2010 | 2009 |
|---|---|---|
| Charms | 4,630 | 2,537 |
| Silver and gold charms bracelets | 786 | 523 |
| Rings | 420 | 110 |
| Other jewellery | 830 | 291 |
| | **6,666** | **3,461** |

**Geographic information:**
Revenue from external customers

| DKK million | 2010 | 2009 |
|---|---|---|
| United States | 2,518 | 1,459 |
| Australia | 786 | 649 |
| United Kingdom | 995 | 472 |
| Germany | 679 | 348 |
| Other countries* | 1,688 | 533 |
| | **6,666** | **3,461** |

* PANDORA A/S' country of domicile is Denmark which is included in "Other countries".

# NOTES

## NOTE 2. OPERATING SEGEMENT INFORMATION, CONTINUED

In 2009 one external customer accounted for 10 per cent or more of PANDORA's revenue. The former German distributor is included with revenue of DKK 348 million in 2009. The former German distributor was acquired in 2010 (please refer to note 3) and no external customer accounts for 10 per cent or more of PANDORA's revenue in 2010.

**Non-current tangible and intangible assets:**

| DKK million | 2010 | 2009 |
|---|---|---|
| Denmark | 1,910 | 1,888 |
| Thailand | 521 | 401 |
| United States | 1,290 | 1,112 |
| Australia | 413 | 325 |
| Germany | 703 | - |
| Other countries | 27 | 14 |
| | **4,864** | **3,740** |

# NOTES

## NOTE 3. BUSINESS COMBINATIONS

### Aquisition in 2010

**Acquisition of the German distributor**

On 5 January 2010, the Group formed PANDORA Jewelry Central Western Europe A/S together with the former German distributor. The formation was done through contributions from the two shareholders. PANDORA A/S contributed distribution rights in the Netherlands and Italy, the latter being a new market, and extended the term of the distribution right for Germany, Austria and Switzerland, while the former German distributor contributed the ongoing business in Germany, Austria and Switzerland, including the distribution rights for PANDORA products for the remaining 1.5 years of the distribution agreement. Following the formation, PANDORA owns 51% and therefore has a controlling interest in PANDORA Jewelry Central Western Europe A/S, while the former German distributor owns 49% and therefore has a non-controlling interest. In accordance with IFRS 3, the formation constitutes an acquisition of the activities in the business of the former German distributor, whereas the contribution of the PANDORA assets is an intra-group transaction and does not impact the consolidated financial statements.

The formation and acquisition took place as part of PANDORA's plans to expand operations in both new and existing markets.

The Group has elected to measure the 49% non-controlling interests in the acquiree at fair value. The recognised amounts of the identifiable assets and liabilities of the former German distributor at the date of acquisition are:

| DKK million | Amounts recognised at 5 January 2010 |
|---|---|
| Intangible assets | 274 |
| Property, plant and equipment | 19 |
| Receivables | 26 |
| Inventories | 76 |
| Tax receivables | 4 |
| Other current assets | 8 |
| Cash and short-term deposits | 1 |
| | **408** |
| | |
| Non-current liabilities | 16 |
| Payables | 81 |
| Other current liabilities | 17 |
| Deferred tax | 65 |
| | **179** |
| Recognised value of net assets | 229 |
| Non-controlling interests measured at fair value | -820 |
| Goodwill arising on acquisition | 591 |
| **Purchase consideration** | **-** |
| | |
| Cash movements on acquisition: | |
| Purchase consideration transferred (included in cash outflow from investing activities) | - |
| Transaction costs of the acquisition (included from operation activities) | -2 |
| Net cash acquired with the subsidiary (included in cash outflow from investing activities) | 1 |
| **Net cash outflow on acquisition** | **-1** |

## NOTE 3. BUSINESS COMBINATIONS, CONTINUED

**Measurement of non-controlling interest**
As stated above, the non-controlling interest in the former German distributor is measured at fair value including goodwill. As the 51% shareholding was acquired by contributing own distribution rights, no cash consideration was transferred on the formation of the entity. The fair value of the purchase price and the non-controlling interest is estimated based on a call and put option for the remaining 49% of the shares with a shared strike price. The option price is based on a fixed amount and a variable amount.

**Transactions recognised separately from the acquisition**
In connection with the business acquisition, the Group paid transaction costs to advisors of DKK 2 million. These costs are expensed as administrative expenses in the consolidated income statement.

In connection with the acquisition, employment contracts with former shareholders were entered into. The contracts were entered into on an arm's length basis, including remuneration and other terms.

In connection to the formation of PANDORA Jewelry Central Western Europe A/S, the minority shareholder was granted a put-option, entitling the shareholder to sell 50% of the remaining 49% of the shares in PANDORA Jewelry Central Western Europe A/S to PANDORA under certain conditions not under PANDORA's control. This put option was recognised as a provision in the consolidated financial statements at the amount of the present value of the amount payable upon exercise of the option. At 5 January 2010, the provision was measured at DKK 410 million, which was deducted from the non-controlling interests within equity and reclassified to provisions.

No other arrangements were entered into either before or in connection to the business combination that should be considered in the overall evaluation of the accounting treatment of the business combination.

**Description of the acquired assets and liabilities**
Goodwill is stated at the amount by which the acquisition cost for the business combination exceeds the acquired share of the recognised amounts of the identifiable assets, liabilities and contingent liabilities. Goodwill comprises know-how, future growth expectations and synergies. None of the goodwill recognised is deductible for income tax purposes.

In the business combination, one intangible asset was identified and measured separately from goodwill: the distribution right for the PANDORA products on the German, Swiss and Austrian market of DKK 274 million. The distribution right is measured based on the Multi-period Excess Earnings Model and is amortised over its useful life of 1.5 years.

Acquired gross contractual receivables totalled DKK 31 million and consisted of trade receivables, which had been written down by DKK 5 million. The net receivables acquired of DKK 26 million are considered to be stated at fair value and are expected to be collected.

**NOTE 3. BUSINESS COMBINATIONS, CONTINUED**

**Post-combination and twelve month adjusted information**
From the date of acquisition, PANDORA Jewelry Central Western Europe A/S contributed DKK 1,005 million to the Group's revenue and DKK -41 million of the Group's after-tax profit for the year ended 31 December 2010.

As the acquisition took place on the 5 January 2010, twelve month adjusted information has not been prepared.

**Acquisition of non-controlling interests**
In connection to the Initial Public Offering of PANDORA the Group used the existing call options and purchased the remaining 49% non-controlling interests in PANDORA Jewelry Central Western Europe A/S. As a consequence of this purchase, the put-option was reversed. Please refer to note 4, "Purchase of non-controlling interests" for further information.

**Acquisition in 2009**

**Acquisition of the Australian distributor**
At 1 July 2009, PANDORA acquired 60% of the shares and obtained control of its Australian distributor, AD Astra Holdings Pty Limited. The acquisition took place as part of PANDORA's plans to expand operations in both new and existing markets.

PANDORA has elected to measure the 40% non-controlling interests in the acquiree at fair value.

## NOTE 3. BUSINESS COMBINATIONS, CONTINUED

The identifiable assets and liabilities of AD Astra Holdings Pty Limited recognised at the date of acquisition were:

| DKK million | Amounts recognised at 1 July 2009 |
|---|---|
| Intangible assets | 79 |
| Property, plant and equipment | 23 |
| Deferred tax assets | 4 |
| Receivables | 29 |
| Inventories | 144 |
| Other current assets | 10 |
| Cash and short-term deposits | 21 |
| | **310** |
| Provisions | 5 |
| Payables | 37 |
| Current liabilities, interest-bearing | 64 |
| Other current liabilities | 27 |
| Deferred tax | 22 |
| | **155** |
| Recognised value of net assets | 155 |
| Non-controlling interests measured at fair value | -162 |
| Goodwill arising on acquisition | 264 |
| **Purchase consideration** | **257** |
| Purchase considered transferred | 91 |
| Future cash payments measured at fair value | 166 |
| | **257** |
| **Cash movements on acquisition:** | |
| Purchase consideration transferred (included in cash outflow from investing activities) | -91 |
| Transaction costs oft the acquisition (included from operation activities) | -5 |
| Net cash acquired with the subsidiary (included in cash outflow from investing activities) | 21 |
| **Net cash outflow on acquisition** | **-75** |

**Transactions recognised separately from the acquisition**
In connection with the business acquisition, the Group paid transaction costs to advisors of DKK 5 million. The cost has been expensed within administrative expenses in the consolidated income statement.

In connection with the acquisition, an employment contract with one of the former shareholders was entered into. The contract was entered into on an arm's length basis, including remuneration and other terms. Since the acquisition, the employee has been paid in accordance with the contract, and the costs have been recognized in the consolidated income statement.

**NOTE 3. BUSINESS COMBINATIONS, CONTINUED**

The fair value of the 40% non-controlling interests in Ad Astra Holding Pty Limited has been estimated based on the price of a call/put option in the share purchase agreement. The fair value is based on a fixed purchase amount of AUD 40 million, which has been discounted to the net present value using a discount rate of 5.3%.

No other arrangements were entered into either before or in connection with the business combination that should be considered in the overall evaluation of the accounting treatment of the business combination.

**Description of the acquired assets and liabilities**

Goodwill is stated at the amount by which the acquisition cost for the business combination exceeds the recognised value of the identifiable assets, liabilities and contingent liabilities. Goodwill comprises know-how, future growth expectations and synergies. None of the goodwill recognised is deductible for income tax purposes.

In the business combination, one intangible asset was identified and measured separately from goodwill: the distribution rights for the PANDORA products in Australia and New Zealand (DKK 75 million), which had previously been contractually granted to Ad Astra Holdings Pty Limited. The distribution rights are measured based on the Multi-period Excess Earnings Model and is amortised over the remaining useful life of six months, which corresponds to the remaining contract term.

Acquired gross contractual receivables totalled DKK 29 million and consist of trade receivables. The receivables acquired are considered to be stated at fair value and are expected to be collected.

**Post-combination and twelve month adjusted information**

From the date of acquisition, Ad Astra Holdings Pty Limited contributed DKK 493 million to the Group's revenue and DKK 113 million of the Group's after-tax profit for the year ended 31 December 2009.

Had the acquisition taken place on 1 January 2009, management has estimated the Group's revenue to be DKK 3,565 million, the EBITDA DKK 1,627 million, the EBIT DKK 1,398 million, the pre-tax profit DKK 1,149 million and the after-tax profit DKK 977 million.

The twelve month adjusted information is based on the consolidated financial statements plus the full-year effect regarding Ad Astra Holdings Pty Limited plus the hypothetical full year effect regarding Ad Astra Holdings Pty Limited including the effect on income statement of hypothetical assets and liabilities arising on the acquisition. Related party transactions with Ad Astra Holdings Pty Limited are subsequently eliminated.

**Acquisition of non-controlling interests**

In connection to the Initial Public Offering of PANDORA A/S the Group used the existing call options and purchased the remaining non-controlling interests in Ad Astra Holdings Pty Limited. Please refer to note 4, "Purchase of non-controlling interests" for further information.

# NOTES

## NOTE 4. PURCHASE OF NON-CONTROLLING INTERESTS

In connection with the Initial Public Offering PANDORA exercised the call option to buy the respective non-controlling interests in AD Astra Holdings Pty Ltd. and PANDORA Jewelry Central Western Europe A/S.

In Ad Astra Holdings Pty Ltd. PANDORA purchased the remaining 40% of the shares for AUD 40 million.

The purchase price of the 49% non-controlling interests in PANDORA Jewelry Central Western Europe A/S is based on an earn-out on the future earnings of PANDORA Jewelry Central Western Europe A/S. The earn-out is calculated as adjusted EBITDA 2014 in PANDORA Jewelry Central Western Europe A/S multiplied with 3, with subtraction of net interest bearing debt as at 31 December 2014 and a subtraction of DKK 15 million.

The purchase price is paid with an upfront payment that has been performed in 2010 on DKK 385 million, while the remaining purchase consideration is to be paid in 2015. The payment in 2010 is performed by DKK 385 million in cash and settlement of intercompany accounts.

PANDORA's obligation to settle the earn-out payment in 2015 is treated as a provision. The present value of the earn-out provision is estimated to DKK 518 million as at 31 December 2010 based on a discount rate of 11.9 %. It is expected that the value of this provision will increase over time until payment due to unwinding of the discount. Changes in the value of the earn-out, whether as a result of discounting, actual results or otherwise as a result of revised budgeting and forecasting in future periods, are reflected in the income statement as financial income or expenses.

PANDORA is required to deliver the calculation of the earn-out payment on or before 31 March 2015.

# NOTES

## NOTE 5. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Intangible assets | 218 | 107 |
| Property, plant and equipment | 47 | 40 |
| Other non-current assets | - | 1 |
| | **265** | **148** |
| | | |
| Amortisation/depreciation and impairment losses have been recognised in the consolidated income statement as follows: | | |
| Cost of sales | 10 | 7 |
| Distribution expenses | 239 | 116 |
| Administrative expenses | 16 | 25 |
| | **265** | **148** |

# NOTES

## NOTE 6. EMPLOYEE BENEFIT EXPENSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 697 | 257 |
| Pensions, defined contribution plans | 36 | 5 |
| Share-based payments | 6 | 8 |
| Social security costs | 22 | 7 |
| Other staff costs | 84 | 18 |
| | **845** | **295** |
| Average number of employees during the year | 4,336 | 2,337 |
| The employee benefit expenses has been recognised in the consolidated income statement as follows: | | |
| Cost of sales | 171 | 64 |
| Distribution expenses | 441 | 113 |
| Administrative expenses | 233 | 118 |
| | **845** | **295** |
| **Compensation of key management personnel of PANDORA** | | |
| **Wages and salaries** | | |
| **Executive Board** | | |
| Mikkel Vendelin Olesen | 4.8 | 4.7 |
| Henrik Holmark | 2.9 | 2.7 |
| | **7.7** | **7.4** |
| **Board of Directors** | | |
| Allan Leighton | 0.9 | - |
| Torben Ballegaard Sørensen | 0.4 | - |
| Andrea Alvey | 0.2 | - |
| Marcello V. Bottoli | 0.2 | - |
| Sten Daugaard | 0.2 | - |
| Christian Frigast | 0.2 | - |
| Erik D. Jensen | 0.2 | - |
| Nikolaj Vejlsgaard | 0.2 | - |
| | **2.5** | **-** |
| **Share-based payments*** | | |
| **Executive Board** | | |
| Mikkel Vendelin Olesen | 1.4 | 1.9 |
| Henrik Holmark | 1.1 | 1.5 |
| | **2.5** | **3.4** |
| **Board of Directors** | | |
| Torben Ballegaard Sørensen | 1.4 | 1.9 |
| Erik D. Jensen | 0.3 | 0.4 |
| | **1.7** | **2.3** |

*) Please refer to note 7 for further information.

## NOTE 6. EMPLOYEE BENEFIT EXPENSES, CONTINUED

| Number of shares in PANDORA A/S | 2009 | Capital increase | Exercise of warrants | Purchase of shares | Selling of shares | 2010 |
|---|---|---|---|---|---|---|
| **Executive Board** | | | | | | |
| Mikkel Vendelin Olesen | 1,647 | 427,161 | 415,397 | - | -340,171 | 504,034 |
| Henrik Holmark | 1,318 | 341,729 | 331,713 | - | -271,935 | 402,825 |
| | **2,965** | **768,890** | **747,110** | **-** | **-612,106** | **906,859** |
| **Board of Directors** | | | | | | |
| Allan Leighton* | - | - | - | 12,380 | - | 12,380 |
| Torben Ballegaard Sørensen | 329 | 85,432 | 424,471 | - | -187,562 | 322,670 |
| Andrea Alvey | - | - | - | 2,857 | - | 2,857 |
| Marcello V. Bottoli | - | - | - | 4,761 | - | 4,761 |
| Sten Daugaard | - | - | - | 4,285 | - | 4,285 |
| Christian Frigast | 267 | 69,191 | - | 4,761 | -31,583 | 42,636 |
| Erik D. Jensen | 329 | 85,432 | 82,676 | - | -67,934 | 100,503 |
| Nikolaj Vejlsgaard | 178 | 46,127 | - | 2,380 | -21,055 | 27,630 |
| | **1,103** | **286,182** | **507,147** | **31,424** | **-308,134** | **517,722** |

*) Exclusive number of granted options in 2010, please refer to note 7 for further information.

# NOTES

## NOTE 7. SHARE-BASED PAYMENTS

Warrants are granted to members of Executive Board, selected members of the Board of Directors and other key employees in PANDORA. The plan was introduced to retain key employees until exit.

| Number of warrants | Executive Board | Board of Directors | Other employees | Total | Exercise price |
|---|---|---|---|---|---|
| Warrants outstanding at 1 January 2010 | 741 | 503 | 535 | 1,779 | |
| Warrants granted during the year | - | - | - | - | |
| Warrants utilised during the year | -741 | -503 | -535 | -1,779 | 1.21 |
| Warrants lapsed during the year | - | - | - | - | |
| **Warrants outstanding at 31 December 2010** | **-** | **-** | **-** | **-** | |
| | | | | | |
| Warrants outstanding at 1 December 2009 | 741 | 503 | 535 | 1,779 | |
| Warrants granted during the year | - | - | - | - | |
| Warrants lapsed during the year | - | - | - | - | |
| **Warrants outstanding at 31 December 2009** | **741** | **503** | **535** | **1,779** | |

**Utilising 2010**

In connection with the Initial Public Offering Executive Board, Board of Directors and other key employees exercised all their warrants.

Each warrant granted entitled the holder to subscribe one share in PANDORA at a rising strike price per share calculated as DKK 1 plus monthly interests of 0.6434% for each month from 1 March 2008 which carried an exercise price at DKK 1.21 per share. In 2009 PANDORA changed its legal form from a Danish private limited liability company to a Danish public limited liability company and in order to comply with the Danish corporate law requirements regarding minimum share capital, the share capital increased from DKK 125,000 to DKK 500,000. The increase of PANDORA' share was affected by issuance of bonus shares to its shareholders. As the bonus shares were issued to PANDORA's shareholders without any payment to PANDORA the issuance of the bonus shares reduced the value of the warrants. The value of the warrants was further reduced by PANDORAs declaration of a dividend of DKK 1,000 million and a subsequent conversion of DKK 800 million of this dividend into shares in PANDORA. The holders of warrants were to be placed in the same position as if these capital changes and the dividend had not been made. The holders of warrants were compensated by issuance of 1,003 bonus shares per exercised warrant in connection with their exercise. The total number of bonus shares granted was 1,784,337.

In addition, a number of further bonus shares were issued to the holders of the warrants as compensation for the portion of the declared dividend that was not converted into shares in PANDORA. The total number of compensated shares was 7,551.

## NOTE 7. SHARE-BASED PAYMENTS, CONTINUED

| Market value, assumptions | Grant date 2008 |
|---|---|
| Volatility | 37% |
| Risk-free interest rate | 3.65% |
| Exercise price | See above |
| Dividend | None |

The above assumptions concerns all issued warrants as at 31 December 2009.

The volatility is calculated on the basis of a group of peer enterprise. The peer enterprises were analysed over a two-year period with daily observations, following which the volatility used for the valuation was calculated as the median.

**Granted 2010**

The Chairman of the Board of Directors is eligible for a one-off additional bonus in a share amount of DKK 6.5 million if certain EBITDA (on an adjusted basis) targets defined in PANDORA's business plan are met for the full year periods of 2013, 2014 or 2015.

Based on a share price of 336.0 as of 31 December 2010 for PANDORA A/S the number of granted warrants would be equal to 19,345 shares.

The number of warrants is not included in the above table as the total number of warrants is dependent on future development in the share price.

## NOTE 8. DEVELOPMENT COSTS

Development costs recognised as an expense in the consolidated income statement during the financial year amount to DKK 12 million in 2010 (2009: DKK 8 million).

## NOTE 9. FEES TO THE AUDITORS APPOINTED BY THE COMPANY AT THE GENERAL MEETING, ERNST & YOUNG

| DKK million | 2010 | 2009 |
|---|---|---|
| Fee for statutory audit | 2 | 1 |
| Other assurance engagements | 5 | 1 |
| Tax consultancy | 5 | - |
| Other services | 6 | 4 |
| | **18** | **6** |

In 2010 DKK 16 million (2009: DKK 6 million) is recorded under administrative expenses and DKK 2 million (2009: 0 million) directly in equity.

# NOTES

## NOTE 10. FINANCIAL INCOME

| DKK million | 2010 | 2009 |
|---|---|---|
| Financial income originated from financial assets and liabilities at fair value through consolidated income statement: | | |
| Fair value adjustments on derivatives | 37 | 13 |
| Interest on derivatives | - | 15 |
| | **37** | **28** |
| Financial income originated from loans and receivables measured at amortised cost: | | |
| Interest income, bank | 2 | 1 |
| Interest income, loan and receivables | 9 | 13 |
| Other | 6 | 2 |
| | **17** | **16** |
| **Total financial income** | **54** | **44** |

## NOTE  11. FINANCIAL EXPENSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Financial expenses originated from financial assets and liabilities at fair value through consolidated income statement: | | |
| Fair value adjustments on derivatives | - | 5 |
| Interest on derivatives | 21 | - |
| | **21** | **5** |
| Financial expenses originated from financial liabilities measured at amortised cost: : | | |
| Exchange losses, net | 34 | 34 |
| Interest on subordinated loan | 25 | 85 |
| Interest on debt and borrowings | 89 | 119 |
| Other finance costs | 49 | 36 |
| | **197** | **274** |
| **Total financial expenses** | **218** | **279** |

## NOTE 12. INCOME TAX

| DKK million | 2010 | 2009 |
|---|---|---|
| **Income tax recognised in the consolidated income statement:** | | |
| Current income tax charge | 486 | 265 |
| Prior-year adjustments | -28 | -1 |
| Changes in deferred tax | -77 | -80 |
| **Income tax expense** | **381** | **184** |
| | | |
| **Tax reconciliation** | | |
| Accounting profit before tax | 2,252 | 1,189 |
| | | |
| At PANDORA's statutory income tax rate 25% (2009: 25%) | 563 | 297 |
| Tax effect of: | | |
| Effect of tax rates for foreign subsidiaries | 188 | 54 |
| Tax exempted income | -397 | -211 |
| Revaluation of deferred tax assets, net | 10 | 8 |
| Non deductible expenses | 44 | 34 |
| Changes in tax rates | - | 3 |
| Prior-year adjustments | -28 | -1 |
| Other | 1 | - |
| | **381** | **184** |
| | | |
| Effective income tax rate | 16.9% | 15.5% |

# NOTES

## NOTE 13. EARNINGS PER SHARE AND DIVIDEND

Basic earnings per share is calculated by dividing the net profit for the year attributable to shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the shareholders of the Parent Company by the diluted average number of ordinary shares outstanding during the year.

| DKK | 2010 | 2009 |
|---|---|---|
| **Profit attributable to the ordinary equity holders of the Parent Company** | **1,846** | **970** |
| Weighted average number of ordinary shares | 124,880,510 | 121,173,077 |
| Effect of share options | 1,367,784 | 1,787,889 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 126,248,294 | 122,960,966 |
| Basic earnings per share | 15 | 8 |
| Diluted earnings per share | 15 | 8 |

There have been no transactions between the reporting date and the date of completion of these financial statements involving shares that significantly would have changed the number of shares or potential shares in PANDORA.

In accordance with IAS 33, the following has been adjusted retrospectively as if taken place at 1 January 2009:

- New shares were issued in June 2010 in connection with a conversion of DKK 800 million of debt into equity. The new shares were issued at a discount.
- Management has been granted 1,784,337 bonus shares to compensate for the dilution in connection with the conversion of debt as described above. Please refer to note 7 for further information.
- The bonus shares issued at the ratio of three to one in connection with the capital increase in 2009.

**Dividend**

At the end of 2010, proposed dividends (not yet declared) is DKK 650 million (DKK 5 per share). Declared and paid dividend off DKK 1,000 million during the year is paid to the former shareholders. Please refer to Note 22 for further information.

No dividend is declared on treasury shares.

# NOTES

## NOTE 14. INTANGIBLE ASSETS

The majority of the intangible assets have been acquired through business combinations. Please refer to note 3, business combinations for explanation of the content of the acquired intangible assets in 2010 and 2009.

| DKK million | Goodwill | Brand | Distribution network | Distribution rights | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2010 | 1,208 | 1.047 | 451 | 884 | - | 3,590 |
| Acquisition of subsidiary undertakings | 591 | - | - | 274 | - | 865 |
| Additions | - | 5 | - | 4 | 43 | 52 |
| Disposals | - | - | - | - | -2 | -2 |
| Exchange rate adjustment | 106 | - | - | 150 | 2 | 258 |
| **Cost at 31 December 2010** | **1,905** | **1,052** | **451** | **1,312** | **43** | **4,763** |
| Amortisation and impairment losses at 1 January 2010 | - | - | 55 | - | - | 55 |
| Amortisation for the year | - | - | 30 | 184 | 4 | 218 |
| **Amortisation and impairment losses at 31 December 2010** | **-** | **-** | **85** | **184** | **4** | **273** |
| **Carrying amount at 31 December 2010** | **1,905** | **1,052** | **366** | **1,128** | **39** | **4,490** |
| Cost at 1 January 2009 | 932 | 1,032 | 451 | 900 | - | 3,315 |
| Acquisition of subsidiary undertakings | 264 | - | - | 75 | - | 339 |
| Additions | - | 15 | - | - | - | 15 |
| Disposals | - | - | - | -75 | - | -75 |
| Exchange rate adjustment | 12 | - | - | -16 | - | -4 |
| **Cost at 31 December 2009** | **1,208** | **1,047** | **451** | **884** | **-** | **3,590** |
| Amortisation and impairment losses at 1 January 2009 | - | - | 25 | - | - | 25 |
| Amortisation for the year | - | - | 30 | 77 | - | 107 |
| Disposals | - | - | - | -75 | - | -75 |
| Exchange rate adjustment | - | - | - | -2 | - | -2 |
| **Amortisation and impairment losses at 31 December 2009** | **-** | **-** | **55** | **-** | **-** | **55** |
| | | - | | | | |
| **Carrying amount at 31 December 2009** | **1,208** | **1,047** | **396** | **884** | **-** | **3,535** |

No intangible assets existed at 31 December 2010 or 31 December 2009, which have been fully amortised.

## NOTE 14. INTANGIBLE ASSETS, CONTINUED

### Goodwill

Goodwill is stated at the amount by which the acquisition cost for a business combination exceeds the recognised value of the identifiable assets, liabilities and contingent liabilities. Goodwill comprises future growth expectations, buyer-specific synergies, the workforce in place and know-how.

The carrying amount of recognised goodwill concerns the following:

| DKK million | 2010 | 2009 |
|---|---|---|
| PANDORA core business (Pandora Holding A/S' acquisition of all of the voting shares in PANDORA Production Co. Ltd. and the Danish companies Populair A/S and Pilisar ApS. The companies comprised the Danish headquarters and the Thai production facilities). | 725 | 702 |
| PANDORA Jewelry America ApS, the American distributor | 239 | 221 |
| AD Astra Holdings Pth Limited, the Australian distributor | 350 | 285 |
| PANDORA Jewelry Central Western Europe A/S, the German distributor | 591 | - |
| **Total** | **1,905** | **1,208** |

### Brand

The brand is a group of complementary intangible assets related to the trademarks, domain names, product, image and customer experience related to products sold under the strong PANDORA brand. The brand was acquired with the PANDORA core business in 2008 and was measured based on the relief from the royalty method. Based on the history and very long future life span expected of the brand, any set time would be arbitrary. Therefore, the brand is considered to have an indefinite useful life.

### Distribution network

The distribution network covers PANDORA's relations with its distributors. The distribution network was acquired with the PANDORA core business in 2008 and was measured based on an estimation of the costs the entity avoids by owning the intangible asset and not needing to rebuild it (the cost approach). The distribution network is amortised over an expected life of 15 years.

## NOTE 14. INTANGIBLE ASSETS, CONTINUED

**Distribution rights**

Distribution rights cover PANDORA's distribution rights for PANDORA products in the North American markets and on the German, Swiss and Austrian market. In 2009 it also covered PANDORA's distribution rights for the PANDORA products in Australia and New Zealand.

The distribution right for the PANDORA products in the North American markets was acquired with the American distributor in 2008 and was measured based on a residual model, since the distribution agreement underlying the distribution right is non-terminable. Consequently, the distribution right is considered to have an indefinite useful life. The carrying amount is DKK 1,037 million at 31 December 2010 (2009: DKK 884 million).

The distribution rights for the PANDORA products in Australia and New Zealand was acquired with the Australian distributor in 2009 and was measured based on the Multi-period Excess Earnings Model and are amortised over the remaining useful life of six months, which corresponds to the remaining contract term. The distribution rights were fully amortised and disposed in 2009

The distribution right for the PANDORA products in the German, Swiss and Austrian market is acquired in 2010 and measured based on the Multi-period Excess Earnings Model and is amortised over its useful life of 1.5 years. The carrying amount is DKK 91 million at 31 December 2010 and the residual useful life is 0.5 year.

**Other intangible assets**

Other intangible assets covers completed software projects.

# NOTES

## NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS

Intangible assets with indefinite lives are tested for impairment on an annual basis and comprise brand, goodwill and distribution rights in USA.

**Brand**
The brand "PANDORA" is the only trademark of the Group which is capitalised as an asset in the accounts. It is applied and supported globally in all of the Group's entities. Through common strategy and product development at group level and marketing in the individual sales enterprises, the brand is maintained and preserved. Therefore, the brand is tested for impairment at group level.

**Goodwill and distribution rights**
Goodwill and distribution rights were acquired in connection with the acquisitions of PANDORA Jewelry A/S, PANDORA Jewelry America ApS (subsequently merged with PANDORA A/S), PANDORA Production Co. Ltd. (Thailand) and Pilisar ApS on 7 March 2008, the acquistion of Ad Astra Holding PL in July 2009 and the acquisition of PANDORA CWE in 2010.

Goodwill is allocated to cash-generating units (CGUs) or the smallest group of CGUs in the Group, in respect of which goodwill is monitored by Management and which are not larger than the Group's operating segments. Due to Improvements to IFRSs April 2009

(effective date 1 January 2010) the segmentation of intangible assets on CGU's has changed in 2010. Goodwill and distribution rights are allocated to five independent operating segments: Americas, United Kingdom, Central Western Europe (CWE), Australia and Distributors & Travel Retail.

In 2009 goodwill and distribution rights were allocated to the reportable operating segments: Europe, Americas and Asia Pacific.

**Segmentation of intangible assets on CGU's:**

| DKK million | Goodwill | Brand | Distribution rights | Total |
|---|---|---|---|---|
| **2010** | | | | |
| Americas | 460 | - | 1,037 | 1,497 |
| United Kingdom | 36 | - | - | 36 |
| Central Western Europe (CWE) | 690 | | 91 | 781 |
| Australia | 519 | - | - | 519 |
| Distributors & Travel Retail | 200 | - | - | 200 |
| Group | - | 1,052 | | 1,052 |
| | **1,905** | **1,052** | **1,128** | **4,085** |
| **2009** | | | | |
| Americas | 306 | - | 884 | 1,190 |
| Europe | 555 | - | - | 555 |
| Asia Pacific | 347 | - | - | 347 |
| Group | - | 1,047 | - | 1,047 |
| | **1,208** | **1,047** | **884** | **3,139** |

## NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

The recoverable amount is based on a calculation of the value in use using cash flow estimates based on budgets and forecasts for 2011 - 2013 (2009: 2010 - 2013), as approved by management. Forecast have currently only been prepared for the period until 2013 (2009: 2013).

Detailed forecasts have not been prepared, the long-term growth rate in the terminal period has been set to equal the expected long-term rate of inflation of 2.0% (2009: 2.0%). The impairment tests do not indicate a need for a write-down.

The calculations of the recoverable amounts of the CGU's or groups of CGU's are based on the following assumptions:

*Discount rates and growth rate in terminal period*

| | Americas | United Kingdom | Central Western Europe (CWE) | Australia | Distributors & Travel Retail | Group |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Discount rate before tax | 7.9% | 7.9% | 7.9% | 8.8% | 7.9% | 7.9% |
| Growth rate in the terminal period | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |

| | Americas | Europe | Asia Pacific | Group |
|---|---|---|---|---|
| **2009** | | | | |
| Discount rate before tax | 10.1% | 12.6% | 13.6% | 10.7% |
| Growth rate in the terminal period | 2.0% | 2.0% | 2.0% | 2.0% |

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

*EBITDA*

The EBITDA figures used in the impairment test are based on the budget for 2011 (2009: 2010), prepared and approved by Management, and the projection for the period 2012 - 2013 (2009: 2011 - 2013). In the budget for 2011 (2009: 2010) for the individual CGU's, the EBITDA margin is based on historical experience and is maintained in the period 2012 - 2013 (2009: 2011 - 2013) as well as in the terminal period.

## NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

*Investments*
The value of capital investment in the cash flow computations represents a fixed percentage of each individual CGU's revenue in the years concerned. Management has set this percentage based on historical experience and their expectations as to the scope of future investments to secure and increase the level of activity in the CGU's so that the budget for 2011 (2009: 2010) and the activity and earning targets in the projection are supported.

*Working capital*
The value of net working capital in the budget for 2011 (2009: 2010), relative to the revenue for the individual CGU's, is based on historical experience and is maintained in the period 2012 - 2013 (2009: 2011 -2013) as well as in the terminal period. The funds tied up in net working capital are thus increased on a linear basis as the level of activity increases.

*Sensitivity to changes in assumptions*
The estimated value in use is higher than the carrying amount, and the impairment tests show that brand, goodwill and distribution rights are not impaired. Further, Management believes that no reasonably probable change in any of the above key assumptions would cause the carrying value of the Group or CGUs to materially exceed its recoverable amount.

# NOTES

## NOTE 16. PROPERTY, PLANT AND EQUIPMENT

| DKK million | Land and buildings | Plant and equipment | PP&E under construction | Total |
|---|---|---|---|---|
| Cost at 1 January 2010 | 125 | 109 | 18 | 252 |
| Acquisition of subsidiary undertakings | 9 | 10 | - | 19 |
| Additions | 65 | 118 | 27 | 210 |
| Disposals | -15 | -27 | -19 | -61 |
| Exchange rate adjustment | 19 | 20 | 6 | 45 |
| **Cost at 31 December 2010** | **203** | **230** | **32** | **465** |
| Depreciation and impairment losses at 1 January 2010 | 25 | 22 | - | 47 |
| Depreciation for the year | 3 | 44 | - | 47 |
| Disposals | -2 | -8 | - | -10 |
| Exchange rate adjustment | 2 | 5 | - | 7 |
| **Depreciation and impairment losses at 31 December 2010** | **28** | **63** | **-** | **91** |
| **Carrying amount at 31 December 2010** | **175** | **167** | **32** | **374** |
| Carrying amount of assets pledged as securities | 13 | 5 | - | 18 |
| Cost at 1 January 2009 | 88 | 35 | - | 123 |
| Acquisition of subsidiary undertakings | - | 23 | - | 23 |
| Additions | 36 | 49 | 18 | 103 |
| Disposals | - | -2 | - | -2 |
| Exchange rate adjustment | 1 | 4 | - | 5 |
| **Cost at 31 December 2009** | **125** | **109** | **18** | **252** |
| Depreciation and impairment losses at 1 January 2009 | 1 | 6 | - | 7 |
| Depreciation for the year | 3 | 16 | - | 19 |
| Impairment losses | 21 | - | - | 21 |
| **Depreciation and impairment losses at 31 December 2009** | **25** | **22** | **-** | **47** |
| **Carrying amount at 31 December 2009** | **100** | **87** | **18** | **205** |

An assessment has been made by an external real estate agent of the value of the property at Egegårdsvej 59-61 in 2009 and based on this assessment the Management in 2009 decided to write down the carrying amount of the property by DKK 21 million.

## NOTE 17. DEFERRED TAX

| DKK million | Balance sheet 2010 | Balance sheet 2009 | Income statement 2010 | Income statement 2009 |
|---|---|---|---|---|
| Property, plant and equipment | 1 | -3 | 3 | -3 |
| Distribution rights | 637 | 575 | -43 | -30 |
| Inventories | -86 | -30 | -55 | -15 |
| Trade receivables | -2 | -1 | - | -1 |
| Tax losses carried forward | - | -21 | 24 | -12 |
| Other | -51 | -38 | -6 | -19 |
| **Deferred tax, net** | **499** | **482** | | |
| **Deferred tax income** | | | **-77** | **-80** |
| | | | | |
| **Deferred tax is recognised in the consolidated balance sheet as follows:** | | | | |
| Deferred tax asset | -107 | -77 | | |
| Deferred tax liability | 606 | 559 | | |
| **Deferred tax, net** | **499** | **482** | | |
| | | | | |
| **Reconciliation of deferred tax:** | | | | |
| At 1 January | 482 | 557 | | |
| Exchange rate adjustments | 32 | -3 | | |
| Tax expense recognised in the income statement | -77 | -80 | | |
| Tax expense recognised in other comprehensive income | -3 | - | | |
| Acquisition of deferred tax assets | - | -10 | | |
| Deferred tax acquired in business combinations | 65 | 18 | | |
| | **499** | **482** | | |

PANDORA had a balance of DKK 68 million (2009: DKK 58 million) from tax losses carried forward and timing differences respectively. This balance has not been recognised since it is uncertain when PANDORA will be able to utilise it.

## NOTE 18. INVENTORIES

| DKK million | 2010 | 2009 |
|---|---|---|
| Raw materials and consumables | 294 | 138 |
| Work in progress | 103 | 34 |
| Finished goods | 875 | 261 |
| | **1,272** | **433** |

The write-downs of inventories is recognised under cost of sales and amounts to DKK 48 million (2009: DKK 16 million).

## NOTE 19. TRADE RECEIVABLES

Trade receivables at 31 December 2010 include receivables at a nominal value of DKK 849 million (2009: DKK 627 million), which have been written down to DKK 834 million (2009: DKK 622 million).

| DKK million | 2010 | 2009 |
|---|---|---|
| Analysis of movements in provisions for impairment of trade receivables: | | |
| At 1 January | 5 | 6 |
| Utilised | -1 | -1 |
| Unused amounts reversed | -2 | -2 |
| Change for the year | 13 | 2 |
| **At 31 December** | **15** | **5** |
| | | |
| Analysis of trade receivables that were past due, but not impaired, at 31 December: | | |
| Until 30 days | 234 | 164 |
| Between 30 and 60 days | 48 | 37 |
| Between 60 and 90 days | 20 | 19 |
| Above 90 days | 14 | 64 |
| **Past due, but not impaired** | **316** | **284** |
| Neither past due nor impaired | 518 | 338 |
| **Total** | **834** | **622** |

Historically, PANDORA has not encountered significant losses on trade receivables.

## NOTE 20. FINANCIAL ASSETS AND LIABILITIES

| DKK million | 2010 Carrying amount | 2009 Carrying amount |
|---|---|---|
| **Financial assets at fair value through other comprehensive income:** | | |
| Derivatives | 304 | - |
| **Total financial assets at fair value** | **304** | **-** |
| | | |
| **Loan and receivables measured at amortised cost:** | | |
| Trade receivables | 834 | 622 |
| Other receivables | 26 | - |
| Cash | 1,224 | 824 |
| **Total loan and receivables measured at amortised cost** | **2,084** | **1,446** |
| | | |
| **Total financial assets** | **2,388** | **1,446** |
| | | |
| **Financial liabilities at fair value through the income statement:** | | |
| Derivatives | - | 27 |
| **Financial liabilities at fair value through other comprehensive income:** | | |
| Derivatives | 11 | - |
| **Total financial liabilities at fair value** | **11** | **27** |
| | | |
| **Financial liabilities measured at amortised cost:** | | |
| Subordinated loan from parent company | - | 1.400 |
| Interest-bearing loans and borrowings | 2,326 | 1,575 |
| Other long-term liabilities | 9 | - |
| Trade payables | 245 | 106 |
| Other payables | 291 | 215 |
| **Total financial liabilities measured at amortised cost** | **2,871** | **3,296** |
| | | |
| **Total financial liabilities** | **2,882** | **3,323** |

**Classification according to the fair value hierarchy:**
Financial instruments measured at fair value consist of derivatives, including silver and gold futures, interest rate swaps, currency rate swaps and FX options. The fair value as at 31 December 2010 and 2009 of PANDORA's derivative financial instruments is measured in accordance with level 2* in the fair value hierarchy, as the fair value is based on the official silver prices, exchange rates and interest rates at the balance sheet date.

In 2009, the subordinated loan from the parent company beared a fixed rate of interest. The fair value at a floating interest rate of 4.5% was DKK 1,545 million. The fair value was measured in accordance with Level 2* in the fair value hierarchy, as the fair value was based on the official floating interest rate at the balance sheet date.

At 31 December 2010 and 2009 there are no further material differences between the carrying amount and the fair value of the other financial assets and liabilities listed above.

* Inputs other than listed prices which are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

## NOTE 21. FINANCIAL RISKS

Due to its operations, investments and financing structure PANDORA is exposed to a number of financial risks. PANDORA's financial risk management exclusively aim at managing and reducing the financial risks that are direct consequences of the Group's operations, investments and financing.

In managing financial risks PANDORA uses a number of financial instruments such as forward contracts, silver and gold futures, currency and interest swaps, options and similar instruments, within the framework of existing policies. The financial risks can be divided into credit risk, liquidity risk, interest rate risks, foreign currency risk and commodity risk.

### Credit risk

PANDORA's credit risks are mainly related to trade receivables and cash. The maximum credit risk related to financial assets corresponds to the carrying values recognised in the consolidated balance sheet.

Subsidiaries are responsible for credit evaluation and credit risk on their trade receivables. The Group Treasury and/or Chief Financial Officer must be informed in connection with significant deals concerning direct distributors and local key accounts that carry greater financial risk due to deviation from standard agreements. The credit risk related to trade receivables is analysed in note 19.

Credit risks arising from the other financial assets of PANDORA, which primarily comprise cash, relate to default of the counterpart, with a maximum exposure equal to the carrying amount of these assets.

### Liquidity risk

The objective of liquidity and cash management is to maintain an optimal amount of liquidity to fund the business operations of PANDORA at all times while minimising interest and bank costs as well as avoiding financial distress. Group Treasury is responsible for monitoring and managing PANDORA's total liquidity position. PANDORA currently does not use cash pools and is accumulating liquidity in local banks.

PANDORA's cash reserve comprises cash and unutilised credit facilities. It is the management's opinion, that the Group and Parent Company's cash resources are adequate. It is PANDORA's aim to ensure adequate cash resources in case of unforeseen changes in cash.

# NOTES

## NOTE 21. FINANCIAL RISKS , CONTINUED

The liabilities fall due as follows:

| DKK million | Falling due within 1 year | Falling due within 1-5 years | Falling due after more than 5 years | Total |
|---|---|---|---|---|
| **2010** | | | | |
| Derivative financial liabilities | 11 | - | - | 11 |
| Interest-bearing loans and borrowings | 2,408 | - | - | 2,408 |
| Other long-term liabilities | 1 | 9 | | 10 |
| Trade payables | 245 | - | - | 245 |
| Other payables | 292 | - | - | 292 |
| | **2,957** | **9** | **-** | **2,966** |
| **2009** | | | | |
| Derivatives financial liabilities | 27 | - | - | 27 |
| Subordinated loan from parent company | 57 | 80 | 1,913 | 2,050 |
| Interest-bearing loans and borrowings | 357 | 911 | 333 | 1,601 |
| Trade payables | 173 | - | - | 173 |
| Other payables | 387 | - | - | 387 |
| | **1,001** | **991** | **2,246** | **4,238** |

### Interest rate risk

Interest rate risk is defined as the risk that additional expenses will be incurred as a result of interest rate movements. Interest rate risk is managed and seeked minimised by controlling the interest structure of the interest-bearing portfolio (interest rate-sensitive assets and liabilities).

PANDORA's interest rate position includes short-term interest rate-sensitive assets and liabilities which will be affected by interest rate fluctuations. The purpose of PANDORA's interest rate policy is to balance these fluctuations.

PANDORA's exposure to the risk of changes in market interest rates relates primarily to PANDORA's bank loans with variable interest rates.

Sensitivity analysis:

| DKK million | 2010 | 2009 |
|---|---|---|
| Changes in basis points | +100 | +100 |
| Effect on equity | +1 | 3 |
| Effect on profit and loss before tax | +4 | -2 |

A decrease in the interest rate will have the full opposite effect on equity and profit and loss as shown above.

The above table illustrates the full-year effect of an increased interest rate on the equity and profit and loss based on the net variable debt  and financial instruments in place as of end 2009 and 2010 after impact of hedge accounting.

## NOTE 21. FINANCIAL RISKS , CONTINUED

**Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in foreign exchange rates. PANDORA's reporting currency is Danish kroner, but most of PANDORA's revenues and expenses are derived in other currencies, including US dollars, euro, pounds sterling, Thai bath and Australian dollars, which expose PANDORA to the risk of adverse movements in foreign currency exchange rates. Exchange rate fluctuations affect the translated value of the results of operations associated with non-Danish operations, as well as the translation of asset or liability positions that are denominated in foreign currencies.

A substantial portion of PANDORA's raw materials are purchased from suppliers who price their products in currencies other than Danish kroner, in particular in US dollars. Exchange rate fluctuations could increase the cost of raw materials and labour for PANDORA, resulting in higher costs and decreased margins, which may have a material adverse effect on the business, results of operations and/or financial condition. In addition, PANDORA sells a substantial portion of its products in currencies other than Danish kroner, in particular in US dollars, euro, pounds sterling and Australian dollars. Therefore, PANDORA is exposed to foreign currency risk associated with revenues being earned in foreign currencies.

Historically, only limited hedging of currency risks has been taken out. In 2010, a policy was implemented which requires that Group Treasury must, based on a 12 month cash flow forecast hedge 100% of the exposure 1-3 months forward, 80% 4-6 months forward, 60% 7-9 months forward and 40% 10-12 months forward.

Impact in DKK million on the results of operations and changes in shareholders' equity resulting from a change of the Group's primary foreign currencies and after impact of hedging accounting is shown below:

| | | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|---|
| DKK million | Changes in exchanges rates | Profit/loss before tax | Shareholders equity | Profit/loss before tax | Shareholders equity |
| USD | -10% | 111 | 41 | -11 | -19 |
| USD | +10% | -111 | -41 | 11 | 19 |
| AUD | -10% | 8 | 13 | 9 | 11 |
| AUD | +10% | -8 | -13 | -9 | -11 |
| GBP | -10% | -52 | 14 | - | -14 |
| GBP | +10% | 52 | -14 | 21 | 30 |
| EUR | -1% | -7 | -7 | -3 | -2 |
| EUR | +1% | 7 | 7 | 3 | 2 |
| THB | -10% | -4 | 28 | -7 | -5 |
| THB | +10% | 4 | -28 | 7 | 5 |

An increase in the exchange rate will have the full opposite effect on equity and profit and loss as shown above except for GBP in 2009.

The analysis is based on monetary assets and liabilities as of end 2010 and 2009.

## NOTE 21. FINANCIAL RISKS , CONTINUED

**Risk related to raw material prices**

PANDORA is exposed to fluctuations in commodity prices through commercial cash flows. PANDORA has production costs generated in production units (currently Thailand) from several commodities required in the production process. The major commodities are currently gold and silver denominated in USD.

The Group risk management process with respect to raw materials is to ensure stable and predictable raw material prices in the long term, and avoid capital and liquidity being tied up unnecessarily.

Historically, only limited hedging of raw material risks has been taken out. In 2010, a policy was implemented which requires that Group

Treasury must, based on a 12 month cash flow forecast, hedge 100% of the exposure 1-3 months forward, 80% 4-6 months forward, 60% 7-9 months forward and 40% 10-12 months forward.

| DKK million | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Fair value of Hedging Instruments | 304 | - |

The fair value of the effective part of the hedge is recognised on a continuing basis in Group equity as a hedge of future cash flows.

All forward contracts in 2009 were designated as at fair value through profit and loss.

**Capital management**

The primary objectives of PANDORA's capital management are to ensure a competitive return on investment to its shareholders and that

PANDORA is able to fulfil all its obligations as set out in the loan agreement with the banks.

The objective of liquidity and cash management is to maintain an optimal amount of liquidity to fund the business operations of the group at all times while minimizing interest and bank cost as well to avoid financial distress (liquidity risk). The Group Treasury is responsible for monitoring and managing PANDORA's total liquidity position.

Capital is also managed based on the ratio between debt and equity. As part of optimising PANDORA's capital structure, PANDORA made an extraordinary dividend payment and refinanced PANDORA's bank debt in February 2010.

The Board of Directors proposes to distribute about 35% of the profit for the year as dividend, amounting to DKK 5 per share in 2010.

## NOTE 22. SHARE CAPITAL AND RESERVES

| Share capital | Shares (number) | Nominal Value (DKK) |
|---|---|---|
| Holding at 1 January 2010 | 500,000 | 500,000 |
| Additions | 129,643,258 | 129,643,258 |
| **Holding at 31 December 2010** | **130,143,258** | **130,143,258** |
| Holding at 1 January 2009 | 125,000 | 125,000 |
| Additions | 375,000 | 375,000 |
| **Holding at 31 December 2009** | **500,000** | **500,000** |

| Treasury shares | Number of Shares | Nom. (DKK) | Purchase price | % of Shares |
|---|---|---|---|---|
| Holding at 1 January 2010 | - | - | - | 0 |
| Additions | 190,476 | 190,476 | 39,999,960 | 0.1% |
| Reductions | -7,511 | -7,511 | -1,577,310 | 0.0% |
| **Holding at 31 December 2010** | **182,965** | **182,965** | **38,422,650** | **0.1%** |
| Holding at 1 January 2009 | - | - | - | - |
| Additions | - | - | - | - |
| **Holding at 31 December 2009** | **-** | **-** | **-** | **-** |

At 31 December 2010 the share capital comprised 130,143,258 shares of a par value of DKK 1. No shares have special rights.

Additions to share capital relate to capital increase in connection with conversion of debt, issuing of new shares and bonus shares in connection with the Initial Public Offering.

A dividend of DKK 1,000 million was declared in the beginning of 2010 to the former shareholders. DKK 800 million was converted into share capital nominal 125,000,000 with a share premium of DKK 675 million.

In connection with the Initial Public Offering in October 2010 PANDORA issued 2,857,142 new shares to an offer price of DKK 210 per share. The share premium in equity is included net of cost related to the Initial Public Offering of DKK 24 million.

The share premium is a free reserve.

In addition, all warrants was exercised and Bonus shares was issued, totalling 1,784,337 new shares. Please refer to note 7 for further information.

## NOTE 22. SHARE CAPITAL AND RESERVES, CONTINUED

**Treasury shares**
All treasury shares are owned by PANDORA A/S. Treasury shares regards hedges for future share-based incentive schemes and restricted stock awards to Board of Directors and key employees.

**Nature and purpose of other reserves stated in the consolidated statement of changes in shareholders' equity**
PANDORA's other reserves comprise value adjustments of cash flow hedges, share based payments and capital infusion. The cash flow hedge is net of tax DKK 302 million as at 31 December 2010 (2009: DKK 0 million). Capital infusion of DKK 74 million (2009: DKK 0 million) comprises funding of a two month salary bonus to the employees by the selling shareholder in connection with the Initial Public Offering. Share based payment reserve is DKK 16 million as at 31 December 2010 (2009: DKK 10 million).

PANDORA's foreign currency translation reserves comprise foreign exchange adjustments arising on translation of foreign entities from their functional currencies into the presentation currency and the translation of balances considered to be part of the total net investment in foreign entities. Foreign currency translation reserve was net of tax DKK 521 million as at 31 December 2010 (2009: DKK 164 million).

# NOTES

## NOTE 23. PROVISIONS

| DKK million | Earn-out, acquisition of non-controlling interests | Returns | Other | Total |
|---|---|---|---|---|
| Provisions at 1 January 2010 | - | 38 | 30 | 68 |
| Provisions made in 2010 | 498 | 276 | 15 | 789 |
| Utilised in the year | - | -241 | -28 | -269 |
| Unused amounts reversed | - | -1 | -2 | -3 |
| Discount rate adjustments | 20 | 3 | 4 | 27 |
| **Provisions at 31 December 2010** | **518** | **75** | **19** | **612** |
| | | | | |
| Provisions at 1 January 2009 | - | 23 | 1 | 24 |
| Acquisition of subsidiary undertaking | - | 1 | 4 | 5 |
| Provisions made in 2009 | - | 15 | 25 | 40 |
| Utilised in the year | - | -1 | - | -1 |
| **Provisions at 31 December 2009** | **-** | **38** | **30** | **68** |
| | | | | |
| Provision are recognised in the consolidated balance sheet as follows: | | | | |
| Current 2010 | - | 69 | 7 | 76 |
| Non-current 2010 | 518 | 6 | 12 | 536 |
| | **518** | **75** | **19** | **612** |
| | | | | |
| Current 2009 | - | 38 | 26 | 64 |
| Non-current 2009 | - | - | 4 | 4 |
| | **-** | **38** | **30** | **68** |

**Earn-out, acquisition of non-controlling interests**
The earn-out payment provision concern a partial payment of the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe. Please refer to note 4 for further information.

**Returns**
In countries where returns of products from customers are accepted, a provision is made, based on historical return percentages. Where the return prices are reduced over time, this has been taken into account in the calculation of the provision. It is expected that most of these costs will be incurred in 2011.

**Other**
Other provisions include provisions for warranties, severance pay in Thailand and liabilities relating to profits share with franchisees.

## NOTE 24. CONTINGENT LIABILITIES, SECURITY FOR LOANS AND OTHER FINANCIAL OBLIGATIONS

### Contingent liabilities

PANDORA is a party to a number of minor legal proceedings, which are not expected to influence PANDORA's future earnings.

**Security for loans**

PANDORA has pledged the following assets as security for loans:

| | 2010 | 2009 |
|---|---|---|
| Land and buildings | 13 | - |
| Plant and equipment | 5 | - |
| **Total** | **18** | **-** |

### Other obligations

PANDORA's other financial obligations mainly relate to leases for office premises and operating equipment. The total expenditure in the year was DKK 114 million (2009: DKK 17 million).

Future minimum lease payments on existing contracts at 31 December:

| | 2010 | 2009 |
|---|---|---|
| Within 1 year | 105 | 30 |
| Between 1 -5 years | 346 | 104 |
| After 5 years | 96 | 4 |
| **Total** | **547** | **138** |

## NOTE 25. RELATED PARTY TRANSACTIONS

Related parties of PANDORA with a controlling interest are the principal shareholder Prometheus Invest ApS (57% interest) and the ultimate parent, Axcel III K/S 2 (32%).

Related parties further comprise Axcel III K/S 2's other portfolio enterprises, as they are subject to the same controlling interests. There have not been any transactions with Axcel III K/S 2 or these other entities during 2010 and 2009.

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

## NOTE 25. RELATED PARTY TRANSACTIONS, CONTINUED

Except for compensation and benefits received as a result of the membership of the Board of Directors, employment with PANDORA or shareholdings in PANDORA as specified in note 6, PANDORA has not undertaken any significant transactions with the Board of Directors and Executive Management.

Share-based payments agreements and utilized warrants in 2010 relating to the Board of Directors and the Executive Management as included in note 7.

*Transactions with Prometheus Invest ApS*

In February 2010, PANDORA completed a refinancing through borrowing DKK 2,200 million under a new senior facility agreement. The proceeds were used to repay excising credit facilities, to repay the subordinates loan from the parent company, Prometheus Invest ApS, to pay related fees and expenses and to pay DKK 113 million of declared dividend to Prometheus Invest ApS. The total declared dividend was DKK 1,000 million and June 2010 DKK 800 million of the remaining unpaid dividend to Prometheus Invest ApS was converted into equity and DKK 87 million was paid out to Prometheus Invest ApS.

As announced in the prospectus in connection with the Initial Public Offering, Prometheus Invest ApS has made a capital infusion of DKK 74 million to compensate PANDORA for the two month salary bonus to the employees.

The table below provides other transactions which were entered into with related parties:

| DKK million | Prometheus Invest ApS 2010 | 2009 |
|---|---|---|
| **Consolidated income statement:** | | |
| Financial expenses | 25 | 85 |
| **Total** | **25** | **85** |
| **Consolidated balance sheet:** | | |
| Equity (capital infusion) | 74 | |
| Payables | 9 | - |
| Subordinated loan | - | 1,400 |
| **Total** | **83** | **1,400** |

In 2009 PANDORA A/S acquired PANDORA International ApS (formerly KW Holding ApS) from KW Invest ApS for DKK 10 million. KW Invest ApS was owned by Axcel IndustiInvestor a.s.

# NOTES

## NOTE 26. POST BALANCE SHEET EVENTS

**New organisational setup in PANDORA CWE & CEE**
PANDORA has decided to optimise its organisational structure in Europe by merging the central leadership functions of PANDORA Central Western Europe (PANDORA CWE) and PANDORA Central Eastern Europe (PANDORA CEE).

**Refinancing**
A refinancing was completed in March 2011 where a new revolving credit facility of 2,500 million with 3 years maturity was agreed. The revolving credit facility was partly used to repay the senior facility agreement.

**Formal handover of management responsibility in PANDORA Production**
With the employment of Thomas Nyborg as General Manager of PANDORA Production in Thailand in September 2008 a process was initiated to gradually transfer responsibility for the operations in Thailand from PANDORA's founder Per Enevoldsen to Thomas Nyborg. Thomas Nyborg has since his employment focused on strengthening the management of PANDORA Production through employment of directors within the various functional areas of PANDORA Production as well as through establishing robust structures and processes to support the rapid ramp up of PANDORA's production in Thailand. As an example PANDORA Production was ISO 9001:2008 certified in July 2009.

Today Thomas Nyborg effectively has full responsibility for PANDORA Production and as at 1 April 2011 Thomas Nyborg will also take over the formal responsibility as Managing Director of PANDORA Production as Per Enevoldsen transitions into a role as chairman of PANDORA Production. Per Enevoldsen will still be part of the organisation in Thailand with a main focus on specific project oriented tasks, e.g. further implementation of ERP and optimisation of production systems.

# NOTES

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES

**Corporate information**
The Annual General Meeting adopts the final approval of the annual report for the year ended 31 December 2010. The Management expects the annual report to be approved on the Annual General Meeting on 8 April 2011.

**Generally**
The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports, cf. the financial reporting requirements issued by NASDAQ OMX Copenhagen A/S for listed companies and the IFRS order issued in accordance with the Danish Financial Statements Act.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in Danish kroner and all values are rounded to the nearest million ('000000) except where otherwise indicated.

The accounting policies as described below are used consistently for the financial year as well as for the comparative figures.

**New standards and interpretations**
PANDORA has implemented all new standards, amendments to existing standards and basis for conclusions, which have been approved by the EU and are effective in the financial year 2010.

Below is a description of the standards, amendments to existing standards and basis for conclusions, which have had an impact on the annual report of 2010:

*Improvements to IFRS standards issued in 2009*
IAS 36 Impairment of Assets -The unit of accounting for goodwill impairment testing has changed. The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

The amendment has no impact on recognition and measurement.

**Standard issued, but not yet effective**
IASB has issued a number of new standards, amendments to existing standards and basis for conclusions, which have not yet come into force, but which will become effective in the financial year 2011 or later. The standards, amendments to existing standards and interpretations below, are expected to have an impact on PANDORA's future annual reports:

IFRS 9 Classification and Measurement of Financial assets which to a large extent changes the accounting of financial instruments (effective 1 January 2013, not yet approved by the EU).

PANDORA expects to implement the above mentioned on the effective date.

IASB has issued a number of other new standards, amendments to existing standards and basis for conclusions, which

are not relevant to PANDORA and which are not expected to have an impact on future annual reports.

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**Other changes**

Compared to the accounting policies applied in the annual report for 2009, PANDORA has begun to use hedge accounting for commodity contracts designated as cash flow hedges from 1 January 2010, since from this date PANDORA formally designates and documents hedge relationships between commodity contracts and transactions.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2010. Subsidiaries are fully consolidated from the date of acquisition, being the date on which PANDORA obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intragroup balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

**Business combinations and goodwill**

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. Non-controlling interests are measured at its fair value. The fair value is determined on the basis of market prices for equity shares not held by PANDORA or, if these are not available, by using a valuation technique. The result is that recognised goodwill represents all of the goodwill of the acquired business, not just PANDORA's share.

When PANDORA acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designated in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, are recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income.

Goodwill is initially measured at cost being the excess of the consideration transferred over PANDORA's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After 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, from the acquisition date, allocated to each of PANDORA's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included 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 values of the operation disposed of and the portion of the cash-generating unit retained.

**Foreign currency translation**
The consolidated financial statements are presented in Danish kroner, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

*Transactions and balances*
Transactions in foreign currencies are initially recorded by 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 retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences 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 as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

*Group companies*
The assets and liabilities of foreign operations are translated into Danish kroner at the rate of exchange prevailing at the reporting date, and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

**Revenue recognition**
Revenue is recognised to the extent that it is probable that economic benefits will flow to PANDORA and 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 or duty.

**Cost of sales**
Production costs comprise direct and indirect expenses incurred to generate the year's revenue, relating to raw materials and consumables, production staff and depreciation of production equipment.

**Distribution expenses**
Distribution expenses comprise expenses related to the distribution of goods sold and sales

**NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

campaigns, including packaging, brochures, displays and fixture and fittings, pay and other expenses related to sales and distribution staff and depreciation of distribution equipment.

**Administrative expenses**
Administrative expenses comprise expenses paid in the year to manage and administer PANDORA, including expenses related to administrative staff and amortisation/depreciation.

**Financial income and expenses**
Financial income and expenses comprises interest income and expenses and realised and unrealised gains and losses on payables and transactions in foreign currencies.

For all financial instruments measured at amortised cost, interest income or expense is recorded 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.

**Current income tax**
Current income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where PANDORA operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**Share-based payment transactions**
Employees (including senior executives) of PANDORA receive remuneration in the form of share-based payment transactions, whereby employees 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 date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 7.

The cost of equity-settled transactions is recognised, 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 PANDORA’s best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period.

The dilutive effect of outstanding warrants is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 7).

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**Financial assets**

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, as appropriate. PANDORA determines the classification of its financial assets on initial recognition.

All financial assets are initially recognised at fair value plus directly attributable transaction costs.

PANDORA's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, and derivative financial instruments.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

This category includes derivative financial instruments entered into by PANDORA that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated balance sheet at fair value with changes in fair value recognised in financial income or financial expenses in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The losses arising from impairment are recognised in the income statement under administrative expenses.

**Fair value of financial instruments**

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20.

**Derivative financial instruments and hedging activities**

PANDORA uses a number of derivative financial instruments to hedge its exposure to fluctuations in interest, foreign exchange rates and commodity price risks.

The derivative financial instruments is such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as other receivables when the fair value is positive and as other paya-

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

bles when the fair value is negative. For more details on the instruments used, please refer to note 21.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement except of hedges which meet the criteria for hedge accounting.

*Derivatives that qualify for cash flow hedge accounting*

PANDORA has designated certain derivative as cash flow hedges as defined under IAS 39. Hedge accounting are classified a cash flow hedge when hedging variability in cash flow that is attributable to a highly probable forecast transaction. PANDORA uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

Hedge accounting is accounted as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve (part of other reserves).

Amounts recognised in the cash flow hedge reserve are transferred to the income statement when the hedged transaction affects profit or loss. Where the hedged item is the cost of a non-financial asset, the amounts recognised in the cash flow hedge reserve (part of other reserves) are transferred to the initial carrying amount of the non¬financial asset.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in the cash flow hedge reserve (part of other reserves) is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in the cash flow hedge reserve remains in the cash flow hedge reserve (part of other reserves) until the forecast transaction affects profit or loss.

The fair value of commodity contracts and forward currency contracts that meet the definition of a derivative as defined by IAS 39 but are entered into in accordance with PANDORA's expected purchases or sales requirements are recognised in the income statement in cost of sales or revenue respectively.

**Put option**

Potential purchase price obligations from put options granted to minority shareholders of fully consolidated companies are recognised at their present value of the amount payable upon exercise of the option in other payables, if PANDORA does not have an unconditional right to avoid delivering cash, or other receivables. If PANDORA still has present access to the benefits associated with the interest, the non-controlling interests are still attributed its share of profits and losses (and other changes in equity). The financial liability is recognised at the acquisition date and reclassified from non-controlling interests to financial liabilities. At the end of all subsequent reporting periods, the financial liability is remeasured as if the option had been exercised at that date. Subsequent changes to measurement are accounted for as a change in the non-controlling interests.

**Intangible assets**

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is its fair value as at the date of

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

**Research and development costs**

Research and development costs are expensed as incurred as the stringent criteria for capitalisation of development costs are not considered to have been met.

**Property, plant and equipment (PP&E)**

PP&E includes land and buildings, production plant and machinery and other plant, fixtures and fittings. Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The maximum useful life time is as follows:

| | |
|---|---|
| Land and buildings | 20-50 years |
| Plant and machinery | 5 years |
| Other plant, fixtures and fittings | 3-5 years |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

**NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

The residual values, useful lives and methods of depreciation of the assets are reviewed each financial year-end, and are adjusted prospectively, if appropriate.

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest expenses and other costs incurred by an entity in connection with the borrowing of funds.

PANDORA capitalises borrowing costs for all eligible assets.

**Leases**
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

*Group as a lessee*
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Inventories**
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials – purchase costs on a first-in, first-out basis.
- Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Impairment of non-financial assets**
PANDORA assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PANDORA estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value of an asset or cash-generating unit (CGU) less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and 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

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill*
Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

*Intangible assets*
Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

**Cash and short-term deposits**
Cash and short-term deposits in the consolidated balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement, cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

**Equity**

*Share premium*
Share premium comprises figures beside the nominal value of the share capital, which has been paid by the stockholders in connection to the capital increase. The reserve is a part of the company's free reserves.

*Proposed dividends*
Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (time of declaration). The expected dividend payment for the year is disclosed as a separate item under equity.

*Foreign currency translation reserve*
The translation reserve in the consolidated financial statements comprises foreign exchange adjustments arising on translation of financial statements of foreign entities from their functional currencies into the presentation currency used by PANDORA A/S (DKK) and balances considered to be part of the total net investment in foreign entities.

*Treasury shares*
Acquisition and proceeds from the sale of treasury shares are recognised directly in treasury shares in equity.

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

*Other reserves*
Other reserves comprise the accumulated net change in fair value of hedging when qualifying for cash flow hedging where the hedged transaction is not yet realised.
Other reserves further comprise cost of acquisition, dividends received and gain and losses from disposal of treasury shares.

**Financial liabilities**

*Initial recognition and measurement*
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. PANDORA determines the classification of its financial liabilities on initial recognition.

All financial liabilities are initially recognised at fair value or loans and borrowings plus directly attributable transaction costs.

PANDORA's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and derivative financial instruments.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*
This category includes derivative financial instruments entered into by PANDORA that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Gains or losses on liabilities at fair value through profit or loss are recognised in the income statement.

*Loans and borrowings*
After initial recognition, interest-bearing loans and borrowings are subsequently 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 amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs.

**Provisions**
Provisions are recognised when PANDORA has a present obligation (legal or constructive) as a result of a past event, 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 presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

PANDORA's main provisions relate to the earn-out on the non-controlling interests in Pandora Jewelry Central Western Europe A/S (see note 4) and expected returns from customers.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## NOTE 27 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**Key figures**

Key figures and financial ratios are defined and calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, 'Recommendations and Financial Ratios 2010'. The key figures and financial ratios stated in the consolidated financial statements have been calculated as follows:

| | |
|---|---|
| EBITDA | Earnings before interest, tax, depreciation, amortisation and impairment losses |
| EBIT | Operating profit (earnings after depreciation, amortisation and impairment losses) |
| Invested capital | Assets less cash and short-term deposits and non-interest-bearing debt (provisions, deferred tax liability, deposits, trade payables, income tax payables and other payables) |
| Net working capital | Inventories and receivables less provisions, trade payables, income tax payables, other payables and derivative financial instruments |
| Net borrowings | Bank loans, subordinated loan from parent company, mortgage debts, and current interest-bearing loans and borrowings less cash and short-term deposits |
| Free cash flow | Net cash flows from operating activities adjusted for interest received and paid less net cash from used in investing activities adjusted for acquisition of subsidiaries |
| Revenue growth, % | This year's revenue / last year's revenue (12 month adjusted) |
| Growth in EBITDA, % | This year's EBITDA / last year's EBITDA (12 month adjusted) |
| Growth in EBIT, % | This year's EBIT / last year's EBIT (12 month adjusted) |
| Growth in net profit, % | This year's net profit / last year's net profit (12 month adjusted) |
| EBITDA margin, % | EBITDA / revenue |
| EBIT margin, % | Operating profit / revenue |
| Cash conversion, % | Free cash flow / net profit |
| Net debt to EBITDA | Net borrowings / EBITDA |
| Equity ratio, % | Equity / assets |
| ROIC, % | EBIT / Invested capital |

## NOTE 28. GROUP STRUCTURE

The table below shows information about the Group entities:

| Company | Ownership | Domicile | Date of consolidation |
|---|---|---|---|
| Pilisar ApS | 100% | Denmark | 7 March 2008 |
| PANDORA Int. ApS | 100% | Denmark | 1 October 2009 |
| Ejendomsselskabet af 7. maj 2008 ApS | 100% | Denmark | 1 October 2009 |
| PM Unik ApS | 100% | Denmark | 1 September 2010 |
| PANDORA Norge AS | 100% | Norway | 17 August 2010 |
| PANDORA Production Co. Ltd. | 100% | Thailand | 7 March 2008 |
| PANDORA Services Thailand | 100% | Thailand | 15 October 2010 |
| PANDORA Jewellery UK Limited | 100% | UK | 1 December 2008 |
| AD Astra Holding PL | 100% | Australia | 1 July 2009 |
| AD Astra IP Pty Ltd. | 100% | Australia | 1 July 2009 |
| PANDORA Retail Pty Ltd. | 100% | Australia | 1 July 2009 |
| PANDORA Jewelry Pty Ltd. | 100% | Australia | 1 July 2009 |
| PANDORA Property Leasing Ltd. | 100% | Australia | 1 July 2009 |
| PANDORA Jewelry Ltd. NZ | 100% | New Zealand | 1 July 2009 |
| PANDORA Eastern Europe A/S | 86% | Denmark | 1 March 2009 |
| PANDORA Jewelry CEE Sp. z.o.o. | 86% | Poland | 1 March 2009 |
| PANDORA Jewelry CR sro. | 86% | Czech Republic | 2 December 2009 |
| PANDORA Jewelry Hungary Kft. | 44% | Hungary | 2 June 2010 |
| PANDORA Jewelry Ltd. | 100% | Canada | 7 March 2008 |
| PANDORA Jewelry Inc. | 100% | USA | 1 July 2008 |
| PANDORA Jewelry LLC | 100% | USA | 7 March 2008 |
| PANDORA Franchising LLC | 100% | USA | 1 November 2009 |
| PANDORA Jewelry Asia-Pacific Limited | 92% | Hong Kong | 1 November 2009 |
| World Max International Trading Limited | 100% | Hong Kong | 21 December 2010 |
| PANDORA Jewelry Central Western Europe A/S | 100% | Denmark | 5 January 2010 |
| PANDORA Jewelry GmbH | 100% | Germany | 5 January 2010 |
| PANDORA Jewelry SRL | 100% | Italy | 14 June 2010 |
| PANDORA Jewelry Retail SRL | 100% | Italy | 5 November 2010 |
| PANDORA Jewelry B.V. | 100% | Netherlands | 20 September 2010 |

# INCOME STATEMENT
**1 JANUARY - 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| Revenue | | 5,227 | 481 |
| Cost of sales | | -3,652 | -227 |
| **Gross profit** | | **1,575** | **254** |
| Distribution expenses | | -302 | - |
| Administrative expenses | | -219 | -62 |
| **Operating profit** | | **1,054** | **192** |
| Dividend from subsidiaries | | 626 | 774 |
| Impact from merger | 2 | 94 | - |
| Financial income | 8 | 105 | 36 |
| Financial expenses | 9 | -168 | -242 |
| **Profit before tax** | | **1,711** | **760** |
| Income tax expense | 10 | -245 | -20 |
| **Net profit for the year** | | **1,466** | **740** |

# COMPREHENSIVE INCOME STATEMENT

**1 JANUARY - 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| Net profit for the year | | 1,466 | 740 |
| Impact from merger | 2 | 179 | - |
| Exchange differences on translation of foreign subsidiaries | | -12 | - |
| Value adjustment of hedging instruments | | -11 | - |
| Income tax on other comprehensive income | | 3 | - |
| **Other comprehensive income, net of tax** | | **159** | **-** |
| **Total comprehensive income for the year** | | **1,625** | **740** |

# BALANCE SHEET

**AT 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | 2,906 | 15 |
| Property, plant and equipment | 13 | 18 | 1 |
| Investments in subsidiaries | 11 | 1,490 | 3,024 |
| Deferred tax assets | 14 | - | 1 |
| Other non-current assets | | 4 | - |
| **Total non-current assets** | | **4,418** | **3,041** |
| **Current assets** | | | |
| Inventories | 15 | 45 | - |
| Trade receivables | 16 | 15 | - |
| Receivables from subsidiaries | | 2,967 | 845 |
| Other receivables | | 376 | 7 |
| Cash and short-term deposits | | 661 | 29 |
| **Total current assets** | | **4,064** | **881** |
| **Total assets** | | **8,482** | **3,922** |

# BALANCE SHEET

**AT 31 DECEMBER**

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders equity** | **18** | | |
| Share capital | | 130 | 1 |
| Share premium | | 1,248 | - |
| Treasury shares | | -38 | - |
| Foreign currency translation | | -12 | - |
| Other reserves | | 80 | 11 |
| Proposed dividend for the year | | 650 | - |
| Retained earnings | | 523 | 528 |
| **Total shareholders equity** | | **2,581** | **540** |
| **Non-current liabilities** | | | |
| Subordinated loan from parent company | | - | 1,363 |
| Interest bearing loan and borrowings | | - | 1,238 |
| Provisions | 19 | 521 | - |
| Deferred tax liabilities | 14 | 609 | - |
| **Total non-current liabilities** | | **1,130** | **2,601** |
| **Current liabilities** | | | |
| Subordinated loan from parent company | | - | 37 |
| Interest bearing loan and borrowings | | 1,983 | 84 |
| Trade payables | | 83 | 12 |
| Payables to subsidiaries | | 2,293 | 545 |
| Income tax payables | | 264 | 20 |
| Other payables | | 148 | 83 |
| **Total current liabilities** | | **4,771** | **781** |
| **Total liabilities** | | **5,901** | **3,382** |
| **Total equity and liabilities** | | **8,482** | **3,922** |

# STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

| DKK million | Notes | Share capital | Share premium | Treasury shares | Foreign currency translation reserve | Other reserves | Proposed dividend | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity at 1 January 2010 | | 1 | - | - | - | 11 | - | 528 | 540 |
| Net profit for the year | | - | - | - | - | - | - | 1,466 | 1,466 |
| Other comprehensive income | | - | - | - | -12 | -8 | - | 179 | 159 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-12** | **-8** | **-** | **1,645** | **1,625** |
| Sharebased payments | 5 | - | - | - | - | 6 | - | - | 6 |
| Capital increase | 18 | 125 | 675 | - | - | - | - | - | 800 |
| Capital increase, Initial Public Offering | 18 | 3 | 573 | - | - | - | - | - | 576 |
| Capital increase, bonus shares and warrants | 18 | 1 | - | - | - | -1 | - | - | - |
| Proposed and Declared dividend | | - | - | - | - | - | 1,650 | -1,650 | - |
| Paid dividend | | - | - | - | - | - | -1,000 | - | -1,000 |
| Capital infusion | 18 | - | - | - | - | 74 | - | - | 74 |
| Purchase of treasury shares | 18 | - | - | -40 | - | - | - | - | -40 |
| Disposal of treasury shares | 18 | - | - | 2 | - | -2 | - | - | - |
| **Shareholders' equity at 31 December 2010** | | **130** | **1,248** | **-38** | **-12** | **80** | **650** | **523** | **2,581** |
| Shareholders' equity at 1 January 2009 | | - | - | - | - | 2 | - | -211 | -209 |
| Net profit for the year | | - | - | - | - | - | - | 740 | 740 |
| Other comprehensive income | | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | **-** | **-** | **740** | **740** |
| Share-based payments | | - | - | - | - | 8 | - | - | 8 |
| Sale of warrants | | - | - | - | - | 1 | - | - | 1 |
| Conversion into public limited company | | 1 | - | - | - | - | - | -1 | - |
| **Shareholders' equity at 31 December 2009** | | **1** | **-** | **-** | **-** | **11** | **-** | **528** | **540** |

# CASH FLOW STATEMENT

| DKK million | Notes | 2010 | 2009 |
|---|---|---|---|
| Profit before tax | | 1,711 | 760 |
| Financial income | 8 | -105 | -36 |
| Financial expenses | 9 | 168 | 242 |
| Dividends from subsidiaries | | -626 | -774 |
| Amortisation/depreciation | 3 | 19 | - |
| Warrants | 5 | 5 | 8 |
| Change in intercompany receivable/payable | | -199 | - |
| Change in inventories | | -44 | - |
| Changes in receivables | | -365 | -150 |
| Change in trade payables | | 68 | 38 |
| Change in other liabilities | | 38 | - |
| | | **670** | **88** |
| Catch up effect from merger recognised in income statement | | -94 | - |
| Other non-cash adjustments | | -26 | - |
| Interest paid | | -281 | -126 |
| Interest received | | 78 | - |
| Income tax paid/received | | -115 | 22 |
| **Cash flow from operation activities** | | **232** | **-16** |
| Acquisition of subsidiaries, net of cash acquired | | - | -16 |
| Purchase of intangible assets | 12 | -31 | -15 |
| Purchase of property, plant and equipment | 13 | -18 | -1 |
| Change in other non-current assets | | 1 | - |
| Dividend received | | 1,000 | 400 |
| Investment in subsidiary and non-controlling interests | | -384 | - |
| **Cash flow from investing activities** | | **568** | **368** |
| Capital increase including share premium net of transaction costs | | 651 | - |
| Dividend paid to parent company | | -200 | - |
| Acquisition of treasury shares | | -38 | - |
| Proceeds from selling warrants | | - | 1 |
| Proceeds from borrowings | | 2,200 | - |
| Repayment of borrowings | | -2,788 | -335 |
| **Cash flow from financing activities** | | **-175** | **-334** |
| **Net cash flow for the year** | | **625** | **18** |
| Cash and short-term deposits at 1 January | | 29 | 11 |
| Cash and short-term deposits from merging | | 7 | - |
| Net cash flow for the year | | 625 | 18 |
| **Cash and short-term deposits at 31 December** | | **661** | **29** |
| Unutilised credit facilities inclusive cash and cash equivalents | | 709 | 64 |

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

# NOTES

# NOTES

## NOTE 1. CHANGES IN ACTIVITIES

The financial result in PANDORA A/S is affected by several changes during 2010.

The internal invoicing flow has changed in 2010 in order for all distribution companies (including the group's activities in USA and Australia) to be invoiced from PANDORA A/S.

Furthermore, the general level of activity of the Group has increased, which also effects PANDORA A/S as all invoicing goes through the Parent Company. As a part of this increased activity, the head quarter activities also increased meaning that PANDORA A/S has staffed up significantly during 2010. Regarding the general level of activity, please refer to the section regarding management's review.

Lastly, PANDORA A/S and PANDORA Jewelry A/S has merged as of 30 June 2010, please refer to note 2 regarding accounting treatment.

## NOTE 2. IMPACT FROM MERGER

PANDORA A/S has merged with the 100% owned subsidiary PANDORA Jewelry A/S as of 30 June 2010 with PANDORA A/S as the surviving company. The merger is effected with the use of booked values of the subsidiary as previously reflected in the consolidated accounts of the PANDORA Group.

The effect of movements in the period from the PANDORA Group's original acquisition of PANDORA Jewelry A/S to the merger is reflected in the financial statements of PANDORA A/S as follows:

| DKK million | 2010 |
|---|---|
| Catch up effect recognised in the income statement | 94 |
| Catch up effect recognised in other comprehensive income | 179 |
| **Total catch up effect** | **273** |

The catch up effect recognised in other comprehensive income relates to functional currency adjustments of distribution rights in the US and investments in foreign subsidiaries.

The catch up effect recognised in the income statement primarily comprises net profit in the period from acquisition of PANDORA Jewelry A/S to the date of merger according to IFRS.

The comparative information for PANDORA A/S has not been adjusted as a consequence of the merger.

# NOTES

## NOTE 3. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Intangible assets | 15 | - |
| Property, plant and equipment | 4 | - |
| | **19** | **-** |
| Amortisation/depreciation and impairment losses have been recognised in the income statement as follows: | | |
| Distribution expenses | 15 | - |
| Administrative expenses | 4 | - |
| | **19** | **-** |

## NOTE 4. EMPLOYEE BENEFIT EXPENSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 83 | 17 |
| Pensions, defined contribution plans | 3 | - |
| Share-based payments | 5 | 6 |
| Other staff costs | 14 | 1 |
| | **105** | **24** |
| Average number of employees during the year | 116 | 13 |
| The employee benefit expenses have been recognised in the income statement as follows: | | |
| Distribution expenses | 44 | 7 |
| Administrative expenses | 61 | 17 |
| | **105** | **24** |

**Compensation of key management personnel of PANDORA A/S**
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 please refer to note 6 of the consolidated financial statements.

# NOTES

### NOTE 5. SHARE-BASED PAYMENTS

The warrant program described in note 7 to the consolidated financial statements is issued by PANDORA A/S. The value of the warrants granted to employees in the Parent Company's subsidiaries is recognised in investments in subsidiaries. Of the total expense of DKK 6 million (2009: DKK 8 million)

DKK 1 million (2009: DKK 2 million) has been recognised in investment in subsidiaries.

### NOTE 6. DEVELOPMENT COSTS

Development costs recognised as an expense in the income statement during the year amount to DKK 10 million in 2010 (2009: DKK 0 million).

### NOTE 7. FEES TO THE AUDITORS APPOINTED BY THE COMPANY IN GENERAL MEETING, ERNST & YOUNG

| DKK million | 2010 | 2009 |
|---|---|---|
| Fee for statutory audit | 1 | - |
| Other assurance engagements | 2 | - |
| Tax consultancy | 2 | - |
| Other services | 1 | 2 |
| | **6** | **2** |

The fees are recorded under administrative expenses.

### NOTE 8. FINANCIAL INCOME

| DKK million | 2010 | 2009 |
|---|---|---|
| Financial income originated from financial assets and liabilities at fair value through the income statement: | | |
| Fair value adjustments on derivatives | 27 | 13 |
| Interest on derivatives | - | 15 |
| | **27** | **28** |
| Financial income originated from loans and receivables measured at amortised cost: | | |
| Exchange gains, net | - | 6 |
| Interest income, bank | - | 1 |
| Interest income from subsidiaries | 73 | - |
| Other | 5 | 1 |
| | **78** | **8** |
| **Total financial income** | **105** | **36** |

# NOTES

## NOTE 9. FINANCIAL EXPENSES

| DKK million | 2010 | 2009 |
|---|---|---|
| Financial expenses originated from financial assets and liabilities at fair value through the income statement: | | |
| Fair value adjustments on derivatives | - | 5 |
| Interests on derivatives | 21 | - |
| | **21** | **5** |
| Financial expenses originated from financial liabilities measured at amortised cost: | | |
| Exchange losses, net | 11 | - |
| Interest on subordinated loan | 25 | 85 |
| Interest income to subsidiaries | 1 | 18 |
| Interest on debt and borrowings | 63 | 131 |
| Other finance costs | 47 | 3 |
| | **147** | **237** |
| **Total financial expenses** | **168** | **242** |

## NOTE 10. INCOME TAX

| DKK million | 2010 | 2009 |
|---|---|---|
| Income tax recognised in the income statement: | | |
| Current income tax charge | 264 | 20 |
| Prior-year adjustments | -14 | - |
| Changes in deferred tax | 7 | - |
| **Income tax expense** | **257** | **20** |
| Included in income statement in the following lines: | | |
| Income tax expense | 245 | 20 |
| Impact from merger | 12 | - |
| **Income tax expense** | **257** | **20** |
| **Tax reconciliation** | | |
| Accounting profit before tax | 1,711 | 760 |
| At PANDORA A/S' statutory income tax rate 25% (2009: 25%) | 427 | 190 |
| **Tax effect of:** | | |
| Tax exempted income | -172 | -194 |
| Non deductible expenses | 16 | 24 |
| Prior-year adjustments | -14 | - |
| | **257** | **20** |

# NOTES

## NOTE 11. INVESTMENTS

| DKK million | Investments in subsidiaries |
|---|---|
| Cost at 1 January 2010 | 3,024 |
| Effect from merger | -2,426 |
| Additions | 892 |
| **Cost at 31 December 2010** | **1,490** |
| Cost at 1 January 2009 | 3,006 |
| Additions | 18 |
| **Cost at 31 December 2009** | **3,024** |

| Subsidiary | Domicile |
|---|---|
| Pilisar ApS | Denmark |
| PANDORA Int. ApS | Denmark |
| PANDORA Production Co. Ltd. | Thailand |
| PANDORA Services Thailand | Thailand |
| PANDORA Jewellery UK Limited | UK |
| PANDORA Eastern Europe A/S | Denmark |
| PANDORA Jewelry Ltd. | Canada |
| PANDORA Jewelry Inc. | USA |
| PANDORA Jewelry Asia-Pacific Limited | Hong Kong |
| PANDORA Jewelry Central Western Europe A/S | Denmark |
| World Max International Trading Limited | Hong Kong |

Please refer to note 28 of the consolidated financial statement for ownership and date of investment.

# NOTES

## NOTE 12. INTANGIBLE ASSETS

| DKK million | Goodwill | Brand | Distribution network | Distribution Rights | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2010 | - | 15 | - | - | - | 15 |
| Additions from merger | 423 | 1,019 | 451 | 1,053 | - | 2,946 |
| Additions | - | 5 | - | - | 26 | 31 |
| **Cost at 31 December 2010** | **423** | **1,039** | **451** | **1,053** | **26** | **2,992** |
| Amortisation and impairment losses at 1 January 2010 | - | - | - | - | - | - |
| Additions from merger | - | - | 70 | 1 | - | 71 |
| Amortisation for the year | - | - | 15 | - | - | 15 |
| **Amortisation and impairment losses at 31 December 2010** | **-** | **-** | **85** | **1** | **-** | **86** |
| **Carrying amount at 31 December 2010** | **423** | **1,039** | **366** | **1,052** | **26** | **2,906** |
| Cost at 1 January 2009 | - | - | - | - | - | - |
| Additions | - | 15 | - | - | - | 15 |
| **Cost at 31 December 2009** | **-** | **15** | **-** | **-** | **-** | **15** |
| Amortisation and impairment losses at 1 January 2009 | - | - | - | - | - | - |
| Amortisation for the year | - | - | - | - | - | - |
| **Amortisation and impairment losses at 31 December 2009** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Carrying amount at 31 December 2009** | **-** | **15** | **-** | **-** | **-** | **15** |

No intangible assets existed at 31 December 2010 or 31 December 2009, which have been fully amortised. Please refer to note 14, Intangible assets, of the consolidated financial statement for a description of the assets.

No intangible assets have been impaired in 2010 or in 2009. Please refer to note 15, impairment test, of the consolidated financial statement.

# NOTES

## NOTE 13. PROPERTY, PLANT AND EQUIPMENT

| DKK million | Land and buildings | Plant and equipment | Total |
|---|---|---|---|
| Cost at 1 January 2010 | - | 1 | 1 |
| Additions from merger | 1 | 9 | 10 |
| Additions | - | 18 | 18 |
| Disposals | -1 | -2 | -3 |
| **Cost at 31 December 2010** | **-** | **26** | **26** |
| Depreciation and impairment losses at 1 January 2010 | - | - | - |
| Additions from merging | - | 6 | 6 |
| Depreciation for the year | - | 4 | 4 |
| Disposals | - | -2 | -2 |
| **Depreciation and impairment losses at 31 December 2010** | **-** | **8** | **8** |
| **Carrying amount at 31 December 2010** | **-** | **18** | **18** |
| Cost at 1 January 2009 | - | - | - |
| Additions | - | 1 | 1 |
| **Cost at 31 December 2009** | **-** | **1** | **1** |
| Depreciation and impairment losses at 1 January 2009 | - | - | - |
| Depreciation for the year | - | - | - |
| **Depreciation and impairment losses at 31 December 2009** | **-** | **-** | **-** |
| **Carrying amount at 31 December 2009** | **-** | **1** | **1** |

# NOTES

## NOTE 14. DEFERRED TAX

| DKK million | Balance sheet 2010 | Balance sheet 2009 | Income statement 2010 | Income statement 2009 |
|---|---|---|---|---|
| Distribution rights | 613 | - | 4 | - |
| Other | -4 | -1 | 3 | - |
| **Deferred tax, net** | **609** | **-1** | | |
| **Deferred tax income** | | | **7** | **-** |
| | | | | |
| **Deferred tax is recognised in the consolidated balance sheet as follows:** | | | | |
| Deferred tax asset | - | -1 | | |
| Deferred tax liability | 609 | - | | |
| **Deferred tax, net** | **609** | **-1** | | |
| | | | | |
| **Reconciliation of deferred tax:** | | | | |
| At 1 January | -1 | -1 | | |
| Tax expense recognised in the income statement | 7 | - | | |
| Tax expense recognised in other comprehensive income | -3 | - | | |
| Deferred tax arising in connection with merger | 606 | - | | |
| | **609** | **-1** | | |

## NOTE 15. INVENTORIES

Inventories consist of finished goods and no write-downs of inventories are recognised in 2010 or 2009.

## NOTE 16. TRADE RECEIVABLES

Trade receivables at 31 December 2010 include receivables at nom. DKK 16 million (2009: DKK 0 million), which have been written down to DKK 15 million (2009: DKK 0 million).

| DKK million | 2010 | 2009 |
|---|---|---|
| Analysis of movements in bad debt provision: | | |
| At 1 January | - | - |
| Acquisition of subsidiary | 8 | - |
| Unused amounts reversed | -7 | - |
| **At 31 December** | **1** | **-** |
| Analysis of trade receivables that were past due, but not impaired, at 31 December: | | |
| Until 30 days | 7 | - |
| Above 90 days | 3 | - |
| **Past due, but not impaired** | **10** | **-** |
| Neither past due nor impaired | 5 | - |
| **Total** | **15** | **-** |

Historically, PANDORA A/S has not encountered significant losses on trade receivables.

## NOTE 17. FINANCIAL ASSETS AND LIABILITIES

| DKK million | 2010<br>Carrying amount | 2009<br>Carrying amount |
|---|---|---|
| **Financial assets at fair value through other comprehensive income:** | | |
| Derivatives | 304 | - |
| **Total financial assets at fair value** | **304** | **-** |
| | | |
| **Loan and receivables measured at amortised cost:** | | |
| Trade receivables | 15 | - |
| Intercompany receivables | 2,967 | 845 |
| Other receivables | 22 | - |
| Cash | 661 | 29 |
| **Total loan and receivables measured at amortised cost** | **3,665** | **874** |
| | | |
| **Total financial assets** | **3,969** | **874** |
| | | |
| **Financial liabilities at fair value through the income statement:** | | |
| Derivatives | - | 27 |
| **Financial liabilities at fair value through other comprehensive income:** | | |
| Derivatives | 11 | - |
| **Total financial liabilities at fair value through the income statement** | **11** | **27** |
| | | |
| **Financial liabilities measured at amortised cost:** | | |
| Subordinated loan from parent company | - | 1,400 |
| Interest-bearing loans and borrowings | 1,983 | 1,322 |
| Trade payables | 83 | 12 |
| Intercompany payables | 2,293 | 545 |
| Other payables | 60 | - |
| **Total financial liabilities measured at amortised cost** | **4,419** | **3,279** |
| | | |
| **Total financial liabilities** | **4,430** | **3,306** |

**Classification according to the fair value hierarchy:**
Financial instruments measured at fair value consist of derivatives, including silver and gold futures, interest rate swaps, currency rate swaps and FX options. The fair value as at 31 December 2010 and 2009 of the PANDORA A/S's derivative financial instruments is measured in accordance with level 2* in the fair value hierarchy, as the fair value is based on the official silver prices, exchange rates and interest rates at the balance sheet date.

In 2009, the subordinated loan from the parent company beared a fixed rate of interest. The fair value at a floating interest rate of 4.5% was DKK 1,545 million. The fair value was measured in accordance with Level 2* in the fair value hierarchy, as the fair value was based on the official floating interest rate at the balance sheet date.

At 31 December 2010 and 2009 there are no further material differences between the carrying amount and the fair value of the other financial assets and liabilities listed above.

* Inputs other than listed prices which are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

# NOTES

## NOTE 18. SHARE CAPITAL AND RESERVES

For a specification and an explanation to the changes in share capital and reserves, please refer to note 22, Share capital and reserves, of the consolidated financial statement.

**Treasury shares**
Treasury shares regards hedges for future share-based incentive schemes and restricted stock awards to Board of Directors and key employees.

**Nature and purpose of reserves stated in the statement of changes in equity**
Other reserves comprise value adjustments of cash flow hedges, share based payments and capital infusion. The cash flow hedge was net of tax DKK 8 million as at 31 December 2010 (2009: DKK 0 million). Capital infusion comprises funding of a two month salary bonus to the employees by the selling shareholder in connection with the Initial Public Offering. Capital infusion is DKK 74 million as at 31 December 2010 (2009: DKK 0 million). Share based payment reserve was DKK 16 million as at 31 December 2010 (2009: DKK 10 million).

Foreign currency translation reserves comprise foreign exchange adjustments related to functional currency adjustments of distribution rights in US and investments in foreign subsidiaries. Foreign currency translation reserve was net of tax DKK 165 million as at 31 December 2010 (2009: DKK 0 million).

# NOTES

## NOTE 19. PROVISIONS

| DKK million | Earn-out, acquisition of non-controlling interests | Returns | Total |
|---|---|---|---|
| Provisions at 1 January 2010 | - | - | - |
| Addition from merger | - | 1 | 1 |
| Provisions made in 2010 | 498 | 2 | 500 |
| Discount rate adjustments | 20 | - | 20 |
| **Provisions at 31 December 2010** | **518** | **3** | **521** |
| Provision are recognised in the consolidated balance sheet as follows: | | | |
| Non-current 2010 | 518 | 3 | 521 |
| | **518** | **3** | **521** |

**Earn-out, acquisition of non-controlling interests**

The earn-out payment provision concern a partial payment of the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe. Please refer to note 4 of the consolidated financial statement.

**Returns**

Provision regarding returns of products from customers, based on historical return percentages. Where the return prices are reduced over time, this has been taken into account in the calculation of the provision. It is expected that the costs will be incurred in 2011.

# NOTES

**NOTE 20. CONTINGENT LIABILITIES, SECURITY FOR LOANS AND OTHER FINANCIAL OBLIGATIONS**

**Contingent liabilities**
PANDORA A/S is a party to a number of minor legal proceedings, which are not expected to influence the future earnings.

**Other obligations**
PANDORA A/S' other financial obligations mainly relate to leases for office premises and operating equipment.

Future minimum lease payments on existing contracts:

| DKK million | 2010 | 2009 |
|---|---|---|
| Within 1 year | 11 | 1 |
| Between 1 -5 years | 30 | 1 |
| After 5 years | 29 | - |
| | **70** | **2** |

PANDORA A/S has issued a letter of subordination to be benefit of other creditors of subsidiaries.

# NOTES

## NOTE 21. RELATED PARTY TRANSACTIONS

Besides the related parties mentioned in 25, Related party transactions, of the consolidated financial statement, related parties of PANDORA A/S also comprises the subsidiaries listed in the group structure in note 28 of the consolidated financial statement.

The table below provides the other transactions which were entered into with related parties.

| | Subsidiaries | | Prometheus Invest ApS | |
|---|---|---|---|---|
| DKK million | 2010 | 2009 | 2010 | 2009 |
| **Income statement:** | | | | |
| Sales to related parties | 5,179 | 481 | - | - |
| Purchases from related parties | -3,069 | -227 | - | - |
| Costs | -139 | - | - | |
| Dividend | 626 | 774 | - | - |
| Financial income | 73 | 18 | - | - |
| Financial expenses | -13 | - | -25 | -85 |
| **Total** | **2,657** | **1,046** | **-25** | **-85** |
| **Balance sheet:** | | | | |
| Receivables | 2,967 | 845 | - | - |
| Equity (capital infusion) | - | - | 74 | - |
| Payables | -2,293 | -546 | 9 | - |
| Subordinated loan | - | - | - | -1,400 |
| **Total** | **674** | **299** | **83** | **-1,400** |

In 2009 PANDORA A/S acquired PANDORA International ApS (formerly KW Holding ApS) from KW Invest ApS for DKK 10 million. KW Invest ApS was owned by Axcel IndustiInvestor a.s.

PANDORA A/S has merged with the 100% owned subsidiary PANDORA Jewelry A/S as of 30 June 2010 with PANDORA A/S as the surviving company. Please refer to note 2.

In connection with the formation of PANDORA Jewelry Western Europe A/S in 2010, PANDORA A/S contributed distribution rights in the Netherlands and Italy and extended the term of the distribution right for Germany, Austria and Switzerland. For further information, please refer to note 3, business combinations, of the consolidated financial statement.

# NOTES

**NOTE 22. SIGNIFICANT ACCOUNTING POLICIES**

The 2010 financial statements of PANDORA A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies in accordance with the Danish Financial Statements Act.

The financial statements are presented in Danish kroner, which is the functional currency.

The accounting policies for the parent is the same as for the Group, cf. note 27 to the consolidated financial statements, with the exception of the items listed below.

**Group internal restructuring**

*Transfer of businesses without consideration*
Group internal transfer of businesses without consideration (e.g. a merger) is accounted for at booked value based on the consolidated accounts. As of the date of the transfer of the business, the investment in the subsidiary is replaced by the original consolidated booked values of underlying assets and liabilities, adjusted for the effects of movements in the period after acquisition (catch-up effect). Adjustments related to transactions recorded directly in equity are recognised in equity. All other adjustments are recognised as income.

Transfer of businesses without consideration are reflected in the financial statements of the Parent Company from the date of transfer hence comparative information for the transferred business has not been recognised.

*Transfer of assets for shares*
Transfer of assets for shares is the transfer of assets such as inventory, property, plant and equipment and intangible assets by PANDORA A/S in return for shares of another group entity. PANDORA A/S recognises the shares at the carrying value of the asset transferred.

**Dividends**
Dividends on investments in subsidiaries, joint ventures and associates are recognised as income in the income statement of the Parent Company in the financial year in which the dividend is declared.

**Investments in subsidiaries**
Investments in subsidiaries are measured at cost. If the cost exceeds the recoverable amount, the investment is written down to the lower value.

**Share-based payments to employees in subsidiaries**
The value of granted warrants to employees in PANDORA A/S' subsidiaries is recognised in investments in subsidiaries as the service rendered in exchange for the warrants are received in the subsidiaries, with a set-off directly against equity.

**PANDORA A/S**
Hovedvejen 2
DK-2600 Glostrup
Denmark

Phone: +45 3672 0044
Fax: +45 3673 0800
CVR nr.: 28505116

www.pandoragroup.com