PANDORA

ANNUAL REPORT 2020

CONTENTS

THE BIG PICTURE

01

Pandora is the world's largest jewellery brand. Known by more consumers and crafting more jewellery than any other brand in the industry, we provide affordable luxury to consumers in more than 100 countries.

Made from high-quality materials and with endless possibilities for personalisation, millions of people around the world cherish and collect Pandora to express who they are and what matters to them.

We give a voice to people's loves.

PANDORA AT A GLANCE

NO. 1 JEWELLERY BRAND IN THE WORLD

>85

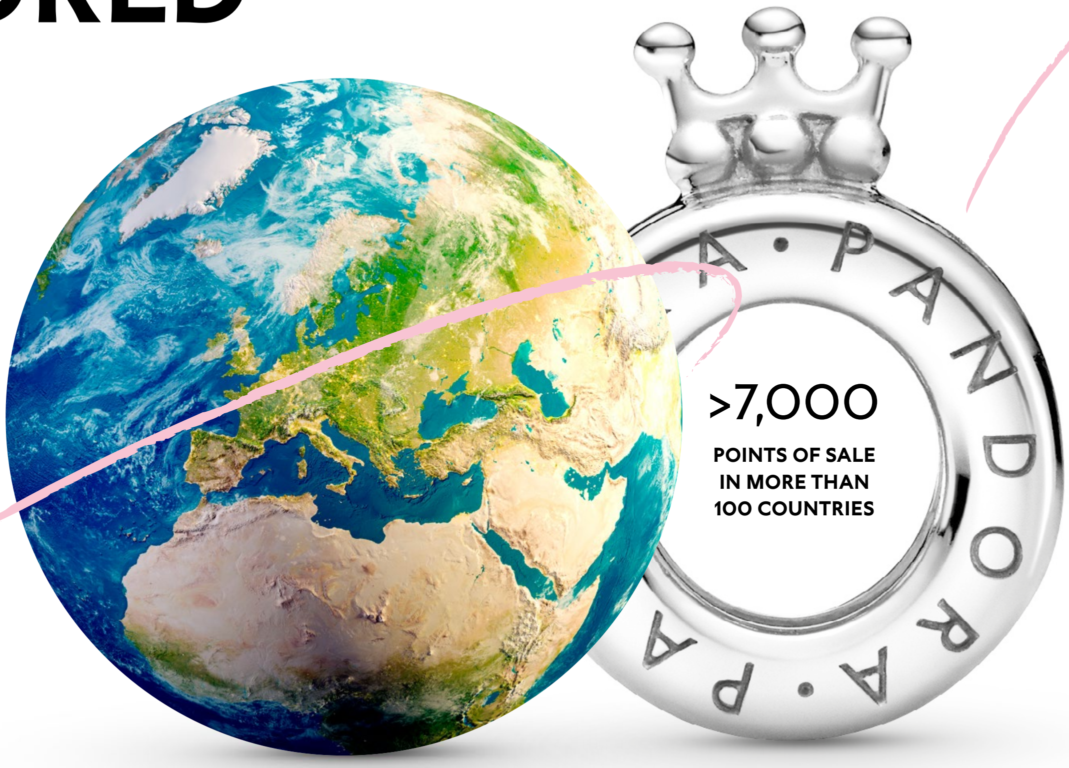
MILLION PIECES OF JEWELLERY SOLD
2020

>650

MILLION VISITS TO OUR PHYSICAL AND ONLINE STORES
2020

103%

GROWTH IN ONLINE SALES
See more



>7,000

POINTS OF SALE IN MORE THAN 100 COUNTRIES

19.0

DKK BILLION REVENUE
2020

26,000

EMPLOYEES

2

UNRIVALLED CRAFTING FACILITIES
in Bangkok and Chiang Mai, Thailand

60%

OF OUR SILVER AND GOLD IS FROM RECYCLED SOURCES
saving us 20,000 tonnes CO_2

LETTER TO THE SHAREHOLDERS

TURNAROUND NEARLY COM- PLETE DESPITE GLOBAL CRISIS

A review of 2020 can only begin with one topic. A terrible pandemic swept the world, upending lives and societies everywhere. The impact on individuals, communities, and businesses has been severe, and we all hope for brighter times in the new year.

PETER A. RUZICKA
Chair of the Board of Directors

For Pandora, 2020 was a paradox. On the one hand, the pandemic forced us to temporarily close most of our stores and revenue declined dramatically. Many commercial plans had to be cancelled or postponed, as focus shifted to protecting customers and employees.

On the other hand, 2020 marked a milestone in the company's turnaround. We are reigniting the desire for Pandora. The positive brand development that started towards the end of 2019 continued, as we cemented our position as a desirable and affordable luxury brand. The strategic initiatives under Programme NOW showed very strong results, and our share price increased 135%. Total shareholder return topped both the Danish C25 and the STOXX 600 Personal & Household Goods indices.

We were able to leverage new consumer insights across the business and despite the disruption from COVID-19, our retail operations proved their resilience. This was particularly evident in our online stores. As social distancing put limits on physical retail, and brick-and-mortar stores had to close, we were able to recoup a lot of revenue thanks to our significant investments in digital initiatives in recent years. Pandora's online revenue doubled in 2020.

We will continue to invest in our digital capabilities, omnichannel initiatives, and data analytics. These are core elements of the brand's future, as we aim to stay relevant to different consumer groups while being very competitive in our go-to-market strategies.

In 2020, we changed the way Pandora operates. We completed a strategic reorganisation to bring Pandora closer to consumers and ensure more consistent global execution of our product and marketing concepts. The reorganisation has enabled faster decision-making and better collaboration. Our agility and operational excellence during the pandemic are solid evidence of the new organisation.

Pandora also made great progress on the sustainability front in 2020. We committed to becoming carbon neutral in our own operations by

ALEXANDER LACIK
President & CEO

2025, reducing emissions in our full value chain in line with the Paris Agreement, and switching to using only recycled silver and gold in our products by 2025. These decisions will greatly benefit the environment and have set a new standard for responsible production in the jewellery industry. We also extended our collaboration with UNICEF after having raised USD 3.4 million for vulnerable children in the first year of the partnership. Some of the funds were directed to COVID-19 relief.

We are now preparing a new chapter for Pandora. Programme NOW was launched in late 2018 as a two-year transformation programme with the main objective of halting the decline in revenue. It has changed the company, and the transformation is nearing its completion. We look forward to presenting a new strategy and embarking on the next era for the company – an era of growth – in support of our aim to give a voice to people's loves.

We would like to thank all Pandora's employees for their commitment, innovation and perseverance during a very challenging year.

EXECUTIVE SUMMARY

SOLID PERFORMANCE AS BRAND STRENGTHENS

Over the past two years, we have worked to transform our business with the Programme NOW initiatives and infuse new energy into the Pandora brand.

Our strong performance during the pandemic and our high consumer engagement show that Pandora's brand momentum continues to strengthen.

The main commercial initiatives of Programme NOW kicked off with the brand relaunch on 29 August 2019. In Q4 2019, we saw the first encouraging results, as like-for-like sales growth improved compared to the prior quarters of 2019. This trend continued in early 2020, where Pandora generated positive like-for-like in January and February (excluding China).

In 2020, Pandora's financial results were severely impacted by COVID-19 and the temporary closures of most of our stores and reduced footfall in open stores. Despite the impact, Pandora generated 4% organic growth in Q4.

It is clear that Pandora has taken significant steps in 2020 towards the key objective of Programme NOW, stabilising the top-line after years of like-for-like revenue decline.

Read more about Programme NOW on page 17

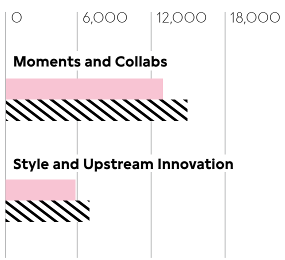
Since the outbreak of COVID-19, we have taken a number of steps to navigate through the crisis in a socially responsible way. We have prioritised a safe environment for employees and customers, and we have put in place all necessary measures to comply with local authorities' guidelines on social distancing and other safety requirements. When stores were forced to close, we guaranteed full base pay for our employees.

During the first lockdowns in spring, Pandora took a number of steps to secure a very robust liquidity position and protect our profitability as revenue declined. These measures enabled a strong commercial comeback when stores reopened after the lockdowns. The commercial plan was based on ensuring available and motivated store staff, actively managing fresh

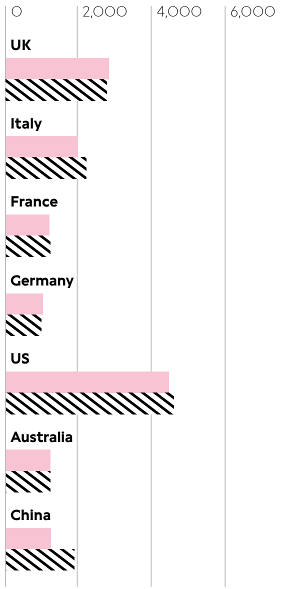
Online sales growth accelerated significantly during the lockdowns

inventory, and continuing a strong media and marketing push. These decisions produced encouraging results, as consumers returned to stores and Pandora has taken market share, excluding China, in a highly fragmented industry.

REVENUE IN GLOBAL BUSINESS UNITS
DKKm 2020 2019



REVENUE IN KEY MARKETS
DKKm 2020 2019



Global sell-out growth (equivalent to like-for-like growth including temporarily closed stores) improved step by step from the low-point in April 2020. From November 2020, a wave of COVID-19 lockdowns in key European markets, including France, the UK and Germany, and restrictive retail guidelines in most other European markets had a negative impact on our performance in the important fourth quarter. The negative impact on performance from COVID-19 store restrictions appears to have been (partially) offset by a non-recurring positive impact from reallocation of consumer spending away from travelling and services towards gifting and discretionary goods. Sell-out growth was -39% in Q2 2020, -2% in Q3 2020 and 1% in Q4 2020. The full-year ended at -12%.

E-commerce has been a positive highlight in 2020 and a significant driver of our resilient and robust performance. We relaunched our online business in 2019 and have been delivering strong results ever since. Online sales growth accelerated significantly during the lockdowns, as Pandora successfully steered customers from offline to online, generating 103% online sell-out-growth for the year. Digital initiatives will continue to be prioritised and are considered core for the brand's future.

Brand momentum remains strong in a changed retail environment
In Q4 2020, we took a number of actions to manage the busy holiday shopping in stores operating under social distancing requirements. These initiatives centred on three objectives:

- Accommodate peak traffic into physical stores through a combination of increasing available store space and decreasing transaction time in an already fast transaction environment.
- Stretch peak trading periods over longer time through a combination of tactical promotions and managing media push.
- Transfer traffic from offline to online through digital offerings, media planning, and by providing other incentives for consumers to access the Pandora brand online.

The initiatives were successful, and from mid-november to 31 December online transactions increased by 87% on last year.

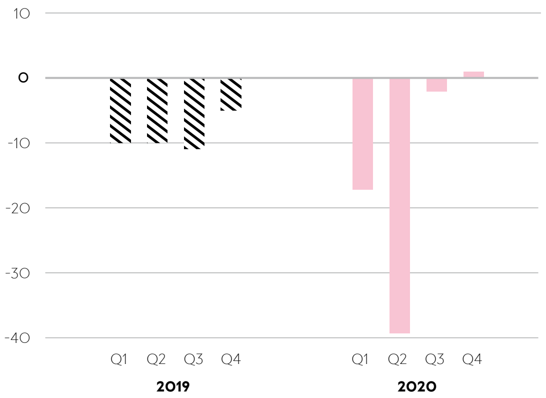
Financial performance
Even though 2020 was an exceptionally challenging and unpredictable year, Pandora was still highly profitable and cash-generative. The EBIT margin excluding restructuring costs was 20.4% and cash conversion including lease payments was 183%. This is testimony to the robustness and inherent financial attractiveness of the business.

Sell-out growth was -12% and organic growth -11%. Permanent store closures negatively impacted revenue by around 1% and adverse foreign exchange developments impacted revenue by -3%. Total reported revenue ended at DKK 19.0 billion (-11% growth in local currency compared with 2019).

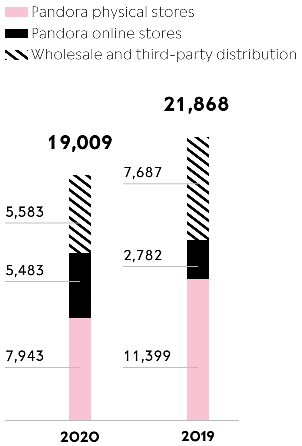
The two new Global Business Units, Moments and Collabs and Style and Upstream Innovation, generated sell-out growth of -13% and -12% respectively. The total share of business for Charms and Bracelets was 71%, in line with 2019 and continuing to be the core of Pandora business. Pandora will continue to invest in new designs and develop the product offering.

Earnings before interest and tax (EBIT) excluding restructuring costs were DKK 3.9 billion in 2020. Restructuring costs amounted to DKK 1.2 billion.

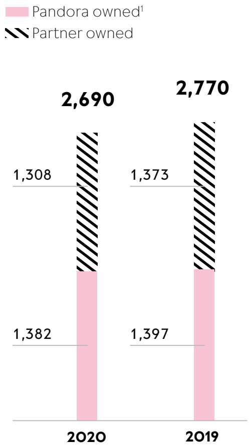
TOTAL SELL-OUT GROWTH
%



REVENUE BY CHANNEL
DKKm



NUMBER OF CONCEPT STORES



[1] Pandora does not own any of the premises (Land and buildings) where stores are operated. Pandora exclusively operates stores from leased premises.

FIVE-YEAR SUMMARY

DKK million	2020	2019	2018[2]	2017[1,2]	2016[1,2]
Key financial highlights					
Organic growth, %	**-11%**	**-8%**	**-2%**	**11%**	**N/A**
Sell-out growth, incl. temporarily closed stores, %	-12%	-8%	-4%	0%	8%
Total like-for-like sales out, %[3]	1%	-8%	-4%	0%	8%
Gross margin excl. restructuring costs, %	76.5%	77.4%	74.3%	74.5%	75.1%
EBIT margin excl. restructuring costs, %	**20.4%**	**26.8%**	**28.2%**	**34.2%**	**36.5%**
Consolidated income statement (reported)					
Revenue	19,009	21,868	22,806	22,781	20,281
Earnings before interest, tax, depreciation and amortisation (EBITDA)	4,999	6,148	7,421	8,505	7,922
Operating profit (EBIT)	2,684	3,829	6,431	7,784	7,404
Net financials	-190	1	151	-117	246
Net profit for the period	1,938	2,945	5,045	5,768	6,025
Financial ratios					
Revenue growth, DKK, %	-13%	-4%	0%	12%	21%
Revenue growth, local currency, %	-11%	-6%	3%	15%	24%
Gross margin (reported), %	75.6%	72.7%	74.3%	74.5%	75.1%
EBITDA margin (reported), %	26.3%	28.1%	32.5%	37.3%	39.1%
EBIT margin (reported), %	14.1%	17.5%	28.2%	34.2%	36.5%
Effective tax rate, %	22.3%	23.1%	23.4%	24.8%	21.2%
Equity ratio, %	37%	24%	33%	37%	44%
NIBD to EBITDA excl. restructuring costs, x	0.5	1.1	0.8	0.6	0.3
Return on invested capital (ROIC), %[6]	25%	27%	53%	68%	80%
Cash conversion incl. lease payments, %	183%	133%	86%	68%	72%
Operating working capital, % of last 12 months' revenue	-2.1%	3.1%	11.2%	13.1%	13.7%

DKK million	2020	2019	2018[2]	2017[1,2]	2016[1,2]
Stock ratios					
Total payout ratio (incl. share buyback), %[4]	65%	147%	104%	99%	91%
Dividend per share, DKK[5]	-	9.0	9.0	9.0	9.0
Quarterly dividend per share, DKK[6]	-	9.0	9.0	27.0	-
Earnings per share, basic, DKK	20.0	30.3	47.2	52.0	52.8
Earnings per share, diluted, DKK	19.9	30.1	47.0	51.8	52.5
Consolidated balance sheet					
Total assets	19,984	21,571	19,244	17,428	15,321
Invested capital[7]	10,540	14,268	12,071	11,369	9,242
Operating working capital	-391	684	2,555	2,988	2,782
Net interest-bearing debt (NIBD)[7]	3,151	9,019	5,652	4,855	2,448
Equity	7,389	5,249	6,419	6,514	6,794
Consolidated statement of cash flow					
Cash flow from operating activities	5,975	6,775	6,624	6,606	6,531
Capital expenditure – total	491	822	1,129	1,388	1,199
Capital expenditure – property, plant and equipment	369	556	753	946	828
Free cash flow incl. lease payments	4,908	5,075	5,558	5,294	5,358

[1] Figures have been restated to reflect the adoption of IFRS 15.
[2] Comparative figures have not been restated following the adoption of IFRS 16 Leases.
[3] Like-for-like excluding stores which have been temporarily closed in 2020 due to COVID-19 (2019: excluding Hong Kong SAR in Q3 and Q4 due to the extraordinary turmoil in the market).
[4] Excluding sale of treasury shares amounting to DKK 1.8 billion in Q2 2020.
[5] Proposed dividend per share for the year.
[6] Paid quarterly dividend per share for the period.
[7] For 2016 and 2017, Invested capital and NIBD have been restated due to immaterial reclassifications. Consequently, NIBD to EBITDA and ROIC have been recalculated.

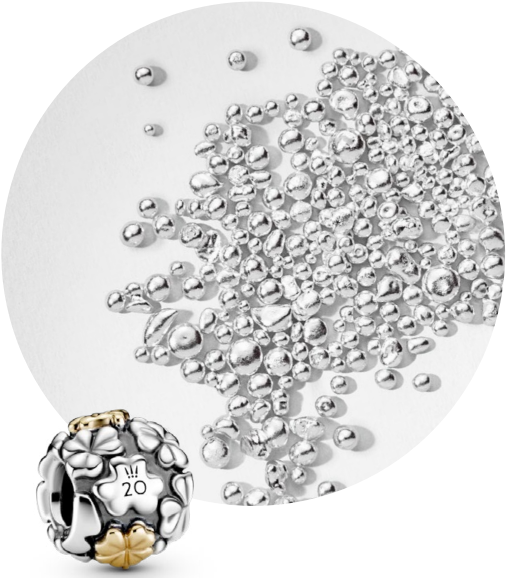
2020 HIGHLIGHTS

Strategic reorganisation to build a world-class brand

In 2020, we reorganised Pandora to move us closer to consumers. We brought local markets closer to our Global Office by closing our three regional organisations, and we set up two global business units with product responsibility across the full value chain. We established a new retail centre of excellence to drive best practice across stores and improve merchandising, store development, planning and execution. Among other benefits, the reorganisation has enabled faster decision-making and better collaboration in the company. This has improved supply chain management and merchandising and led to higher conversion rates.

All jewellery to be made from recycled silver and gold

To reduce carbon emissions and other harmful environmental and social impacts from mining, we announced that we will stop using newly mined silver and gold in our jewellery by 2025 and buy only from recycled sources. The emissions for recycled silver are one third compared to mined silver, while recycling of gold emits 600 times less carbon than mining new gold. In 2020, around 60% of our silver and gold was recycled.



Silver is the most used material in Pandora jewellery, accounting for over half of all purchased product materials measured by weight.

Pandora donates USD 1 million to UNICEF's COVID-19 response

In summer 2020, Pandora funded UNICEF's One Love campaign to prevent the pandemic from becoming a lasting crisis for children. As part of the campaign, the family of Bob Marley re-recorded 'One Love' – the iconic song with a universal message of love and solidarity. Pandora matched public donations to the campaign up to USD 1 million. In 2019, we formed a long-term partnership with UNICEF to help reach more than 10 million children and young people worldwide and provide them with opportunities to learn, express themselves and find work in the future. In total, we raised USD 3.4 million for UNICEF in the partnership's first year.

Bringing the Star Wars galaxy to life through jewellery

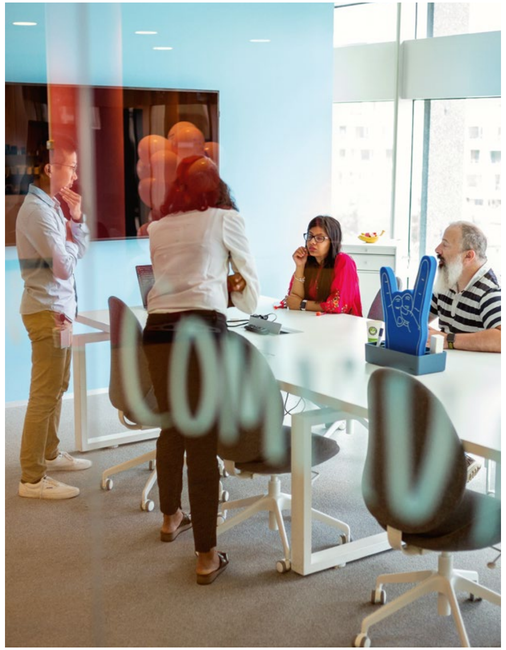
We launched a 12-piece capsule collection of Star Wars™-inspired jewellery in collaboration with Lucasfilm. The highly-anticipated line included a bracelet and charms featuring beloved Star Wars characters and symbols. The collection proved popular among consumers and accounted for 4% of total revenue in its first month. The Child charm was the most popular piece, selling more than 100,000 pieces in December alone.

Online sales set records

Lockdowns and social distancing changed global retail dramatically in 2020. We had to temporarily close most of our stores during the year, but we were able to recoup a large part of the lost sales through our online stores. Online sales increased 103% in 2020 compared to 2019 to make up 29% of revenue. In Q2, online sales surpassed physical retail for the first time ever, making up 52% of revenue in the quarter.

103%

ONLINE SALES GROWTH IN 2020



Launch of the Digital Hub

In July 2020, we inaugurated the Digital Hub, a new office space in Copenhagen that houses a group of almost 100 software engineers, user experience designers and web and data analysts. The group is tasked with boosting Pandora's digital presence, omnichannel expertise and use of data. Due to COVID-19, our digital capabilities were immediately in high demand, and we introduced a number of new solutions to create an exciting and safe shopping experience. These solutions included a Remote Shopping Assistant, a virtual try-on simulation, online queueing and appointment booking.

Read more on page 14

2021 FINANCIAL GUIDANCE

STABILISING THE TOPLINE

In 2021, Pandora expects to reach an important milestone: returning to top-line growth after three years of decline.

In the absence of COVID-19 impact, we would guide for slightly positive organic growth in 2021 versus 2019. However, we expect 2021 to be impacted by COVID-19 and performance therefore remains highly uncertain.

Including an assumed -6% COVID-19 impact on organic growth in 2021, Pandora guides as follows for 2021:

		Official 2021 Guidance
	Excluding impact from COVID-19	Including impact from COVID-19
Organic revenue growth	Above 14% (Above 2% versus 2019)	**Above 8%** (Above -3% versus 2019)
EBIT margin	Above 23%	**Above 21%**

Excluding the assumed COVID-19 impact in 2021, the guidance represents 2% organic growth compared to 2019 and an EBIT margin above 23%.

Revenue guidance

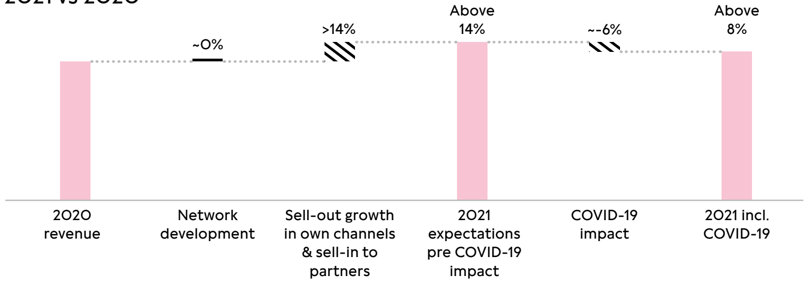
The guidance is based on the assumption that approximately 25% of the stores will be temporarily closed during the first half of 2021 and that organic growth will be negatively impacted by around -16% in the first half (around -6% full year impact). For the second half of 2021, it is assumed that there are no significant store closures and that COVID-19 related store restrictions will have limited impact.

The guidance is also based on the assumption that the positive impact seen in late 2020 from reallocation of consumer spending away from travelling and services towards gifting and discretionary goods was not larger than the negative impact from temporary store closures.

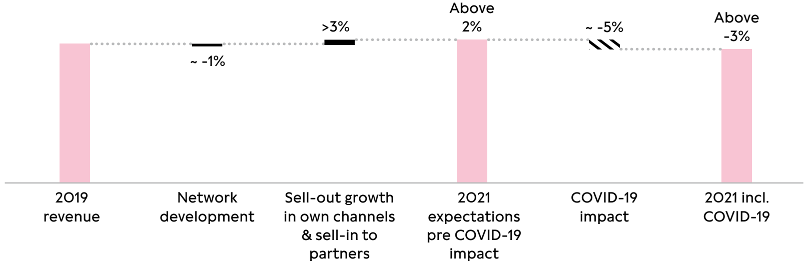
Pandora expects China will remain a drag on total revenue growth in 2021 and that revenue in China in 2021 will be well below 2019. China remains top priority and a significant growth opportunity for Pandora.

FULL-YEAR 2021 ORGANIC GROWTH GUIDANCE BRIDGE

2021 vs 2020



2021 vs 2019



Forward integration is expected to add around 1% to revenue in 2021. Furthermore we expect headwind from foreign exchange rates of approximately -1% taking total revenue growth in DKK to above 8% in 2021.

Profitability guidance

The 2021 EBIT margin is expected to be "above 21%" including negative COVID-19 impact of around 2pp . The building blocks in the guidance are illustrated by the bridge. It shows there is significant positive operating leverage in the business model. In the EBIT margin guidance for 2021, however, this is not directly visible due to continued COVID-19 headwind and higher commodity prices.

The quarterly phasing of the EBIT-margin obviously depends on the COVID-19 development. As in prior years and in line with normal seasonality, Q4 is expected to be by far the most profitable quarter of the year.

2021 Guidance – other parameters

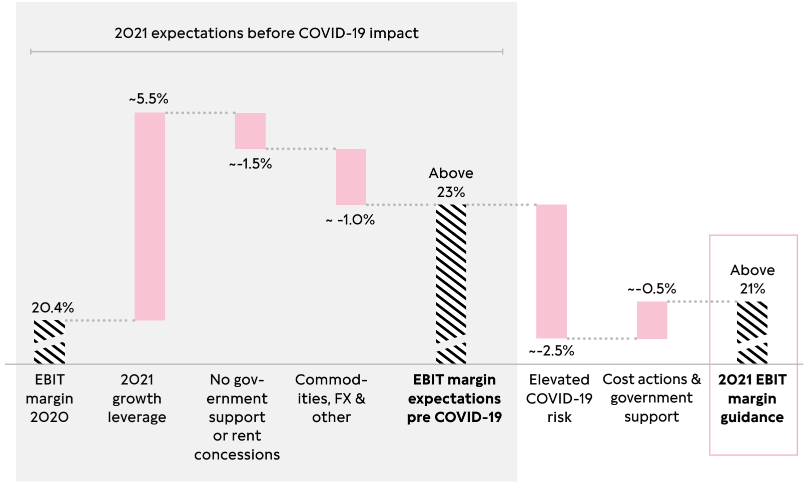
CAPEX for the year is expected to be in the range of DKK 1.0-1.2 billion. This includes investments in Pandora's physical stores, the crafting facilities in Thailand as well as digitalisation and technology. No major changes to the overall concept store network is expected in 2021. The effective tax rate is expected to be 22-23%, in line with 2020.

Capital structure policy and cash distribution

Entering 2021, Pandora's leverage is 0.5x EBITDA and thereby in the very low end of the capital structure policy. Based on the guidance, Pandora is – everything else equal and in the absence of cash distribution – likely to end 2021 with a leverage close to 0. This is a strong position to be in and would under normal circumstances allow for significant cash distribution to the shareholders in 2021.

Due to the unprecedented situation caused by the pandemic and the elevated uncertainty following this, Pandora will postpone further cash distribution until the pandemic is under sufficient control. Pandora stresses that the capital structure policy is unchanged. While we await a more stable and predictable situation, Pandora will preserve the cash and be ready to distribute it in an accelerated manner later on. In order to prepare for a potential re-initiation of cash distribution later in 2021, Pandora will ask the shareholders at the Annual General Meeting in March 2021 to authorise the Board of Directors to potentially pass one or more resolutions to distribute extraordinary dividends up to a total amount of DKK 15 per share until the next annual general meeting.

FULL-YEAR 2021 EBIT MARGIN GUIDANCE BRIDGE
%-point approximations



FX ASSUMPTIONS AND IMPLICATIONS	Average 2020 FX Rates	3 February 2021 FX rates	2021 Y-Y financial impact
USD/DKK	6.5422	6.1891	
THB/DKK	0.2091	0.2060	
GBP/DKK	8.3890	8.4378	
CNY/DKK	0.9476	0.9582	
AUD/DKK	4.5069	4.7129	
REVENUE (DKKm)			-200 to -250
EBIT (DKKm)			~100
EBIT margin			~0.5%

BUILDING FOR A DIGITAL FUTURE

At Pandora, we have established a specialist digital unit at our headquarters in Copenhagen to boost our digital presence, omnichannel expertise and smart use of data.

In 2020, almost 100 software engineers, user experience designers, web and data analysts, and other digital professionals moved into the Digital Hub, a new office space at our Copenhagen headquarters. They are tasked with progressing Pandora's digital customer experience and driving sales through digital channels.

The group will also strengthen Pandora's ability to capture, analyse and apply customer data to enable better personalisation of the customer experience.

"Today's consumer demands more personalised products, services and interaction. How we derive the benefits from technology and data to create a great customer experience is key for us as a global brand. By making significant investments in our technological capabilities, we will enhance the direct and meaningful connection with our customers," says David Walmsley, Chief Digital & Technology Officer.

From strategy to impactful execution

Pandora has moved fast on its digital transformation. Since the brand relaunch in 2019, we have completed a comprehensive overhaul of our online stores and consolidated the technologies they run on, making it much easier to implement new features and update content. In key markets, Pandora has also launched several new omnichannel features, such as Click & Collect, and we have introduced personalised marketing initiatives that are more relevant for each consumer.

In 2021, Pandora will accelerate the digital journey, in particular by building more capability in data science and engineering and by further leveraging data and advanced analytics to drive growth. Our continued focus on creating great digital experiences for our customers will move Pandora to a digital leadership position in the industry.

20 different nationalities work at our new Digital Hub in Copenhagen.

OUR BUSINESS

02

BUSINESS MODEL

KEY RESOURCES

Brand
Pandora is known by more consumers than any other jewellery company.

Employees
Our 26,000 talented employees work across a fully integrated value chain.

Data & technology
Our digital capabilities enable us to create an exciting and personal shopping experience across all channels.

Stakeholder relationships
Our relationships with customers, business partners, suppliers and franchisees are key to the business.

Financial resources
Strong margins and high cash generation constitute a robust financial position.

DESIGN

Building on deep consumer insights and trend research, our design team adds creative inspiration for the launch of more than 400 new design variations each year.

CRAFTING

Our crafting capacity is the largest in the industry and provides flexibility and scalability. It enables us to craft hand-finished jewellery from precious metals at affordable prices.

MARKETING

We use data to reach specific audiences with customised messages across multiple channels. This results in unmatched brand awareness and high conversion rates.

BRAND ACCESS

Consumers connect with us through more than 7,000 points of sale, 16 online stores, social media and other platforms – by far the largest distribution network in the industry.

VALUE CREATED

Consumers
In 2020, we had more than 650 million visits to our physical and online stores. Consumers wear our affordable luxury to express themselves and share their passions. We give a voice to people's loves.

Community
We directly sustain tens of thousands of jobs at Pandora and our franchise partners, and we spent almost DKK 12 billion on goods and services in 2020, creating growth and jobs among our large network of suppliers. We pay corporate tax in the countries where we operate and are consistently among the ten largest taxpayers in Denmark.

Employees
We offer our employees a great and safe place to work and are focused on creating rewarding careers with high satisfaction and motivation.

Investors
In 2020, we paid an ordinary dividend of DKK 825 million and generated a total shareholder return of 145%.

PROGRAMME NOW

Reaching younger consumers with the Pandora ME collection in collaboration with actress Millie Bobby Brown.

For two years, Programme NOW has set the direction for Pandora's turnaround, aiming to stabilise the top-line while maintaining our industry-leading profitability. The programme is nearing its conclusion, and the company is preparing to enter the next phase.

We upgraded the online stores to the new visual identity and significantly improved website navigation

In 2018, Pandora conducted a company-wide health and efficiency assessment. We had high brand awareness, a global retail footprint, great creative capabilities, and an unrivalled production setup. However, comparable sales (like-for-like) were in decline, and the brand was in need of rejuvenation.

The ensuing turnaround plan, Programme NOW, was designed around four transformation objectives to create the needed stabilisation of the business: brand relevance, brand access, cost reset, and commercial reset.

Brand relevance

The brand relevance objective has focused on reigniting brand identity and enhancing the brand's relevance and ability to excite consumers. In August 2019, we relaunched the brand with a clearer definition of the brand purpose and position. We stripped the Pandora brand back to its core, focusing on self-expression, collectability and affordability, and we significantly increased our media and marketing investments.

The brand relaunch showed encouraging results towards the end of 2019, and the brand momentum drove positive organic growth in January and February 2020. Then the global pandemic hit, but we continued to see encouraging results from our brand initiatives. As stores reopened after the lockdowns in spring, we used our strong financial position to create additional brand awareness by increasing media spend across all channels ranging from TV campaigns and digital ads to e-mail marketing. More personalised e-mails have performed particularly well, proving the effectiveness of data-driven marketing initiatives.

Central to all these efforts has been an ambition to strengthen the focus on the brand's core: affordable jewellery that allows for collectability and self-expression.

Brand access

Another key objective of Programme NOW was to improve consumers' experience when they access the brand. Following the brand relaunch, we upgraded our online stores to our new

Launch and leverage

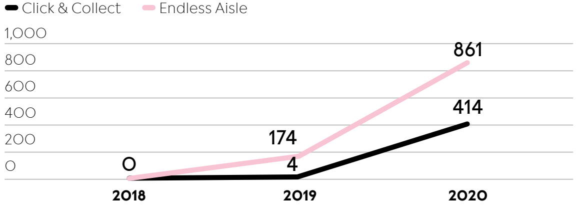
Since Q3 2020, we have been applying a new "launch and leverage"-approach when launching products. Instead of short-lived launches, we extend the lifecycle of new concepts by continuously building upon them. The objective is to properly invest in successful product collections and to build long-term, recognisable platforms.

JULY
We reactivated Pandora ME and the Harry Potter collaboration with new products

AUGUST & SEPTEMBER
We launched new collections with the focus as much on base products as newness in campaigns and merchandising.

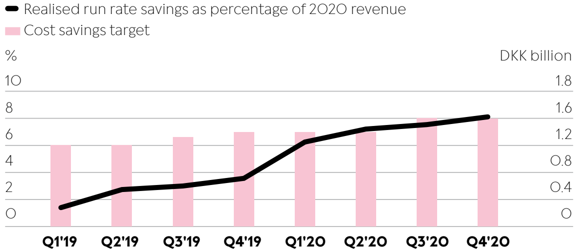
FAST OMNICHANNEL ROLL-OUT

Number of stores



New omnichannel features provide our customers with a seamless shopping experience across physical and online stores.

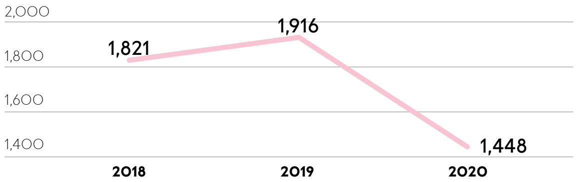
SIGNIFICANT COST RESET SAVINGS



Programme NOW has reduced annual costs by DKK 1.6 billion. The savings are used to fund new growth initiatives.

PRUNING OF PRODUCT ASSORTMENT

Number of design variations



A simplified portfolio of products has reduced design and production costs while improving sales and inventories.

visual identity and significantly improved website navigation, imagery, and check-out flow to enable a smoother and faster shopping experience.

With the establishment of the Digital Hub in 2020, our digital initiatives have gained significant momentum, benefiting important aspects of the business such as faster code roll-out to sites, personalisation and stronger merchandising. The Digital Hub has also been instrumental in connection with the roll-out of new omnichannel capabilities in the markets, such as Click & Collect and "BORIS" (Buy-Online-Return-In-Store). In the US, almost 300 stores now offer Click & Collect, and so do most of Pandora's UK stores. To overcome some of the social distancing challenges in Q4, we accelerated the roll-out of "Endless Aisle" (Go-In-Store-Buy-Online) to cover major European markets and Australia.

During 2019, we ran pilots of a new store design in our physical stores. Consumers appreciated the pilot, but overall sales performance did not match expectations. We have established a new team to drive our future store design concept. Their focus will be to optimise and redesign the in-store consumer journey.

Cost reset

The cost reset objective served to fund Programme NOW's growth initiatives and support profitability, particularly by reducing costs in production, stores, IT and administration. During 2019 and 2020, we have gradually raised our annual cost savings target from DKK 1.2 billion at the outset of the programme to DKK 1.6 billion. Exiting 2020, the target has been reached. The cost reset initiatives have been integrated into daily operations and will continue after Programme NOW.

Commercial reset

The Programme NOW analysis showed that excessive promotional activity up until 2018 had diluted Pandora's brand equity and led consumers to wait for the next promotion instead of buying at full price. Additionally, too many new product introductions coupled with an immature merchandising process had led to a cluttered assortment presentation in stores and a build-up of inventory.

The commercial reset initiative addressed these issues by significantly reducing non-value adding promotions and lowering inventory levels at franchise partners. This initiative has delivered a healthier promotional dependency, appropriate inventory levels at franchisees, and fewer products, leading to less complexity and more cost savings. The initiative was completed in 2019.

From turnaround to growth

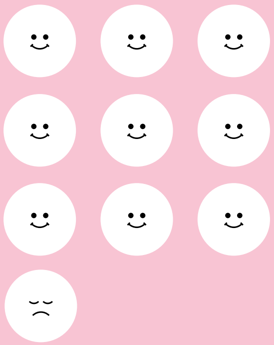
In late 2018, we launched Programme NOW as a two-year transformation with the main objective of halting the revenue decline. Now, two years into the programme, Programme NOW has changed Pandora and delivered very strong results. Pandora has now built the foundation to embark on a new era of growth.

Despite COVID-19 disruptions, the formal restructuring programme was completed in 2020. Consequently, there will be no further Programme NOW restructuring costs in 2021 and onwards.

In 2021, we will continue to improve brand relevance and drive retail metrics leveraging the learnings from Programme NOW. We have initiated preparations for a new strategy, which we expect to launch during 2021.

In 2021, we will continue to improve brand relevance and drive retail metrics leveraging the learnings from Programme NOW.

INVESTING IN OUR PEOPLE AND ORGANISATION



9 OUT OF 10
in employee satisfaction score on how appropriately Pandora responded to the pandemic.

Building for the future, Pandora made significant investments in our global organisation during 2020 with a new consumer-oriented operating model and a commitment to support our more than 11,600 store employees by maintaining salaries when stores were closed during pandemic lockdowns.

In the midst of the first lockdowns, we launched our new operating model to bring Pandora closer to consumers and ensure faster and more consistent execution. The strategic reorganisation was a key component of Programme NOW, and we established two Global Business Units responsible for product performance all the way from early market research to final sales.

In addition, we removed the regional layer and grouped our more than 100 markets into ten clusters that report to the newly hired Chief Commercial Officer, Martino Pessina. At the same time, we built stronger global functions at our Copenhagen headquarters, including Marketing, Digital, Merchandising, Human Resources and Business Intelligence, and we optimised our crafting facilities in Thailand to support fast delivery.

Building a high-performance organisation

The new operating model led to a significant strengthening of the organisation. We hired more than 800 colleagues globally, bringing new capability and competency to our transformation. Additionally, we introduced a new global six-layered career band and title structure to drive transparency and facilitate career development, talent management and recruitment.

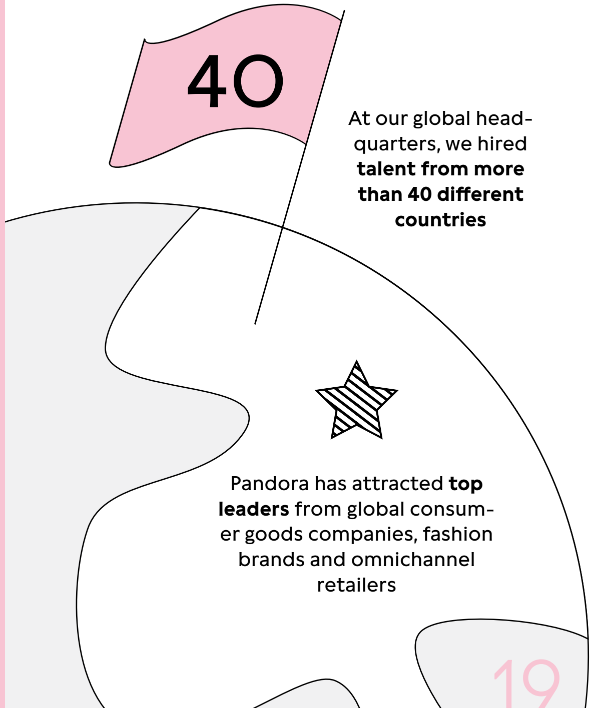
“Our global restructuring has been a key component in delivering our turnaround and preparing us for long-term growth. The changes have helped reduce organisational complexity, strengthen decision-making, and add critical capabilities and talents. It’s been a well-placed investment in growth and building a leading organisation for top talent and professional development,” says Erik Schmidt, Chief Human Resources Officer.

Supporting store employees during lockdown

At Pandora, we continued to invest in our employees during the pandemic. To protect the livelihoods of our store staff, we maintained normal scheduled base pay during lockdowns. This reflects our commitment to people and also meant that Pandora was ready to capture demand when markets reopened.

>200 employees were promoted as part of the strategic reorganisation

19% of the external hires for our global headquarters were **digital talents** from tech companies



40

At our global headquarters, we hired **talent from more than 40 different countries**

Pandora has attracted **top leaders** from global consumer goods companies, fashion brands and omnichannel retailers

INDUSTRY TRENDS

EMBRACING CHANGE

The business landscape is currently undergoing dramatic changes, some of which have been accelerated by COVID-19. Four major industry trends are of particular relevance to Pandora.

TREND

Data-driven personalisation

One of the fundamental shifts in consumer behaviour is the demand for personalised products, services and interactions. As an example, more than 80% of Americans are willing to share personal information in exchange for a more personalised experience. In recent years, the retail industry has implemented more personalisation at consumer touchpoints across physical and online channels. Investments in machine learning and data analytics to increase the relevance of customer interactions are paying off.

PANDORA'S RESPONSE

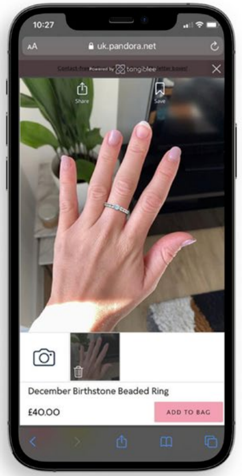
By personalising our channels, we offer our customers a better experience and allow them to be more efficient in their search. In a UK trial, our personalised banners increased click-rates by 17% and the number of items added to the cart by 4%. Furthermore, Pandora's machine learning algorithms help predict customer interests. Initial results from personalised campaign newsletters are very positive, showing a 60% revenue boost when compared to standard newsletters.

TREND

Acceleration of e-commerce

COVID-19 has accelerated the ongoing shift to digital with more consumers choosing to shop from their homes. In 2020, global online retail sales increased by 30% in major European markets. Brands responded with digital innovations to bring the in-store experience online, such as virtual fitting rooms aided by augmented reality and online shopping events.

It is believed the changes will continue beyond the COVID-19 crisis, forcing companies to adjust their operating models to the new reality: 56% of consumers say they will continue to buy online and pick up in store after the pandemic.



PANDORA'S RESPONSE

At Pandora, we have invested significantly in our digital capabilities in recent years. We have established the Digital Hub and upgraded our online stores. We have more than doubled our online order volume capacity. We are gradually rolling out new omnichannel features, such as Click & Collect, and we have also introduced a number of other digital features such as chat bots and digital gifting tools.

TREND

Repurposing store space

The high street environment continues to change and has also had to adapt to new social distancing and safety guidelines in 2020. Customers have become more purposeful when visiting stores leading to a decrease in shopping frequency and density, less patience for queues, and higher demand for an efficient experience. Further, store staff remain critical to the store experience. In a US consumer survey, 74% of responses tied a positive experience to a human interaction.

While there has been a notable shift to online shopping due to COVID-19, physical retail is expected to continue to play a significant role in the way consumers shop in the future, and the pandemic could be a catalyst for change. For example, brands experiment with creating modular spaces that can be used for retail as much as for events. The look and feel of retail units is also seen to adapt to current consumer sentiments, conveying positivity through the use of colour and lights while also providing consumers with an escape from the everyday through immersion into utopian and retro worlds.

PANDORA'S RESPONSE

Because of COVID-19, we introduced a number of in-store initiatives during the year to minimise congestion.

To speed up store service and queues, we implemented a faster check-out process, and we used digital services to engage with queuing customers. This allowed customers to browse products, try ring and bracelet sizes, sign-up for Pandora Club, and start transactions while queueing.

To handle traffic peaks and reduce congestion outside our stores, we created temporary pop-up spaces and introduced virtual queuing apps. We also enabled customers to book store appointments, and we introduced a Remote Shopping Assistant. These can provide styling advice over video calls and add products to the customer's online basket for checkout via pandora.net. The customer does not need to come to the store, but will still receive the same personal service.

In Q4, we launched a World Children's Day charm in support of UNICEF and children's rights.

TREND

Running the business, sustainably

Consumers are increasingly loyal to brands with strong social and environmental profiles. In many sectors, sales of more sustainable products are growing faster than sales of less sustainable alternatives. In the jewellery industry, consumers care about companies' environmental impact, supply chain traceability, working conditions and more. During 2020, the global pandemic generated even greater interest in social responsibility initiatives, notably related to safeguarding the health and safety of customers, employees and local communities.

PANDORA'S RESPONSE

On many sustainability issues, Pandora has taken an industry lead by crafting jewellery responsibly and providing safe, healthy and rewarding working conditions.

By 2025, we will be carbon neutral and use only recycled silver and gold in our products. In 2020, we received the highest ranking in MSCI's annual sustainability rating for the fifth consecutive year. We also improved our ranking from 'moderate' to 'strong' in Human Rights Watch's annual rating of the jewellery industry.

In 2020, we also continued our partnership with UNICEF to support children, especially girls, around the world through education.

Read more about our sustainability ambitions on page 23

PEAK-SEASON TRADING MARKED BY COVID-19

With a global pandemic and lockdowns in several countries, Pandora entered the busiest time of the year with a range of new initiatives.

November and December are key trading months for many brands – not least a brand like Pandora, where gifting makes up a large proportion of sales. In a normal year, Pandora generates almost 30% of annual revenue in those two months.

The holiday season of 2020 was different. COVID-19 put new demands on retailers to handle hygiene and social distancing among the shopping crowds.

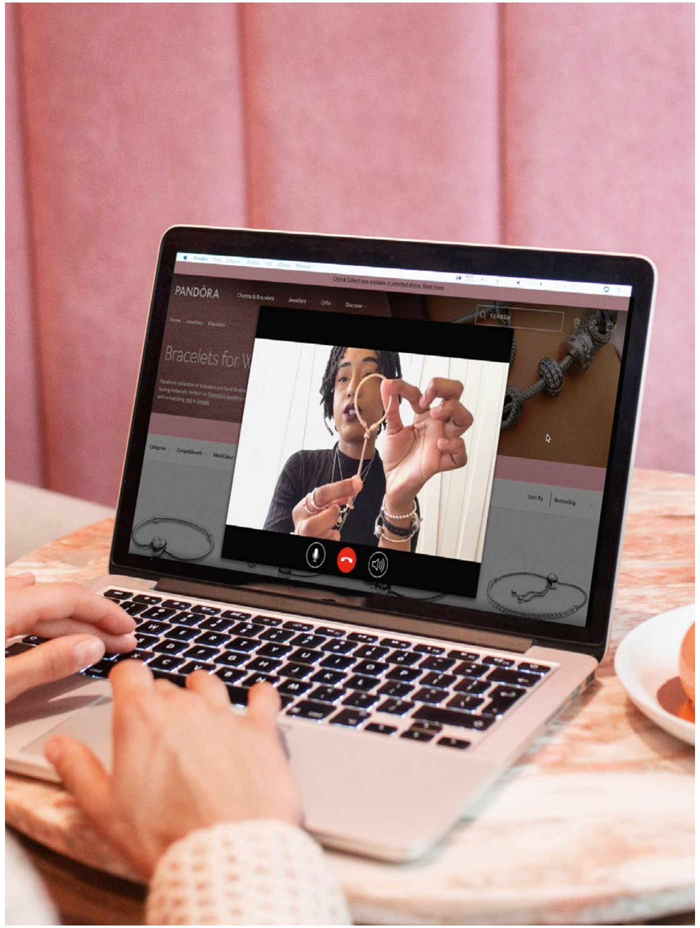
To navigate these challenges in the best possible way, we introduced 11 initiatives in key markets to ensure a good shopping experience while keeping employees and customers safe.

Among these initiatives were a Remote Shopping Assistant, enabling customers to talk to a sales assistant online. We also introduced virtual try-on – an augmented reality technology that enables online shoppers to view jewellery on their own hands and wrists. And we launched virtual queueing, where customers scan a QR code and are notified when it is their turn to enter a store, allowing them to do something else while waiting in line.

We also worked to stretch peak trading periods to avoid large crowds. In the US, Black Friday deals were accessible every Friday throughout the month of November.

"We have shown our innovation, resilience and agility during this crisis. We were able to engage with our customers and make their shopping experience enjoyable despite the tough environment," says Martino Pessina, Chief Commercial Officer.

The new initiatives proved successful and trading in November and December was strong. Despite COVID-19 and lockdowns, organic growth was positive in the fourth quarter.



A store assistant uses the Remote Shopping Assistant feature to guide a customer.

We are committed to reducing our climate footprint and helping the jewellery industry make progress.

SUSTAINABILITY

We strive to embed sustainability considerations across our business, from how we craft our high-quality jewellery to the workplace we offer our employees. Reducing what we take from the planet, protecting our environment and respecting those touched by our business are key components of Pandora's business success and simply the right thing to do.

We continue to align our strategy with the United Nations (UN) Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, and the Paris Agreement. Using these pillars of the global sustainability agenda to guide us, we regularly review sustainability issues and complete a materiality assessment to ensure that we build a sustainable business and meet stakeholder expectations.

Our strategic priorities

Pandora's sustainability strategy is multifaceted. We adopt strategies that will minimise our carbon footprint. We innovate to minimise the resources that we use in our products and recycle them to "close the loop". And we strive to ensure that our employees and suppliers work in safe and fair conditions.

We believe that these strategic priorities offer us the best opportunity to increase our resilience and make us more attractive in the marketplace. They will also enable us to take the lead in guiding the jewellery industry towards greater sustainability performance and thus have a significant effect on people and the planet. We also continue to make progress in fundamental areas of responsible business operations, such as water and waste management, responsible sourcing, health and safety, customer privacy, responsible marketing and business ethics.

Our strategic priorities

Low-carbon business

Circular innovation

Inclusive & fair culture

Pandora and the Sustainable Development Goals

We have assessed Pandora's opportunities to support the Sustainable Development Goals (SDGs) and concluded that our business aligns most closely with four of these goals. In particular, we support SDG 12, Responsible Consumption and Production, by committing to use only recycled gold and silver in our products by 2025.

Gender equality
We are an inclusive brand committed to advancing equality and diversity, for example through our partnership with UNICEF to fund programmes that support girls' education and empowerment.

Decent work and economic growth
Across offices, stores and crafting, we strive to provide safe and healthy working conditions for more than 26,000 employees.

Responsible consumption and production
Circularity is central to how we design, craft, source and offer our products. For example, we use recycled metals in our products and the majority of our crafting waste is reused.

Climate action
We are intensifying our climate efforts by committing to become a carbon neutral company and set an emission reduction target in line with the Paris Agreement and best available science recommendations.

Low-carbon business

We are committed to reducing our climate footprint and helping the jewellery industry to make progress as a whole. We will become carbon neutral in our operations by 2025 (Scope 1 and Scope 2) and will set a science-based target for reducing carbon emissions across the full value chain (Scope 3).

We made great progress on this ambition in 2020, as we significantly reduced Pandora's carbon footprint by sourcing 100% renewable energy at our crafting facilities in Thailand. The crafting facilities account for approximately half of our energy consumption globally, and the switch to renewable energy lowered our emissions by more than 25,000 tonnes CO_2e and put us on track to meet our carbon neutral target. The remaining emissions predominantly come from our more than 1,300 Pandora owned stores and more than 230 other points of sale. In 2021, we will evaluate renewable energy sources for our stores and continue to identify opportunities to increase energy efficiency in both our stores and crafting facilities. For all remaining unavoidable emissions linked to our direct business activities, we will purchase carbon offsets to meet our target of becoming carbon neutral.

In 2020, we mapped our full value chain's emissions (Scope 3). We are currently finalising our science-based target commitment to reduce these emissions in line with the Paris Agreement. We have engaged industry experts and suppliers to build a detailed understanding of the footprint of key materials and identify opportunities to reduce the associated emissions.

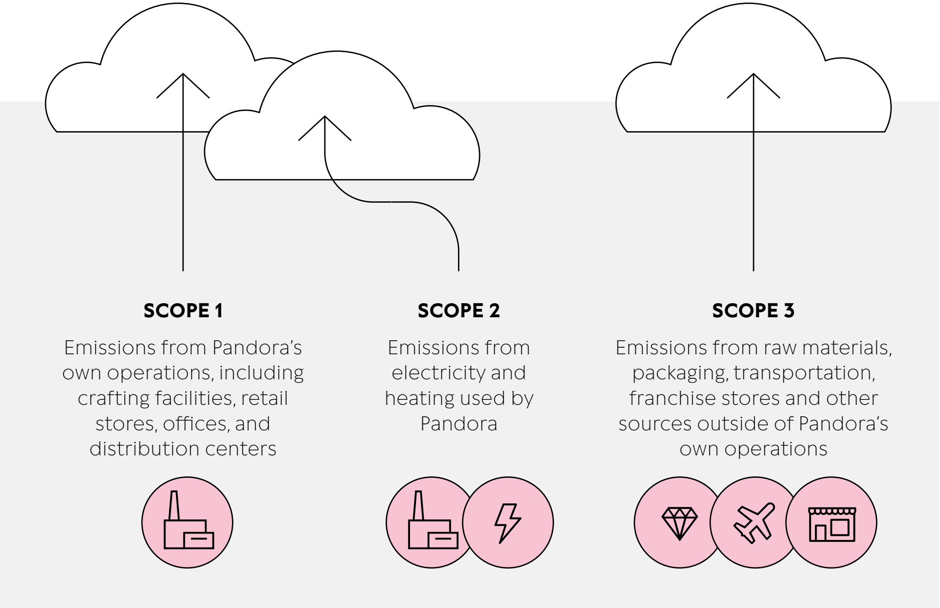
At Pandora, we are committed to transparent reporting to aid investors and other stakeholders in their decision-making. In 2020, we responded to the CDP for the first time and joined the list of over 1,500 organisations to support the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Circular innovation

We strive to ensure that raw materials, used in both the crafting and manufacturing of jewellery and in the development of point-of-sales materials and in-store fixtures, leave as little negative impact as possible on the environment, people and communities. This commitment is in line with our vision to adopt a circular approach to how we design, craft, source and offer our products.

In 2020, we took steps to increase the use of recycled silver and gold in our products and committed to using only recycled silver and gold by 2025. This will reduce our carbon emissions, water usage and other environmental and social

We will become carbon neutral in our operations by 2025



We are committed to using only recycled silver and gold by 2025

90%

of all waste at our crafting facilities was recycled

impacts, as metals recycling requires fewer resources than mining new metals. In 2020, around 60% of our silver and gold was recycled[1]. This figure is revised down from the previously reported figure of around 70% for 2019, as increased transparency and more engagement with our suppliers have led to a better understanding of our recycled supply chain.

To make a full shift to recycled silver and gold, Pandora is taking an active role in engaging and developing the industry as well as our supplier base. We see this as necessary stakeholder engagement to help increase the availability of recycled silver and improve production standards and transparency in the value chain.

More than 99% of the stones we use in our jewellery are man-made. Stones created in a laboratory have a significantly lower environmental impact than mined stones. They lead to less environmental degradation and require less energy to produce.

We also continuously work to reduce water usage and waste at our crafting facilities. The crafting of our jewellery generates four main types of process waste: gypsum, glass, wax and rubber. In 2020, we managed to recycle or reuse 100% of these waste streams. Overall, 90% of all waste at our crafting facilities was recycled. We continue to look for ways to reduce waste. In addition, our crafting facilities consume over 970,000m^3 of water and increasing water recycling is a key priority. In 2020, we recycled 16% of the water used at our crafting facilities.

Inclusive & fair culture

At Pandora, we are committed to fostering a culture of diversity and inclusion, and we strive to ensure that our employees and suppliers work in safe and fair conditions.

In 2020, Pandora initiated a global listening and learning project to better understand where we stand in this context, and how we can work to ensure progress.

Gender diversity

Our Diversity Policy lays out gender diversity targets for the Board of Directors and for Senior Management, requiring no less than 40% representation for each gender. Pandora's current gender split looks as follows:

- On our Board of Directors, 75% of the members are women and 25% are men (six out of eight members are women). This is an increase of female representation since last year and above average for large publicly-listed Danish companies.

- Our Executive Leadership Team has 12.5% women and 87.5% men (one woman out of eight members).

With a clear majority of women on the Board of Directors and men on the Executive Leadership Team, our 40% targets were thus not met in 2020. Our primary focus during the turnaround of our business has been to ensure the necessary management capacity, irrespective of gender, to rapidly improve our growth trajectory. Ensuring diversity, in all shapes and forms, on our leadership teams will remain an area of particular focus going forward.

A workplace respecting human rights

Pandora's Human Rights Policy states our commitment to the UN Guiding Principles on Business and Human Rights and the core conventions of the International Labour Organization. It describes how our employees are expected to respect human rights, including but not limited to freedom from discrimination, the right to collective bargaining, and the right to a safe workplace. Our Supplier Policy and Suppliers' Code of Conduct detail the ethical conduct our suppliers are expected to uphold within areas such as human and workers' rights, business integrity and the environment. Pandora's externally managed whistleblower hotline enables employees and external stakeholders to anonymously raise concerns if they witness violations of legislation or our Code of Conduct.

Supporting vulnerable youth through our UNICEF partnership

Pandora's long-term partnership with UNICEF supports the organisation's efforts to reach more than 10 million children and young people and provide them with opportunities to learn, express themselves and find work in the future. Throughout the first year of the partnership, Pandora designed and marketed a series of jewellery pieces in support of UNICEF. We also engaged employees across our global organisation in our work for UNICEF. As a result, Pandora raised USD 3.4 million to UNICEF, including a USD 1 million donation to UNICEF's Reimagine campaign, which seeks to respond, recover and reimagine a world currently besieged by the COVID-19 pandemic.

[1] Based on self-declared supplier data. Recycled silver and gold may contain mined by-products

ONLY RECYCLED SILVER AND GOLD

Have you ever wondered what happens to your old mobile phone after you get rid of it? Parts of it may end up in Pandora jewellery.

Silver and gold used to be primarily for coins, jewellery and other household items. Today, these precious metals are also used in electronics and for industrial purposes, because they perform well compared to other metals.

As the first large jewellery brand, Pandora will stop using newly mined silver and gold and buy only from recycled sources by 2025.

Quality forever

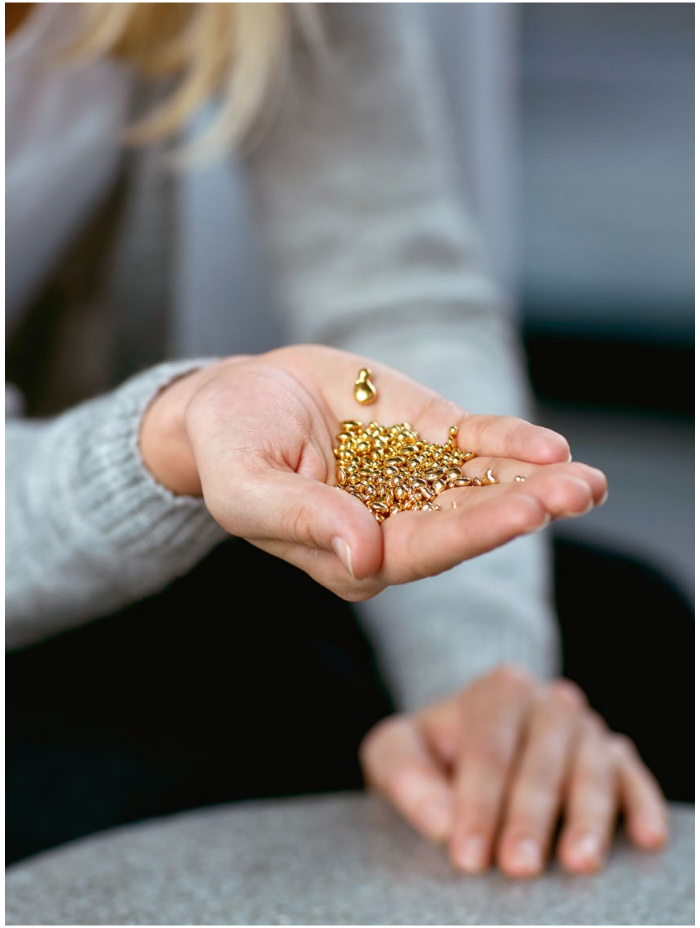
Mining requires a lot of energy, so by using recycled metals we reduce greenhouse gas emissions. The emissions for recycled silver are one third compared to mined silver, while recycling of gold emits approximately 600 times less carbon than mining new gold.

“Silver and gold can be recycled forever without losing their quality. Metals mined centuries ago are just as good as new. We want to do our part to build a more circular economy and prevent these fine metals from ending up in landfills,” says Chief Supply Officer Jeerasage Puranasamriddhi.

Silver recycling on a global scale

Pandora is one of the largest silver buyers in the jewellery industry, and silver is the most used metal in our jewellery. Around 15% of the world’s silver is recycled, and much can be done to improve this situation. Recycling of consumer electronics is particularly low – in Europe only around 40% of electronic waste is recycled and in Asia only around 10%.

By using only recycled silver and gold instead of mined metals, Pandora can save 37,000 tonnes CO_2. This equates to more than the annual electricity use of 6,000 homes or driving 145 million km in a car.



According to the World Economic Forum, there is 100 times more gold in a tonne of mobile phones than in a tonne of gold ore.

MANAGING RISKS

All risk assessments take into account the likelihood of an event and its potential impact on the business

Pandora carefully monitors and assesses potential risks to the company on an ongoing basis. As a global brand with a fully integrated value chain, some of the key risks facing Pandora are brand relevance and supply disruption.

Our approach to risk management

Pandora's enterprise risk management is focused on identifying risks early, assessing them candidly, and taking actions to mitigate them so they will not prevent the company from achieving its business objectives. We see a well-functioning risk management process as key to maintaining and building Pandora's position as the world's largest jewellery brand.

At Pandora, risk management is an enterprise-wide effort, with management teams across our value chain responsible for the continuous identification, assessment, mitigation, and reporting of current and emerging risks. Pandora also has a dedicated Risk Management Policy.

Pandora's Chief Financial Officer heads the company's Risk Management Board, which consists of senior management representatives from across our value chain. Management teams are required to report their most significant risks to the Global Risk Office, along with assessments of those risks and an overview of implemented mitigations and next milestones. All risk assessments take into account the likelihood of an event and its potential impact on the business. The impact is quantified and assessed in terms of potential financial loss or reputational damage.

The Risk Management Board is assisted in its work by the Global Risk Office, which serves as secretariat to the Board. The Global Risk Office's role is to review risks, support management on risk information, and consolidate the corporate risk profile containing the company's key risks. The final risk profile is reviewed by Executive Management, the Audit Committee, and the Board of Directors.

The Board of Directors is ultimately responsible for assessing the nature and extent of risks associated with Pandora's strategic direction and for the implementation of effective risk identification, assessment, and mitigation.

Pandora's risk management policy

Pandora proactively manages risk to protect our people, assets and reputation and to minimise the risk of disruption to our continued value creation.

This means that we:

- utilise an effective and integrated risk management system while maintaining business flexibility
- identify and assess material risks associated with our business
- monitor, manage and mitigate risks – and leverage related opportunities, where possible

Our key risks

The Board of Directors considers the key risks that could threaten our business model or the future performance, solvency, or liquidity of Pandora. These key risks make up Pandora's consolidated risk profile and do not represent all the risks associated with our business. Additional risks not presently identified or those currently deemed to be less material may also have an adverse effect on our business.

Pandora's consolidated risk profile and our responses to them are described in the following.

KEY RISKS

Brand and product relevance

Description

As a large, global brand the strength and integrity of our brand is a fundamental asset. It is important that our product offerings remain relevant to our customers.

Risk

A lack of brand or product relevance constitutes a significant business risk that could result in lower traffic to our stores and online shopping sites and reduce our revenue.

Mitigation

- Consumer-centric innovation of new products, fuelled by more powerful customer insights.
- Establishment of two Global Business Units.
- Establishment of the Digital Hub.
- Significant additional investments in marketing.
- Investments in data and analytical capabilities and technology.
- Continued monitoring of trademarks and patents and fighting infringements.

Read more about how we are building for a digital future on page 14

Brand access

Description

We sell our products globally and depend on a strong channel network and solid insights to engage with consumers in their preferred marketplace. A personalised and unique shopping experience is important for developing customer loyalty.

Risk

Not being able to engage consumers and provide them with a relevant omnichannel shopping experience can result in a decline in revenue.

Mitigation

- Investment in improving digital and omnichannel customer experiences.
- Stronger focus on personalisation of shopping experiences across channels.
- Launch of new initiatives and services connecting digital and physical store experiences, such as Click & Collect and Endless Aisle.
- Mapping of current and potential future store locations to assess current store viability and potential areas for growth.
- Development and testing of new store concept.

Read more about our Programme NOW objectives on page 17

KEY RISKS

Pandemics, including COVID-19

Description

Continued COVID-19 outbreaks, or new pandemics, may have an effect on the economy in general, consumer behaviour and demand. It may also require significant investments in and changes to Pandora's operating model etc.

Risk

Pandemics can result in lower revenue and higher costs through store and crafting facility closures, labour shortages, decreases in productivity, supply chain disruptions, and changes in the macroeconomic environment and consumer behaviour.

Mitigation

- Expansion of online capacity.
- Introduction of new initiatives, such as curb side pickup, pop-up stores, and Click & Collect, aimed at making shopping safer for our customers.
- Review of supply chain, including dependency on individual suppliers and own production facilities and distribution centres.

Read more about new initiatives to tackle COVID-19 on page 22

Talent attraction and succession

Description

Pandora needs highly talented and capable people across all functions and markets to drive growth and sustainable performance for our future.

Risk

Our employees are our most valuable asset. Failure to attract, develop and retain the right talent poses a significant risk to our growth plans. Succession planning for leadership and critical roles is one of our biggest risks for sustainable performance and growth.

Mitigation

- Strengthening the global HR organisation.
- Annual employee engagement survey.
- Enhanced focus on employer branding.
- Enhanced focus on key positions and succession planning.
- Strengthening how we attract digital, operational, and functional talents to support our business priorities.

Read more about our investments in the organisation and people on page 19

Supply disruptions

Description

Procurement of raw materials and the ability to produce and distribute finished products are critical for meeting customer demand.

Risk

Lockdowns, breakdowns, political unrest, fire, natural catastrophes etc. at Pandora's or key suppliers' sites may result in disruption of our supply chain and have a significant impact on our financial performance.

Mitigation

- Dual sourcing where feasible.
- Buffers of production components and finished goods.
- Crafting at two separate locations in Thailand.
- Engagement of external manufacturers to provide flexibility.
- Online distribution capacity has been ramped up.

KEY RISKS

IT security breaches

Description

Reliable IT systems and infrastructure are critical for the company's ability to operate effectively. We also have a duty to safeguard the data of our customers and partners as well as our own information.

Risk

Breaches of IT security, caused by malware attacks for example, could have a severe impact on Pandora's ability to maintain operations and, hence, its financial stability. The disclosure of confidential information could compromise the privacy of customers or other individuals.

Mitigation

- Ongoing security monitoring supported by incident-response teams.
- Third-party vulnerability and security maturity assessments.
- Cyber and information security awareness training and phishing tests to monitor response.

Responsible business behaviour

Description

Pandora has a reputation for responsible business behaviour. This reputation benefits the company in several ways, from attracting new employees to acknowledging consumer concerns.

Risk

If Pandora violates legislation, disregards principles of good corporate citizenship, or fails to adhere to social or environmental standards, it could damage our brand, reputation and financial situation.

Mitigation

- Launch of a new Global Code of Conduct.
- Mandatory ethics and compliance training.
- Upgrading external access to our whistleblower hotline.
- Responsible Supplier Programme, including training and vendor audits.
- Recurring Responsible Jewellery Council certification.
- Environmental, social, and governance reporting to ensure transparency.
- Climate targets and other focused sustainability initiatives.
- All taxes and charges are paid according to local laws and regulations in the countries where Pandora operates.

Read more about our sustainability strategy on page 23 ↗

Market fluctuations

Description

Our products are made of precious metals, mainly silver and gold. As a global business, Pandora has significant revenue in USD, USD-related currencies and GBP. Our crafting facilities are based in Thailand and hence we have significant net cost in THB.

Risk

Pandora is exposed to a weakening of the USD, USD-related currencies and GBP and a strengthening of the THB and precious metal prices. Currency fluctuations and increases in the price of precious metals can have a significant impact on the company's financial performance and cash flow.

Mitigation

- Hedging at least 50% of the combined commodity, exchange rate and interest rate risk. However, at least 70% of estimated annual commodity purchases must be hedged.

Read more about our financial risks in note 4.4 ↗

Facing up to environmental risks

Across all of these trends runs a growing and widely acknowledged concern for the global environment, particularly in relation to climate change. We understand the need to prepare for the risks and opportunities that will arise from changing weather patterns, rising sea levels, and other climate impacts. We have taken initial steps and will expand on these in the future.

As recommended by the Task Force on Climate-related Financial Disclosures, we are integrating climate-change scenarios to identify short-, medium- and long-term risks in our production and supply chain to ensure a steady supply of our products.

CORPORATE GOVERNANCE

03

CORPORATE GOVERNANCE

The Board supervises Executive Management's work and is responsible for Pandora's general and strategic direction

Management structure

The corporate authority is divided between the Board of Directors ("the Board") and Executive Management, existing independently of each other. The Board outlines the overall visions, strategies and objectives of Pandora's business activities and supervises the performance of Executive Management. The Board's primary tasks are to ensure that Pandora has a strong management team, optimal organisational and capital structures, efficient business processes, transparent bookkeeping and practices, and responsible asset management. Additionally, the Board oversees Pandora's financial development, related planning and reporting systems as well as internal controls and risk management.

The Board has established Audit, Remuneration and Nomination committees and appoints members and chairs to these committees from within the Board. The committees' terms of reference are disclosed on Pandora's website — www.pandoragroup.com.

Members of Executive Management are appointed by the Board. Executive Management is responsible for the day-to-day management and for the execution of Pandora's strategy.

Members of the Executive Leadership Team are responsible for the day-to-day operations of their respective business areas while at the same time being part of the overall management of Pandora.

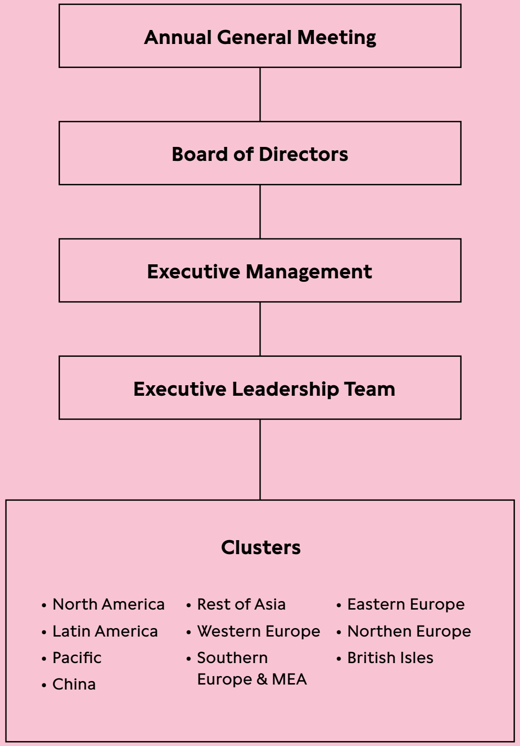
Board of Directors

Composition

The composition of the Board is intended to ensure diversity of the Board's competency profile enabling the Board to perform its duties effectively. The current competencies required and possessed by the Board are brand, consumer, retail, digital and e-commerce, IT and financial insight, and experience with strategy development and transformation. The Board must consist of three to ten members and consisted of eight members as of 31 December 2020. All Board members are up for election every year and are elected at the General Meeting.

A CONNECTED ORGANISATION
Fast execution and collaboration across clusters and global functions. The ten clusters report to the Chief Commercial Officer.

Governance structure



Board self-assessment

The Board conducts an annual self-assessment to monitor its performance and its cooperation with Executive Management. In 2020, the assessment was conducted in collaboration with an independent third party.

The assessment comprised of a collective survey and interviews with each Board member individually. The topics included Board composition, nomination process, competencies, overboarding and Board culture. The assessment also included topics such as the Board's involvement in risk and financial management, control and strategy, committee work and personal contributions.

The report and conclusions of the assessment were shared with the Board and Executive Management, followed by a thorough discussion. The assessment identified that the Board continues to consist of individuals who possess relevant competencies and are engaged and well-prepared. The Board structure and committee work are effective and well-functioning, including interactions with Executive Management.

Board activities in 2020

The Board held 14 Board meetings in 2020. Its primary focus was to handle and steer through the global COVID-19 crisis together with Executive Management, including securing the safety and well-being of Pandora's employees and customers and protecting the business during the crisis. Furthermore, the Board spent considerable efforts to ensure sufficient financial and liquidity resources to withstand the ramifications of shifting restrictions affecting consumer behaviour and the retail environment. Finally, the Board oversaw the progress of Programme NOW as well as the execution of the strategic reorganisation announced in March 2020.

14

Board meetings held in 2020

Meeting attendance 2020

	Board of Directors	Audit Committe	Nomination Committee	Remuneration Committee
Peter A. Ruzicka	14/14*	–	3/3	7/7*
Christian Frigast	14/14**	–	3/3*	6/7
Andrea Dawn Alvey	14/14	8/8	–	7/7
Birgitta Stymne Göransson	14/14	8/8*	–	–
Catherine Spindler (joined the Board on 11 March 2020)	10/11	–	–	–
Isabelle Parize	14/14	8/8	–	–
Marianne Kirkegaard (joined the Board on 11 March 2020)	11/11	–	3/3	–
Ronica Wang	14/14	–	–	6/7
Per Bank (left the Board on 11 March 2020)	3/3	–	–	–
John Peace (left the Board on 11 March 2020)	1/3	–	–	–

* Chair ** Deputy Chair

Audit Committee

In 2020, the members of the Audit Committee were Birgitta Stymne Göransson (Chair), Andrea Dawn Alvey and Isabelle Parize. The Audit Committee reviews and assesses Pandora's financial reporting and audit processes and internal control systems, and evaluates the adequacy of control procedures. The main responsibilities of the Audit Committee are:

- the financial reporting process;
- internal controls and risk management systems;
- the independent audit.

In 2020, the Audit Committee met eight times. Its main activities were to:

- meet with the CFO and independent auditors to review the audited Annual Report 2019;
- meet with Executive Management to review interim financial reports;
- review key accounting principles, significant accounting estimates, key financial risks and compliance with tax regulations;
- monitor the adequacy and effectiveness of Pandora's internal controls and risk management systems;
- review Pandora's whistleblower reporting system and whistleblower cases;
- prepare a recommendation for the appointment of independent auditors, including evaluation of independence, competencies and compensation as well as conducting an audit tender;
- review updates to the financial reporting structure.

Remuneration Committee

In 2020, the members of the Remuneration Committee were Peter A. Ruzicka (Chair), Christian Frigast, Ronica Wang and

The Remuneration Report 2020 is available at our Investor website

See the Remuneration Report 2020

Andrea Dawn Alvey. The main responsibilities of the Remuneration Committee are to:

- prepare recommendations to the Board on the pay and remuneration policy applicable to the Board and Executive Management;
- submit proposals to the Board for the remuneration packages of individual Board members and Executive Management;
- monitor the overall operation of Pandora's Short-Term and Long-Term Incentive Plans;
- verify that the information on remuneration in the Annual Report and Annual Remuneration Report is true, accurate and adequate.

The Remuneration Committee met seven times in 2020. Its main activities were to:

- prepare the Remuneration Report 2019 and the Remuneration Policy to apply from the Annual General Meeting 2020;
- review performance and recommend pay-out and vesting levels under the Short-Term and Long-Term Incentive Plans for prior years;
- set appropriate metrics, Key Performance Indicators and monitor ongoing achievement under the Short-Term and Long-Term Incentive Plans for 2020;
- benchmark Board fees and Executive Management remuneration in preparation for 2021.

The Remuneration Report 2020 is available at our Investor website: pandoragroup.com/investor/corporate-governance/remuneration-reports

Nomination Committee

In 2020, the members of the Nomination Committee were Christian Frigast (Chair), Peter A. Ruzicka and Marianne Kirkegaard. The main responsibilities of the Nomination Committee are:

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

In 2020, the Nomination Committee met three times and had a few additional ad-hoc exchanges relating to the Board assessment. Its main activities were to:

- conduct a tender process and selection of the external assistance for the Board assessment;
- prepare and conduct the Board assessment with external assistance in accordance with the Danish Corporate Governance Recommendations;
- nomination of candidates for the Board;
- assessment of the performance of Executive Management and the cooperation between the Board and Executive Management.

Additional information

The Corporate Governance Statement for 2020, cf. section 107b of the Danish Financial Statements Act, is available at our Investor website: pandoragroup.com/investor/corporate-governance/governance-statement

Internal controls and risk management systems in relation to the financial reporting process

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

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

Internal controls and risk management systems are under continuous development and are described below.

Control environment

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

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

In addition, an Internal Audit and Compliance Controlling (IACC) function helps Pandora accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of internal controls, risk management, compliance and governance processes. The IACC function assists Pandora's Executive Management and the Audit Committee in identifying, avoiding and mitigating risks. The composition of the Board, the Audit Committee and Executive Management together with the IACC function ensure the availability of relevant competencies with respect to internal controls and risk management systems in relation to the financial reporting process.

Risk assessment

The Board and Executive Management assess risks on an ongoing basis, including risks related to financial reporting, and assess measures to manage, reduce or eliminate identified risks. The Audit Committee reviews selected high-risk areas on a frequent basis, including significant accounting estimates and material changes to accounting policies.

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

Control activities

The Group Finance function reports to the Chief Financial Officer (CFO). The controlling function within Group Finance is responsible for controlling the financial reporting from the Pandora A/S and its subsidiaries, and monitoring compliance with relevant legislation on an ongoing basis.

The company has adopted and defined an internal control framework that identifies key processes, inherent risks and control procedures in order to secure appropriate accounting processes. The control procedures include a variety of processes in order to prevent any misrepresentation, significant errors, omissions or fraudulent behaviour. The control procedures are tested on an ongoing basis and reported to the Audit Committee.

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

Information and communication

The IACC function is present at all Audit Committee meetings and provides regular status updates to the committee. Furthermore, the head of IACC has regular meetings with the CFO. This set-up ensures transparency and that communication is shared with the Audit Committee on a timely basis. The Board has adopted an Investor Relations policy that requires all communication to stakeholders, including financial reporting, to be conducted adequately, timely and openly – both internally and externally – and to be conducted factually and truthfully and in compliance with laws and applicable regulations.

Monitoring

Pandora's internal controls and risk management systems, including the whistleblower function, are continuously monitored, tested and documented. The Audit Committee monitors internal controls and the risk management process to ensure that any weaknesses are eliminated and that any errors in the financial statements identified and reported by the auditors are corrected, including controls or procedures implemented to prevent such errors.

Pandora's independent auditors are appointed for a term of one year at the Annual General Meeting following the recommendation of the Board. Prior to recommendation, the Board assesses, in consultation with Executive Management, the independence, competencies and other matters pertaining to the auditors. The framework for the auditors' duties, including their remuneration, audit and non-audit services, is agreed annually between the Board and the auditors following the recommendation of the Audit Committee.

BOARD OF DIRECTORS

Peter A. Ruzicka

Year of birth: 1964

Member since: 2019

Professional position:
Non-executive board member.

Non-executive functions:
Member of the Boards in Aspelin Ramm Gruppen AS and AKA AS.

Competencies:
Vast operational experience with strategy execution and transformation as well as retail and brand optimisation on executive level.

Christian Frigast

Year of birth: 1951

Member since: 2010

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

Non-executive functions:
Chair of Aktive Ejere (Active Owners Denmark), EKF Danmarks Eksportkredit (Denmark's Export Credit Agency) and Danmarks Skibskredit Holding A/S and member of the Board of its subsidiary; Vice Chair of PostNord and Axcel Advisory Board; member of the Boards of Frigast A/S and Nissens A/S; adjunct professor at Copenhagen Business School.

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

Andrea Dawn Alvey

Year of birth: 1967

Member since: 2010

Professional position:
President of Kitabco Investments, Inc.

Non-executive functions: None.

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

Birgitta Stymne Göransson

Year of birth: 1957

Member since: 2016

Professional position:
Non-executive board member.

Non-executive functions:
Chair of Industrifonden and Cinder Invest and member of the Boards of Elekta AB, LEO Pharma A/S and Enea AB.

Competencies:
Experience within areas such as consumer goods, retail execution, IT, digital, financial insights and capital markets.

BOARD OF DIRECTORS

The Board members' full CVs are available at pandoragroup.com

Catherine Spindler

Year of birth: 1977

Member since: 2020

Professional position:
CMO of Lacoste.

Non-executive functions:
None.

Competencies:
Experience within international brand strategy, digital transformation, and lifestyle apparel retail.

Isabelle Parize

Year of birth: 1957

Member since: 2019

Professional position:
CEO of DELSEY Paris.

Non-executive functions:
Member of the Boards of Coty inc. and Air France-KLM S.A.

Competencies:
Operational experience in international retail and brand execution via omnichannel and digitally.

Marianne Kirkegaard

Year of birth: 1968

Member since: 2020

Professional position:
CEO of CSM Bakery Solutions

Non-executive functions:
Member of the Boards of Fertin Pharma A/S, Salling Group A/S and AKK AB.

Competencies:
In-depth international insight into the consumer market and experience of the complete value chain within large corporate multinationals.

Ronica Wang

Year of birth: 1962

Member since: 2012

Professional position:
Co-founder and Global Managing Partner of The InnoGrowth Group Ltd.

Non-executive functions:
Member of the Boards of GN Store Nord A/S and Hotelbeds Group.

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

EXECUTIVE LEADERSHIP TEAM

The Executive Leadership Team members' full CVs are available at pandoragroup.com

Alexander Lacik

President & Chief Executive Officer (CEO)

Year of birth: 1965

Joined: 2019

Other functions:
Member of the Executive Management

Alexander Lacik has more than 25 years' experience from large global consumer goods companies. In addition, Alexander is a Board member of Swedish Match. Before joining Pandora, he was CEO of Britax Ltd., a British manufacturer of childcare products. He has also held CEO and senior management positions at Kasthall Golv & Mattor, Procter & Gamble and Reckitt Benckiser, where he held a number of positions, including head of Reckitt Benckiser North America.
He has a Bachelor's degree in Business Administration from the University of Växjö, Sweden.

Anders Boyer

Executive Vice President & Chief Financial Officer (CFO)

Year of birth: 1970

Joined: 2018

Other functions:
Member of the Executive Management

Anders Boyer has 20 years' experience in finance, business management and turnarounds. Prior to joining Pandora, Anders held positions as Chief Financial Officer at Hempel and GN Store Nord, and Finance Director and subsequently Regional Director of ISS. From 2012 and until March 2018, he was a member of the Board of Directors of Pandora. Anders started his career at A.P. Moller-Maersk, where he worked for ten years. He has a Master of Science in Finance and Accounting from Copenhagen Business School, Denmark.

Stephen Fairchild

SVP, Chief Product Officer

Carla Liuni

SVP, Chief Marketing Officer

Martino Pessina

SVP, Chief Commercial Officer

Jeerasage Puranasamriddhi

SVP, Chief Supply Officer

David Walmsley

SVP, Chief Digital & Technology Officer

Erik Schmidt

SVP, Chief HR Officer

SHAREHOLDER INFORMATION

Pandora shares have been listed on the Nasdaq OMX Copenhagen stock exchange since 2010. Pandora is included in the blue-chip OMX C25 index and has around 40,000 registered shareholders.

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

In 2020, the lowest closing price for the Pandora share was DKK 195.2 on 16 March. The highest closing price was DKK 681 on 30 December 2020 (last trading day of 2020), corresponding to an increase of 135% compared to the end of 2019 (DKK 289.8). By the end of the year, the total shareholder return was 145%.

Around 173 million Pandora shares were traded in 2020. The trading volume averaged around 699,000 shares per day.

Capital structure and cash allocation

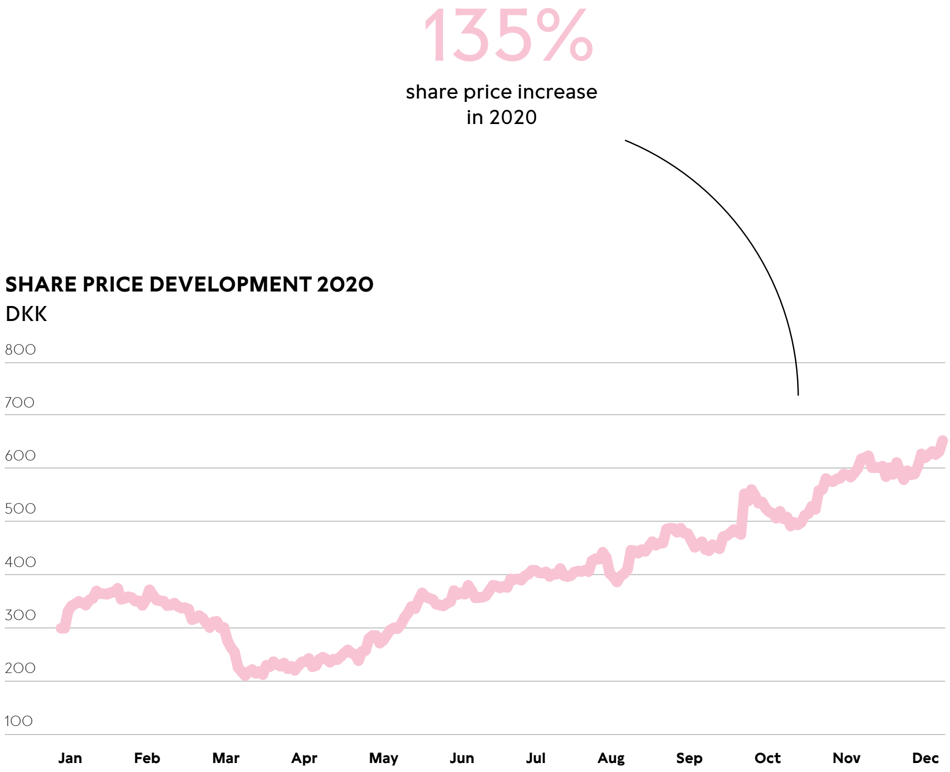
Pandora's capital structure serves to ensure that the company has sufficient financial flexibility to pursue its strategic goals and preserve a stable financial structure based on a strong balance sheet.

Pandora's capital structure policy is to maintain NIBD to EBITDA before restructuring costs between 0.5 and 1.5.

Cash distribution suspended until there is further certainty on COVID-19

Pandora continues to be highly cash generative and has ample liquidity to initiate cash distribution to shareholders. Due to the unprecedented uncertainty caused by COVID-19, Pandora considers it appropriate and prudent to await further certainty about the pandemic before re-initiating cash distribution to the shareholders. At the Annual General Meeting in March 2021, Pandora will ask the shareholders to authorise the Board of Directors to potentially pass one or more resolutions to distribute extraordinary dividends of up to a total amount of DKK 15 per share until the next Annual General Meeting.

SHARE PRICE DEVELOPMENT 2020
DKK



ANNUAL COMMITMENT DKK billion	FY 2021 Proposed	FY 2020 Actual	FY 2019 Actual	FY 2018 Actual	FY 2017 Actual
Dividend (ordinary + interim)	-	0.8	1.8	1.9	4.0
Nominal dividend per share, DKK	-	9.0	18.0	18.0	36.0
Share buyback programme	-	-	2.2	4.0	1.8
Total cash return	-	0.8	4.0	5.9	5.8

In 2020, Pandora paid out an ordinary dividend of DKK 9 per share for a total of around DKK 0.8 billion

Review of 2020 share buyback and dividends

In 2020, Pandora paid out an ordinary dividend of DKK 9 per share. The total amount paid was around DKK 0.8 billion.

The Board of Directors proposed a share buyback programme in 2020, under which Pandora would buy back own shares to a maximum consideration of up to DKK 2.1 billion. As COVID-19 escalated throughout Q1 2020, leading to the closure of many of Pandora's physical stores, the programme was suspended to strengthen the balance sheet during these uncertain and unprecedented times.

Shareholders

As of 31 December 2020, Pandora had three major shareholders. BlackRock has disclosed holdings of voting rights amounting to 7.4% of the total outstanding voting rights while Parvus has disclosed holdings amounting to 5.1%. Additionally, Société Générale has disclosed holdings of voting rights through shares and financial instruments amounting to 5.3%.

As of 31 December 2020, the geographical split of institutional investors was:

- Investors in Denmark held 9% of the share capital.
- The largest share of international investors resided in the United Kingdoms (23% of share capital) and in the United States (22% of share capital).

As of 31 December 2020, Pandora's Board of Directors and Executive Management held a total of 86,074 and 264,099 Pandora shares respectively, corresponding to 0.4% of the total share capital.

Investor Relations

The Executive Management is responsible for the existence of an Investor Relations (IR) function, which is responsible for ensuring compliance with Pandora's Investor Relations Policy. IR reports directly to the Chief Financial Officer.

Financial calendar 2021

11 Mar	Annual General Meeting
04 May	Interim Report Q1 2021
17 Aug	Interim Report Q2/H1 2021
03 Nov	Interim Report Q3/9M 2021

The purpose of Pandora's IR activities is to ensure that relevant, accurate and timely information is made available to the capital markets to serve as a basis for regular trading and a fair pricing of the share. Prior to the announcement of interim and annual reports, a four-week silent period is in place. In addition, members of the Board of Directors and Executive Management are only allowed to trade shares in a four-week trading window following the announcement of interim and annual reports. Pandora will ensure that the company is perceived as visible, accessible, reliable and professional by the capital markets and that Pandora is regarded among the best relative to peers. This will be achieved by complying with the rules and legislation for listed companies on Nasdaq OMX as well as Pandora's internal policies.

Company website

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

A comprehensive list of the 21 analysts covering the Pandora share is maintained, including names, institutions and contact details.

SHARE INFORMATION

Exchange	Nasdaq Copenhagen
Trading symbols	PANDORA
Identification number/ ISIN	DK0060252690
Number of shares	100,000,000 of DKK 1, each with one vote
Share classes	1
GICS	25203010
Sector	Apparel, Accessories & Luxury Goods
Segment:	Large

ADR INFORMATION

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

FINANCIAL REVIEW

04

GROUP PERFORMANCE

2020 marked a milestone in Pandora's turnaround with several strong signs that the initiatives under Programme NOW are working. Pandora has experienced increased brand momentum, increased desire for the brand and has seen several digital and commercial initiatives paying off.

Despite being a tough and uncertain year, Pandora came through 2020 in good shape. Pandora started the year with positive organic growth in January and February before a global pandemic swept the world forcing Pandora to temporarily close stores. Focus then shifted away from commercial plans and into protecting customers and employees. As Pandora was forced to temporarily close stores, demand shifted towards online sales where Pandora was able to successfully recoup significant revenue thanks to the large investments in digital initiatives made in recent years. Pandora saw the initiatives drive an increased level of traffic online, which together with a much stronger conversion rate saw online sales grow more than 100% compared with 2019. On the other hand, Pandora experienced a double digit revenue decline in the physical network. Traffic into physical stores was down all year by high double digits, following the temporarily closed stores and social restrictions guidelines in most countries putting pressure on retail operations. 2020 ended at -11% organic growth, as the online sales were not able to fully mitigate the lost revenue in the physical network, yet Pandora saw a sequential improvement during the year ending Q4 with 4% positive organic growth.

REVENUE BY SALES CHANNEL DKK million	2020	2019	Sell-out growth incl. closed stores	Like-for-like sales-out	Organic growth	Growth in local currency	Share of revenue FY 2020	Share of revenue FY 2019
Pandora owned retail	**13,426**	**14,181**	**-3%**	**10%**	**-3%**	**-2%**	**71%**	**65%**
- of which concept stores	7,321	10,619	-	-	-30%	-29%	39%	49%
- of which online stores	5,483	2,782	-	-	103%	103%	29%	13%
- of which other points of sale	622	780	-	-	-22%	-18%	3%	4%
Wholesale	**4,949**	**6,725**	**-27%**	**-13%**	**-24%**	**-25%**	**26%**	**31%**
- of which concept stores	2,714	3,843	-	-	-26%	-28%	14%	18%
- of which other points of sale	2,235	2,882	-	-	-21%	-21%	12%	13%
Third-party distribution	**634**	**962**	**-27%**	**-13%**	**-33%**	**-33%**	**3%**	**4%**
Total revenue	**19,009**	**21,868**	**-12%**	**1%**	**-11%**	**-11%**	**100%**	**100%**

Revenue by key market

Pandora delivered a strong underlying performance in many of its key markets. Especially in the UK the large and mature online store secured a strong performance throughout the year despite lockdowns. Performance in the US was particularly strong in the second half of the year, when the commercial comeback and large share of voice delivered significant results. Italy started the year well, but performance was impacted by store closures and lockdowns as Italian consumers have a clear preference for accessing the brand in physical stores. China continues to be structurally challenged.

Revenue by product

The two new Global Business Units, Moments and Collabs and Style and Upstream Innovation, generated sell-out growth of -13% and -12% respectively. The total share of business for Charms and Bracelets was 70%, in line with 2019 and continues to be the core of Pandora business.

Store network development

In 2020, Pandora closed net 80 of the concept stores due to a general pruning of the store network. The closed stores were performing unsatisfactorily, even before the lockdowns. Some store openings were delayed or put on hold due to COVID-19, particularly in Latin America and China.

STORE NETWORK Number of points of sale	2020	2019	Growth
Concept stores	**2,690**	**2,770**	**-80**
- of which Pandora owned	1,382	1,397	-15
- of which franchise owned	797	856	-59
- of which third-party distribution	511	517	-6
Other points of sale	**4,402**	**4,657**	**-255**

GROUP PROFITABILITY

Profitability

Gross margin was slightly down compared with 2019 (-0.9%) mainly following negative impacts from higher silver prices, foreign exchange rates and a higher share of online revenue, which was partially offset by continued cost reductions.

OPEX excluding restructuring costs decreased by 4% compared with 2019 driven by cost measures during the lockdown periods following an overall decision to protect cash and foreign exchange development favourably impacting OPEX by DKK 0.2 billion. In 2020, Pandora received DKK 225 million in government COVID-19 relief. We have deliberately continued to invest heavily in marketing to ensure continued strong brand momentum and share of voice, leveraging Pandora's favourable cash position. The EBIT margin excluding restructuring costs ended at 20.4%, a very profitable and healthy level despite significant disruption from COVID-19.

COST OF SALES AND GROSS PROFIT DKK million	2020	2019	Growth	Share of revenue 2020	Share of revenue 2019
Revenue	**19,009**	**21,868**	**-13%**	**100.0%**	**100.0%**
Cost of sales	-4,475	-4,950	-10%	-23.5%	-22.6%
Gross profit excl. restructuring costs	**14,534**	**16,919**	**-14%**	**76.5%**	**77.4%**
Restructuring costs	-159	-1,016	-84%	-0.8%	-4.6%
Total gross profit incl. restructuring costs	**14,375**	**15,903**	**-10%**	**75.6%**	**72.7%**

OPERATING EXPENSES DKK million	2020	2019	Growth	Share of revenue 2020	Share of revenue 2019
Sales and distribution expenses	-6,234	-6,259	0%	32.8%	28.6%
Marketing expenses	-2,717	-2,696	1%	14.3%	12.3%
Administrative expenses	-1,702	-2,110	-19%	9.0%	9.6%
Total operating expenses excl. restructuring costs	**-10,652**	**-11,065**	**-4%**	**56.0%**	**50.6%**
Restructuring costs	-1,038	-1,009	3%	5.5%	4.6%
Total operating expenses incl. restructuring costs	**-11,691**	**-12,074**	**-3%**	**61.5%**	**55.2%**

CASH FLOW AND INVESTMENTS

DEVELOPMENT IN OPERATING WORKING CAPITAL DKK million	2020	2019	Growth	Share of revenue 2020	Share of revenue 2019
Inventories	1,949	2,137	-9%	10.3%	9.8%
Trade receivables	870	1,643	-47%	4.6%	7.5%
Trade payables	-3,211	-3,095	4%	-16.9%	-14.2%
Total	**-391**	**684**	**-157%**	**-2.1%**	**3.1%**

Working capital

The operating working capital ended historically low at -2% of revenue. As a result of successful negotiations with suppliers, trade payables developed favourably this year. Pandora does not consider the current level of working capital sustainable. In 2021, Pandora plans for a higher inventory level and expects lower trade payables resulting from the cessation of Programme NOW restructuring costs.

SEGMENT PERFORMANCE

REVENUE BY OPERATING SEGMENT DKK million	2020	2019	Sell-out growth	Share of revenue 2020	Share of revenue 2019
Moments and Collabs	13,059	15,095	-13%	69%	69%
Style and Upstream Innovation	5,950	6,774	-12%	31%	31%
Total	**19,009**	**21,868**	**-13%**	**100%**	**100%**

The two new Global Business Units, Moments and Collabs and Style and Upstream Innovation, generated sell-out growth of -13% and -12% respectively. The share of business for Moments and Collabs was 69% in total, the same level as 2019. Despite a decline in all product categories due to the outbreak of COVID-19, the performance within each product category is satisfactory. We will continue to invest in new designs and develop the product offering.

FINANCIAL STATEMENTS

05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK million	Notes	2020	2019
Revenue	2.1	19,009	21,868
Cost of sales	2.4, 3.1, 3.2	-4,634	-5,966
Gross profit		**14,375**	**15,903**
Sales, distribution and marketing expenses	2.2, 2.4, 3.1, 3.2	-9,155	-9,305
Administrative expenses	2.2, 2.4, 3.1, 3.2	-2,536	-2,770
Operating profit	2.1	**2,684**	**3,829**
Finance income	4.6	316	351
Finance costs	4.6	-507	-351
Profit before tax		**2,494**	**3,829**
Income tax expense	2.6	-556	-884
Net profit for the year		**1,938**	**2,945**
Earnings per share, basic (DKK)	4.2	20.0	30.3
Earnings per share, diluted (DKK)	4.2	19.9	30.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK million	Notes	2020	2019
Net profit for the year		**1,938**	**2,945**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		-609	226
Commodity hedging instruments:			
- Realised in net cost of sales		11	6
- Realised in net financials		-31	-16
- Realised in inventories		-234	-55
- Fair value adjustments		490	83
Foreign exchange hedging instruments:			
- Realised in net financials		-49	-41
- Fair value adjustments		21	24
Tax on other comprehensive income, income/expense	2.6	-13	-27
Items that may be reclassified to profit/loss for the year, net of tax		**-416**	**200**
Items not to be reclassified to profit/loss for the year			
Actuarial gain/loss on defined benefit plans, net of tax	2.4	6	-
Items not to be reclassified to profit/loss for the year, net of tax		**6**	**-**
Other comprehensive income, net of tax		**-410**	**200**
Total comprehensive income for the year		**1,528**	**3,145**

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

ASSETS DKK million	Notes	2020	2019
Goodwill		4,247	4,416
Brand		1,057	1,057
Distribution		1,110	1,140
Other intangible assets		529	831
Total intangible assets	**3.1**	**6,943**	**7,445**
Property, plant and equipment	3.2	2,054	2,585
Right-of-use assets	3.3	3,007	4,010
Deferred tax assets	2.6	764	675
Other financial assets		244	290
Total non-current assets		**13,012**	**15,006**
Inventories	3.5	1,949	2,137
Trade receivables	3.6	870	1,643
Right-of-return assets	3.8	62	73
Derivative financial instruments	4.4, 4.5	351	187
Income tax receivable		83	467
Other receivables		745	1,004
Cash		2,912	1,054
Total current assets		**6,972**	**6,565**
Total assets		**19,984**	**21,571**

EQUITY AND LIABILITIES DKK million	Notes	2020	2019
Share capital	4.1	100	100
Treasury shares	4.1	-93	-1,964
Reserves		750	1,167
Dividend proposed	4.2	-	836
Retained earnings		6,632	5,110
Total equity		**7,389**	**5,249**
Provisions	3.7	370	278
Loans and borrowings	4.3, 4.4	2,066	7,962
Deferred tax liabilities	2.6	368	235
Total non-current liabilities		**2,804**	**8,476**
Provisions	3.7	29	53
Refund liabilities	3.8	654	753
Contract liabilities	3.8	82	71
Loans and borrowings	4.3, 4.4	3,996	2,069
Derivative financial instruments	4.4, 4.5	119	115
Trade payables	4.4	3,211	3,095
Income tax payable		382	438
Other payables	4.4	1,317	1,251
Total current liabilities		**9,790**	**7,846**
Total liabilities		**12,595**	**16,322**
Total equity and liabilities		**19,984**	**21,571**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	Share capital	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2020								
Equity at 1 January		100	-1,964	1,112	54	836	5,110	5,249
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**1,938**	**1,938**
Other comprehensive income, net of tax		**-**	**-**	**-577**	**161**	**-**	**6**	**-410**
Total comprehensive income for the year		**-**	**-**	**-577**	**161**	**-**	**1,944**	**1,528**
Share-based payments	2.4, 2.5	-	14	-	-	-	76	90
Purchase of treasury shares	4.1	-	-431	-	-	-	-	-431
Sale of treasury shares[1]	4.1	-	2,288	-	-	-	-509	1,779
Dividend paid	4.2	-	-	-	-	-836	11	-825
Dividend proposed	4.2	-	-	-	-	-	-	-
Equity at 31 December		**100**	**-93**	**535**	**215**	**-**	**6,632**	**7,389**
2019								
Equity at 1 January		110	-3,469	913	54	920	7,891	6,419
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**2,945**	**2,945**
Other comprehensive income, net of tax		**-**	**-**	**199**	**1**	**-**	**-**	**200**
Total comprehensive income for the year		**-**	**-**	**199**	**1**	**-**	**2,945**	**3,145**
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	19	19
Share-based payments	2.4, 2.5	-	13	-	-	-	-8	5
Purchase of treasury shares	4.1	-	-2,583	-	-	-	-	-2,583
Reduction of share capital	4.1	-10	4,075	-	-	-	-4,065	-
Dividend paid	4.2	-	-	-	-	-1,794	38	-1,756
Dividend proposed	4.2	-	-	-	-	1,710	-1,710	-
Equity at 31 December		**100**	**-1,964**	**1,112**	**54**	**836**	**5,110**	**5,249**

Dividend paid in 2020 relating to the 2019 results was DKK 9 per share, corresponding to DKK 825 million (2019: DKK 896 million). Furthermore, in 2019, DKK 860 million was paid as part of the commitment to pay bi-annual dividend in 2019 relating to the 2019 results. Due to the uncertainty from COVID-19 Pandora does not propose any dividend relating to the 2020 results.

For additional shareholder information about dividend, read more on page 39 ↗

[1] On 5 May 2020, Pandora initiated an accelerated book-building for the sale of 8 million treasury shares, which was carried out on the same day, generating approximately DKK 1.8 billion in net proceeds.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2020	2019
Operating profit		2,684	3,829
Depreciation and amortisation		2,315	2,319
Share-based payments	2.5	70	20
Change in inventories		-96	1,284
Change in receivables		869	-65
Change in payables and other liabilities		724	808
Other non-cash adjustments	4.7	-155	-20
Interest etc. received		3	13
Interest etc. paid		-247	-178
Income tax paid	2.6	-192	-1,233
Cash flows from operating activities, net		**5,975**	**6,775**
Acquisition of subsidiaries and activities, net of cash acquired	3.4	-12	-148
Purchase of intangible assets		-130	-272
Purchase of property, plant and equipment		-374	-540
Change in other non-current assets		19	66
Proceeds from sale of property, plant and equipment		13	18
Cash flows from investing activities, net		**-484**	**-877**
Acquisition of non-controlling interests		-42	-311
Dividend paid	4.2	-825	-1,756
Purchase of treasury shares	4.1	-431	-2,583
Sale of treasury shares	4.1	1,778	-
Proceeds from loans and borrowings	4.3	5,861	5,626
Repayment of loans and borrowings	4.3	-9,073	-6,088
Repayment of lease commitments	4.3	-839	-1,138
Cash flows from financing activities, net		**-3,571**	**-6,250**
Net increase/decrease in cash		**1,920**	**-352**

DKK million	Notes	2020	2019
Cash at 1 January[1]		1,054	1,387
Exchange gains/losses on cash		-62	19
Net increase/decrease in cash		1,920	-352
Cash at 31 December[1]		**2,912**	**1,054**
Cash flows from operating activities, net		5,975	6,775
- Interest etc. received		-3	-13
- Interest etc. paid		247	178
Cash flows from investing activities, net		-484	-877
- Acquisition of subsidiaries and activities, net of cash acquired		12	148
Free cash flow incl. IFRS 16 (excluding lease payments)		**5,747**	**6,213**
Free cash flow excl. IFRS 16 (including lease payments)		**4,908**	**5,075**
Unutilized committed credit facilities	4.4	6,998	2,345

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

§ ACCOUNTING POLICIES

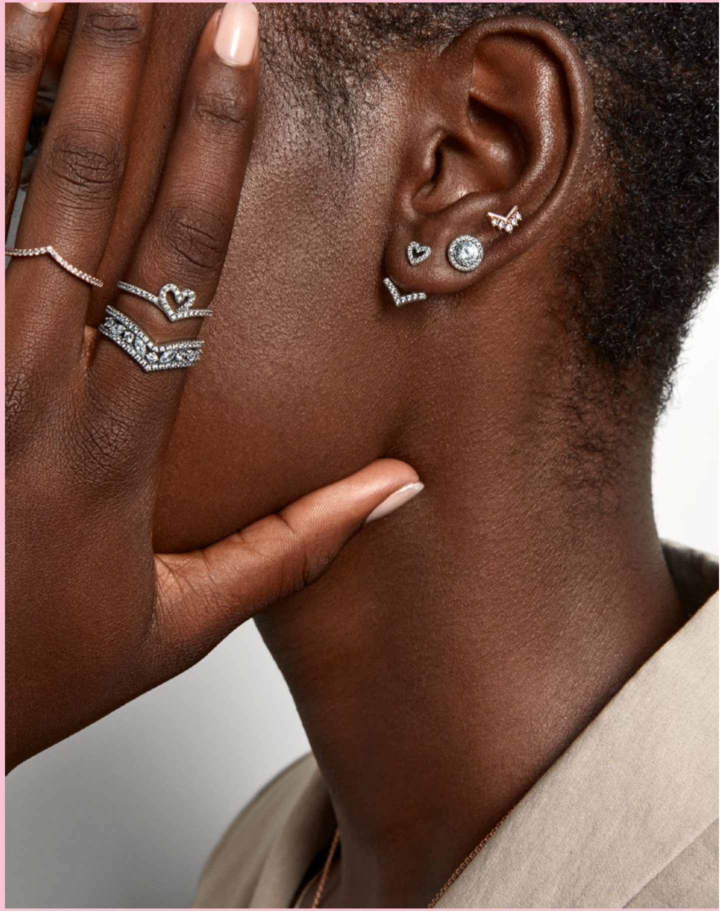
Cash flows from operating activities are presented using the indirect method.

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

CONTENTS

Notes

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



BASIS OF PREPARATION

This section introduces Pandora's accounting policies and significant accounting estimates.

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

§ !

Pandora's accounting policies and significant accounting estimates

NOTE 1.1

PRINCIPAL ACCOUNTING POLICIES

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

The Annual Report for the period 1 January – 31 December 2020 comprises the consolidated financial statements of Pandora A/S and its subsidiaries (the Group) as well as separate financial statements for the Parent Company, Pandora A/S.

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

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

The Annual Report is presented in Danish kroner and all amounts are in million (DKK million), unless otherwise stated. Due to rounding, numbers presented throughout this report may not add up precisely to the totals and percentages may not precisely reflect the absolute figures.

After the reorganisation announced on 4 March 2020, the reportable segments have been reorganised as of Q2 2020 in two Global Business Units: Moments and Collabs and Style and Upstream Innovation. For information on segments, see note 2.1.

As part of Pandora's reorganisation, the cost of certain functions in the markets previously recognised under Administrative expenses is reclassified to Sales & Distribution expenses. This change has been applied prospectively from 1 January 2020 and the comparative figures have not been restated. The impact of the change in 2019 would have been an increase in Sales & Distribution expenses of approximately DKK 350 million and a corresponding decrease in Administrative expenses.

Due to COVID-19, Pandora was entitled to government grants in 2020. These are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a deduction in reporting the related costs, for which it is intended to compensate, and over the time these costs are expensed.

Apart from changes listed above and changes due to the implementation of new or amended standards and interpretations as described in note 1.2, accounting policies are unchanged from last year.

§ ACCOUNTING POLICIES

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

The description of accounting policies in the notes forms part of the overall description of Pandora's accounting policies.

NOTES

Alternative performance measures

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

Consolidated financial statements

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

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are initially recognised in the Group entities at their respective functional currency rates

NOTE 1.1

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

Group companies with another functional currency than DKK
The assets and liabilities of foreign subsidiaries are translated into DKK at the rate of exchange prevailing at the reporting date, and their income statements are translated at the exchange rates prevailing at the dates of the transactions.

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

Consolidated income statement

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

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

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

The allocation of amortisation and impairment losses from intangible assets is presented in note 3.1 and allocation of depreciation and impairment losses from property, plant and equipment in note 3.2.

NOTE 1.2

NEW ACCOUNTING POLICIES AND DISCLOSURES

Implementation of new or amended standards and interpretations

Pandora has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January – 31 December 2020. The implementation of these new or amended standards and interpretations had no material impact on the financial statements for the year apart from the amendment in IFRS 16.

Amendment to IFRS 16 Leases

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases. The IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 pandemic-related rent concession the same way it would account for the change under IFRS 16 if the change was not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change

NOTE 1.2

NEW ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021)

- There is no substantive change to other terms and conditions of the lease.

Pandora decided to apply the practical expedient issued by IASB for all contracts with rent concessions occurring as a direct consequence of COVID-19 and where it meets all conditions of the practical expedient. The effect of the amendment and its impact on financial statements are presented in note 3.3.

NOTE 1.3

MANAGEMENT'S JUDGEMENTS AND ESTIMATES UNDER IFRS

2.1 Segment and revenue information

2.2 Programme NOW restructuring costs

2.6 Taxation

3.3 Leases

3.5 Inventories

3.8 Contract assets and liabilities

4.4 Financial risks

5.1 Contingent liabilities

! SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Pandora is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

COVID-19

Due to the COVID-19 outbreak, Pandora has assessed the value of intangible assets and property, plant and equipment. Due to the change of operating segments, an impairment test was carried out in Q2 2020. No impairment was identified and the impairment test is still considered to include sufficient headroom. As there is limited visibility on the future COVID-19 development, Pandora will continue assessing the value of the assets including the terms of the leasing contracts and any government grants. Pandora has also considered the recoverability of accounts receivable and the inventory value and has not identified any impairment write down.

Specific risks for Pandora are discussed in the relevant sections of the Management's review and in the notes.

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

RESULTS FOR THE YEAR

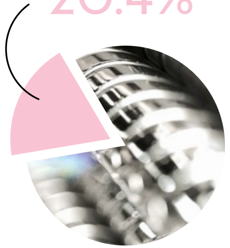
This section comprises notes related to the results for the year, including reporting segment disclosures, and provides additional information related to two of Pandora's performance measures: revenue and EBIT.

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

19,009

REVENUE
DKK million
2019: 21,868

20.4%



EBIT MARGIN
excl. restructuring costs
2019: 26.8%

1,938

NET PROFIT
DKK million
2019: 2,945

22.3%

EFFECTIVE TAX RATE
2019: 23.1%

NOTE 2.1

SEGMENT AND REVENUE INFORMATION

As part of Pandora's reorganisation, the reportable segments have been reorganised as of Q2 2020 in two Global Business Units, each responsible for the end-to-end performance of products. One Global Business Unit will have the responsibility mainly for core collections, including Moments and Collabs, while the other Global Business Unit will drive the newer collections and innovations. The comparative figures for 2019 have been restated to reflect the new segments.

The two operating segments include all channels relating to the distribution and sale of Pandora products.

Both segments derive their revenue from the types of products shown in the product information.

Management monitors the profitability of the operating segments separately for the purpose of making decisions about resource allocation and performance management. Segment results are measured as gross profit.

As Programme NOW restructuring costs cannot be meaningfully allocated to segments, segment performance is measured and reported excluding restructuring costs. Segment information is recognised and measured in accordance with IFRS.

Two Global Business Units

INCOME STATEMENT BY GLOBAL BUSINESS UNIT DKK million	Moments and Collabs	Style and Upstream Innovation	Group
2020			
Revenue	13,059	5,950	19,009
Cost of sales	-3,253	-1,381	-4,634
Gross profit	**9,806**	**4,569**	**14,375**
Operating expenses			-11,691
Consolidated operating profit (EBIT)			**2,684**
Profit margin (EBIT margin)			**14.1%**
Restructuring costs			-1,197
Profit margin (EBIT margin) excl. restructuring costs			**20.4%**
2019			
Revenue	15,095	6,774	21,868
Cost of sales	-4,150	-1,816	-5,966
Gross profit	**10,945**	**4,958**	**15,903**
Operating expenses			-12,074
Consolidated operating profit (EBIT)			**3,829**
Profit margin (EBIT margin)			**17.5%**
Restructuring costs			-2,025
Profit margin (EBIT margin) excl. restructuring costs			**26.8%**

NOTE 2.1

SEGMENT AND REVENUE INFORMATION (CONTINUED)

Revenue by product category of Pandora products does not differ materially between segments. Product offerings are also similar between segments and grouped into the collections.

The use of sales channels for the distribution of Pandora jewellery depends on the underlying market maturity and varies within markets but is consistent when viewed between segments.

REVENUE BY SALES CHANNEL

DKK million	2020	2019
Pandora physical stores	7,943	11,399
Pandora online stores	5,483	2,782
Wholesale and third-party distribution	5,583	7,687
Total revenue	**19,009**	**21,868**

REVENUE BY PRODUCT CATEGORY

DKK million	2020	2019
Charms	9,646	11,395
Bracelets	3,751	4,216
Rings	2,774	3,113
Earrings	1,319	1,487
Necklaces & Pendants	1,519	1,658
Total revenue[1]	**19,009**	**21,868**
Goods transferred at a point in time	18,939	21,799
Services transferred over time	70	70
Total revenue	**19,009**	**21,868**

[1] Figures include franchise fees etc. of DKK 129 million (2019: DKK 87 million), which have been allocated to the product categories.

GEOGRAPHIC INFORMATION, REVENUE

DKK million	2020	2019
UK	2,960	2,861
Italy	2,021	2,272
France	1,154	1,169
Germany	1,014	963
Denmark	30	53
US	4,505	4,677
Australia	1,120	1,118
China	1,261	1,970
Other	4,943	6,786
Total revenue	**19,009**	**21,868**

GEOGRAPHIC INFORMATION, ASSETS

DKK million	2020	2019
Germany	645	633
Denmark	1,952	2,155
US	1,701	1,816
Australia	443	449
Thailand	535	641
Other	1,669	1,751
Total intangible assets[1]	**6,943**	**7,445**
Property, plant and equipment[2]	2,054	2,585
Right-of-use assets[3]	3,007	4,010
Deferred tax assets	764	675
Other non-current financial assets	244	290
Current assets	6,972	6,565
Total consolidated assets	**19,984**	**21,571**

[1] Allocation of intangible assets in the table above reflects the country in which the assets were acquired in order to capture the values, including goodwill, in the functional currency in which it is denominated. This is different from the presentation in note 3.1 where goodwill is allocated in accordance with Management reporting and monitoring.
[2] The crafting facilities in Thailand accounted for DKK 1,130 million (2019: DKK 1,331 million), corresponding to 55.0% of property, plant and equipment (2019: 51.5%).
[3] Right-of-use assets mainly relate to stores and offices.

NOTE 2.1

SEGMENT AND REVENUE INFORMATION (CONTINUED)

§ ACCOUNTING POLICIES

Retail sales – products

Revenue from the sale of products through Pandora owned and operated stores is recognised when a store sells a product to the customer. Payment is usually due when the customer picks up the product in the store or the product is delivered from an online store. However, in some instances collection is delayed and a receivable recognised, see note 3.6 Trade receivables.

A refund liability and a right-of-return asset are recognised for products expected to be returned, see note 3.8 Contract assets and liabilities. The estimate for returned products is based on historical experience and expectations. Based on knowledge of the nature of returns, it is considered highly probable that a significant reversal of cumulative revenue recognised will not occur. Provisions for rebates and discounts granted to customers are recognised as a reduction in revenue.

The Group's obligation to repair or replace faulty products is part of the standard terms and is therefore recognised as a contract liability, see note 3.8 Contract assets and liabilities. Revenue is further measured excluding sales taxes and duties when these are passed on to customers. Sales taxes and duties incurred on sales that are not recoverable from the local taxation authorities are reported gross as part of revenue and cost of sales.

Wholesale and third-party distributors – products

Pandora manufactures and sells jewellery to wholesalers and third-party distributors. Revenue is recognised when control of the products has been transferred to the wholesaler or third-party distributor. Change of control of the products occurs when the products have been delivered to the wholesaler or distributor and no further obligation exists that can affect the transfer of control. Delivery has taken place when the products have been shipped to the location of the wholesaler or distributor and control of the goods has been transferred to the buyer. Revenue from the sale is recognised based on the price specified in the contract. Revenue is only recognised to the extent it is highly probable that a significant reversal will not occur. A refund liability and a right-of-return asset are recognised for products expected to be returned, see note 3.8 Contract assets and liabilities. The estimate for returned products is based on historical experience and expectations. Based on knowledge of the nature of returns in the wholesale and distributor channels, it is considered highly probable that a significant reversal of cumulative revenue recognised will not occur. Provisions for rebates and discounts granted to wholesalers and franchisees are recognised as a reduction in revenue.

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

When control has been transferred, a receivable is recognised as the consideration to be paid is conditional only on the passage of time. The price specified in the contract is not adjusted for any financing element as payment terms never exceed 12 months.

! SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 2.2
PROGRAMME NOW RESTRUCTURING COSTS

Programme NOW
Programme NOW costs are reported in the income statement within the cost types it relates to.

Restructuring costs amounted to DKK 1.2 billion (DKK 2.0 billion in 2019). Restructuring costs impacted the income statement as follows:

- Cost of sales, DKK 0.2 billion primarily related to optimisation in production (2019: DKK 1.0 billion, primarily related to inventory buyback of DKK 0.6 billion and product portfolio optimisation of DKK 0.3 billion).

- Operating expenses, DKK 1.0 billion, primarily related to organizational restructuring (DKK 0.3 billion), IT transformation (DKK 0.2 billion) and consultancy expenses (DKK 0.4 billion) (2019: DKK 1.0 billion, primarily related to brand restructuring activities (DKK 0.2 billion), IT transformation (DKK 0.1 billion), accelerated amortisations (DKK 0.2 billion) and consultancy costs (DKK 0.4 billion)).

  Restructuring costs impacted marketing expenses by DKK 0.1 billion (2019: DKK 0.2 billion), sales and distribution expenses by DKK 0.1 billion (2019: DKK 0.2 billion) and administrative expenses by DKK 0.8 billion (2019: DKK 0.6 billion).

§ ACCOUNTING POLICIES

In 2019 and 2020, Pandora is restructuring the business under the programme name "Programme NOW" to restore long-term sustainable growth and protect profitability. The restructuring costs are significant non-recurring items assessed by Executive Management, making a distinction between normal operation and restructuring.

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

! SIGNIFICANT ACCOUNTING ESTIMATES

Estimates mainly relate to judgement applied by Executive Management in distinguishing between restructuring and normal operation.

NOTE 2.3
GOVERNMENT GRANTS

Pandora has received government subsidies of DKK 225 million as a result of the COVID-19 pandemic for operations mainly in Europe and Australia. The majority of the subsidies were related to employee retention and facility cost and included among others the government programmes "Job Retention Scheme" and "Business Rates Relief Scheme" in the United Kingdom, "JobKeeper Program" in Australia and "ERTE" in Spain. There are no unfulfilled conditions or other contingencies attached to the received subsidies. During the pandemic Pandora has retained all staff onboard, including store staff while stores were closed. The government subsidies partially fund the cost hereof.

§ ACCOUNTING POLICIES

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Income from government subsidies as a result of COVID-19 pandemic were recognised as a deduction in the expense item to which they are intended to compensate.

NOTE 2.4

STAFF COSTS

DKK million	2020	2019
Wages and salaries	3,581	3,811
Pensions	178	166
Share-based payments	70	20
Social security costs	177	263
Other staff costs	472	553
Total staff costs	**4,478**	**4,814**
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	913	1,122
Sales, distribution and marketing expenses	2,572	2,816
Administrative expenses	993	876
Total staff costs	**4,478**	**4,814**
Average number of full-time employees during the year	22,336	23,736

The Group's pension plans are primarily defined contribution plans. Pandora has defined benefit plans relating to employees in Thailand. The defined benefit plans are recognised at the present value of the actuarially measured obligations. In 2020, these obligations amounted to DKK 74 million (2019: DKK 75 million).

In 2020, the actuarial gain was DKK 6 million (2019: gain of DKK 0 million) recognised in other comprehensive income.

DKK million	Base pay	Bonus	Shares	Benefits	Other	Total
2020						
Total remuneration to Executive Management	**14.0**	**15.7**	**13.1**	**1.7**	**-**	**44.5**

The above compensation includes DKK 1.2 million cost for bonus and DKK 1.0 million cost for shares related to the former executive management.

DKK million	Base pay	Bonus	Shares	Benefits	Other	Total
2019						
Total remuneration to Executive Management	**16.4**	**8.0**	**3.4**	**0.6**	**25.3**	**53.7**

'Other' includes a sign-on bonus to Alexander Lacik of DKK 18.0 million, an amount of DKK 2.7 million (4 out of 9 months) related to a replacement reward to Anders Boyer, and DKK 4.7 million as part of a DKK 7.0 million cash bonus to Jeremy Schwartz, which was payable upon ending his service. For further details, see the Remuneration Report available on the Pandora website.

DKK million	2020	2019
Total remuneration to Board of Directors	**7.8**	**7.4**

Certain Board members received a fixed travel fee as compensation when attending Board meetings abroad in 2020. Total travel fee for 2020 amounted to DKK 1.0 million (2019: DKK 0.9 million).

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

§ ACCOUNTING POLICIES

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

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

NOTE 2.5

SHARE-BASED PAYMENTS

Decisions to grant share-based incentive programmes are made by the Board of Directors in accordance with general guidelines on incentive pay for Pandora.

The total cost related to share-based payments was DKK 70 million (2019: net cost of DKK 20 million). The programme for 2020 was recorded at target level as the target is expected to be met. The cost of share-based payments are included in staff costs. In the remaining vesting periods, an amount of DKK 95 million (2019: DKK 52 million) is expected to be recognised in respect of the current programmes. The weighted average remaining contractual life of performance shares at the end of the period was 2.9 years (2019: 2.1 years).

For shares exercised in 2020, the average share price at the time of exercise was DKK 306.

Long-term incentive programmes

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

SHARES OUTSTANDING	Executive Management	Other employees	Total	Average exercise price per performance share, DKK
2020				
Shares outstanding at 1 January	188,413	502,386	690,799	4.2
Shares granted during the year	115,491	446,854	562,345	-
Shares exercised during the year	-32,061	-19,079	-51,140	4.1
Shares lapsed during the year	-42,825	-222,548	-265,373	6.2
Shares outstanding at 31 December	**229,018**	**707,613**	**936,631**	**1.1**
2019				
Shares outstanding at 1 January	101,203	171,768	272,971	6.8
Shares granted during the year	118,524	366,868	485,392	2.6
Shares exercised during the year	-31,314	-	-31,314	3.0
Shares lapsed during the year	-	-36,250	-36,250	5.1
Shares outstanding at 31 December	**188,413**	**502,386**	**690,799**	**4.2**

NOTE 2.5

SHARE-BASED PAYMENTS (CONTINUED)

NUMBER OF PERFORMANCE SHARES IN PANDORA A/S	Expiry date	Exercise price, DKK	Shares 31 December 2020	Expected volatility	Risk-free interest rate	Maximum market value at launch (DKK million)	Accumulated cost recognised (DKK million)	Remaining value to be expensed (DKK million)
Programme start date								
November 2018[1]	2023	2.65	7,865	43%	-0.1%	2	2	-
March 2019[1]	2022	2.65	260,759	43%	-0.6%	93	44	16
March 2019[1]	2024	2.65	105,662	43%	-0.5%	27	12	4
July 2020	2023	0.00	446,854	42%	-0.6%	152	31	61
July 2020	2025	0.00	115,491	42%	-0.6%	36	9	15
Total number of performance shares outstanding			**936,631**			**310**	**99**	**95**

[1] Although technically structured as options for legacy Danish tax treatment reasons, the awards have the characteristics of Performance Share Units because the option exercise price is 1% of the share price.

Assumptions

The volatility of the shares is based on the historical volatility of the price of Pandora A/S' shares. The risk-free interest rate is based on a Danish government bond with similar maturity. The dividend yield applied is equal to 4.5% for the 2020 programme and 5.9% for the 2019 programme and is based on the assumed future dividend over the vesting period and the share price on the date of the grant. Actual paid dividends may differ from the assumptions applied in the valuation of the market value. Given that the exercise price for one performance share equals up to 1% of the market price of one share at grant date, the fair value almost equals the market value of one share at grant date. The assumptions in the table therefore have very limited impact on the estimated fair value of performance shares granted.

§ ACCOUNTING POLICIES

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

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The calculated fair values are based on either the Black-Scholes model or the Monte Carlo model according to the performance conditions of each programme. The cost of equity-settled transactions is recognised as staff costs together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Management's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or income for a period represents the movement in cumulative expenses recognised at the beginning and end of that period.

NOTE 2.6
TAXATION

Income taxes

Income tax expense
Income tax expense was DKK 556 million in 2020, corresponding to an effective tax rate of 22.3% (2019: DKK 884 million, 23.1%) for the Group. The tax rate of 22.3% was negatively impacted by adjustments to previous years and paid withholding tax. The effective tax rate was reduced by non-taxable income in Thailand due to the Board of Investment agreements (BOIs).

The corporate income tax rate in most of Pandora's key markets is higher than the Danish tax rate of 22%, except for UK and Thailand. The effective tax rate (based on IFRS) per key market is illustrated in the table in the end of this note.

INCOME TAX EXPENSE

DKK million	2020	2019
Current income tax charge for the year	604	751
Change in deferred tax for the year	-66	114
Impact of change in tax rates	2	1
Adjustment to current tax for prior years	-52	-29
Adjustment to deferred tax for prior years	68	47
Total income tax expense	**556**	**884**
Deferred tax on other comprehensive income	45	-
Corporate tax on other comprehensive income	-32	27
Total tax on other comprehensive income	**13**	**27**

RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	2020		2019	
	%	(DKK million)	%	(DKK million)
Profit before tax		2,494		3,829
Corporate tax rate in Denmark, 22%	22.0%	549	22.0%	842
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	0.2%	5	1.0%	37
Deferred tax impact of change in tax rates	0.1%	2	0.0%	1
Non-taxable income and non-deductible expenses	-1.3%	-31	-0.8%	-31
Adjustment to tax for prior years	0.7%	16	0.5%	18
Non-capitalised tax assets, net	-0.1%	-2	0.1%	4
Withholding taxes	0.7%	17	0.3%	13
Effective income tax rate/income tax expense	**22.3%**	**556**	**23.1%**	**884**

§ ACCOUNTING POLICIES

Income tax expense for the year comprises current tax and changes in deferred tax, including changes in tax rate, adjustment to prior years and changes in provision for uncertain tax positions. Tax is recognised in the income statement, except to the extent that it is related to items recognised in equity or other comprehensive income. The tax rates and tax laws used to compute the amounts are those enacted or substantively enacted, by the reporting date, in the countries in which Pandora operates and generates taxable income.

! SIGNIFICANT ACCOUNTING ESTIMATES

Pandora is subject to income tax in the countries in which the Group operates, comprising various tax rates worldwide. Significant judgements are required in determining the accrual for income taxes, deferred tax assets and liabilities, and provision for uncertain tax positions. Provision for uncertain tax positions is measured according to IFRIC 23.

As part of Pandora conducting business globally, tax and transfer pricing disputes with tax authorities may occur. Any unresolved disputes with local tax authorities are recognised as income tax payable/receivable based on the expected value method or the most likely amount. Management believes that the provision made for uncertain tax positions is adequate. However, the actual obligation may deviate from this and is dependent on the result of litigations and settlements with the relevant tax authorities.

NOTE 2.6

TAXATION (CONTINUED)

Deferred tax

At the end of 2020, deferred tax assets amounted to DKK 764 million (2019: DKK 675 million) and deferred tax liabilities amounted to DKK 368 million (2019: DKK 235 million). Net deferred tax assets amounted to DKK 396 million (2019: DKK 440 million).

Of the total deferred tax assets recognised, DKK 14 million (2019: DKK 3 million) related to tax loss carryforwards, the utilisation of which depends on future positive taxable income exceeding realised deferred tax liabilities. It is Management's opinion that these tax loss carryforwards can be utilised.

Tax assets not recognised, DKK 28 million (2019: DKK 30 million), relate to tax loss carryforwards that are not expected to be utilised in the foreseeable future. Tax losses that can expire amounted to DKK 14 million (2019: DKK 7 million).

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

Only insignificant latent tax liabilities remained at 31 December 2020. These liabilities are not recognised as the Group is able to control this liability and it is considered probable that the liability will not crystallise in the foreseeable future.

DEFERRED TAX

DKK million	2020	2019
Deferred tax at 1 January	440	589
Exchange rate adjustments	-15	4
Recognised in the income statement	-2	-161
Recognised in other comprehensive income	-45	-
Recognised in equity, share-based payments	20	9
Impact of change in tax rates	-2	-1
Deferred tax at 31 December	**396**	**440**
Deferred tax assets	764	675
Deferred tax liabilities	-368	-235
Deferred tax, net	**396**	**440**

BREAKDOWN OF DEFERRED TAX

DKK million	2020	2019
Intangible assets	-612	-616
Property, plant and equipment	-6	5
Right-of-use assets	11	9
Current assets	792	840
Non-current assets and liabilities	197	199
Tax loss carryforwards	14	3
Deferred tax, net	**396**	**440**

§ ACCOUNTING POLICIES

Deferred tax on all temporary differences between the carrying amounts for financial reporting purposes and the tax base of assets and liabilities is measured using the balance sheet liability method. No deferred tax is recognised on temporary differences that arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured according to current tax rules and at the tax rates expected to be effective on elimination of the temporary differences. Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same tax authority.

NOTE 2.6

TAXATION (CONTINUED)

Tax policy

Pandora is a large taxpayer and it is of great importance for Pandora to be a responsible taxpayer as well. This means that we focus on paying the correct amount of taxes at the right time in all countries where we do business. Pandora is committed to ensuring compliance with the letter and spirit of tax laws in the markets in which we operate, while striving to maximise shareholder value in a responsible way. Pandora will not engage in aggressive tax planning and will only optimise the Group's tax position in connection with the evolution of its operational, commercial and economic activities. Tax will be an outcome of the business strategy and will not drive business strategy.

Pandora aims to minimise the level of tax risks at all times and actively seeks to identify, quantify, manage and monitor the tax position to ensure it will remain in line with the Group's tax policy. Pandora will refrain from unnecessarily complex tax set-ups, keeping a simple, business-aligned model that is well understood and based on in-depth analysis of tax and reputational impacts.

Pandora will consider government-sponsored tax incentives where appropriate and in line with our code of conduct to support economic development, transfer of knowledge, job creation and maintaining good corporate citizenship.

The Group tax policy, which has been approved by the Audit Commitee of Pandora, is available on www.pandoragroup.com.

Paid income tax

In 2020, Pandora paid DKK 192 million in income tax. Most of the tax payments are attributable to Pandora's key markets shown in the table below. The significant decrease in tax paid compared with previous years (2019: DKK 1,233 million) is caused by lower profit in general compared with 2019 as a result of COVID-19. The significant decrease is further caused by a refund in Denmark (related to 2019) which exceed 2020 paid taxes of DKK 309 million resulting in a net refund of DKK 97 million (2019: 876 million which also included tax payments related to previous years).

	Tax paid, DKK million		Effective tax rate, %
	2020	2019	2020
Australia	47	74	37%
China	18	2	16%
Denmark	-97	876	15%
France	22	9	34%
Germany	16	30	42%
Italy	67	48	58%
UK	33	21	27%
USA	-12	40	26%
Thailand	27	18	4%
Rest of the world	71	115	N/A
Total Group	**192**	**1,233**	**22.3%**

INVESTED CAPITAL AND WORKING CAPITAL ITEMS

WORKING CAPITAL

DKK million	Notes	2020	2019
Inventories	3.5	1,949	2,137
Trade receivables	3.6	870	1,643
Trade payables		-3,211	-3,095
Operating working capital		**-391**	**684**
Other receivables		807	1,077
Current provisions	3.7, 3.8	-683	-806
Net commodity derivatives		221	32
Other payables		-1,399	-1,281
Net working capital		**-1,447**	**-293**

In 2020 Pandora has updated the definition of Net working capital to include Commodity derivatives and exclude Net tax payable. The 2019 figures has been restated to reflect the change.

INVESTED CAPITAL

DKK million	Notes	2020	2019
Intangible assets	3.1	6,943	7,445
Property, plant and equipment	3.2	2,054	2,585
Right-of-use assets	3.3	3,007	4,010
Other non-current financial assets		244	290
Non-current provisions	3.7	-370	-278
Net working capital		-1,447	-293
Deferred tax, net	2.6	396	440
Currency derivatives		12	40
Income tax receivables/payable, net		-299	29
Invested capital		**10,540**	**14,268**

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

Operating working capital at the end of 2020 was -2.1% of revenue, compared to 3.1% at the end of 2019.

Financial risks are described in note 4.4.

491

CAPEX
DKK million
2019: 822

-2.1%

OPERATING WORKING CAPITAL/ REVENUE
2019: 3.1%

10,540

INVESTED CAPITAL
DKK million
2019: 14,268

NOTE 3.1

INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distri-bution	Other intangible assets	Total
2020					
Cost at 1 January	4,416	1,057	1,881	1,705	9,060
Acquisition of subsidiaries and activities	2	-	-	-	2
Additions	-	-	-	122	122
Disposals	-	-	-274	-17	-291
Exchange rate adjustments	-170	-	-6	-64	-240
Cost at 31 December	**4,247**	**1,057**	**1,601**	**1,747**	**8,652**
Amortisation and impairment losses at 1 January	-	-	741	874	1,615
Amortisation for the year	-	-	30	296	326
Impairment loss for the year	-	-	-	82	82
Disposals	-	-	-274	-5	-281
Exchange rate adjustments	-	-	-6	-28	-33
Amortisation and impairment losses at 31 December	**-**	**-**	**491**	**1,218**	**1,708**
Carrying amount at 31 December	**4,247**	**1,057**	**1,110**	**529**	**6,943**

The impairment loss of DKK 82 million relates to scrapped software applications and design rights whose value in use has been estimated to be lower than the net book value. The loss is mainly included in cost of sales in the income statement.

DKK million	Goodwill	Brand	Distri-bution	Other intangible assets	Total
2019					
Cost at 1 January	4,278	1,057	1,879	2,177	9,391
Reclassification to right-of-use assets[1]	-	-	-	-454	-454
Acquisition of subsidiaries and activities	59	-	-	1	59
Additions	-	-	-	266	266
Disposals	-	-	-	-318	-319
Exchange rate adjustments	80	-	2	34	116
Cost at 31 December	**4,416**	**1,057**	**1,881**	**1,705**	**9,060**
Amortisation and impairment losses at 1 January	-	-	708	905	1,613
Reclassification to right-of-use assets[1]	-	-	-	-209	-209
Amortisation for the year	-	-	30	466	496
Disposals	-	-	-	-304	-304
Exchange rate adjustments	-	-	2	17	19
Amortisation and impairment losses at 31 December	**-**	**-**	**741**	**874**	**1,615**
Carrying amount at 31 December	**4,416**	**1,057**	**1,140**	**831**	**7,445**

The majority of the intangible assets have been acquired through business combinations.
[1] Key money reclassified to right-of-use assets on 1 January 2019, see note 1.2.

DKK million	2020	2019
Amortisation and impairment losses have been recognised in the income statement as follows:		
Cost of sales	105	52
Sales, distribution and marketing expenses	104	198
Administrative expenses	199	246
Total	**408**	**496**

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

Goodwill

Additions in 2020 relate to acquisitions of activities. Note 3.4 includes an overview of acquired goodwill for the year.

Brand

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

Distribution

Distribution includes distribution network and distribution rights. These are presented aggregated in 2020.

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

Distribution rights mainly relate to the distribution rights for Pandora products in North America. These were acquired with the American distributor in 2008 and the carrying amount at 31 December 2020 was DKK 1,034 million (2019: DKK 1,034 million).

Other intangible assets

Other intangible assets mainly comprise software.

§ ACCOUNTING POLICIES

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

In addition, impairment testing of goodwill was performed in Q2 2020 after the change in the operating segments in Pandora. All the assumptions used are described on the following page.

Goodwill

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

Brand

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

Distribution

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

The distribution network is amortised over an expected useful life of 15 years.

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

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

Other intangible assets

Software is initially recognised at cost and amortised over 2-5 years.

Amortisation is allocated to segments on a pro-rata basis based on the standard cost per segment.

Impairment

At each reporting date, Pandora assesses whether there is any indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing of an asset is required, Pandora estimates the recoverable amount of the asset.

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

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

The most significant factors when assessing the potential need for impairment are:

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

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

The brand is applied and supported globally in all of the Group's entities. The brand is maintained and preserved through common strategy and product development at Group level and marketing in the individual sales entities. The brand is consequently tested for impairment at Group level.

Like the brand described above, goodwill is reported and managed internally at Group level. Due to the constraint in IAS 36 Impairment, goodwill is allocated to the grouped CGUs in the two operating segments for impairment testing purposes. It is Management's opinion that this best reflects Pandora's value creation.

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

Method for impairment testing

In the impairment test, the recoverable amount was compared with the carrying amount. The recoverable amount is based on a calculation of the value in use using cash flow estimates based on the budget for 2021 and expectations for the next three years. The long-term growth rate in the terminal period has been set so that it equals the expected long-term rate of inflation.

ALLOCATION OF INTANGIBLE ASSETS TO CGUS

DKK million	Goodwill	Brand	Distribution
2020			
Moments and Collabs	2,981	742	779
Style and Upstream Innovation	1,265	315	331
Total	**4,247**	**1,057**	**1,110**
2019			
EMEA	2,545	-	-
Americas	972	-	1,034
Asia Pacific	898	-	13
Group	-	1,057	94
Total	**4,416**	**1,057**	**1,141**

DISCOUNT RATES AND GROWTH RATES IN TERMINAL PERIOD	Discount rate before tax	Growth rate in terminal period
2020		
Moments and Collabs	11.2%	2%
Style and Upstream Innovation	11.3%	2%
Group	**11.3%**	**2%**
2019		
EMEA	10.2%	2%
Americas	11.4%	2%
Asia Pacific	12.9%	2%
Group	**10.9%**	**2%**

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

Assumptions

The calculations of the recoverable amounts of CGUs or groups of CGUs are based on the following key assumptions:

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

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

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

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

- revenue development taking into account development in network (stores, retail/wholesale share), product mix and market share as well as the COVID-19 impact on temporarily closed stores and online revenue growth
- cost of sales based on raw materials consumption affected by mix of materials (stones, gold, silver and salaries) and average lagged hedge commodity prices at the time the budget is prepared. This includes also the potential impact of COVID-19 in the metal prices that has surged since Q2 2020 and the impact after the cost and commercial mitigating actions was considered
- development in operating expenses
- currency rates are based on actual rates at the time the budget is prepared.

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

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

Due to the change of operating segments, an impairment test was carried out in Q2 2020. The impairment tests did not identify any need for impairment losses to be recognised. As there is limited visibility on the future COVID-19 development, Pandora will continue assessing the value of the assets. Based on sensitivity analyses, it is Management's opinion that no probable change in any key assumptions would cause the carrying amounts of grouped CGUs or at Group level to exceed the recoverable amount.

Even with a significant reduction in growth rate and a decrease in discount rate, Management has not identified any impairment indicator.

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	Assets under construction	Total
2020				
Cost at 1 January	1,287	3,591	33	4,912
Additions	4	111	247	362
Disposals	-34	-146	-	-180
Transfers	102	130	-232	-
Exchange rate adjustments	-121	-225	-5	-351
Cost at 31 December	**1,238**	**3,461**	**44**	**4,742**
Depreciation and impairment losses at 1 January	246	2,081	-	2,326
Depreciation for the year	136	563	-	699
Disposals	-34	-136	-	-170
Exchange rate adjustments	-25	-142	-	-167
Depreciation and impairment losses at 31 December	**323**	**2,366**	**-**	**2,689**
Carrying amount at 31 December	**915**	**1,095**	**44**	**2,054**
2019				
Cost at 1 January	1,008	3,148	122	4,278
Acquisition of subsidiaries and activities	-	13	-	13
Additions	15	214	278	507
Disposals	-7	-120	-	-128
Transfers	150	224	-374	-
Exchange rate adjustments	122	112	7	241
Cost at 31 December	**1,287**	**3,591**	**33**	**4,912**
Depreciation and impairment losses at 1 January	166	1,478	-	1,644
Depreciation for the year	62	636	-	698
Disposals	-2	-98	-	-100
Exchange rate adjustments	20	64	-	84
Depreciation and impairment losses at 31 December	**246**	**2,081**	**-**	**2,326**
Carrying amount at 31 December	**1,041**	**1,511**	**33**	**2,585**

DKK million	2020	2019
Depreciation has been recognised in the income statement as follows:		
Cost of sales	241	165
Sales, distribution and marketing expenses	416	432
Administrative expenses	42	101
Total	**699**	**698**

§ ACCOUNTING POLICIES

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

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

NOTE 3.3
LEASES

Leases
Pandora leases stores, various offices, office equipment and cars.

Assets and liabilities related to leases. Amounts recognised in the balance sheet:

RIGHT-OF-USE ASSETS DKK million	2020	2019
Property	2,975	3,972
IT	5	2
Cars	18	21
Other	10	16
Total right-of-use assets	**3,007**	**4,010**

Additions of right-of-use assets were DKK 817 million in 2020 (2019: DKK 522 million).

LEASE LIABILITIES DKK million	2020	2019
Non-current	2,066	2,804
Current	993	1,012
Total lease liabilities	**3,059**	**3,816**

Lease liabilities are recognised in loans and borrowings.

Amounts recognised in the income statement:

RECOGNISED DEPRECIATION AND IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS CHARGED TO THE INCOME STATEMENT FOR THE PERIOD 1 JANUARY – 31 DECEMBER: DKK million	2020	2019
Property[1]	1,190	1,105
IT	1	1
Cars	11	12
Other	5	7
Total depreciation and impairment losses on right-of-use assets for the period	**1,208**	**1,125**

[1] Including impairment losses of DKK 128 million due to revaluation of right-of-use assets in connection with COVID-19.

Costs recognised in the period for short-term and low-value leases were DKK 33 million (2019: DKK 30 million). Expenses are recognised on a straight-line basis.

OTHER ITEMS RELATING TO LEASES DKK million	2020	2019
Interest income from sub-leases	1	1
Interest expense	-97	-106
Total interest for the period	**-96**	**-104**

COVID-19-related rent concessions of DKK 112 million have been recognised within sales and distribution expenses in the income statement in 2020.

Rent of DKK 52 million has been deferred, meaning that rent payments have been postponed under agreements with landlords. Overall financing cash flow was positively impacted by DKK 164 million due to rent relief and rent deferrals.

Total cash outflow relating to leases was DKK 1,164 million (2019: DKK 1,643 million) for the period. This comprises of fixed lease payments in scope of IFRS 16 of DKK 839 million (2019: DKK 1,138 million), variable lease payments of DKK 196 million (2019: DKK 371 million), interest paid of DKK 96 million (2019: DKK 104 million), and short-term and low-value leases of DKK 33 million (2019: DKK 30 million). Many of the Group's property leases contain variable payment terms that are linked to the volume of sales made from leased stores according to normal market practice. In 2020, around 17% (2019: 23%) of the lease payments recognised in the income statement were variable rent. Pandora has estimated that a 1% increase in annual physical store revenue would consequently result in a 0.7% (2019: 0.5%) increase in lease payments. The average usual store leases are five years with a three to five year option to extend in approximately 23% (2019: 23%) of current leases. Approximately 20% of current leases are up for renegotiations in 2021. The estimated value of lease extensions that Pandora is not reasonably certain to exercise is around DKK 0.6 billion (2019: DKK 0.4 billion).

NOTE 3.3

LEASES (CONTINUED)

! SIGNIFICANT ACCOUNTING ESTIMATES

When assessing the life of leases, Pandora considers the non-cancellable lease term and options to extend the lease where Pandora is reasonably certain to extend. Leases in Pandora mainly comprise stores, office buildings, cars, IT and other office equipment. Usual lease contracts for stores average five years with a three to five year option to extend in approximately 23% of current leases. The lease term for stores is assessed to be up to 10 years, depending on an internal store rating based on location, revenue and earnings. For office buildings, the lease term is usually five to 15 years. For other assets, the life is equal to the non-cancellable lease term, and extensions are not considered for these.

The COVID-19 outbreak is deemed a significant change in the circumstances, which has led Pandora to re-negotiate store leases where possible. Pandora is renegotiating most of the lease contracts and does not intend to extend the existing contracts within existing terms. Pandora has also decided to execute termination options and communicated the decision to the landlords by sending termination letters. Both gave rise to the reassessment/reduction in the right-of-use assets by around DKK 0.4 billion.

§ ACCOUNTING POLICIES

Pandora applies a single recognition and measurement approach to all leases, except for short-term leases and low-value leases.

Pandora recognises right-of-use assets at the commencement date of the lease when the asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, lease payments made at or before the commencement date, key money, less any lease incentives received. Key money is measured at cost and amortised over the term of the contract. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. At each reporting date Pandora assesses whether there is any indication that a right-of-use asset may be impaired. If any such indication exists, Pandora carries out impairment testing for the relevant CGU.

Pandora recognises lease liabilities at the commencement date of the lease, measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable. Some leases are exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. Payments relating to services are not included in lease liabilities. Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs and are not included in the lease liability.

In calculating the present value of lease payments, Pandora uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Pandora applies the short-term lease recognition exemption to its short-term leases.

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

On 28 May 2020, the IASB issued COVID-19- Related Rent Concessions - amendment to IFRS 16 Leases. As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic-related rent concession from a lessor is a lease modification. Pandora decided to apply the practical expedient for all contracts with rent concessions occurring as direct consequence of COVID-19 and where all conditions of the practical expedient are met.

NOTE 3.4
BUSINESS COMBINATIONS

ACQUISITIONS DKK million	2020	2019
Other intangible assets	-	1
Property, plant and equipment	4	13
Inventories	4	70
Assets acquired	**8**	**84**
Non-current liabilities	2	-
Other current liabilities	1	2
Liabilities assumed	**3**	**2**
Total identifiable net assets acquired	**5**	**82**
Goodwill arising on acquisitions	2	59
Purchase consideration	**7**	**140**
Cash movements on acquisitions:		
Consideration transferred regarding previous years [1, 2]	5	12
Deferred payment (including earn-out)	-	-5
Net cash flows on acquisitions	**12**	**148**

[1] In 2019, consideration paid related to acquisitions was final payment for acquired stores in the UK in the amount of DKK 10 million and in the US in the amount of DKK 2 million.

[2] The deferred payment of DKK 5 million related to the store acquisitions in Mexico in 2019 is paid in 2020.

Acquisitions in 2020

No acquisitions, to an extent of significance to Pandora, were completed during 2020.

Acquisitions after the reporting period

No acquisitions took place after the reporting period.

§ ACCOUNTING POLICIES

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

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

As goodwill is reported and managed internally at Group level, goodwill acquired should also be allocated to the Group. However, goodwill acquired is allocated to the grouped CGUs in the two operating segments for impairment testing purposes due to the constraint in IAS 36 Impairment.

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

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

NOTE 3.5

INVENTORIES

DKK million	2020	2019
Raw materials and consumables	358	481
Work in progress	119	158
Finished goods	1,392	1,398
Point-of-sale materials	80	99
Total inventories at 31 December	**1,949**	**2,137**
Inventory write-downs at 1 January	837	539
Write-downs during the year	361	881
Utilised in the year	-458	-583
Inventory write-downs at 31 December	**740**	**837**

Write-downs

Write-downs of inventories are recognised in cost of sales, DKK 312 million (2019: DKK 818 million), and operating expenses, DKK 49 million (2019: DKK 63 million). Write-downs include remelt costs.

Remelting of goods (realised and unrealised) negatively impacted gross profit by DKK 110 million (2019: DKK 942 million, including costs related to product portfolio optimisation and inventory buyback from wholesale partners as part of the Commercial Reset under Programme NOW).

Production overheads

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

Net realisable value

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

§ ACCOUNTING POLICIES

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

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

! SIGNIFICANT ACCOUNTING ESTIMATES

Estimates relating to write-downs are impacted by forecasting accurancy in the number of obsolete products whichs will need to be remelted. The impact from remelt is also influenced by development in the market prices of silver and gold.

NOTE 3.6

TRADE RECEIVABLES

DKK million	2020	2019
Receivables related to third-party distribution and wholesale	600	1,086
Receivables related to retail revenue sales	270	557
Total trade receivables at 31 December	**870**	**1,643**
Ageing of trade receivables at 31 December		
Not past due	**746**	**1,419**
Up to 30 days	124	184
Between 30 and 60 days	-	34
Between 60 and 90 days	-	4
Over 90 days	-	1
Total past due, not impaired	**124**	**223**
Total trade receivables at 31 December	**870**	**1,643**
Development in impairment losses on trade receivables		
Impairment at 1 January	129	103
Additions	53	78
Utilised	-11	-10
Unused amounts reversed	-44	-43
Exchange rate adjustments	-5	2
Impairment at 31 December	**121**	**129**

NOTE 3.6
TRADE RECEIVABLES (CONTINUED)

Trade receivables are amounts due from the sale of goods sold in the ordinary course of business to wholesalers and distributors or to landlords, malls or e-commerce providers responsible for the collection of cash on behalf of Pandora related to retail sales.

While realised losses are immaterial and remain low, Pandora has applied an increased risk factor in light of COVID-19. The impairment on receivables has slightly decreased for the year. Realised losses remain within the expected range.

Pandora applies the simplified approach to measure expected credit losses, using a lifetime expected loss allowance. In view of the low historical loss rates on receivables, adjusting these rates to reflect current and forward-looking information on macroeconomic factors such as GDP and the unemployment rate that affect the ability of customers to settle receivables will not increase the risk of losses significantly. The low risk is further supported by the compilation of receivables as these consist of a large population of immaterial amounts.

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

§ ACCOUNTING POLICIES

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

NOTE 3.7
PROVISIONS

DKK million	2020	2019
Provisions at 1 January	332	307
Additions in the year	142	180
Utilised in the year	-26	-102
Unused provisions reversed	-33	-64
Exchange rate adjustments	-16	10
Provisions at 31 December	**399**	**332**
Provisions are recognised in the consolidated balance sheet as follows:		
Current	29	53
Non-current	370	278
Provisions at 31 December	**399**	**332**

Provisions

Provisions include provisions for defined benefit pension plans, obligations to restore leased property as well as other legal and constructive obligations. See note 5.1 for estimates relating to litigation.

§ ACCOUNTING POLICIES

Provisions are recognised when Pandora has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the income statement net of any reimbursement.

NOTE 3.8
CONTRACT ASSETS AND LIABILITIES

DKK million	2020	2019
Contract assets		
Receivables from sale of products, see note 3.6	870	1,643
Right-of-return assets	62	73
Total contract assets	**932**	**1,716**
Contract liabilities		
Prepayments from customers	10	7
Coupons, gift cards etc.	72	64
Refund liabilities	654	753
Total contract liabilities	**736**	**824**

! SIGNIFICANT ACCOUNTING ESTIMATES

In most countries, Pandora has provided return and warranty rights to customers. The handling of warranty claims leads to replacements instead of repairs. The recognised refund liability relating to return and warranty rights is assessed to a large extent on the basis of historical return patterns.

DKK million	Refund	Warranty	Total
2020			
Liability at 1 January	428	325	753
Performance obligations to which consideration has been received	936	281	1,217
Revenue recognised, included in the contract liability at 1 January	-845	-238	-1,084
Transfer between contract assets and liabilities	-109	-85	-194
Exchange rate adjustments	-27	-10	-38
Refund and warranty liability at 31 December	**382**	**273**	**654**
2019			
Liability at 1 January	553	316	869
Performance obligations to which consideration has been received	1,214	399	1,613
Revenue recognised, included in the contract liability at 1 January	-1,228	-369	-1,596
Transfer between contract assets and liabilities	-126	-25	-152
Exchange rate adjustments	15	3	18
Refund and warranty liability at 31 December	**428**	**325**	**753**

§ ACCOUNTING POLICIES

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

The refund liability for estimated sales returns is recognised when there is historical experience or when a reasonably accurate estimate of expected future returns can otherwise be made. The income effect recognised is the gross margin of the expected returns and the potential effect of writing down parts of the returned goods to remelt value. Changes to the right-of-return asset and refund liability are recognised gross in the income statement, i.e. as both revenue and cost of sales.

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

No costs to obtain contracts with customers have been capitalised as part of contracts with customers either in 2020 or previous years. This is common practice in Pandora.

NET INTEREST-BEARING DEBT

DKK million	2020	2019
Loans and borrowings, non-current	-	5,157
Lease liabilities, non-current	2,066	2,804
Loans and borrowings, current	3,003	1,057
Lease liabilities, current	993	1,012
Other liabilities, current	-	41
Cash	-2,912	-1,054
Net interest-bearing debt	**3,151**	**9,019**

CAPITAL STRUCTURE AND NET FINANCIALS

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

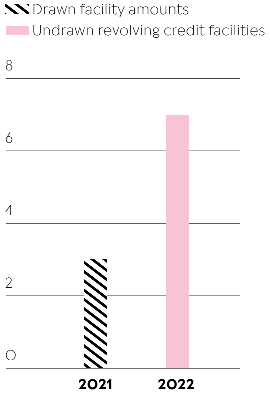
Pandora's capital structure policy is to maintain a leverage ratio (NIBD to EBITDA ratio) between 0.5 and 1.5 (excluding restructuring costs and including committed leases in accordance with IFRS 16). At 31 December 2020, the ratio excl. restructuring costs was 0.5x compared with 1.1x at 31 December 2019. The cash conversion was 183% in 2020 including committed leases payments compared with 133% in 2019.

NIBD to EBITDA ratio between:

0.5 – 1.5

Pandora's capital structure policy

MATURITY OF LOAN FACILITIES (DKKbn)



The undrawn committed facilities of DKK 7 billion underpins Pandora's strong liquidity position

NOTE 4.1

SHARE CAPITAL

SHARE CAPITAL	Number of shares	Nominal value (DKK)
2020		
Balance at 1 January	100,000,000	100,000,000
Balance at 31 December	**100,000,000**	**100,000,000**
2019		
Balance at 1 January	110,029,003	110,029,003
Reduction of share capital	-10,029,003	-10,029,003
Balance at 31 December	**100,000,000**	**100,000,000**

TREASURY SHARES	Number of shares	Nominal value (DKK)	Purchase price	% of shares
2020				
Balance at 1 January	7,070,524	7,070,524	1,964,356,664	7.1%
Used to settle performance shares	-51,140	-51,140	-14,363,322	-0.1%
Purchase of treasury shares	1,303,455	1,303,455	430,511,739	1.3%
Sale of treasury shares	-8,000,000	-8,000,000	-2,287,762,725	-8.0%
Balance at 31 December	**322,839**	**322,839**	**92,742,356**	**0.3%**
2019				
Balance at 1 January	7,825,553	7,825,553	3,469,404,257	7.1%
Used to settle performance shares	-31,314	-31,314	-12,823,609	0.0%
Reduction of share capital	-10,029,003	-10,029,003	-4,075,498,431	-9.1%
Purchase of treasury shares	9,305,288	9,305,288	2,583,274,447	9.3%
Balance at 31 December	**7,070,524**	**7,070,524**	**1,964,356,664**	**7.1%**

At 31 December 2020, the share capital comprised 100,000,000 shares with a par value of DKK 1. No shares have special rights.

In 2020, Pandora launched a share buyback programme under which Pandora expected to buy back own shares to a value of DKK 2.1 billion. The 2020 programme was suspended on 16 March due to the unprecedented COVID-19 circumstances. In 2020 Pandora bought 1,303,455 treasury shares, corresponding to a total purchase price of DKK 431 million. Of these 1,215,595 treasury shares corresponding to a total purchase price of DKK 412 million related to the 2019 share buyback programme, and 87,860 treasury shares corresponding to a total purchase price of DKK 19 million related to the 2020 share buyback programme.

On 5 May 2020, Pandora sold 8,000,000 treasury shares through an accelerated book-building sale, generating approximately DKK 1.8 billion in net proceeds.

Treasury shares

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

NOTE 4.2

EARNINGS PER SHARE AND DIVIDEND

DKK million	2020	2019
Profit attributable to equity holders	**1,938**	**2,945**
Weighted average number of ordinary shares	97,048,768	97,250,084
Effect of performance shares	374,286	690,799
Weighted average number of ordinary shares adjusted for the effect of dilution	**97,423,054**	**97,940,883**
Basic earnings per share, DKK	20.0	30.3
Diluted earnings per share, DKK	19.9	30.1

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

Dividend

Due to the uncertainty from COVID-19 Pandora does not propose any dividend relating to the 2020 results. Declared dividend of DKK 9 per share, corresponding to DKK 825 million in 2019, was paid to the shareholders in 2020. No dividend was paid on treasury shares.

Furthermore, in 2019 DKK 860 million was paid as part of the commitment to pay bi-annual dividend in 2019 relating to the 2019 results.

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

For additional shareholder information about dividend, read more on page 39

Distributable reserves

Distributable reserves are based on the reserves of the parent company. When calculating the amount available for distribution of dividend, treasury shares are deducted from distributable reserves.

§ ACCOUNTING POLICIES

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

NOTE 4.3

NET INTEREST-BEARING DEBT

TOTAL LIABILITIES FROM FINANCING ACTIVITIES DKK million	Financial liabilities 1 January	Cash flows, net	New leases	Other[1]	Foreign exchange adjustments	Financial liabilities 31 December
2020						
Non-current borrowings	5,157	-2,182	-	-2,976	-	-
Non-current lease liabilities	2,804	-	588	-1,225	-101	2,066
Current borrowings	1,057	-1,028	-	2,976	-1	3,003
Current lease liabilities	1,012	-839	261	608	-49	993
Total liabilities from financing activities	**10,031**	**-4,050**	**849**	**-617**	**-150**	**6,063**
2019						
Non-current borrowings	6,421	-1,263	-	-	-	5,157
Non-current lease liabilities	3,322	-	373	-958	66	2,804
Current borrowings	248	801	-	-	8	1,057
Current lease liabilities	1,082	-1,138	129	909	30	1,012
Total liabilities from financing activities	**11,073**	**-1,600**	**502**	**-49**	**105**	**10,031**

[1] includes the effect of the reclassification of the non-current portion of interest-bearing loans and borrowings, including lease liabilities, to current due to the passage of time, the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities, the upfront prepayment of lease liabilities and the effect of the lease modification & reassessment. The Group classifies interest paid as cash flows from operating activities.

§ ACCOUNTING POLICIES

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

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

Financial liabilities relating to the acquisition of non-controlling interests are measured at fair value as if the put options have already been exercised. The value is determined using the estimated present value of the expected cash outflows required to settle the put options. The value is based on projected revenue and assuming that the put options will be exercised by the non-controlling interests at year end in the current financial year. Changes in the value of these liabilities as well as differences on settlement between actual cash outflows and expected cash outflows are accounted for as transactions directly in equity. All financial liabilities relating to the acquisition of non-controlling interests had been settled at the end of 2020.

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

NOTE 4.4

FINANCIAL RISKS

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

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

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

The table below illustrates the sensitivity on 2020 revenue, EBIT and EBIT margin from exchange rates and commodity price movements. In addition, the sensitivity of assets and liabilities as of 31 December from currency movements is illustrated on the next page.

		2020			2019		
SENSITIVITY ANALYSIS ON EXCHANGE RATES AND COMMODITY PRICES[1] DKK million	Change in exchange rate and commodity prices	Revenue	EBIT	EBIT margin impact	Revenue	EBIT	EBIT margin impact
USD	+10%	480	138	0.3%	577	112	0.0%
CAD	+10%	57	36	0.1%	67	42	0.1%
AUD	+10%	123	83	0.3%	112	68	0.2%
GBP	+10%	299	209	0.9%	286	186	0.6%
EUR	+1%	53	30	0.1%	65	28	0.1%
CNY	+10%	125	30	0.1%	197	78	0.2%
THB	+10%	-	-227	-1.2%	-	-265	-1.2%
GOLD and SILVER	+10%	-	-124	-0.7%	-	-150	-0.7%

[1] Revenue and EBIT would have been impacted by the above amounts if exchange rates and commodity prices in 2020 had been higher than the realised exchange rates and commodity prices. The impact would have been the opposite if exchange rates and commodity prices had been decreasing with similar percentages. The analysis is based on the transaction currency. The analysis excludes the effects of hedging and time lag of inventory.

Commodity price risk

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

It is the policy of Pandora to ensure stable, predictable raw material prices. Based on a rolling 12-month production plan, the general policy is for Group Treasury to hedge at least 70% of the Group's expected purchases.

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

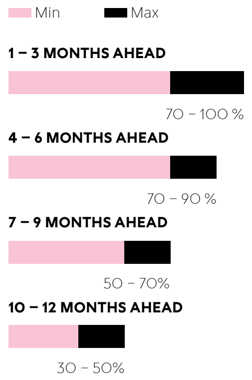
Commodity hedging is updated at the end of each month or in connection with revised 12-months rolling production plans. Actual production may deviate from the 12-months rolling production plan. In case of deviations, the realised commodity hedge ratio may deviate from the estimated hedge ratio. The profit (loss) from commodity hedging goes to cost of sales as the hedges matures. For the fair value of hedging instruments, see note 4.5.

Foreign currency risk

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

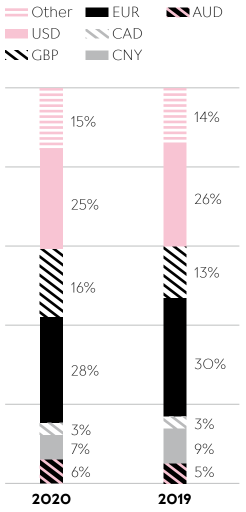
The majority of Pandora's revenue is denominated in USD, CAD, AUD, GBP, CNY and EUR. The functional currency of subsidiaries is generally the local currency, and a substantial portion of Pandora's costs relates to raw materials purchased in USD.

COMMODITY HEDGE RATIO TARGET (%)



NOTE 4.4
FINANCIAL RISKS (CONTINUED)

REVENUE BREAKDOWN BY CURRENCY (%)



In addition, Pandora incurs costs denominated in THB. Changes in the exchange rate of these currencies versus DKK will result in changes to the translated value of future EBIT and cash flows.

Pandora finances the majority of its subsidiaries' cash requirements via intercompany loans denominated in the local currency of the individual subsidiary. A devaluation of these currencies against DKK will result in a foreign exchange loss in the Parent Company.

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

It is Pandora's policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. Pandora does not hedge balance sheet items or ownership interests in foreign subsidiaries. For 2021, 70% of the cash flows from the main currencies have been hedged based on a rolling 12-months liquidity forecast. Cash flows are hedged from 1 to 12 months forward with a hedge ratio that decreases with time to maturity. Foreign currency hedging is updated at the end of each month or in connection with revised 12-months rolling cash forecasts. The realised profit (loss) from exchange rate hedging goes to financial items.

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

CURRENCY EXPOSURE FROM ASSETS AND LIABILITIES DKK million	Change in exchange rate	31 December 2020 Profit (loss) before tax	31 December 2020 Equity	31 December 2019 Profit (loss) before tax	31 December 2019 Equity
USD	+10%	-118	36	-149	-203
CAD	+10%	14	-4	-4	-42
AUD	+10%	2	-35	16	-34
GBP	+10%	43	-54	54	-98
EUR	+1%	2	31	-18	-15
THB	+10%	-52	121	28	330
CNY	+10%	60	36	50	-13

The movements in the income statement arise from monetary items (cash, borrowings, receivables and payables) where the functional currency of the entity differs from the currency that the monetary items are denominated in. The movements in equity arise from monetary items and hedging instruments where the functional currency of the entity differs from the currency that the hedging instruments or monetary items are denominated in. The impact would have been the opposite if exchange rates had been decreasing by similar percentages. The analysis is based on the transaction currency.

Credit risk

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

It is Pandora's policy for subsidiaries to be responsible for credit evaluation and credit risk on their trade receivables. In case of deviation from standard agreements, Group Treasury and/or the CFO must approve any significant deviations from standard terms.

Note 3.6 includes an overview of the credit risk related to trade receivables. Rating of trade receivables does not differ materially either by type of customer or geographic location. The risk of further impairment is considered to be limited.

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

Liquidity risk

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

NOTE 4.4

FINANCIAL RISKS (CONTINUED)

Pandora has revolving credit facilities of DKK 6,998 million committed until May 2022[1]. Also, Pandora has a committed term loan of DKK 2,976 million maturing end-2021. Furthermore, Pandora has uncommitted credit facilities to ensure efficient and flexible local liquidity management. The credit facilities are managed by Group Treasury.

Pandora's loan and credit agreements contain one financial covenant that was amended during the refinancing exercise in April 2020 to cater for potential COVID-19 impacts. The covenant was amended to 4.25x NIBD/EBITDA leaving material headroom before getting close to the covenant.

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in changed interest rate payments and market value of the loan portfolio. At the reporting date, all interest-bearing loans and borrowings were based on floating interest rates.

All else being equal, it is estimated that a general increase in interest rates by one percentage point would have no impact on profit before tax and equity, excluding tax effect (2019: DKK 75 million decrease).

[1] Provided that Pandora extend or refinance the term loan.

Contractual maturities of financial liabilities

The table to the right breaks the Group's financial liabilities down into relevant maturity groupings based on contractual maturities for:

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

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

The obligation of DKK 42 million to acquire non-controlling interests in Japan was settled in 2020.

The following table includes the earn-out payment relating to Pandora Jewelry Central Western Europe A/S recognised at DKK 0 (2019: DKK 0).

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

LIABILITIES FALL DUE AS FOLLOWS DKK million	Falling due within 1 year	Falling due between 1 and 5 years	Falling due after more than 5 years	Total
2020				
Non-derivatives				
Loans and borrowings	3,033	-	-	3,033
Lease liabilities	1,079	1,863	356	3,298
Trade payables	3,211	-	-	3,211
Other payables	1,317	-	-	1,317
Contract liabilities	82	-	-	82
Derivatives				
Derivative financial instruments	119	-	-	119
Total at 31 December	**8,841**	**1,863**	**356**	**11,060**
2019				
Non-derivatives				
Loans and borrowings	1,057	5,157	-	6,215
Lease liabilities	1,094	2,336	650	4,080
Trade payables	3,095	-	-	3,095
Other payables	1,210	-	-	1,210
Contract liabilities	71	-	-	71
Derivatives				
Derivative financial instruments	115	-	-	115
Fair value of obligation to acquire non-controlling interests (put-options)	41	1	-	41
Total at 31 December	**6,685**	**7,494**	**650**	**14,828**

NOTE 4.5

DERIVATIVE FINANCIAL INSTRUMENTS

Pandora uses a number of derivative financial instruments to hedge its exposure to fluctuations in commodity prices and exchange rates.

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

DKK million	Assets	Liabilities	Carrying amount	Hedge reserve, net of tax
2020				
Commodities	231	-10	220	206
Foreign exchange	120	-108	12	9
Total derivative financial instruments	**351**	**-119**	**232**	**215**
2019				
Commodities	55	-23	32	23
Foreign exchange	132	-92	40	31
Total derivative financial instruments	**187**	**-115**	**72**	**54**

Classification according to the fair value hierarchy

The fair value at 31 December 2020 and 2019 of Pandora's derivative financial instruments was measured in accordance with level 2 in the fair value hierarchy (IFRS 13). Level 2 is based on non-quoted prices, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). Pandora uses input from third-party valuation specialists to quote prices for unrealised derivative financial instruments. The value of unrealised silver and gold instruments is tested against the prices observable at London Bullion Market Association (LBMA). The value of unrealised foreign exchange instruments is tested against observable foreign exchange forward rates.

The value of financial instruments recognised in other comprehensive income is recycled from equity at the time the instrument is settled, i.e. within 12 months.

Derivative financial instruments that qualify for cash flow hedge accounting

The hedges are expected to be highly effective due to the nature of the economic relation between the exposure and the hedge.

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

The effective portion of the realised gain or loss on a commodity hedging transaction is recognised in Group inventories and subsequently to cost of sales whereas the ineffective portion is realised in net financials.

The realised gain or loss on all forward exchange contracts is recognised in net financials.

The ineffectiveness impact in net financials is a gain of DKK 31 million (2019: gain of DKK 16 million).

For information about risk management strategy, see note 4.4 Financial risks.

§ ACCOUNTING POLICIES

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

Pandora has designated certain derivative financial instruments as cash flow hedges as defined under IFRS 9. Hedge accounting is classified as a cash flow hedge when the hedges of a particular risk is associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

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

NOTE 4.6

NET FINANCIALS

FINANCE INCOME DKK million	2020	2019
Finance income from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	149	121
Total finance income from derivative financial instruments	**149**	**121**
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	160	214
Interest income, bank	6	7
Interest income, loans and receivables	1	9
Total finance income from loans and receivables	**167**	**230**
Total finance income	**316**	**351**

FINANCE COSTS DKK million	2020	2019
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	68	63
Total finance costs from derivative financial instruments	**68**	**63**
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	186	102
Interest on loans and borrowings	61	25
Interest on lease liabilities	97	106
Other finance costs	95	55
Total finance costs from loans and borrowings	**439**	**288**
Total finance costs	**507**	**351**

NOTE 4.6

NET FINANCIALS (CONTINUED)

§ ACCOUNTING POLICIES

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

For all financial instruments measured at amortised cost, interest income or expense is recognised using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

NOTE 4.7

OTHER NON-CASH ADJUSTMENTS

OTHER NON-CASH ADJUSTMENTS DKK million	2020	2019
Effects from exchange rate adjustments	52	48
Effects from derivative financial instruments	-91	-61
Effects from IFRS16 rent relief	-112	-
Other, including gains/losses from the sale of property, plant and equipment	-4	-7
Total other non-cash adjustments	**-155**	**-20**

OTHER DISCLOSURES

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

NOTE 5.1
CONTINGENT LIABILITIES

Litigation
Pandora is a party to various legal proceedings with current business partners, authorities and other third parties, related to copyrights, marketing conduct and pricing. None of these proceedings is expected to have a material effect on Pandora's financial position or future earnings.

Contractual obligations
Pandora has entered into a number of long-term purchase, sales and supply contracts in the course of the Group's ordinary business. Contractual obligations amounted to DKK 462 million (2019: DKK 436 million).

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

! SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 5.2
RELATED PARTIES

Related parties with significant interests
At 31 December 2020, treasury shares accounted for 0.3% of the share capital (2019: 7.1%), see note 4.1.

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

Transactions with related parties
As part of the share buyback carried out in 2020, Pandora purchased own shares from major shareholders. The shares were purchased at the volume-weighted average purchase price for the shares purchased under the share buyback programme in the market on the relevant day of trading.

Pandora did not enter into any significant transactions with members of the Board or the Executive Management, except for compensation and benefits received as a result of their membership of the Board, employment with Pandora or shareholdings in Pandora. See notes 2.4 and 2.5.

NOTE 5.3
FEES TO INDEPENDENT AUDITOR

DKK million	2020	2019
Fee for statutory audit	11	11
Other assurance engagements	1	1
Total audit related services	**12**	**12**
Tax consultancy	-	-
Other services	1	0
Total non-audit services	**1**	**0**
Total fees to independent auditor	**13**	**12**

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

Pandora has implemented a policy regarding non-audit services provided by the auditor appointed at the Annual General Meeting. The policy states which services are allowed or prohibited.

Other non-audit services include fees for advisory services including Programme NOW. All non-audit services have been approved according to the policy for non-audit services.

NOTE 5.4
EVENTS OCCURRING AFTER THE REPORTING PERIOD

No subsequent events have occurred after the balance sheet date that required adjustment to or disclosure in the consolidated financial statements.

NOTE 5.5

COMPANIES IN THE PANDORA GROUP

The table below shows information about the Group entities at 31 December 2020

Company	Ownership	Registered office	Date of consolidation
OWNED BY PANDORA A/S			
Pandora Jewelry Argentina SRL	100%	Argentina	27 September 2017
Pandora Jewellery Belgium NV	100%	Belgium	13 April 2017
Pandora do Brasil Participações Ltda.	100%	Brazil	24 October 2013
Pandora Jewelry Ltd.	100%	Canada	7 March 2008
Pandora Jewelry Chile SpA	100%	Chile	7 May 2017
Pandora Jewelry Colombia S.A.S	100%	Colombia	17 January 2019
Pandora Int. ApS	100%	Denmark	1 October 2009
Pandora Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
Pan Me A/S	100%	Denmark	16 January 2015
Pandora Taiwan A/S	100%	Denmark	18 May 2018
Pandora Jewellery DMCC	100%	Dubai	8 October 2014
Pandora Jewellery UK Limited	100%	England	1 December 2008
Pandora Jewelry Finland Oy	100%	Finland	1 January 2012
Pandora France SAS	100%	France	25 February 2011
Pandora EMEA Distribution Center GmbH	100%	Germany	5 December 2011
Pandora Jewelry Asia-Pacific Limited	100%	Hong Kong	1 November 2009
Pandora Jewelry Limited	100%	Ireland	10 January 2018
Pandora Jewelry Mexico Import, S.A. de C.V.	100%	Mexico	4 April 2018
Pandora Jewelry Mexico, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Mexico Servicios, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Panama S.A.	100%	Panama	5 July 2016
Pandora Jewelry Peru S.A.C	100%	Peru	10July 2018
Pandora Jewelry Shared Services Sp. z.o.o.	100%	Poland	7 February 2012
Pandora Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
Pandora Jewelry Slovakia s.r.o.	100%	Slovakia	6 September 2016
Pandora Jewellery South Africa Pty Ltd.	100%	South Africa	31 January 2017
Pandora Jewellery Spain S.L	100%	Spain	28 September 2017
Pandora Sweden AB	100%	Sweden	4 November 2013
Pandora Production Co. Ltd.	100%	Thailand	7 March 2008
Pandora Services Co. Ltd.	100%	Thailand	15 October 2010
Pandora Jewelry Mücevherat Anonim Şirketi	100%	Turkey	4 November 2013
Pandora Jewelry Inc.	100%	USA	1 July 2008

Company	Ownership	Registered office	Date of consolidation
OWNED BY OTHER COMPANIES IN THE PANDORA GROUP			
Pandora Österreich GmbH	100%	Austria	23 May 2012
Pandora do Brasil Comércio e Importação Ltda.	100%	Brazil	24 October 2013
Pandora Franchise Canada Ltd.	100%	Canada	19 January 2011
Pandora Retail Canada Ltd.	100%	Canada	4 February 2014
Pandora Jewelry CR s.r.o.	100%	Czech Republic	2 December 2009
Panmeas Jewellery LLC	100%	Dubai	16 January 2015
Pandora Jewelry GmbH	100%	Germany	5 January 2010
Pandora Jewelry Hungary Ltd.	100%	Hungary	2 June 2010
Pandora Italia SRL	100%	Italy	23 May 2012
Pandora Jewelry B.V.	100%	Netherlands	20 September 2010
Pandora Norge AS	100%	Norway	17 August 2010
Pandora Jewelry Romania SRL	100%	Romania	18 August 2011
Pandora Schweiz AG	100%	Switzerland	6 December 2011
Pandora ECOMM LLC	100%	USA	21 August 2014
Pandora Jewelry LLC	100%	USA	7 March 2008
Pandora Franchising LLC	100%	USA	1 November 2009
Pandora Ventures LLC	100%	USA	10 May 2012
AD Astra Holdings Pty Ltd.	100%	Australia	1 July 2009
Pandora Retail Pty Ltd.	100%	Australia	1 July 2009
Pandora Jewelry Pty Ltd.	100%	Australia	1 July 2009
Pandora Jewelry (Shanghai) Company Ltd.	100%	China	4 February 2015
Pandora Jewelry Design (Beijing) Company Ltd.	100%	China	1 March 2016
Pandora Jewelry Hong Kong Company Ltd.	100%	Hong Kong	4 February 2015
Pandora Jewelry Japan Ltd.	100%	Japan	29 October 2014
Pandora Jewelry Macau Company Ltd.	100%	Macau	1 January 2016
Pandora Jewelry Singapore Pte. Ltd..	100%	Singapore	1 January 2016

Pandora Group has five dormant companies, which have been omitted from the table.
Pandora A/S has no dormant companies.

NOTE 5.6

FINANCIAL DEFINITIONS

Key figures and financial ratios stated in the consolidated financial statements have been calculated in accordance with the Danish Finance Society's guidelines.

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

Forward-looking statements

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

Pandora presents the following alternative performance measures not defined according to IFRS (non-GAAP measures) in the Annual Report:

Retail like-for-like sales-out growth, %	Sell-out revenue from Pandora owned concept stores and eSTOREs that have been owned and operated for more than 12 months relative to the same period last year
Total like-for-like sales-out growth, %	Sell-out revenue from concept stores and eSTOREs across all channels that have been operated for more than 12 months relative to the same period last year
Sell-out growth, %	Like-for-like not adjusted for temporarily closed stores
Organic growth, %	Growth in revenue in local currency relative to the same period last year adjusted for the acquisition/divestment of distributors and franchisee stores (the effect of converting wholesale to retail revenue and vice versa)
Restructuring costs	Costs related to Programme NOW includes inventory buyback, optimisation of product portfolio and product quality, brand restructurung, external consultants, IT transformation, etc.
EBIT excluding restructuring costs	Earnings before interest and tax (operating profit) excluding restructuring costs
EBIT margin excluding restructuring costs, %	EBIT excluding restructuring costs / revenue
EBIT margin, %	EBIT / revenue
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA margin, %	EBITDA / revenue
Capital expenditure (CAPEX)	Purchase of intangible assets and property, plant and equipment for the year, excluding acquisitions of subsidiaries
Days sales outstanding (DSO)	Last three months of wholesale and third-party distribution revenue relative to trade receivables not adjusted for VAT receivables
Return on invested capital (ROIC), %	EBIT / invested capital including goodwill
NIBD	Loans, borrowings, capitalised leases and other liabilities relating to obligations to acquire non-controlling interests (current and non-current) less cash
NIBD to EBITDA excl. restructuring cost	NIBD / EBITDA excl. restructuring cost (rolling 12 months)
Cash conversion incl. lease payments, %	Free cash flow before acquisitions / EBIT

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

STATEMENT BY THE EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS

The Board of Directors and the Executive Management have today discussed and approved the Annual Report of Pandora A/S for 2020.

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

It is our opinion that the consolidated financial statements and the Parent Company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2020.

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

In our opinion, the annual report of Pandora A/S for the financial year 1 January to 31 December 2020 with the file name PAND-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

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

Copenhagen,
4 February 2021

Executive Management

Alexander Lacik
Chief Executive Officer

Anders Boyer
Chief Financial Officer

Board of Directors

Peter A. Ruzicka
Chair

Christian Frigast
Deputy Chair

Andrea Alvey

Birgitta Stymne Göransson

Isabelle Parize

Marianne Kirkegaard

Ronica Wang

Catherine Spindler

INDEPENDENT AUDITORS' REPORT

To the shareholders of Pandora A/S

Our opinion

We have audited the consolidated financial statements and the parent company financial statements of Pandora A/S for the financial year 1 January – 31 December 2020, which comprise statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

Appointment of auditor

Subsequent to Pandora A/S being listed on Nasdaq OMX Copenhagen, EY was appointed auditors of Pandora A/S on 8 April 2011. We were re-appointed annually at the general meeting for a total period of ten years up to and including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2020. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

	Revenue and sales return	Taxation	Inventory
DESCRIPTION OF MATTER	Revenue is recognised when control of the goods has been transferred to the buyer and it is measured at fair value of the expected consideration to be received, less rebates, discounts, sales taxes, duties and expected sales returns. Revenue recognition and measurement of the related expected sales returns was a matter of most significance in our audit due to the inherent risk in the estimates and judgements which Management makes in the normal course of business as to timing of revenue and measurement of expected sales returns. Details on revenue recognition and expected sales returns are provided in sections 2.1 and 3.8 of the consolidated financial statements and in section 2.1 and 3.5 of the parent company financial statements, to which we refer.	The Group has extensive international operations and in the normal course of business, Management makes judgements and estimates in determining the recognition of income taxes, deferred taxes and provisions for uncertain tax positions. In Thailand, the Group is subject to Board of Investment (BOI) agreements, where many, but not all, types of net income are tax-exempt, and therefore, changes in profit allocation could significantly impact the Group's consolidated tax expense. On this basis, taxation was a matter of most significance in our audit. Additional details on income taxes are provided in section 2.6 of the consolidated financial statements, to which we refer.	The Group carries inventory in the balance sheet at the lower of cost and net realisable value. Significant management judgements are required with regards to valuation of inventories due to the uncertainty associated with the estimate of slow-moving items and expected value of the reusable raw materials, as well as calculations of elimination of internal gain. Given the level of significant management judgements and estimates, inventory valuation was a matter of most significance in our audit. Additional details on the valuation of inventories are provided in section 3.5 of the consolidated financial statements and in section 3.4 of the parent company financial statements, to which we refer.
CONSIDERATION OF THE MATTER IN THE AUDIT	Our procedures in relation to revenue recognition and measurement of expected sales returns included considering the Group's accounting policies for revenue recognition, including those related to expected sales returns, and assessing compliance of policies with applicable accounting standards. We identified and assessed internal controls related to the timing of revenue recognition and measurement of expected sales returns. We tested the effectiveness of the Group's internal controls in relation to calculation of expected sales returns and timing of revenue recognition. On a sample basis, we tested sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether those transactions were recognised in the correct period. We assessed the key assumptions applied by Management regarding expected sales returns based on our knowledge of the business and by reviewing the supporting documentation prepared by Management. Furthermore, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.	Our procedures in relation to recognition of income taxes, deferred taxes and provisions for uncertain tax positions included assessing the Group's processes for recording and continual re-assessment of provisions for uncertain tax positions. Our procedures also covered evaluating the assumptions applied by Management in determining the recognition and measurement of income taxes and deferred taxes while taking into account relevant correspondence with relevant tax authorities. Our own tax specialists performed an assessment of the Group's recognition of income taxes and deferred taxes, including correspondence with relevant tax authorities to consider the completeness of the tax provisions. In addition, we assessed the assumptions used, taking into consideration our own tax specialists' knowledge and experience. Further, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.	Our procedures in relation to inventory valuation included assessing the Group's processes related to inventory valuation including on a sample basis testing of direct costs related to raw materials, labour costs and attributable overhead costs incurred in the manufacturing process, recording of write-downs and understanding of the process for internal gain elimination. We challenged the basis for write-downs and performed analytical procedures to assess slow-moving items. We assessed the key assumptions applied by Management regarding items life-cycle status and expected value of the reusable raw materials based on our knowledge of the business, including initiatives under Programme NOW and on a sample basis tested the supporting documentation. Further, on a sample basis we tested the calculation of elimination of internal gain at group level. Furthermore, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the Consolidated Financial Statements and Parent Company Financial Statements of Pandora A/S we performed procedures to express an opinion on whether the annual report of Pandora A/S for the financial year 1 January to 31 December 2020 with the file name PAND-2020-12-31.zip is prepared, in all material respects, in compliance with the

Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report of Pandora A/S for the financial year 1 January to 31 December 2020 with the file name PAND-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 4 February 2021
EY
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen
State Authorised
Public Accountant
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PARENT COMPANY

2020

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

INCOME STATEMENT **DKK million**	Notes	2020	2019
Revenue	2.1	9,626	9,533
Cost of sales		-4,932	-5,994
Gross profit		**4,693**	**3,539**
Sales, distribution and marketing expenses	2.2, 2.3, 3.1	-1,160	-934
Administrative expenses	2.2, 2.3, 3.1	-2,138	-2,261
Operating profit		**1,396**	**343**
Dividends from subsidiaries	3.3	652	1,321
Impairment of investments in subsidiaries	3.3	-	-107
Finance income	4.5	379	678
Finance costs	4.5	-511	-234
Profit before tax		**1,915**	**2,001**
Income tax expense	2.5	-291	-212
Net profit for the year		**1,624**	**1,789**

STATEMENT OF COMPREHENSIVE INCOME **DKK million**	Notes	2020	2019
Net profit for the year		**1,624**	**1,789**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Commodity hedging instruments:			
- Realised in net cost of sales		11	6
- Realised in net financials		-1	-1
- Fair value adjustments		-2	-13
Foreign exchange hedging instruments:			
- Realised in net financials		-49	-41
- Fair value adjustments		21	24
Tax on other comprehensive income, hedging instruments, income/expense	2.5	5	5
Other comprehensive income, net of tax		**-16**	**-20**
Total comprehensive income for the year		**1,608**	**1,769**

BALANCE SHEET

AT 31 DECEMBER

ASSETS DKK million	Notes	2020	2019
Intangible assets	3.1	2,963	3,091
Property, plant and equipment		51	50
Right-of-use assets	3.2	128	136
Investments in subsidiaries	3.3	6,350	6,304
Loans to subsidiaries	5.2	1,010	1,783
Other financial assets		12	9
Total non-current assets		**10,514**	**11,373**
Inventories	3.4	420	714
Trade receivables		4	12
Receivables from subsidiaries	5.2	3,700	3,227
Right-of-return assets	3.5	204	235
Derivative financial instruments	4.3, 4.4	351	187
Income tax receivable		90	319
Other receivables		308	422
Cash		2,211	347
Total current assets		**7,288**	**5,463**
Total assets		**17,802**	**16,835**

EQUITY AND LIABILITIES DKK million	Notes	2020	2019
Share capital	4.1	100	100
Treasury shares		-93	-1,964
Reserves		207	291
Dividend proposed		-	836
Retained earnings		6,830	5,568
Total equity		**7,044**	**4,832**
Provisions		34	-
Loans and borrowings	4.2, 4.4	105	5,277
Deferred tax liabilities	2.5	318	154
Total non-current liabilities		**457**	**5,430**
Provisions		4	4
Refund liabilities	3.5	1,438	1,615
Loans and borrowings	4.2, 4.4	3,003	954
Derivative financial instruments	4.3, 4.4	119	115
Payables to subsidiaries	4.4, 5.2	4,361	2,632
Trade payables	4.4	1,135	1,115
Other payables	4.4	242	138
Total current liabilities		**10,301**	**6,573**
Total liabilities		**10,758**	**12,004**
Total equity and liabilities		**17,802**	**16,835**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	Share capital	Treasury shares	Hedging reserve	Other reserves[1]	Dividend proposed	Retained earnings	Total equity
2020								
Equity at 1 January		100	-1,964	25	266	836	5,568	4,832
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**1,624**	**1,624**
Other comprehensive income, net of tax		**-**	**-**	**-16**	**-**	**-**	**-**	**-16**
Total comprehensive income for the year		**-**	**-**	**-16**	**-**	**-**	**1,624**	**1.608**
Transfers		-	-	-	-68	-	68	-
Share-based payments	2.4	-	14	-	-	-	68	82
Purchase of treasury shares	4.1	-	-431	-	-	-	-	-431
Sale of treasury shares[2]	4.1	-	2,288	-	-	-	-509	1,779
Dividend paid		-	-	-	-	-836	11	-825
Dividend proposed		-	-	-	-	-	-	-
Equity at 31 December		**100**	**-93**	**9**	**198**	**-**	**6,830**	**7,044**
2019								
Equity at 1 January		110	-3,469	45	486	920	9,306	7,398
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**1,789**	**1,789**
Other comprehensive income, net of tax		**-**	**-**	**-20**	**-**	**-**	**-**	**-20**
Total comprehensive income for the year		**-**	**-**	**-20**	**-**	**-**	**1,789**	**1,769**
Transfers		-	-	-	-220	-	220	-
Share-based payments	2.4	-	13	-	-	-	-9	4
Purchase of treasury shares	4.1	-	-2,583	-	-	-	-	-2,583
Reduction of share capital	4.1	-10	4,075	-	-	-	-4,065	-
Dividend paid		-	-	-	-	-1,794	38	-1,756
Dividend proposed		-	-	-	-	1,710	-1,710	-
Equity at 31 December		**100**	**-1,964**	**25**	**266**	**836**	**5,568**	**4,832**

[1] Other reserves include non-distributable reserves under Danish legislation relating to the capitalisation of projects developed in-house.
[2] On 5 May, Pandora initiated an accelerated book-building for the sale of 8 million treasury shares, which was carried out on the same day, generating approximately DKK 1.8 billion in net proceeds.

Dividend paid in 2020 relating to the 2019 results was DKK 9 per share, corresponding to DKK 825 million (2019: DKK 896 million). Furthermore, in 2019 DKK 860 million was paid as part of the commitment to pay bi-annual dividend in 2019 relating to the 2019 results. Due to the uncertainty from COVID-19 Pandora does not propose any dividend relating to the 2020 results.

For additional shareholder information about dividend, read more on page 39.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2020	2019
Operating profit		1,396	343
Depreciation and amortisation		277	415
Share-based payments	2.4	43	10
Change in inventories		295	460
Change in intercompany receivables/payables		-1,588	710
Change in receivables		118	-248
Change in payables and other liabilities		235	992
Other non-cash adjustments	4.6	-478	300
Interest etc. received		65	171
Interest etc. paid		-120	-48
Income tax paid		124	-728
Cash flows from operating activities, net		**365**	**2,377**
Acquisitions of subsidiaries and activities, net of cash acquired[1]	3.3	-24	-351
Purchase of intangible assets		-113	-64
Purchase of property, plant and equipment		-13	-24
Change in other financial non-current assets		-3	-
Dividends received[2]		-	44
Cash flows from investing activities, net		**-152**	**-394**

DKK million	Notes	2020	2019
Dividend paid		-825	-1,756
Purchase of treasury shares	4.1	-431	-2,583
Sale of treasury shares	4.1	1,778	-
Proceeds from loans and borrowings	4.2	5,921	5,614
Repayment of loans and borrowings	4.2	-4,769	-2,890
Repayment of lease commitments	4.2	-22	-20
Cash flows from financing activities, net		**1,651**	**-1,636**
Net increase/decrease in cash		**1,864**	**347**
Cash at 1 January[3]		347	-
Net increase/decrease in cash		1,864	347
Cash at 31 December[3]		**2,211**	**347**
Cash flows from operating activities, net		365	2,377
- Interest etc. received		-65	-171
- Interest etc. paid		120	48
Cash flows from investing activities, net		-152	-394
- Acquisition of subsidiaries and activities, net of cash acquired		24	351
Free cash flow		**292**	**2,210**
Unutilized committed credit facilities[4]		6,998	2,345

The above cannot be derived directly from the income statement and the balance sheet.
[1] Non-cash capital increases amounted to DKK 0 million (2019: DKK 1,339 million).
[2] Non-cash dividends received amounted to DKK 652 million (2019: DKK 1,277 million).
[3] Cash comprises cash at bank and in hand.
[4] See note 4.4 to the consolidated financial statements.

CONTENTS

Notes for the Parent Company

The notes are grouped into five sections related to key figures. The notes contain the relevant financial information as well as a description of accounting policies applied for the topics of the individual notes. For some notes, reference is made to notes in the consolidated financial statements.

NOTE 1.1

PRINCIPAL ACCOUNTING POLICIES

Under section 149 of the Danish Financial Statements Act, the consolidated financial statements of Pandora (also referred to as the 'Group') represent an extract of Pandora's complete annual report. This annual report of the parent company is an integrated part of the full annual report. This contains the statement from the Board of Directors and the Executive Directors as well as the independent auditor's report.

The financial statements for the parent company show the financial position, the result and the cash flow of Pandora A/S on a non-consolidated basis for the financial year 1 January – 31 December 2020.

Parent Company financial statements

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

Foreign currency translation

Foreign exchange adjustments of balances accounted for as part of the total net investment in entities that have a functional currency other than DKK are recognised in profit for the year as net financials in the Parent Company financial statements.

Derivative financial instruments

The effective portion of realised and unrealised gains and losses on all commodity hedging instruments is recognised as cost of goods sold, while the ineffective portion of realised and unrealised gains and losses is recognised in net financials. Derivative financial instruments are treated as economic hedging if the hedge accounting requirements in IFRS 9 are not met.

Dividends from subsidiaries

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

Investments in subsidiaries

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

NOTE 1.2

NEW ACCOUNTING POLICIES AND DISCLOSURES

New standards and interpretations

The description in note 1.2 to the consolidated financial statements regarding new standards issued effective for the Annual Report for 2020 fully covers the Parent Company as well except for the amendment to IFRS 16, which has not materially affected the results of the parent as leasing arrangements are limited to the Head Quarter in Copenhagen and contracts for cars and office equipment.

NOTE 1.3

MANAGEMENT'S JUDGEMENTS AND ESTIMATES UNDER IFRS

! SIGNIFICANT ACCOUNTING ESTIMATES

In the process of preparing the Parent Company financial statements, a number of accounting estimates and judgements have been made that affect assets and liabilities at the reporting date and income and expenses for the reporting period. Management regularly reassesses these estimates and judgements, partly on the basis of historical experience and a number of other factors in the given circumstances, see note 1.3 to the consolidated financial statements.

NOTE 2.1

REVENUE FROM CONTRACTS WITH CUSTOMERS

REVENUE BY SALES CHANNEL DKK million	2020	2019
Third-party distribution	9,626	9,533
Total revenue	**9,626**	**9,533**

REVENUE BY PRODUCT CATEGORY DKK million	2020	2019
Charms	4,711	4,775
Bracelets	2,171	2,143
Rings	1,359	1,261
Earrings	609	619
Necklaces & Pendants	776	735
Total revenue[1]	**9,626**	**9,533**
Goods transferred at a point in time	9,626	9,533
Total revenue	**9,626**	**9,533**

[1] Figures include franchise fees of DKK 3 million (2019: DKK 5 million), which have been allocated to the product categories.

Revenue by category of Pandora products does not differ materially between clusters.

Revenue mainly comprises sales of jewellery to subsidiaries carrying out the distribution. All sales are thus intra-group sales. Contracts are generally 5-year distribution contracts.

§ ACCOUNTING POLICIES

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

NOTE 2.2

PROGRAMME NOW RESTRUCTURING COSTS

Programme NOW restructuring costs

Programme NOW costs are reported in the income statement for Pandora A/S within the cost type it relates to.

Restructuring costs amounted to DKK 0.9 billion in 2020 (DKK 2.2 billion in 2019). Restructuring costs impacted the income statement as follows:

- Gross profit, DKK 0.0 billion (2019: DKK 1.3 billion related to sales return liability from subsidiaries regarding the product portfolio optimization, hereof DKK 0.7 billion in revenue and DKK 0.6 billion in cost of sales primarily related to inventory buyback).
- Operating expenses, DKK 0.9 billion, primarily related to organizational restructuring (DKK 0.2 billion), IT transformation (DKK 0.2 billion) and consultancy expenses (DKK 0.4 billion) (2019: DKK 0.9 billion primarily related to brand restructuring activities (DKK 0.1 billion), IT transformation (DKK 0.1 billion), accelerated amortisations (DKK 0.2 billion) and consultancy costs related to the launch and execution of Programme NOW (DKK 0.4 billion)).

Restructuring costs impacted marketing expenses DKK 0.1 billion (2019: DKK 0.1 billion), sales and distribution expenses DKK 0.1 billion (2019: DKK 0.2 billion) and administrative expenses DKK 0.7 billion (2019: DKK 0.6 billion).

NOTE 2.2

PROGRAMME NOW RESTRUCTURING COSTS

(CONTINUED)

§ ACCOUNTING POLICIES

In 2019 and 2020, Pandora is restructuring the business under the programme name "Programme NOW" to restore long-term sustainable growth and protect profitability. Restructuring costs are significant non-recurring items assessed by Executive Management, making a distinction between normal operation and restructuring.

! SIGNIFICANT ACCOUNTING ESTIMATES

Estimates mainly relate to the consultancy bonus accrual which depends on the actual savings of the initiatives . Furthermore, Executive Management applies judgement in distinguishing between restructuring and normal operation.

NOTE 2.3

STAFF COSTS

DKK million	2020	2019
Wages and salaries	570	391
Pensions	40	27
Share-based payments	43	10
Social security costs	3	8
Other staff costs	118	84
Total staff costs	**774**	**521**
Staff costs have been recognised in the income statement:		
Sales, distribution and marketing expenses	330	196
Administrative expenses	444	324
Total staff costs	**774**	**521**
Average number of full-time employees during the year	614	478

Key management personnel at Pandora A/S represent the same persons as key management personnel of the Pandora Group. For information regarding compensation of key management personnel of Pandora A/S, see note 2.4 to the consolidated financial statements.

NOTE 2.4

SHARE-BASED PAYMENTS

The performance shares programmes described in note 2.5 to the consolidated financial statements is issued by Pandora A/S. The value of shares granted to employees in the Parent Company's subsidiaries is recognised in investments in subsidiaries. As described in note 2.5 to the consolidated financial statements, the costs related to share-based payments were DKK 70 million (2019: DKK 20 million), of which DKK 23 million related to subsidiaries (2019: DKK 16 million).

NOTE 2.5

TAXATION

INCOME TAX EXPENSE DKK million	2020	2019
Current income tax charge for the year	160	427
Change in deferred tax for the year	124	-217
Adjustment to current tax for prior years	-54	4
Adjustment to deferred tax for prior years	61	-2
Total income tax expense	**291**	**212**
Deferred tax on other comprehensive income	-5	-5
Tax on other comprehensive income	**-5**	**-5**

§ ACCOUNTING POLICIES

Income tax
Pandora A/S is taxed jointly with its Danish subsidiaries. These subsidiaries are included in the joint taxation from the date they are recognised in the consolidated financial statements and up to the date on which they are no longer consolidated. The jointly taxed Danish companies are taxed under the on-account tax scheme.

Further information is provided in note 2.6 to the consolidated financial statements.

DEFERRED TAX DKK million	2020	2019
Deferred tax at 1 January	-154	-386
Recognised in the income statement	-185	219
Recognised in other comprehensive income	5	5
Recognised in equity, share-based payments	16	8
Deferred tax at 31 December	**-318**	**-154**
Deferred tax liabilities	-318	-154
Deferred tax, net	**-318**	**-154**

	2020		2019	
RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	%	DKK million	%	DKK million
Profit before tax		1,915		2,001
Corporate tax rate in Denmark, 22%	22.0%	421	22.0%	440
Non-taxable dividend income	-7.5%	-143	-14.5%	-291
Non-deductIble impairment expenses	-	-	1.2%	24
Other adjustments including adjustment to tax for prior years	0.4%	8	1.5%	30
Withholding taxes	0.3%	5	0.4%	9
Effective income tax rate/income tax expense	**15.2%**	**291**	**10.6%**	**212**

BREAKDOWN OF DEFERRED TAX DKK million	2020	2019
Intangible assets	-542	-565
Property, plant and equipment	9	9
Inventory	-39	102
Provisions	277	304
Other assets and liabilities	-23	-4
Deferred tax, net	**-318**	**-154**

NOTE 3.1
INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution	Other intangible assets	Total
2020					
Cost at 1 January	549	1,044	1,541	904	4,038
Additions	-	-	-	114	114
Disposals	-	-	-	-7	-7
Cost at 31 December	**549**	**1,044**	**1,541**	**1,011**	**4,144**
Amortisation and impairment losses at 1 January	-	-	397	551	947
Amortisation for the year	-	-	30	175	205
Impairment loss for the year	-	-	-	32	32
Disposals	-	-	-	-3	-3
Amortisation and impairment losses at 31 December	**-**	**-**	**427**	**755**	**1,182**
Carrying amount at 31 December	**549**	**1,044**	**1,114**	**256**	**2,963**
2019					
Cost at 1 January	549	1,044	1,541	1,110	4,243
Additions	-	-	-	186	186
Disposals	-	-	-	-390	-390
Cost at 31 December	**549**	**1,044**	**1,541**	**904**	**4,038**
Amortisation and impairment losses at 1 January	-	-	366	471	838
Amortisation for the year	-	-	30	346	376
Disposals	-	-	-	-266	-266
Amortisation and impairment losses at 31 December	**-**	**-**	**397**	**551**	**947**
Carrying amount at 31 December	**549**	**1,044**	**1,144**	**354**	**3,091**

The impairment loss of DKK 32 million relates to scrapped software applications. The loss is included in administrative expenses.

DKK million	2020	2019
Amortisation and impairment losses have been recognised in the income statement as follows:		
Sales, distribution and marketing expenses	88	182
Administrative expenses	149	195
Total	**237**	**376**

NOTE 3.2
LEASES

Assets and liabilities related to leases. Amounts recognised in the balance sheet:

RIGHT-OF-USE ASSETS

DKK million	2020	2019
Property	120	132
Cars	8	5
Total right-of-use-assets	**128**	**136**

Additions of right-of-use assets were DKK 14 million in 2020 (2019: DKK 5 million).

LEASE LIABILITIES

DKK million	2020	2019
Non-current	105	119
Current	27	20
Total lease liabilities	**132**	**140**

Lease liabilities are recognised in loans and borrowings.

The depreciation on right-of-use assets charged to the income statement for the period was DKK 23 million (2019: DKK 20 million).

The interest expense for the period was DKK 1 million (2019: 1 million).
Total cash outflow relating to leases was DKK 23 million in 2020 (2019: DKK 21 million).

NOTE 3.3

INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

INVESTMENTS IN SUBSIDIARIES

DKK million	2020	2019
Cost at 1 January	6,411	4,738
Additions[1]	24	1,690
Disposals	-	-2
Additions relating to share-based payments	23	-16
Cost at 31 December	**6,457**	**6,411**
Impairment at 1 January	107	-
Impairment for the year	-	107
Impairment at 31 December	**107**	**107**
Carrying amount at 31 December	**6,350**	**6,304**

[1] in 2019, DKK 1.3 billion relates to the capital injection in US entity Pandora Jewelry Inc.

Dividend received

In 2020, Pandora A/S received a total of DKK 0.7 billion in dividend from subsidiaries in Thailand.

In 2019, Pandora A/S received a total of DKK 1.3 billion in dividend from subsidiaries in Thailand (DKK 0.8 billion), the UK (DKK 0.4 billion), and Denmark (DKK 0.1 billion).

Result of annual impairment test

As at 31 December 2020, the cost price of the investments in subsidiaries was tested for impairment. The impairment test identified impairment charges for 2020 amounting to DKK 0 million (2019: DKK 107 million).

Key assumptions

The impairment test has been based on the internal 2021 forecast and a forecast for the two subsequent years, and an applied discount rate in the range of 10%-24%.

The growth rate applied is an estimate of the expected growth for each market in the terminal period, including the expected average inflation.

NOTE 3.4

INVENTORIES

DKK million	2020	2019
Finished goods	340	643
Point-of-sale materials	80	71
Total inventories at 31 December	**420**	**714**
Inventory write-downs at 1 January	336	181
Write-downs during the year	328	793
Utilised in the year	-405	-638
Inventory write-downs at 31 December	**259**	**336**

Write-downs of inventories are recognised in cost of sales, DKK 289 million (2019: DKK 761 million), and operating expenses, DKK 39 million (2019: DKK 32 million).

The Programme NOW initiatives had a major impact on realised and unrealised remelt losses in 2019, especially assortment portfolio optimisation and the inventory buyback programme. For further details, see note 2.2 Programme NOW.

NOTE 3.5

CONTRACT ASSETS AND LIABILITIES

DKK million	2020	2019
Contract assets		
Receivables from sale of products	2,403	1,668
Right-of-return assets	204	235
Total contract assets	**2,607**	**1,903**
Contract liabilities		
Refund liabilities	1,438	1,615
Total contract liabilities	**1,438**	**1,615**

Refund liabilities

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

NOTE 4.1

SHARE CAPITAL

See note 4.1 to the consolidated financial statements.

NOTE 4.2

LIABILITIES FROM FINANCING ACTIVITIES

TOTAL LIABILITIES FROM FINANCING ACTIVITIES DKK million	Financial liabilities 1 January	Cash flows, net[1]	New leases	Other[2]	Foreign exchange adjust-ments	Financial liabilities 31 December
2020						
Non-current borrowings	5,157	-2,182	-	-2,976	-	-
Non-current lease liabilities	119	-	10	-25	-	105
Current borrowings	933	-933	-	2,976	-	2,976
Current lease liabilities	20	-22	7	22	-	27
Total liabilities from financing activities	**6,230**	**-3,137**	**17**	**-3**	**-**	**3,107**
2019						
Non-current borrowings	6,421	-1,263	-	-	-	5,157
Non-current lease liabilities	134	-	5	-20	-	119
Current borrowings	125	800	-	-	8	933
Current lease liabilities	20	-20	1	19	-	20
Total liabilities from financing activities	**6,700**	**-483**	**6**	**-1**	**8**	**6,230**

[1] Cash flows from loans and borrowings in the statement of cash flows include internal loan movements. The effect was an inflow of DKK 4,267 million in 2020 (2019: inflow of DKK 3,187 million).

[2] The 'Other' column includes the effect of the reclassification of the non-current portion of interest-bearing loans and borrowings, including lease liabilities, to current due to the passage of time, the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities, and the upfront prepayment of lease liabilities. The Group classifies interest paid as cash flows from operating activities.

NOTE 4.3

DERIVATIVE FINANCIAL INSTRUMENTS

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

NOTE 4.4

FINANCIAL RISKS

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

The company's financial risks and the management of these are in all material respects identical to the disclosures made in note 4.4 to the consolidated financial statements, unless otherwise stated below.

Credit risk

The company's credit risk also includes the risk related to receivables from subsidiaries.

Contractual maturities of financial liabilities

The table below provides a breakdown of Pandora A/S's financial liabilities similar to note 4.4 to the consolidated financial statements.

LIABILITIES FALL DUE AS FOLLOWS DKK million	Falling due less than 1 year	Falling due between 1 and 5 years	Falling due after more than 5 years	Total
2020				
Non-derivatives				
Loans and borrowings	3,006	-	-	3,006
Lease liabilities	28	94	12	135
Payables to subsidiaries	4,361	-	-	4,361
Trade payables	1,135	-	-	1,135
Other payables	242	-	-	242
Derivatives				
Derivative financial instruments	119	-	-	119
Total at 31 December	**8,890**	**94**	**12**	**8,997**
2019				
Non-derivatives				
Loans and borrowings	933	5,157	-	6,091
Lease liabilities	21	104	18	143
Payables to subsidiaries	2,632	-	-	2,632
Trade payables	1,115	-	-	1,115
Other payables	138	-	-	138
Derivatives				
Derivative financial instruments	115	-	-	115
Total at 31 December	**4,955**	**5,262**	**18**	**10,235**

NOTE 4.5

NET FINANCIALS

FINANCE INCOME DKK million	2020	2019
Finance income from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	149	121
Total finance income from derivative financial instruments	**149**	**121**
Finance income from loans and receivables measured at amortised cost:		
Interest income from subsidiaries	64	171
Foreign exchange gains	165	386
Total finance income from loans and receivables	**230**	**557**
Total finance income	**379**	**678**

FINANCE COSTS DKK million	2020	2019
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	68	63
Total finance costs from derivative financial instruments	**68**	**63**
Finance costs from financial liabilities measured at amortised cost:		
Interest costs to subsidiaries	5	3
Foreign exchange losses	326	123
Interest on loans and borrowings	61	24
Interest on lease liabilities	1	1
Other finance costs	50	21
Total finance costs from loans and borrowings	**443**	**171**
Total finance costs	**511**	**234**

NOTE 4.6

OTHER NON-CASH ADJUSTMENTS

OTHER NON-CASH ADJUSTMENTS DKK million	2020	2019
Effects from exchange rate adjustments	-161	263
Effects from derivative financial instruments	-318	33
Other, including gains/losses from sale of property, plant and equipment	1	4
Total other non-cash adjustments	**-478**	**300**

NOTE 5.1

CONTINGENT LIABILITIES

Litigation

Pandora is a party to various legal proceedings with current business partners, authorities and other third parties, related to copyrights, marketing conduct and pricing. None of these proceedings is expected to have a material effect on Pandora A/S's financial position or future earnings.

Contractual obligations

Pandora A/S has entered into a number of long-term purchase, sales and supply contracts in the course of the company's ordinary business. Contractual obligations amounted to DKK 461 million (2019: DKK 359 million). Apart from the liabilities already recognised in the balance sheet, the company does not expect to incur any significant financial losses as a result of these contracts.

Other contingent liabilities

Pandora A/S has issued letters of support in favour of certain subsidiaries. Furthermore, the company has issued guarantees totalling DKK 580 million at 31 December 2020 in favour of certain subsidiaries related to securing local credit lines and rental agreements (2019: DKK 684 million).

The company is jointly taxed with Danish subsidiaries. The company is jointly and severally liable with other jointly taxed Danish companies within the Group for income tax and withholding taxes due on or after 1 July 2012 in the joint taxation.

NOTE 5.2
RELATED PARTIES

DKK million	Subsidiaries 2020	2019
Income statement:		
Sales to subsidiaries	9,621	9,525
Purchases from subsidiaries	-4,726	-4,876
Dividend	652	1,321
Finance income	64	171
Finance costs	-5	-3
Total	**5,606**	**6,138**
Balance sheet:		
Loans to subsidiaries, non-current	1,010	1,783
Trade receivables from subsidiaries	2,399	1,657
Loans to subsidiaries, current	1,301	1,570
Right-of-return assets, related parties	204	235
Payables to subsidiaries	-4,361	-2,632
Refund liabilities, related parties	-1,438	-1,615
Total	**-885**	**997**
Development in impairment losses on trade receivables		
Impairment at 1 January	25	40
Additions	-	-
Unused amounts reversed	-1	-15
Impairment at 31 December	**24**	**25**

In addition to the related parties disclosed in note 5.2 to the consolidated financial statements, related parties of Pandora A/S include the subsidiaries listed in the Group structure in note 5.5 to the consolidated financial statements.

The table to the left shows transactions entered into with related parties.

NOTE 5.3
FEES TO INDEPENDENT AUDITOR

DKK million	2020	2019
Fee for statutory audit	3	3
Other assurance engagements	1	-
Total audit related services	**4**	**3**
Other services	0	0
Total non-audit services	**0**	**0**
Total fees to independent auditor	**4**	**3**

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

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