PANDORA

Annual Report **2019**

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our partnership
with UNICEF

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Bringing together traditional **craftsmanship** and state-of-the-art innovation, we provide **affordable** jewellery made from high-quality materials to customers in more than 100 countries. Our **hand-finished** jewellery can be **personalised**, and every day people around the world express who they are and what matters to them with their PANDORA jewellery. In a time of many fleeting moments, our jewellery offers an enduring voice to **people's loves**.

No. 1

jewellery brand in the world. In 2019, we sold 96 million pieces of jewellery

28,000

employees around the world

7,427

points of sale in more than 100 countries

100%

of gold grains and 98% silver grains we sourced came from recycled metals in 2019

21.9 billion

DKK in revenue

#WhatDoYouLove

Throughout history, humankind has shared feelings of happiness, love, pride and belonging. The need for self-expression lies at the heart of connecting with our partners, friends, family and many others, and it is the essence of our jewellery.

LETTER TO THE SHAREHOLDERS

Reasserting our lead

Consumers are **responding** to our efforts, **like-for-like** development has improved, and we have taken the business to a **healthier** level.

Over the past decade, Pandora has built the world's biggest jewellery brand, measured both by the number of jewellery pieces we sell to consumers around the world and by their awareness of the Pandora brand.

This unique brand position is also the foundation for our future. It is a strong foundation, but it is also clear that in recent years we have not done enough to keep our place in our customers' hearts. That is why the top priority of our turnaround plan, Programme NOW, is to strengthen the relevance and reach of our brand. This will return Pandora to growth.

We have now completed the first year of our turnaround, and progress is satisfactory. We have made a lot of changes in a short time, and our Q4 results give us confidence. Consumers are responding to our efforts, like-for-like development has improved, and we have taken the business to a healthier level with regards to promotional discounts, product assortment and inventory. We have also made significant long-term investments in our digital presence and a more personalised data-driven marketing experience.

In 2020, we expect like-for-like to improve further as we continue our turnaround. We will build on the current momentum of our commercial initiatives and keep focus on improving brand relevance. We will continue to reduce costs and upgrade our product development process and organisational capabilities. We are happy to push on with these plans together as a team and on behalf of the Board, we would like to extend appreciation to the previous Chair, Peder Tuborgh, for his dedication and contribution to the company over the past five years.

While Programme NOW and the turnaround have required most of our attention in the past year, we are also proud of other achievements. We launched a partnership with UNICEF to empower the world's most vulnerable children, especially girls, and support them in getting an education. And we are committing to new climate targets for our own operations and for our entire supply chain to reduce emissions in line with the Paris Agreement and the best available science recommendations. These initiatives are about doing business responsibly, and we continue our drive to increase sustainability in the jewellery industry.

Successfully completing the turnaround is just the beginning for Pandora. It will ready us for pursuing the many growth opportunities we have ahead of us. We can use our great assets to do more than what we do today – expanding in new geographies, deploying new innovation, or using the strength of our brand to launch new product lines or target new consumer segments. These are all exciting paths that can make Pandora a new brand powerhouse in affordable luxury, bridging art and innovation.

Peter A. Ruzicka
Chair of the Board of Directors

Alexander Lacik
President & CEO

EXECUTIVE SUMMARY

Progressing on the turnaround

Consumers are responding well to the brand relaunch, and Q4 performance confirms the strategic direction of Programme NOW.

In 2019, Pandora executed on the first initiatives of the comprehensive turnaround roadmap, Programme NOW. The commercial initiatives to enhance the brand relevance showed early positive results in Q4 as the like-for-like development improved compared with the first three quarters of the year.

Total like-for-like sales-out growth (like-for-like) was -8% in 2019 compared to -4% in 2018. Like-for-like improved from -10% in the first three quarters of 2019 to -4% in Q4 of 2019. Three of Pandora's seven key markets, Germany, Italy and France, generated positive like-for-like in Q4 while the US and UK also saw clear growth improvements.

In 2019, the gross margin excluding restructuring costs improved materially from 74.3% in 2018 to 77.4%. The improvement is driven by strong progress on the cost programme, good productivity at the crafting facilities in Thailand, limited impact from write-off of acquired inventories as well as continued higher share of retail revenue. The 2019 EBIT margin excluding restructuring costs decreased 1.4pp to 26.8% mainly driven by increased marketing expenses and deleverage, thereby leading to EBIT before restructuring costs of DKK 5,854 million. The 2019 financial results were supported by a strong Q4 where the EBIT margin excluding restructuring costs ended at 35.3%.

The Q4 performance improvement confirms the strategic direction of Programme NOW. Consumers are responding positively to the comprehensive commercial initiatives, which include new marketing content, increased media spend, the upgraded online store and new collaborations and product launches.

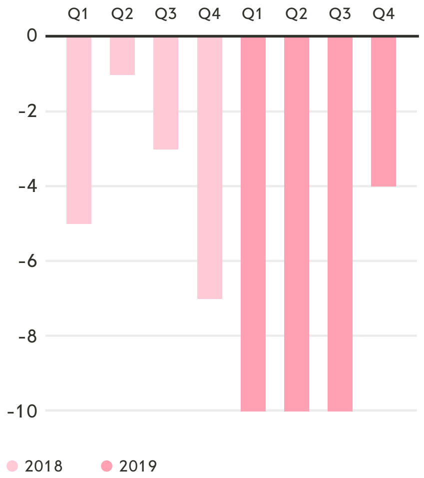
Programme NOW execution in 2019

Pandora announced Programme NOW in November 2018. The two-year turnaround programme aims to create a significantly healthier commercial platform and return Pandora to sustainable growth by enhancing brand relevance and brand access while reducing costs in order to fund the journey.

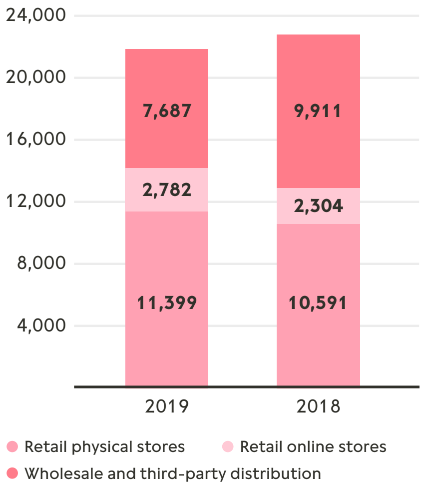
PROGRAMME NOW INITIATIVES

Turnaround objectives	**Brand relevance**	**Brand access**	**Cost reset**
Initiatives	• Brand promise • Marketing • Media • Product development	• Network development • Store experience • E-commerce • Omnichannel	• Cost of sales • Retail expenses • Administrative expenses • IT • Other
	Commercial reset Reduction of promotional discounts or activities, reduced sell-in packs, inventory buyback and product assortment simplification		

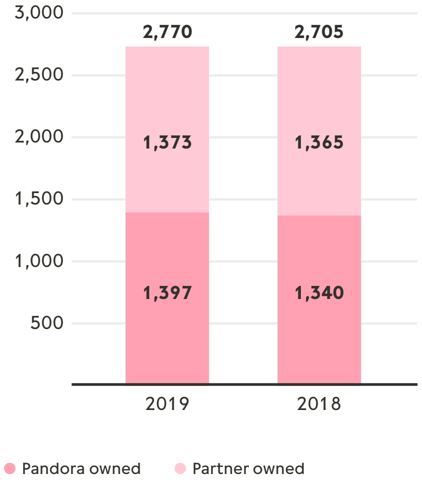
TOTAL LIKE-FOR-LIKE
(%)



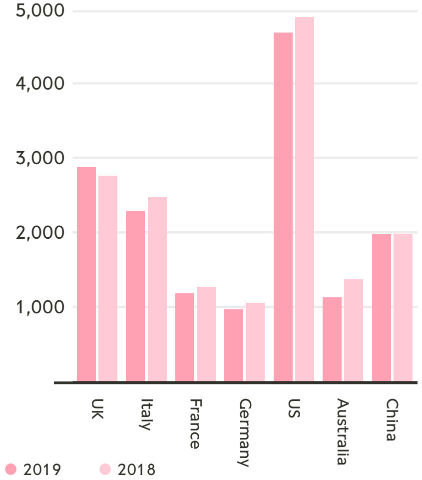
REVENUE BY CHANNEL
(DKKm)



NUMBER OF CONCEPT STORES



REVENUE IN KEY MARKETS
(DKKm)



In 2019, strong progress was made under Programme NOW. A significant number of initiatives were implemented in a short time, and results were encouraging.

The most important objective in the programme is to make the **brand** even more exciting and relevant to consumers. As the cornerstone of our efforts we initiated the relaunch of the Pandora brand on 29 August 2019. The brand relaunch included a new brand promise ('We give a voice to people's loves'), new tagline ('Something about you'), new visual identity, new collaborations and major media and marketing investments. These initiatives have increased traffic to physical and online stores.

To improve consumers' **access** to the brand, Pandora introduced a new online store in conjunction with the brand relaunch. The new website loads faster, has better product images and improves the balance between storytelling and transactional content. Pandora has also initiated testing of a new concept for brick-and-mortar stores. The concept is currently piloting in ten stores in Italy, the UK, the US and China and further roll-out plans will be decided following a thorough performance evaluation in Q1 2020.

To fund all of this, we are freeing up **costs** across the company. The cost savings in Q4 2019 were higher than targeted and led to total savings of DKK 675 million in 2019. The higher than expected savings predominantly stem from increased efficiency at the crafting facilities in Thailand as well as optimisation of retail expenses. The cost reduction target is increased again from DKK 1.3 billion to DKK 1.4 billion as run-rate by the end of 2020 corresponding to more than 6% of revenue.

#1

bestselling charm. The Dreamcatcher has sold more than 888,000 pieces since its launch in 2018.

Under the **commercial reset** initiative, Pandora has worked to improve the long-term strength of the brand and overall health of the business by reducing the number of promotional discounting days, decreasing inventories at wholesale partners, lowering the size of our sell-in packages for partners, and reducing the number of design variations by eliminating non-performing products.

Programme NOW in 2020

In 2020, Programme NOW will continue at rapid pace to further improve the growth trajectory and transform the company's execution power. Key priorities are to enhance brand relevance by e.g. reviewing the product strategy, and upgrading the product development process, and ensuring an efficient organisational structure. At the same time, we continue to reduce costs to fund our commercial turnaround as well as further strengthen our retail operations.

Read more about Programme NOW 2020

Alexander Lacik took office as new CEO on 23 April. Since then, the Executive Management has been made up of Alexander Lacik and CFO Anders Boyer.

Five-year summary

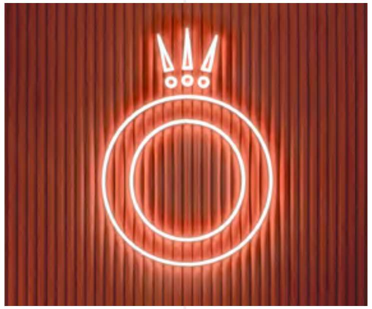
KEY FINANCIAL HIGHLIGHTS (DKK million)	2019[3]	2018[2]	2017[1,2]	2016[1,2]	2015[1,2]
Organic growth, %	*-8%*	*-2%*	*11%*	*N/A*	*N/A*
Total like-for-like sales out, %[4]	*-8%*	*-4%*	*-*	*8%*	*15%*
Revenue growth, local currency, %	*-6%*	*3%*	*15%*	*24%*	*29%*
Gross margin excl. restructuring costs, %	*77.4%*	*74.3%*	*74.5%*	*75.1%*	*72.9%*
EBIT excl. restructuring costs	5,854	6,431	7,784	7,404	5,814
EBIT margin excl. restructuring costs, %	***26.8%***	***28.2%***	***34.2%***	***36.5%***	***34.7%***
Operating working capital, % of last 12 months' revenue	*3.1%*	*11.2%*	*13.1%*	*13.7%*	*14.3%*
Capital expenditure (CAPEX)	822	1,129	1,388	1,199	1,109
Capital expenditure, property, plant and equipment (CAPEX)	556	753	946	828	706
Free cash flow[5]	6,213	5,558	5,294	5,358	2,449
Cash conversion, %[5]	*162%*	*86%*	*68%*	*72%*	*42%*
Dividend per share, DKK[6]	9.0	9.0	9.0	9.0	13.0
Quarterly dividend per share, DKK[7]	9.0	9.0	27.0	-	-
Earnings per share, basic, DKK	30.3	47.2	52.0	52.8	30.9
Earnings per share, diluted, DKK	30.1	47.0	51.8	52.5	30.7
Ratios					
Effective tax rate, %	*23.1%*	*23.4%*	*24.8%*	*21.2%*	*31.3%*
Equity ratio, %	*24%*	*33%*	*37%*	*44%*	*46%*
NIBD to EBITDA, x[8]	1.5	0.8	0.6	0.3	0.3
Return on invested capital (ROIC), %[8]	*27%*	*53%*	*68%*	*80%*	*72%*
Total payout ratio (incl. share buyback), %	*147%*	*104%*	*99%*	*91%*	*136%*

OTHER FINANCIAL HIGHLIGHTS (DKK million)	2019[3]	2018[2]	2017[1,2]	2016[1,2]	2015[1,2]
Consolidated income statement					
Revenue	21,868	22,806	22,781	20,281	16,737
Gross profit	15,903	16,942	16,966	15,223	12,193
Gross margin, %	*72.7%*	*74.3%*	*74.5%*	*75.1%*	*72.9%*
Earnings before interest, tax, depreciation and amortisation (EBITDA)	6,148	7,421	8,505	7,922	6,214
EBITDA margin, %	*28.1%*	*32.5%*	*37.3%*	*39.1%*	*37.1%*
Operating profit (EBIT)	3,829	6,431	7,784	7,404	5,814
EBIT margin, %	*17.5%*	*28.2%*	*34.2%*	*36.5%*	*34.7%*
Net financials	1	151	-117	246	-469
Net profit for the period	2,945	5,045	5,768	6,025	3,674
Consolidated balance sheet					
Total assets	21,571	19,244	17,428	15,321	13,311
Invested capital[8]	14,268	12,071	11,369	9,242	8,047
Operating working capital	684	2,555	2,988	2,782	2,388
Net interest-bearing debt (NIBD)[8]	9,019	5,652	4,855	2,448	1,909
Equity	5,249	6,419	6,514	6,794	6,139

[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. Note 1.2 provides comparison figures according to the old standard.
[3] See note 1.2 New accounting policies and disclosures for comparative figures according to IAS 17.
[4] Like-for-like excluding Hong Kong SAR in Q3 and Q4 2019 due to the extraordinary turmoil in the market.
[5] Free cash flow and cash conversion includes IFRS16 impact.
[6] Proposed dividend per share for 2019.
[7] Quarterly dividend per share for 2019, paid in 2019.
[8] For 2015, 2016 and 2017, Invested capital and NIBD have been restated due to immaterial reclassifications. Consequently, NIBD to EBITDA and ROIC have been recalculated.

Key events 2019

Brand purpose
Giving a voice to people's loves



Read more on page 18

January

PROGRAMME NOW

Our two-year turnaround programme kicked off with the objective to return to sustainable growth while significantly reducing costs. The initially announced cost saving target of DKK 1.2 billion was later increased to DKK 1.4 billion.

February

NEW CEO

Alexander Lacik was announced as Pandora's new President & CEO. He officially joined the company in April.

April

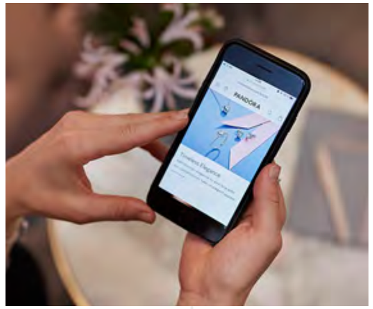
THE PEACH BLOSSOM COLLECTION

Our first-ever region-exclusive collection launched in Greater China. By the end of 2019, it made up 2.4% of our revenue in the region.

May

YOUTH FASHION SUMMIT

In collaboration with the UN Global Compact, the Global Fashion Agenda, Copenhagen School of Design & Technology and 100 talented students, we explored how the fashion industry can reach the Sustainable Development Goals on health and gender equality.



July

IT TRANSFORMATION

In Q3, we signed deals with Tata Consultancy Services and Accenture as key elements of our wider IT transformation that will strengthen our digital capabilities and save us DKK 0.2 billion annually.

Read more on page 23

August

INTRODUCING PANDORA MUSES

We launched Pandora Muses, a collective group of inspiring women from different parts of the world brought together to promote our brand and celebrate women everywhere.

Read more on page 13

August

GLOBAL BRAND REDESIGN

We unveiled our first-ever full rebranding, featuring a contemporary redesign of our logo, a new colour scheme and more.

Read more on page 17

October

TESTING NEW STORE DESIGN

We began testing a new store concept in Birmingham, UK, fol-lowed by other markets, including China, the US and Italy.

Read more on page 23

October

INTRODUCING PANDORA ME

In the effort to welcome new con-sumers to Pandora, we introduced British actress Millie Bobby Brown, who has more than 31 million Ins-tagram followers, as the face of our new Pandora Me collection.

November

FROZEN II COLLECTION HITS THE SHELVES

Our sparkling Pandora Disney Frozen II collection hit the shelves, just ahead of the big-screen re-lease of one of the most anticipat-ed films of the year.

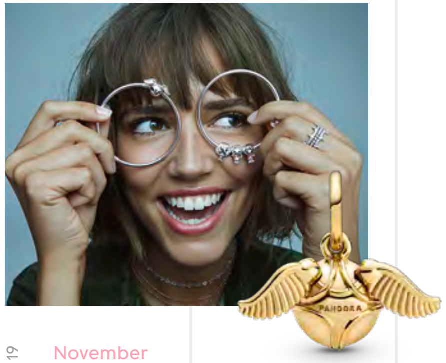
Read more on page 34

November

EMPOWERING CHILDREN TO LEARN

Our partnership with UNICEF launched with a special jewellery collection to raise funds to support education and other programmes that empower young people.

Black Friday 2019 was Pandora's best **online sales** trading event ever



Read more on page 19

November

MAGICAL HARRY POTTER COLLECTION ARRIVES

Our collection of 12 hand-finished products inspired by the world of Harry Potter marked the start of a new partnership with Warner Bros. Consumer Products.

December

APPOINTMENT OF NEW CHAIR

Peter A. Ruzicka was appointed as new Chair of the Board of Directors with effect from 1 January 2020. He succeeded Peder Tuborgh who stepped down after leading the Board for more than five years.

2020 financial guidance

In 2019, Pandora delivered the first encouraging results of the turnaround programme, Programme NOW. 2020 will be the second year of the programme where Pandora will continue executing on the comprehensive turnaround initiatives. The results confirm the strategic direction of the programme but - inherently as part of a comprehensive turnaround - performance is expected to be volatile.

In 2020, Pandora expects to improve the growth momentum compared with 2019. The main objective is to improve the top-line growth. In order to do this, Pandora will invest as required while at the same time taking further steps to create a healthier foundation for long-term success.

The financial guidance does not include any impact from the coronavirus in China. In recent weeks, the coronavirus has led to an unprecedented decline in consumer traffic in China and Hong Kong. Due to the unpredictable nature of the situation, the full-year impact cannot be reasonably estimated at this point in time. In 2019, China and Hong Kong combined accounted for 10% of revenue.

Revenue guidance

Like-for-like is expected to be negative mid single-digit. The like-for-like is primarily driven by a further reduction of the promotional discounting activity and continued underlying weak performance in China (excluding additional negative impact from the coronavirus). An underlying improvement in most other markets is expected and - over the course of the year - some markets are expected to approach stabilisation.

>23

percent in EBIT margin excl. restructuring costs guidance 2020

Net store openings and net inventory changes in the wholesale channel are estimated to have negligible to slightly positive impact on revenue in 2020. The organic growth is consequently expected to be -3 to -6%, roughly in line with like-for-like.

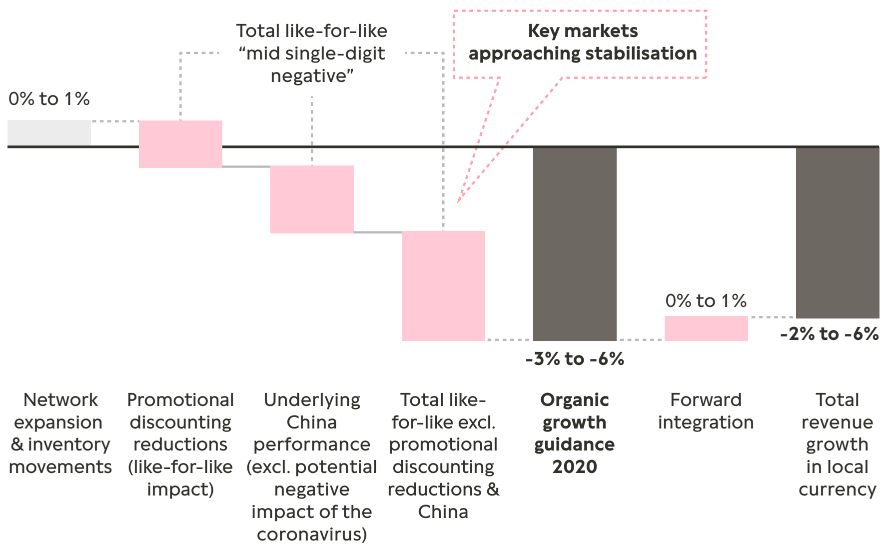
Profitability guidance

As previously communicated, the 2020 EBIT margin before restructuring costs is expected to decrease compared with 2019. In 2020, the EBIT margin is expected to be above 23%, negatively impacted by higher raw material prices, a stronger THB against DKK and a deliberate decision to increase the investment level to drive the top-line. The continued cost reduction initiatives will impact the margin positively by 3pp while deleverage is expected to impact the margin negatively by 1.5 to 2.5pp based on negative mid single-digit like-for-like.

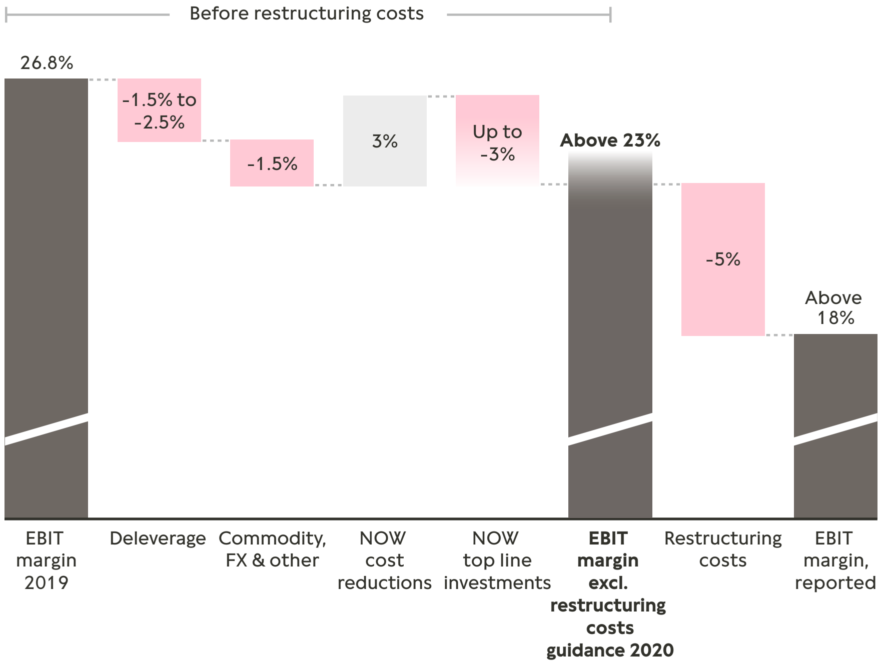
The quarterly phasing of the EBIT development is expected to be in line with 2019 with Q4 being by far the most profitable quarter of the year.

The restructuring costs related to Programme NOW are expected to amount to around DKK 1.1 billion compared to initial expectations of up to DKK 1 billion.

2020 REVENUE GUIDANCE
%-point, approximations



2020 EBIT MARGIN GUIDANCE
%-point, approximations



2020 FINANCIAL GUIDANCE	
Organic revenue growth, %	-3% to -6%
EBIT margin excl. restructuring costs	Above 23%

The increase is mainly related to the expanded scope of the cost reset initiative under Programme NOW. The restructuring costs predominantly relate to consultancy costs and costs of implementing cost reduction initiatives such as the IT transformation and manufacturing efficiencies.

The number of concept stores is expected to be roughly stable in 2020. Pandora will be opening new concept stores or other store formats in white space areas (mainly Latin America and China) while at the same time closing stores with low profit margins and stores with a high expected cannibalisation on nearby stores.

The effective tax rate in 2020 is expected to be 22-23%. Assuming current exchange rates versus the Danish kroner, growth reported in DKK is expected to be 0-1 pp higher than in local currency.

Capital structure policy and cash distribution
In 2020, Pandora will continue to generate solid positive cash flow. 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, IT and continued optimisation of the crafting facilities in Thailand.

As a consequence of the expected cash generation and Pandora's capital structure policy, Pandora aims to distribute around DKK 3 billion to shareholders through dividend and share buybacks – even in a year with significant non-recurring restructuring costs. In order to accelerate the build-up of the future dividend capacity per share, Pandora will allocate a relatively larger share of the cash distribution towards share buybacks. The ordinary dividend of DKK 9 per share is maintained leaving around DKK 2.1 billion for share buybacks.

During 2020, the leverage is expected to temporarily exceed the threshold of the capital structure policy given the restructuring costs incurred and the inherent back-end loaded cash generation of Pandora.

Mid-term financial aspirations
Pandora's aspiration for the mid-term horizon is to deliver sustainable positive organic growth and industry-leading profitability. Organic growth will be driven by low- to mid-single digit total like-for-like growth.

FX ASSUMPTIONS AND IMPLICATIONS	Average 2019 FX Rates	3 February, 2020 FX Rates	3 February, 2020 2020 Y-Y financial impact
USD/DKK	6.669	6.753	
THB/DKK	0.215	0.218	
GBP/DKK	8.517	8.815	
CNY/DKK	0.966	0.962	
AUD/DKK	4.636	4.523	
REVENUE (DKKm)			˜125
EBIT (DKKm)			˜-150
EBIT margin			-0.8pp

BRAND RELEVANCE

Rolling out a full **brand refresh globally**

In 2019, we kicked off the biggest brand relaunch in our company's history. Under a new brand purpose, "We give a voice to people's loves", we began a wide-ranging refresh of our visual identity that will impact every part of Pandora. We are creating a consistent look across all consumer touch points, from our stores and social media channels through to our packaging and printed materials.

The focal point of the new visual identity is the logo, a new typeface designed exclusively for Pandora and a refreshed colour scheme. The colour pink has always represented soft femininity for Pandora. In the new look, it has been reframed to move from pretty to powerful and it will be a future marker of our brand.

> Pandora's strength has always been its ability to appeal to women across cultures and age groups. Our brand relaunch adds new energy and relevance to this unique position.
>
> Stephen Fairchild,
> Chief Creative Officer

Read more about the pilot of **our new concept store design**

The brand relaunch was celebrated with an event in Los Angeles in August gathering over 400 guests including celebrities, influencers and media. By the end of 2019, the new visual identity had been rolled out to more than 1,000 stores across the world and the roll-out will continue in 2020.

The brand relaunch is a major milestone in our journey to strengthen Pandora's brand relevance among consumers.

Read more about our **media and influencer initiatives in 2019**

MONOGRAM
A central part of the new logo was designing an iconic 'O'. When it stands alone as a monogram, the Crown O, it carries the identity of Pandora.

02 Our business

#WhatDoYouLove
Symbolising creativity, the charm reflects the passion for shaping something new with a personal touch.

Strategic position

Known by more consumers and crafting more jewellery than any other brand, Pandora is leading the affordable jewellery industry. Our position is built on efficient crafting, a wide global reach, and unmatched brand awareness with a unique collectability dimension.

Unrivalled design & craft

We craft beautiful hand-finished jewellery from responsibly sourced precious metals and other high-quality materials in a unique combination of skilled crafts people and advanced technologies. Our designers take inspiration from consumer trends and data to create contemporary jewellery that our customers can wear every day and for all purposes.

>250
thousand pieces of jewellery sold every day

No. 1
jewellery manufacturer in the world by volume

Global reach

We reach consumers globally through a worldwide network of stores, online shops, social media and other touchpoints. Our jewellery is sold across six continents in more stores than any other jewellery brand.

>340
million visits to our website in 2019

7,427
points of sale across the world

Brand universe of collectability

Our brand holds an unmatched awareness across our key markets. Customers connect with Pandora jewellery in endless ways by collecting, expressing and sharing their passions and stories.

86%
aided brand awareness in key markets

23.5
million followers on Facebook and Instagram

Key industry trends

In 2019, we introduced engraving machines in selected stores allowing consumers to personalise their Pandora jewellery.

The store experience

As technology changes how people shop, the role of the traditional store changes too. Online spending is increasing, but the traditional store still has an important role to play in creating an enjoyable experience and a personal relationship with the brand. Young consumers in particular are drawn to branded in-store experience as part of the pleasure of shopping.

For Pandora, the brick-and-mortar store has always been the embodiment of the brand experience. Our new store concept, launched as a pilot in 2019, expands this experience further to give consumers new ways to connect with our brand and explore our products.

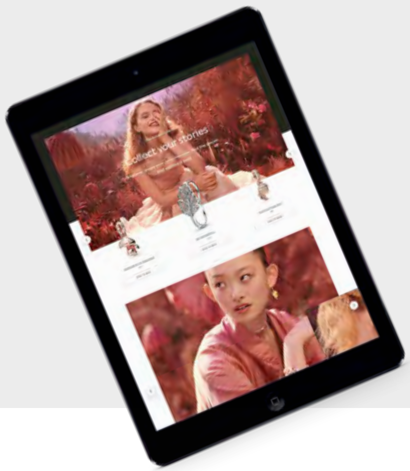
Explore our new test store

The call for convenience

When consumers enter a store to make a larger purchase, it is increasingly likely they have done their research online. The convenience of researching online is a key factor combined with the wish to see, touch or try the product in the store. The omnichannel approach has become standard for many retail brands, as they strive to reach consumers with a seamless shopping experience in whatever format suits the shopper.

Pandora is investing in omnichannel capabilities and launched many new features in 2019. We help customers build wish lists online before they head to the store. In the US, store staff can easily check online inventory and offer to order an item in case it is not available in that store.

Visit our new online store at pandora.net



Sustainability as a key business driver

Consumers are increasingly loyal to brands with strong social and environmental profiles. In many sectors, sales of 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. On many of these issues, Pandora leads the industry. We primarily use recycled precious metals, and we craft our products in a way that maximises resource efficiency and ensures the well-being of our craftspeople.

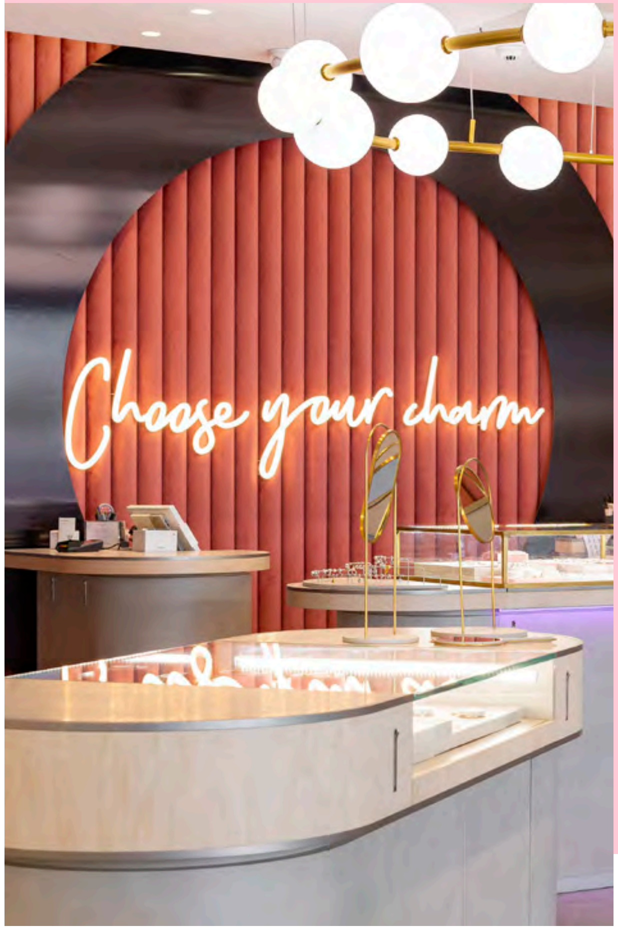
In 2019, Pandora entered into a partnership with UNICEF to improve girls' education, and for the fourth consecutive year we received the highest ranking in MSCI's annual sustainability rating.

Read more about our partnership with UNICEF

PANDORA for unicef

TESTING NEW STORE DESIGN

Where customers come to **discover, play and create**



Technology has changed how people shop. With many online choices, it is no longer enough for a brand to offer high-quality products – a great brand should also provide a fantastic in-store experience that complements and enhances its other channels. This is one of the trends we address with our concept store redesign, which launched as a pilot in 2019.

The new test concept embraces everything that our brand represents today. The warm lighting and choice of interior design create a welcoming and playful environment.

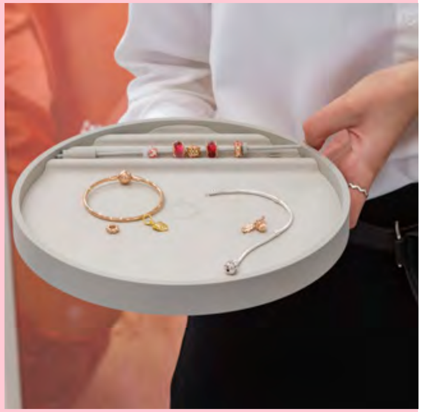
Visitors can touch and feel our jewellery at the open displays, enjoy creating their own look at the 'Charm Bar', explore new and bestselling products on the treasure tables and add special touches to their purchases in the gifting and engraving section. They can even get in-store inspiration from fashion influencers by browsing a wall display of curated looks from social media.

The concept was created with sustainability in mind. The new lighting design, for example, reduces light energy consumption by at least 20% compared with lighting in the old stores.

In 2019, selected elements were tested in stores across key markets, including the UK, China, the US and Italy. So far, the store redesign has been well received by consumers. We will continue to test the store concept in 2020.

20%

reduction in light energy use with new store lighting.



" The new store design is really open and a lot bigger – it's like a girl's dream. It's warm and really welcomes you inside.

Raven, Pandora customer from Birmingham, UK

Programme NOW 2020

Pandora is entering 2020 following sound progress on the Programme NOW initiatives. In 2020, the programme will be focused on exploiting the strong momentum of initiatives and concepts developed in 2019 and on further executing new initiatives and concepts.

Brand relevance

Under the brand relevance objective, we will continue our activities to enhance brand equity. Pandora's new tagline 'Something about you' describes the brand's distinct position in the market, inviting consumers to collect jewellery and express themselves. This position will be further supported by product launches such as the Pandora O Pendant.

We will also grow our partnerships with celebrities, influencers and other organisations and brands, not least by reactivating of the most successful collaborations initiated in 2019. The increased media spend and other traffic-boosting marketing investments will be maintained at a long-term accretive level to further strengthen the brand's appeal and relevance in the market.

We are also establishing a new dedicated digital group in Copenhagen employing around 80 additional experts to significantly step-change the use of data and analytics in digital marketing. Among other things, the group will be tasked with building new audiences, disciplined retargeting of visiting consumers, and rolling out of a global and digital loyalty programme.

Brand access

Under the brand access objective, we will upgrade our network management capabilities and initiate implementation of a new network strategy. An important element of the strategy is stronger focus on the online channel, entailing further investments in improving the digital experience on pandora.net and selectively expanding into new online marketplaces. The new physical store concept is also an important initiative under the brand access objective and will be refined and scaled once it has proven successful.

Cost reset

The cost reductions in 2020 will be executed largely by pursuing more complex cost levers than in 2019. The efforts will focus on reducing complexity and adjusting the operating model across the value chain.

Commercial reset

The commercial reset initiative has almost concluded. The inventory levels are considered roughly appropriate following the completion of a wholesale buyback in the US in early 2020, and a further reduction of the promotional discount push will be done in 2020. This completes the commercial reset initiative to create a healthier foundation for the company.

Introducing new ways of wearing Pandora

As a new way to wear and collect charms, we introduced the Pandora O Pendant in 2019. The pendant provides our customers with a new Pandora look and another way to bring their stories, loves and passions to life. The launch was a success, as the Pandora O Pendant contributed 14% of all Necklaces & Pendants since its launch.

In 2020 and onwards, our focus will continue to build on our value proposition of collectability. We will reinvigorate our strength in charms and bracelets and expand our collectability offering into the adjacent areas of rings, earrings, necklaces and pendants.

BETWEEN BRANDS

Reaching new consumers through **strategic alliances**

In a world of social media and hashtags, consumers are more directly connected to brands and more aware of connections between brands.

Strategic alliances enable Pandora to reach even more consumers around the globe, creating new opportunities for revenue growth and driving brand awareness in new and existing markets and consumer groups.

An excellent example is the long-term strategic alliance between Pandora and The Walt Disney Company that began in 2014. In 2019 consumers welcomed the succesful launches of the Lion King and Frozen II collections.

In 2019 we also introduced a new partnership with Warner Bros. Consumer Products. Together, we launched a collection of Harry Potter-themed jewellery in November 2019.

> When two brands with great loyalty work together, it enables one brand to bring success to the other – helping both brands boost business and awareness and ultimately break into new markets.
>
> Stephen Fairchild, Chief Creative Officer

The capsule collection of 12 hand-finished products includes charms, pendants and a bracelet inspired by iconic characters and symbols from the Harry Potter franchise – a fun way to marry two loved brands into one experience for the millions of Harry Potter and Pandora fans around the globe.

The Harry Potter collection proved extremely popular, especially in the UK, the US, Australia and Italy, and the series delivered 4.6% of total sales in November and December 2019.

These strategic collaborations offer new ways for our consumers to express themselves with new meanings and memories, as well as new wearing and styling opportunities.

No. 1

The Harry Potter charm was the most popular charm in the series, making up 15% of the collection sales

Risks

Key risks are centered around brand relevance and brand access, the main focus areas in Programme NOW.

Pandora operates in a complex and changing retail business environment. Effective risk management is key to maintaining and building on our position as the world's biggest jewellery brand.

Risk management governance

The Board of Directors regularly assesses the risks associated with Pandora's business and operations and the company's risk framework and control systems, including the whistleblowing function.

The Executive Leadership Team is responsible for risk management execution, and managers at all levels are responsible for identifying and managing risks related to their areas.

Risk management activities and status

The process of quantifying, assessing, executing and monitoring risks was strengthened in 2019 and will be further enhanced in 2020. Key elements of the risk and control agenda include timely involvement of management, dedicated resources to ensure adequate mitigating actions, and a continuous link between risk management and business strategy.

Key risks

During 2019, Pandora carried out risk analyses across the organisation. Risks are evaluated on the basis of impact and likelihood, and relevant mitigating actions are implemented to manage them.

With special attention to the successful execution of our ongoing business turnaround plan, Programme NOW, we have identified five key risk areas going forward:

- Brand relevance
- Brand access
- Talent attraction
- Responsible business behaviour
- Supply chain

For further details, please see the following pages.

BRAND RELEVANCE

Description
The strength and integrity of our brand is a fundamental asset for Pandora. Developing and protecting the brand requires constant focus.

Risk
A key component of Programme NOW is to reignite brand relevance. Failure to do so constitutes a significant business risk that could result in lower traffic to our stores and reduced revenue. This risk is accentuated by the current changes in the retail sector, with rapid shifts towards more personalised consumer engagement across physical and online channels.

Mitigating actions
- Relaunched the brand in 2019 with a new company purpose
- Increased marketing spend; a redesigned store concept and e-commerce experience
- Significant investments in organisational capabilities, including digital marketing and merchandising
- Consumer insight and testing have become integrated parts of our launch process for new products
- Launch of Pandora Me, a new jewellery concept endorsed by Millie Bobby Brown, new influencer partnerships and loyalty programmes
- Ongoing work to protect brand integrity primarily through global monitoring of relevant trademarks and patents and fighting infringements.

BRAND ACCESS

Description
As we sell our products globally, we are dependent on a strong channel network to engage with consumers in their preferred marketplace. We have online presence in all major markets and a strategic ambition to balance our network of franchise stores and owned-and-operated (O&O) concept stores.

Risk
Traditional retail channels must continuously evolve to meet consumers' ever-changing expectations. Failing to create and maintain a compelling consumer experience across all relevant retail channels is a risk. It could have negative consequences for revenue and margins if our network presence limits consumers' easy and intuitive access to Pandora's products, or if we fail to succeed in our digital transformation.

Mitigating actions
- Testing of new store concept designed for consumer flow and self-discovery
- Redesigned online store with a 'mobile first' design to improve the customer journey
- Engaging consumers through activation events
- Significant investments in our digital transformation, ensuring our ability to meet consumer demands for an integrated omnichannel platform
- Significant additional investments creating a great and consistent consumer experience in our online world as well as our physical network.

TALENT ATTRACTION

Description
Pandora operates across the world and needs skilled employees in all locations. Our global footprint and wide value chain also mean that knowledge sharing, standardisation and clear responsibilities are important to ensure efficiency.

Risk
Our employees are our most valuable asset. Failure to attract and retain the right talent and foster connectivity across our global workforce would negatively impact the business.

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

RESPONSIBLE BUSINESS BEHAVIOUR

Description

Pandora's reputation for sustainable and responsible business practices supports our business in several ways, from attracting new employees to acknowledging consumer concerns. To protect this asset, we must maintain high ethical standards and regulatory compliance throughout our value chain and be transparent about our performance.

Risk

Non-compliance with responsible business practices and regulation represents a financial and reputational risk. In addition, there is a risk that consumer preferences shift to brands that are perceived as more sustainable.

Mitigating actions

- Global Code of Conduct, including policies on employee rights, diversity, non-discrimination, human rights, business integrity, money laundering, bribery and facilitation payments
- Mandatory ethics and compliance training for employees and whistleblowing hotline
- Responsible Supplier Programme, including training and vendor audits
- Internal control framework implemented
- Recurring Responsible Jewellery Council certification
- Environmental, social and governance reporting to ensure transparency
- Climate targets and positioning as sustainability frontrunner.

SUPPLY CHAIN

Description

Pandora is dependent on efficient and agile manufacturing, a steady supply of raw materials and robust distribution. We are also sensitive to changes to raw material prices, especially gold and silver.

Risk

Potential disruption of our sourcing, manufacturing or distribution activities, and potential increases in cost of goods sold if commodity prices increase, represent a risk to our performance. Further, new production technologies, such as 3D printing, represent a risk if we are not able to transition to such innovation.

Mitigating actions

- A robust procurement process, including risk assessment and monitoring of suppliers
- Dual sourcing with geographical spread in all key supply areas to avoid bottlenecks due to natural disasters, trade wars etc.
- Crafting at two locations
- External manufacturing (OEM/ODM) as appropriate to meet market demand
- Response and recovery plans for business continuity
- Use of commodity hedging to reduce short-term exposure to raw material price fluctuations
- Significant strengthening of the merchandising organisation and investment in merchandising IT tools.

PARTNERSHIPS

Increasing impact with **social media influencers**

> "We see collaborations with celebrities and influencers as a powerful tool to showcase our brand values and purpose.
>
> Vita Clausen, Global PR Director

ENGAGING YOUNG PEOPLE
Together with Millie Bobby Brown, young people explored ideas of self-belief and how to embrace individuality at the Pandora Me Charm Academy in New York in October 2019.

While traditional lifestyle media remain a key channel to reach consumers, social media influencers are becoming increasingly important for many brands, including Pandora. Seen as authentic experts in niche topics, online influencers can deliver brand messages to loyal audiences in ways that advertisements cannot.

In 2019, Pandora introduced a string of new influencer and celebrity partnerships to support our other marketing activities. These global partnerships follow strategic work with both micro and macro influencers in key markets over the last three years.

Millie Bobby Brown became the global face of Pandora Me, a new collection aimed at younger consumers. The British actress rose to prominence for her role as Eleven in the Netflix series Stranger Things. She is UNICEF's youngest-ever Goodwill Ambassador and the youngest person to feature on the Time 100 list of the world's most influential people. Millie Bobby Brown has more than 31 million followers on Instagram, and the partnership enables us to reach new audiences beyond traditional media.

We also introduced our first global influencer group, the Pandora Muses. This collective of six creative women from different parts of the world work with us to bring our messaging to life and create engaging content around our brand and values.

We will continue to look for relevant partnerships to drive engagement with new consumers.

>31

million followers on Millie Bobby Brown's Instagram

#WhatDoYouLove
Expressing the love for nature's wonders, the charm reminds of the every day joy when being outdoors.

03 Corporate governance

Corporate governance

Management structure

Corporate authority is divided between the Board of Directors (the Board) and Executive Management, existing independently of each other. The Board is elected by the General Meeting. The Board supervises Executive Management's work and is responsible for Pandora's general and strategic direction. The Board's primary tasks are to ensure that Pandora has a strong management team, optimal organisational and capital structures, efficient business processes, transparent bookkeeping and practices, and responsible asset management. Additionally, the Board oversees Pandora's financial development, related planning and reporting systems as well as internal controls and risk management.

The Board has established an Audit, a Remuneration and a Nomination Committee and appoints members and chairs to these committees from within the Board. The committees' terms of reference are disclosed on the company'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 the execution of the company'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

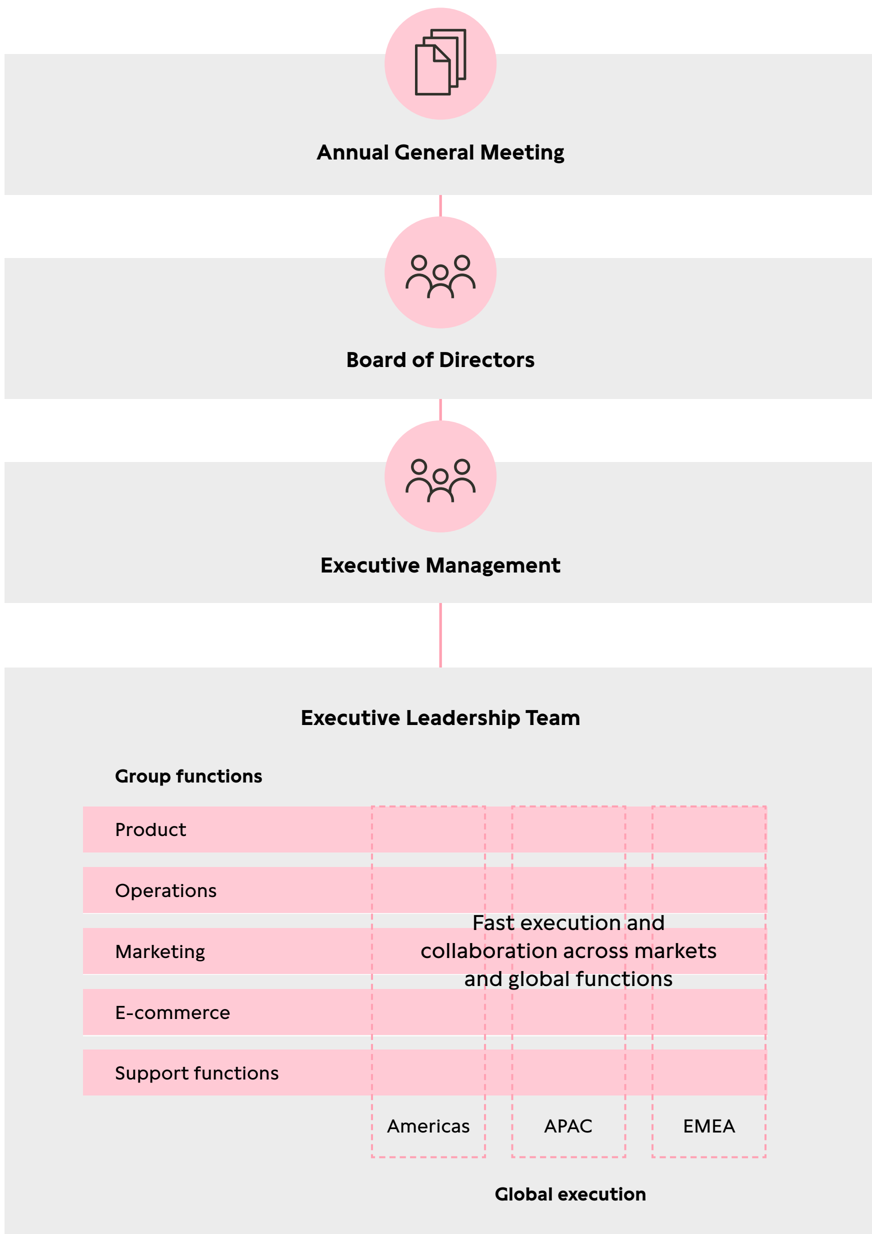
Composition

The composition of the Board must be such that, at any time, the consolidated competencies of the Board enable it to supervise Pandora's development and diligently address the specific opportunities and challenges Pandora faces. The Board must consist of three to ten members and consisted of eight members as of 31 December 2019. All Board members are up for election every year.

8

members in the Board as of 31 December 2019

GOVERNANCE STRUCTURE



Board activities in 2019

In 2019, the Board held 11 Board meetings. Its primary focus areas were to ensure the strategic and financial management, oversee the execution of Programme NOW and the brand relaunch, recruitment and onboarding of Alexander Lacik as new CEO, search for and recruitment of Peter A. Ruzicka as new Chair, cost reductions, and restore trust in the brand among consumers, wholesale partners and the investor community.

Board self-assessment

The Board conducts an annual self-assessment to monitor its performance and its cooperation with Executive Management. The chair of the Nomination Committee directs the assessment process, and in 2019 the assessment was carried out by each Board member completing an anonymous questionnaire.

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

Ratings and comments are consolidated and shared with the Board and Executive Management, followed by a Board discussion where improvements are discussed. The chair also holds one-on-one conversations with each Board member. The self-assessment conducted in 2019 identified that the Board continues to demonstrate wide experience, broad industry knowledge and backgrounds well suited to Pandora's business and strategy. The Board structure and committee work are effective and well-functioning, including interactions with Executive Management. The assessment indicated that further competencies within retail would be beneficial in order to continually respond to the rapidly-changing consumer landscape and dive deeper into brand execution and trendspotting.

Audit Committee

In 2019, 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. More specifically, the Audit Committee supervises the following areas:

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

In 2019, the Audit Committee met seven times. Its main activities were:

- meetings with Executive Management and independent auditors to review the audited Annual Report
- meetings with Executive Management to review interim financial reports
- reviewing key accounting principles, significant accounting estimates, key financial risks and compliance with tax regulations
- monitoring the adequacy and effectiveness of Pandora's internal controls and risk management systems
- reviewing the company's whistleblowing reporting system and whistleblowing cases

- recommendations for the appointment of independent auditors, including evaluation of independence, competencies and compensation
- reviewing updates to the financial reporting structure

Remuneration Committee

In 2019, the members of the Remuneration Committee were Peder Tuborgh (Chair), Christian Frigast, Ronica Wang and Andrea Dawn Alvey. The main duties of the Remuneration Committee are:

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

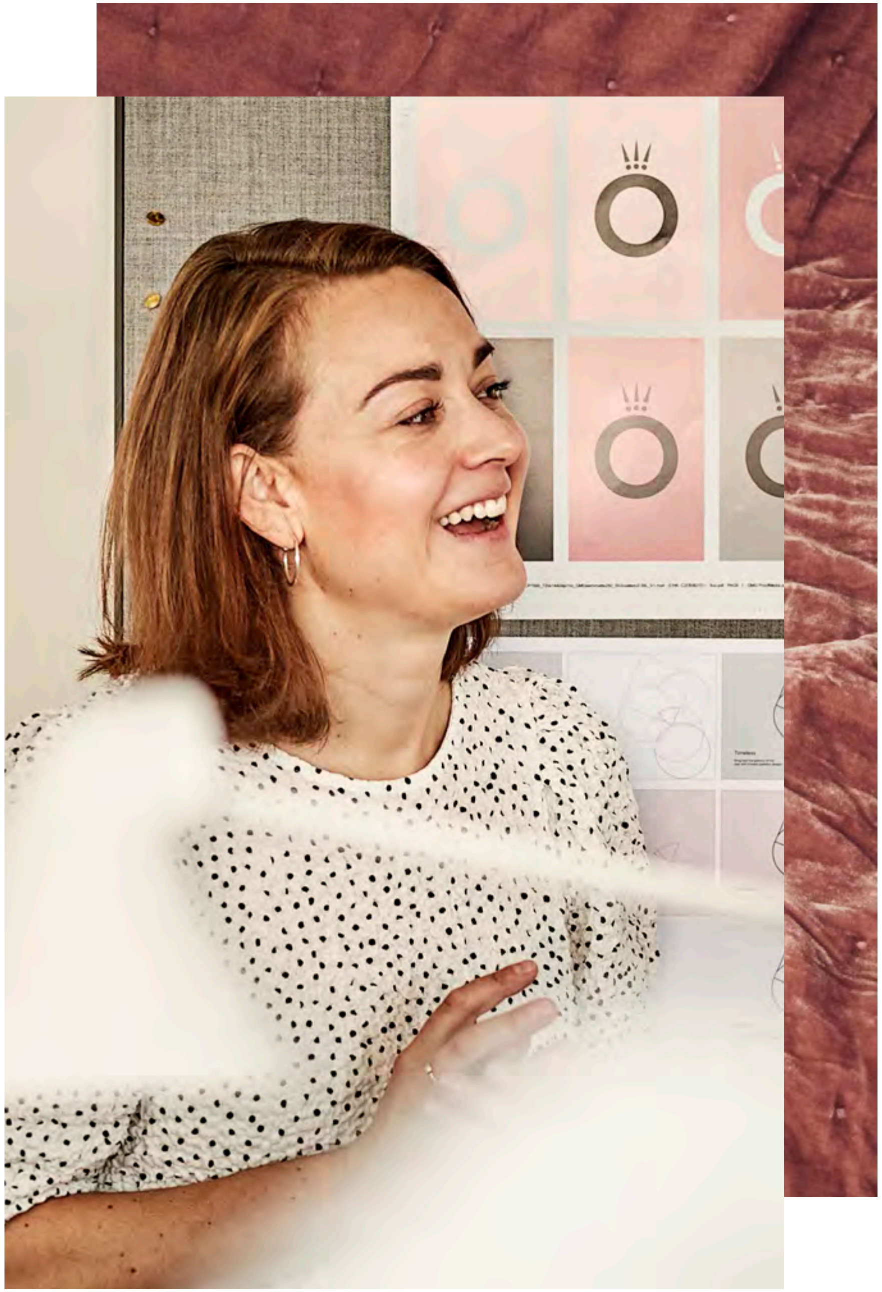
BOARD MEMBERS	Board meetings attended										
Peter A. Ruzicka (Chair from 2020) [1]	–	–	–	–	–	–	–	–	–	–	✓
Peder Tuborgh (Chair until 2020) [2]	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Christian Frigast (Deputy Chair)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Andrea Dawn Alvey	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓
Birgitta Stymne Göransson	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Bjørn Gulden	✓	✗	✓	✓	–	–	–	–	–	–	–
Isabelle Parize	–	–	–	–	✓	✗	✓	✓	✓	✓	✓
Ronica Wang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Per Bank	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
John Peace	–	–	–	–	✗	✓	✗	✓	✓	✓	✓

All members are considered independent [1] Peter A. Ruzicka became Chair of the Board on 1 January 2020 [2] Peder Tuborgh left the Board on 31 December 2019

✓ Attended meeting ✗ Did not attend meeting – Not a Board member at the time

AUDIT COMMITTEE	Committee meetings attended						
Birgitta Stymne Göransson (Chair)	✓	✓	✓	✓	✓	✓	✓
Andrea Dawn Alvey	✓	✓	✓	✓	✓	✓	✓
Christian Frigast	✓	–	–	–	–	–	–
Isabelle Parize	–	✓	✓	✓	✓	✓	✓

✓ Attended meeting ✗ Did not attend meeting – Not a Committee member at the time



REMUNERATION COMMITTEE	Committee meetings attended
Peder Tuborgh (Chair until 2020) [1]	● ● ● ● ●
Christian Frigast	● ● ● ● ●
Andrea Dawn Alvey	● ● ● ● ●
Bjørn Gulden	● ● ● ○ ○
Ronica Wang	○ ○ ○ ● ●

[1] Peder Tuborgh left the Board on 31 December 2019

● Attended meeting ◉ Did not attend meeting ○ Not a Committee member at the time

NOMINATION COMMITTEE	Committee meetings attended
Christian Frigast (Chair)	● ● ●
John Peace	● ● ●
Peder Tuborgh	● ● ●
Per Bank	● ● ●

● Attended meeting ◉ Did not attend meeting ○ Not a Committee member at the time

The Remuneration Committee met five times in 2019. Its main activities were:
- proposal for new remuneration policy
- directions for future remuneration reports
- approval of incentive payments for 2018
- design and approval of Pandora's Long and Short-Term Incentive Programmes for 2019 and 2020
- benchmarking Board fees and executive pay.

The Remuneration Report 2019 is available at our Investor website:

pandoragroup.com/investor/corporate-governance/remuneration-reports

Nomination Committee
In 2019, the members of the Nomination Committee were Christian Frigast (Chair), John Peace, Peder Tuborgh and Per Bank. The Nomination Committee assists the Board in fulfilling its responsibilities with regards to:
- continuous evaluation of the qualifications and competencies required of members of the Board and Executive Management
- nomination of candidates for the Board and Executive Management
- self-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 2019, the Nomination Committee met three times and had multiple ad-hoc exchanges relating to the search for and recruitment of Alexander Lacik as new CEO and search for and recruitment of Peter A. Ruzicka as new Chair. Furthermore, its main activities focused on the annual self-assessment, including an assessment of the cooperation between the Board and Executive Management and assessment of the performance of each member of the Board and potential overboarding.

Additional information

The Corporate Governance Statement for 2019, 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 Pandora's internal controls and risk management systems in relation to the financial reporting process is to ensure that the financial statements provide a true and fair view, free from material misstatements, and that the internal and external financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act. While the internal controls and risk management systems are designed and aim to ensure that material misrepresentation of assets, losses and/or significant errors or irregularities and omissions in the financial reporting are avoided, they provide no absolute assurance that all errors are detected and corrected.

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

Control environment

The Board has established an Audit Committee that assists the Board in supervising the financial reporting 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, a Governance, Risk and Compliance (GRC) function helps Pandora accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of internal controls, risk management, compliance and governance processes. The GRC function assists

Pandora's Executive Management and the Audit Committee in identifying, avoiding and mitigating risks.

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

Risk assessment

The Board and Executive Management assess risks on an ongoing basis, including risks related to financial reporting, and assess measures to manage, reduce or eliminate identified risks. The Audit Committee reviews 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

Pandora operates a global Finance Forum that meets regularly throughout the year. This forum defines the finance strategy for the Group and discusses the latest developments in relation to significant accounting matters and best practice regarding internal controls.

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

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

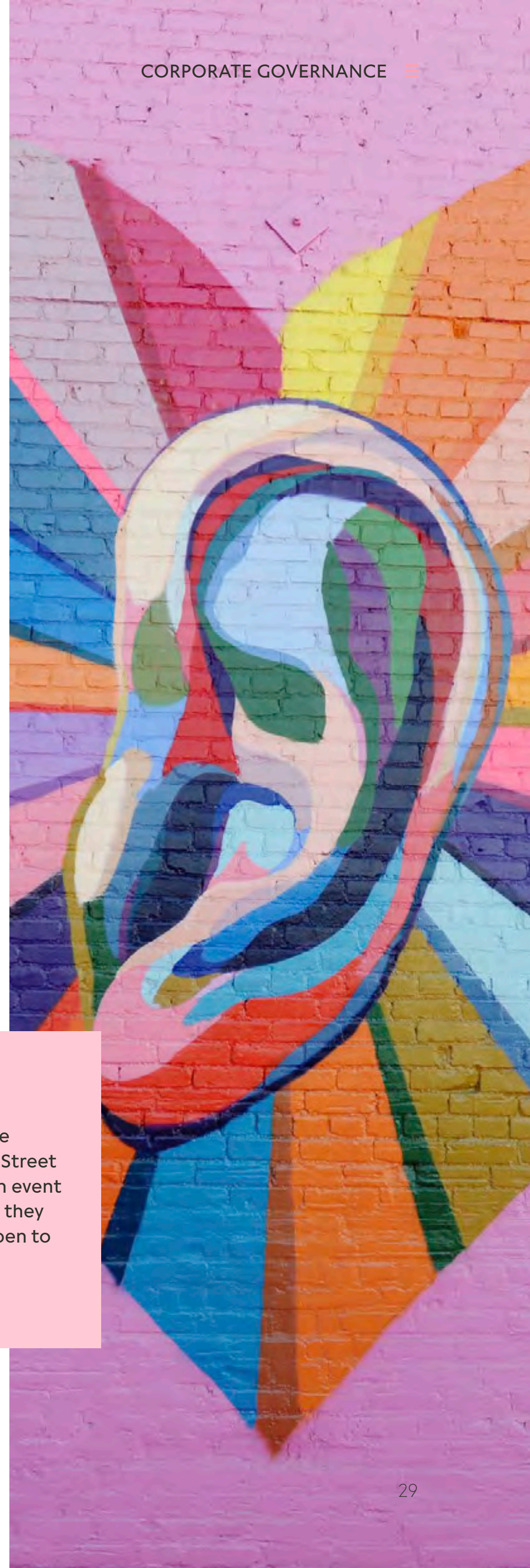
Information and communication

The GRC function is present at all Audit Committee meetings and provides regular status updates to the committee. Furthermore, the head of GRC has regular meetings with the 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 legislation and applicable regulations.

Monitoring

Pandora's internal controls and risk management systems, including the whistleblowing function, are continuously monitored, tested and documented. The Audit Committee monitors the internal controls and risk management process to ensure that any weaknesses are eliminated and that any errors in the financial statements 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.



Empowering voices to express their loves

In 2019, we asked seven diverse female artists to decorate the Street of Loves for our brand relaunch event in Los Angeles. Reflecting what they love, the landmark has been open to the public ever since.

#WhatDoYouLove

Sustainability

We believe high-quality jewellery, superior business performance and high ethical standards go hand in hand, and we craft our jewellery with respect for resources, environment and people. We will become carbon neutral in our operations by 2025 and have committed to set a science-based target for reducing greenhouse gas emissions across the full value chain.

With the Paris Agreement on climate change and the direction set by the UN Sustainable Development Goals, companies now have a clear roadmap for how to contribute meaningfully to solving some of the world's biggest challenges.

Sustainability and responsible business practices have been part of our business model since the very beginning, and we are continuously implementing new measures across our value chain from design, procurement and crafting to packaging, marketing and retail.

This is our responsibility as a large global company, but it is also a strategic position that will benefit our business in the long term. Consumers are increasingly loyal to brands with strong social and environmental profiles, employees want to work for companies with whom they share values, and investors consider Environmental, Social and Governance (ESG) performance alongside traditional financial metrics.

In 2019, we reached significant milestones for our sustainability work. 98% of the silver grains and 100% of the gold grains we sourced came from recycled metals. We also signed a long-term partnership with UNICEF to support the world's most vulnerable children.

2020 will be another pivotal year, as we commit to ambitious climate targets for our business. We will become carbon neutral in our own operations in 2025 and from 2020 we will source only renewable energy at our crafting facilities. The next step will be to set a target for our full value chain including raw material providers, transportation and franchise partners.

These targets underline our commitment to support the Paris Agreement, and we will announce more initiatives as we progress our efforts on climate and environment. We will share our learnings with the wider jewellery industry to support its move towards more sustainable business practices.

PANDORA'S NEW CLIMATE AMBITIONS

Three targets to guide our work in reducing our carbon emissions

Carbon neutral
in own operations
by 2025

100% renewable energy
at our crafting facilities
by 2020

Committed to set
a science-based target
to reduce emissions
across full value chain

Sustainable Development Goals

Pandora supports the UN Sustainable Development Goals. Four goals in particular guide our strategy as this is where we can contribute the most.

Gender equality
We are an inclusive brand committed to advancing equality and diversity through e.g. our partnership with UNICEF by funding programmes that support girls' education and empowerment.

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

Decent work and economic growth
Our modern crafting facilities in Thailand provide safe and healthy working conditions for more than 11,000 employees with wage levels and benefits above local jewellery industry average.

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

Climate and environment

Carbon neutral in own operations by 2025

As the world's largest jewellery maker, we are determined to reduce our climate footprint and help set an example for the wider industry. We aim to source 100% renewable energy at our crafting facilities by the end of 2020 and become carbon neutral in our own operations by 2025.

Our own operations cover crafting facilities, retail stores, offices, and warehouses. In 2019, the footprint of our own operations was 71,394 tCO_{2e}. Electricity and heating make up the main emission sources. Our crafting facilities accounted for 52% of our emissions, followed by our more than 1,300 owned-and-operated (O&O) stores and 200 other points of sale which accounted for 46%.

Joining the Science Based Targets initiative to reduce impact across the full value chain

Joining other leading companies in reducing emissions in line with the Paris Agreement and the best available science recommendations, Pandora has committed to set a science-based target through the Science Based Targets initiative. Thus, before the end of 2021 we will present a detailed plan for reducing emissions across our value chain.

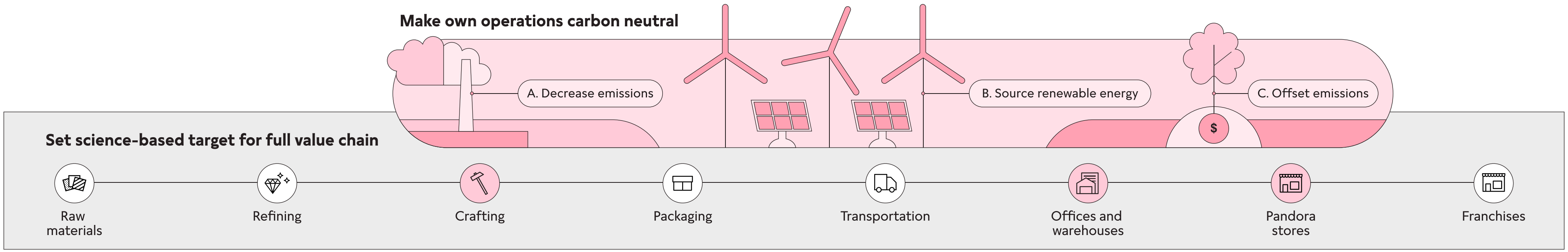
More than 90% of our emissions occur in our value chain, driven by the raw materials used in our products, franchise stores and transportation. In partnership with experts and our suppliers, we are researching the impact of our materials as well as exploring scaleable solutions that will result in significant carbon emissions reductions. Moreover, by using recycled metals and man-made stones that have a carbon foot-print significantly less than their mined counterparts, we significantly reduce our value chain emissions.

PANDORA'S PATH TO CARBON NEUTRAL OPERATIONS

A. Decrease emissions
We continuously work to implement new energy-saving measures across our stores, offices, crafting facilities, and warehouses. Pandora's crafting facilities in Thailand are among the most modern and energy efficient in the industry. Our facility in Lamphun in Northern Thailand and our AAA crafting site in Bangkok are both LEED (Leadership in Energy and Environmental Design) certified. Furthermore, in 2019 Pandora launched the test of a new store concept. It was created with sustainability in mind and reduces lighting energy consumption by at least 20% compared with lighting in the old stores.

B. Source renewable energy
We will source renewable electricity for our crafting facilities from verified solar energy providers in Thailand through renewable energy certificates. Longer term, we plan to increase our own production of solar power, currently providing 3% of the crafting facilities' electricity, and engage directly in developing renewable energy projects, e.g. through power purchase agreements. We will also introduce a policy for purchasing green power for our stores.

C. Offset unavoidable emissions
For all remaining unavoidable emissions linked to our direct business activities, we will purchase carbon offsets to meet our target of becoming carbon neutral. We acknowledge the limitations of this approach, but see it as the best possible solution when it is not possible to reduce emissions in any other way. Offsets can also help mitigate other causes of climate change such as deforestation and the destruction of wetlands. We expect offsets to not exceed more than 5% of our total emissions reductions.



Waste, water and packaging

Striving for circularity, we continuously work to reduce and reuse core materials and waste streams.

Our crafting facilities consume over 900,000m^3 of water and increasing water recycling is a key priority. In 2019, we recycled 23% of the water used at our crafting facilities.

The crafting of our jewellery generates four main types of process waste: gypsum, glass, wax and rubber. In 2019, we managed to recycle or reuse 100% of these waste streams. Overall, 88% of all waste at our crafting facilities was recycled. We continue to look for ways to reduce waste.

In 2020, we will introduce jewellery boxes and bags with reduced plastic content.

Raw materials

We benefit from working with raw materials that can be recycled in perpetuity without any loss of quality. In 2019 98% of silver grains and 100% of gold grains we sourced came from recycled metals. At Pandora, we use a variety of different stones to add sparkle and colour to our jewellery. We predominantly use man-made stones, which have a significantly lower environmental impact than their mined counterparts.

88%

waste at our crafting facilities recycled in 2019

100%

gypsum waste reused in e.g. the construction sector

glass waste recycled into new glass products

wax waste reused for candle or figure manufacturing

rubber waste reused in plastics or as fuel

Workplace and society

At Pandora, we are committed to fostering a culture of diversity and inclusion within and beyond our own operations. We will not tolerate any form of discrimination and are committed to gender diversity in our organisation. Today, we have a 50/50 gender split on our Board of Directors, while senior management is made up of 26% women and 74% men. We will continue to advance our approach to diversity and inclusion.

Further, we believe we have a responsibility to positively impact people beyond our own operations. We have partnered with UNICEF to support the world's most vulnerable children to lead healthier and safer lives and fulfil their potential.

Read more about our UNICEF partnership

Read our annual Transparency in Supply Chain Statement at our website:

pandoragroup.com/sustainability/people/human-rights

Our Human Rights Policy guides us on how to ensure that all human rights are respected throughout our value chain. Potential human rights violations, like safety and health hazards and poor working conditions are mostly associated with mining and stone treatment. Human rights risks mitigation is implemented through our Responsible Sourcing Programme.

We continuously work towards creating inclusive, attractive, effective and fun organisations benefiting from a diverse group of high performing employees.

At our crafting facilities in Thailand, we provide employees with safe and healthy working conditions and competitive benefits.

PARTNERING WITH UNICEF

Empowering young people

In September 2019, Pandora and UNICEF launched a global partnership to support the most vulnerable children, especially girls, around the world to lead healthier and safer lives and fulfil their potential. Through sale of jewellery and other initiatives, Pandora will raise funds for UNICEF's work.

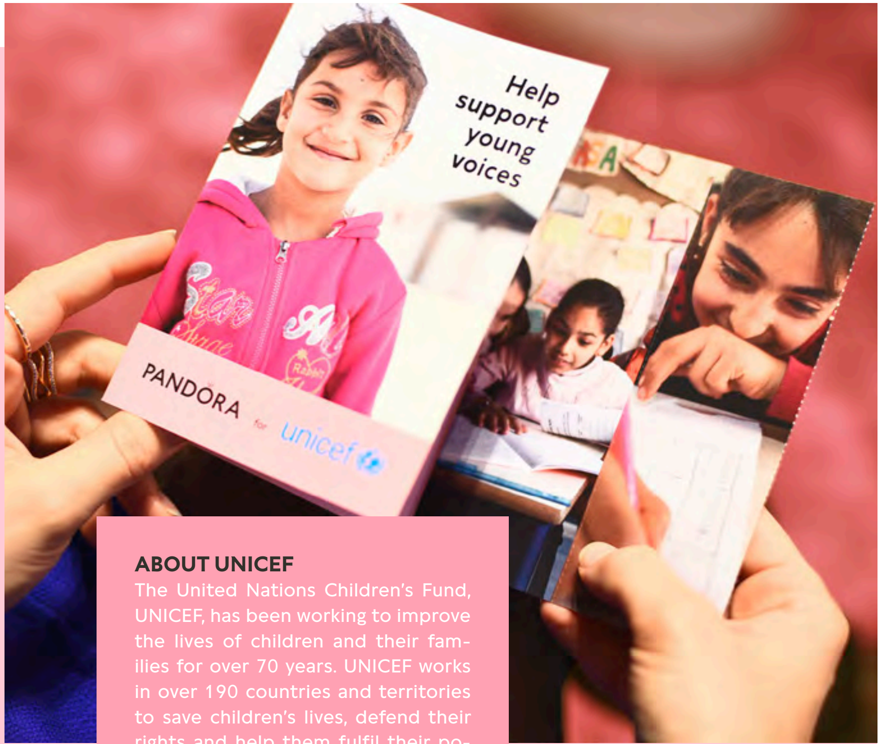
The aim of the partnership is to raise funds for UNICEF to empower children and young people by supporting UNICEF programmes within education, gender equality, rights awareness, personal empowerment and civic engagement.

Every day, millions of girls around the world lose out on their right to education due to poverty, cultural practices and poor infrastructure. Violence and conflict also play a part. For these girls, education is about much more than just going to school. It is about feeling safe and having the space to learn, developing the skills they need to find work, and making decisions about their own lives. With an education, these girls have a chance to fulfil their potential and to contribute to the communities where they live.

The partnership with UNICEF kicked off with a limited-edition Pandora Me jewellery collection to celebrate World Children's Day on 20 November 2019. Future initiatives will include new jewellery, awareness campaigns and opportunities for Pandora customers and employees to engage directly by making donations to UNICEF.

1 in 6

of the world's 600 million adolescent girls are not in secondary school



ABOUT UNICEF
The United Nations Children's Fund, UNICEF, has been working to improve the lives of children and their families for over 70 years. UNICEF works in over 190 countries and territories to save children's lives, defend their rights and help them fulfil their potential, from early childhood through adolescence. In 2018, UNICEF provided educational support to more than 12 million children around the world.

" I'm very proud of our partnership with UNICEF. It's part of being a leading global company - we want to do our part in solving some of the big problems we face in our societies.

Alexander Lacik, President & CEO

Managing sustainability

Pandora's Sustainability Board provides direction for the company's sustainability work, oversees our targets and guides our efforts to drive sustainability improvements throughout the organisation and our operations. The Sustainability Board is chaired by our CFO and seeks to integrate and align sustainability efforts into Pandora's long-term business objectives and practices.

Responsible sourcing

Pandora is committed to ensuring that our business practices, including our suppliers, live up to high social and environmental standards. Our governing policies and guidelines cover the ten principles defined by the United Nations Global Compact, while supporting our efforts to source responsibly.

Our Responsible Sourcing Programme is designed to focus on the spend categories and suppliers that carry the greatest potential risks of negative ethical and business impacts. Primary environmental and climate risks in our industry are water use, waste management, CO^2 emissions and the depletion of natural resources associated with mining. All suppliers must sign and comply with our Code of Conduct stipulating our high social and environmental standards.

We expanded the scope of our **procurement** with ambitious objectives for sourcing with **responsibility**, **traceability** and **transparency.**

In 2019, we expanded the scope of our procurement with ambitious objectives for sourcing with responsibility, traceability and transparency. Pandora will buy raw materials and components with less social and environmental impact, while ensuring traceability of the goods and providing greater transparency around our suppliers and the origin of our materials. Once this approach has been rolled out over the next few years, it will represent a significant improvement for responsible sourcing in the jewellery industry.

All gold and silver grains entering Pandora's crafting facilities are sourced from certified responsible refining companies.

Business integrity

We believe in fair and honest competition, and we are committed to working against corrupt practices in our operations. The risk of corruption in our procurement process is countered by our Business Integrity Policy and our Responsible Sourcing Programme. In 2019, our supplier audits identified code of conduct violations that were subsequently remediated by suppliers with support from our responsible procurement team. Further, our Code of Conduct clearly stipulates our principles and expectations to the ethical conduct of Pandora's employees.

MSCI ESG RATINGS AAA

CCC | B | BB | BBB | A | AA | AAA

ESG frontrunner

For the fourth consecutive year, we received the top rating of AAA in the MSCI ESG Ratings assessment.

WE SUPPORT UN GLOBAL COMPACT

United Nations Global Compact
We are signatories to the United Nations Global Compact (UNGC) and acknowledge our responsibilities in the areas of human rights, labour, environment, and anti-corruption.

Responsible Jewelry Council

Responsible Jewellery Council
Pandora has been a certified member of the Responsible Jewellery Council (RJC) since 2012. RJC is an international not-for-profit standards and certification organisation and has more than 1,000 member companies that span the jewellery supply chain from mine to retail.

PANDORA for unicef

UNICEF
Pandora and UNICEF have partnered to support the world's most vulnerable children to lead healthier and safer lives and fulfil their potential. The aim of the partnership is to raise funds for UNICEF child survival, education and protection programmes across the world. Pandora will fund life skills training with a focus on programmes that support female empowerment.

Science Based Targets initiative
The Science Based Targets initiative is the leading corporate collaboration for ambitious action on climate change. It is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

Intellectual capital

Pandora is the most known jewellery brand in the world, and protecting the brand is crucial for the continued success of the company. This work entails retaining and training employees as well as safeguarding intellectual property (IP) rights.

Fighting fakes and frauds

Our Brand Protection Tip-line receives notifications about potential infringements of intellectual property rights every day. We investigate and assess potential infringements and take appropriate action.

Our network of lawyers and investigators assist with enforcement in a number of ways, including through raid actions and civil procedures. We remove fake commercial websites as well as fake, counterfeit or fraudulent listings on auction sites and social media on a daily basis.

Intellectual property rights and policies

Our IP rights are mainly vested in trademarks, copyrights, design rights and patents.

We protect our intellectual capital through business secrets and non-disclosure procedures. In addition, we protect IP rights by all available means. These include comprehensive global trademark and patent monitoring, an internet monitoring programme, and a Brand Protection Tip-line to identify and take action on infringement of our IP rights.

We have a zero tolerance policy towards infringement of our IP rights, including counterfeit products, both offline and online. No distributors, dealers or others are permitted to register or use Pandora's IP without our prior consent.

Trademarks

We hold an almost global portfolio for the Pandora trademark, the Pandora logo and the monogram. In 2019, we initiated a comprehensive filing programme to protect our redesigned logo and monogram. We also hold a significant trademark portfolio for our collection and metal brands, such as Pandora Reflexions, Pandora Rose and Pandora Shine.

NEW TRADEMARK PORTFOLIO

In connection with our brand relaunch in 2019, we initiated the process of obtaining a trademark portfolio covering our redesigned logo and monogram and the new Pandora Me concept.

Copyrights and design rights

Besides unregistered copyrights and design rights, we hold a significant portfolio of copyright and design registrations in China and the EU, protecting our unique and distinctive jewellery designs.

Patents

We protect our relevant innovations by means of patents in our main markets and country of production. Pandora holds several patent families, including for the Moments bracelet and clip solution and for the innovative silicone clips and charms solutions.

People and culture

Everything we do at Pandora is made possible by our 28,000 employees. As an organisation, Pandora encourages initiative and leadership. Through Programme NOW, our turnaround plan, we are refining our ways of working. This brings opportunities to develop leadership skills in times of change, and more than 100 employees led business change projects in 2019.

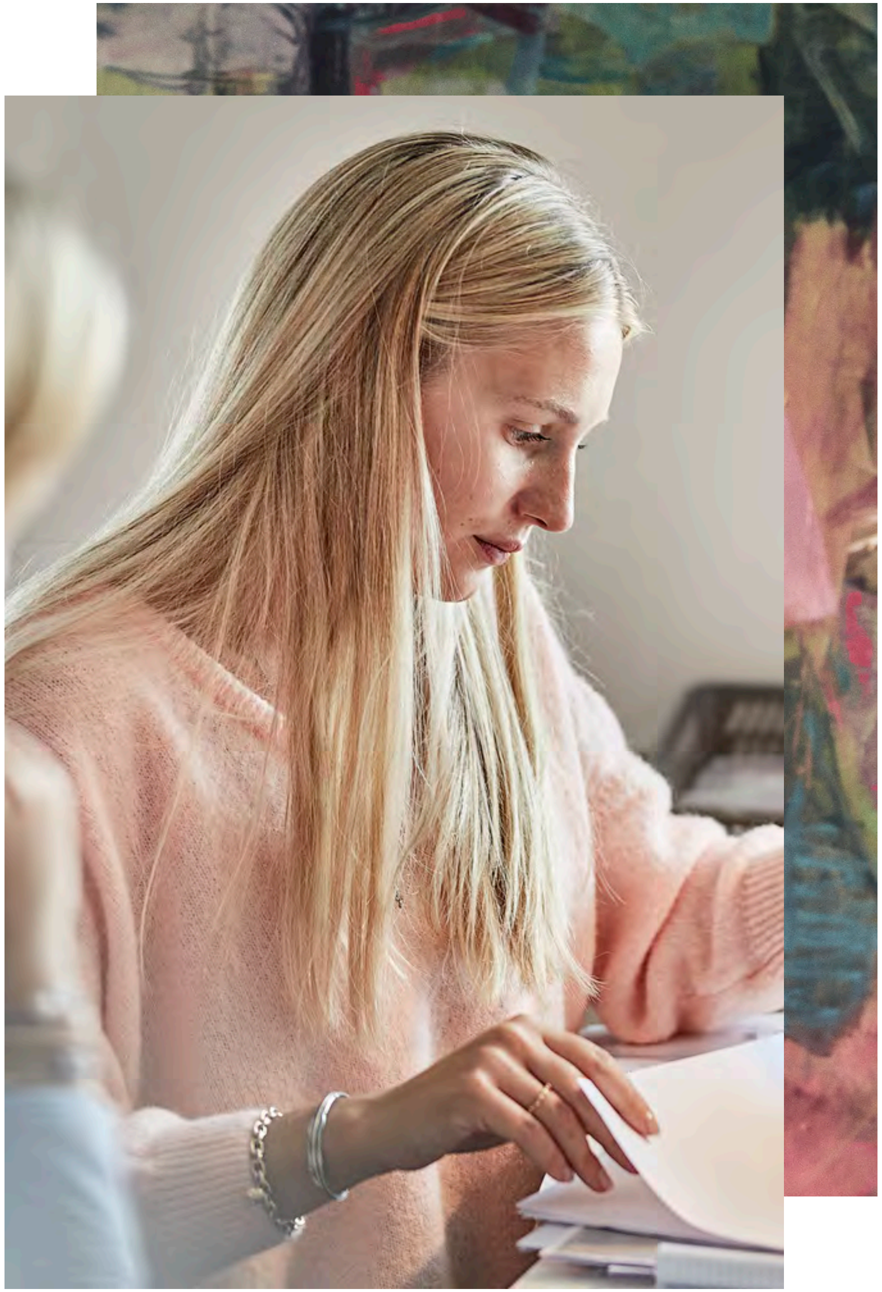
These leaders were supported through change management training and communications activities. In May, for example, Pandora's top 250 leaders attended a global leadership conference in Berlin. The conference included a preview of Pandora's brand relaunch and commercial business projects, as well as leadership training focused on navigating through change. This focus had positive results throughout the organisation: around 80% of employees surveyed globally agree or strongly agree that they understand Programme NOW and are motivated to participate.

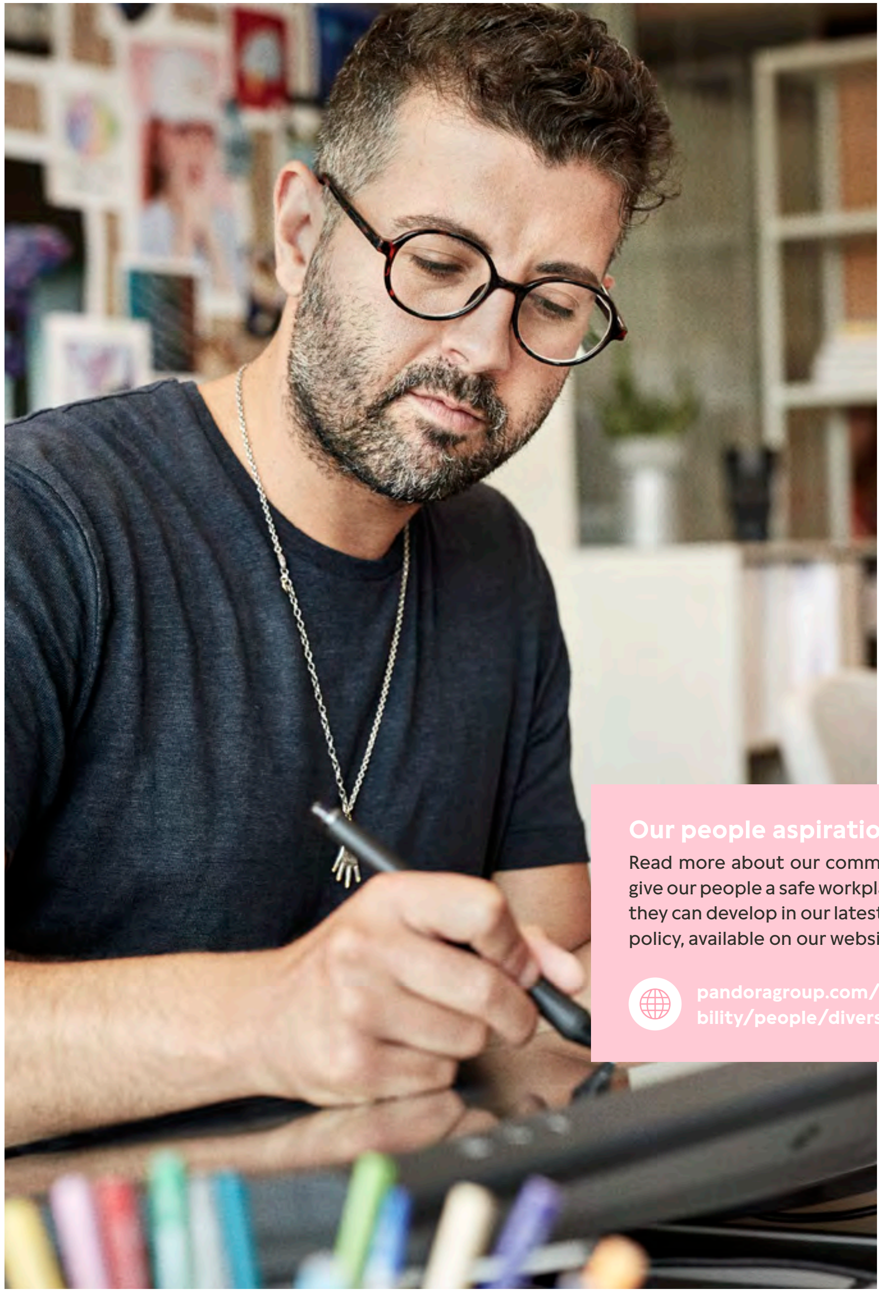
Around **80%** of our employees **agree or strongly agree** that they understand **Programme NOW** and are motivated to participate.

A winning culture

As Pandora evolves, it is important to ensure that our company culture and values drive winning behaviours and ways of working. In 2019, we asked all our employees to help create the framework for a winning company culture by describing the culture and behaviours we need in Pandora in the future. In total, we received over 46,000 contributions, with 'Passion for Pandora' seen as an important aspect of our culture.

We will continue this work in 2020 by refreshing our company values to support our strategy and fully embedding them in our ways of working.





Our people aspiration

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

pandoragroup.com/sustainability/people/diversity

Passionate people

One aspect of creating a winning culture is listening to and acting on employee feedback, which is why we conduct a Heartbeat survey each year. Results in 2019 showed that employee engagement remains high, with an index score of 81 out of 100, three points above peer group companies.

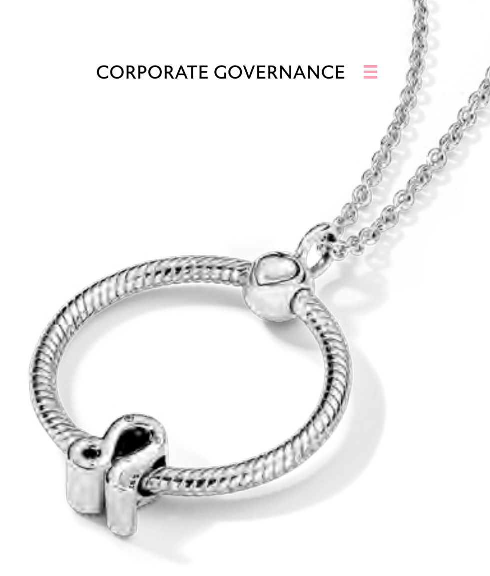
The survey showed that our employees are motivated by our company strategy and direction: questions about the Pandora brand relaunch and feeling proud to represent Pandora received an average index score of 84.

The survey also showed that employees see a need for improvement regarding 'having clear processes and tools enabling them to carry out their jobs effectively'. This statement received an average index score of 76, ten points above peer companies. We acknowledge that certain areas of the business need greater consistency and maturity in their systems and ways of working. This remains a focus area and something Programme NOW is addressing.

As a result of the Heartbeat survey, all managers will work on two-three specific actions with their teams in the first half of 2020 to create an even more productive and engaging culture.

81

employee engagement score in 2019



Gender diversity in management

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

- No gender should make up more than 60% of Board members. At the end of 2019, women made up 50% of Board members (4 out of 8), compared with 43% in 2018 (3 out of 7), which is above average for large publicly-listed Danish companies.
- No gender should make up more than 60% of senior management (members of the Executive Leadership Team, general managers and vice presidents). At the end of 2019, 26% of senior management were women. This is a decline compared with 30% in 2018, but in line with Danish gender statistics for middle and senior managerial positions. Pandora will continue to strive for a better gender balance in senior management.

Board of Directors (as of 2020)

PETER A. RUZICKA

Year of birth: 1964
Member since: 2019

Professional position:
Non-executive board member.

Non-executive functions:
Member of the Board of Jotun A/S.

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 the Danish Venture Capital and Private Equity Association (DVCA), EKF Danmarks Eksportkredit (Denmark's Export Credit Agency) and Danmarks Skibskredit Holding A/S and a member of the board in its subsidiary; Vice Chair of PostNord, and Axcel Advisory Board; member of the Board in 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 the Board of MAG Interactive and is member of the Boards of Elekta AB, LEO Pharma A/S, Enea AB, Midsona AB and Sportamore AB.

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

Board of Directors (as of 2020)

ISABELLE PARIZE

Year of birth: 1957
Member since: 2019

Professional position:
CEO of DELSEY Paris.

Non-executive functions:
Member of the boards of Robertet S.A. and Air France-KLM S.A.

Competencies:
Operational experience in international retail and brand execution via omni-channel and digitally.

JOHN PEACE

Year of birth: 1949
Member since: 2019

Professional position:
Non-executive board member.

Non-executive functions:
Chair of the board of Octo Telematics Ltd.

Competencies:
Experience within international retail and capital markets.

PER BANK

Year of birth: 1967
Member since: 2014

Professional position:
CEO of Salling Group A/S.

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

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

RONICA WANG

Year of birth: 1962
Member since: 2012

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

Non-executive functions:
Member of the Boards of Directors 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.

Management

Executive Management

ALEXANDER LACIK

**President &
Chief Executive Officer (CEO)**

Year of birth: 1965
Joined: 2019

Alexander Lacik has 30 years of experience in international business, marketing and business management. Prior to 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

Anders Boyer has 30 years of experience in finance and business management. Prior to joining Pandora, Anders held positions as Chief Financial Officer at Hempel and GN Store Nord and 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.

Executive Leadership Team

STEPHEN FAIRCHILD

**SVP, Chief
Creative Officer**

CARLA LIUNI

**SVP, Chief Marketing
Officer**
(from March 2020)

THOMAS TOUBORG

**SVP, Group
Operations**

DAVID WALMSLEY

**SVP, Chief Digital
& Omnichannel Officer**

ERIK SCHMIDT

**SVP, Chief HR
Officer**

RASMUS BRIX

**SVP, Chief
Transformation Officer**

DAVID ALLEN

**President, Pandora
EMEA**

KENNETH MADSEN

**President, Pandora
Asia Pacific**

SID KESWANI

**President, Pandora
Americas**

#WhatDoYouLove
The owl charm symbolises the love for books and willingness to continuously learn and stay curious.

04 Shareholder information

Shareholder information

Pandora shares have been listed on the Nasdaq OMX Copenhagen stock exchange since 5 October 2010. Pandora is included in the blue chip index OMX C25 and has around 53,000 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 2019, the lowest closing price was DKK 220.7 on 14 June 2019 and the highest closing price was DKK 346.8 on 26 February 2019. At the end of 2019, the share price was DKK 289.8, corresponding to an increase of 9% compared with the end of 2018 (DKK 265.3). The return was 16% by the end of the year, including two pay-outs of dividend.

Around 180 million Pandora shares were traded in 2019, with an average trading volume of around 728,000 shares per day.

Capital structure and cash allocation

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

As of 2019, Pandora's capital structure policy was adjusted from 0 to 1 times NIBD to EBITDA to 0.5 to 1.5 times reflecting the implementation of IFRS 16 where fixed lease obligations is classified as debt.

The capital structure policy is maintained for 2020 and during the Programme NOW restructuring programme, Pandora will continue to generate significant cash and distribute excess cash to shareholders.

In 2020 the financials will be impacted by restructuring costs of around DKK 1.1 billion. As these are of temporary nature only, Pandora is also considering the leverage ratio excluding restructuring costs when determining the level of cash to be distributed to the shareholders. During 2020, the leverage is expected to temporarily exceed the threshold of the capital structure policy given the restructuring costs incurred and the inherent back-end loaded cash generation of Pandora.

SHARE PRICE DEVELOPMENT 2019

ANNUAL COMMITMENT (DKK billion)	FY 2020 Proposed	FY 2019 Proposed	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual
Dividend (ordinary + interim)	0.9	1.8	1.9	4.0	1.5
Nominal dividend per share, DKK	9	18	18	36	13
Share buy-back programme	2.1	2.2	4.0	1.8	4.0
Total cash return	3.0	4.0	5.9	5.8	5.5

Cash distribution of around DKK 3 billion to shareholders in 2020

For 2020, the Board of Directors proposes a total cash return to shareholders amounting to around DKK 3 billion, which is around 9% of the company's market cap as of 31 December 2019.

The Board of Directors proposes a dividend of DKK 9 per share (around DKK 0.9. billion) and a share buyback programme of up to DKK 2.1 billion.

2020 dividend of DKK 9 per share

In 2019, Pandora paid out an ordinary dividend of DKK 9 per share and an interim dividend of DKK 9 per share in relation to the H1 2019 results. In total, Pandora paid out DKK 18 per share (DKK 1.8 billion) in 2019.

Based on the financial results of 2019, the Board of Directors proposes to return a total of around DKK 0.9 billion in dividend during 2020 (DKK 9 per share).

2019 share buy-back programme of DKK 2.2 billion

In connection with the Annual Report 2018, Pandora announced its intention to buy back own shares of up to DKK 2.2 billion in a share buyback programme from 13 March 2019 to 19 March 2020. In 2019, a total of 6,645,636 shares have been bought back, corresponding to a transaction value of around DKK 1.8 billion. The purpose of the programme is to reduce Pandora's share capital and to meet obligations arising from employee incentive programmes. At the Annual General Meeting 2020, the Board of Directors will propose to reduce the company's share capital by a nominal amount of DKK 8,000,000 by cancellation of 8,000,000 own shares of DKK 1, equal to 8% of the company's total share capital.

2020 share buy-back programme of DKK 2.1 billion proposed

The Board of Directors proposes to launch a new share buyback programme in 2020, under which Pandora will buy back own shares to a maximum consideration of up to DKK 2.1 billion. The shares acquired during the programme will as in previous years primarily be used to reduce Pandora's share capital and to meet obligations arising from employee incentive programmes. The share buyback programme will run from the Annual General Meeting (11 March 2020) to 5 March 2021 at the latest.

Shareholders

As of 31 December 2019, Pandora A/S was the only shareholder holding more than 5% of the share capital and voting rights in Pandora A/S.

As of 31 December 2019, Pandora A/S owned a total of 7,070,524 treasury shares of nominally DKK 1 (in total nominally DKK 7,070,524), corresponding to 7.1% of the total shares outstanding.

As of 31 December 2019, the geographical split of institutional investors was:

- Institutional investors in Europe held 38% of the share capital
- Hereof institutional investors in Denmark held 10% of the share capital
- Hereof institutional investors in the UK held 11% of the share capital
- Institutional investors in North America held 20% of the share capital.

As of 31 December 2019, Pandora's Board of Directors and Executive Management held a total of 91,643 and 108,539 Pandora shares respectively, corresponding to 0.2% of the total share capital.

Investor Relations

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

2.1

Pandora will buy back own shares to a maximum of DKK 2.1 billion in 2020

The purpose of Pandora's IR activities is to ensure that relevant, accurate and timely information is made available to the stock market to serve as a basis for regular trading and a fair pricing of the share. Prior to the interim and annual reports, a four-week silent period is set in place. Additionally, members of Executive Management and the Board of Directors are only allowed to trade shares in a four-week trading window following the interim and annual reports.

Pandora will ensure that the company is perceived as visible, accessible, reliable and professional by the financial markets and that Pandora is regarded among the best relative to peers. This will be achieved by complying with the rules and legislation for listed companies on Nasdaq OMX as well as Pandora's internal policies.

Company website

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

A comprehensive list of the 23 analysts covering the Pandora share is maintained, including names, institutions and contact details.

FINANCIAL CALENDAR 2020

11 Mar 2020	Annual General Meeting
16 Mar 2020	Payment of annual dividend
05 May 2020	Interim Report Q1 2020
18 Aug 2020	Interim Report Q2/ H1 2020
03 Nov 2020	Interim Report Q3/ 9M 2020

SHARE INFORMATION

Exchange:	Nasdaq Copenhagen
Trading symbol:	PNDORA
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
Programmetype	Sponsered level 1 programme (J.P. Morgan)
Ratio (ADR:ORD)	4 ADRs : 1 ordinary share (4:1)
ADR ISIN	US 698 341 2031

05 Financial review

#WhatDoYouLove
Expressing the passion for yoga, the infinity charm is a symbol of endless possibilities and empowerment.

Revenue

Revenue by channel

Total revenue for 2019 was DKK 21,868 million compared with DKK 22,806 million in 2018. Like-for-like (sell-out of existing stores) was -8% in 2019 following improved performance in Q4 2019. Organic growth was -8%, reflecting the like-for-like development and positively impacted by store openings and negatively impacted by inventory reduction among wholesale partners. Revenue for 2019 included a positive contribution of 1% from acquisition of franchise concept stores and distributors (not included in organic growth).

REVENUE BY SALES CHANNEL (DKK million)	**2019**	**2018**	**Like-for-like sales-out**	**Organic growth**	**Growth in local currency**	**Share of revenue FY 2019**	**Share of revenue FY 2018**
Pandora owned retail	**14,181**	**12,895**	***-5%***	***2%***	***8%***	***65%***	***57%***
- of which concept stores	10,619	9,965	-	*-2%*	*5%*	*49%*	*44%*
- of which online stores	2,782	2,304	-	*18%*	*18%*	*13%*	*10%*
- of which other points of sale	780	626	-	*2%*	*22%*	*4%*	*3%*
Wholesale	**6,725**	**8,633**	***-12%***	***-20%***	***-24%***	***31%***	***38%***
- of which concept stores	3,843	5,010	-	*-18%*	*-25%*	*18%*	*22%*
- of which other points of sale	2,882	3,623	-	*-22%*	*-22%*	*13%*	*16%*
Third-party distribution	**962**	**1,278**	***-12%***	***-20%***	***-26%***	***4%***	***6%***
Total revenue	**21,868**	**22,806**	***-8%***	***-8%***	***-6%***	***100%***	***100%***

Pandora owned retail

Revenue from Pandora owned retail was DKK 14,181 million in 2019 and represented 65% of Group revenue. This was an increase of 8% in local currency based on like-for-like of -5%

Revenue from Pandora owned concept stores was DKK 10,619 million in 2019, an increase of 5% in local currency. The increase was a result of negative like-for-like of -12% more than offset by positive contributions from store openings and forward integration. During 2019, Pandora opened net 27 Pandora owned concept stores and acquired 30 concept stores.

Revenue from Pandora online stores increased by 18% in local currency following a strong growth performance in Q4 2019.

Wholesale

Revenue from Pandora's wholesale channel was DKK 6,725 million, a decrease of 24% in local currency compared with 2018. The decrease was driven by negative like-for-like, Pandora's acquisition of franchise stores and a deliberate reduction of inventory among wholesale partners. As part of the commercial reset initiative, it has throughout 2019 been a firm target for Pandora to exit the year with healthy inventories in the wholesale channel.

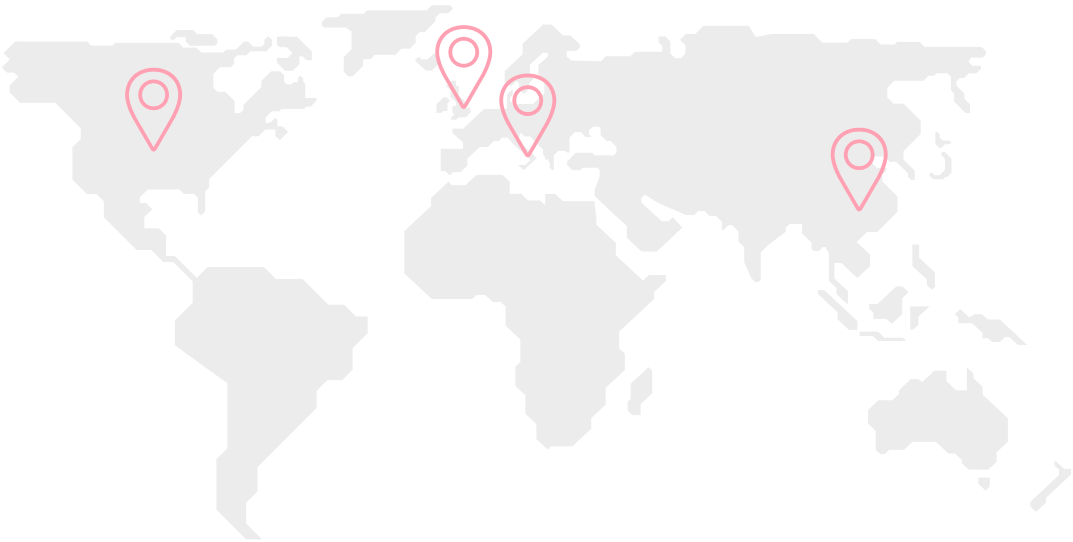
Distribution network

At the end of 2019, Pandora had 2,770 concept stores globally, of which 1,397 were Pandora owned stores. During 2019, Pandora added net 65 new concept stores, mainly driven by store openings in China and Latin America.

At the end of 2019, Pandora had 4,657 other points of sale. During 2019, Pandora closed net 366 other points of sale globally.

Revenue by key markets

The initiatives under Programme NOW showed early results in Q4 2019 with strong improvements in most key markets, reflecting consumer response to Programme NOW's commercial initiatives. In Q4, three of Pandora's seven key markets showed positive like-for-like growth and Pandora's two largest markets also showed like-for-like improvements as both the US and the UK ended Q4 with like-for-like of -3%.



REVENUE BREAKDOWN BY GEOGRAPHY (DKK million)	2019	2018	Like-for-like sales-out	Organic growth*	Growth in local currency	Share of revenue FY 2019	Share of revenue FY 2018
EMEA	10,740	11,190	-7%	-6%	-4%	49%	49%
Americas	6,772	6,807	-5%	-6%	-5%	31%	30%
Asia Pacific	4,356	4,809	-15%	-13%	-11%	20%	21%
Total	**21,868**	**22,806**	**-8%**	**-8%**	**-6%**	**100%**	**100%**

STORE NETWORK, NUMBER OF POINTS OF SALE	2019	2018	Growth
Concept stores	**2,770**	**2,705**	**65**
- of which Pandora owned	1,397	1,340	57
- of which franchise owned	856	849	7
- of which third-party distribution	517	516	1
Other points of sale	**4,657**	**5,023**	**-366**

US

The US is Pandora's largest market, contributing 21% of Group revenue in 2019 with revenue of DKK 4,677 million.

In 2019, US like-for-like deteriorated 5%, but saw an improvement in Q4 2019 following the brand relaunch.

The improved performance in the US market towards the end of the year was driven by a strong Black Friday performance and a solid finish to December. The online store generated double-digit growth during 2019, with strongest performance through the months of November and December. Like-for-like in physical stores experienced single-digit deterioration in 2019.

UK

The UK is Pandora's second-largest market contributing 13% of group revenue in 2019 with revenue of DKK 2,861 million. This was an increase of 2% measured in local currency compared with 2018. The growth was among others driven by store network expansion as like-for-like was negative.

The brand relaunch in August drove strong improvement in performance. Q4 became the strongest quarter of the year with -3% like-for-like, taking 2019 like-for-like to a 7% decline. The Q4 performance was driven by strong double-digit online growth following a successful Black Friday trading period. The media investments in UK focusing on self-expression and collectability, strengthened the Charms category that performed materially better than in the three first quarters.

ITALY

Italy is Pandora's third-largest market, contributing 10% of Group revenue in 2019 with revenue of DKK 2,272 million.

2019 started very challenging for Pandora in the Italian market, but the brand relaunch and focus on collectability with increased media investments proved particularly effective. The result was a radical change in momentum with like-for-like changing from -22% in Q1 2019 to 7% in Q4 2019. Notably, the Q4 growth was driven by positive like-for-like in the Charms product category.

Full-year 2019 like-for-like was -7%.

CHINA

The performance in China in 2019 was disappointing with like-for-like of -11%. The negative development was driven by significant decline in traffic into physical stores. Physical store sales declined significantly, which was only partly offset by continued good growth in Tmall – the main online sales channel in China. Q4 included Singles' Day (11/11), which is the most important annual trading event and was characterised by significant promotional discounting activity from competitors, reflecting the challenges in the retail environment. Pandora has initiated a workstream called "Win-in-China", which will be the foundation for the upcoming commercial initiatives, including brand positioning and media spend optimisation.

Revenue by product category

Following a challenging start to the year, the brand relaunch in August and a string of successful collaboration and product innovations resulted in improved momentum in the final quarter of 2019.

The brand relaunch focused on collectability and self-expression, which inherently support the Charms product category more than product categories such as Rings and Earrings. Charms performance improved through the year, ending Q4 with positive revenue growth.

The performance of the Charms product category improved materially following the brand relaunch.

A total of nine product collections were launched in 2019, excluding concepts and collaborations. The autumn/winter collection was launched in extension of the brand relaunch and proved very popular among consumers. This collection featured the new O carrier which contributed significantly to positive like-for-like in Q4 for the Necklaces & Pendants product category. Pandora Me was launched in Q4, offering consumers a lower price point focusing on attracting new consumers. The Harry Potter collection was launched in November and was a very strong success.

Revenue from Charms was DKK 11,395 million, a decrease of 8% in local currency. Like-for-like was negative double-digit in the first three quarters of the year and improved. Revenue from Bracelets decreased 6% in local currency.

REVENUE BY PRODUCT CATEGORY (DKK million)	**2019**	**2018**	**Growth in local currency**	**Share of revenue 2019**	**Share of revenue 2018**
Charms	11,395	12,126	*-8%*	*52%*	*53%*
Bracelets	4,216	4,393	*-6%*	*19%*	*19%*
Rings	3,113	3,168	*-4%*	*14%*	*14%*
Earrings	1,487	1,486	*-1%*	*7%*	*7%*
Necklaces & Pendants	1,658	1,633	-	*8%*	*7%*
Total	**21,868**	**22,806**	***-6%***	***100%***	***100%***

Revenue in local currency from Rings and Earrings decreased by 4% and 1% respectively. The categories was impacted by the general decline in traffic in Pandora stores in 2019.

Revenue from Necklaces & Pendants was DKK 1,658 million equivalent to 0% growth in local currency. Revenue from the product category declined in the first half of the year but returned to positive growth following the launch of the Pandora O Carrier on 29 August 2019.

Income statement

COST OF SALES AND GROSS PROFIT (DKK million)	2019	2018	Growth	Share of revenue 2019	Share of revenue 2018
Revenue	21,868	22,806	-4%	100.0%	100.0%
Cost of sales	-4,950	-5,864	-16%	22.6%	25.7%
Gross profit excl. restructuring costs	**16,919**	**16,942**	**-**	**77.4%**	**74.3%**
Restructuring costs	-1,016	-	-	4.6%	-
Gross profit incl. restructuring costs	**15,903**	**16,942**	**-6%**	**72.7%**	**74.3%**

OPERATING EXPENSES DEVELOPMENT, INCLUDING DEPRECIATION AND AMORTISATION

(DKK million)	2019	2018	Growth	Share of revenue 2019	Share of revenue 2018
Sales and distribution expenses	-6,259	-6,080	3%	28.6%	26.7%
Marketing expenses	-2,696	-2,142	26%	12.3%	9.4%
Administrative expenses	-2,110	-2,289	-8%	9.6%	10.0%
Total operating expenses excl. restructuring costs	**-11,065**	**-10,511**	**5%**	**50.6%**	**46.1%**
Restructuring costs	-1,009	-	-	4.6%	-
Total operating expenses incl. restructuring costs	**-12,074**	**-10,511**	**15%**	**55.2%**	**46.1%**

Cost of sales and gross profit

In 2019, gross profit excluding restructuring costs was DKK 16,919 million (2018: DKK 16,942 million) corresponding to a gross margin of 77.4% compared with 74.3% in 2018. The gross margin increase was driven by cost reductions implemented as part of Programme NOW and improved production efficiency. Cost of sales was reduced from DKK 5,864 million in 2018, to DKK 4,950 million in 2019.

Cost of sales restructuring costs amounted to DKK 1,016 million in 2019 mainly related to the inventory buyback and the product assortment simplification (product write-down to re-melt value).

Operating expenses

Total operating expenses for 2019 were DKK 11,065 million excluding restructuring costs, equivalent to an OPEX ratio of 50.6% compared to 46.1% in 2018. The OPEX increase was driven by deleverage (as a result of declining revenue) and increased marketing investments.

Sales and distribution expenses increased to DKK 6,259 million in 2019, an increase of 3%. The increase was driven by an increased number of Pandora owned concept stores (1,397 stores in 2019 compared with 1,340 stores in 2018) from net store openings and forward integration.

Marketing expenses in 2019 were 12.3% of revenue, compared with 9.4% in 2018, corresponding to DKK 2,696 million in 2019 and DKK 2,142 million in 2018.

Administrative expenses were 9.6% of revenue in 2019, compared with 10.0% in 2018, and corresponded to DKK 2,110 million in 2019 and DKK 2,289 million in 2018. The decrease was mainly a result of the cost reset initiative under Programme NOW.

OPEX restructuring costs amounted to DKK 1,009 million and included among others consultancy fees and costs related to the Programme NOW cost savings.

EBIT

EBIT excluding restructuring costs for 2019 was DKK 5,854 million, corresponding to an EBIT margin of 26.8%. In 2018, EBIT was DKK 6,431 million, equivalent to an EBIT margin of 28.2%. The EBIT margin development was positively impacted by the cost reset initiative under Programme NOW but more than offset by deleverage (as a result of declining revenue) and higher marketing investments.

Restructuring costs

Total restructuring costs amounted to DKK 2,025 million in 2019 as part of Programme NOW. The majority of the costs relate to the inventory buyback programme, product assortment simplification (product write-down to re-melt value) and consultancy costs.

Net financials

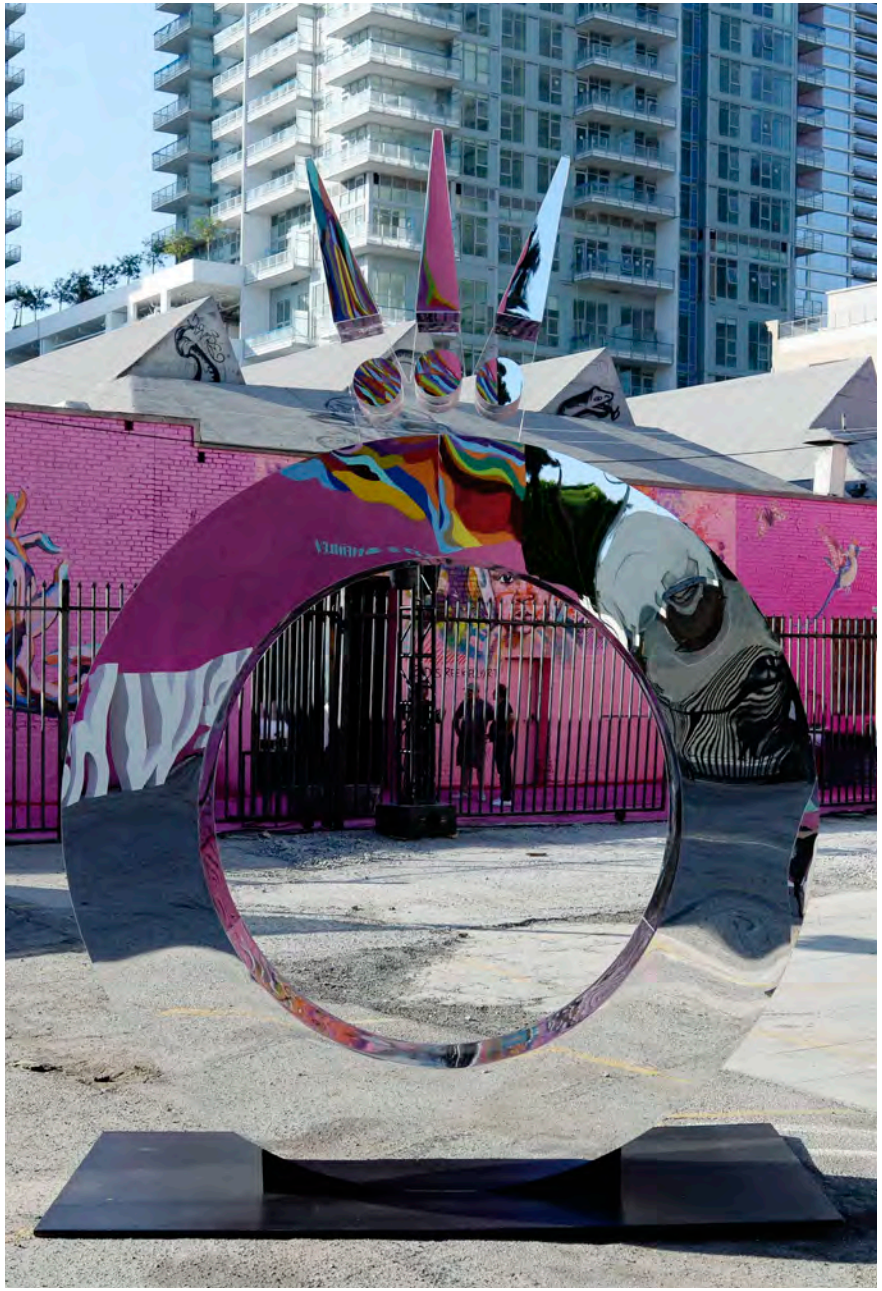
In 2019, net financials amounted to gain of DKK 1 million (2018: gain of DKK 151 million). The impact from IFRS 16 on net financials is DKK -104 milliion.

Income tax expense

Income tax expense was DKK 884 million in 2019 compared with DKK 1,537 million in 2018, corresponding to an effective tax rate of 23.1% for 2019 compared with 23.4% in 2018.

In 2018, the effective tax rate was affected by recurring reversal of deferred tax asset related to the asset transfer from Kasi Group.

EBIT DEVELOPMENT (DKK million)	**FY 2019**	**FY 2018**	**Growth**	**EBIT margin FY 2019**	**EBIT margin FY 2018**
EMEA	3,093	3,235	*-4%*	*28.8%*	*28.9%*
Americas	1,858	1,785	*4%*	*27.4%*	*26.2%*
Asia Pacific	903	1,411	*-36%*	*20.7%*	*29.3%*
EBIT excl. restructuring costs	**5,854**	**6,431**	***-9%***	***26.8%***	***28.2%***
Restructuring costs	-2,025	-	-	*-9.3%*	-
EBIT incl. restructuring costs	**3,829**	**6,431**	***-40%***	***17.5%***	***28.2%***



Balance sheet and cash flow

DEVELOPMENT IN OPERATING WORKING CAPITAL (DKK million)	2019	2018	Growth	Share of revenue 2019	Share of revenue 2018
Inventories	2,137	3,158	*-32%*	*9.8%*	*13.8%*
Trade receivables	1,643	1,650	-	*7.5%*	*7.2%*
Trade payables	-3,095	-2,253	*-37%*	*-14.2%*	*-9.9%*
Total	**684**	**2,555**	***-73%***	***3.1%***	***11.2%***

Pandora generated free cash flow of DKK 5,075 million in 2019 (excluding IFRS 16 i.e. including lease payments) compared with DKK 5,558 million in 2018. Including IFRS 16, the free cash flow was DKK 6,213 million, corresponding to a cash conversion of 162%. The strong cash conversion is driven by a very efficient CAPEX level and material and continued extraordinary improvements in working capital levels. The operating working capital ended at an extraordinary low level at 3.1% of revenue and both trade payables and inventories were at levels which are not sustainable going forward. The inventory level ended lower than targeted following product supply constraints. Trade payables were impacted by restructuring costs as well as the inventory buyback programme where the majority of cash is paid in early 2020.

Pandora had CAPEX of a total of DKK 822 million in 2019 mainly related to investments at the production facility in Thailand and IT investments. CAPEX was 3.8% of 2019 revenue compared with 5.0% in 2018.

Total assets amounted to DKK 21,571 million by the end of 2019 compared to DKK 19,244 million at the end of 2018. The increase is a result of the implementation of IFRS 16. Recognising lease contracts on the balance sheet increased total non-current assets by DKK 4.0 billion by the end of 2019, recognised as right-of-use assets.

As announced in the Annual Report 2018, Pandora has revisited the capital structure policy due to the implementation of the IFRS 16 accounting standard and adjusted the target for net interest-bearing debt (NIBD) to be between 0.5 and 1.5 times EBITDA. At the end of 2019, NIBD was DKK 9,019 million corresponding to a NIBD to EBITDA ratio of 1.1 excluding restructuring costs.

Parent Company

The Parent Company operates as the principal of Pandora, and all inventories are consequently traded from the crafting facilities in Thailand to wholesalers and retailers through the Parent Company. Similarly, all inventories are returned from subsidiaries through the Parent Company for the purpose of remelting any excess inventory. Gross profit is therefore significantly impacted by realised losses from remelting activities and unrealised losses from inventory write-downs. Fluctuations in market prices of silver and gold also have a major impact on gross profit.

Apart from the sale of jewellery, the Parent Company maintains and develops Group functions, including administration, distribution, business development, retail set up, product development and risk management, which all determine the activity level in the Parent Company. The risk management activities carried out by the Parent Company include hedging the Group's risk relating to commodity prices and exchange rates.

Revenue was DKK 9,533 million (2018: DKK 12,933 million), while net profit was DKK 1,789 million (2018: DKK 5,665 million). The decrease in net profit was mainly related to Programme NOW and impairment in subsidiaries, see note 2.2 and 3.4 in the Parent Company Annual Report 2019. In 2019, Pandora A/S received dividends of DKK 1,321 million (2018: DKK 1,883 million).

Other events and impacts in 2019:
- Executive Management changed in 2019 with the appointment of the new CEO. The effect of this is described in the Remuneration Report available on the Pandora website
- New accounting standards were implemented, see note 1.2 to the consolidated statement. Of these, only IFRS 16 Leases impacted the Parent Company, with a marginal effect on EBIT.

06 Financial statements

#WhatDoYouLove
Symbolising the love for tones and creativity, the charm is a symbol of self-expression.

Consolidated statement of comprehensive income

(For the year ended 31 December)

CONSOLIDATED INCOME STATEMENT (DKK million)	Notes	2019	2018[1]
Revenue	2.1, 2.2	21,868	22,806
Cost of sales	2.4, 3.1, 3.2	-5,966	-5,864
Gross profit		**15,903**	**16,942**
Sales, distribution and marketing expenses	2.4, 3.1, 3.2	-9,305	-8,222
Administrative expenses	2.4, 3.1, 3.2	-2,770	-2,289
Operating profit	2.2	**3,829**	**6,431**
Finance income	4.6	351	533
Finance costs	4.6	-351	-382
Profit before tax		**3,829**	**6,582**
Income tax expense	2.6	-884	-1,537
Net profit for the year		**2,945**	**5,045**
Earnings per share, basic (DKK)	4.2	30.3	47.2
Earnings per share, diluted (DKK)	4.2	30.1	47.0

[1] Comparative figures have not been restated following the adoption of IFRS 16 Leases.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (DKK million)	Notes	2019	2018[1]
Net profit for the year		**2,945**	**5,045**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		226	1
Commodity hedging instruments:			
- Realised in net cost of sales		6	-6
- Realised in net financials		-16	-3
- Realised in inventories		-55	117
- Fair value adjustments		83	-84
Foreign exchange hedging instruments:			
- Realised in net financials		-41	-97
- Fair value adjustments		24	129
Tax on other comprehensive income, hedging instruments, income/expense	2.6	-27	-12
Items that may be reclassified to profit/loss for the year, net of tax		**200**	**45**
Items not to be reclassified to profit/loss for the year			
Actuarial gain/loss on defined benefit plans, net of tax	2.4	-	12
Items not to be reclassified to profit/loss for the year, net of tax		**-**	**12**
Other comprehensive income, net of tax		**200**	**57**
Total comprehensive income for the year		**3,145**	**5,102**

Consolidated balance sheet

(At 31 December)

ASSETS (DKK million)	Notes	2019	2018[1]
Goodwill		4,416	4,278
Brand		1,057	1,057
Distribution network		94	124
Distribution rights		1,047	1,047
Other intangible assets		831	1,272
Total intangible assets	**3.1**	**7,445**	**7,778**
Property, plant and equipment	3.2	2,585	2,634
Right-of-use assets	3.3	4,010	-
Deferred tax assets	2.6	675	1,050
Other financial assets		290	323
Total non-current assets		**15,006**	**11,785**
Inventories	3.5	2,137	3,158
Trade receivables	3.6	1,643	1,650
Right-of-return assets	3.8	73	94
Derivative financial instruments	4.4, 4.5	187	162
Income tax receivable		467	86
Other receivables		1,004	922
Cash		1,054	1,387
Total current assets		**6,565**	**7,459**
Total assets		**21,571**	**19,244**

EQUITY AND LIABILITIES (DKK million)	Notes	2019	2018[1]
Share capital	4.1	100	110
Treasury shares	4.1	-1,964	-3,469
Reserves		1,167	967
Dividend proposed		836	920
Retained earnings		5,110	7,891
Total equity		**5,249**	**6,419**
Provisions	3.7	278	279
Loans and borrowings	4.3, 4.4	7,962	6,421
Deferred tax liabilities	2.6	235	461
Other payables	4.4	1	172
Total non-current liabilities		**8,476**	**7,333**
Provisions	3.7	53	28
Refund liabilities	3.8	753	869
Contract liabilities	3.8	71	66
Loans and borrowings	4.3, 4.4	2,069	248
Derivative financial instruments	4.4, 4.5	115	83
Trade payables	4.4	3,095	2,253
Income tax payable		438	543
Other payables	4.4	1,250	1,402
Total current liabilities		**7,846**	**5,492**
Total liabilities		**16,322**	**12,825**
Total equity and liabilities		**21,571**	**19,244**

[1] Comparative figures have not been restated following the adoption of IFRS 16 Leases.

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
2019								
Equity at 1 January		110	-3,469	913	54	920	7,891	6,419
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**2,945**	**2,945**
Exchange rate adjustments of investments in subsidiaries		-	-	226	-	-	-	226
Fair value adjustments of hedging instruments		-	-	-	1	-	-	1
Tax on other comprehensive income	2.6	-	-	-27	-	-	-	-27
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	-	-	-	-	-	-6	-6
Share-based payments (exercised)		-	13	-	-	-	-13	-
Share-based payments (tax)		-	-	-	-	-	11	11
Purchase of treasury shares		-	-2,583	-	-	-	-	-2,583
Reduction of share capital		-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**
2018								
Equity at 1 January		113	-1,999	912	10	987	6,491	6,514
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**5,045**	**5,045**
Exchange rate adjustments of investments in subsidiaries		-	-	1	-	-	-	1
Fair value adjustments of hedging instruments		-	-	-	56	-	-	56
Actuarial gain/loss	2.4	-	-	-	-	-	12	12
Tax on other comprehensive income	2.6	-	-	-	-12	-	-	-12
Other comprehensive income, net of tax		**-**	**-**	**1**	**44**	**-**	**12**	**57**
Total comprehensive income for the year		**-**	**-**	**1**	**44**	**-**	**5,057**	**5,102**
Fair value adjustments of obligation to acquire non-controlling interests		-	-	-	-	-	77	77
Share-based payments	2.4, 2.5	-	-	-	-	-	-31	-31
Share-based payments (exercised)		-	105	-	-	-	-105	-
Share-based payments (tax)		-	-	-	-	-	-11	-11
Purchase of treasury shares		-	-3,289	-	-	-	-	-3,289
Reduction of share capital		-3	1,714	-	-	-	-1,711	-
Dividend paid	4.2	-	-	-	-	-1,954	11	-1,943
Dividend proposed	4.2	-	-	-	-	1,887	-1,887	-
Equity at 31 December		**110**	**-3,469**	**913**	**54**	**920**	**7,891**	**6,419**

Dividend paid in 2019 relating to the 2018 results was DKK 9 per share, corresponding to DKK 896 million (2018: DKK 986 million). Furthermore, DKK 860 million was paid as part of the commitment to pay bi-annual dividend in 2019 relating to the 2019 results. In 2020, Pandora will pay a dividend of DKK 9 per share, corresponding to DKK 836 million, relating to the 2019 results.

Consolidated statement of cash flows

(For the year ended 31 December)

(DKK million)	Notes	2019	2018[1]
Profit before tax		3,829	6,582
Finance income	4.6	-351	-533
Finance costs	4.6	351	382
Depreciation and amortisation		2,319	990
Share-based payments	2.5	20	-31
Change in inventories		1,284	-18
Change in receivables		-65	224
Change in payables and other liabilities		808	762
Other non-cash adjustments	4.7	-20	59
Interest etc. received		13	4
Interest etc. paid		-178	-58
Income tax paid		-1,233	-1,739
Cash flows from operating activities, net		**6,775**	**6,624**
Acquisition of subsidiaries and activities, net of cash acquired	3.4	-148	-1,071
Purchase of intangible assets		-272	-380
Purchase of property, plant and equipment		-540	-727
Change in other non-current assets		66	-23
Proceeds from sale of property, plant and equipment		18	10
Cash flows from investing activities, net		**-877**	**-2,191**
Acquisition of non-controlling interests		-311	-
Dividend paid	4.2	-1,756	-1,943
Purchase of treasury shares	4.1	-2,583	-3,289
Proceeds from loans and borrowings	4.3	5,626	4,413
Repayment of loans and borrowings	4.3	-6,088	-3,191
Repayment of lease commitments	4.3	-1,138	-
Cash flows from financing activities, net		**-6,250**	**-4,010**
Net increase/decrease in cash		**-352**	**423**
Cash at 1 January[2]		1,387	993
Exchange gains/losses on cash		19	-29
Net increase/decrease in cash		-352	423
Cash at 31 December[2]		**1,054**	**1,387**

(DKK million)	Notes	2019	2018[1]
Cash flows from operating activities, net		6,775	6,624
- Interest etc. received		-13	-4
- Interest etc. paid		178	58
Cash flows from investing activities, net		-877	-2,191
- Acquisition of subsidiaries and activities, net of cash acquired		148	1,071
Free cash flow		**6,213**	**5,558**
Unutilised credit facilities		3,061	1,833

The above cannot be derived directly from the income statement and the balance sheet.
[1] Comparative figures have not been restated following the adoption of IFRS 16 Leases.
[2] Cash comprises cash at bank and in hand.

§ ACCOUNTING POLICIES

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

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

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.

SECTION 1

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.

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 2019 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.

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

Alternative performance measures

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

§ ACCOUNTING POLICIES

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

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

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

Consolidated financial statements

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

Functional and presentation currency

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

Transactions and balances

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

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

NOTE 1.1
Principal accounting policies (continued)

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

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

Consolidated income statement

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

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

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

The allocation of amortisation and impairment losses from intangible assets is presented in note 3.1 and allocation of depreciation and impairment losses from 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 2019. Except for the implementation of IFRS 16 Leases described below, the implementation of new or amended standards and interpretations has not had any material impact on Pandora's Annual Report in 2019.

IFRS 16 Leases

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

Pandora has elected to use the following exemptions proposed by the standard:
- Not to reconsider if existing contracts are, or include, a lease
- Not to recognise lease contracts for which the lease terms end within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value
- Apply discount rate to a group of similar lease assets

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

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

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

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

NOTE 1.2
New accounting policies and disclosures (continued)

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

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

CONSOLIDATED INCOME STATEMENT (DKK million)	2019 reported	2019 Acc. IAS 17
Revenue	21,868	21,868
Cost of sales	-5,966	-5,966
Gross profit	**15,903**	**15,903**
Sales, distribution and marketing expenses	-9,305	-9,362
Administrative expenses	-2,770	-2,775
Operating profit	**3,829**	**3,766**
Finance income	351	350
Finance costs	-351	-245
Profit before tax	**3,829**	**3,871**
Income tax expense	-884	-884
Net profit for the period	**2,945**	**2,987**
Depreciation on right-of-use assets	-1,125	-
EBITDA	6,148	4,960
EBITDA margin, %	28.1%	22.7%
EBIT	3,829	3,766
EBIT margin, %	17.5%	17.2%
Repayment of lease commitments	-1,138	-
Free cash flow, adjusted for repayment of lease commitments	6,213	5,075
Invested capital	14,268	10,224
Return on invested capital (ROIC), %	27%	37%
Net interest-bearing debt (NIBD)	9,019	5,202
NIBD to EBITDA, x	1.5	1.0

Impact on reported key figures and comparison to previous reporting

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

NOTE 1.3
Management's judgements and estimates under IFRS

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Pandora is subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively. Specific risks for Pandora are discussed in the relevant sections of the Management's review and in the notes.

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

- 2.1 Revenue from contracts with customers
- 2.3 Programme NOW restructuring costs
- 2.6 Taxation
- 3.3 Leases
- 3.5 Inventories
- 3.8 Contract assets and liabilities
- 5.1 Contingent liabilities

SECTION 2

Results for the year

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

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

21,868

Revenue (DKK million)
2018: 22,806

26.8%

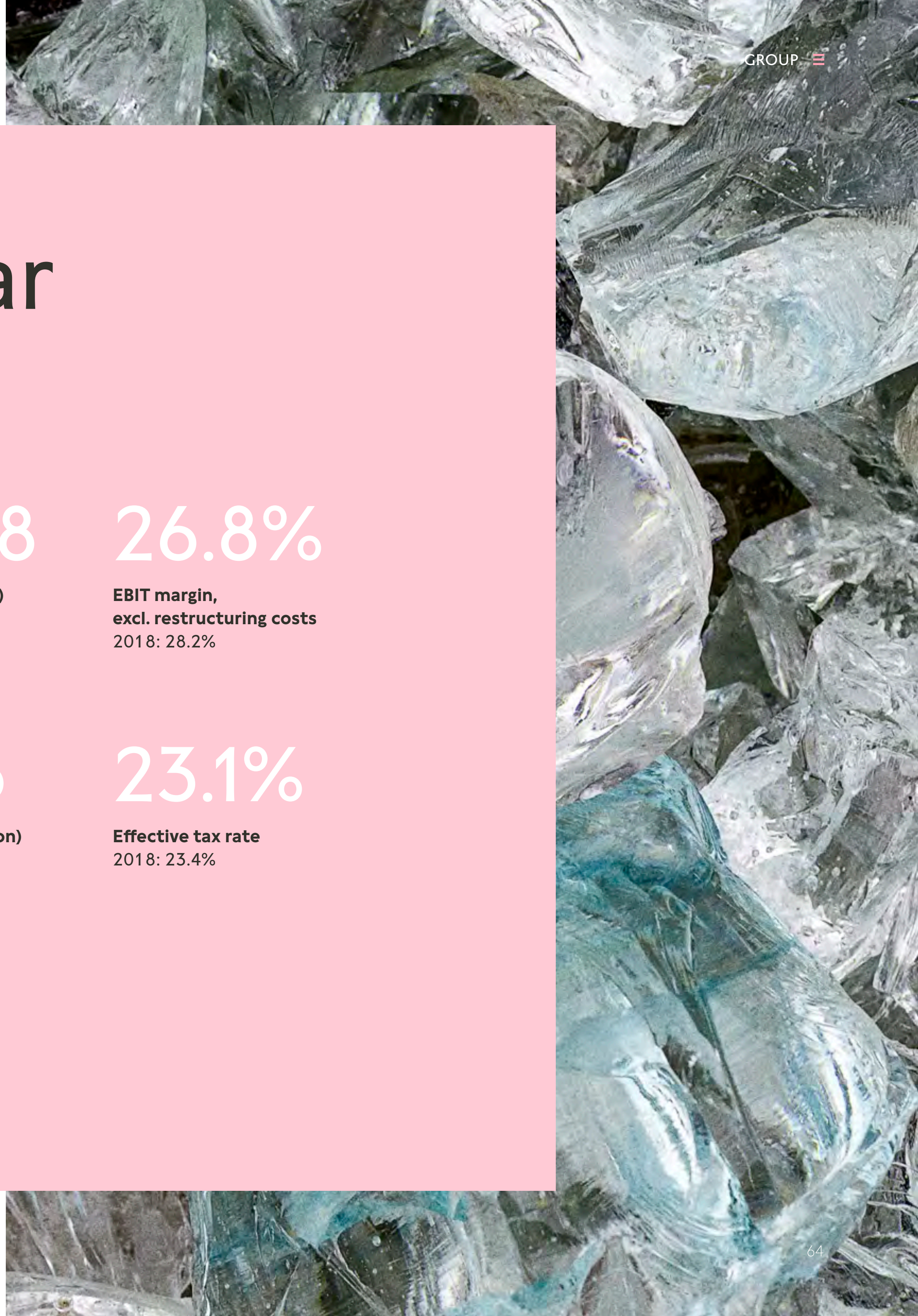
EBIT margin, excl. restructuring costs
2018: 28.2%

2,945

Net profit (DKK million)
2018: 5,045

23.1%

Effective tax rate
2018: 23.4%



NOTE 2.1
Revenue from contracts with customers

REVENUE BY REGION (DKK million)	**2019**	**2018**
EMEA	10,740	11,190
Americas	6,772	6,807
Asia Pacific	4,356	4,809
Total revenue	**21,868**	**22,806**

REVENUE BY SALES CHANNEL (DKK million)	**2019**	**2018**
Retail physical stores	11,399	10,591
Retail online stores	2,782	2,304
Wholesale and third-party distribution	7,687	9,911
Total revenue	**21,868**	**22,806**

REVENUE BY PRODUCT CATEGORY (DKK million)	**2019**	**2018**
Charms	11,395	12,126
Bracelets	4,216	4,393
Rings	3,113	3,168
Earrings	1,487	1,486
Necklaces & Pendants	1,658	1,633
Total revenue[1]	**21,868**	**22,806**
Goods transferred at a point in time	21,799	22,707
Services transferred over time	70	99
Total revenue	**21,868**	**22,806**

[1] Figures include franchise fees etc. of DKK 87 million (2018: DKK 103 million), which have been allocated to the product categories.

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

§ 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 eSTORE. However, in some instances collection is delayed and a receivable recognised, see note 3.6.

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.

NOTE 2.1
Revenue from contracts with customers (continued)

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. Payment terms for sales to wholesalers and third-party distributors normally comprise current month + 1-2 months. 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
Segment information

Pandora's activities are segmented on the basis of geographical areas consistent with the management reporting structure.

The operating activities of the Group are divided into three operating segments: EMEA, Americas and Asia Pacific, each segment represented by its own segment president on the Executive Leadership Team. All three operating segments comprise wholesale, retail and e-commerce business activities relating to the distribution and sale of Pandora products.

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

As announced in the Annual Report 2018, the Group has chosen to measure performance based on EBIT rather than EBITDA from 1 January 2019. Management monitors the segment profit of the operating segments separately for the purpose of making decisions about resource allocation and performance management. Segment results are measured as EBIT, corresponding to 'operating profit' in the consolidated financial statements after depreciation, amortisation and impairment losses in respect of non-current assets.

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

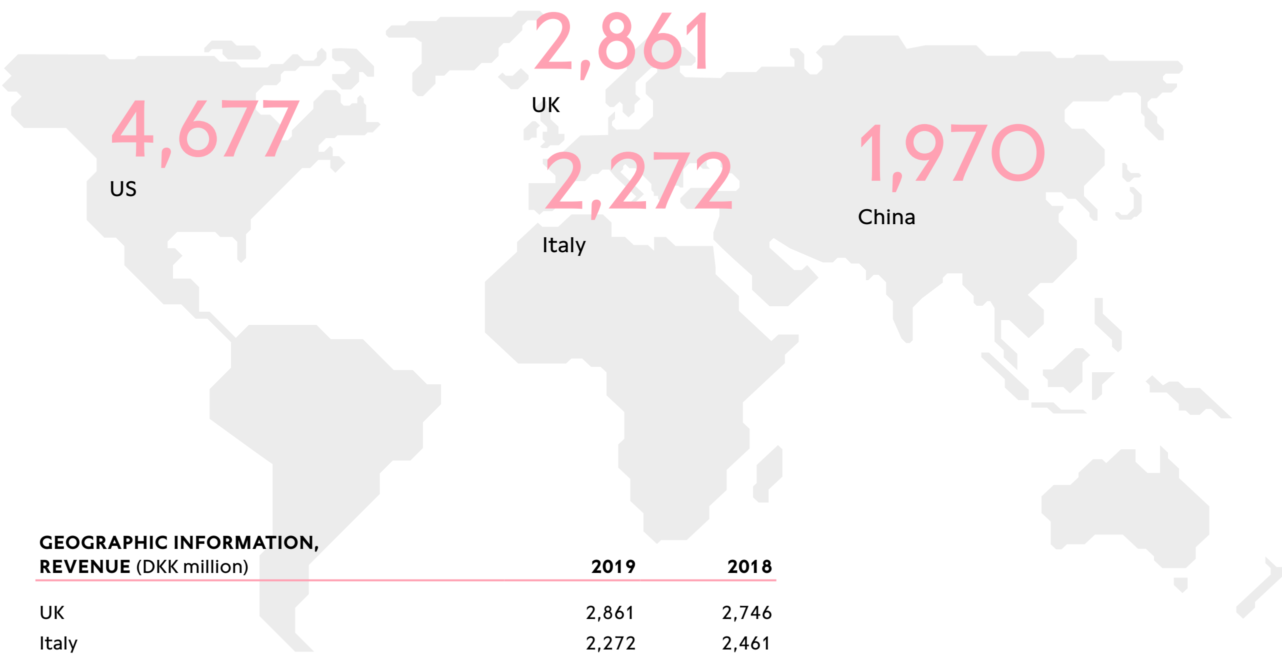
Segment information is recognised and measured in accordance with IFRS.

INCOME STATEMENT (DKK million)	**EMEA**	**Americas**	**Asia Pacific**	**Group**
2019				
Total revenue	**10,740**	**6,772**	**4,356**	**21,868**
Segment profit (EBIT) excl. restructuring costs	**3,093**	**1,858**	**903**	**5,854**
Segment profit margin (EBIT margin) excl. restructuring costs	*28.8%*	*27.4%*	*20.7%*	*26.8%*
Restructuring costs				-2,025
Consolidated operating profit (EBIT)				**3,829**
Operating profit margin (EBIT margin)				*17.5%*
2018				
Total revenue	**11,190**	**6,807**	**4,809**	**22,806**
Segment profit (EBIT) excl. restructuring costs	**3,235**	**1,785**	**1,411**	**6,431**
Segment profit margin (EBIT margin) excl. restructuring costs	*28.9%*	*26.2%*	*29.3%*	*28.2%*
Restructuring costs				-
Consolidated operating profit (EBIT)				**6,431**
Operating profit margin (EBIT margin)				*28.2%*

NOTE 2.2

Segment information (continued)

REVENUE BY MARKET (DKK million)



GEOGRAPHIC INFORMATION, REVENUE (DKK million)	**2019**	**2018**
UK	2,861	2,746
Italy	2,272	2,461
Denmark	53	65
Other EMEA	5,553	5,918
EMEA	**10,740**	**11,190**
US	4,677	4,880
Other Americas	2,096	1,927
Americas	**6,772**	**6,807**
China	1,970	1,969
Other Asia Pacific	2,387	2,840
Asia Pacific	**4,356**	**4,809**
Total revenue	**21,868**	**22,806**

GEOGRAPHIC INFORMATION, INTANGIBLE ASSETS (DKK million)	**2019**	**2018**
Germany	633	701
Denmark	2,155	2,474
Other EMEA	1,374	1,495
EMEA	**4,162**	**4,670**
US	1,816	1,712
Other Americas	97	116
Americas	**1,913**	**1,828**
Australia	449	443
Thailand	641	612
Other Asia Pacific	280	225
Asia Pacific	**1,370**	**1,280**
Total intangible assets[1]	**7,445**	**7,778**
Property, plant and equipment[2]	2,585	2,634
Right-of-use assets[3]	4,010	-
Deferred tax assets	675	1,050
Other non-current financial assets	290	323
Current assets	6,565	7,459
Total consolidated assets	**21,571**	**19,244**

[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 1,331 million (2018: DKK 1,215 million), corresponding to 51.5% of property, plant and equipment (2018: 46.1%).

[3] Right-of-use assets are mainly related to the stores and officies in EMEA (DKK 2,703 million), Americas (DKK 777 million) and Asia Pacific (DKK 530 million).

NOTE 2.3
Programme NOW restructuring costs

Programme NOW
Programme NOW costs are reported in the income statement within cost of sales and sales, distribution, marketing and administrative expenses.

Restructuring costs amounted to DKK 2.0 billion in 2019. Restructuring costs impacted the income statement as follows:
- Cost of sales, DKK 1.0 billion, primarily related to inventory buyback (DKK 0.6 billion) and product portfolio optimisation (DKK 0.3 billion)
- Operating expenses, DKK 1.0 billion, primarily related to brand restructuring activities, IT transformation, consultancy expenses and accelerated amortisations. Restructuring costs impacted marketing expenses (DKK 0.2 billion), sales and distribution expenses (DKK 0.2 billion) and administrative expenses (DKK 0.6 billion).

The items included in the restructuring costs are:

Inventory buyback and remelt
The cost incurred under the inventory buyback programme (DKK 0.6 billion) relates to write-down to remelt value of products bought back in selected markets as part of the initiative to support the reduction of slowmoving stock. This one-off is solely initiated by Pandora towards distributor and franchisees with no right-of-return in existing sales contracts of the stocks in question and no further obligations have been committed for this initiative. The amount is recognised in cost of sales.

Product portfolio optimisation
Pandora is simplifying its product portfolio significantly, reducing design variations by approximately 30%. The cost incurred (DKK 0.3 billion) relates to the write-down of discontinued design variations to remelt values and is recognised in cost of sales.

Accelerated amortisation
A new and more agile strategy for developing and upgrading the ecommerce platform has shortened the useful life of the platform. As a result, accelerated amortisation of DKK 0.2 billion is recognised as sales expenses in respect of the e-commerce platform.

Other initiatives
Brand restructuring activities (DKK 0.2 billion), IT transformation costs (DKK 0.1 billion) and costs related to the launch and execution of Programme NOW (DKK 0.4 billion) have also been accounted for as restructuring costs.

Programme NOW was launched in 2018. Pandora did not incur any restructuring costs under Programme NOW in 2018. Accordingly, comparative figures have not been restated.

§ 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 the remelt process regarding inventory buyback and product portfolio optimisation, see note 3.5 inventories.

Furthermore, Executive Management applies judgement in distinguishing between restructuring and normal operation.

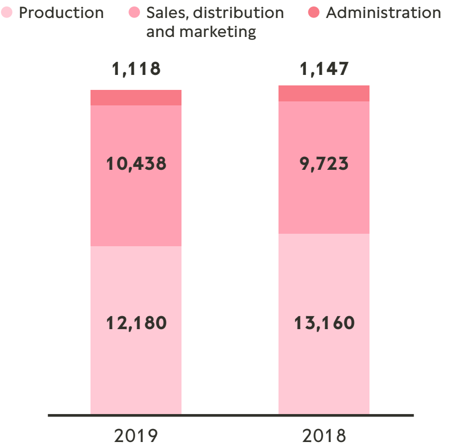
NOTE 2.4
Staff costs

(DKK million)	2019	2018
Wages and salaries	3,811	3,697
Pensions	166	173
Share-based payments	20	-31
Social security costs	263	247
Other staff costs	553	455
Total staff costs	**4,814**	**4,541**
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	1,122	1,071
Sales, distribution and marketing expenses	2,816	2,631
Administrative expenses	876	839
Total staff costs	**4,814**	**4,541**
Average number of full-time employees during the year	23,736	24,030

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 2019, these obligations amounted to DKK 75 million (2018: DKK 75 million).

Actuarial gain was DKK 0 million (2018: gain of DKK 12 million) recognised in other comprehensive income.

AVERAGE FTE PER FUNCTION



(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-in award to Alexander Lacik of DKK 18.0 million, 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)	Base pay	Bonus	Shares	Benefits	Other	Total
2018						
Total remuneration to Executive Management	**36.9**	**21.6**	**7.6**	**1.4**	**5.6**	**73.1**

The above compensation to Executive Management in 2018 includes severance pay to Anders Colding Friis and Peter Vekslund in the amount of DKK 24.5 million related to base pay, DKK 17.2 million related to expected future bonuses in the notice period and DKK 5.6 million in sharebased payment. Furthermore, 'Other' in the table above includes DKK 3.3 million (5 out of 9 months) related to a replacement reward to Anders Boyer. 'Other' also includes DKK 2.3 million as part of a DKK 7.0 million cash bonus to Jeremy Schwartz, which is payable after 12 months of service.For further details, see the Remuneration Report available on the Pandora website.

(DKK million)	2019	2018
Total remuneration to Board of Directors	**7.4**	**6.8**

Certain Board members received a fixed travel fee as compensation when attending Board meetings abroad in 2019. Total travel fee for 2019 amounted to DKK 0.9 million (2018: 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 performance shares are made by the Board in accordance with general guidelines on incentive pay for Pandora. Performance shares have been granted to members of the Executive Management and other employees in Pandora.

Costs related to share-based payments were DKK 20 million, offset by the reversal of costs related to programmes not expected to vest as targets are or will not be reached, net costs were DKK 20 million (2018: net reversal of cost of DKK 31 million). The programme for 2019 was partially written down as the targets for 2019, 2020 and 2021 respectively are not expected to be met in full. The cost of share-based payments and the current year's corresponding reversal of costs are included in staff costs. In the remaining vesting periods, an amount of DKK 52 million (2018: DKK 2 million) is expected to be recognised in respect of the current programmes.

For shares exercised in 2019, the average share price at the time of exercise was DKK 334.

Long-term incentive programmes

Each year, two incentive programmes are launched targeting either Executive Management or Other employees. The calculated value of each programme is recognised over the vesting period (3 years) based on the likelihood that 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
2019				
Shares outstanding at 1 January	101,203	171,768	272,971	6.83
Shares granted during the year	118,524	366,868	485,392	2.65
Shares exercised during the year	-31,314	-	-31,314	2.99
Shares lapsed during the year	-	-36,250	-36,250	5.07
Shares outstanding at 31 December	**188,413**	**502,386**	**690,799**	**4.16**
2018				
Shares outstanding at 1 January	129,406	284,132	413,538	6.35
Shares granted during the year	25,171	114,307	139,478	6.68
Shares exercised during the year	-34,061	-118,449	-152,510	4.16
Shares lapsed during the year	-19,313	-108,222	-127,535	7.47
Shares outstanding at 31 December	**101,203**	**171,768**	**272,971**	**6.83**

NOTE 2.5

Share-based payments (continued)

NUMBER OF PERFORMANCE SHARES IN PANDORA A/S	Expiry date	Exercise price, DKK	Shares 31 December 2019	Shares 31 December 2018	Expected volatility	Risk-free interest rate	Dividend per share	Market value at launch (DKK million)	Cost recognised 31 December (DKK million)	Remaining value to be expensed (DKK million)
Programme start date										
February 2014	2019	2.99	-	31,314	46%	0.47%	6.50	14	14	-
March 2015	2020	5.00	32,061	32,061	33%	-0.22%	9.00	20	20	-
March 2017	2020	9.11	66,545	71,887	31%	-0.40%	9.00	68	-	-
March 2017	2022	9.11	14,106	14,106	31%	-0.19%	9.00	11	-	-
March 2018	2021	6.68	86,670	99,881	35%	0.21%	9.00	67	-	-
March 2018	2023	6.68	15,857	15,857	35%	-0.17%	9.00	10	-	-
November 2018	2023	2.65	7,865	7,865	43%	-0.13%	9.00	2	1	1
March 2019	2021	2.65	349,171	-	43%	-0.58%	9.00	93	18	43
March 2019	2024	2.65	118,524	-	43%	-0.48%	9.00	27	3	8
Total number of performance shares outstanding			**690,799**	**272,971**				**311**	**56**	**52**

The weighted average remaining contractual life of shares at the end of the period was 2.1 years (2018: 1.7 years).

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

Assumptions

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

NOTE 2.6
Taxation

Income taxes

Income tax expense
Income tax expense was DKK 884 million in 2019, corresponding to an effective tax rate of 23.1% (2018: DKK 1,537 million, 23.4%). The tax rate of 23.1% was negatively impacted by a deviation in foreign subsidiaries' tax rates compared with the Danish tax rate, adjustments to previous years and paid withholding tax. The effective tax rate is reduced by non-taxable income in Thailand due to the Board of Investment agreements (BOIs).

SIGNIFICANT ACCOUNTING ESTIMATES

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

Tax policy
Pandora is committed to ensure compliance with the letter and spirit of tax laws in the markets in which we operate, while striving to maximise shareholder value in a responsible way. Pandora will 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 tax risks to ensure they 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.

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.

INCOME TAX EXPENSE (DKK million)	**2019**	**2018**
Current income tax charge for the year	751	1,709
Deferred tax change for the year	114	-293
Deferred tax impact of change in tax rates	1	6
Adjustment to current tax for prior years	-29	58
Adjustment to deferred tax for prior years	47	57
Total income tax expense	**884**	**1,537**
Deferred tax on other comprehensive income	-	12
Company tax on other comprehensive income	27	-
Total tax on other comprehensive income	**27**	**12**

	2019		**2018**	
RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	**%**	**(DKK million)**	**%**	**(DKK million)**
Profit before tax		3,829		6,582
Corporate tax rate in Denmark, 22%	22.0%	842	22.0%	1,448
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	1.0%	37	0.6%	40
Deferred tax impact of change in tax rates	0.0%	1	0.1%	6
Non-taxable income and non-deductible expenses	-0.8%	-31	-1.2%	-81
Adjustment to tax for prior years	0.5%	18	1.8%	115
Non-capitalised tax assets, net	0.1%	4	0.0%	-
Withholding taxes	0.3%	13	0.1%	9
Effective income tax rate/income tax expense	**23.1%**	**884**	**23.4%**	**1,537**

NOTE 2.6
Taxation (continued)

DEFERRED TAX (DKK million)	**2019**	**2018**
Deferred tax at 1 January	589	383
Exchange rate adjustments	4	-1
Recognised in the income statement	-161	236
Recognised in other comprehensive income	-	-12
Recognised in equity, share-based payments	9	-11
Impact of change in tax rates	-1	-6
Deferred tax at 31 December	**440**	**589**
Deferred tax assets	675	1,050
Deferred tax liabilities	-235	-461
Deferred tax, net	**440**	**589**

BREAKDOWN OF DEFERRED TAX (DKK million)	**2019**	**2018**
Intangible assets	-616	-663
Property, plant and equipment	5	-6
Right-of-use assets	9	-
Current assets	840	963
Non-current assets and liabilities	199	284
Tax loss carryforwards	3	11
Deferred tax, net	**440**	**589**

Deferred tax
Of the total deferred tax assets recognised, DKK 3 million (2018: DKK 11 million) is related to tax loss carryforwards, where the utilisation depends on future positive taxable income exceeding realised deferred tax liabilities. It is Management's opinion that these tax loss carryforwards can be utilised.

Tax assets not recognised, DKK 30 million (2018: DKK 35 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 7 million (2018: DKK 10 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 2019.

§ 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.

SECTION 3

Invested capital and working capital items

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

Additions to invested capital in 2019 included acquisitions described in note 3.4 for a total consideration of DKK 140 million.

Operating working capital at the end of 2019 was 3.1% of revenue, compared with 11.2% at the end of 2018.

Financial risks are described in note 4.4.

WORKING CAPITAL (DKK MILLION)	Notes	2019	2018
Inventories	3.5	2,137	3,158
Trade receivables	3.6	1,643	1,650
Trade payables		-3,095	-2,253
Operating working capital		**684**	**2,555**
Other receivables		1,077	1,016
Current provisions	3.7	-53	-28
Net tax payable		29	-457
Other payables		-2,034	-2,029
Net working capital		**-296**	**1,057**

INVESTED CAPITAL (DKK MILLION)	Notes	2019	2018
Intangible assets	3.1	7,445	7,778
Property, plant and equipment	3.2	2,585	2,634
Right-of-use assets	3.2	4,010	-
Other non-current financial assets		290	323
Non-current provisions	3.7	-278	-279
Net working capital		-296	1,057
Deferred tax, net	2.6	440	589
Derivative financial instruments, net		72	79
Other liabilities		-1	-110
Invested capital		**14,268**	**12,071**

3.1%

Operating working capital / revenue
2018: 11.2%

822

CAPEX (DKK million)
2018: 1,129

14,268

Invested capital (DKK million)
2018: 12,071

NOTE 3.1

Intangible assets

(DKK million)	Goodwill	Brand	Distri-bution network	Distri-bution rights	Other intangible assets	Total
2019						
Cost at 1 January	4,278	1,057	455	1,424	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**	**455**	**1,426**	**1,705**	**9,060**
Amortisation and impairment losses at 1 January	-	-	331	377	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	**-**	**-**	**361**	**379**	**874**	**1,615**
Carrying amount at 31 December	**4,416**	**1,057**	**94**	**1,047**	**831**	**7,445**
2018						
Cost at 1 January	3,522	1,057	455	1,557	1,789	8,380
Acquisition of subsidiaries and activities	739	-	-	-	26	765
Additions	-	-	-	-	376	376
Disposals	-	-	-	-136	-36	-172
Exchange rate adjustments	17	-	-	3	22	42
Cost at 31 December	**4,278**	**1,057**	**455**	**1,424**	**2,177**	**9,391**
Amortisation and impairment losses at 1 January	-	-	301	404	676	1,381
Amortisation for the year	-	-	30	106	260	396
Disposals	-	-	-	-136	-36	-172
Exchange rate adjustments	-	-	-	3	5	8
Amortisation and impairment losses at 31 December	**-**	**-**	**331**	**377**	**905**	**1,613**
Carrying amount at 31 December	**4,278**	**1,057**	**124**	**1,047**	**1,272**	**7,778**

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)	2019	2018
Amortisation has been recognised in the income statement as follows:		
Cost of sales	52	39
Sales, distribution and marketing expenses	198	206
Administrative expenses	246	151
Total	**496**	**396**

Goodwill

Additions in 2019 relate to acquisitions of companies and 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 network

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

Distribution rights

Distribution rights are mainly related to the distribution rights for Pandora products in North America. They were acquired with the American distributor in 2008 and the carrying amount was DKK 1,034 million at 31 December 2019 (2018: 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.

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.

NOTE 3.1
Intangible assets (continued)

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 network
The distribution network is initially recognised at fair value based on an estimation of the costs the entity avoids by owning the intangible assets and not needing to rebuild the network (the cost approach). The distribution network is amortised over an expected useful life of 15 years.

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

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

Other intangible assets
Software is initially recognised at cost and amortised over 3-5 years.

In 2019, the useful economic life of the e-commerce platform was changed from three years to one year, resulting in increased amortisation. 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 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 three operational segments for impairment testing purposes. It is Management's opinion that this best reflects Pandora's value creation.

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

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

The recoverable amount is based on a calculation of the value in use using cash flow estimates based on budgets and expectations for the next three years. The long-term growth rate in the terminal period has been set so that it equals the expected long-term rate of inflation.

NOTE 3.1
Intangible assets (continued)

ALLOCATION OF INTANGIBLE ASSETS TO CGUS (DKK million)	**Goodwill**	**Brand**	**Distribution network**	**Distribution rights**	**Other intangible assets**	**Total**
2019						
EMEA	2,545	-	-	-	33	2,578
Americas	972	-	-	1,034	147	2,154
Asia Pacific	898	-	-	13	14	926
Group	-	1,057	94	-	637	1,788
Total	**4,416**	**1,057**	**94**	**1,047**	**831**	**7,445**
2018						
EMEA	2,493	-	-	-	269	2,762
Americas	954	-	-	1,034	81	2,069
Asia Pacific	831	-	-	13	21	865
Group	-	1,057	124	-	901	2,082
Total	**4,278**	**1,057**	**124**	**1,047**	**1,272**	**7,778**

DISCOUNT RATES AND GROWTH RATES IN TERMINAL PERIOD	**Discount rate before tax**	**Growth rate in terminal period**
2019		
EMEA	10.2%	2%
Americas	11.4%	2%
Asia Pacific	12.9%	2%
Group	**10.9%**	**2%**
2018		
EMEA	12.3%	2%
Americas	14.6%	2%
Asia Pacific	13.4%	2%
Group	**13.1%**	**2%**

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

Assumptions

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

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

The EBIT figures used in the impairment test are based on the budget for next year, prepared and approved by Management, and 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 (store openings, retail/wholesale share), product mix and market share
- cost of sales based on raw materials consumption affected by mix of materials (stones, gold, silver and salaries) and average lagged hedge commodity prices at the time the budget is prepared
- development in operating expenses
- currency rates are based on actual rates at the time the budget is prepared.

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

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

The impairment tests did not identify any need for impairment losses to be recognised. Based on sensitivity analyses, it is Management's opinion that no probable change in any key assumptions would cause the carrying amounts of grouped CGUs or at Group level to exceed the recoverable amount.

Even with a significant reduction in growth rate and an increase 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
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**
2018				
Cost at 1 January	732	2,370	341	3,443
Acquisition of subsidiaries and activities	-	104	5	109
Additions	4	331	418	753
Disposals	-8	-95	-	-103
Transfers	233	409	-642	-
Exchange rate adjustments	47	29	-	76
Cost at 31 December	**1,008**	**3,148**	**122**	**4,278**
Depreciation and impairment losses at 1 January	112	1,007	-	1,119
Depreciation for the year	49	544	-	593
Disposals	-2	-84	-	-86
Exchange rate adjustments	7	11	-	18
Depreciation and impairment losses at 31 December	**166**	**1,478**	**-**	**1,644**
Carrying amount at 31 December	**842**	**1,670**	**122**	**2,634**

(DKK million)	2019	2018
Depreciation has been recognised in the income statement as follows:		
Cost of sales	165	141
Sales, distribution and marketing expenses	432	359
Administrative expenses	101	93
Total	**698**	**593**

OPERATING LEASES (DKK million)	Land and buildings	Plant and equipment	Total
Future minimum lease payments on existing contracts at 31 December 2019			
Less than 1 year	5	4	10
Between 1 and 5 years	-	3	3
More than 5 years	-	-	-
Total	**5**	**7**	**12**
Future minimum lease payments on existing contracts at 31 December 2018			
Less than 1 year	1,035	16	1,051
Between 1and 5 years	2,346	12	2,358
More than 5 years	434	-	434
Total	**3,815**	**28**	**3,843**

NOTE 3.2
Property, plant and equipment (continued)

ACCOUNTING POLICIES

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

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

NOTE 3.3
Leases

Leases
In 2019, accounting for operating leases changed with the implementation of IFRS 16 Leases. The effects of this change are described in note 1.2. Pandora leases retail 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)	**2019**
Property	3,972
IT	2
Cars	21
Other	16
Total right-of-use assets	**4,010**

Additions of right-of-use assets in the period 1 January - 31 December 2019 were DKK 522 million.

LEASE LIABILITIES (DKK million)	**2019**
Non-current	2,804
Current	1,012
Total lease liabilities	**3,816**

Lease liabilities are recognised in loans and borrowings.

Amounts recognised in the income statement:

RECOGNISED DEPRECIATION ON RIGHT-OF-USE ASSETS CHARGED TO THE INCOME STATEMENT FOR THE PERIOD 1 JANUARY - 31 DECEMBER: (DKK million)	**2019**
Property	1,105
IT	1
Cars	12
Other	7
Total depreciation on right-of-use assets for the period	**1,125**

NOTE 3.3
Leases (continued)

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

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

Total cash outflow relating to leases was DKK 1,643 million for the period. This comprises of fixed lease payments in scope of IFRS 16 in amount of DKK 1,138 million, variable lease payments in amount of DKK 371 million, interest paid in amount of DKK 104 million and short term and low value leases in amount of DKK 30 million. Many of the property leases within the Group contain variable payment terms that are linked to the volume of sales made from leased stores according to normal market practice. In 2019 around 23% of the lease payments recognised in the income statement were variable rent. Pandora estimated that a 1% increase in annual revenue would consequently result in a 0.5% increase in lease payments.

Usual lease contracts on stores average 5 years with a 3-5 year option to extend in approximately 23% of current contracts. The estimated value of the lease extensions that Pandora is not reasonably certain to exercise is 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. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Pandora assesses each reporting date if 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. The lease payments include fixed payments less any lease incentives receivable. Some of the contracts 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.

! SIGNIFICANT ACCOUNTING ESTIMATES

When assessing the life of the 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 5 years with a 3-5 year option to extend in approximately 23% of the current contracts. The lease period of stores is assessed to be up to 10 years depending on an internal store rating considering the location, revenue and earnings. For office buildings, the contract is usually 5 – 15 years. For other assets, the life is equal to the non-cancellable lease period and extensions are not considered for these.

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was around 3%.

NOTE 3.4
Business combinations

Acquisitions in 2019

On 1 January 2019, Pandora acquired the distribution in Taiwan from the previous distributor, Carrera Corporation, in an asset deal as the distribution agreement ended. The acquisition comprised of inventories and non-current assets relating to 5 concept stores and 13 shop-in-shops. Including VAT, the purchase price was DKK 94 million. The purchase price without VAT is DKK 91 million. Goodwill from the acquisition was DKK 50 million. All goodwill is expected to be deductible for income tax purposes. Goodwill mainly consists of know-how, future growth expectations and the effect of converting the acquired business from distribution to Pandora owned retail.

Pandora further acquired 25 stores in the period 1 January - 31 December 2019 (8 concept stores in Italy, 2 in Australia, 2 in Germany, 4 shop-in-shops in Spain and 9 shop-in-shops in Mexico) in 8 business combinations. Net assets acquired mainly consisted of inventory and other non-current assets and liabilities relating to the stores.

The total purchase price for acquisitions made in the period 1 January - 31 December 2019 was DKK 140 million. Based on the purchase price allocations, goodwill was DKK 59 million. Goodwill from the acquisitions is mainly related to the synergies from converting the stores from wholesale to Pandora owned retail.

Of the goodwill acquired, DKK 59 million is deductible for income tax purposes. Costs relating to the acquisitions were DKK 2 million and are recognised as operating expenses in the income statement.

Contribution to Group revenue and net earnings from acquisitions for the period 1 January - 31 December 2019 was DKK 0.3 billion and DKK 0.1 billion respectively.

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

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

Acquisitions in 2018

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

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

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

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

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

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

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

NOTE 3.4

Business combinations (continued)

ACQUISITIONS (DKK million)	**2019**	**2018**
Other intangible assets	1	26
Property, plant and equipment	13	109
Other non-current receivables	-	2
Trade receivables and other receivables	-	38
Inventories	70	302
Cash	-	4
Assets acquired	**84**	**481**
Non-current liabilities	-	23
Payables	-	31
Other current liabilities	2	58
Liabilities assumed	**2**	**112**
Total identifiable net assets acquired	**82**	**369**
Goodwill arising on acquisitions	59	739
Purchase consideration	**140**	**1,108**
Cash movements on acquisitions:		
Consideration transferred regarding previous years [1]	12	2
Deferred payment (including earn-out) [2]	-5	-35
Cash acquired	-	-4
Net cash flows on acquisitions	**148**	**1,071**

[1] Consideration paid related to acquisitions in 2019 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] For 2018, the deferred payment relates to the acquisition of the distributor in Ireland, DKK 22 million, and store acquisitions in the UK and Italy. For 2019, the deferred payment relates to the store acquisitions in Mexico.

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 three operational segments for impairment testing purposes due to the constraint in IAS 36 Impairment.

If any part of the cost of an acquisition is contingent on future events or 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)	2019	2018
Raw materials and consumables	481	548
Work in progress	158	185
Finished goods	1,398	2,234
Point-of-sale materials	99	191
Total inventories at 31 December	**2,137**	**3,158**
Inventory write-downs at 1 January	539	447
Write-downs during the year	881	366
Utilised in the year	-583	-274
Inventory write-downs at 31 December	**837**	**539**

Write-downs
Write-downs of inventories are recognised in cost of sales, DKK 818 million (2018: DKK 294 million), and operating expenses, DKK 63 million (2018: DKK 72 million). Write-downs include remelt costs.

Remelting of goods (realised and unrealised) had a negative impact on gross profit by DKK 722 million (2018: DKK 230 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 2.3 Programme NOW.

§ ACCOUNTING POLICIES

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

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

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

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

! SIGNIFICANT ACCOUNTING ESTIMATES

Pandora has opted to remelt certain products in order to reduce some of the costs of disposing of products that are either defective or are not expected to be sold. The impact from remelt is mainly influenced by the market prices of silver and gold.

NOTE 3.6
Trade receivables

(DKK million)	2019	2018
Receivables related to third-party distribution and wholesale	1,086	1,301
Receivables related to retail revenue sales	557	349
Total trade receivables at 31 December	**1,643**	**1,650**
Ageing of trade receivables at 31 December		
Not past due	**1,419**	**1,303**
Up to 30 days	184	245
Between 30 and 60 days	34	85
Between 60 and 90 days	4	13
Over 90 days	1	4
Total past due, not impaired	**223**	**347**
Total trade receivables at 31 December	**1,643**	**1,650**
Development in impairment losses on trade receivables		
Impairment at 1 January	103	37
Additions	78	87
Utilised	-10	-8
Unused amounts reversed	-43	-13
Exchange rate adjustments	2	-
Impairment at 31 December	**129**	**103**

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

Trade receivables is mainly related to wholesale channel.

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

§ ACCOUNTING POLICIES

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

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 receivbles 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 to the left.

NOTE 3.7
Provisions

(DKK million)	2019	2018
Provisions at 1 January	307	197
Additions in the year	180	160
Additions from acquisitions	-	22
Utilised in the year	-102	-8
Unused provisions reversed	-64	-67
Exchange rate adjustments	10	3
Provisions at 31 December	**332**	**307**
Provisions are recognised in the consolidated balance sheet as follows:		
Current	53	28
Non-current	278	279
Provisions at 31 December	**332**	**307**

Provisions

Provisions include provisions for defined benefit pension plans, obligations to restore leased property as well as other legal and constructive obligations.

§ ACCOUNTING POLICIES

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

NOTE 3.8
Contract assets and liabilities

(DKK million)	2019	2018
Contract assets		
Receivables from sale of products, see note 3.6	1,643	1,650
Right-of-return assets	73	94
Total contract assets	**1,716**	**1,744**
Contract liabilities		
Prepayments from customers	7	8
Coupons, gift cards etc.	64	58
Refund liabilities	753	869
Total contract liabilities	**824**	**935**

§ 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 a decrease in cost of goods sold. This is due to the handling of warranty claims, which lead to replacements instead of repairs.

No costs to obtain contracts with customers have been capitalised as part of contracts with customers either in 2019 or previous years. This is common practice in Pandora.

! SIGNIFICANT ACCOUNTING ESTIMATES

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

SECTION 4

Capital structure and net financials

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

The basis of Pandora's capital management is the NIBD to EBITDA ratio, which Management seeks to maintain between 0.5 and 1.5. See Shareholder information and note 4.4 for further description. At 31 December 2019, the ratio was 1.5x compared with 0.8x at 31 December 2018. The cash conversion was 162% in 2019 when excluding payment of leases (as per IFRS 16 guidance) compared with 86% in 2018.

2,583

Share buyback (DKK million)
2018: 3,289

NOTE 4.1
Share capital

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

TREASURY SHARES	Number of shares	Nominal value (DKK)	Purchase/ sales price	% of shares
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%**
2018				
Balance at 1 January	2,891,926	2,891,926	1,999,226,958	2.6%
Used to settle performance shares	-152,510	-152,510	-105,432,194	-0.1%
Reduction of share capital	-2,478,388	-2,478,388	-1,713,342,631	-2.2%
Purchase of treasury shares	7,564,525	7,564,525	3,288,952,124	6.9%
Balance at 31 December	**7,825,553**	**7,825,553**	**3,469,404,257**	**7.1%**

At 31 December 2019, the share capital comprised 100,000,000 shares with a par value of DKK 1. No shares have special rights.

In 2019, Pandora launched a share buyback programme under which Pandora expects to buy back own shares to a value of DKK 2,200 million. Pandora bought 9,305,288 treasury shares in 2019, corresponding to a total purchase price of DKK 2,583 million. Of these, 2,659,652 treasury shares corresponding to a total purchase price of DKK 791 million related to the 2018 programme, and 6,645,636 treasury shares corresponding to a total purchase price of DKK 1,792 million related to the 2019 programme.

Treasury shares

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

NOTE 4.2

Earnings per share and dividend

(DKK million)	2019	2018
Profit attributable to equity holders	**2,945**	**5,045**
Weighted average number of ordinary shares	97,250,084	106,956,155
Effect of performance shares	690,799	272,971
Weighted average number of ordinary shares adjusted for the effect of dilution	**97,940,883**	**107,229,126**
Basic earnings per share, DKK	30.3	47.2
Diluted earnings per share, DKK	30.1	47.0

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

Dividend

At the end of 2019, proposed dividend (not yet declared) was DKK 9 per share (2018: DKK 9 per share), corresponding to DKK 836 million. Declared dividend of DKK 9 per share, corresponding to DKK 896 million in 2018, was paid to the shareholders in 2019. No dividend was paid on treasury shares.

Furthermore, 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.

Distributable reserves

When calculating the amount available for distribution of dividend, treasury shares are deducted from distributable reserves.

§ ACCOUNTING POLICIES

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

NOTE 4.3

Net interest-bearing debt

(DKK million)	2019	2018
Loans and borrowings, non-current	5,157	6,421
Lease liabilities, non-current	2,804	-
Other liabilities, non-current	1	62
Loans and borrowings, current	1,057	248
Lease liabilities, current	1,012	-
Other liabilities, current	41	308
Cash	-1,054	-1,387
Net interest-bearing debt	**9,019**	**5,652**

Capital management

The principal objectives of Pandora's capital management are to ensure shareholders a competitive return on their investment and to ensure that Pandora will be able to meet all the commitments set out in loan agreements with banks. The basis of Pandora's capital management is the NIBD to EBITDA ratio. It is the Group's policy that the ratio should be between 0.5 and 1.5 on a 12-month rolling basis. See section 4 Shareholder information and note 4.4 for further details. At 31 December 2019, the NIBD to EBITDA ratio including restructuring cost was 1.5x (2018: 0.8x).

Total committed credit facilities amounted to DKK 8,247 million (2018: DKK 7,500 million), of which DKK 747 million is committed until December 2020, DKK 1,000 million until June 2021 and DKK 6,500 million until June 2022.

NOTE 4.3
Net interest-bearing debt (continued)

TOTAL LIABILITIES FROM FINANCING ACTIVITIES (DKK million)	Financial liabilities 1 January	Cash flows, net	IFRS16 effect 1 January 2019	New leases	Other[1]	Foreign exchange adjustments	Financial liabilities 31 December
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	-	-1,138	1,082	129	909	30	1,012
Total liabilities from financing activities	**6,669**	**-1,600**	**4,404**	**502**	**-49**	**105**	**10,031**
2018							
Non-current borrowings	5,283	1,138	-	-	-	-	6,421
Current borrowings	164	84	-	-	-	-	248
Total liabilities from financing activities	**5,447**	**1,222**	**-**	**-**	**-**	**-**	**6,669**

[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, and the upfront prepayment of lease liabilities. 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 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.

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 the estimated commodity purchases must be hedged.

The table below illustrates the sensitivity on 2019 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.

Commodity price risk

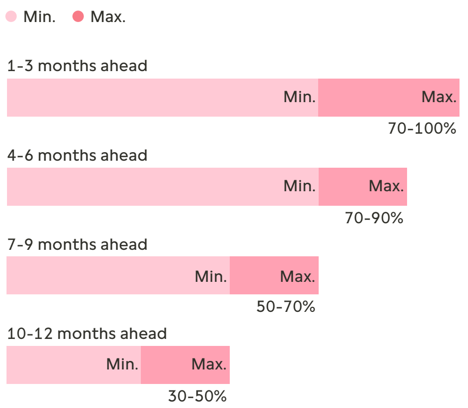
Raw material risk is the risk of fluctuating commodity prices resulting in additional production costs. The most important raw materials are silver and gold, which are priced in USD.

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.

SENSITIVITY ANALYSIS ON EXCHANGE RATES AND COMMODITY PRICES[1] (DKK million)	Change in exchange rate and commodity prices	2019 Revenue	2019 EBIT	2019 EBIT margin impact	2018 Revenue	2018 EBIT	2018 EBIT margin impact
USD	+10%	577	112	0.0%	603	106	-0.3%
CAD	+10%	67	42	0.1%	76	51	0.1%
AUD	+10%	112	68	0.2%	136	93	0.2%
GBP	+10%	286	186	0.6%	275	193	0.5%
EUR	+1%	65	28	0.1%	70	38	0.1%
CNY	+10%	197	78	0.2%	197	88	0.1%
THB	+10%	-	-265	-1.2%	-	-281	-1.2%
GOLD and SILVER	+10%	-	-150	-0.7%	-	-147	-0.6%

[1] Revenue and EBIT would have been impacted by the above amounts if exchange rates and commodity prices in 2019 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 HEDGE RATIO TARGET (%)



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

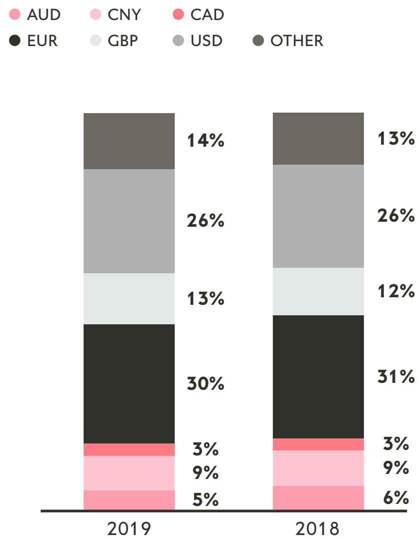
Commodity hedging is updated at the end of each month or in connection with revised 12-month rolling production plans. Actual production may deviate from the 12-month rolling production plan. In case of deviations, the realised commodity hedge ratio may deviate from the estimated hedge ratio. For the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

Foreign currency risk

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

The majority of Pandora's revenue is denominated in USD, CAD, AUD, GBP, CNY and EUR. The functional currency of subsidiaries is generally the local currency. A substantial portion of Pandora's costs relates to raw materials purchased in USD. In addition, Pandora has costs in THB. Exchange rate changes to these currencies will result in changes to the translated value of future EBIT and cash flows.

REVENUE BREAKDOWN BY CURRENCY (%)



NOTE 4.4
Financial risks (continued)

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 profit or loss of foreign subsidiaries and the translation of foreign currency assets and liabilities.

It is Pandora's policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. Pandora basically does not hedge balance sheet items or ownership interests in foreign subsidiaries. For 2020, 70% of the cash flows from the main currencies have been hedged based on a rolling 12-month liquidity forecast. Cash flows are hedged from 1 to 12 months forward with a hedge ratio that decreases with time to maturity. Foreign currency hedging is updated at the end of each month or in connection with revised 12-month rolling cash forecasts.

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

CURRENCY EXPOSURE FROM ASSETS AND LIABILITIES (DKK million)	Change in exchange rate	31 December 2019 Profit (loss) before tax	31 December 2019 Equity	31 December 2018 Profit (loss) before tax	31 December 2018 Equity
USD	+10%	-149	-203	243	84
CAD	+10%	-4	-42	7	-28
AUD	+10%	16	-34	30	-24
GBP	+10%	54	-98	50	-103
EUR	+1%	-18	-15	-	-
THB	+10%	28	330	70	350
CNY	+10%	50	-13	39	-34

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 transactions related to direct distributors and local key customers.

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. It is Pandora's policy for Group Treasury to monitor and manage these credit risks.

Liquidity risk

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

Pandora has committed revolving credit facilities of DKK 7,500 million, of which DKK 1,000 million is committed until June 2021 and DKK 6,500 million until June 2022. Also, Pandora has a committed term loan of DKK 747 million maturing end-2020. 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. The covenant was not breached in 2019.

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 lead to a DKK 75 million decrease (2018: DKK 67 million decrease) in profit before tax and equity, excluding tax effect.

Pandora has a relatively conservative capital structure policy to maintain a leverage ratio between 0.5 and 1.5 times EBITDA (including committed leases in accordance with IFRS 16).

NOTE 4.4
Financial risks (continued)

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.

Obligations to acquire non-controlling interests mainly relate to the acquisition in Japan in January 2015. The amount payable according to the contract is DKK 41 million for Japan.

Based on Management assessment, the fair value of the obligation in Japan has been calculated considering the expected revenue at the end of the contract based on the latest available information. Discounted fair value at the reporting date was recognised at DKK 41 million (2018: DKK 59 million).

The following table includes the earn-out payment relating to Pandora Jewelry Central Western Europe A/S recognised at DKK 0 (2018: 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**
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	1,209	1	-	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	**6,684**	**7,495**	**650**	**14,828**
2018				
Non-derivatives				
Loans and borrowings	248	6,421	-	6,669
Trade payables	2,253	-	-	2,253
Other payables	1,109	113	-	1,222
Contract liabilities	66	-	-	66
Derivatives				
Derivative financial instruments	83	-	-	83
Fair value of obligation to acquire non-controlling interests (put options)	293	62	-	355
Total at 31 December	**4,052**	**6,596**	**-**	**10,648**

Operating leases are excluded.

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
2019				
Commodities	55	-23	32	23
Foreign exchange	132	-92	40	31
Total derivative financial instruments	**187**	**-115**	**72**	**54**
2018				
Commodities	55	-33	22	9
Foreign exchange	107	-50	57	44
Total derivative financial instruments	**162**	**-83**	**79**	**53**

Classification according to the fair value hierarchy

The fair value at 31 December 2019 and 2018 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.

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

§ ACCOUNTING POLICIES

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

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

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

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

The effective portion of the realised gain or loss on a commodity hedging transaction is recognised in Group inventories whereas the ineffective portion is realised in net financials. The realised gain or loss on all forward exchange contracts is recognised in net financials.

NOTE 4.6
Net financials

FINANCE INCOME (DKK million)	**2019**	**2018**
Finance income from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	121	115
Total finance income from derivative financial instruments	**121**	**115**
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	214	414
Interest income, bank	7	3
Interest income, loans and receivables	9	1
Total finance income from loans and receivables	**230**	**418**
Total finance income	**351**	**533**

FINANCE COSTS (DKK million)	**2019**	**2018**
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	63	43
Total finance costs from derivative financial instruments	**63**	**43**
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	102	276
Interest on loans and borrowings	25	30
Interest on lease liabilities	106	-
Other finance costs	55	33
Total finance costs from loans and borrowings	**288**	**339**
Total finance costs	**351**	**382**

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.

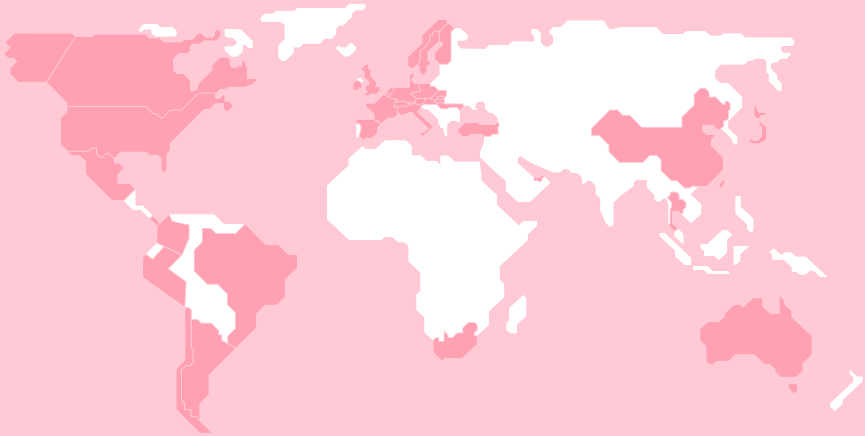
NOTE 4.7
Other non-cash adjustments

OTHER NON-CASH ADJUSTMENTS (DKK million)	**2019**	**2018**
Effects from exchange rate adjustments	48	-47
Effects from derivative financial instruments	-61	124
Other, including gains/losses from the sale of property, plant and equipment	-7	-18
Total other non-cash adjustments	**-20**	**59**

SECTION 5

Other disclosures

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



NOTE 5.1
Contingent liabilities

Litigation
Pandora is a party to various legal proceedings 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. In addition to the lease commitments disclosed in note 3.2, contractual obligations amounted to DKK 436 million (2018: DKK 357 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 2019, treasury shares accounted for 7.1% of the share capital (2018: 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 2019, 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)	2019	2018
Fee for statutory audit	11	9
Other assurance engagements	1	1
Total audit related services	**12**	**10**
Tax consultancy	-	-
Other services	0	1
Total non-audit services	**0**	**1**
Total fees to independent auditor	**12**	**11**

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 related to acquisitions and include both accounting and tax as well as due diligence-related work. All non-audit services have been approved by the Audit Committee in 2019.

NOTE 5.4
Events occurring after the reporting period

New Digital hub

On January 27, Pandora announced the establishment of a new Digital Hub employing around 80 employees in 2020. The dedicated group will be based at its Copenhagen headquarters to boost digital presence, omnichannel expertise and use of data. At the Digital Hub, employees will be tasked with the rapid evolution of Pandora's digital customer experience and driving sales through digital channels. The group will also strengthen Pandora's abilities to capture, analyse and apply customer data to enable better personalisation of the customer experience.

China

The outbreak of the coronavirus during January 2020 has led to forced closure of multiple stores in China and also led to unprecedented decline in consumer traffic in other stores. Revenue from Chinese consumers in other markets are also expected to be impacted. Due to the unpredictable nature of the situation, a further evaluation will be done when the full-year impact can be reasonably estimated.

NOTE 5.5
Companies in the Pandora Group

THE TABLE BELOW SHOWS INFORMATION ABOUT THE GROUP ENTITIES AT 31 DECEMBER 2019

Company	Ownership	Registered office	Date of consolidation
EMEA			
Pandora Österreich GmbH	100%	Austria	23 May 2012
Pandora Jewellery Belgium NV	100%	Belgium	13 April 2017
Pandora Jewelry CR s.r.o.	100%	Czech Republic	2 December 2009
Pandora Int. ApS	100%	Denmark	1 October 2009
Pandora Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
Pan Me A/S	100%	Denmark	16 January 2015
Pandora Jewellery DMCC	100%	Dubai	8 October 2014
Panmeas Jewellery LLC	100%	Dubai	16 January 2015
Pandora Jewellery UK Limited	100%	England	1 December 2008
Pandora Jewelry Finland Oy	100%	Finland	1 January 2012
Pandora France SAS	100%	France	25 February 2011
Pandora EMEA Distribution Center GmbH	100%	Germany	5 December 2011
Pandora Jewelry GmbH	100%	Germany	5 January 2010
Pandora Jewelry Hungary Ltd.	100%	Hungary	2 June 2010
Pandora Jewelry Limited	100%	Ireland	10 January 2018
Pandora Italia SRL	100%	Italy	23 May 2012
Pandora Jewelry B.V.	100%	Netherlands	20 September 2010
Pandora Norge AS	100%	Norway	17 August 2010
Pandora Jewelry Shared Services Sp. z.o.o.	100%	Poland	7 February 2012
Pandora Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
Pandora Jewelry Romania SRL	100%	Romania	18 August 2011
Pandora Jewelry Slovakia s.r.o.	100%	Slovakia	6 September 2016
Pandora Jewellery Spain S.L	100%	Spain	28 September 2017
Pandora Jewellery South Africa Pty Ltd.	100%	South Africa	31 January 2017
Pandora Sweden AB	100%	Sweden	4 November 2013
Pandora Schweiz AG	100%	Switzerland	6 December 2011
Pandora Jewelry Mücevherat Anonim Şirketi	100%	Turkey	4 November 2013
AMERICAS			
Pandora Jewelry Argentina SRL	100%	Argentina	27 September 2017
Pandora do Brasil Participações Ltda.	100%	Brazil	24 October 2013
Pandora do Brasil Comércio e Importação Ltda.	100%	Brazil	24 October 2013

Company	Ownership	Registered office	Date of consolidation
Pandora Jewelry Ltd.	100%	Canada	7 March 2008
Pandora Franchise Canada Ltd.	100%	Canada	19 January 2011
Pandora Retail Canada Ltd.	100%	Canada	4 February 2014
Pandora Jewelry Chile SpA	100%	Chile	7 May 2017
Pandora Jewelry Colombia S.A.S	100%	Colombia	17 January 2019
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 Inc.	100%	USA	1 July 2008
Pandora ECOMM LLC	100%	USA	21 August 2014
Pandora Jewelry LLC	100%	USA	7 March 2008
Pandora Franchising LLC	100%	USA	1 November 2009
Pandora Ventures LLC	100%	USA	10 May 2012
ASIA PACIFIC			
AD Astra Holdings Pty Ltd.	100%	Australia	1 July 2009
Pandora Retail Pty Ltd.	100%	Australia	1 July 2009
Pandora Jewelry Pty Ltd.	100%	Australia	1 July 2009
Pandora Jewelry (Shanghai) Company Ltd.	100%	China	4 February 2015
Pandora Jewelry Design (Beijing) Company Ltd.	100%	China	1 March 2016
Pandora Jewelry Asia-Pacific Limited	100%	Hong Kong	1 November 2009
Pandora Jewelry Hong Kong Company Ltd.	100%	Hong Kong	4 February 2015
Pandora Jewelry Japan Ltd.	100%	Japan	29 October 2014
Pandora Jewelry Macau Company Ltd.	100%	Macau	1 January 2016
Pandora Jewelry Singapore Pte. Ltd..	100%	Singapore	1 January 2016
Pandora Taiwan A/S	100%	Denmark	18 May 2018
Other (Production)			
Pandora Production Co. Ltd.	100%	Thailand	7 March 2008
Pandora Services Co. Ltd.	100%	Thailand	15 October 2010

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

NOTE 5.6
Financial definitions

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

Revenue growth, %	$\frac{\text{(The current year's revenue - last year's revenue) (rolling 12 months)}}{\text{Last year's revenue}}$
Revenue growth, local currency, %	$\frac{\text{(The current year's revenue at last year's exchange rates - last year's revenue) (rolling 12 months)}}{\text{Last year's revenue}}$
Gross margin, %	Gross profit / revenue
Effective tax rate, %	Income tax expense / profit before tax
Equity ratio, %	Equity / total assets
Payout ratio, %	Dividends paid for the year / net profit
Total payout ratio, %	Dividends paid for the year plus value of share buyback / net profit
EPS basic	Net profit / average number of shares outstanding
EPS diluted	Net profit / average number of shares outstanding, including the dilutive effect of share options 'in the money'

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

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

Retail like-for-like sales-out growth, %	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, %	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
Organic growth, %	Growth in external revenue in local currency relative to the same period last year adjusted for the acquisition/divestment of distributors and franchisee stores (the effect of converting wholesale to retail revenue and vice versa)
Restructuring costs	Costs related to 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
Return on invested capital (ROIC), %	EBIT / invested capital including goodwill
NIBD	Cash less loans and borrowings and other liabilities relating to obligations to acquire non-controlling interests (current and non-current)
NIBD to EBITDA	NIBD / EBITDA (rolling 12 months)
Cash conversion, %	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.

Parent company

Statement of comprehensive income

(For the year ended 31 December)

INCOME STATEMENT (DKK million)	Notes	2019	2018[1]
Revenue	2.1	9,533	12,933
Cost of sales		-5,994	-6,314
Gross profit		**3,539**	**6,619**
Sales, distribution and marketing expenses	2.3, 3.1, 3.2	-934	-450
Administrative expenses	2.3, 3.1, 3.2	-2,261	-1,615
Operating profit		**343**	**4,554**
Dividends from subsidiaries	3.4	1,321	1,883
Impairment of investments in subsidiaries	3.4	-107	-
Finance income	4.5	678	669
Finance costs	4.5	-234	-324
Profit before tax		**2,001**	**6,782**
Income tax expense	2.5	-212	-1,117
Net profit for the year		**1,789**	**5,665**

[1] Comparative figures have not been restated following the adoption of IFRS 16 Leases.

STATEMENT OF COMPREHENSIVE INCOME (DKK million)	Notes	2019	2018[1]
Net profit for the year		**1,789**	**5,665**
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Commodity hedging instruments:			
- Realised in net cost of sales		6	-6
- Realised in net financials		-1	-1
- Fair value adjustments		-13	7
Foreign exchange hedging instruments:			
- Realised in net financials		-41	-97
- Fair value adjustments		24	129
Tax on other comprehensive income, hedging instruments, income/expense	2.5	5	-7
Other comprehensive income, net of tax		**-20**	**25**
Total comprehensive income for the year		**1,769**	**5,690**

Balance sheet

(At 31 December)

ASSETS (DKK million)	**Notes**	**2019**	**2018**[1]
Intangible assets	3.1	3,091	3,405
Property, plant and equipment	3.2	50	55
Right-of-use assets	3.3	136	-
Investments in subsidiaries	3.4	6,304	4,738
Loans to subsidiaries	5.2	1,783	1,201
Other financial assets		9	9
Total non-current assets		**11,373**	**9,408**
Inventories	3.5	714	1,175
Trade receivables	3.6	12	15
Receivables from subsidiaries	5.2	3,227	6,694
Right-of-return assets	3.7	235	200
Derivative financial instruments	4.3, 4.4	187	162
Income tax receivable		319	20
Other receivables		422	231
Cash		347	-
Total current assets		**5,463**	**8,497**
Total assets		**16,835**	**17,905**

[1] Comparative figures have not been restated following the implementation of IFRS 16 Leases.

EQUITY AND LIABILITIES (DKK million)	**Notes**	**2019**	**2018**[1]
Share capital	4.1	100	110
Treasury shares		-1,964	-3,469
Reserves		291	531
Dividend proposed		836	920
Retained earnings		5,568	9,306
Total equity		**4,832**	**7,398**
Provisions		-	8
Loans and borrowings	4.2, 4.4	5,277	6,421
Deferred tax liabilities	2.5	154	386
Other payables	4.4	-	11
Total non-current liabilities		**5,430**	**6,826**
Provisions		4	4
Refund liabilities	3.7	1,615	1,260
Loans and borrowings	4.2, 4.4	954	125
Derivative financial instruments	4.3, 4.4	115	83
Payables to subsidiaries	4.4, 5.2	2,632	1,537
Trade payables	4.4	1,115	563
Other payables	4.4	138	109
Total current liabilities		**6,573**	**3,681**
Total liabilities		**12,004**	**10,507**
Total equity and liabilities		**16,835**	**17,905**

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
2019								
Equity at 1 January		110	-3,469	45	486	920	9,306	7,398
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**1,789**	**1,789**
Fair value adjustments of hedging instruments		-	-	-25	-	-	-	-25
Tax on other comprehensive income	2.5	-	-	5	-	-	-	5
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	-	-	-	-	-	-6	-6
Share-based payments (exercised)		-	13	-	-	-	-13	-
Share-based payments (tax)		-	-	-	-	-	10	10
Purchase of treasury shares		-	-2,583	-	-	-	-	-2,583
Reduction of share capital		-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**
2018								
Equity at 1 January		113	-1,999	20	335	987	7,530	6,986
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**5,665**	**5,665**
Fair value adjustments of hedging instruments		-	-	32	-	-	-	32
Tax on other comprehensive income	2.5	-	-	-7	-	-	-	-7
Other comprehensive income, net of tax		**-**	**-**	**25**	**-**	**-**	**-**	**25**
Total comprehensive income for the year		**-**	**-**	**25**	**-**	**-**	**5,665**	**5,690**
Transfers		-	-	-	151	-	-151	-
Share-based payments	2.4	-	-	-	-	-	-31	-31
Share-based payments (exercised)		-	105	-	-	-	-105	-
Share-based payments (tax)		-	-	-	-	-	-15	-15
Purchase of treasury shares		-	-3,289	-	-	-	-	-3,289
Reduction of share capital		-3	1,714	-	-	-	-1,711	-
Dividend paid		-	-	-	-	-1,954	11	-1,943
Dividend proposed		-	-	-	-	1,887	-1,887	-
Equity at 31 December		**110**	**-3,469**	**45**	**486**	**920**	**9,306**	**7,398**

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

Dividend paid in 2019 relating to the 2018 results was DKK 9 per share, corresponding to DKK 896 million (2018: DKK 986 million). Furthermore, DKK 860 million was paid as part of the commitment to pay bi-annual dividend in 2019 relating to the 2019 results. In 2020, Pandora will pay a dividend of DKK 9 per share, corresponding to DKK 836 million, relating to the 2019 results.

Statement of cash flows

(For the year ended 31 December)

(DKK million)	Notes	2019	2018[1]
Profit before tax		2,001	6,782
Finance income	4.5	-678	-669
Finance costs	4.5	234	324
Dividends from subsidiaries		-1,321	-1,883
Impairment of investments in subsidiaries		107	-
Depreciation and amortisation		415	201
Share-based payments	2.4	10	-10
Change in inventories		460	-200
Change in intercompany receivables/payables		710	2,754
Change in receivables		-248	-151
Change in payables and other liabilities		992	689
Other non-cash adjustments	4.6	300	291
Interest etc. received		171	125
Interest etc. paid		-48	-38
Income tax paid		-728	-1,187
Cash flows from operating activities, net		**2,377**	**7,028**
Acquisitions of subsidiaries and activities, net of cash acquired[3]	3.4	-351	-823
Purchase of intangible assets		-64	-195
Purchase of property, plant and equipment		-24	-5
Dividends received[4]		44	1,883
Cash flows from investing activities, net		**-394**	**860**
Dividend paid		-1,756	-1,943
Purchase of treasury shares	4.1	-2,583	-3,289
Proceeds from loans and borrowings	4.2	5,614	4,372
Repayment of loans and borrowings	4.2	-2,890	-7,096
Repayment of lease commitments		-20	-
Cash flows from financing activities, net		**-1,636**	**-7,956**
Net increase/decrease in cash		**347**	**-68**
Cash at 1 January[2]		-	68
Net increase/decrease in cash		347	-68
Cash at 31 December[2]		**347**	**-**

(DKK million)	Notes	2019	2018[1]
Cash flows from operating activities, net		2,377	7,028
- Interest etc. received		-171	-125
- Interest etc. paid		48	38
Cash flows from investing activities, net		-394	860
- Acquisition of subsidiaries and activities, net of cash acquired		351	823
Free cash flow		**2,210**	**8,624**
Unutilised credit facilities		2,735	1,595

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

[1] Comparative figures have not been restated following the implementation of IFRS 16 Leases.
[2] Cash comprises cash at bank and in hand.
[3] Non-cash capital increases amounts to DKK 1,339 million.
[4] Non-cash dividends received amounts to DKK 1,277 million.

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

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 2019 fully covers the Parent Company as well, except for the implementation of IFRS 16 Leases in 2019, which has not materially affected the results of the Parent Company as leasing arrangements are limited to the Head Quarter in Copenhagen and contracts for cars and office equipment. Pandora has recognised right-of-use assets of DKK 152 million and lease liabilities of DKK 155 million on 1 January 2019. Overall, invested capital increased by DKK 152 million. The implementation had only a very marginal impact on EBIT.

The measured discounted value of lease liabilities is calculated applying incremental borrowing rates, which average around 1%.

NOTE 1.3
Management's judgements and estimates under IFRS

SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 2.1
Revenue from contracts with customers

REVENUE BY COUNTRY (DKK million)	**2019**	**2018**
EMEA	5,248	5,939
Americas	2,695	4,710
Asia Pacific	1,590	2,284
Total revenue	**9,533**	**12,933**

REVENUE BY SALES CHANNEL (DKK million)	**2019**	**2018**
Third-party distribution	9,533	12,933
Total revenue	**9,533**	**12,933**

REVENUE BY PRODUCT CATEGORY (DKK million)	**2019**	**2018**
Charms	4,775	6,395
Bracelets	2,143	2,934
Rings	1,261	1,859
Earrings	619	796
Necklaces & Pendants	735	949
Total revenue[1]	**9,533**	**12,933**
Goods transferred at a point in time	9,533	12,933
Total revenue	**9,533**	**12,933**

[1] Figures include franchise fees of DKK 5 million (2018: DKK 6 million), which have been allocated to the product categories.

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

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 revenue, cost of sales and sales, distribution, marketing and administrative expenses.

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

- Revenue, DKK 0.7 billion, related to the product portfolio optimisation (sales return liability related to inventory returns from subsidiaries)
- Cost of sales, DKK 0.6 billion, primarily related to inventory buyback (DKK 0.6 billion)
- Operating expenses, DKK 0.9 billion, primarily related to brand restructuring activities, IT transformation, consultancy expenses and accelerated amortisations. Restructuring costs impacted marketing expenses (DKK 0.1 billion), sales and distribution expenses (DKK 0.2 billion) and administrative expenses (DKK 0.6 billion)

The significant items included in the restructuring costs are:

Inventory buyback and remelt
The cost incurred under the inventory buyback programme (DKK 0.6 billion) relates to write-down to remelt value of products bought back in selected markets as part of the initiative to support the reduction of slowmoving stock. This one-off is solely initiated by Pandora towards distributor and franchisees with no right-of-return in existing sales contracts of the stocks in question and no further obligations have been committed for this initiative. The amount is recognised in cost of sales.

Product portfolio optimisation
Pandora is simplifying its product portfolio significantly, reducing design variations by approximately 30%. The cost incurred (DKK 0.7 billion) relates to the inventory returns from subsidiaries and write-down of discontinued design variations and is recognised in revenue and cost of sales.

Accelerated amortisation
A new and more agile strategy for developing and upgrading the e-commerce platform has shortened the useful life of the platform. As a result, accelerated amortisation of DKK 0.2 billion is recognised as sales expenses in respect of the e-commerce platform.

Other initiatives
Brand restructuting activities (DKK 0.1 billion), IT transformation costs (DKK 0.1 billion) and costs related to the launch and execution of Programme NOW (DKK 0.4 billion) have also been accounted for as restructuring costs.

Programme NOW was launched in 2018. Pandora A/S did not incur any restructuring costs under Programme NOW in 2018. Accordingly, comparative figures have not been restated.

§ 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 remelt process regarding inventory buyback and product portfolio optimisation, see note 3.5 inventories.

Furthermore, Executive Management applies judgement in distinguishing between restructuring and normal operation.

NOTE 2.3
Staff costs

(DKK million)	2019	2018
Wages and salaries	391	343
Pensions	27	25
Share-based payments	10	-10
Social security costs	8	5
Other staff costs	84	37
Total staff costs	**521**	**400**
Staff costs have been recognised in the income statement:		
Sales, distribution and marketing expenses	196	133
Administrative expenses	324	267
Total staff costs	**521**	**400**
Average number of full-time employees during the year	478	448

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 share option programme described in note 2.5 to the consolidated financial statements is issued by Pandora A/S. The value of share options granted to employees in the Parent Company's subsidiaries is recognised in investments in subsidiaries. As described in note 2.5 to the consolidated financial statements, the costs related to share-based payments were DKK 20 million (2018: positive effect of DKK 31 million), of which DKK 16 million relates to subsidiaries (2018: positive effect of DKK 21 million).

NOTE 2.5
Taxation

INCOME TAX EXPENSE (DKK million)	2019	2018
Current income tax charge for the year	427	1,195
Deferred tax change for the year	-217	-78
Adjustment to current tax for prior years	4	25
Adjustment to deferred tax for prior years	-2	-25
Total income tax expense	**212**	**1,117**
Deferred tax on other comprehensive income	-5	7
Tax on other comprehensive income	**-5**	**7**

	2019		2018	
RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	%	(DKK million)	%	(DKK million)
Profit before tax		2,001		6,782
Corporate tax rate in Denmark, 22%	*22.0%*	440	*22.0%*	1,492
Non-taxable dividend income	*-14.5%*	-291	*-6.1%*	-414
Non-deductable impairment expenses	*1.2%*	24	-	-
Other adjustments including adjustment to tax for prior years	*1.5%*	30	*0.5%*	34
Withholding taxes	*0.4%*	9	*0.1%*	5
Effective income tax rate/income tax expense	***10.6%***	**212**	***16.5%***	**1,117**

§ 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.

NOTE 2.5
Taxation (continued)

DEFERRED TAX (DKK million)	**2019**	**2018**
Deferred tax at 1 January	-386	-467
Recognised in the income statement	219	103
Recognised in other comprehensive income	5	-7
Recognised in equity, share-based payments	8	-15
Deferred tax at 31 December	**-154**	**-386**
Deferred tax liabilities	-154	-386
Deferred tax, net	**-154**	**-386**

BREAKDOWN OF DEFERRED TAX (DKK million)	**2019**	**2018**
Intangible assets	-565	-647
Property, plant and equipment	9	10
Inventory	102	-
Provisions	304	233
Other assets and liabilities	-4	18
Deferred tax, net	**-154**	**-386**

NOTE 3.1
Intangible assets

(DKK million)	**Goodwill**	**Brand**	**Distri-bution network**	**Distri-bution rights**	**Other intangible assets**	**Total**
2019						
Cost at 1 January	549	1,044	453	1,087	1,110	4,243
Additions	-	-	-	-	186	186
Disposals	-	-	-	-	-390	-390
Cost at 31 December	**549**	**1,044**	**453**	**1,087**	**904**	**4,038**
Amortisation and impairment losses at 1 January	-	-	331	36	471	838
Amortisation for the year	-	-	30	-	346	376
Disposals	-	-	-	-	-266	-266
Amortisation and impairment losses at 31 December	**-**	**-**	**361**	**36**	**551**	**947**
Carrying amount at 31 December	**549**	**1,044**	**93**	**1,052**	**354**	**3,091**
2018						
Cost at 1 January	549	1,044	453	1,087	941	4,074
Additions	-	-	-	-	325	325
Disposals	-	-	-	-	-156	-156
Cost at 31 December	**549**	**1,044**	**453**	**1,087**	**1,110**	**4,243**
Amortisation and impairment losses at 1 January	-	-	301	36	354	691
Amortisation for the year	-	-	30	-	151	181
Disposals	-	-	-	-	-34	-34
Amortisation and impairment losses at 31 December	**-**	**-**	**331**	**36**	**471**	**838**
Carrying amount at 31 December	**549**	**1,044**	**122**	**1,051**	**639**	**3,405**

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

(DKK million)	**2019**	**2018**
Amortisation has been recognised in the income statement as follows:		
Sales, distribution and marketing expenses	182	48
Administrative expenses	195	133
Total	**376**	**181**

NOTE 3.2
Property, plant and equipment

(DKK million)	Plant and equipment	Assets under construction	Total
2019			
Cost at 1 January	125	1	126
Additions	-	14	14
Disposals	-6	-	-6
Transfers	14	-14	-
Cost at 31 December	**134**	**-**	**134**
Depreciation and impairment losses at 1 January	71	-	71
Depreciation for the year	18	-	18
Disposals	-6	-	-6
Depreciation and impairment losses at 31 December	**84**	**-**	**84**
Carrying amount at 31 December	**50**	**-**	**50**
2018			
Cost at 1 January	165	-	165
Additions	1	5	6
Disposals	-42	-3	-45
Transfers	1	-1	-
Cost at 31 December	**125**	**1**	**126**
Depreciation and impairment losses at 1 January	92	-	92
Depreciation for the year	20	-	20
Disposals	-41	-	-41
Depreciation and impairment losses at 31 December	**71**	**-**	**71**
Carrying amount at 31 December	**54**	**1**	**55**

OPERATING LEASES (DKK million)	2019	2018
Future minimum lease payments on existing contracts at 31 December		
Less than 1 year	1	20
Between 1 and 5 years	1	73
More than 5 years	-	61
Total	**1**	**154**

NOTE 3.3
Leases

Leases
In 2019, the accounting for operating leases changed with the implementation of IFRS 16 Leases. The effects of this change are described in note 1.2.

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

RIGHT-OF-USE ASSETS (DKK million)	**2019**
Property	132
Cars	5
Total right-of-use-assets	**136**

Additions of right-of-use assets in the period 1 January - 31 December 2019 were DKK 5 million.

LEASE LIABILITIES (DKK million)	**2019**
Non-current	119
Current	20
Total lease liabilities	**140**

Lease liabilities are recognised in loans and borrowings.

Amounts recognised in the income statement:

RECOGNISED DEPRECIATION ON RIGHT-OF-USE ASSETS CHARGED TO THE INCOME STATEMENT FOR THE PERIOD 1 JANUARY - 31 DECEMBER: (DKK million)	**2019**
Property	18
Cars	3
Total depreciation on right-of-use assets for the period	**20**

Costs recognised in the period for short-term and low-value leases were DKK 0 million. Expenses are recognised on a straight-line basis.

OTHER ITEMS RELATING TO LEASES: (DKK million)	**2019**
Interest expense	-1
Total interest for the period	**-1**

Total cash outflow relating to leases was DKK 21 million for the period.

NOTE 3.4
Investments in subsidiaries and business combinations

INVESTMENTS IN SUBSIDIARIES (DKK million)	2019	2018
Cost at 1 January	4,738	3,914
Additions[1]	1,690	845
Disposals	-2	-
Additions relating to share-based payments	-16	-21
Cost at 31 December	**6,411**	**4,738**
Impairment at 1 January	-	-
Impairment for the year	107	-
Impairment at 31 December	**107**	**-**
Carrying amount at 31 December	**6,304**	**4,738**

[1] In 2019, DKK 1.3 billion relates to the capital injection in US entity Pandora Jewelry Inc. In 2018, DKK 146 million relates to the acquisition of 100% of the share capital of the Irish distributor. See note 3.4 to the consolidated financial statements for further information on the acquisition.

Dividend received
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).

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

Result of annual impairment test
As at 31 December 2019, the cost price of the investments in subsidiaries was tested for impairment. The impairment test identified impairment charges for 2019 amounting to DKK 107 million (2018: DKK 0 million). The impairment was related to investments in subsidiaries in Turkey, South Africa and Brazil.

Key assumptions
The impairment test has been based on forecasts based on local statutory accounts for next year and a forecast for the two subsequent years, and applied discount rate in the range of 14%-24%.

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

Business combinations
Acquisitions in 2019
Pandora A/S did not acquire any businesses in 2019.

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

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

The company has no dormant companies.

NOTE 3.5
Inventories

(DKK million)	2019	2018
Finished goods	643	1,045
Point-of-sale materials	71	130
Total inventories at 31 December	**714**	**1,175**
Inventory write-downs at 1 January	181	165
Write-downs during the year	793	213
Utilised in the year	-638	-197
Inventory write-downs at 31 December	**336**	**181**

Write-downs of inventories are recognised in cost of sales, DKK 761 million (2018: DKK 199 million), and operating expenses, DKK 32 million (2018: DKK 14 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 3.6
Trade receivables

(DKK million)	2019	2018
Ageing of trade receivables at 31 December		
Not past due	12	15
Total past due, not impaired	-	-
Total trade receivables at 31 December	**12**	**15**
Development in impairment losses in trade receivables		
Impairment at 1 January	1	-
Additions	-	1
Impairment at 31 December	**1**	**1**

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

NOTE 3.7
Contract assets and liabilities

(DKK million)	2019	2018
Contract assets		
Receivables from sale of products, see notes 3.6 and 5.2	1,668	1,924
Right-of-return assets	235	200
Total contract assets	**1,903**	**2,124**
Contract liabilities		
Refund liabilities	1,615	1,260
Total contract liabilities	**1,615**	**1,260**

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]	IFRS16 effect 1 January 2019	New leases	Other[2]	Foreign exchange adjustments	Financial liabilities 31 December
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	**6,546**	**-483**	**155**	**6**	**-1**	**8**	**6,230**
2018							
Non-current borrowings	5,283	1,138	-	-	-	-	6,421
Current borrowings	125	-	-	-	-	-	125
Total liabilities from financing activities	**5,408**	**1,138**	**-**	**-**	**-**	**-**	**6,546**

[1] Cash flows from loans and borrowings in the statement of cash flows include internal loan movements. The effect was an inflow of DKK 3,187 million in 2019 (2018: outflow of DKK 3,862 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 aspects identical to the disclosures made in note 4.4 to the consolidated financial statements, unless otherwise stated below.

Credit risk

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

Contractual maturities of financial liabilities

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

LIABILITIES FALL DUE AS FOLLOWS (DKK million)	**Falling due less than 1 year**	**Falling due between 1 and 5 years**	**Falling due after more than 5 years**	**Total**
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**
2018				
Non-derivatives				
Loans and borrowings	125	6,421	-	6,546
Payables to subsidiaries	1,537	-	-	1,537
Trade payables	563	-	-	563
Other payables	102	8	-	110
Derivatives				
Derivative financial instruments	83	-	-	83
Fair value of obligation to acquire non-controlling interests (put options)	7	-	-	7
Total at 31 December	**2,417**	**6,429**	**-**	**8,846**

Operating leases are excluded.

NOTE 4.5
Net financials

FINANCE INCOME (DKK million)	**2019**	**2018**
Finance income from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	121	115
Total finance income from derivative financial instruments	**121**	**115**
Finance income from loans and receivables measured at amortised cost:		
Interest income from subsidiaries	171	123
Foreign exchange gains	386	429
Interest income, bank	-	2
Total finance income from loans and receivables	**557**	**554**
Total finance income	**678**	**669**

FINANCE COSTS (DKK million)	**2019**	**2018**
Finance costs from financial assets and liabilities measured at fair value through the income statement:		
Fair value adjustments, derivative financial instruments	63	43
Total finance costs from derivative financial instruments	**63**	**43**
Finance costs from financial liabilities measured at amortised cost:		
Interest costs to subsidiaries	3	4
Foreign exchange losses	123	243
Interest on loans and borrowings	24	23
Interest on lease liabilities	1	-
Other finance costs	21	11
Total finance costs from loans and borrowings	**171**	**281**
Total finance costs	**234**	**324**

NOTE 4.6
Other non-cash adjustments

OTHER NON-CASH ADJUSTMENTS (DKK million)	**2019**	**2018**
Effects from exchange rate adjustments	263	187
Effects from derivative financial instruments	33	102
Other, including gains/losses from sale of property, plant and equipment	4	2
Total other non-cash adjustments	**300**	**291**

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. In addition to the lease commitments disclosed, contractual obligations amounted to DKK 359 million (2018: DKK 311 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 684 million at 31 December 2019 in favour of certain subsidiaries related to securing local credit lines and rental agreements (2018: DKK 711 million).

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

NOTE 5.2
Related parties

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

The table below shows transactions entered into with related parties.

	Subsidiaries	
(DKK million)	2019	2018
Income statement:		
Sales to subsidiaries	9,525	12,924
Purchases from subsidiaries	-4,876	-6,126
Dividend	1,321	1,883
Finance income	171	123
Finance costs	-3	-4
Total	**6,138**	**8,800**
Balance sheet:		
Loans to subsidiaries, non-current	1,783	1,201
Trade receivables from subsidiaries	1,657	1,909
Loans to subsidiaries, current	1,570	4,785
Right-of-return assets, related parties	235	200
Payables to subsidiaries	-2,632	-1,537
Refund liabilities, related parties	-1,615	-1,260
Total	**997**	**5,298**
Development in impairment losses on trade receivables		
Impairment at 1 January	40	-
Additions	-	40
Unused amounts reversed	-15	-
Impairment at 31 December	**25**	**40**

NOTE 5.3
Fees to independent auditor

(DKK million)	2019	2018
Fee for statutory audit (audit related)	3	3
Other service (non audit services)	0	0
Total fees to independent auditor	**3**	**3**

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

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

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 2019.

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 2019 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 2019.

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

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

Copenhagen,
4 February 2020

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

Per Bank

Ronica Wang

John Peace

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 2019, 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 2019 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 2019 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 nine years up to and including the financial year 2019.

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 2019. 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.

DESCRIPTION OF MATTER	CONSIDERATION OF THE MATTER IN THE AUDIT
Revenue and sales return 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 3.7 of the parent company financial statements, to which we refer.	Our procedures in relation to revenue recognition and measurement of expected sales returns included considering the Group's accounting policies for revenue recognition, including those related to expected sales returns, and assessing compliance of policies with applicable accounting standards. We identified and assessed internal controls related to the timing of revenue recognition and measurement of expected sales returns. We tested the effectiveness of the Group's internal controls in relation to calculation of expected sales returns and timing of revenue recognition. On a sample basis, we tested sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the balance sheet date to assess whether those transactions were recognised in the correct period. We assessed the key assumptions applied by Management regarding expected sales returns based on our knowledge of the business and by reviewing the supporting documentation prepared by Management. Furthermore, we evaluated the disclosures provided by Management in the consolidated financial statements and the parent company financial statements to applicable accounting standards.

Independent auditors' report (continued)

DESCRIPTION OF MATTER	CONSIDERATION OF THE MATTER IN THE AUDIT
Taxation The Group has extensive international operations and in the normal course of business, Management makes judgements and estimates in determining the recognition of income taxes, deferred taxes and provisions for uncertain tax positions. In Thailand, the Group is subject to Board of Investment (BOI) agreements, where many, but not all, types of net income are tax-exempt, and therefore, changes in profit allocation could significantly impact the Group's consolidated tax expense. On this basis, taxation was a matter of most significance in our audit. Additional details on income taxes are provided in section 2.6 of the consolidated financial statements, to which we refer.	Our procedures in relation to recognition of income taxes, deferred taxes and provisions for uncertain tax positions included assessing the Group's processes for recording and continual re-assessment of provisions for uncertain tax positions. Our procedures also covered evaluating the assumptions applied by Management in determining the recognition and measurement of income taxes and deferred taxes while taking into account relevant correspondence with relevant tax authorities. Our own tax specialists performed an assessment of the Group's recognition of income taxes and deferred taxes, including correspondence with relevant tax authorities 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.
Inventory 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 3.5 of the parent company financial statements, to which we refer.	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.

Independent auditors' report (continued)

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.

Copenhagen, 4 February 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
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