ANNUAL REPORT

2011

PANDORA
UNFORGETTABLE MOMENTS

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MANY LESSONS TO LEARN FROM

For PANDORA, 2011 was certainly a year marked by se-veral important events, not all of them welcome.

Initially it appeared that the Company would continue the strong growth seen in previous years. At the beginning of 2011, we communicated an expected growth for the year of 25% and after a strong first quarter increased this to 30%.

At the end of June 2011, year-to-date revenue was up 22% against the same period in 2010. At the time, we were confident that the difference would be made up in the latter half of the year which traditionally accounts for approximately two-thirds of annual sales. We believed we had strong plans in place, including numerous new store ope-nings and promotional activities. As a result, at that point, we were still convinced that our yearly growth targets were both realistic and achievable.

Then, in July 2011, trading conditions significantly worsened resulting in a 30% drop in sales against July 2010 and declining sales in the remainder of 2011. As a result, by failing to meet our growth targets, we let ourselves and our shareholders down.

This required immediate action. The Chief Executive Officer stepped down and was replaced by interim CEO Marcello Bottoli. Throughout second half of 2011 we worked hard to fully understand the issues, identify corrective actions and implement them across our markets.

An in-depth review of the business, conducted with support from external consultants, confirmed that, while the Company's strategy of being a global Affordable Luxury brand remains solid and sound, our execution of this strategy had been largely unsatisfactory. A number of issues needed to be addressed urgently:

- Soaring raw material prices had led us to increase our prices at a time of economic hardship in many western countries, mistakenly moving us away from our historically strong position at the heart of the Affordable Luxury market. Moreover, due to limited visibility on sales-out at retail level, we did not immediately see this coming.
- Some of our retailers were carrying a certain amount of non or low-performing products with an unsatisfactory stock-turn.
- The quality of our in-store execution had faltered in a number of areas, including assortment composition and visual merchandising.

The lessons for us became clear, and so did the actions we needed to take.

Since then, the acceleration of new store openings, particularly in key new markets like Italy, France, Russia, China and Japan, together with the implementation of strong promotional drives across the world, have provided vitality to our business, reducing the rate of decline in our sales in the third and fourth quarter of 2011.

We believe that the downward adjustment of our prices announced at the beginning of 2012, in addition to the commenced rebalancing of our collections towards more entry price point items, will promptly return PANDORA to its historical Affordable Luxury position. Also in early 2012, we will proactively take a number of actions to help our retailers improve the quality of their stock.

Numerous other corrective actions, ranging from controls to review of sales-out from our retailers to improvements in our supply chain processes and systems, are taking place.

Internally, we have reorganised and all PANDORA's sales regions now report directly to the CEO, giving them greater flexibility to pursue local market opportunities. We have also created a Group Merchants department to better coordinate our efforts within marketing, design and merchandising and ensure that we bring consumers the right range of products at the right prices.

All of these changes have been shared with our retailers. An important step in assuring them that we have taken the issues of 2011 seriously and, more importantly, that we have a clear plan to put things right.

With our eyes on the future, our search for a new, permanent CEO led to the appointment of Björn Gulden, effective

March 2012. Björn brings an exceptional business track record and extensive retail experience to the leadership team and has the right blend of qualities to lead PANDORA to renewed success.

At the same time, Marcello will become Deputy Chairman of the Board of Directors to ensure the Company continues to benefit from the insights he has built during his tenure as interim CEO.

In November 2011, PANDORA also hired Stephen Fairchild as the Company's first Chief Creative Officer. With a very substantial and successful experience in fashion and design, he is now leading the Company's work to strengthen the unique bond between the PANDORA brand and the customers who love it.

The future for PANDORA remains positive if we get back to and then remain true to our original vision. We have a great brand, an incredible relationship with our consumer, fantastic manufacturing capabilities, a strong ba-lance sheet, and a desire to prove all our doubters wrong.

All these attributes are worthless unless we learn the salutary lesson of 2011 that, in business, execution is everything.

Allan Leighton
Chairman

Marcello Bottoli
Interim CEO

FINANCIAL HIGHLIGHTS

DKK million	2011	2010	2009	2008 12 months adjusted *	2008
Consolidated income statement					
Revenue	6,658	6,666	3,461	1,904	1,658
EBITDA	2,281	2,684	1,572	778	666
Operating profit (EBIT)	2,058	2,416	1,424	738	633
Net financial income and expenses	311	-164	-235		-217
Profit before tax	2,369	2,252	1,189	496	416
Net Profit	**2,037**	**1,871**	**1,005**	**356**	**306**
Consolidated balance sheet					
Total assets	8,051	8,959	5,816		4,282
Invested capital	5,923	5,659	3,826		3,115
Net working capital	1,327	1,266	547		267
Shareholders' equity	5,411	4,315	1,649		428
Net interest-bearing debt	209	1,102	2,151		2,688
Net interest-bearing debt excl. subordinated loan from Parent Company	209	1,102	751		1,372
Consolidated cash flow statement					
Net cash flow from operating activities	1,823	1,316	1,066		393
Net cash flow from investing activities	-364	-304	-207		-2,972
Free cash flow	1,670	1,388	1,144		492
Cash flow from financing activities	-2,502	-644	-343		2,889
Net cash flow for the year	**-1,043**	**368**	**516**		**304**
Ratios					
Revenue growth, %	-0.1%	92.6%	81.8%		
EBITDA growth, %	-15.0%	70.7%	102.1%		
EBIT growth, %	-14.8%	69.7%	93.0%		
Net profit growth, %	8.9%	86.2%	182.3%		
EBITDA margin, %	34.3%	40.3%	45.4%	40.9%	40.2%
EBIT margin, %	30.9%	36.2%	41.1%	38.8%	38.2%
Cash conversion, %	82.0%	74.2%	113.8%		160.6%
Net interest-bearing debt to EBITDA	0.1	0.4	1.4		4.0
Equity ratio, %	67.2%	48.2%	28.4%		10.0%
ROIC, %	34.7%	42.7%	37.2%		20.3%
Other key figures					
Average number of employees	5,186	4,336	2,337		1,288
Dividend per share, DKK	**5.50	5.00	-		-
Earnings per share, basic	16	15	8		-
Share price at year-end	54	336	-		-

'Invested capital' is calculated as assets less cash and short-term deposits and non-interest-bearing debt (provisions, deferred tax liabilities, deposits, trade payables, income tax payables and other payables).
'Cash conversion, %' is calculated as free cash flow / net profit. 'ROIC, %' is calculated as EBIT / invested capital. The other key figures and financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios 'Recommendations and Financial Ratios 2010'. Please refer to note 27.

* The group structure below PANDORA A/S originates from transactions taking place on 7 March 2008 whereby PANDORA A/S acquired the PANDORA activities in Denmark, Thailand, the United States and Canada from the former shareholders of these entities.

Before this date PANDORA A/S was a dormant company. The operations of the acquired entities have been consolidated into the financial statements of PANDORA A/S since 7 March 2008 only.

As a result, the audited financial statements for 2008 reflect only approximately 10 months of results of operations beginning on 7 March 2008 to 31 December 2008. The 2008 (12 months adjusted) figures reflect certain hypothetical key financial figures as if the acquisitions had taken place on 1 January 2008, i.e. on a 12 months basis.

** Proposed dividend per share, DKK.

MANAGEMENT'S REVIEW

FINANCIAL HIGHLIGHTS

Group revenue was DKK 6,658 million
EBITDA margin was 34.3%
Net profit was DKK 2,037 million

Group revenue in 2011 was DKK 6,658 million compared to DKK 6,666 million in 2010:

- Americas increased by 7.9% (12.4% increase in local currency)
- Europe decreased by 8.3% (7.7% decrease in local currency)
- Asia Pacific decreased by 0.2% (4.3% decrease in local currency)

- Gross margin increased to 73.0% in 2011 (compared to a gross margin of 70.9% in 2010)
- EBITDA margin was 34.3% in 2011 (compared to an EBITDA margin of 40.3% in 2010), EBITDA decreased by 15.0% to DKK 2,281 million
- EBIT margin was 30.9% in 2011 (compared to an EBIT margin of 36.2% in 2010), EBIT decreased by 14.8% to DKK 2,058 million
- Net profit increased by 8.9% to DKK 2,037 million in 2011 (compared to a net profit of DKK 1,871 million in 2010). Adjusted for a revaluation of the CWE earn-out provision based on a revised outlook for PANDORA CWE, 2011 net profit decreased by 18.4% to DKK 1,526 million
- Free cash flow was DKK 1,670 million in 2011 (compared to DKK 1,388 million in 2010)
- For the financial year 2011, the Board of Directors proposes a dividend of DKK 5.50 per share, 10% above dividend paid for the financial year 2010 and in line with our policy of distributing 35% of net profit in dividends
- With the goal to accelerate like-for-like sales, PANDORA has in late February initiated a one-off, time limited global stock balancing campaign to address low-turn stock at PANDORA retailers. PANDORA estimates the wholesale value of the campaign to be in the range from DKK 500 million up to a maximum of DKK 800 million. The campaign will encourage PANDORA retailers to exchange discontinued merchandise for appropriately priced best-sellers, on a one-for-one basis. The campaign will be carried out primarily during Q1 and Q2 2012 but will likely generate a corresponding negative impact, due to cannibalization of forward sales, on reported numbers across the whole of 2012. The Company will report on campaign progress quarterly in 2012

FINANCIAL GUIDANCE FOR 2012

This will be a transition year for PANDORA, with many of our corrective actions being implemented. Excluding the negative impact of the one-off stock balancing campaign PANDORA expects 2012 revenue growth in mid-single digits; gross margin in the low 60s driven by the impact of commodities prices and a reduction in our selling prices; and EBITDA margin in the mid 20s. PANDORA expects CAPEX to be around DKK 300 million and an effective tax rate of 18%.

Assuming a negative impact on revenue corresponding to the maximum cap of DKK 800 million from the stock balancing campaign, PANDORA expect to report revenue above DKK 6 billion, a gross margin in the low 60s and an EBITDA margin in the low 20s. CAPEX and the effective tax rates will not be affected by the stock balancing program.

PANDORA's revenue assumption is based on the expectation of approximately 200 new Concept stores in

2012, with a particular focus in new markets. PANDORA expects to open at least 135 new Concept stores and Shop-in-Shops in our key new markets (Italy, France, Russia and Asia) during the course of 2012.

PANDORA's 2012 guidance is based on the following assumptions:

- Main commodities: Gold: 1,534 USD/oz and silver: 32.7 USD/oz
- Main currencies: DKK/GBP: 858.7, DKK/USD: 551.1, DKK/AUD: 536.4 and DKK/THB: 17.7

KEY EVENTS IN 2011

Strategic review and business assesment

As of 2 August 2011, management embarked on a thorough assessment of the issues within the business and launched a strategic review using external consultants, aimed at testing and confirming our strategy. These two extensive work streams were finalized during Q4 2011. They confirmed that although i) the fundamentals of PANDORA's strategy are sound, ii) execution had faltered in a number of areas.

The Board of Directors and management feel confident that the current level of understanding of the Company issues as well as corrective actions and new plans, already fielded, underway or upcoming, will return PANDORA to growth.

The key areas of improvement together with the relevant action plans comprise three main sections:

1. Re-setting the business short-term
    1) Improve the quality of retailers' stock
    2) Realign our price architecture and product range

2. Evolving organization and systems for future growth
    3) Improve competencies and capabilities centrally and across our markets
    4) Streamline business processes and decisions

3. Delivering our long-term growth strategy
    5) Continue upgrading and improving the quality of our store network
    6) Refine long-term product range architecture
    7) Establish a solid presence in key new markets
    8) Explore opportunities for further consolidation of our distribution network
    9) Launch online sales and CRM engines

Re-setting the business short-term

1. Improve the quality of retailers' stock

As already disclosed, a number of our retailers' worldwide have had poor stock turns on certain products. After thouroughly assessing the scale of the issue, we have decided to discontinue an additional 270 slow-selling design variations (20% of total design variations). These discontinued items include a significant proportion of high priced, gold, non-charms and bracelets design variations. In exchange we will provide our retailers with fast-selling, high stock turn products.

Our goal is to accelerate like-for-like sales growth by improving the quality of the stock mix at our key retail partners

To facilitate this PANDORA has announced and initiated a one-off, time limited stock balancing campaign with an estimated wholesale value in the range from DKK 500 million up to a maximum of DKK 800 million. The campaign, which will be offered on retailer-friendly terms to encourage full participation, offers our partners the opportunity to replace discontinued items, including the additional 270 slow-selling designs referred to above, with appropriately priced best-sellers.

The standalone accounting effect of the swap between discontinued and best-selling items will be neutral to our revenue and gross margin; however, we do expect a negative impact on revenue from cannibalisation which will reduce our underlying revenue growth by an amount corresponding to the value of returned items (in the range from DKK 500 million up to a maximum of DKK 800 million at wholesale value).

PANDORA is also implementing improved controls to monitor stock levels at retailers. We believe that this action together with our newly created central and regional merchandising group will ensure the appropriate optimization of stock levels at retailers.

2. Realign our price architecture and product range

The price architecture of PANDORA's collections became slanted away from an Affordable Luxury position as a result of our price increases in 2010/11, thereby reducing our competitiveness, particularly at the entry price points – the historical stronghold of PANDORA. Furthermore, PANDORA's efforts to extend its price architecture upwards overestimated PANDORA's consumers' appetite for higher priced items.

Our goal is to adjust our prices to re-establish PANDORA's preeminent position in the Affordable Luxury space

Hence PANDORA announced the following actions during the week of 16 January:

- Selected price reductions, by SKU and market, particularly in the entry price ranges. The combined effect of these price adjustments will generate a negative gross margin impact of approximately 200 basis points
- The discontinuation of the high-priced Love Pods and Liquid Silver collections. A number of fast selling items from these ranges will be integrated into our regular assortment
- The introduction of the Spring/Summer 2012 collection, particularly strong in attractively priced entry point new design variations (average price point of EUR 115 vs EUR 259 for Spring/Summer 2011)

These actions will be implemented in our recommended retail prices as of Q1 2012 and will ensure our price points reflect the demand of our consumers. By the same token we have taken the opportunity to correct some structural retail price differences across our international markets improving global competitiveness.

Evolving organization and systems for future growth

3. Improve competencies and capabilities centrally and across our markets

The Company's review has highlighted the need to upgrade PANDORA's talent mix for better execution to drive the business forward.

Our goal is to evolve organisation and skill sets globally and in our markets to drive better execution of our strategy

PANDORA is a wholesale business, however the role played by our branded sales and the strategic importance of developing this channel require PANDORA to build a much stronger retail thinking in order for us to work closely with our customers operationally to drive sales-out.

From an organisational standpoint we have:

- Introduced direct reporting to the CEO for all our regions to ensure faster, more direct management
- Named a new Chief Creative Officer in charge of our product design and image globally
- Created a new central and regional merchandising group, to proactively manage our short and long term product range architecture and collections development
- Created a new Western European region to manage our UK, France and Nordic businesses
- Named a new president for the key Asian region
- Named a Chief Development Officer in charge of developing the Company long term strategy building on the findings and actions arising from the strategic review
- Announced and initiated the consolidation of all our distribution activities into three regional warehouses in North America, Europe and Thailand leading to the closure of facilities in Denmark, UK, Poland and Hong Kong in the first part of 2012
- Announced and initiated the consolidation of a large part of our European operations' back office functions into a regional shared service centre in Warsaw

4. Streamline business processes and decisions

As a result of our rapid growth and the acquisition of several large and previously independent markets with their own operating methodologies, PANDORA has and will continue the work to consolidate and standardise systems and business processes.

Our goal is the implementation of efficient standardised systems and business processes across the key areas of our businesses

We are focusing our efforts on a few strategic initiatives:

- At the front end of our business our aim is to develop systems for data collection and mining from the retail channels to optimise merchandising and planning. We will, during 2012, have a system solution in place to consolidate data on retail performance across both O&O and franchised Concept stores
- At the back end of our business we are consolidating our operations into a global ERP platform and global forecasting, demand and production planning platforms. All of the selected systems are off-the-shelf solutions by prime vendors in their fields and we aim to finalise implementation by 2013

Delivering our long-term growth strategy

5. Continue upgrading and improving the quality of our store network

Our work over the last few months confirms that PANDORA's branded stores drive significantly higher sales than unbranded ones. Therefore we will continue opening new branded stores and upgrading existing and relevant unbranded stores whilst reducing the number of less productive stores per market wherever appropriate.

Our goal is to drive higher sales per store by constantly upgrading the quality of our product presentation to consumers

Specific projects underpinning our strategic intent include:

- Implementing new more effective, zoning and traffic flows to improve the shopping experience and drive higher revenue. Roll out will begin in Q2 2012
- Implementing new visual merchandising guidelines and display materials, focusing on PANDORA's unique "create & combine" concept as well as "touch and feel" presentations. Roll out will begin in Q2 2012
- Implementing a new evolutionary store concept allowing for a more inclusive and simpler shopping experience. In market testing of the new store concept will start in Q3 2012 and roll out will begin at the end of 2012 in parallel with the retro-fitting of existing stores

6. Refine long-term product range architecture

Our work over the last few months confirmed that returning to and maintaining an innovative offer of appropriately priced new products is crucial to PANDORA's long-term sustained growth.

Our goal is to continue growing revenue per customer by offering innovative products that consumers want and can afford

PANDORA has therefore created a new central and regional merchandising organisation, responsible for:

- Clustering our markets in groups according to different levels of maturity, leading to different product offerings and different category focus by market
- Interpreting market and consumer needs and results
- Developing and maintaining a successful product architecture
- Leading innovative research and development projects working closely with our design and communication groups
- Trading up consumers to higher revenue units and effectively managing the growth of our non-charms and bracelet business

To support this PANDORA has opened a new product development centre in Thailand where approximately 50 designers and technical personnel will develop exciting new product offerings in conjunction with our Copenhagen design team.

Initial results of this work will be visible for H2 2012, as part of the upcoming Fall/Winter 2012 collection which will include new innovative products and marketing campaigns.

7. Establish a solid presence in key new markets

Whilst our four main markets represent the majority of our business today, an important part of PANDORA's future growth will largely depend on its ability to establish a solid presence in key new markets.

Our goal is to establish a successful business in key new markets across Europe and Asia, with a particular focus on Italy, France, Russia, China and Japan

PANDORA's performance to date in these markets, confirms our appeal to consumers worldwide. But our opening programmes have not been ambitious enough. As of H2 2011 we significantly stepped up our focus on new store openings. This new pace will be sustained in 2012.

8. Explore opportunities for further consolidation of our distribution network

PANDORA will explore opportunities for further integration of the distributors' network.

Our goal is to ensure, over an appropriate time horizon, stronger control over the execution of our strategic plan in new markets

The exact pace and sequencing will depend on the speed and quality of our development in those markets, the relationships with our local partners and our capability to ensure a seamless and value enhancing forward integration. This process may include partial steps such as joint ventures with our local partners to create win-win business.

9. Launch on-line sales and CRM engines

Our work during the last few months has confirmed a large business opportunity for PANDORA in both e-commerce and with a strong Customer Relationship Marketing programme.

Our goal is to offer transactional capabilities on-line whilst developing an effective CRM program focused on generating stronger on-line and in-store sales to our loyal PANDORA Club customers

Two specific work streams have already been initiated in Q4 2011 which will lead to

- An outsourced e-commerce site being launched in a test market by Q4 2012
- A test CRM program being introduced by Q4 2012

PANDORA strengthens its intellectual property rights in China

On 26 September 2011, PANDORA announced that the Company had successfully registered the Latin alphabet version of the 'PANDORA' trademark in China. The trademark has been registered in the international trademark class 14, which covers jewellery, watches and associated products. In addition, the Company holds the trademark for 'PANDORA' written in Chinese characters and the patent rights for its charm bracelet in China. This means that PANDORA now has very strong IP protection in China.

PANDORA appoints new CEO and new Deputy Chairman

On 2 August 2011, PANDORA announced that, due to the adjustments to its expected 2011 performance, CEO Mikkel Vendelin Olesen would leave the Company.

On 19 December 2011, PANDORA announced, that Björn Gulden (46) will become CEO of PANDORA effective 1 March 2012. The Board reviewed a list of high calibre international candidates for the CEO position and decided that Björn Gulden's exceptional business track record and personal skills will be instrumental in managing the future development and growth of the company. Björn Gulden is the former Managing Director of the Deichmann Group as well as President and CEO of the wholly owned retail chains Rack Room Shoes and Off Broadway Shoes in the US. Deichmann Group, headquartered in Essen, Germany, is currently present in 25 countries with 3,000 local shops and employs approximately 30,000 people. The Company sells more than 150 million pairs of shoes per year and has around EUR 4 billion in sales. Rack Room Shoes and Off Broadway Shoes have 450 stores and USD 850 million in sales. Prior to his positions with Deichmann Group, Rack Room Shoes and Off Broadway Shoes, Björn Gulden was Senior Vice President of apparel and accessories at Adidas and was part of the management group that took Adidas public in 1995.

The Board also announced that, as of 1 March 2012, Marcello Bottoli will become Deputy Chairman of PANDORA Board of Directors in order for the Company to utilise the learning's Marcello Bottoli has acquired in his role as interim CEO since 2 August 2011.

Reprimand from NASDAQ OMX Copenhagen

On 22 December 2011 the NASDAQ OMX Copenhagen A/S issued a reprimand to PANDORA for not complying with Section 3.3.1 in its Rules for issuers of shares. The reprimand states that PANDORA should have informed the market earlier than its Company Announcement No. 30 issued on 2 August 2011 that it would not meet its earlier forecast of 30% revenue growth for the full year. 2 August 2011 was the day on which PANDORA announced a change to its financial expectations for the full year and released its condensed financial report for the second quarter of 2011 two weeks ahead of the 16 August 2011 scheduled date.

PANDORA continues to believe that:

- It acted properly during a swift and unexpected downturn in sales by making a timely and precise announcement adjusting its annual forecast in light of new information and based on an analysis of the changing market dynamics in July 2011
- It has at all times been in full compliance with all relevant rules and regulations for issuers of shares

DEVELOPMENTS IN KEY STRATEGIC DRIVERS

FOCUS ON PANDORA BRANDED SALES CHANNELS

In 2011 PANDORA continued to increase the share of revenue generated from branded sales channels. The percentage of revenue from branded sales, within our direct distribution markets, was 77.0% in 2011 versus 72.7% in 2010.

In 2011, PANDORA added a net total of 773 branded points of sale (PoS). Of these, 251 were Concept stores, 224 were Shop-in-Shops and 298 were Gold stores.

Branded stores in direct distribution markets accounted for 34.2% of the total number of stores at the end of 2011 compared to 27.3% at the end of 2010.

GROUP

	Number of PoS FY 2011	Number of PoS FY 2010	Delta FY 2011 and FY 2010
Concept stores[1]	672	421	251
Shop-in-shops[2]	1,182	958	224
Gold	1,821	1,523	298
Total branded	**3,675**	**2,902**	**773**
Total branded as % of Total	**34.2%**	**27.3%**	**6.9%**
Silver	2,698	2,458	240
White and Travel Retail	4,359	5,258	-899
Total[3]	**10,732**	**10,618**	**114**

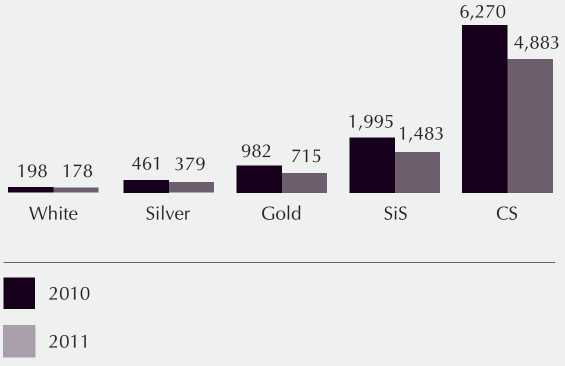
[1] Includes 90 and 57 PANDORA-operated Concept stores FY 2011 and FY 2010 respectively

[2] Includes 46 and 35 PANDORA-operated Shop-in-Shops FY 2011 and FY 2010 respectively

[3] Includes for FY 2011 68 Concept stores, 146 Shop-in-Shops, 209 Gold, 183 Silver and 1,225 White stores respectively relating to 3rd party distributors

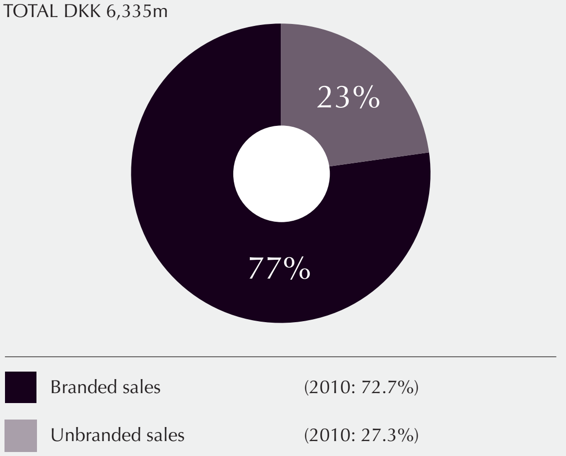
REVENUE PER POS BY CHANNEL 2011

(DKK' 000)[1]



REVENUE SPLIT BY CHANNEL 2011[1]

TOTAL DKK 6,335m



[1] Based on direct distribution only.

In 2011 PANDORA upgraded or closed a total of 659 Silver and White stores, mostly in European and Australian markets, in an ongoing process to optimise our distribution network.

The total number of points of sale increased by 114 to 10,732 worldwide.

CAPITALISE ON OUR PRODUCT OFFERING

In 2011, revenue from Charms increased by 0.2% compared to 2010. Revenue from Silver and gold charms bracelets was in line with 2010. The two categories represented 81.5% of total revenue in 2011 versus 81.2% in 2010.

Total bracelet sales, including Silver and gold charms bracelets as well as other bracelets, increased 7.1% between 2010 and 2011, generating revenue of DKK 1,090 million and DKK 1,167 million, respectively.

Rings and Other jewellery represented 18.5% of total revenue versus 18.8% in 2010. Rings represented 6.0% of total revenue versus 6.3% in 2010. Rings declined by 4.5%, based on a difficult comparable from the effect of the launch of the Ring Upon Ring Campaign in 2010, and Other jewellery increased by 0.2%.

TAILORED APPROACH TO NEW MARKETS

In 2011, PANDORA has succeeded in opening 251 Concept stores globally on the back of significant acceleration in this area in H2 2011. Russia, China, Japan and the Rest of Asia together accounting for 60 new Concept stores.

Our strategy in Russia, China and Japan is to primarily open branded stores – mainly Concept stores and Shop-in-Shops.

Our strategy in Italy is to utilise and upgrade over time the highest quality segment of the large and well-established network of multi-brand jewellery retailers. In Italy, the Company was selling PANDORA products through 921 points of sale (1 Concept store, 13 Shop-in-Shops, 11 Gold stores, 84 Silver stores and 812 White stores) at the end of 2011.

Our strategy in France is to upgrade the quality of our distribution network since we took over the operations in France from our former third party distributor on 1 July 2011, with a particular emphasis on department store Shop-in-Shops and Concept stores. In France, the Company was selling PANDORA products through 228 points of sale (4 Concept stores, 11 Shop-in-Shops, 1 Gold store, 17 Silver stores and 195 White stores) at the end of 2011.

PRODUCT MIX

DKK million	FY 2011	FY 2010	Growth 2011 vs 2010	Share of total in %
Charms	4,639	4,630	0.2%	69.7%
Silver and gold charms bracelets	786	786	0.0%	11.8%
Rings	401	420	-4.5%	6.0%
Other jewellery	832	830	0.2%	12.5%
Total	**6,658**	**6,666**	**-0.1%**	**100.0%**

STORE OPENINGS – NEW MARKETS

	Russia	China	2011 Japan	Rest of Asia	Total	Openings Q4 2011	Openings Q3 2011	Openings H1 2011
Concept stores	30	12	5	37	84	24	23	13
Shop-in-Shops	11	9	11	28	59	29	14	3
Total	**41**	**21**	**16**	**65**	**143**	**53**	**37**	**16**

FINANCIAL REVIEW

REVENUE

Total revenue declined by 0.1% to DKK 6,658 million in 2011 from DKK 6,666 million in 2010. Excluding foreign exchange movements, revenue increased by 1.6% this increase was attributable to price increases (+15.1%), volume (-14.3%) and mix effects (0.8%).

PANDORA introduced price increases in all markets during H1 2010 and again in H1 2011. Regrettably and unexpectedly, these price increases had a significant negative impact on volumes in 2011 and led PANDORA to reduce prices on a number of key items in selected markets in 2011, either permanently or promotionally, and to freeze all other prices for the remainder of 2011 and 2012.

Average revenue per point of sale decreased to approximately DKK 624 thousand in 2011 from approximately DKK 652 thousand in 2010 (based on the average of the points of sale at the beginning and end of the period), representing a decline of 4.3%.

In 2011, full-year revenue per Concept store was DKK 4,883 thousand versus DKK 6,270 thousand in 2010, for Shop-in-Shops DKK 1,483 thousand versus DKK 1,995 thousand in 2010, for Gold store DKK 715 thousand versus DKK 982 thousand in 2010, for Silver store DKK 379 thousand versus DKK 461 thousand in 2010 and for White store DKK 178 thousand versus DKK 198 thousand in 2010.

The geographical distribution of revenue in 2011 was 47.2% for the Americas versus 43.7% in 2010, 39.4% for Europe versus 42.9% in 2011, and 13.4% for Asia Pacific versus 13.4% in 2010.

Americas

Revenue in Americas increased by 7.9% to DKK 3,144 million in 2011 from DKK 2,914 million in 2010. Excluding foreign exchange movements, the underlying revenue growth was 12.4% compared with 2010. The Americas represented 47.2% of Group revenue in 2011 versus 43.7% in 2010.

REVENUE BREAKDOWN BY GEOGRAPHY

DKK million	FY 2011	FY 2010	% Growth	% Growth in local currency
Americas	**3,144**	**2,914**	**7.9%**	**12.4%**
United States	2,537	2,518	0.8%	
Other	607	396	53.3%	
Europe	**2,623**	**2,859**	**-8.3%**	**-7.7%**
United Kingdom	951	995	-4.4%	
Germany	638	679	-6.0%	
Other	1,034	1,185	-12.7%	
Asia Pacific	**891**	**893**	**-0.2%**	**-4.3%**
Australia	656	786	-16.5%	
Other	235	107	119.6%	
Total	**6,658**	**6,666**	**-0.1%**	**-1.6%**

In the United States revenue was up by 0.8% in 2011, an increase of 7.4% in local currency. Based on Concept stores, which have been operating for 12 months or more, like-for-like sales-out, in the US has been very strong during the year, but were impacted by the price increase mentioned above. In H2 2011 like-for-like sell out was largely a result of campaigns, which focused on customers who were new to the Brand.

Other Americas sales grew year-on-year by 53.3% or 63.6% if currency effects are excluded, meaning Other Americas now constitutes 9.1% of Group revenue. This growth has largely come from Canada, where new store openings and store upgrades boosted figures for the region as a whole.

During 2011 the number of branded stores in Americas increased by 328 to 1,348 stores. Branded stores accounted for 44.7% of this total versus 38.2% at the end of 2010.

Europe

In Europe PANDORA experienced a decrease in revenue of 8.3% versus the previous year, or 7.7% in local currencies. This weak performance was most apparent among third party distributors in the markets most affected by the global downturn – Greece, Spain, Portugal and Ireland.

The UK is PANDORA's largest single market in Europe accounting for 14.3% of 2011 Group revenue, down from 14.9% in 2010. Revenue in the UK decreased by 4.4%, or 3.4% in local currency as a result of lower like-for-like sales-out.

Based on Concept stores which have been operating for 12 months or more, like-for-like sales-out in the UK decreased during H2 2011 versus the same period in 2010. This was attributable to the price increases implemented in Q1 2011.

AMERICAS

	Number of PoS FY 2011	Number of PoS FY 2010	Delta FY 2011 and FY 2010
Concept stores[1]	212	136	76
Shop-in-Shops[2]	431	301	130
Gold	705	583	122
Total branded	**1,348**	**1,020**	**328**
Total branded as % of Total	**44.7%**	**38.2%**	**6.5%**
Silver	1,126	1,110	16
White and Travel Retail	543	543	-
Total	**3,017**	**2,673**	**344**

[1] Includes 0 and 0 PANDORA-operated Concept stores FY 2011 and FY 2010 respectively

[2] Includes 0 and 0 PANDORA-operated Shop-in-Shops FY 2011 and FY 2010 respectively

EUROPE

	Number of PoS FY 2011	Number of PoS FY 2010	Delta FY 2011 and FY 2010
Concept stores[1]	340	219	121
Shop-in-Shops[2]	585	528	57
Gold	959	776	183
Total branded	**1,884**	**1,523**	**361**
Total branded as % of Total	**27.0%**	**21.3%**	**5.7%**
Silver	1,456	1,238	218
White and Travel Retail	3,625	4,378	-753
Total[3]	**6,965**	**7,139**	**-174**

[1] Includes 57 and 29 PANDORA-operated Concept stores FY 2011 and FY 2010 respectively

[2] Includes 45 and 35 PANDORA-operated Shop-in-Shops FY 2011 and FY 2010 respectively

[3] Includes for FY 2011 68 Concept stores, 146 Shop-in-Shops, 209 Gold, 183 Silver and 1,225 White stores respectively relating to 3rd party distributors

CONCEPT STORES – LIKE-FOR-LIKE* SALES-OUT

	Q4 2010 to Q4 2011	Q3 2010 to Q3 2011	Q2 2010 to Q2 2011	Q1 2010 to Q1 2011
US	16.6%	11.3%	18.9%	31.6%

*Stores of same category open more than 12 months

CONCEPT STORES – LIKE-FOR-LIKE* SALES-OUT

	Q4 2010 to Q4 2011	Q3 2010 to Q3 2011	Q2 2010 to Q2 2011	Q1 2010 to Q1 2011
UK	-8.9%	-10.0%	-0.3%	10.2%

*Stores of same category open more than 12 months

CONCEPT STORES – LIKE-FOR-LIKE* SALES-OUT

	Q4 2010 to Q4 2011	Q3 2010 to Q3 2011	Q2 2010 to Q2 2011	Q1 2010 to Q1 2011
Germany	-1.4%	-11.5%	-7.2%	-18.2%

*Stores of same category open more than 12 months

Germany is PANDORA´s second largest market in Europe, accounting for 9.6% of 2011 Group revenue versus 10.2% in 2010. Full-year revenue decreased 6.0% in 2011. During the year, PANDORA closed many White stores in Germany as part of an ongoing process to optimise the distribution network. Based on Concept stores, which have been operating for 12 months or more, like-for-like sales-out in Germany, decreased in all quarters in 2011 when compared to the same period in 2010.

In spite of the recent relative improvement of sell out numbers, our German business has a number of issues that will be addressed in 2012.

The category "Other Europe" is the largest reporting segment within the European region. This area declined 12.7% year-on-year in 2011 as a result of the issues in Greece, Spain, Portugal and Ireland, where tough macroeconomic trading conditions were compounded by destocking by many retailers. This negative trend was partially countered by double-digit growth in Italy and even higher growth rates in Central Eastern Europe, especially Russia, Ukraine and Poland, albeit from low levels.

During 2011 the number of branded stores in Europe increased by 361 stores to a total of 1,884 stores. Branded stores accounted for 27.0% of stores, up from 21.3% at the end of 2010.

Asia Pacific

In Asia Pacific, revenue decreased 0.2% in 2011 versus 2010. Excluding currency movements, the underlying revenue in the region increased by 4.3% year-on-year. The revenue development was negatively impacted by continued weak performance in Australia offset by very strong growth in Asia, particularly in Japan, Malaysia and China, albeit from low levels.

Trading conditions in Australia continue to be highly challenging for PANDORA. Revenue was down 16.5% year-on-year representing a decline of 22.2% in local currency. The weak performance is mainly due to the abundance of our unbranded sales channels in Australia. Based on Concept stores which have been operating for 12 months or more, like-for-like sales-out in Australia decreased in all quarters in 2011 versus 2010.

In early January 2012, PANDORA announced a restructuring of distribution in Australia leading to the closure of 100 White and Silver stores and the opening of new Concept stores. From a product standpoint, the focus for PANDORA Australia, one of our most developed markets, will increasingly be on growing the Other jewellery categori.

In Asia, our strategy of opening branded stores remains a high priority and PANDORA aims to increase its presence in the important Asian growth markets. Branded points of sale increased by 84 stores, in line with our strategy of focusing on branded sales channels in Asia.

ASIA PACIFIC

	Number of PoS FY 2011	Number of PoS FY 2010	Delta FY 2011 and FY 2010
Concept stores[1]	120	66	54
Shop-in-Shops[2]	166	129	37
Gold	157	164	-7
Total branded	**443**	**359**	**84**
Total branded as % of Total	**59.1%**	**44.5%**	**14.6%**
Silver	116	110	6
White and Travel Retail	191	337	-146
Total	**750**	**806**	**-56**

[1] Includes 33 and 28 PANDORA-operated Concept stores FY 2011 and FY 2010 respectively

[2] Includes 1 and 0 PANDORA-operated Shop-in-Shops FY 2011 and FY 2010 respectively

CONCEPT STORES – LIKE-FOR-LIKE* SALES-OUT

	Q4 2010 to Q4 2011	Q3 2010 to Q3 2011	Q2 2010 to Q2 2011	Q1 2010 to Q1 2011
Australia	-15.5%	-16.8%	-15.8%	-12.6%

*Stores of same category open more than 12 months

Revenue by distribution
Direct distribution accounted for 95.1% of the revenue for 2011 compared to 89.7% in 2010.

Overall 2011 revenue was similar to that of the previous year, with direct distribution growing by 5.9%, while third party distribution declined by 52.9%. This was, in part, due to the tough macroeconomic trading conditions and destocking in Greece, Spain, Portugal and Ireland.

DISTRIBUTION SPLIT

DKK million	Revenue FY 2011	Number of PoS FY 2011	DKK million Revenue FY 2010	Number of PoS FY 2010
Direct distribution	6,335	8,901	5,980	8,054
Third party distribution	323	1,831	686	2,564
Total	**6,658**	**10,732**	**6,666**	**10,618**

GROSS PROFIT

Gross profit was DKK 4,860 million in 2011 versus DKK 4,725 million in 2010, resulting in a gross margin of 73.0% in 2011, up from 70.9% in 2010.

The gross margin was positively affected by global price increases and mix changes. This was partly counteracted by higher prices for raw materials. It is our policy to hedge 100%, 80%, 60% and 40% of expected gold and silver consumption in the following four quarters respectively. However, current, higher than normal, inventory levels mean a delayed impact on our cost of goods sold of these hedge prices. The combined effect of the time lag from our inventory and our 12-month rolling hedges effectively means that we are already hedged to a large extent into H2 2012.

GROSS MARGIN DEVELOPMENT

In percentage	FY 2011	FY 2010	Growth 2011 vs 2010
	73.0%	**70.9%**	**2.1%**

Excluding our hedging and the time lag effect from our inventory, the underlying gross margin would have been approximately 65.0% based on average gold (1,570 USD/oz) and silver (35 USD/oz) market prices in 2011. Under the same assumptions, a 10% deviation in quarterly average gold and silver prices would impact our gross margin by approximately 2.5 percentage points.

The average realised price for gold in 2011 was 1,366 USD/oz and 25.32 USD/oz for silver in 2011. Our hedged prices for the 2012's four quarters for gold are 1,513 USD/oz, 1,589 USD/oz, 1,724 USD/oz, 1,724 USD/oz and for silver 35.16 USD/oz, 35.75 USD/oz, 35.88 USD/oz and 30.85 USD/oz respectively.

DISTRIBUTION EXPENSES

Distribution expenses increased to DKK 2,053 million in 2011 from DKK 1,733 million in 2010, representing 30.8% of revenue in 2011 versus 26.0% in 2010.

Sales and distribution costs increased to DKK 1,080 million in 2011 from DKK 990 million in 2010, representing 16.2% of revenue in 2011 versus 14.9% 2010. The comparison was positively affected by DKK 92 million from amortisation of acquired distribution rights in PANDORA Central Western Europe. These distribution rights were fully amortised by 30 June 2011 whereas for 2010, the full year was impacted. The 2011 figure is also affected by expansion into new markets, compensation to our former French distributor and investments in our central sales and distribution infrastructure in Copenhagen.

Marketing costs increased to DKK 973 million in 2011 from DKK 743 million in 2010, corresponding to 14.6% of revenue in 2011, compared with 11.1% in 2010. This increase was driven by significant investments in marketing for new markets as well as in existing markets, including TV advertising in Germany and the United States.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to DKK 749 million in 2011 versus DKK 576 million 2010, of revenue 11.2% in 2011 up from 8.6% in 2010.

The increase in administrative costs is related to the use of external consultants for the strategic review, IT projects and the departure of the former CEO.

COST RATIOS

Please note that historical sales and distribution costs, up to and including Q2 2011, are negatively affected by DKK 46 million per quarter from amortisation of acquired distribution rights in PANDORA Central Western Europe.

COST RATIOS (Including depreciations & amortisations*)

	FY 2011	FY 2010
Sales and distribution costs	16.2%	14.9%
Marketing costs	14.6%	11.1%
Administrative expenses	11.2%	8.6%
Total Cost	**42.0%**	**34.6%**

* Including gains/losses from sales of assets

EBITDA

EBITDA for 2011 decreased by 15.0% to DKK 2,281 million resulting in an EBITDA margin of 34.3%, down from 40.3% in 2010.

Regional EBITDA margins for 2011 before allocation of central costs were 51.5% in Americas versus 50.8% in 2010, 34.8% in Europe versus 44.8% in 2010 and 36.5% in Asia Pacific versus 45.0% in 2010. Unallocated costs decreased to -8.7% in 2011 compared to -7.2% in 2010.

The Americas region EBITDA margin is slightly higher than in 2010. The margin decrease in Europe was particularly affected by lower revenue from third party distribution, increasing expenses from organisational changes and marketing activities in Central Western Europe, costs related to taking over distribution in France on 1 July 2011, and to the development of operations in Italy. The decrease in EBITDA margin in Asia Pacific is primarily due to the decline in revenue from Australia.

EBITDA MARGIN

	FY 2011	FY 2010	FY 2011 vs FY 2010 (% pts)
Americas	51.5%	50.8%	0.7%
Europe	34.8%	44.8%	-10.0%
Asia Pacific	36.5%	45.0%	-8.5%
Unallocated costs	-8.7%	-7.2%	-1.5%
Group EBITDA margin	**34.3%**	**40.3%**	**-6.0%**

EBIT

EBIT for 2011 decreased to DKK 2,058 million – a decrease of 14.8% compared to 2010, resulting in an EBIT margin of 30.9% for 2011 versus 36.2% in 2010.

NET FINANCIAL INCOME AND EXPENSES

Net financial income amounted to DKK 311 million in 2011. Financial expenses of DKK 331 million in 2011, were significantly impacted by a loss of DKK 193 million on foreign exchange movements, much of which attributable to the strong appreciation of the USD during the second half of 2011.

The continuing poor performance of PANDORA Central Western Europe has resulted in a reassessment of the earnings potential for the period covered by the earn-out agreement with the previous distributor. Therefore a non-cash adjustment of the liability related to the earn-out on the non-controlling interests in PANDORA Central Western Europe of DKK 511 million has been made in 2011, which is included in financial income. The remaining liability of DKK 51 million is included in provisions under non-current liabilities.

INCOME TAX EXPENSES

Income tax expenses were DKK 332 million in 2011, implying an effective tax rate of 14.0% for 2011 versus 16.9% for 2010. Adjusted for the CWE earn-out revaluation, the effective tax rate was 17.9% in 2011.

NET PROFIT

Net profit in 2011 increased by 8.9% to DKK 2,037 million from DKK 1,871 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

In 2011, PANDORA generated a free cash flow of DKK 1,670 million corresponding to a cash conversion of 82.0%

versus 74.2% in 2010. The explanation for the increase in our cash conversion is an improvement in our cash flow, primarily due to development of inventory and receivables as well as lower interest payments.

Operating working capital (defined as inventory and accounts receivable less accounts payable) at the end of 2011 was 33.4% of the preceding 12 months' revenue versus 27.9% at the end of 2010. The increase was driven by increased inventory.

Inventory increased to DKK 1,609 million at the end of 2011 from DKK 1,272 million at the end of 2010. The 26.5% increase can be explained by soaring gold and silver prices which raised inventory value by 20%, a delay in adjusting our production output to the revised lower revenue estimate which raised inventory value by approximately 15%, and the remelting of some inventory which lowered inventory value by approximately 10%. The remelting of inventory had no impact on gross margin.

INVENTORY TO COGS RATIO

	FY 2011	FY 2010	Growth 2011 vs 2010
Inventory (DKKm)	1,609	1,272	337
% of last 12 mth revenue	24.2%	19.1%	0.3%

Trade receivables increased to DKK 900 million in 2011 (13.5% of the preceding 12 months' revenue) from DKK 834 million in 2010 (12.5% of the preceding 12 months' revenue). The increase was due to an increase in trade receivables primarily related to extended credit terms in two of the main markets, the US and Germany – in the US related to opening of Concept stores.

In 2011, PANDORA invested a total of DKK 150 million in property, plant and equipment, representing 2.3% of revenue.

Total interest-bearing debt was DKK 385 million at the end of 2011 versus DKK 2,326 million at the end of 2010.

Cash and short-term deposits amounted to DKK 176 million at the end of 2011 versus DKK 1,224 million at the end of 2010.

Net interest-bearing debt at the end of 2011 was DKK 209 million corresponding to 0.1 LTM EBITDA this compares with DKK 1,102 million at the end of 2010 which corresponded to 0.4 LTM EBITDA.

EVENTS AFTER THE BALANCE SHEET DATE

Notice from the Danish FSA

10 January 2012, The Danish Financial Supervisory Authority (FSA) issued a notice to PANDORA stating that the Company should have informed the market earlier than its Company Announcement No. 30, issued on 2 August 2011, stating that it would not meet its earlier forecast of 30% revenue growth for the full year. Consistent with the Danish regulation, the Danish FSA has handed over the notice to the police for further investigation.

PANDORA continues to believe that:

- It acted properly during a swift and unexpected downturn in sales by making a timely and precise announcement adjusting its annual forecast in light of new information and based on an analysis of the changing market dynamics in July 2011,
- It has at all times been in full compliance with all relevant rules and regulations for issuers of shares.

PANDORA appoints Chief Development Officer

On 30 January 2012 PANDORA announced that Sten Daugaard (54) had agreed to join the Company and become Chief Development Officer and member of the Executive Board of PANDORA.

Sten Daugaard, who was Chief Financial Officer of The Lego Group until the end of 2011, stepped down as member of the Board of Directors of PANDORA when he took up this new position.

In his new role, Sten Daugaard will be responsible for Corporate Strategy & Development building on the findings and actions arising from the strategic review, which was initiated by the Board in August 2011.

INTELLECTUAL CAPITAL

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

HUMAN RESOURCES

At PANDORA, we believe people are an important asset.

In 2010, PANDORA's global management team worked to define a set of common values for PANDORA as part of a process aimed at integrating all PANDORA entities, of which some were previously operating independently, into the PANDORA Group. The values build upon long-standing standards and behaviours established through nearly 30 years of history in the former family-owned and run company, combined with valuable input from the previously independent distributors. In 2011, the values defined as 'PANDORA Life' were rolled out on a global scale across almost the entire PANDORA organisation, and are now the foundation for the recruitment and development of all employees at PANDORA.

PANDORA's three common values – Pride, Passion and Performance – and the way these values are being lived and interpreted in everything we do, are instrumental to securing a strong and consistent company culture throughout PANDORA's worldwide operations. To reflect its importance, PANDORA Life is now being incorporated into human resource management tools such as performance reviews, employee introduction programmes and leadership training.

PANDORA believes that developing our people is a key factor in developing the Company. Training plays an important role in this, which is why we provide development tools in many different forms. For example, our store staff benefit from a range of e-learning modules.

Meanwhile, at our production facilities in Thailand, we provide technical, supervisory and managerial training to the employees, and in 2011 we provided a comprehensive programme in financial literacy as well as individual career development with the introduction of cross-functional training and multi-skill crafts programme.

INTELLECTUAL PROPERTY

Intellectual property rights and policies
PANDORA's intellectual property rights are considered substantial to our value creation, competitive advantage, freedom to operate and future business development. They are safeguarded by all available means, such as comprehensive global surveillance, registration and control programme. The intellectual property rights are mainly vested in trademarks, copyrights, patents, business secrets, visually distinct products, non-disclosure procedures and "non-compete" regulations.

No distributors, dealers or others are permitted to register or use PANDORA's intellectual property without prior agreement. Enforcement and defence mechanisms have been further strengthened in 2011 by a continuous zero-tolerance policy towards infringement of PANDORA's intellectual property rights on the internet and towards counterfeit products and trademarks in general.

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

PANDORA strengthened its intellectual property rights in China in 2011 as the Latin alphabet PANDORA trademark was registered in the class 14 in China.

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

Patents

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

CORPORATE SOCIAL RESPONSIBILITY

At the beginning of 2011 PANDORA had developed its Group Values, established a Corporate Social Responsibility (CSR) organisation governed by a dedicated cross-functional committee, and joined The Responsible Jewellery Council and United Nations Global Compact. In 2011 PANDORA worked on developing and testing a range of new CSR policies and supporting programmes with the clear aim of having the PANDORA Group certified for its responsible business practices during 2012.

PANDORA ETHICS

PANDORA's CSR policies define the overarching CSR approach and the Company standards on human rights, working conditions, environmental impact, business ethics and supplier standards. As a result, PANDORA now has a clear and uniform CSR guidance for staff and business partners as well as a solid platform for entering into dialogue with stakeholders. Acknowledging that such rules and regulations alone will not provide any guarantees for responsible business practices, in 2011 PANDORA developed and tested a range of procedures, training concepts and compliance tools. The result is a comprehensive CSR Programme named 'PANDORA Ethics' – a programme that will drive PANDORA's ambition to become the world's most recognised jewellery brand.

PANDORA operates with a highly integrated value chain covering all processes from jewellery design to after-sales service for its customers. This means that appropriate methods of ensuring responsible business practices will vary across the Group. For ease of reference, PANDORA's CSR efforts are tailored to three main categories: sourcing, crafting and trading.

RESPONSIBLE SOURCING

PANDORA's Suppliers' Code of Conduct complements our own internal policies and clearly expresses expectations for the ethical performance of PANDORA's suppliers. In 2011 the code was integrated into all supplier contracts and PANDORA initiated a CSR Supplier Programme to ensure that suppliers comply with the code and understand how strengthening responsible business practices will also increase profitability in their own operations.

The CSR programme screens and categorises suppliers and initiates training, audits and provides guidance to ensure compliance with the code. In 2011, more than 50 supplier representatives attended PANDORA supplier training sessions in Bangkok and Hong Kong. They received an introduction to both PANDORA's CSR efforts and expectations and to the content of relevant national legislation and international conventions. The training brokered an introduction to the global auditing company that conducts independent supplier audits based on uniform global standards. All training is led by PANDORA's own CSR team which draws upon experience of advising PANDORA's own crafting facilities and from conducting more than 500 CSR audits in Asia alone.

RESPONSIBLE JEWELLERY CRAFTING

PANDORA's jewellery is crafted by 3,600 employees at PANDORA Production in Bangkok, Thailand, managed through internal standards that either meet or exceed Thai laws and international conventions. In 2011, PANDORA's approach was evidence in the low number of work related accidents and a strenghthening of efforts to ensure valuable dialogue with staff and their elected representatives. 2011 also saw a renewed effort to document and communicate PANDORA's responsible jewellery crafting practices. During 2012 our production facilities are expected to achieve the ISO 14001 certificate on environmental management, the OHSAS18001 certificate covering occupational health as well as RJC certification on responsible business practices for PANDORA's entire value chain.

RESPONSIBLE JEWELLERY TRADING

In 2011 PANDORA jewellery was available in 65 markets. In certain countries, corruption is endemic, creating challenges for all responsible companies. In order to prevent and mitigate corrupt practices, in April 2011 PANDORA issued a Global Business Ethics Policy, establishing zero tolerance towards bribery, extortion and facilitation payments for all staff and company agents. Further, the policy provides strict guidance on fair competition, conflicts of interest as well as the provision and acceptance of hospitality, entertainment and gifts.

Employees are instructed to raise concerns if they believe that PANDORA's policies are being violated. Staff can also use PANDORA's 'whistle-blower' function. In 2011, PANDORA carried out a business ethics risk assessment that resulted in face-to-face training of staff members most likely to be confronted with corrupt practices. In early 2012 PANDORA will offer further training supplemented by an e-learning module that will allow all staff to familiarise themselves with all CSR policies and ensure they are in compliance.

In 2011, PANDORA also dedicated substantial resources to ensuring safe and healthy working conditions at retail stores it owns and operates. As part of this effort, PANDORA developed a group-wide approach to employee satisfaction surveys and personal development reviews.

CSR MILESTONES

2010	April	May	August	November	December
Setting the scene	CSR Committee	UN Global Compact	RJC Responsible Jewellry Council	Suppliers' Code of Conduct	Group CSR unit established
2011	March	April	April	September	December
Develop and text	Supply Chain Due Diligence program	CSR Report 2010 and CSR website	First CSR Policy on Business Ethics	Road map to RJC Certification	Policy Framework for CSR
2012	February	February	June	August	August onwards
Full implementation	Policy Framework enters into force	CSR Report 2011 and CSR roll-out	RJC audits entire PANDORA Group	Responsible Business Practices Certificate	Strategic CSR Projects/integration

CORPORATE GOVERNANCE AND RISK MANAGEMENT

CORPORATE GOVERNANCE

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

Board responsibility

As is current practice in Denmark, powers are distributed between the Board of Directors and the Executive Board and independence exists between these two bodies. The Executive Board handles day-to-day management, while the Board of Directors supervises the work of the Executive Board and is responsible for general strategic direction.

The primary tasks for the Board of Directors are to ensure that PANDORA has a strong management team, an adequate organizational structure, efficient business processes, transparent bookkeeping and practices, and responsible asset management.

The composition of the Board must be such that at any time the consolidated competencies of the Board enable it to supervise the Company's development and diligently address the specific opportunities and challenges faced by PANDORA. The Board of Directors together with PANDORA's Executive Board develops the Company's overall strategies and oversees that competencies and resources are in place to maximise the likelihood of PANDORA achieving its objectives. Further, the Board oversees the financial development of PANDORA and the related planning and reporting systems.

Changes since last year

In August 2011, board member Marcello Bottoli became interim CEO during the recruitment for a new CEO and, as such, Marcello Bottoli no longer fulfilled the independence criterion stating that if a board member is, or has been, a member of the Executive Board of the Company or an associated company within the last five years, the board member cannot be considered independent.

At the beginning of 2012, Sten Daugaard stepped down as member of the Board of Directors to take up a new position as Chief Development Officer and member of the Executive Board of PANDORA.

Folllowing Sten Daugaard's stepping down from the Board of Directors, the Board no longer has a majority of independent members. The Board of Directors intends to nominate a new independent board member at the Company's Annual General Meeting in March 2012.

The Board has also selected new members to replace Marcello Bottoli and Sten Daugaard on board committees.

Board activities in 2011

PANDORA was publicly listed in October 2010. Therefore 2011 was the first year when the Board of Directors completed a full-year cycle as a listed company. During the year the Board held 13 ordinary board meetings. Total attendance rate was 97%.

In 2011, the Board paid special attention to the search for a new CEO while also monitoring the implementation of the action plan to improve performance after revenue growth slowed and trading conditions worsened in mid-2011.

Self-evaluation

The Chairman evaluates the work of the Board of Directors on an ongoing basis. The Board has also established a formal process for evaluation of the function and performance of the Board of Directors and its relationship with Executive Board. The evaluation is conducted annually based on anonymous questionnaires and interviews between the Chairman and individual board members. The evaluation is discussed at a board meeting.

The self-assessment conducted in 2011 resulted in minor improvement area being identified, primarily related to the formalisation of board processes. However, overall, there was broad satisfaction with planning, content and handling of board meetings.

Board committees

The Board has established an audit committee, a remuneration committee and a nomination committee, in which a majority of the members are independent board members. The committee charters and activities are disclosed via the Company's website.

Recommendations and deviations

PANDORA intends to exercise good Corporate Governance at all times and to assess its practices according to the Corporate Governance recommendations of the Danish Committee on Corporate Governance issued in August 2011.

As a publicly listed company, PANDORA is subject to the disclosure requirements laid down by NASDAQ OMX Copenhagen which, on 1 October added new recommendations to its latest revision of the 'Rule Book for Issuers of Shares'.

The recommendations require companies to explain any non-compliance. Due to PANDORA's wish to encourage common and persistent long-term goals for the management and shareholders in accordance with PANDORA's strategy, PANDORA has chosen to deviate from the recommendations regarding management's remuneration in the following areas:

- The Chairman of the Board of Directors is eligible for a one-off additional bonus in a share amount of DKK 6.5 million if certain EBITDA (on an adjusted basis) targets defined in PANDORA's business plan are met for the full year periods of 2013, 2014 or 2015.
- PANDORA has established a board member share plan whereby the Chairman and the other members of the Board are each to own a minimum number of shares corresponding to the amount of their respective initial gross annual compensation.
- The remuneration policy for the Executive Board contains no specific clause on the repayment of variable remuneration components on the basis of misstated information as PANDORA considers the rules in Danish law to be sufficient in such cases.

A full review of PANDORA's governance practices according to section 107b in the Danish Financial Statements Act is available on the Company's website, http://investor.en.pandora.net/documents.cfm, and forms part of this Annual Report's Management's Review.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management

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

The significant current risks are:

Brand and reputation

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

In 2011, PANDORA focused on creating a differentiated and segmented marketing strategy tailored to each individual market according to size and development stage. PANDORA increased the awareness of the PANDORA brand through continued widening of physical distribution and TV, digital media, printed and outdoor advertisements. PANDORA also focused on maintaining a high level of customer loyalty through digital media, the PANDORA Club and social media.

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

For further information on CSR, see page 22.

Financial risks

For information on financial risks, see note 21.

Fluctuations in prices of raw materials
PANDORA offers handmade jewellery products made, in particular, of sterling silver and gold, which account for a significant part of cost of goods sold. An increase in these prices, together with an inability to transfer such increased costs to end-consumers may have a material adverse effect on PANDORA's business and results. For example, just as other leisure and entertainment products compete with jewellery for consumers' discretionary expenditure, so an increase in silver and gold prices will weaken the jewellery industry relatively to other industries.

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

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

For information on intellectual property risks, see page 20.

Global economic conditions
An economic downturn or an uncertain economic outlook in one or more of our geographical markets could adversely affect consumer spending habits. However, PANDORA's increased geographical reach with growth from new markets and regions reduces the dependency on individual markets.

Product development
To achieve its future goals, PANDORA is dependent on its ability to develop products that match market trends and consumers' preferences. New product launches need to be in alignment with consumers' perceptions of the PANDORA brand in order to be successful.

In 2011, PANDORA strengthened the product development team by taking on a new Chief Creative Officer and created a new Chief Merchant Officer role to maintain a focus on these needs.

Concentration of production facilities in Thailand
The concentration of production facilities in Thailand means that PANDORA's operations are dependent on the degree to which raw materials can be imported into Thailand, manufacturing is uninterrupted and products can be exported from Thailand. Among the disruptions that could cause these abilities are changes to the political situation and natural disasters.

The political situation in Thailand in the beginning of 2010 did not affect our operations. Previously, political unrest in Thailand has caused a few days of disruption to the supply chain. PANDORA continuously evaluates the benefits and risks of concentrating production in Thailand, but has not experienced any material disruptions during more than 20 years of production.

In July 2011, Thailand was hit by heavy monsoon rain leading to severe flooding in Bangkok. PANDORA's factories are placed in Gemopolis, the jewellery industry zone outside Bangkok. This area is well drained and is protected from flooding. The highest water level experienced in Gemopolis during the flooding in 2011 was 45 cm, while PANDORA's contingency plan allows for a rise in water levels up to 1.5 meters. The contingency plan was successfully initiated and prevented any significant disruption. Furthermore PANDORA has a contingency plan for moving significant parts of production outside Gemopolis should there be a risk of flooding above 1.5 meters.

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

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

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

Control environment
The Board of Directors has set up an audit committee to

assist the Board of Directors in supervising the financial reporting process and the efficiency of PANDORA's internal control and risk management systems.

The Executive Board is responsible for maintaining controls and an effective risk management system and it has taken the necessary steps to address the risks identified in relation to financial reporting.

The composition of the Board of Directors, Audit Committee and the Executive Board ensures the availability of relevant competencies with respect to internal controls and risk management in relation to the financial reporting process.

Risk assessment

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

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

- Significant accounting estimates
- Material changes to the accounting policies

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

Control activities

PANDORA has established four global core finance teams in each of the largest operating entities within the Group, Australia, the USA, Central Western Europe and the Danish headquarter.

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

Information and communication

PANDORA has established corporate accounting guidelines for all local finance managers.

At least twice a year, PANDORA holds a finance manager conference to discuss accounting matters and best practice for internal controls.

Monitoring

Financial reporting from subsidiaries is controlled, continually monitored and procedures have been established to ensure that any errors are communicated to and corrected by the reporting companies.

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

AUDIT

PANDORA's external auditors are appointed for a term of one year by the Annual General Meeting upon recommendation from the Audit Committee. Before their recommendation, the Board of Directors assesses, in consultation with Executive Board, the independence, competence and suitabillity of the auditors.

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

SHAREHOLDER INFORMATION

PANDORA shares are listed on the NASDAQ OMX Copenhagen stock exchange. Despite being one of the most liquid shares on NASDAQ OMX Copenhagen, the PANDORA share was excluded from the blue chip index OMXC20 at the bi-annual revision of the index in December 2011 as the 43% free float of the PANDORA shares reduces the market cap based on free float calculation used by NASDAQ OMX. The PANDORA share however remains included in the Nordic Large Cap index of the largest shares on the Nordic stock exchanges.

TURNOVER

PANDORA has been listed since 5 October 2010. The lowest closing price in 2011 was DKK 35, on 4 October, while highest closing price was DKK 368, on 13 January. More than 240 million PANDORA shares were traded in 2011 with an average trading volume of approximately 975,000 shares per day.

DIVIDEND

It is our policy to pay a dividend of 35% of the profit for the year after tax, with due consideration to PANDORA's growth plan and liquidity. For the financial year 2011, the Board of Directors proposes a dividend of 35% of profit for the year after tax, corresponding to DKK 5.50 per share in line with PANDORA's dividend policy.

PANDORA shares are traded ex-dividend the day after the Annual General Meeting, which will be held on 20 March 2012. The dividend will be paid automatically via VP Securities on 26 March 2012.

SHAREHOLDERS

As of 31 December 2011, PANDORA A/S's largest shareholder was Prometheus Invest ApS, a Danish company registration number (CVR. no.) 28 48 30 23. As per announcement of 8 October 2010, the shareholding is 74,700,850 shares with a nominal value of DKK 1 each in PANDORA A/S, equivalent to 57% of the share capital and the corresponding number of voting rights. Additionally, on 7 September 2011, that Mr Rene Sindlev, directly and indirectly, owns more than 5% of the shares in PANDORA A/S. Other major shareholders include institutional shareholders, primarily in Denmark, the USA, the UK and Germany. The Company also has a significant number of private shareholders in Denmark. Approximately 45% of the shares in the free-float are held outside Denmark.

INVESTOR RELATIONS

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

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

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

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

Spokes persons

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

- Chairman of the Board of Directors
- Chief Executive Officer
- Chief Financial Officer
- Investor Relations

Company announcement

The publication of company announcements takes place in accordance with the rules set forth in Danish legislation. Immediately after publication, the information is published on PANDORA's website. Regulatory company announcements and financial reports appear in English and Danish. All other information appears in English only. To ensure swift access to company announcements and press releases PANDORA invite all interested parties to sign up to email alerts via its Investors' website.

Meetings

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

When asked to review analysts' draft reports, PANDORA will limit its review and comments to the following:

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

Silent period

For a period of four weeks prior to the planned release of any quarterly financial reports, PANDORA does not comment on matters related to financial results or expectations.

Conference call

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

External conferences and presentations

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

Capital markets days and similar events

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

PANDORA SHARE PRICE PERFORMANCE 2011

Financial calendar 2012

21 February 2012	Annual Report 2011
20 March 2012	Annual General Meeting
26 March 2012	Payment of annual dividend
8 May 2012	Interim report for the first quarter of 2012
7 August 2012	Interim report for the second quarter of 2012
6 November 2012	Interim report for the third quarter of 2012

Share information

Exchange:	NASDAQ OMX Copenhagen A/S
Trading symbol:	PNDORA
Identification number/ISIN:	DK0060252690
Number of Shares:	130,143,258 of 1 DKK each with 1 vote
Share classes:	1
GICS :	25203010
Sector:	Apparel, Accessories & Luxury Goods
Segment:	Large

ANALYSTS COVERING PANDORA

Firm	Analyst	Contact Information
ABG Sundal Collier	Michael K. Rasmussen	Email: Michael.rasmussen@abgsc.com Phone: +44 207 905 5635
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SEB Enskilda	Niels Granholm-Leth	Email: Niels.leth@enskilda.dk Phone: +45 33 28 33 01
Sydbank	Nicolaj Jeppesen	Email: Nicolaj.jeppesen@sydbank.dk Phone: +45 74 37 44 69

BOARD OF DIRECTORS

Allan Leighton (born 1953)
Chairman
Independent member of board since 2010
Chairman of Remuneration and Nomination Committees
Other board memberships:
- Pace PLC (C)
- Office Ltd (C)
- Music Magpie.co.uk (C)
- George Weston Ltd (DC)

Torben Ballegaard Sørensen (born 1951)
Deputy Chairman
Independent member of board since 2008
Member of Audit, Remuneration and Nomination Committees
Other board memberships:
- Realfiction A/S (C)
- Tajco Group A/S (C)
- Thomas A/S (C)
- CAT Forsknings- og Teknologipark A/S (C)
- Systematic A/S (DC)
- AB Electrolux (BM)
- AS3 Companies A/S (BM)
- Egmont Foundation and Holding (BM)
- LEGO A/S (BM)

Andrea Alvey (born 1967)
Independent member of board since 2010
Chairman of Audit Committee
Other board memberships:
- Kitabo Investments Inc (P)

Marcello V. Bottoli (born 1962)
Member of board since 2010
Other board memberships:
- International Flavour & Fragrances (BM)
- True Religion Apparel (BM)
- Blushington LLC (BM)

Christian Frigast (born 1951)
Member of board since 2010
Member of Remuneration and Nomination Committees
Other board memberships:
- Royal Scandinavia (DC)
- Axcel Management (Managing partner)
- Torm (BM)
- DVCA (BM)
- Prometheus Invest (BM)

Erik D. Jensen (born 1943)
Member of board since 2008
Other board memberships:
- MLA Gruppen (C)
- PBI Holding (C)
- Royal Scandinavia (C)
- Royal Copenhagen (BM)
- Ejnar og Meta Thorsens Fond (BM)

Nikolaj Vejlsgaard (born 1971)
Member of board since 2008
Member of Audit Committee
Other board memberships:
- Axcel Management (Partner)
- Georg Jensen (DC)
- Royal Copenhagen (DC)
- Royal Scandinavia (BM)
- Prometheus Invest (Chief Executive Officer and BM)

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

EXECUTIVE MANAGEMENT

Marcello V. Bottoli (born 1962)
Interim Chief Executive Officer and Chairman of the Executive Board
Other board memberships:
- International Flavour & Fragrances (BM)
- True Religion Apparel (BM)
- Blushington LLC (BM)

Henrik Holmark (born 1965)
Chief Financial Officer and member of Executive Board

Sten Daugaard (born 1957)
Chief Development Officer and member of Executive Board

Thomas Ryge Mikkelsen (born 1972)
Chief Merchant Officer
Other board memberships:
- Prokura (BM)

(BM) Board member

MANAGEMENT STATEMENT

Today, the Board of Directors and Executive Board have discussed and approved the annual report of PANDORA A/S for the financial year 1 January 2011 – 31 December 2011.

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

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's financial position as at 31 December 2011 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January 2011 – 31 December 2011.

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

Copenhagen, 21 February 2012

Executive Board:

Marcello V. Bottoli
Interim Chief Executive Officer

Sten Daugaard
Chief Development Officer

Henrik Holmark
Chief Financial Officer

Board of Directors

Allan Leighton
Chairman

Torben Ballegaard Sørensen
Deputy Chairman

Andrea Alvey

Marcello V. Bottoli

Christian Frigast

Erik D. Jensen

Nikolaj Vejlsgaard

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of PANDORA A/S

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS

We have audited the consolidated financial statements and the parent company financial statements of PANDORA A/S for the financial year 1 January – 31 December 2011, which comprise an income statement, comprehensive income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the group as well as the company. The consolidated financial statements and the parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY 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 Danish disclosure requirements for listed companies. Further, management is responsible for such internal control as it determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements according to Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and parent company financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management as well as the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

OPINION

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the company's financial position at 31 December 2011 and of the results of the group's and the company's operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

STATEMENT ON THE MANAGEMENT'S REVIEW

In accordance with the Danish Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 21 February 2012

Ernst & Young
Godkendt Revisionspartnerselskab

Robert Christensen	Niels-Jørgen Andersen
State Authorised Public Accountants	*State Authorised Public Accountants*

CONSOLIDATED INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2011	2010
Revenue	2	6,658	6,666
Cost of sales		-1,798	-1,941
Gross profit		**4,860**	**4,725**
Distribution expenses		-2,053	-1,733
Administrative expenses		-749	-576
Operating profit		**2,058**	**2,416**
Financial income	10	642	54
Financial expenses	11	-331	-218
Profit before tax		**2,369**	**2,252**
Income tax expenses	12	-332	-381
Net profit for the year		**2,037**	**1,871**
Attributable to:			
Equity holders of PANDORA A/S		2,037	1,846
Non-controlling interests		-	25
Total		**2,037**	**1,871**
Earnings per share	13		
Profit for the year attributable to ordinary equity holders of the parent, basic		16	15
Profit for the year attributable to ordinary equity holders of the parent, diluted		16	15

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	2011	2010
Net profit for the year	**2,037**	**1,871**
Exchange differences on translation of foreign subsidiaries	247	402
Value adjustment of hedging instruments	-551	299
Income tax on other comprehensive income	13	3
Other comprehensive income, net of tax	**-291**	**704**
Total comprehensive income for the year	**1,746**	**2,575**
Attributable to:		
Equity holders of PANDORA A/S	1,746	2,519
Non-controlling interests	-	56
Total	**1,746**	**2,575**

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2011	2010
ASSETS			
Non-current assets			
Goodwill	14	1,928	1,905
Brand	14	1,053	1,052
Distribution network	14	336	366
Distribution rights	14	1,064	1,128
Other intangible assets	14	95	39
Property, plant and equipment	16	429	374
Deferred tax assets	17	209	107
Other non-current financial assets		34	28
Total non-current assets		**5,148**	**4,999**
Current assets			
Inventories	18	1,609	1,272
Trade receivables	19	900	834
Other receivables		177	533
Tax receivables		41	97
Cash and short-term deposits		176	1,224
Total current assets		**2,903**	**3,960**
Total assets		**8,051**	**8,959**

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2011	2010
EQUITY AND LIABILITIES			
Shareholders' equity	22		
Share capital		130	130
Share premium		1,248	1,248
Treasury shares		-38	-38
Foreign currency translation reserve		768	521
Hedge reserve		-236	302
Other reserves		88	88
Proposed dividend for the year		715	650
Retained earnings		2,736	1,414
Equity attributable to equity holders of the Parent Company		**5,411**	**4,315**
Total shareholders' equity		**5,411**	**4,315**
Non-current liabilities			
Interest-bearing loans and borrowings		375	-
Provisions	23	64	536
Deferred tax liabilities	17	552	606
Other long-term liabilities		2	18
Total non-current liabilities		**993**	**1,160**
Current liabilities			
Interest-bearing loan and borrowings		10	2,326
Provisions	23	230	76
Trade payables		288	245
Income tax payables		344	351
Other payables		775	486
Total current liabilities		**1,647**	**3,484**
Total liabilities		**2,640**	**4,644**
Total equity and liabilities		**8,051**	**8,959**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

DKK million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Hedge reserve	Other reserves	Proposed dividend	Retained earnings	Atributable to equity holders of the parent	Non-controlling interests	Total equity
Shareholders' equity at 1 January 2011		130	1,248	-38	521	302	88	650	1,414	4,315	-	4,315
Net profit for the year									2,037	2,037		2,037
Exchange differences on translation of foreign subsidiaries					247					247		247
Value adjustment of hedging instruments						-551				-551		-551
Income tax on other comprehensive income						13				13		13
Other comprehensive income, net of tax		**-**	**-**	**-**	**247**	**-538**	**-**	**-**	**-**	**-291**	**-**	**-291**
Total comprehensive income for the year		**-**	**-**	**-**	**247**	**-538**	**-**	**-**	**2,037**	**1,746**	**-**	**1,746**
Dividend paid	13							-650		-650		-650
Proposed and declared dividend	13							715	-715	-		-
Shareholders' equity at 31 Dec. 2011		**130**	**1,248**	**-38**	**768**	**-236**	**88**	**715**	**2,736**	**5,411**	**-**	**5,411**
Shareholders' equity at 1 January 2010		1	-	-	164	-	11	-	1,276	1,452	197	1,649
Reclassification *)					-14				21	7	-7	-
Net profit for the year					-				1,846	1,846	25	1,871
Exchange differences on translation of foreign subsidiaries					371					371	31	402
Value adjustment of hedging instruments						299				299		299
Income tax on other comprehensive income						3				3		3
Other comprehensive income, net of tax		**-**	**-**	**-**	**371**	**302**	**-**	**-**	**-**	**673**	**31**	**704**
Total comprehensive income for the year		**-**	**-**	**-**	**371**	**302**	**-**	**-**	**1,846**	**2,519**	**56**	**2,575**
Share-based payments	7						6			6		6
Capital increase	22	125	675							800		800
Capital increase , Initial Public Offering	22	3	573							576		576
Capital increase, bonus shares and options	22	1					-1			-		-
Dividend paid	13							-1,000		-1,000		-1,000
Proposed and declared dividend	13							1,650	-1,650	-		-
Capital infusion	22						74			74		74
Non-controlling interests arising on business combination	4									-	820	820
Minority shareholder with put option reclassified to provision										-	-410	-410
Remeasurement of put-option										-	-39	-39
Dividend paid to non-controlling interests										-	-53	-53
Acquisition of non-controlling interests	4								-79	-79	-564	-643
Purchase of treasury shares	22			-40						-40		-40
Disposal of treasury shares	22			2			-2			-		-
Shareholders' equity at 31 Dec. 2010		**130**	**1,248**	**-38**	**521**	**302**	**88**	**650**	**1,414**	**4,315**	**-**	**4,315**

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

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2011	2010
Profit before tax		2,369	2,252
Financial income	10	-642	-54
Financial expenses	11	331	218
Amortisation/depreciation	5	221	265
Options	6	-	6
Change in inventories		-310	-665
Change in receivables		15	-308
Change in trade payables		43	37
Change in other liabilities		270	192
		2,297	**1,943**
Other non-cash adjustments		50	31
Interest etc. paid		-99	-299
Interest etc. received		4	17
Income tax paid		-429	-376
Cash flow from operating activities		**1,823**	**1,316**
Acquisition of subsidiaries, net of cash acquired	3	-116	-94
Purchase of intangible assets	14	-119	-52
Purchase of property, plant and equipment	16	-150	-210
Change in other non-current assets		-5	3
Proceeds from sale of property, plant and equipment		26	49
Cash flow from investing activities		**-364**	**-304**
Capital increase including share premium net of transaction costs		-	651
Dividend paid		-650	-200
Dividend paid to non-controlling interests		-13	-40
Purchase and disposal of treasury shares		-	-38
Acquisition of non-controlling interests		-	-593
Proceeds from borrowings		537	2,775
Repayment of borrowings		-2,376	-3,199
Cash flow from financing activities		**-2,502**	**-644**
Net cash flow for the year		**-1,043**	**368**
Cash and short-term deposits at 1 January		1,224	824
Net exchange rate adjustment		-5	32
Net cash flow for the year		-1,043	368
Cash and short-term deposits at 31 December		**176**	**1,224**
Unutilised credit facilities inclusive cash and cash equivalents		2,492	1,382

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

NOTES

NOTES

NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

As of 31 December 2011, the distribution rights were fully amortised.

As of 31 December 2011, the carrying amount of goodwill related to the purchase of the former German distributor is DKK 593 million (2010: DKK 591 million).

NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS, CONTINUED

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

The purchase price of the 49% non-controlling interests in PANDORA Jewelry Central Western Europe A/S is based on an earn-out on the future earnings of PANDORA Jewelry Central Western Europe A/S. The earn-out is calculated as adjusted EBITDA 2014 in PANDORA Jewelry Central Western Europe A/S multiplied with 3, with subtraction of net interest-bearing debt as at 31 December 2014 and a subtraction of DKK 400 million.

PANDORA's obligation to settle the earn-out payment in 2015 is treated as a provision. The present value of the earn-out provision is based on a discount rate of 12.3%. It is expected that the value of this provision will increase over time until payment due to unwinding of the discount, presupposed that the assumptions for the calculation has not changed. Changes in the value of the earn-out, whether as a result of discounting, actual results or otherwise as a result of revised budgeting and forecasting in future periods, is reflected in the income statement as financial income or expenses.

As of 31 December 2011, the carrying amount of the earn-out provision is DKK 51 million (2010: DKK 518 million).

Tax

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

Return Provision

The Group has in certain countries (primarily USA) provided return rights to the customers. A provision is recognised measured at the gross margin on the expected returns. The provision is based on historical return patterns and hence changes in the future return patterns will result in changes compared to the provision recognised.

Judgements in applying the accounting policies

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

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

Measurement of non-controlling interests

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

NOTES

NOTE 1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS, CONTINUED

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

Hedging
PANDORA started using the principles of hedge accounting for commodity contracts designated as cash flow hedges as of 1 January 2010, since then PANDORA formally designates and documents hedge relationships between commodity contracts and transactions.

NOTE 2. OPERATING SEGMENT INFORMATION

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

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

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

At 31 December 2011

DKK million	Americas	Europe	Asia Pacific	Unallocated cost	Total Group
Income Statement:					
External revenue	**3,144**	**2,623**	**891**	**-**	**6,658**
Segment profit (EBITDA)	**1,620**	**913**	**325**	**-577**	**2,281**
Adjustments:					
Amortisation/depreciation					-221
Gain/losses from sale of non-current assets					-2
Consolidated operating profit					**2,058**

NOTES

NOTE 2. OPERATING SEGMENT INFORMATION, CONTINUED

At 31 December 2010

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

Product information:
Revenue from external customers

DKK million	2011	2010
Charms	4,639	4,630
Silver and gold charms bracelets	786	786
Rings	401	420
Other jewellery	832	830
Total	**6,658**	**6,666**

Geographic information:
Revenue from external customers

DKK million	2011	2010
United States	2,537	2,518
Australia	656	786
United Kingdom	951	995
Germany	638	679
Denmark	59	50
Other countries	1,817	1,638
Total	**6,658**	**6,666**

No single external customer accounts for 10 per cent or more of PANDORA's revenue in 2011 and 2010.

NOTE 2. OPERATING SEGMENT INFORMATION, CONTINUED

Non-current tangible and intangible assets:

DKK million	2011	2010
United States	1,318	1,290
Australia	428	413
Germany	592	703
Denmark	1,975	1,910
Thailand	549	521
Other countries	43	27
Total	**4,905**	**4,864**

NOTE 3. BUSINESS COMBINATIONS

Aquisition in 2011

There have been no business combinations in 2011.

The amount recognised in the cash flow statement under Acquisition of subsidiaries, net of cash acquired DKK 116 million is final payment of acquisition of Australian distributor.

Aquisition in 2010

Acquisition of the German distributor

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

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

NOTE 3. BUSINESS COMBINATIONS, CONTINUED

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

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

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

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

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

NOTE 3. BUSINESS COMBINATIONS, CONTINUED

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

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

Description of the acquired assets and liabilities

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

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

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

Post-combination and 12-month adjusted information

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

As the acquisition took place on the 5 January 2010, 12-month adjusted information has not been prepared.

Acquisition of non-controlling interests

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

NOTES

NOTE 4. PURCHASE OF NON-CONTROLLING INTERESTS

Aquisition in 2011
There have been no aquisitions in 2011.

Aquisition in 2010
In connection with the Initial Public Offering PANDORA exercised the call option to buy the respective non-controlling interests in AD Astra Holdings Pty Ltd. and PANDORA Jewelry Central Western Europe A/S.

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

The purchase price of the 49% non-controlling interests in PANDORA Jewelry Central Western Europe A/S is based on an earn-out on the future earnings of PANDORA Jewelry Central Western Europe A/S. The earn-out is calculated as adjusted EBITDA 2014 in PANDORA Jewelry Central Western Europe A/S multiplied by 3, with subtraction of net interest bearing debt as at 31 December 2014 and a subtraction of DKK 400 million.

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

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

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

NOTE 5. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

DKK million	2011	2010
Intangible assets	158	218
Property, plant and equipment	63	47
Total	**221**	**265**
Amortisation/depreciation and impairment losses have been recognised in the consolidated income statement as follows:		
Cost of sales	18	10
Distribution expenses	163	239
Administrative expenses	40	16
Total	**221**	**265**

NOTES

NOTE 6. EMPLOYEE BENEFIT EXPENSES

DKK million	2011	2010
Wages and salaries	815	697
Pensions, defined contribution plans	35	36
Share-based payments	-	6
Social security costs	27	22
Other staff costs	120	84
	997	**845**
Average number of employees during the year	5,186	4,336
The employee benefit expenses has been recognised in the consolidated income statement as follows:		
Cost of sales	183	171
Distribution expenses	558	441
Administrative expenses	256	233
	997	**845**
Compensation of key management personnel of PANDORA		
Wages and salaries		
Executive Board		
Marcello V. Bottoli	12.3	-
Mikkel Vendelin Olesen	16.7	4.8
Henrik Holmark	2.7	2.9
	31.7	**7.7**
Board of Directors		
Allan Leighton	2.6	0.9
Torben Ballegaard Sørensen	0.9	0.4
Andrea Alvey	0.6	0.2
Marcello V. Bottoli	0.6	0.2
Sten Daugaard*	0.7	0.2
Christian Frigast	0.6	0.2
Erik D. Jensen	0.6	0.2
Nikolaj Vejlsgaard	0.6	0.2
	7.2	**2.5**
Share-based payments**		
Executive Board		
Mikkel Vendelin Olesen	-	1.4
Henrik Holmark	-	1.1
	-	**2.5**
Board of Directors		
Torben Ballegaard Sørensen	-	1.4
Erik D. Jensen	-	0.3
	-	**1.7**

Mikkel Vendelin Olesen resigned 2 August 2011. Redundancy payment of DKK 13 million in 2011 (2010: DKK 0 million) is included in total wages and salaries.

According to the contract between Interim CEO Marcello Bottoli and PANDORA, Marcello Bottoli is obligated to purchase PANDORA shares equivalent to EUR 287,500. Marcello Bottoli must hold the shares as long as he is a member of the Board of Directors of PANDORA.

NOTE 6. EMPLOYEE BENEFIT EXPENSES, CONTINUED

Number of shares in PANDORA A/S	2010	Capital increase	Exercise of share option	Purchase of shares	Selling of shares	2011
Executive Board						
Mikkel Vendelin Olesen	504,034	-	-	-	-	504,034
Henrik Holmark	402,825	-	-	24,000	-	426,825
	906,859	**-**	**-**	**24,000**	**-**	**930,859**
Board of Directors						
Allan Leighton***	12,380	-		-	-	12,380
Torben Ballegaard Sørensen	322,670	-	-	20,000	-	342,670
Andrea Alvey	2,857	-	-	-	-	2,857
Marcello V. Bottoli	4,761	-	-	-	-	4,761
Sten Daugaard*	4,285	-	-	-	-	4,285
Christian Frigast	42,636	-	-	17,000	-	59,636
Erik D. Jensen	100,503	-	-	8,500	-	109,003
Nikolaj Vejlsgaard	27,630	-	-	30,000	-	57,630
	517,722	**-**	**-**	**75,500**	**-**	**593,222**

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

*) Sten Daugaard is from 30 January 2012 a part of the Executive Board and no longer a part of the Board of Directors.
**) Please refer to note 7 for further information.
***) Exclusive number of granted options in 2010, please refer to note 7 for further information.

NOTES

NOTE 7. SHARE-BASED PAYMENTS

The decision to grant share options is made by the Board of Directors in accordance with general guidelines for incentive pay. Share options are granted to members of the Executive Board, selected members of the Board of Directors and other key employees in PANDORA.

	Executive Board	Board of Directors	Other employees	Total	Average exercise price per option, DKK
Share options outstanding at 1 January 2011	-	-	-	-	
Share options granted during the year	6,190	-	144,258	150,448	2.10
Share options utilised during the year	-	-	-	-	
Share options lapsed during the year	-	-	-	-	
Share options outstanding at 31 December 2011	**6,190**	**-**	**144,258**	**150,448**	
Share options outstanding at 1 January 2010	741	503	535	1,779	
Share options utilised during the year	-741	-503	-535	-1,779	1.21
Share options outstanding at 31 December 2010	**-**	**-**	**-**	**-**	

The calculated fair values are based on the Black-Scholes formula for measuring share options.

Granted 2011

There have been granted 150,448 share options in 2011. The recognised value of the share options in the income statements and in equity is DKK 0, because of the unlikelyhood of the share options being vested.

Utilising 2010

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

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

NOTE 7. SHARE-BASED PAYMENTS, CONTINUED

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

Granted 2010

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

Based on a share price of DKK 336.0 as of 31 December 2010 for PANDORA A/S the number of granted share options would be equal to 19,345 shares. The number of share options is not included in the above table as the total number of share options is dependent on future development in the share price.

Assumptions concerning the calculation of fair value at time of granting:

Year of granting	Exercise price	Expected volatility	Risk-free interest rate	Dividend per share
2011	2.10	100%	1.82%	-
2008	1.21	37%*	3.65%	-

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

NOTE 8. DEVELOPMENT COSTS

Development costs recognised as an expense in the consolidated income statement during the financial year amount to DKK 15 million in 2011 (2010: DKK 12 million).

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

DKK million	2011	2010
Fee for statutory audit	3	2
Other assurance engagements	3	5
Tax consultancy	6	5
Other services	3	6
	15	**18**

In 2011 DKK 15 million (2010: DKK 16 million) is recorded under administrative expenses and DKK 0 million (2010: DKK 2 million) directly in equity.

NOTES

NOTE 10. FINANCIAL INCOME

DKK million	2011	2010
Financial income originated from financial assets and liabilities at fair value through consolidated income statement:		
Fair value adjustments on derivatives	127	37
	127	**37**
Financial income originated from loans and receivables measured at amortised cost:		
Interest income, bank	2	2
Interest income, loan and receivables	2	9
Other	-	6
	4	**17**
Value adjustment earn-out provision	511	-
Total financial income	**642**	**54**

NOTE 11. FINANCIAL EXPENSES

DKK million	2011	2010
Financial expenses originated from financial assets and liabilities at fair value through consolidated income statement:		
Interest on derivatives	-	21
	-	**21**
Financial expenses originated from financial liabilities measured at amortised cost:		
Exchange losses, net	193	34
Interest on subordinated loan	-	25
Interest on earn- out provision	44	15
Interest on debt and borrowings	45	89
Other finance costs	49	34
	331	**197**
Total financial expenses	**331**	**218**

NOTES

NOTE 12. INCOME TAX

DKK million	2011	2010
Income tax recognised in the consolidated income statement:		
Current income tax charge	468	486
Prior-year adjustments	7	-28
Changes in deferred tax	-143	-77
Income tax expense	**332**	**381**
Tax reconciliation		
Accounting profit before tax	2,369	2,252
At PANDORA's statutory income tax rate 25% (2010: 25%)	592	563
Tax effect of:		
Effect of tax rates for foreign subsidiaries	123	188
Tax exempted income	-327	-397
Revaluation of deferred tax assets, net	-15	10
Non deductible expenses	64	44
Changes in tax rates	-5	-
Prior-year adjustments	7	-28
Adjustment earn-out provision	-128	-
Other	21	1
	332	**381**
Effective income tax rate	14.0%	16.9%

NOTE 13. EARNINGS PER SHARE AND DIVIDEND

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

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

DKK	2011	2010
Profit attributable to the ordinary equity holders of the Parent Company	**2,037**	**1,846**
Weighted average number of ordinary shares	129,960,333	124,880,510
Effect of share options	0	1,367,784
Weighted average number of ordinary shares adjusted for the effect of dilution	129,960,333	126,248,294
Basic earnings per share	16	15
Diluted earnings per share	16	15

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

Dividend

At the end of 2011, proposed dividends (not yet declared) are DKK 715 million (2010: DKK 650 million), amounting to DKK 5.50 per share (2010: DKK 5 per share). Declared and paid dividend of DKK 1,000 million in 2010 is paid to the former shareholders. Please refer to note 22 for further information.

No dividend is declared on treasury shares.

NOTES

NOTE 14. INTANGIBLE ASSETS

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

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
Cost at 1 January 2011	1,905	1,052	451	1,312	43	4,763
Additions	-	1	-	46	72	119
Disposals	-	-	-	-	-1	-1
Exchange rate adjustment	23	-	-	-	3	26
Cost at 31 December 2011	**1,928**	**1,053**	**451**	**1,358**	**117**	**4,907**
Amortisation and impairment losses 1 January 2011	-	-	85	184	4	273
Amortisation and impairment losses for the year	-	-	30	110	18	158
Amortisation and impairment losses at 31 December 2011	**-**	**-**	**115**	**294**	**22**	**431**
Carrying amount at 31 December 2011	**1,928**	**1,053**	**336**	**1,064**	**95**	**4,476**
Cost at 1 January 2010	1,208	1,047	451	884	-	3,590
Acquisition of subsidiary undertakings	591	-	-	274	-	865
Additions	-	5	-	4	43	52
Disposals	-	-	-	-	-2	-2
Exchange rate adjustment	106	-	-	150	2	258
Cost at 31 December 2010	**1,905**	**1,052**	**451**	**1,312**	**43**	**4,763**
Amortisation and impairment losses 1 January 2010	-	-	55	-	-	55
Amortisation and impairment losses for the year	-	-	30	184	4	218
Amortisation and impairment losses at 31 December 2010	**-**	**-**	**85**	**184**	**4**	**273**
Carrying amount at 31 December 2010	**1,905**	**1,052**	**366**	**1,128**	**39**	**4,490**

NOTES

NOTE 14. INTANGIBLE ASSETS, CONTINUED

Goodwill

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

The carrying amount of recognised goodwill concerns the following:

DKK million	2011	2010
PANDORA core business (PANDORA acquisition of all of the voting shares in PANDORA Production Co. Ltd. and the Danish companies Populair A/S and Pilisar ApS. The companies comprised the Danish headquarters and the Thai production facilities).	731	725
PANDORA Jewelry America ApS, the American distributor	245	239
AD Astra Holdings Pty Ltd, the Australian distributor	359	350
PANDORA Jewelry Central Western Europe A/S, the German distributor	593	591
Total	**1,928**	**1,905**

Brand

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

Distribution network

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

NOTE 14. INTANGIBLE ASSETS, CONTINUED

Distribution rights
Distribution rights cover PANDORA's distribution rights for PANDORA products in the North American markets. In 2010 it covered PANDORA's distributions rights for PANDORA products in the German, Swiss and Austrian market as well. In 2011 the distribution rights for PANDORA products in the French market was acquired.

The distribution right for the PANDORA products in the North American markets was acquired with the American distributor in 2008 and was measured based on a residual model, since the distribution agreement underlying the distribution right is non-terminable. Consequently, the distribution right is considered to have an indefinite useful life. The carrying amount is DKK 1,037 million at 31 December 2011 (2010: DKK 1,037 million).

The distribution right for the PANDORA products in the German, Swiss and Austrian market was acquired in 2010 and measured based on the Multi-period Excess Earnings Model and was amortised over its useful life of 1.5 years. The carrying amount is DKK 0 million at 31 December 2011 (2010: DKK 91 million).

The distribution right for the PANDORA products in the French market is acquired in 2011 and measured based on the Multi-period Excess Earnings Model and is amortised over its useful life of 1 year. The carrying amount is DKK 17 million at 31 December 2011 and the residual useful life is 0.5 years.

Additional distribution rights for the PANDORA products in the Swiss and Austrian market is acquired in 2011 and measured based on the Multi-period Excess Earnings Model and is amortised over its useful life of 2 years. The carrying amount is DKK 10 million at 31 December 2011 and the residual useful life is 2 years.

Other intangible assets
Other intangible assets covers completed software projects.

NOTES

NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS

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

Brand

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

Goodwill and distribution rights

Goodwill and distribution rights were acquired in connection with the acquisitions of PANDORA Jewelry A/S, PANDORA Jewelry America ApS (subsequently merged with PANDORA A/S), PANDORA Production Co. Ltd. (Thailand) and Pilisar ApS on 7 March 2008, the acquisition of AD Astra Holdings Pty Ltd in July 2009 and the acquisition of PANDORA Jewelry Central Western Europe A/S in 2010.

Goodwill is allocated to cash-generating units (CGUs) or the smallest group of CGUs in the Group, in respect of which goodwill is monitored by Management and which are not larger than the Group's operating segments. Goodwill and distribution rights are allocated to five independent operating segments: Americas, United Kingdom, Central Western Europe (CWE), Australia and Distributors & Travel Retail.

Segmentation of intangible assets on CGUs:

DKK million	Goodwill	Brand	Distribution rights	Total
2011				
Americas	468	-	1,036	1,504
United Kingdom	37	-	-	37
Central Western Europe (CWE)	692	-	28	720
Australia	529	-	-	529
Distributors & Travel Retail	202	-	-	202
Group	-	1,053	-	1,053
	1,928	**1,053**	**1,064**	**4,045**
2010				
Americas	460	-	1,037	1,497
United Kingdom	36	-	-	36
Central Western Europe (CWE)	690	-	91	781
Australia	519	-	-	519
Distributors & Travel Retail	200	-	-	200
Group	-	1,052	-	1,052
	1,905	**1,052**	**1,128**	**4,085**

NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

The recoverable amount is based on a calculation of the value in use using cash flow estimates based on budgets and expectations for 2012 - 2014 (2010: 2011 - 2013).

Detailed forecasts have not been prepared, the long-term growth rate in the terminal period has been set to equal the expected long-term rate of inflation of 2.0% (2010: 2.0%). The impairment tests do not indicate a need for a write-down.

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

Discount rates and growth rate in terminal period

	Americas	United Kingdom	Central Western Europe (CWE)	Australia	Distributors & Travel Retail	Group
2011						
Discount rate before tax	12.8%	12.2%	12.6%	15.1%	11.5%	13.8%
Growth rate in the terminal period	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

	Americas	United Kingdom	Central Western Europe (CWE)	Australia	Distributors & Travel Retail	Group
2010						
Discount rate before tax	12.0%	10.5%	11.3%	13.4%	11.1%	11.2%
Growth rate in the terminal period	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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

EBIT

The EBIT figures used in the impairment test are based on the budget for 2012 (2010: 2011), prepared and approved by Management, and the expectation for the period 2013-2014 (2010: 2012 - 2013). In the budget for 2012 (2010: 2011) for the individual CGUs, the EBIT margin is based on historical experience and expectations to growth and is maintained in the period 2013-2014 (2010: 2012 - 2013) as well as in the terminal period.

NOTES

NOTE 15. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

Investments
The value of capital investment in the cash flow computations represents a fixed percentage of each individual CGUs revenue in the years concerned. Management has set this percentage based on historical experience and their expectations as to the scope of future investments to secure and increase the level of activity in the CGUs so that the budget for 2012 (2010: 2011) and the activity and earning targets in the expectations are supported.

Working capital
The value of net working capital in the budget for 2012 (2010: 2011), relative to the revenue for the individual CGUs, is based on historical experience and is maintained in the period 2013-2014 (2010: 2012 -2013) as well as in the terminal period. The funds tied up in net working capital are thus increased on a linear basis as the level of activity increases.

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

NOTES

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	PP&E under construction	Total
Cost at 1 January 2011	203	230	32	465
Additions	11	95	44	150
Disposals	-3	-13	-15	-31
Reclassifications	13	22	-35	-
Exchange rate adjustment	-3	1	-2	-4
Cost at 31 December 2011	**221**	**335**	**24**	**580**
Depreciation and impairment losses at 1 January 2011	28	63	-	91
Depreciation for the year	7	56	-	63
Disposals	-	-4	-	-4
Reclassifications	-2	2	-	-
Exchange rate adjustment	-	1	-	1
Depreciation and impairment losses at 31 December 2011	**33**	**118**	**-**	**151**
Carrying amount at 31 December 2011	**188**	**217**	**24**	**429**
Carrying amount of assets pledged as securities	2	3	-	5
Cost at 1 January 2010	125	109	18	252
Acquisition of subsidiary undertakings	9	10	-	19
Additions	65	118	27	210
Disposals	-15	-27	-19	-61
Exchange rate adjustment	19	20	6	45
Cost at 31 December 2010	**203**	**230**	**32**	**465**
Depreciation and impairment losses at 1 January 2010	25	22	-	47
Depreciation for the year	3	44	-	47
Disposals	-2	-8	-	-10
Exchange rate adjustment	2	5	-	7
Depreciation and impairment losses at 31 December 2010	**28**	**63**	**-**	**91**
Carrying amount at 31 December 2010	**175**	**167**	**32**	**374**

NOTES

NOTE 17. DEFERRED TAX

	Balance sheet		Income statement	
DKK million	2011	2010	2011	2010
Property, plant and equipment	2	1	2	3
Distribution rights	611	637	-26	-43
Inventories	-137	-86	-50	-55
Trade receivables	-3	-2	-1	-
Tax losses carried forward	-12	-	-12	24
Other	-118	-51	-56	-6
Deferred tax, net	**343**	**499**		
Deferred tax income			**-143**	**-77**
Deferred tax is recognised in the consolidated balance sheet as follows:				
Deferred tax asset	-209	-107		
Deferred tax liability	552	606		
Deferred tax, net	**343**	**499**		
Reconciliation of deferred tax:				
At 1 January	499	482		
Exchange rate adjustments	-1	32		
Tax expense recognised in the income statement	-143	-77		
Tax expense recognised in other comprehensive income	-12	-3		
Deferred tax acquired in business combinations	-	65		
	343	**499**		

PANDORA has a balance of DKK 67 million (2010: DKK 68 million) from tax losses carried forward and timing differences. This balance has not been recognised since it is uncertain when PANDORA will be able to utilise it.

NOTES

NOTE 18. INVENTORIES

DKK million	2011	2010
Raw materials and consumables	232	294
Work in progress	37	103
Finished goods	1,340	875
	1,609	**1,272**
Inventory write-downs during period	93	48

The write-downs of inventories is recognised under cost of sales DKK 14 million (2010: DKK 48 million) and distribution expenses DKK 79 million (2010: DKK 0 million).

NOTE 19. TRADE RECEIVABLES

Trade receivables at 31 December 2011 include receivables at a nominal value of DKK 925 million (2010: DKK 849 million), which have been written down to DKK 900 million (2010: DKK 834 million).

DKK million	2011	2010
Analysis of movements in provisions for impairment of trade receivables:		
At 1 January	15	5
Utilised	-4	-1
Unused amounts reversed	-5	-2
Change for the year	19	13
At 31 December	**25**	**15**
Analysis of trade receivables that were past due, but not impaired, at 31 December:		
Until 30 days	257	234
Between 30 and 60 days	25	48
Between 60 and 90 days	31	20
Above 90 days	23	14
Past due, but not impaired	**336**	**316**
Neither past due nor impaired	564	518
Total	**900**	**834**

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

NOTES

NOTE 20. FINANCIAL ASSETS AND LIABILITIES

DKK million	2011 Carrying amount	2010 Carrying amount
Financial assets at fair value through other comprehensive income:		
Derivatives	6	304
Total financial assets at fair value	**6**	**304**
Loan and receivables measured at amortised cost:		
Trade receivables	900	834
Other receivables	17	26
Cash	176	1,224
Total loan and receivables measured at amortised cost	**1,093**	**2,084**
Total financial assets	**1,099**	**2,388**
Financial liabilities at fair value through other comprehensive income:		
Derivatives	257	11
Total financial liabilities at fair value	**257**	**11**
Financial liabilities measured at amortised cost:		
Interest-bearing loans and borrowings	385	2,326
Other long-term liabilities	2	9
Trade payables	288	245
Other payables	402	291
Total financial liabilities measured at amortised cost	**1,077**	**2,871**
Total financial liabilities	**1,334**	**2,882**

Classification according to the fair value hierarchy:
Financial instruments measured at fair value consist of derivatives, including silver and gold futures, interest rate swaps and currency rate swaps. The fair value as at 31 December 2011 and 2010 of PANDORA's derivative financial instruments is measured in accordance with level 2* in the fair value hierarchy.

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

NOTE 21. 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 via PANDORA's Group Treasury.

To manage financial risks, PANDORA uses a number of financial instruments, such as forward contracts, silver and gold futures, currency and interest rate swaps, options and similar instruments within the framework of its current policies. The financial risks are divided into credit risk, liquidity risk, interest rate risk, foreign currency risk and raw material risk.

Credit risk

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

It is PANDORA's policy that subsidiaries are 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 be informed of significant transactions related to direct distributors and local key customers. Note 19 includes an overview of the credit risk related to trade receivables.

Credit risks related to PANDORA's other financial assets mainly include cash and cash equivalents and unrealised gains on financial contracts. The credit risk is related to default of the counterpart with a maximum risk corresponding to the carrying amount of the assets. It is PANDORA's policy that Group Treasury monitors and manages these credit risks.

Liquidity risk

Liquidity risk is the risk that PANDORA's cash and cash equivalents should fail to cover PANDORA's payables due.

The aim of liquidity management is to maintain an optimal amount of liquidity to fund PANDORA's commitments at all times, to minimise interest and bank costs and to avoid financial distress. Group Treasury is responsible for monitoring and managing PANDORA's total liquidity position. PANDORA currently does not use cash pools, but intercompany loans exist between PANDORA A/S and its subsidiaries. Whenever possible, liquidity is accumulated in PANDORA A/S.

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

PANDORA has a revolving credit facility of DKK 2,500 million, which is committed by the bank until March 2014. Furthermore, PANDORA has minor local uncommitted bank credit facilities to ensure efficient and flexible local liquidity management. These credits are facilitated by Group Treasury.

NOTES

NOTE 21. FINANCIAL RISKS, CONTINUED

The liabilities fall due as follows:

DKK million	Falling due within 1 year	Falling due within 1-5 years	Falling due after more than 5 years	Total
2011				
Derivative financial liabilities	257	-	-	257
Interest-bearing loans and borrowings	10	374	1	385
Trade payables	288	-	-	288
Other payables	514	4	-	518
	1,069	**378**	**1**	**1,448**
2010				
Derivative financial liabilities	11	-	-	11
Interest-bearing loans and borrowings	2,408	-	-	2,408
Other long-term liabilities	1	9	-	10
Trade payables	245	-	-	245
Other payables	292	-	-	292
	2,957	**9**	**-**	**2,966**

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in additional costs. Most of PANDORA's interest rate risk is related to floating-rate loans. It is PANDORA's policy to minimise the interest rate risk by managing the overall duration of interest rate-sensitive assets and liabilities At the reporting date all interest-bearing loans and borrowings were fully hedged.

Sensitivity analysis:

DKK million	2011	2010
Increase in basis points	+100	+100
Impact on shareholders' equity	-	+1
Impact on profit (loss) before tax	-	+4

A decrease in the interest rate would have the full opposite impact on shareholders' equity and profit (loss) as shown above.

The above table illustrates the full-year impact of an increase in the interest rate on shareholders' equity and profit (loss) based on net variable debt and financial instruments in place as of 31 December 2011 and 2010, after the impact of hedge accounting.

NOTE 21. FINANCIAL RISKS, CONTINUED

Foreign currency risk

PANDORA's reporting currency is DKK, but the majority of PANDORA's activities and investments are in other currencies. Consequently, there is a substantial risk of a negative impact on PANDORA's activities, cash flows, profit (loss) and/or financial positions resulting from exchange-rate fluctuations.

The majority of PANDORA's revenues are in USD, EUR, GBP, AUD and CAD. A drop in the strength of these currencies against DKK will result in a decline in the translated future sales and cash flows. A substantial portion of PANDORA's costs are related to raw materials purchased from suppliers which fix prices in USD. PANDORA also purchases raw materials and pays other costs in THB. Exchange-rate increases will result in a decline in the translated value of future cash flows. PANDORA finances the majority of the subsidiaries' needs for cash via interompany loans denominated in the local currency of the individual subsidiary. A drop in the strength of these currencies against DKK will result in a foreign exchange rate loss in the Parent Company. PANDORA owns foreign subsidiaries where the translation of shareholders' equity into DKK is influenced by exchange-rate fluctuations. Declining exchange-rates will result in a foreign exchange rate loss in the Parent Company.

Exchange-rate fluctuations could lead to a reduction in revenues and an increase in costs and thus declining margins. In addition, exchange-rate fluctuations influence 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 and ownership interests in foreign subsidiaries. It is PANDORA's policy, based on a rolling 12-month liquidity budget, that Group Treasury will hedge 100% of the risk 1-3 months forward, 80% of the risk 4-6 months forward, 60% of the risk 7-9 months forward and 40% of the risk 10-12 months forward. Foreign-currency hedging is updated at the end of each quarter or in connection with revised 12-month rolling cash flow forecasts.

The fair value of the effective portion of the unrealised hedge contracts is recognised in Group equity. The fair value of the ineffective part is recognised in financial items. Realised gains/losses on all currency hedge contracts are recognised in financial items.

Below is an illustration of the impact in DKK million on the results of operations and changes in shareholders' equity resulting from a change in the Group's primary foreign currencies after hedge accounting.

NOTES

NOTE 21. FINANCIAL RISKS, CONTINUED

DKK million	Changes in foreign currencies	31 December 2011 Profit/loss before tax	31 December 2011 Shareholders' equity	31 December 2010 Profit/loss before tax	31 December 2010 Shareholders' equity
USD	-10%	270	40	111	41
USD	+10%	-270	-40	-111	-41
CAD	-10%	0	12	5	-2
CAD	+10%	-0	-12	-5	2
AUD	-10%	-9	5	8	13
AUD	+10%	9	-5	-8	-13
GBP	-10%	-10	9	-52	14
GBP	+10%	10	-9	52	-14
EUR	-1%	-7	-6	-7	-7
EUR	+1%	7	6	7	7
THB	-10%	-1	-33	-4	-28
THB	+10%	1	33	4	28

The analysis is based on monetary assets and liabilities as of end 2011 and 2010. Translation of expected currency cash flows are not included in the analysis.

Eurozone crisis
EUR/DKK trades in a +/-2.25% band around a central parity of 7.46038 DKK per 1 EUR. In practice, the Danish Central Bank has kept EUR/DKK within a much tighter band. In this respect PANDORA has traditionally not considered EUR as a risky currency. Net positive cash flows in USD, CAD, AUD and GBP have previously been hedged against EUR. The current crisis in the eurozone can in worst case derive the EUR/DKK parity band to break and the value of EUR against DKK to decline significantly. In this respect PANDORA has decided that new hedge contracts of net foreign currency cash flows will be entered against DKK only. Net positive cash flows in EUR are not hedged. PANDORA will continue to maintain the major part of it's funding in EUR.

Risk related to raw material prices
PANDORA's raw material risk is the risk of fluctuating raw materials resulting in additional costs. The most important raw materials are gold and silver, which are priced in USD by suppliers.

It is the policy of PANDORA to ensure stable, predictable raw material prices. Based on a rolling 12-month production plan the policy is for Group Treasury to hedge 100% of the risk 1-3 months forward, 80% of the risk 4-6 months forward, 60% of the risk 7-9 months forward, and 40% of the risk 10-12 months forward. Any deviations from the policy must be approved by the CFO and the Audit Committee. Commodity hedging is updated at the end of each month or in connection with revised 12-month rolling production plans.

DKK million	31 December 2011	31 December 2010
Fair value of hedging instruments	-189	304

NOTE 21. FINANCIAL RISKS, CONTINUED

The fair value of the effective portion of the unrealised hedge contracts is recognised in Shareholders' equity to hedge future cash flows to be used to purchase raw materials. The fair value of the ineffective part is recognised in financial items. The effective part of the realised gain/loss on currency hedge contracts is recognised in Group inventory whereas the ineffective portion is recognised in financial items.

Capital management
The principal objectives of PANDORA's capital management are to ensure a competitive return on the shareholders' investment and to ensure that PANDORA will be able to meet all the commitments set out in the loan agreements with the banks.

The basis of PANDORA's capital management is the debt/equity ratio. In March 2011 PANDORA refinanced its bank debt. The new revolving credit facility amounts to DKK 2,500 million and is committed by the bank until March 2014.

The Board of Directors proposes to distribute 35% (2010: 35%) of the year's profit, corresponding to DKK 5.50 per share in 2011 (2010: DKK 5 per share).

NOTE 22. SHARE CAPITAL AND RESERVES

Share capital	Shares (number)	Nominal Value (DKK)
Balance at 1 January 2011	130,143,258	130,143,258
Balance at 31 December 2011	**130,143,258**	**130,143,258**
Balance at 1 January 2010	500,000	500,000
Additions	129,643,258	129,643,258
Balance at 31 December 2010	**130,143,258**	**130,143,258**

Treasury shares	Number of Shares	Nom. (DKK)	Purchase price	% of Shares
Balance at 1 January 2011	182,925	182,925	38,414,250	0.1%
Additions	-	-	-	0.0%
Reductions	-	-	-	0.0%
Balance at 31 December 2011	**182,925**	**182,925**	**38,414,250**	**0.1%**
Balance at 1 January 2010	-	-	-	0.0%
Additions	190,476	190,476	39,999,960	0.1%
Reductions	-7,551	-7,551	-1,585,710	0.0%
Balance at 31 December 2010	**182,925**	**182,925**	**38,414,250**	**0.1%**

NOTE 22. SHARE CAPITAL AND RESERVES, CONTINUED

At 31 December 2011 the share capital comprised 130,143,258 shares of a par value of DKK 1. No shares have special rights.

2010

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

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

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

The share premium is a free reserve.

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

Treasury shares

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

Nature and purpose of other reserves stated in the consolidated statement of changes in shareholders' equity

PANDORA's other reserves comprise of share based payments and capital infusion. Capital infusion of DKK 74 million comprises funding of a two month sa-lary bonus to the employees by the selling shareholder in connection with the Initial Public Offering. Share based payment reserve is DKK 16 million as at 31 December 2011 (2010: DKK 16 million).

PANDORA's foreign currency translation reserves comprise foreign exchange adjustments arising on translation of foreign entities from their functional currencies into the presentation currency and the translation of balances considered to be part of the total net investment in foreign entities. Foreign currency translation reserve was net of tax DKK 768 million as at 31 December 2011 (2010: DKK 521 million).

PANDORA's hedge reserve comprise value adjustments of cash flow hedges. The cash flow hedge is net of tax DKK -236 million as of 31 December 2011 (2010: DKK 302 million).

NOTE 23. PROVISIONS

DKK million	Earn-out, acquisition of non-controlling interests	Returns	Other	Total
Provisions at 1 January 2011	518	75	19	612
Provisions made in 2011	-	302	26	328
Utilised in the year	-	-155	-24	-179
Unused amounts reversed	-	-2	-3	-5
Value adjustment	-511	-	-	-511
Discount rate adjustments	44	-	-	44
Exchange rate adjustment	-	5	-	5
Provisions at 31 December 2011	**51**	**225**	**18**	**294**
Provisions at 1 January 2010	-	38	30	68
Provisions made in 2010	498	276	15	789
Utilised in the year	-	-241	-28	-269
Unused amounts reversed	-	-1	-2	-3
Discount rate adjustments	20	-	-	20
Exchange rate adjustment	-	3	4	7
Provisions at 31 December 2010	**518**	**75**	**19**	**612**
Provision are recognised in the consolidated balance sheet as follows:				
Current 2011	-	225	5	230
Non-current 2011	51	-	13	64
	51	**225**	**18**	**294**
Current 2010	-	69	7	76
Non-current 2010	518	6	12	536
	518	**75**	**19**	**612**

Earn-out, acquisition of non-controlling interests

The earn-out payment provision concern a partial payment of the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe A/S. The reduced provision is a result of lower expectations for the future than previously assumed. Please refer to note 4 for further information.

Returns

In countries where returns of products from customers are accepted, a provision is made, based on historical return percentages. Where the return prices are reduced over time, this has been taken into account in the calculation of the provision. It is expected that most of these costs will be incurred in 2012.

Other

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

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

Contingent liabilities

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

Security for loans

PANDORA has pledged the following assets as security for loans:

	2011	2010
Land and buildings	2	13
Plant and equipment	3	5
Other	1	-
Total	**6**	**18**

Other obligations

PANDORA's other financial obligations mainly relate to leases for office premises and operating equipment. The total expenditure in the year was DKK 182 million (2010: DKK 114 million).

Future minimum lease payments on existing contracts at 31 December:

	2011	2010
Within 1 year	161	82
Between 1 -5 years	369	316
After 5 years	103	96
Land and buildings	**633**	**494**

	2011	2010
Within 1 year	74	23
Between 1 -5 years	53	30
After 5 years	-	-
Plant and equipment	**127**	**53**

Total minimum lease payments are expected to fall due as follows:

	2011	2010
Within 1 year	235	105
Between 1 -5 years	422	346
After 5 years	103	96
Total	**760**	**547**

NOTE 25. RELATED PARTY TRANSACTIONS

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

Related parties further comprise Axcel III K/S 2's other portfolio enterprises, as they are subject to the same controlling interests. There have not been any transactions with Axcel III K/S 2 or these other entities during 2011 and 2010.

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

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

Share-based payments agreements and utilised share options in 2011 and 2010 relating to the Board of Directors and the Executive Board as included in note 7.

Transactions with Prometheus Invest ApS

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

In connection with the Initial Public Offering in 2010 Prometheus Invest ApS made a capital infusion of DKK 74 million to compensate PANDORA for the two month salary bonus to the employees.

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

	Prometheus Invest ApS	
DKK million	2011	2010
Consolidated income statement:		
Financial expenses	-	25
Total	**-**	**25**
Consolidated balance sheet:		
Equity (capital infusion)	-	74
Payables	-	9
Total	**-**	**83**

For information regarding transactions with members of Board of Directors see note 6.

NOTES

NOTE 26. POST BALANCE SHEET EVENTS

Stock balancing campaign
With the goal to accelerate like-for-like sales, PANDORA has in late February 2012 initiated a one-off, time limited global stock balancing campaign to be in the range from DKK 500 million up to a maximum of DKK 800 million.The campaign will encourage PANDORA retailers to exchange discontinued merchandise for appropriately priced best-sellers, on a one-for-one basis. The campaign will be carried out primarily during Q1 and Q2 2012 but will likely generate a corresponding negative impact, due to cannibalisation of forward sales, on reported numbers across the whole of 2012. The Company will report on campaign progress quarterly in 2012.

Notice from the Danish FSA
On 10 January 2012, the Danish Financial Supervisory Authority (FSA) issued a notice to PANDORA stating that the Company should have informed the market earlier than its Company Announcement No. 30, issued on 2 August 2011, stating that it would not meet its earlier forecast of 30% revenue growth for the full year. Consistent with the Danish regulation, the Danish FSA has handed over the matter to the police for further investigation.

As previously communicated PANDORA continues to believe that:

- It acted properly during a swift and unexpected downturn in sales by making a timely and precise announcement adjusting its annual forecast in light of new in formation and based on an analysis of the changing market dynamics in July 2011,
- It has at all times been in full compliance with all relevant rules and regulations for issuers of shares.

PANDORA appoints Chief Development Officer
On 30 January 2012 PANDORA announced that Sten Daugaard (54) had agreed to join the Company and become Chief Development Officer and member of the Executive Board of PANDORA.

Sten Daugaard, who was Chief Financial Officer of The Lego Group until the end of 2011, stepped down as member of the Board of Directors at PANDORA when he took up this new position.

In his new role, Sten Daugaard will be responsible for Corporate Strategy & Development building on the findings and actions arising from the strategic review, which was initiated by the Board of Directors in August 2011.

NOTE 27 SIGNIFICANT ACCOUNTING POLICIES

Corporate information
The Annual General Meeting adopts the final approval of the Annual Report for the year ended 31 December 2011. The Management expects the Annual Report to be approved on the Annual General Meeting on 20 March 2012.

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Danish kroner and all values are rounded to the nearest million (DKK million) except where otherwise indicated.

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

New standards and interpretations
PANDORA has with effect from 1 January 2011 implemented:

- Revised IAS 24: Related Party Disclosures.
- Improvements to IFRSs May 2010.

The standard and amendment has no impact on recognition and measurement and therefore not the earnings per share and diluted earnings per share.

Standards issued, but not yet effective
IASB has issued a number of new standards, amendments to existing standards and interpretations, which have not yet come into force, but which will become effective in the financial year 2012 or later. The standard below is expected to have an impact on recognition and measurement:

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

PANDORA expects to implement the new standards, amendments to existing standards and interpretations on the effective date.

The consolidated financial statement
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which PANDORA obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intragroup balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full. A change in the ownership interest of a subsidiary, without a change of control, is

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed. Non-controlling interests are measured at its fair value. The fair value is determined on the basis of market prices for equity shares not held by PANDORA or, if these are not available, by using a valuation technique. The result is that recognised goodwill represents all of the goodwill of the acquired business, not just PANDORA's share.

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of PANDORA's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currency translation

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

Revenue recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to PANDORA and the revenue can be reliably measured and when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty.

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

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

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

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

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Current income tax

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

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

Share-based payment transactions

Employees (including senior executives) of PANDORA receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 7.

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

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

Fair value of financial instruments
For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same or discounted cash flow analysis.
An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20.

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

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

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as other receivables when the fair value is positive and as other payables when the fair value is negative. For more details on the instruments used, please refer to note 21.

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

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

Hedge accounting is accounted as follows:

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

Put option

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

At the end of all subsequent reporting periods, the financial liability is remeasured as if the option had been exercised at that date. Subsequent changes to measurement are accounted for as a change in the non-controlling interests.

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

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

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

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

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

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

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

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

PANDORA capitalises borrowing costs for all eligible assets.

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

Impairment of non-financial assets
PANDORA assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PANDORA estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value of an asset or cash-generating unit (CGU) less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

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

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

Hedge reserve
Hedging reserve comprise the accumulated net change in fair value of hedging when qualifying for cash flow hedging where the hedged transaction is not yet realised.

Other reserves
Other reserves further comprise cost of acquisition, dividends received and gain and losses from disposal of treasury shares.

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

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

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

Provisions
Provisions are recognised when PANDORA has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

In countries where returns of products from customers are accepted, a provision is made, based on historical return percentages. Where the return prices are reduced over time, this has been taken into account in the calculation of the provision. It is expected that most of these costs will be incurred in 2012.

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

NOTE 27. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Key figures
'Invested capital' is calculated as assets less cash and short-term deposits and non-interest bearing debt (provisions, deferred tax liabilities, deposits, trade payables, income tax payables and other payables). 'Cash conversion, %' is calculated as free cash flow / net profit. 'ROIC, %' is calculated as EBIT / invested capital. The other key figures and financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios 'Recommendations and Financial Ratios 2010'. The key figures and financial ratios stated in the consolidated financial statements have been calculated as follows:

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

NOTES

NOTE 28. GROUP STRUCTURE

The table below shows information about the Group entities:

Company	Ownership	Domicile	Date of consolidation
AD Astra Holdings Pty Ltd	100%	Australia	1 July 2009
AD Astra IP Pty Ltd.	100%	Australia	1 July 2009
PANDORA Retail Pty Ltd.	100%	Australia	1 July 2009
PANDORA Jewelry Pty Ltd.	100%	Australia	1 July 2009
PANDORA Property Leasing Ltd.	100%	Australia	1 July 2009
PANDORA Jewelry Ltd.	100%	Canada	7 March 2008
PANDORA Franchising Canada Ltd.	100%	Canada	19 January 2011
PANDORA Jewelry CR sro.	100%	Czech Republic	2 December 2009
Pilisar ApS	100%	Denmark	7 March 2008
PANDORA Int. ApS	100%	Denmark	1 October 2009
Ejendomsselskabet af 7. maj 2008 ApS	100%	Denmark	1 October 2009
PM Unik ApS (Dissolved 22 December 2011)	100%	Denmark	1 September 2010
PANDORA Eastern Europe A/S	100%	Denmark	1 March 2009
PANDORA Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
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 Asia-Pacific Limited	100%	Hong Kong	1 November 2009
World Max International Trading Limited	100%	Hong Kong	21 December 2010
PANDORA Jewelry Hungary Kft.	51%	Hungary	2 June 2010
PANDORA Jewelry SRL	100%	Italy	14 June 2010
PANDORA Jewelry Retail SRL	100%	Italy	5 November 2010
PANDORA Jewelry B.V.	100%	Netherlands	20 September 2010
PANDORA Jewelry Ltd. NZ	100%	New Zealand	1 July 2009
PANDORA Norge AS	100%	Norway	17 August 2010
PANDORA Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
PANDORA Jewelry Romania SRL	100%	Romania	18 August 2011
PANDORA Schweiz AG	100%	Switzerland	6 December 2011
PANDORA Production Co. Ltd.	100%	Thailand	7 March 2008
PANDORA Services Thailand	100%	Thailand	15 October 2010
PANDORA Jewellery UK Limited	100%	UK	1 December 2008
PANDORA Jewelry Inc.	100%	USA	1 July 2008
PANDORA Jewelry LLC	100%	USA	7 March 2008
PANDORA Franchising LLC	100%	USA	1 November 2009

INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2011	2010
Revenue		4,752	5,227
Cost of sales		-3,503	-3,652
Gross profit		**1,249**	**1,575**
Distribution expenses		-439	-302
Administrative expenses		-383	-219
Operating profit		**427**	**1,054**
Dividend from subsidiaries		39	626
Impact from merger	1	-	94
Financial income	7	772	105
Financial expenses	8	-328	-168
Profit before tax		**910**	**1,711**
Income tax expense	9	-109	-245
Net profit for the year		**801**	**1,466**

COMPREHENSIVE INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2011	2010
Net profit for the year		801	1,466
Impact from merger	1	-	179
Exchange differences on translation of foreign subsidiaries		12	-12
Value adjustment of hedging instruments		-52	-11
Income tax on other comprehensive income		13	3
Other comprehensive income, net of tax		**-27**	**159**
Total comprehensive income for the year		**774**	**1,625**

BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2011	2010
ASSETS			
Non-current assets			
Intangible assets	11	2,929	2,906
Property, plant and equipment	12	31	18
Investments in subsidiaries	10	2,063	1,490
Other non-current financial assets		24	4
Total non-current assets		**5,047**	**4,418**
Current assets			
Inventories	14	340	45
Trade receivables	15	19	15
Receivables from subsidiaries		2,669	2,967
Other receivables		33	376
Cash and short-term deposits		33	661
Total current assets		**3,094**	**4,064**
Total assets		**8,141**	**8,482**

BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2011	2010
EQUITY AND LIABILITIES			
Shareholders equity	17		
Share capital		130	130
Share premium		1,248	1,248
Treasury shares		-38	-38
Foreign currency translation reserve		-	-12
Hedge reserve		-47	-8
Other reserves		88	88
Proposed dividend for the year		715	650
Retained earnings		609	523
Total shareholders' equity		**2,705**	**2,581**
Non-current liabilities			
Interest-bearing loan and borrowings		372	-
Provisions	18	51	521
Deferred tax liabilities	13	552	609
Total non-current liabilities		**975**	**1,130**
Current liabilities			
Interest-bearing loan and borrowings		8	1,983
Provisions	18	161	-
Trade payables		101	83
Payables to subsidiaries		3,679	2,293
Income tax payables		152	264
Other payables		360	148
Total current liabilities		**4,461**	**4,771**
Total liabilities		**5,436**	**5,901**
Total equity and liabilities		**8,141**	**8,482**

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

DKK million	Notes	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Hedge reserve	Other reserves	Proposed dividend	Retained earnings	Total equity
Shareholders' equity at 1 January 2011		130	1,248	-38	-12	-8	88	650	523	2,581
Net profit for the year									801	801
Exchange differences on translation of foreign subsidiaries					12					12
Value adjustment of hedging instruments						-52				-52
Income tax on other comprehensive income						13				13
Other comprehensive income, net of tax		**-**	**-**	**-**	**12**	**-39**	**-**	**-**	**-**	**-27**
Total comprehensive income for the year		**-**	**-**	**-**	**12**	**-39**	**-**	**-**	**801**	**774**
Dividend paid								-650		-650
Proposed and declared dividend								715	-715	-
Shareholders' equity at 31 December 2011		**130**	**1,248**	**-38**	**-**	**-47**	**88**	**715**	**609**	**2,705**
Shareholders' equity at 1 January 2010		1	-	-	-	-	11	-	528	540
Net profit for the year									1,466	1,466
Impact from merger									179	179
Exchange differences on translation of foreign subsidiaries					-12					-12
Value adjustment of hedging instruments						-11				-11
Income tax on other comprehensive income						3				3
Other comprehensive income, net of tax		**-**	**-**	**-**	**-12**	**-8**	**-**	**-**	**179**	**159**
Total comprehensive income for the year		**-**	**-**	**-**	**-12**	**-8**	**-**	**-**	**1,645**	**1,625**
Sharebased payments	4						6			6
Capital increase	17	125	675							800
Capital increase, Initial Public Offering	17	3	573							576
Capital increase, bonus shares and options	17	1					-1			-
Dividend paid								-1,000		-1,000
Proposed and declared dividend								1,650	-1,650	-
Capital infusion	17						74			74
Purchase of treasury shares	17			-40						-40
Disposal of treasury shares	17			2			-2			-
Shareholders' equity at 31 December 2010		**130**	**1,248**	**-38**	**-12**	**-8**	**88**	**650**	**523**	**2,581**

CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2011	2010
Profit before tax		910	1,711
Financial income	7	-772	-105
Financial expenses	8	328	168
Dividends from subsidiaries		-39	-626
Amortisation/depreciation	2	67	19
Options	4	-	5
Change in intercompany receivable/payable		1,086	-199
Change in inventories		-294	-44
Changes in receivables		40	-365
Change in trade payables		18	68
Change in other liabilities		196	38
		1,540	**670**
Catch up effect from merger recognised in income statement		-	-94
Other non-cash adjustments		401	-26
Interest etc. paid		-10	-281
Interest etc. received		27	78
Income tax paid/received		-269	-115
Cash flow from operation activities		**1,689**	**232**
Purchase of intangible assets	11	-84	-31
Purchase of property, plant and equipment	12	-19	-18
Change in other non-current assets		-1	1
Dividend received		39	1,000
Investment in subsidiary and non-controlling interests		1	-384
Cash flow from investing activities		**-64**	**568**
Capital increase including share premium net of transaction costs		-	651
Dividend paid		-650	-200
Acquisition of treasury shares		-	-38
Proceeds from borrowings		380	2,200
Repayment of borrowings		-1,983	-2,788
Cash flow from financing activities		**-2,253**	**-175**
Net cash flow for the year		**-628**	**625**
Cash and short-term deposits at 1 January		661	29
Cash and short-term deposits from merging		-	7
Net cash flow for the year		-628	625
Cash and short-term deposits at 31 December		**33**	**661**
Unutilised credit facilities inclusive cash and cash equivalents		2,161	709

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

NOTES

NOTES

NOTE 1. SUPPLEMENT TO MANAGEMENT'S GROUP REVIEW

2011
Inventory write-down
The inventory write-down for 2011 relates to a loss in the Parent Company as a consequence of stock return from subsidiaries, scrapping of furniture and watches.

Hedging
DKK 127 million (2010: DKK 0 million) of PANDORA A/S's total realised net gains on commodity hedge contracts relates to over hedged hedge positions.

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

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

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

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

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

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

NOTE 2. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

DKK million	2011	2010
Intangible assets	61	15
Property, plant and equipment	6	4
	67	**19**
Amortisation/depreciation and impairment losses have been recognised in the income statement as follows:		
Distribution expenses	39	15
Administrative expenses	28	4
	67	**19**

NOTE 3. EMPLOYEE BENEFIT EXPENSES

DKK million	2011	2010
Wages and salaries	165	83
Pensions, defined contribution plans	5	3
Share-based payments	-	5
Social security costs	1	-
Other staff costs	6	14
	177	**105**
Average number of employees during the year	185	116
The employee benefit expenses have been recognised in the income statement as follows:		
Distribution expenses	72	44
Administrative expenses	105	61
	177	**105**

Compensation of key management personnel of PANDORA A/S

Key management personnel at PANDORA A/S represent the same persons as key management personnel of the PANDORA Group. For information regarding compensation of key management personnel of PANDORA A/S please refer to note 6 of the consolidated financial statements.

NOTE 4. SHARE-BASED PAYMENTS

The share option program described in note 7 to the consolidated financial statements is issued by PANDORA A/S. The value of the share options granted to employees in the Parent Company's subsidiaries is recognised in investments in subsidiaries. The total expense in 2011 is DKK 0 million. In 2010 of the total expense of DKK 6 million, DKK 1 million has been recognised in investment in subsidiaries.

NOTES

NOTE 5. DEVELOPMENT COSTS

Development costs recognised as an expense in the income statement during the year amount to DKK 14 million in 2011 (2010: DKK 10 million).

NOTE 6. FEES TO THE AUDITORS APPOINTED BY THE COMPANY IN GENERAL MEETING, ERNST & YOUNG

DKK million	2011	2010
Fee for statutory audit	1	1
Other assurance engagements	1	2
Tax consultancy	5	2
Other services	1	1
	8	**6**

The fees are recorded under administrative expenses.

NOTE 7. FINANCIAL INCOME

DKK million	2011	2010
Financial income originated from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments on derivatives	127	27
	127	**27**
Financial income originated from loans and receivables measured at amortised cost:		
Interest income, bank	1	-
Interest income, subsidiaries	133	73
Other	-	5
	134	**78**
Value adjustment earn-out provision	511	-
Total financial income	**772**	**105**

NOTES

NOTE 8. FINANCIAL EXPENSES

DKK million	2011	2010
Financial expenses originated from financial assets and liabilities at fair value through the income statement:		
Interest on derivatives	-	21
	-	**21**
Financial expenses originated from financial liabilities measured at amortised cost:		
Exchange losses, net	171	11
Interest, subordinated loan	-	25
Interest expense, subsidiaries	24	1
Interest, debt and borrowings	42	63
Interest, earn-out provision	44	15
Other finance costs	47	32
	328	**147**
Total financial expenses	**328**	**168**

NOTE 9. INCOME TAX

DKK million	2011	2010
Income tax recognised in the income statement:		
Current income tax charge	152	264
Prior-year adjustments	2	-14
Changes in deferred tax	-45	7
Income tax expense	**109**	**257**
Included in income statement in the following lines:		
Income tax expense	109	245
Impact from merger	-	12
Income tax expense	**109**	**257**
Tax reconciliation		
Accounting profit before tax	910	1,711
At PANDORA A/S' statutory income tax rate 25% (2010: 25%)	227	427
Tax effect of:		
Tax exempted income	-10	-172
Non deductible expenses	18	16
Prior-year adjustments	2	-14
Value adjustment earn-out provision	-128	-
	109	**257**

NOTES

NOTE 10. INVESTMENTS

DKK million	Investments in subsidiaries
Cost at 1 January 2011	1,490
Additions	595
Disposals	-22
Cost at 31 December 2011	**2,063**
Cost at 1 January 2010	3,024
Effect from merger	-2,426
Additions	892
Cost at 31 December 2010	**1,490**

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

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

NOTES

NOTE 11. INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution network	Distribution Rights	Other intangible assets	Total
Cost at 1 January 2011	423	1,039	451	1,053	26	2,992
Additions	4	1	-	33	46	84
Cost at 31 December 2011	**427**	**1,040**	**451**	**1,086**	**72**	**3,076**
Amortisation and impairment losses at 1 January 2011	-	-	85	1	-	86
Amortisation and impairment losses for the year	-	-	30	18	13	61
Amortisation and impairment losses at 31 December 2011	**-**	**-**	**115**	**19**	**13**	**147**
Carrying amount at 31 December 2011	**427**	**1,040**	**336**	**1,067**	**59**	**2,929**
Cost at 1 January 2010	-	15	-	-	-	15
Additions from merger	423	1,019	451	1,053	-	2,946
Additions	-	5	-	-	26	31
Cost at 31 December 2010	**423**	**1,039**	**451**	**1,053**	**26**	**2,992**
Amortisation and impairment losses at 1 January 2010	-	-	-	-	-	-
Additions from merger	-	-	70	1	-	71
Amortisation for the year	-	-	15	-	-	15
Amortisation and impairment losses at 31 December 2010	**-**	**-**	**85**	**1**	**-**	**86**
Carrying amount at 31 December 2010	**423**	**1,039**	**366**	**1,052**	**26**	**2,906**

No intangible assets existed at 31 December 2011 or 31 December 2010, which have been fully amortised. Please refer to note 14, Intangible assets, of the consolidated financial statement for a description of the assets.

No intangible assets have been impaired in 2011 or in 2010 that result in impairment. Please refer to note 15, impairment test, of the consolidated financial statement.

NOTES

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	Total
Cost at 1 January 2011	-	26	26
Additions	-	19	19
Disposals	-	-3	-3
Cost at 31 December 2011	**-**	**42**	**42**
Depreciation and impairment losses at 1 January 2011	-	8	8
Depreciation for the year	-	6	6
Disposals	-	-3	-3
Depreciation and impairment losses at 31 December 2011	**-**	**11**	**11**
Carrying amount at 31 December 2011	**-**	**31**	**31**
Cost at 1 January 2010	-	1	1
Additions from merger	1	9	10
Additions	-	18	18
Disposals	-1	-2	-3
Cost at 31 December 2010	**-**	**26**	**26**
Depreciation and impairment losses at 1 January 2010	-	-	-
Additions from merger	-	6	6
Depreciation for the year	-	4	4
Disposals	-	-2	-2
Depreciation and impairment losses at 31 December 2010	**-**	**8**	**8**
Carrying amount at 31 December 2010	**-**	**18**	**18**

NOTES

NOTE 13. DEFERRED TAX

DKK million	Balance sheet 2011	Balance sheet 2010	Income statement 2011	Income statement 2010
Distribution rights	611	613	-2	4
Other	-59	-4	-43	3
Deferred tax, net	**552**	**609**		
Deferred tax income			**-45**	**7**
Deferred tax is recognised in the consolidated balance sheet as follows:				
Deferred tax asset	-	-		
Deferred tax liability	552	609		
Deferred tax, net	**552**	**609**		
Reconciliation of deferred tax:				
At 1 January	609	-1		
Tax expense recognised in the income statement	-45	7		
Tax expense recognised in other comprehensive income	-12	-3		
Deferred tax arising in connection with merger	-	606		
	552	**609**		

NOTE 14. INVENTORIES

DKK million	2011	2010
Finished goods	340	45
	340	**45**
Inventory write-downs during period	265	0

The write-downs of inventories is recognised under cost of sales DKK 186 million (2010: DKK 0 million) and distribution expenses DKK 79 million (2010: DKK 0 million)

NOTES

NOTE 15. TRADE RECEIVABLES

Trade receivables at 31 December 2011 include receivables at nom. DKK 20 million (2010: DKK 16 million), which have been written down to DKK 19 million (2010: DKK 15 million).

DKK million	2011	2010
Analysis of movements in bad debt provision:		
At 1 January	1	-
Acquisition of subsidiary	-	8
Unused amounts reversed	-	-7
At 31 December	**1**	**1**
Analysis of trade receivables that were past due, but not impaired, at 31 December:		
Until 30 days	2	7
Above 90 days	1	3
Past due, but not impaired	**3**	**10**
Neither past due nor impaired	16	5
Total	**19**	**15**

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

NOTE 16. FINANCIAL ASSETS AND LIABILITIES

DKK million	2011 Carrying amount	2010 Carrying amount
Financial assets at fair value through other comprehensive income:		
Derivatives	6	304
Total financial assets at fair value	**6**	**304**
Loan and receivables measured at amortised cost:		
Trade receivables	19	15
Intercompany receivables	2,669	2,967
Other receivables	11	22
Cash	33	661
Total loan and receivables measured at amortised cost	**2,732**	**3,665**
Total financial assets	**2,738**	**3,969**
Financial liabilities at fair value through other comprehensive income:		
Derivatives	257	11
Total financial liabilities at fair value	**257**	**11**
Financial liabilities measured at amortised cost:		
Interest-bearing loans and borrowings	380	1,983
Trade payables	101	83
Intercompany payables	3,679	2,293
Other payables	105	60
Total financial liabilities measured at amortised cost	**4,265**	**4,419**
Total financial liabilities	**4,522**	**4,430**

Classification according to the fair value hierarchy:
Financial instruments measured at fair value consist of derivatives, including silver and gold futures, interest rate swaps, currency rate swaps and FX options. The fair value as at 31 December 2011 and 2010 of the PANDORA A/S's derivative financial instruments is measured in accordance with level 2* in the fair value hierarchy, as the fair value is based on the official gold- and silver prices, exchange rates and interest rates at the balance sheet date.

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

NOTE 17. SHARE CAPITAL AND RESERVES

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

NOTES

NOTE 18. PROVISIONS

DKK million	Earn-out, acquisition of non-controlling interests	Returns	Remelt	Total
Provisions at 1 January 2011	518	3	-	521
Provisions made in 2011	-	-	160	160
Unused amounts reversed	-	-2	-	-2
Value adjustment	-511	-	-	-511
Discount rate adjustments	44	-	-	44
Provisions at 31 December 2011	**51**	**1**	**160**	**212**
Provision are recognised in the consolidated balance sheet as follows:				
Current 2011	-	1	160	161
Non-current 2011	51	-	-	51
	51	**1**	**160**	**212**

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

Earn-out, acquisition of non-controlling interests
The earn-out payment provision concerns a partial payment of the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe A/S. Please refer to note 4 of the consolidated financial statements.

Returns
Provision regarding returns of products from customers, based on historical return percentages. Where the return prices are reduced over time, this has been taken into account in the calculation of the provision.

NOTE 18. PROVISIONS (CONTINUED)

Remelt
From time to time the Parent Company takes back inventory from subsidiaries, primarily related to discontinued items. Inventory is taken back at original sales prices invoiced to the subsidiaries. The remelt provision represents expected losses in the Parent Company related to expected returns from subsidiaries of discontinued products included in inventories at subsidiaries at year end. This does not impact on PANDORAs consolidated financial statement.

NOTE 19. CONTINGENT LIABILITIES, SECURITY FOR LOANS AND OTHER FINANCIAL OBLIGATIONS

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

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

Future minimum lease payments on existing contracts:

DKK million	2011	2010
Within 1 year	48	11
Between 1-5 years	27	30
After 5 years	15	29
	90	**70**

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

NOTES

NOTE 20. RELATED PARTY TRANSACTIONS

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

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

	Subsidiaries		Prometheus Invest ApS	
DKK million	2011	2010	2011	2010
Income statement:				
Sales to related parties	4,678	5,179	-	-
Purchases from related parties	-2,889	-3,069	-	-
Costs	-27	-139	-	-
Dividend	39	626	-	-
Financial income	133	73	-	-
Financial expenses	-24	-13	-	-25
Total	**1,910**	**2,657**	**-**	**-25**
Balance sheet:				
Receivables	2,669	2,967	-	-
Equity (capital infusion)	-	-	-	74
Payables	-3,679	-2,293	-	9
Total	**-1,010**	**674**	**-**	**83**

2010

PANDORA A/S has merged with the 100% owned subsidiary PANDORA Jewelry A/S as of 30 June 2010 with PANDORA A/S as the surviving company. Please refer to note 1.

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

NOTE 21. SIGNIFICANT ACCOUNTING POLICIES

The 2011 financial statements of PANDORA A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and additional Danish disclosure requirements for listed companies in accordance with the Danish Financial Statements Act.

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

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

Group internal restructuring

Transfer of businesses without consideration

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

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

Transfer of assets for shares

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

Remelt

From time to time the Parent Company takes back inventory from subsidiaries, primarily related to discontinued items. Inventory is taken back at original sales prices invoiced to the subsidiaries. The remelt provision represents expected losses in the Parent Company related to expected returns from subsidiaries of discontinued products included in inventories at subsidiaries at year end. This does not impact on PANDORAs consolidated accounts.

Dividends

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

NOTES

NOTE 21. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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