ANNUAL REPORT
2012

PANDORA
UNFORGETTABLE MOMENTS

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A YEAR OF PROGRESS

For PANDORA, 2012 has been a year of resetting the business. We started the year with a clear strategy that included two major initiatives:

- Realigning our product and pricing strategy (getting our collection right)
- Improving our retailers´ stock (taking back slow-moving products and replacing them with commercial best selling products)

We believe we have executed these initiatives well. We took back discontinued items worth DKK 609 million from our retailers and replaced them with best sellers. This removed the bottle neck of slow-moving items, which had been taking up space in retail, and freed up cash for retailers to buy new, fresh products. This also gave us goodwill with our retailers who appreciated our help in addressing the problems.

We launched new, innovative products in commercial price points and achieved very good sales in, and more importantly, very good sales out of all our collections during the year. The fact that we are now delivering seven collections (drops) per year – less new design variations per drop, therefore more new drops – gives retailers more freshness and reduces the risk of pushing too much inventory into the channels. All of our 2012 drops have sold both in and out very well, and we are using the successes in sales out to create our new collections. In 2012, we improved our monitoring systems so we now are able to track daily sales out at SKU level in most of our concept stores. This knowledge is crucial for us when measuring our commercial performance and making sure to strike the right balance between what we sell in (wholesale) and what we sell out (retail).

In addition, we have worked hard on improving many other aspects of our business. In particular, we have focused on our concept stores and on making it easier for our customers to shop. We have worked on zoning by merchandising our products by category rather than by collection, on bringing the products out on the floor in touch and feel displays, on making prices more visible, and we have experimented with our visual merchandising to make our stores fresher and more customer friendly.

The result of these efforts was that in Q4 2012, the concept store like-for-like sales out increased in our four major markets (US +7% , Australia +10%, UK +12% and Germany +5%).

In 2012, we maintained our focus on branded stores and opened 223 concept stores and 83 shop-in-shops. We strongly believe in branded retail and will continue to open concept stores and shop-in-shops. In addition, we are working more closely with our key accounts to help them improve staff training and visual merchandising, and by offering coordinated marketing campaigns and some exclusive products.

PANDORA is in many ways still a young company that in a relatively short period of time has merged with a number of third-party distributors to become one global company. This transition has prompted us to streamline many parts of our business. We have consolidated warehouses, improved our global IT systems and implemented refined processes on how to work as one efficient company. All these activities are necessary, but they also take time and add cost before we reap the benefits. We believe that relevant potential improvements have now been identified and put into development, and we expect most of them to conclude in 2013.

Our strategy going forward will not change. 2013 will be a year where we plan to achieve controlled growth by continuing to improve our like-for-like sales out performance, particularly in our branded distribution, and by adding high-quality distribution in new and existing markets.

We will focus on continuing the improvement in our major markets, while also opening up new distribution in what we call new markets, Asia, Italy, France and Russia. It is important that we focus on quality rather than quantity. We will be more selective on store openings, with a focus on quality of individual store performance rather than the absolute quantity of stores opened. We plan to open up around 150 new concept stores in 2013.

We will continue to work diligently on improving our products. We will focus mostly on our core categories, charms and bracelets, but we also see the rings category as a major growth vehicle for the future. We will continue to develop our other categories, earrings, necklaces and watches, rounding off our product range.

We will build our 2013 collections on the successes we see in our sales out, adding products in the commercial price points that work well in retail. We are working on new, innovative concepts in the charms and bracelet category and are planning a launch of a new concept for Christmas 2013.

We define ourselves internally as a product company – to us, product is king. But we also know how important marketing is for our success. PANDORA has in a very short period of time become a global brand with high awareness and a positive image around the world. We will continue to invest heavily in marketing but believe we can get more out of the existing level of spending, becoming more productive by spending more on media and less on production. In terms of media, we believe we have to spend more on digital and television and less on print. PANDORA has a great following in social and digital media. 1.6 million likes on Facebook and 2.9 million members of the PANDORA Club are a real testament to this.

We believe our products are very appropriate for online sales. They are affordable, perfect for gifting, not expensive to transport, and mostly available only in one size - except for rings and chains - which means a low rate of returns. Late November 2012, we launched a pilot with a PANDORA eSTORE in the UK selling our complete jewellery range. The result has been very promising, and we will now scale this up in the UK and at the same time work on developing an online distribution footprint in all major markets. Our objective is to roll out the PANDORA eSTORE in more European markets during 2013.

During 2012, the Board of Directors has reviewed our capital structure. The outcome of this review is a change in our dividend policy from previously targeting an average dividend pay-out ratio of approximately 35% of the consolidated net profit for the year, to now maintain a stable and then increasing nominal dividend per share, using the 2011 dividend of DKK 5.50 per share as the reference point. Additionally, and as a tool to achieve a target of a NIBD/EBITDA ratio of 0-1x on 12 months rolling basis, the Board of Directors has decided to launch a share buyback programme of up to DKK 700 million for 2013. We believe that these actions are a strong signal of our confidence in our highly cash generative business model allowing us to increase the return of excess cash to our shareholders.

2012 was a tough year. Our people have worked very hard and very focused to execute the initiatives we introduced in 2011. In Q3 and Q4 2012, we started seeing some clear results of our efforts. Concept store sales out increased on a comparable basis, our new products sold in as well as out very well, our inventory decreased, and our retailers' inventory improved in both quality and value.

We know that we still have a lot of work ahead and areas to improve, but we are convinced that we are moving in the right direction.

Allan Leighton
Chairman

Bjørn Gulden
Chief Executive Officer

FINANCIAL HIGHLIGHTS

DKK million	2012	2011	2010	2009	2008 12 months adjusted *	2008
Consolidated income statement						
Revenue	6,652	6,658	6,666	3,461	1,904	1,658
Gross Profit	4,429	4,860	4,725	2,471		
EBITDA	1,658	2,281	2,684	1,572	778	666
Operating profit (EBIT)	1,475	2,058	2,416	1,424	738	633
Net financial income and expenses	4	311	-164	-235		-217
Profit before tax	1,479	2,369	2,252	1,189	496	416
Net Profit	**1,202**	**2,037**	**1,871**	**1,005**	**356**	**306**
Consolidated balance sheet						
Total assets	8,414	8,051	8,959	5,816		4,282
Invested capital	5,900	5,923	5,659	3,826		3,115
Net working capital	1,277	1,327	1,266	547		267
Shareholders equity	6,038	5,411	4,315	1,649		428
Net interest-bearing debt	-183	209	1,102	2,151		2,688
Net interest-bearing debt excl. subordinated loan from Parent Company	-183	209	1,102	751		1,372
Consolidated cash flow statement						
Net cash flow from operating activities	1,339	1,823	1,316	1,066		393
Net cash flow from investing activities	-231	-364	-304	-207		-2,972
Free cash flow	1,151	1,670	1,388	1,144		492
Cash flow from financing activities	-943	-2,502	-644	-343		2,889
Net cash flow for the year	**165**	**-1,043**	**368**	**516**		**304**
Ratios						
Revenue growth, %	-0.1%	-0.1%	92.6%	81.8%		
Gross profit growth, %	-8.9%	2.9%	91.2%			
EBITDA growth, %	-27.3%	-15.0%	70.7%	102.1%		
EBIT growth, %	-28.3%	-14.8%	69.7%	93.0%		
Net profit growth, %	-41.0%	8.9%	86.2%	182.3%		
Gross margin, %	66.6%	73.0%	70.9%	71.4%		
EBITDA margin, %	24.9%	34.3%	40.3%	45.4%	40.9%	40.2%
EBIT margin, %	22.2%	30.9%	36.2%	41.1%	38.8%	38.2%
Tax rate, %	18.7%	14.0%	16.9%	15.5%		26.0%
Cash conversion, %	95.8%	82.0%	74.2%	113.8%		160.6%
Capex	276	269	262	118		
Net interest-bearing debt to EBITDA	-0.1	0.1	0.4	1.4		4.0
Equity ratio, %	71.8%	67.2%	48.2%	28.4%		10.0%
ROIC, %	25.0%	34.7%	42.7%	37.2%		20.3%
Other key figures						
Average number of employees	5,753	5,186	4,336	2,337		1,288
Dividend per share, DKK	** 5.50	5.50	5.00	-		-
Earnings per share, basic	9.2	15.7	14.8	8.0		-
Share price at year-end	124.5	54.0	336.0	-		-

* The operations of the acquired entities consolidated into the financial statements of PANDORA A/S since 7 March 2008 reflects only approximately 10 months of results of operations. 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 month basis.

** Proposed dividend per share

MANAGEMENT'S REVIEW

FINANCIAL HIGHLIGHTS

Group revenue was DKK 6,652 million.
EBITDA margin was 24.9%.
Net profit was DKK 1,202 million.
Free cash flow was DKK 1,151 million.

The reported full year figures for 2012 are slightly better than anticipated, but as expected adversely impacted by the effect of the stock balancing campaign launched on 21 February 2012.

- Group revenue in 2012 was DKK 6,652 million compared to DKK 6,658 million in 2011:
    - Americas increased by 5.3% (2.5% decrease in local currency)
    - Europe decreased by 3.1% (5.0% decrease in local currency)
    - Asia Pacific decreased by 10.4% (17.5% decrease in local currency)
- Gross margin decreased to 66.6% in 2012 (compared to a gross margin of 73.0% in 2011)
- EBITDA margin was 24.9% in 2012 (compared to an EBITDA margin of 34.3% in 2011), EBITDA decreased by 27.3% to DKK 1,658 million
- EBIT margin was 22.2% in 2012 (compared to an EBIT margin of 30.9% in 2011), EBIT decreased by 28.3% to DKK 1,475 million
- Reported net profit decreased by 41.0% to DKK 1,202 million in 2012 (compared to a net profit of DKK 2,037 million in 2011). Excluding the earn-out provision adjustment for PANDORA CWE, 2012 net profit decreased by 24.6% to DKK 1,151 million (compared to an adjusted net profit of DKK 1,526 million in 2011)
- Free cash flow was DKK 1,151 million in 2012 (compared to DKK 1,670 million in 2011)
- For the financial year 2012, the Board of Directors proposes a dividend of DKK 5.50 per share corresponding to a pay-out ratio of 59% (compared to 35% in 2011)
- PANDORA will initiate a share buyback programme for up to DKK 700 million in 2013 with the primary purpose of reducing the Company's share capital at the Annual General Meeting in 2014

FINANCIAL GUIDANCE FOR 2013

PANDORA expects revenue for 2013 to be above DKK 7.2 billion and an EBITDA margin above 25%.

PANDORA expects CAPEX to be around DKK 300 million and expects an effective tax rate of approximately 19%.

During 2013 PANDORA expects to open approximately 150 Concept stores.

BOARD OF DIRECTORS EVALUATION OF CAPITAL STRUCTURE

As previously communicated the Board of Directors has analysed what it believes to be an optimal capital structure for the Company, including making a decision on how to distribute surplus capital to the shareholders. The outcome of this analysis is a combination of a change in dividend policy as well as the initiation of a share buyback programme.

The Board of Directors has previously targeted an average dividend pay-out ratio of approximately 35% of our consolidated net profit for the year defined in accordance with IFRS. Going forward, the Board of Directors aims to maintain a stable and then increasing nominal dividend per share, using the dividend for 2011 of DKK 5.50 per share as the reference point.

In addition and taking the above into account, the Board of Directors will, on an on-going basis, determine whether any surplus capital should effectively be distributed through share buyback programmes or as an extraordinary dividend in order to reach an optimal capital structure, which the Board of Directors, at this point in time, view as a NIBD/EBITDA ratio of 0-1x on 12 months rolling basis.

This policy and PANDORAs ability to distribute surplus capital to the shareholders will be dependent upon, amongst other things, the availability of sufficient distributable reserves, the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors may deem relevant.

SHARE BUYBACK PROGRAMME FOR 2013

The Board of Directors of PANDORA has decided to launch a share buyback programme in 2013 (the "Programme"), under which PANDORA expects to buy back its own shares up to DKK 700 million. According to the decision made at the Extraordinary General Meeting held on 17 September 2010, PANDORAs Board is until 17 September 2015 authorised to acquire own shares on behalf of the Company with a total nominal value of up to 10 % of PANDORAs share capital (the "Authorisation"). The Programme will end no later than 31 December 2013. The purpose of the share buyback is to reduce PANDORAs share capital and to meet obligations arising from employee share option programmes. The Board of Directors intends to propose to PANDORAs shareholders at the Annual General Meeting in 2014 that PANDORAs share capital be reduced by the shares purchased under the Programme. PANDORA may also use the shares purchased under the Programme to meet obligations arising from employee share option programmes. Deducting existing treasury shares (182,925), the net obligation at 31 December 2012 was 925,198 shares.

The Programme is being implemented in accordance with the provisions of the European Commission's regulation no. 2273/2003 of 22 December 2003 ("safe harbour"), which protects listed companies against violation of insider legislation in connection with share buybacks.

PANDORA has appointed Nordea Bank Danmark A/S ("Nordea") as Lead Manager of the Programme. Nordea will, under a separate agreement with the Company, buy back shares on behalf of PANDORA and make trading decisions in respect of PANDORA shares independently of and without influence from PANDORA as to the timing of the purchases.

PANDORA may terminate the Programme at any time. In the event such decision is taken, PANDORA shall give notice thereof, and Nordea shall consequently no longer be entitled to buy shares on behalf of PANDORA.

The majority shareholder, Prometheus Invest ApS, has undertaken to participate in the Programme on a pro rata basis, in order to secure that the current free float percentage is not reduced. The participation is planned so that Prometheus Invest ApS on each day of trading will sell a number of PANDORA shares at the volume weighted average purchase price of the shares purchased under the Programme in the market on the relevant day of trading.

The Programme will be implemented under the Authorisation and the following framework:

- The maximum total consideration for PANDORA shares bought back in the period of the Programme is DKK 700 million
- The Programme will end no later than 31 December 2013 and a maximum of 12,831,400 PANDORA shares will be bought under the Programme, which together with the Company's holding of treasury shares of 182,925 shares at the date of this announcement will equal 10% of the shares issued in PANDORA
- The maximum number of shares to be bought per daily market session will be the equivalent to 25% of the average daily volume of shares in the Company traded on NASDAQ OMX Copenhagen during the preceding 20 business days
- Shares cannot be purchased at prices higher than the two following prices:

  a) The price of the latest independent trade
  b) The price of the highest independent bid on NASDAQ OMX Copenhagen

The Company will on a weekly basis issue an announcement in respect of transactions made under the Programme.

KEY EVENTS IN 2012

Initiative to improve the quality of retailer's stock
With the aim to improve the quality of the stock mix at its key retail partners, on 21 February 2012, PANDORA initiated a one-off, time limited global stock balancing campaign. The campaign was largely concluded in Q3, 2012.

During 2012 PANDORA received discontinued products with a wholesale value of DKK 609 million and replaced these with new bestsellers at a similar value, resulting in a zero impact to revenue in 2012.

PANDORA retailers have welcomed the stock balancing campaign initiative and the campaign has achieved a high participation rate from retailers, both in terms of number of stores and volume. The participation rate was approximately two-thirds amongst all points of sales in PANDORAs distribution network, participation rates for Concept stores and Shop-in-Shops were approximately 80%.

To help evaluate against historical figures, throughout 2012, PANDORA has provided supplemental figures relating to the stock balancing campaign where applicable. Supplemental figures should however be treated with careful consideration, as simply adding these to the reported figures may be neither representative nor meaningful, particularly due to the phasing of returns and replacements between individual quarters.

The stock balancing campaign has been important to improve stock at retailers, both in terms of quality and value as well as improving our goodwill with retailers.

Performance of new collections released in 2012
In addition to the stock balancing campaign, PANDORA has realigned the price architecture and product range during the year. The new innovative products at commercial price points released during the course of 2012 has performed very well in terms of both sales in to retailers as well as sales-out to end-customers. In combination with the realignment of the price architecture on the rest of the product portfolio, PANDORAs offering is now again competitive with the right commercial price points.

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 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.

FINANCIAL REVIEW

REVENUE DEVELOPMENT

Despite the negative impact from the derived effects of the stock balancing campaign initiated in February 2012 as well as a significant impact from a change in product mix influenced by the introduction of products with lower price points, total revenue shows a flat development from DKK 6,658 million in 2011 to DKK 6,652 million in 2012.

Excluding foreign exchange movements, revenue decreased by 5.5%. The revenue development is influenced by product mix effects (-7.8 percentage point), price reductions (-4.0 percentage point), market mix (2.6 percentage point), volume (3.7 percentage point). Volume is positively impacted by the stock balancing campaign.

Based on data from Concept stores, which have been operating for 12 months or more, Like-for-like sales-out in PANDORAs four major markets have experienced a positive development during 2012, which PANDORA believes is due to the success of new innovative products launched and generally better execution in stores during 2012.

REVENUE BREAKDOWN BY GEOGRAPHY

The geographical distribution of revenue in 2012 was 49.8% for the Americas (47.2% in 2011), 38.2% for Europe (39.4% in 2011) and 12.0% for Asia Pacific (13.4% in 2011).

As previously mentioned the stock balancing campaign has now been successfully completed.

In order to reduce the risk of slow moving excess stock at retailers going forward, PANDORA has implemented a number of initiatives. The more frequent and smaller drops of new product launches should reduce the risk related to excess stock at retailers. Additionally, the ability to more closely monitor daily sales-out development at SKU level from Concept stores will provide earlier insight into

REVENUE BREAKDOWN BY GEOGRAPHY

DKK million	FY 2012	FY 2011	% Growth	% Growth in local currency	Received FY 2012*	Replaced FY 2012*
Americas	**3,312**	**3,144**	**5.3%**	**-2.5%**	**343**	**343**
United States	2,579	2,537	1.7%		284	284
Other	733	607	20.8%		59	59
Europe	**2,542**	**2,623**	**-3.1%**	**-5.0%**	**213**	**213**
United Kingdom	869	951	-8.6%		79	79
Germany	469	638	-26.5%		28	28
Other	1,204	1,034	16.4%		106	106
Asia Pacific	**798**	**891**	**-10.4%**	**-17.5%**	**53**	**53**
Australia	618	656	-5.8%		44	44
Other	180	235	-23.4%		9	9
Total	**6,652**	**6,658**	**-0.1%**	**-5.5%**	**609**	**609**

* Received means value of discontinued products returned to PANDORA in 2012. Replaced means value of new products returned to retailers in 2012.

non-performing items with a possibility to ensure a better balance between sales-in and sales-out and thereby reduce the risk of excess stock at retailers.

Going forward, when PANDORA discontinues products, two main avenues will be pursued in order to address discontinued stock at retailers. One is to introduce sales campaigns on discontinued items twice a year and to clear items through online as well as physical outlet channels. A second avenue is to take back stock from retailers and on an on-going basis to take a provision for returns of discontinued items, in markets where returns of products from customers are customary. These options are applied differently in the various geographical regions.

Generally in the Americas, PANDORA currently take back stock from retailers and are, starting in Q4 2012, actively announcing to retailers when items are discontinued. Other regions, as a general rule, pursue sales campaigns or clearance through outlet channels.

CONCEPT STORES LIKE-FOR-LIKE SALES-OUT

2012 vs. 2011	Q4	Q3	Q2	Q1
USA	6.9%	4.5%	3.0%	6.7%

Stores of same category open more than 12 months

AMERICAS

	Number of PoS FY 2012	Number of PoS FY 2011	Delta FY 2012 and FY 2011
Concept stores[1]	285	212	73
Shop-in-Shops[2]	518	431	87
Gold	769	705	64
Total branded	**1,572**	**1,348**	**224**
Total branded as % of Total	**48.5%**	**44.7%**	**3.8%**
Silver	1,124	1,126	-2
White and travel retail	546	543	3
Total	**3,242**	**3,017**	**225**

[1] Includes 2 and 0 PANDORA-owned Concept stores FY 2012 and FY 2011 respectively

[2] Includes 0 and 0 PANDORA-owned Shop-in-Shops FY 2012 and FY 2011 respectively

Based on the experience from promoting return policies towards retailers when conducting our stock balancing campaign in 2012, and the fact that PANDORA now actively communicate to retailers when products are discontinued, PANDORA has decided to provision DKK 416 million for returns (DKK 225 million in 2011) in the 2012 annual accounts (see note 21) with a corresponding impact on gross margin. The revenue impact of the provision corresponds to 9% of Group revenue in 2012, compared to 5% in 2011.

Americas

Revenue in the Americas increased by 5.3% to DKK 3,312 million in 2012 from DKK 3,144 million in 2011. Excluding foreign exchange movements, the underlying revenue decline was 2.5% compared to 2011.

Revenue in the United States, constituting 38.8% of total Group revenue, was up by 1.7% in 2012 versus 0.8% in 2011.

PANDORA has experienced positive like-for-like sales-out of US Concept stores throughout 2012.

Other Americas sales grew year-on-year by 20.8% and by 11.4% excluding foreign exchange movements and constituted 11% of Group revenue in 2012. Canada was the largest contributor in Other Americas growing by 28.4% compared to last year.

During 2012 the number of branded stores in Americas increased by 224 to a total of 1,572 stores (2011: 1,348). Branded stores accounted for 48.5% of the total number of stores compared to 44.7% at the end of 2011.

Europe

Revenue in Europe, constituting 38.2% of total Group revenue, decreased by 3.1% (a decrease of 5.0% in local currency) to DKK 2,542 million in 2012 (2011: DKK 2,623 million). The development has been driven by declines in particular in the UK and Germany as well as by third party distributors in Greece, Spain, Portugal and Ireland, countered by growth in Italy, Russia, and France albeit from low levels.

UK is PANDORAs largest single market in Europe accounting for 13.1% of 2012 Group revenue, compared to 14.3% in 2011. Revenue in the UK decreased by 8.6% (a decrease of 15.3% in local currency) driven by retailers reducing stock. Like-for-like sales-out in Concept stores in the UK for the full year 2012 ended slightly up compared to 2011, indicating that the end consumer welcomes the change in product mix with lower price points.

Germany is PANDORAs second largest market in Europe, accounting for 7.1% of 2012 Group revenue, compared to 9.6% in 2011. Revenue in Germany decreased by 26.5% in 2012 compared to 2011. PANDORA has during 2012 addressed the over-distribution in Germany by closing a number of sub-optimally located stores particularly in the Silver- and White category and closed more than 522 primarily unbranded points-of-sale, corresponding to 32.0% of total stores end of 2011. End 2012 branded stores account for 48.8% (2011: 28.2%) of the total network in Germany.

CONCEPT STORES LIKE-FOR-LIKE SALES-OUT

2012 vs. 2011	Q4	Q3	Q2	Q1
UK	12.3%	0.9%	-4.0%	-15.6%

Stores of same category open more than 12 months

CONCEPT STORES LIKE-FOR-LIKE SALES-OUT

2012 vs. 2011	Q4	Q3	Q2	Q1
Germany	4.5%	2.5%	8.9%	-1.8%

Stores of same category open more than 12 months

EUROPE

	Number of PoS FY 2012	Number of PoS FY 2011	Delta FY 2012 and FY 2011
Concept stores[1]	453	340	113
Shop-in-Shops[2]	570	585	-15
Gold	1,386	959	427
Total branded	**2,409**	**1,884**	**525**
Total branded as % of Total	**37.0%**	**27.0%**	**10.0%**
Silver	1,873	1,456	417
White and travel retail	2,224	3,625	-1,401
Total	**6,506**	**6,965**	**-459**

[1] Includes 77 and 57 PANDORA-owned Concept stores FY 2012 and FY 2011 respectively.

[2] Includes 56 and 45 PANDORA-owned Shop-in-Shops FY 2012 and FY 2011 respectively.

Like-for-like sales-out in Concept stores in Germany was positive in three out of four quarters during 2012. While many initiatives have been activated in Germany and sales-out of Concept stores has improved, it will, as previously announced, take time before the turn-around has an impact on PANDORAs revenue.

In the category 'Other Europe' revenue increased by 16.4% in 2012 compared to 2011 primarily driven by significant growth from Italy, Russia and France. PANDORAs third party distributor markets such as Greece, Spain, Portugal and Ireland continued in 2012 to be adversely impacted by harsh macroeconomic trading conditions and these countries continued to destock in order to optimise local inventory levels.

In Europe the distribution network has decreased by 459 stores to a total of 6,506 in 2012. Development within branded stores continued on a positive note and branded stores accounted for 37.0% of the total number of stores compared to 27.0% at the end of 2011.

Asia Pacific

Revenue in Asia Pacific, constituting 12.0% of total Group revenue, decreased by 10.4% in 2012 compared to 2011 to DKK 798 million (2011: DKK 891 million). Excluding foreign exchange movements, the underlying revenue in the region decreased by 17.5% year on year.

Revenue in Australia, constituting 9.3% of Group revenue, have experienced a shift in trends during 2012. We have during 2012 discontinued 138 primarily White and Silver stores and have a total of 415 stores at the end of 2012, as expected and previously indicated. This in combination with the positive impact from the new products launched has in Q4 2012 positively impacted the development in Australia with both sales-in to retailers as well as sales-out of Concept stores growing from Q4 2011.

In the category 'Other Asia Pacific', constituting 2.7% of total Group revenue, revenue decreased by 23.4% in 2012 compared to 2011.

CONCEPT STORES LIKE-FOR-LIKE SALES-OUT

2012 vs. 2011	Q4	Q3	Q2	Q1
Australia	10.1%	-5.8%	-7.4%	-20.1%

Stores of same category open more than 12 months

PANDORA has terminated its arrangement with its former Japanese distributor, Vérité Co. Ltd. and simultaneously entered into an agreement with Bluebell Japan Limited.

The termination of the agreement with Vérité will initially lead to store closures in Japan in a transition period which had also lead PANDORA to provision for buying back inventory from Vérité Co. Ltd, worth DKK 38 million with a corresponding negative impact on the revenue in Other Asia in 2012.

ASIA PACIFIC

	Number of PoS FY 2012	Number of PoS FY 2011	Delta FY 2012 and FY 2011
Concept stores[1]	157	120	37
Shop-in-Shops[2]	177	166	11
Gold	139	157	-18
Total branded	**473**	**443**	**30**
Total branded as % of Total	**75.6%**	**59.1%**	**16.5%**
Silver	76	116	-40
White and travel retail	77	191	-114
Total	**626**	**750**	**-124**

[1] Includes 31 and 33 PANDORA-owned Concept stores FY 2012 and FY 2011 respectively.

[2] Includes 1 and 1 PANDORA-owned Shop-in-Shops FY 2012 and FY 2011 respectively.

Excluding this effect, Other Asia Pacific revenue decreased by 7.2% in 2012 compared to 2011, the decline mainly explained by fewer store openings in 2012 and weaker sales-in compared to 2011.

In Asia Pacific the distribution network has decreased by 124 shops to a total of 626 in 2012. The development has been driven by the closing of unbranded stores in Australia. Branded stores continued on a positive note and branded stores accounted for 75.6% of the total number of stores compared to 59.1% at the end of 2011.

PANDORA SALES CHANNELS

Direct distribution accounted for 96.9% of revenue in 2012 compared to 95.1% in 2011. Revenue in 2012 has been driven by the development in Concept stores.

Concept stores accounted for 58.0% of the branded sales in 2012 (49.4% in 2011) and branded sales accounted for 81.0% of total direct sales (2011: 77.0%). The development has mainly been in Other Americas (primarily Canada) and Other Europe (primarily Italy, Russia and France).

While branded stores increased by 705 total number of 'points-of-sale' decreased by 358 in 2012 to 10,374.

SALES CHANNELS

DKK million	FY 2012	FY 2011	Received FY 2012*	Replaced FY 2012*	Number of POS FY 2012	Number of POS FY 2011
Concept stores	3,032	2,412	151	151	809	604
Shop-in-Shops	1,193	1,382	159	159	1,114	1,036
Gold	1,003	1,086	140	140	2,034	1,612
Total Branded	**5,228**	**4,880**	**450**	**450**	**3,957**	**3,252**
Silver	704	884	65	65	2,854	2,515
White and travel retail	512	571	20	20	1,846	3,134
Total Unbranded	**1,216**	**1,455**	**85**	**85**	**4,700**	**5,649**
Total Direct	**6,444**	**6,335**	**535**	**535**	**8,657**	**8,901**
3rd party	208	323	74	74	1,717	1,831
Total	**6,652**	**6,658**	**609**	**609**	**10,374**	**10,732**

* Received means value of discontinued products returned to PANDORA in 2012. Replaced means value of new products returned to retailers in 2012.

PRODUCT MIX

DKK million	FY 2012	FY 2011	Growth 2012 vs 2011	Share of total in %	Received 2012	Replaced 2012*
Charms	4,958	4,639	6.9%	74.6%	260	446
Silver and gold charms bracelets	846	786	7.6%	12.7%	4	85
Rings	427	401	6.5%	6.4%	93	30
Other jewellery	421	832	-49.4%	6.3%	252	48
Total	**6,652**	**6,658**	**-0.1%**	**100.0%**	**609**	**609**

* Received means value of discontinued products returned to PANDORA in 2012. Replaced means value of new products returned to retailers in 2012.

PRODUCT OFFERING

The stock balancing campaign has impacted the revenue distribution between product categories, particularly as the Rings and Other Jewellery categories have been significantly affected by returned products. This has led to a comparably positive effect on the Charms and Silver and gold charms bracelets categories. The two categories Charms and Silver and gold charms bracelets represented 87.3% of total revenue in 2012 compared to 81.5% in 2011. Revenue from the two categories increased 7.0% between 2012 and 2011, generating a revenue of DKK 4,958 million and DKK 846 million, respectively. Rings represented 6.4% of total revenue compared to 6.0% in 2011. Rings increased by 6.5% to DKK 427 million (2011: DKK 401 million). Other jewellery decreased by 49.4%.

The average sales price per item in 2012 has decreased to DKK 129 from DKK 134 in 2011 mainly driven by lower price points on new product introductions and general price reductions during 2012 partially offset by positive exchange movements.

GROSS PROFIT AND GROSS MARGIN

Gross profit was DKK 4,429 million in 2012 compared to DKK 4,860 million in 2011, resulting in a gross margin of 66.6% in 2012 compared to 73.0% in 2011.

Compared to 2011, 2012 was negatively impacted by increasing raw material prices (-6.7 percentage point), price changes (-1.1 percentage point), product and market mix (1.5 percentage point) and currencies (-0.1 Percentage point). Product and market mix includes approximately 1.0 percentage point negative impact on gross margin, due to the expiration of the suspension of certain import duties of goods manufactured in Thailand under the U.S. Generalized System of Preferences program.

It is PANDORAs policy to hedge 100%, 80%, 60% and 40% of expected gold and silver consumption in the following four quarters. The combined effect of the time lag from our inventory and our 12-month rolling hedges effectively means that our exposure in 2013 is hedged to a large extent.

Excluding our hedging and the time lag effect from our inventory, the underlying gross margin would have been approximately 67.0% based on average gold (1,672 USD/oz) and silver (31.36 USD/oz) market prices in 2012. Under the same assumptions, a 10% deviation in quarterly average gold and silver prices would impact our gross margin by approximately +/- 2-3 percentage points.

The average realised price for gold was 1,614 USD/oz and 33.85 USD/oz for silver in 2012. Our hedged prices for the following four quarters for gold are 1,677 USD/oz, 1,646 USD/oz, 1,753 USD/oz, 1,730 USD/oz and for silver 33.16 USD/oz, 30.78 USD/oz, 32.64 USD/oz and 31.94 USD/oz.

DISTRIBUTION EXPENSES

Distribution expenses increased to DKK 2,084 million in 2012 from DKK 2,053 million in 2011, representing 31.3% of revenue in 2012 compared to 30.8% in 2011.

Sales and distribution expenses increased to DKK 1,261 million in 2012 from DKK 1,080 million in 2011, representing 19.0% of revenue in 2012 compared to 16.2% 2011. The increase is mainly caused by an increase in PANDORA-owned Concept stores and Shop-in-Shops in 2012 (Total 167 stores) compared to 2011 (136 stores) as well as entry into new markets.

Marketing expenses were in 2012 12.3% of revenue compared to 14.6% in 2011. Marketing expenses have decreased to DKK 823 million in 2012 from DKK 973 million in 2011.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to DKK 870 million in 2012 versus DKK 749 million 2011, representing 13.1% of revenue up from 11.3% in 2011.

The increase in administrative expenses is mainly related to increased headcount in new markets and at the head office.

COST RATIOS

The cost ratios for 2012 are affected by the negative impact on revenue from the stock balancing campaign. Additionally, historical sales and distribution expenses in 2011 are negatively affected by DKK 92 million from amortisation of acquired distribution rights in PANDORA CWE.

EBITDA

EBITDA for 2012 decreased by 27.3% to DKK 1,658 million (2011: 2,281 million) resulting in an EBITDA margin of 24.9%, down from 34.3% in 2011.

Regional EBITDA margins for 2012 before allocation of central costs were 42.7% in Americas (51.5% in 2011), 23.4% in Europe (34.8% in 2011) and 23.9% in Asia Pacific (36.5% in 2011). Unallocated costs decreased to 8.2% in 2012 compared to 8.7% in 2011.

EBITDA declined by 9.4 percentage points. In general EBITDA benefits from exchange movements by 2.9 percentage point but is hurt by soaring commodity prices (-6.7 percentage points), higher cost ratios (-3.0 percentage points), product and market mix (-2.6 percentage points). Product and market mix includes approximately 1.0 percentage point negative impact on gross margin, due to the expiration of the suspension of certain import duties of goods manufactured in Thailand under the U.S. Generalized System of Preferences program.

EBITDA margins in all regions are significantly affected by the lower gross margin percentage in 2012. The Americas region EBITDA margin is 8.8 percentage points below last year, additionally affected by the expiration of the suspension of certain import duties of goods manufactured in Thailand under the U.S. Generalized System of Preferences program. Furthermore, the decreased margins in Europe are caused by development of direct operations in Italy and France. The decrease in EBITDA margin in Asia Pacific is impacted by the provision for stock take back in Japan which only partially is offset by an increase in revenue in Australia.

COST RATIOS

	FY 2012	FY 2011
Sales and distribution expenses	19.0%	16.2%
Marketing expenses	12.3%	14.6%
Administrative expenses	13.1%	11.3%
Total	**44.4%**	**42.1%**

* Including gains/losses from sales of assets

EBITDA MARGIN

	FY 2012	FY 2011	FY 2012 vs FY 2011 (% pts)
Americas	42.7%	51.5%	-8.8%
Europe	23.4%	34.8%	-11.4%
Asia Pacific	23.9%	36.5%	-12.6%
Unallocated costs	-8.2%	-8.7%	0.5%
Group EBITDA margin	**24.9%**	**34.3%**	**-9.4%**

EBIT

EBIT for 2012 decreased to DKK 1,475 million (2011: DKK 2,058 million) a decrease of 28.3% compared to 2011, resulting in an EBIT margin of 22.2% for 2012 versus 30.9% in 2011.

NET FINANCIAL INCOME

Net financial income amounted to DKK 4 million in 2012 (2011: DKK 311 million). Compared to last year, losses on foreign exchange movements were reduced by DKK 188 million. 2011 was negatively impacted by a strong appreciation of the USD. Financial income is positively affected by DKK 51 million (2011: DKK 511 million) from adjustment of the CWE earn-out provision based on the revised outlook for PANDORA CWE. While the Italian market has developed positively compared to expectations, Germany, although showing positive signs, has not developed fully in accordance with expectations and this impacts the forecasted value of the earn-out liability related to CWE. Following this adjustment the balance sheet no longer includes a provision for the CWE earn-out.

INCOME TAX

Income tax expenses were DKK 277 million in 2012 (2011: DKK 332 million), implying an effective tax rate of 18.7% for 2012 compared to 14.0% for 2011. Excluding the CWE earn-out adjustment, the effective tax rate was 19.4% for 2012 (2011: 17.9%).

NET PROFIT

Net profit for 2012 decreased by 41.0% to DKK 1,202 million (2011: 2,037 million).

Excluding the CWE earn-out provision adjustment, 2012 net profit decreased by 25% to DKK 1,151 million (compared to an adjusted net profit of DKK 1,526 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2012, PANDORA generated a free cash flow of DKK 1,151 million (2011: DKK 1,670 million) corresponding to a cash conversion of 95.8% compared to 82.0% in 2011. The reduction in free cash flow of DKK 520 million is affected by the lower EBITDA for the year and positively impacted by reduction of inventory.

Net working capital (defined as inventory and accounts receivables less provisions, trade payables, income tax payables and other payables adjusted for derivative financial instruments) at the end of 2012 was DKK 1,277 million (2011: DKK 1,327 million) corresponding to 19.2% of preceding twelve months revenue compared to 19.9% at the end of 2011. The development in net working capital is mainly driven by lower inventory levels. Adjusted for the value of hedging contracts at year end net working capital amounts to 18.5% of revenue compared to 16.2% in 2011.

Operating working capital (defined as inventory and accounts receivables less accounts payables) at the end of 2012 was 30.7% of preceding twelve months revenue compared to 33.4% at the end of 2011.

Inventory declined significantly by 18.1% to DKK 1,318 million (2011: DKK 1,609 million). The decline in

DEVELOPMENT IN NET WORKING CAPITAL

DKK million	2012	2011	2012 vs 2011 (%)	% of Net Revenue 2012	% of Net Revenue 2011
Inventory	1,318	1,609	-18.1%	19.8%	24.2%
Trade Receivables	940	900	4.4%	14.1%	13.5%
Trade Payables	-219	-288	-24.0%	-3.3%	-4.3%
Other	-762	-894	-14.8%	-11.5%	-13.4%
Total	**1,277**	**1,327**	**-3.8%**	**19.2%**	**19.9%**

inventory despite soaring gold and silver prices (in average approximately 20% increase in gold and sterling silver), can be explained by improved inventory management and re-melting of obsolete inventory from the 2012 stock balancing campaign.

Trade receivables increased to DKK 940 million in 2012 (14.1% of preceding 12 month revenue) from DKK 900 million in 2011 (13.5% of preceding 12 month revenue). Trade receivables are influenced by the higher revenue in Q4 2012 than in Q4 2011.

In 2012, PANDORA invested a total of DKK 276 million (2011: DKK 269 million) in capital expenditure, 4.2% of revenue (2011: 4.0% of revenue).

Total interest-bearing debt was DKK 158 million at the end of 2012 (compared to DKK 385 million at the end of 2011).

Cash and short-term deposits amounted to DKK 341 million at the end of 2012 (compared to DKK 176 million at the end of 2011).

Net interest-bearing debt at the end of 2012 was DKK -183 million corresponding to -0.1 LTM EBITDA (compared to DKK 209 million at the end of 2011 corresponding to 0.1 LTM EBITDA).

RISK MANAGEMENT AND INTERNAL CONTROLS

RISK MANAGEMENT

The Board of Directors regularly assesses the overall and specific risks associated with PANDORAs 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.

PANDORA operates globally with various stakeholders. Moreover, some transactions and contracts have high complexity. PANDORA recognises the associated risks and uses legal advisors in order to mitigate these risks.

The significant current risks are:

Brand and reputation

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

Since 2010, PANDORA has focused on building brand awareness in all markets and positioning the brand as an affordable luxury jewellery brand through TV, printed and outdoor advertisements, brochures, digital media, and points of sale. In particular, the digital media has been further strengthened through website, ecommerce, PANDORA Club and social media activities. The digital roll-out has led to an increasingly localised digital presence around the world embracing local opportunities, as well as strengthening PANDORAs own media channels.

To protect the value of the PANDORA brand and given the nature of products and manufacturing, PANDORA has taken steps to align PANDORAs corporate social responsibility standards globally, among other things by formally adhering to the UN Global Compact. Lack of compliance with applicable laws and regulations, or if PANDORA is perceived by the public as failing to meet certain labour standards, or employ unfair labour practices, our reputation and business could be seriously affected. Thus, it is of vital importance that not just PANDORA but also its suppliers and sub-suppliers adheres to PANDORAs corporate and social responsibility standards either directly or indirectly. See the CSR section on page 23.

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 the cost of goods sold. An increase in sterling silver and gold prices together with an inability to transfer such increased costs to end-consumers may have an adverse material effect on PANDORAs business and results as PANDORA should remain within the affordable luxury segment. For example, 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 relative to other industries.

PANDORAs finance policy requires that this exposure is mitigated. We use financial instruments to hedge both silver and gold exposure. These instruments mitigate between 40% and 100% of the exposure from 1 to 12 months forward with a hedge ratio decreasing with time to maturity. The gold and silver prices increased significantly in 2010 and 2011. Due to the combined effect of PANDORAs hedging policy and the time lag from PANDORAs inventory the increased market prices in 2010 were carried forward to Group cost of sales in 2011. Likewise, even higher market prices in 2011 were carried forward to Group cost of sales in 2012. Raw material prices in Group cost of sales in 2012 were therefore higher than the prices in Group cost of sales in 2011. These prices had an adverse effect on the Gross margin in 2012 compared to 2011.

Financial risks
For information on financial risks, see note 19.

Global economic conditions
A further economic downturn and uncertain economic outlooks in one or more of our geographical markets can adversely affect consumer spending habits. Entering and expanding in new markets PANDORA decreases the dependency on individual markets.

Product development
The ability of PANDORA to achieve its future goals is dependent on PANDORAs ability to develop products aligning with market trends and end-consumers' preferences.

New product launches need to be in alignment with consumers' perceptions of the PANDORA brand in order to be successful.

Concentration of production facilities in Thailand
The concentration of production facilities in Thailand means that PANDORAs operations are dependent on the degree to which raw materials can be imported into Thailand, that manufacturing is uninterrupted and that products can be exported from Thailand. Disruptions could among other things be caused by the political situation or natural disasters.

Thailand has from time to time been hit by heavy monsoon rain resulting in severe flooding, also in Bangkok. PANDORA factories are located in Gemopolis, a jewellery industry zone outside Bangkok. This area is generally well drained and protected from flooding. A contingency plan is in place to avoid impacts from flooding and to date there has been no significant disruption.

PANDORA has set up a Business Continuity Management Department in 2012 to monitor factors that could impact operations. In order to ensure the continuity of PANDORAs operation at the specified level, a Business Continuity Plan for the production has been tested with satisfactory results.

Previous, political unrest in Thailand caused a few days of temporary disruption to the supply chain, but, with no impact on the business. The political situation in Thailand in 2012 remained stable. PANDORA continuously evaluates the benefit and risk of the concentration of production in Thailand, although PANDORA has not experienced any material disruptions during more than 20 years of production.

Tax risks
For information on tax risks, see note 1.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE FINANCIAL REPORTING PROCESS

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

Internal control and risk management systems are under continuous development and comprise:

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

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

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

The composition of the Board of Directors, the 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 on-going basis, including risks related to financial reporting.

The Audit Committee reviews certain high-risk areas quarterly, including:

- Significant accounting estimates
- Material changes to the accounting policies

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

Control activities

PANDORA operates with a global Finance Management Forum that meets on quarterly basis. This forum sets the Finance Strategy for the Group.

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

The Group has defined an internal control framework which identifies key processes, inherent risks and control procedures, in order to secure accounting processes.

Information and communication

During 2012 PANDORA implemented a common ERP system for all units, except for the USA and Canada. This makes it possible to achieve great transparency in finances and is the foundation for increasing data quality and the speed of reporting.

PANDORA Finance manager conferences are held in order to discuss the latest developments within significant accounting matters and best practice regarding internal controls.

Monitoring

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

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

AUDIT

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

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

INTELLECTUAL CAPITAL

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

Human resources
PANDORA believes people are an important asset. PANDORAs shared values build on established standards and behaviours developed over the past 30 years in the former family-owned and operated company, combined with valuable input from previously independent distributors consolidated into the Company and new employees in new markets. PANDORAs three core values – Pride, Passion and Performance – and the way these values are lived and interpreted in everything PANDORA does, are instrumental in securing a strong and consistent company culture throughout PANDORAs worldwide operations.

PANDORA believes that developing its people is a key factor in developing the Company. To secure the future growth of PANDORA, it is important to continuously develop its employees so they are able to cope with the future challenges. Consequently, PANDORA has launched several training programmes.

In 2012, 23 Vice Presidents from across the Group took part in a global four-module program, including one module developed and facilitated in cooperation with Harvard Business School. The modules provided training in both leadership and business knowledge. PANDORA appointed new presidents in North America and Australia in 2012, and both these new presidents were identified and promoted internally from this group.

Locally in the markets, management training was provided for the next level of leaders with the purpose of supporting the business of PANDORA. Elements such as personal effectiveness, delegating and leading others have been the main subjects in this training. About 80 managers globally took part in this program in 2012.

At the production facilities in Thailand, in addition to comprehensive crafts, technical and leadership training, PANDORA opened a library and an e-learning centre, with full access for all employees in alignment with PANDORAs three core values. In addition, we further strengthened and facilitated organisational openness and engagement through regular "Radar" meetings with employees from all departments and, on an individual basis, introduced a 360-degree appraisal program for our leadership group, which involved more than 4,000 participants.

Intellectual property rights and policies
PANDORAs intellectual property rights are considered central to PANDORAs value creation, competitive advantage, freedom to operate and future business development, and are therefore safeguarded with all available means, including a comprehensive global surveillance, registration and control program. The intellectual property rights are mainly vested in trademarks, copyrights, patents and further strengthened by business secrets, visually distinct products, non-disclosure procedures and non-competition regulations.

No distributors, dealers or others are permitted to register or use PANDORAs intellectual property without prior agreement. Enforcement and defence mechanisms are continuously strengthened through a zero-tolerance policy towards infringement of PANDORAs 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, hereunder in the EU, USA, Australia, Asia and China. The trademarks are registered in various international goods and service classes, primarily in international class 14, which covers jewellery and watches.

The trademark portfolio covers inter alia the EU-registrations “PANDORA” and logo “PANDORA with a crowned O” in various international classes considered to be relevant for the sale and marketing of PANDORAs products, hereunder the international classes for jewellery, leather goods and clothing. PANDORA also strengthened its intellectual property rights in China in 2011, and the PANDORA trademark was registered in the Latin version in class 14 in China.

Patents

PANDORAs international patent families encompass patent rights relating to the functionality of the charm bracelet. Patents have been granted by the member states of the EU, USA, Australia, New Zealand, South Africa, China, Switzerland and Norway. Generally, the patents protect a jewellery chain, that is a necklace or a bracelet, to which a stop joint has been affixed, a so-called “stopper.” A detachable holder, a so-called “keeper” (the clam joint of a charm) is affixed to the stopper and forms a component that 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

This section constitutes PANDORAs statutory report on corporate social responsibility for the financial year 2012, cf. Section 99a of the Danish Financial Statements Act.

PANDORAs CSR Committee made up by representatives from executive management and a range of strategic business units. In 2012, the CSR Committee has remained responsible for strategic decisions relating to our on-going effort to further strengthen and reinforce responsible business practices throughout the Group. To provide PANDORA staff with proper guidance, the Company issued a range of CSR policies in 2012 that define PANDORAs ethical aspirations within human and labour rights, health and safety, business ethics, and the environment, as well as efforts to raise the bar for responsible business practices in our supply chain. Each market is responsible for integrating the CSR policies into their daily operation, while drawing on the assistance of a range of supporting tools, guidelines and compliance checks developed in cooperation with Group CSR that also assist local management in fulfilling CSR related tasks. The CSR policies and supporting tools and guidelines are named “PANDORA Ethics”, with direct reference to PANDORAs corporate values defined in a programme called “PANDORA Life”. PANDORA Ethics policies and guidelines are aligned with the 10 principles laid down by the United Nations Global Compact and more importantly the Responsible Jewellery Council’s (RJC) “Code of Practices”, which define responsible business practices within the jewellery industry. In addition, PANDORAs human rights policy and efforts are sought aligned with the guidance laid down in the United Nations “Guiding Principles on Business and Human Rights”.

Implementing PANDORA Ethics

1 February 2012 marked the launch of a group-wide implementation and awareness campaign on “PANDORA Ethics”. The campaign aimed to reach all PANDORA employees around the world and have been carried out through:

- A generic face-to-face training module which have been implemented throughout the Group
- Tailor-made training modules for strategic business units and selected markets
- Awareness campaigns delivered via Intranet, videos, leaflets and posters
- The assignment of responsibilities to management in all markets
- The integration of CSR into existing introduction programs
- PANDORAs compliance tool, which requires markets to report their level of compliance across 100 CSR indicators

The campaign culminated in August 2012, when PANDORA became certified by the RJC, which is the most ambitious CSR initiative within the jewellery industry. The certification was granted following a range of announced and unannounced audits carried out by independent auditors visiting the head office, the jewellery crafting facilities in Thailand, as well as regional offices and PANDORA stores around the world. The implications of PANDORAs CSR policies, tools and guidelines vary across the value chain which embraces sourcing, crafting and trading.

Sourcing

In 2012, PANDORA continued to implement a “Four Step CSR Supplier Program” that aims to categorise, train, audit and follow up on suppliers in order to ensure their compliance with PANDORAs Supplier’s Code of Conduct. Having gained valuable experiences with the program, PANDORAs sourcing and procurement departments in Copenhagen and Thailand decided to ensure that third party audits are carried out at all strategic suppliers by end of 2013. PANDORA Production Thailand initiated a project in 2012 that aims to integrate supplier audits carried out by PANDORAs own staff within quality, delivery, costs and CSR.

Based on the experience with integrated management systems at PANDORA Production Thailand, these integrated audits will provide important inspiration for developing all four areas at our suppliers.

Crafting
PANDORA has always taken pride in running an efficient and responsible jewellery crafting facility in Bangkok, Thailand. Here, the CSR-related efforts focus on further strengthening and systemising PANDORAs production in order to minimise the environmental impact, as well as PANDORA Productions "Total Reward" approach to HR and organisational development. In 2012, the efforts targeting the environment concentrated on the development of an environmental strategy, raising staff awareness on environmental issues and measuring and disclosing PANDORAs environmental performance. PANDORAs "Total Reward" approach reflects the four key elements that together represent the value of working at PANDORA Production Thailand, namely: Fair and equitable compensation, attractive and progressive welfare benefits, the continuous development of skills and competences aligned with clearly defined career paths, and a working environment that is safe, respectful, creative and enjoyable.

In the course of 2012, the management systems at PANDORA Production Thailand were independently audited, validated and certified on four core responsibility standards:

- The Responsible Jewellery Council's: "Principles and Code of Practices"
- ISO 14001: Environmental Management
- OHSAS 18001: Occupational Health and Safety
- C-TPAT: US Customs-Trade Partnership Against Terrorism

With more than 4,000 staff members in Thailand, many without direct assess to PANDORAs intranet, CSR implementation and awareness raising has been aided by PANDORAs in-house radio and TV channels. As well as PANDORAs newly opened library and e-learning centre providing all staff access to state of the art IT facilities, self-development and educational materials, housed within a comfortable and stimulating learning environment.

Trading
In 2010 and 2011, PANDORA mainly focused its efforts on material issues within sourcing and crafting. In 2012, PANDORA has adopted a more active CSR approach to the last part of PANDORAs value chain, namely the trading of genuine jewellery. Thus, as part of the PANDORA Ethics campaign, all sales offices have now been trained in PANDORAs policies and expected responsible behaviour, and e-learning modules have been prepared for PANDORA store staff. As part of the RJC certification process, 40% of PANDORAs regional sales offices were audited by independent consultants. These audits did not identify any major non-compliances, just like random audits and mystery shopping activities carried out at PANDORA-owned and operated stores, always with the same positive result.

PANDORA perceives that the reason for these positive outcomes has been the well-prepared implementation and awareness raising campaign for PANDORA Ethics. PANDORAs 45 in-house trainers operating throughout the Group, as well as PANDORAs comprehensive e-learning tool, used to improve the skills and competences of PANDORAs own staff, as well as the estimated 30,000 external sales representatives engaged in selling PANDORA jewellery around the world. In 2012, more than 105,000 training modules were finalised on all markets. PANDORA also stepped up efforts to educate customers to further appreciate the unique characteristics of PANDORAs genuine jewellery materials and invited them to assist in PANDORAs efforts to prevent and mitigate brand and product violations.

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.

PANDORA has disclosed its statutory report on corporate governance for the financial year 2012, cf. Section 107 b of the Danish Financial Statements Act at http://investor.pandora.net/governancestatement.cfm.

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. As a publicly listed company, PANDORA is subject to the disclosure requirements laid down by NASDAQ OMX Copenhagen, which has included the recommendations in its 'Rule Book for Issuers of Shares'.

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

- The Chairman of the Board of Directors ("the Board") is eligible for a one-off additional bonus for a share amount of DKK 6.5 million if certain EBITDA (on an adjusted basis) targets defined in PANDORAs business plan are met for the full year periods of 2013, 2014 or 2015 (recommendation no. 6.1.6)
- 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 (recommendation no. 6.1.6)
- 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 (recommendation no. 6.1.8)

Board of Directors and Executive Board

As is current practice in Denmark, powers are distributed between the Board and the Executive Board and independence exists between these two bodies. The Board of Directors is elected by the General Meeting and all board members are up for election every year. The Executive Board is appointed by the Board of Directors. The Executive Board handles day-to-day management, while the Board supervises the work of the Executive Board and is responsible for the general strategic direction. The primary tasks for the Board are to ensure that PANDORA has a strong management team, an adequate organisational structure, efficient business processes, optimal capital structure, 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, together with PANDORAs Executive Board develops the Company's overall strategies and oversees that the competencies and resources are in place to maximise the likelihood of PANDORA achieving its objectives. Furthermore, the Board oversees the financial development of PANDORA and the related planning and reporting systems.

Board activities in 2012

During 2012, the Board held 12 ordinary board meetings. The total attendance rate was 91.6%. In 2012, the Board paid special attention to the execution of the '18 Month

Turnaround Plan', the completion of a major stock balancing campaign, the realignment of price and product architecture, the improvement of like-for-like sales in the Concept Stores, the definition of an optimal capital structure and updated dividend policy, and the introduction of two new board members and the new CEO.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, a majority of all of which are independent board members as defined in the corporate governance recommendations of the Danish Committee on Corporate Governance. The Board appoints Committee members and the Committee chairman. The Committees' terms of reference are disclosed via the Company's website.

The Audit Committee

The current members of the Audit Committee are Anders Boyer-Søgaard (chairman), Andrea Alvey and Nikolaj Vejlsgaard. The Audit Committee reviews and assesses the Company's financial reporting and audit process, as well as the internal control systems, and evaluates the adequacy of control procedures. More specifically, the duty of the Audit Committee is to supervise the following areas:

- The financial reporting process
- The internal control and risk management system
- External audit

In 2012, the Audit Committee met six times and had an attendance rate of 100%. The main activities in 2012 were:

- Meetings with management and external auditors to review the audited annual report
- Meetings with management to review quarterly financial statements, the key accounting policies and significant accounting estimates
- Review of the adequacy and effectiveness of the Company's internal controls and risk management systems
- Review of the significant financial risks of the Company
- Assessment of the need for an internal audit function
- Recommendations for the selection of external auditors and approval of compensation of the external auditor
- The Audit Committee's annual self-assessment

The Remuneration Committee

The current members of the Remuneration Committee are Allan Leighton (chairman), Marcello V. Bottoli, Torben Ballegaard Sørensen, Christian Frigast and Ronica Wang. The main duties of the Remuneration Committee are:

- To prepare recommendations to the Board on the pay and remuneration policy applicable to the Board and the top 15 executives, including the Executive Board, with respect to fixed and variable pay components
- To submit proposals to the Board for the total individual pay and remuneration package of the board members and the Company's executive managers
- To verify that the information about remuneration in the annual report is true, accurate and adequate

In 2012, the Remuneration Committee met three times and had an attendance rate of 82%. The main activity was the annual review of the remuneration policy and guidelines on incentive payments as well as approval of the Company's overall wage regulation. As part of the review, the committee performed a benchmark of the total remuneration of the Company's executives versus national and international trends.

The Nomination Committee

The current members of the Nomination Committee are Allan Leighton (chairman), Christian Frigast and Ronica Wang. The Nomination Committee assists the Board in fulfilling its responsibilities with regard to the:

- Description of the qualifications required for members of the Board and the Executive Board
- Nomination of candidates for approval by the Board to fill vacancies on the Board and the Executive Board
- Self-evaluation of the Board
- Assessment of the performance of the Executive Board and the cooperation between the Board and the Executive Board
- Succession planning for top executive positions

In 2012, the Nomination Committee met twice, with an attendance rate of 100%. The main activities in 2012 were the annual board evaluation, as well as the search, selection and training of new board members.

Remuneration policy

PANDORAs remuneration policy covers the Board and the Executive Board and must be approved by the General Meeting. Furthermore, it covers both fixed and incentive-based payment. It aims to attract, retain and motivate the board members and the executives.

Remuneration of The Board
Each Board member is to receive a fixed base fee per year. The base fee is the same for all board members except for the Chairman of the Board. The Deputy Chairman of the Board will receive 1.5 times the base fee. A number of committees have been established and the members of each committee will receive a fixed fee for their contribution. The chairman of the committee will receive 1.5 times this fee. The Chairman of the Board will not receive any fee for committee work.

Remuneration of The Executive Board
The remuneration package for executive board members consists of a fixed base salary, a short-term cash bonus, a long-term share based incentive and other benefits. The short-term incentive cash bonus is designed to encourage enhanced performance and to ensure that the Company's executives are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The short-term incentive cash bonus may result in a maximum pay-out per year equal to 50% of the yearly base salary for the Executive Board. The targets for the short-term cash program are set by the Remuneration Committee and approved by the Board of Directors. The long-term incentive program is designed to promote the collective performance of the Executive Board and to align the interest of the Company's executives with the long-term interest of the Company's shareholders. No person will be eligible for severance pay in case of termination for wilful misconduct or gross negligence.

Board self-evaluation
The Board conducts an annual self-assessment to constantly improve the performance of the Board and its cooperation with the Executive Board. The Chairman of the Board, who is also chairman of the Nomination Committee, directs the assessment process. The assessment is carried out once a year. Each board member completes a questionnaire, followed by an individual interview with the Chairman. After consolidation of the answers, the results are presented at the following board meeting and improvement areas for the coming year are defined.

Among the topics covered in the self-assessment are Board composition, the nomination process and competencies of the Board. Other topics include functioning of the Board, Board 'atmosphere', cooperation with the Executive Board, the board's involvement in financial management and control, personal contributions and committee work.

The self-assessment's principal conclusions were: The Board is well functioning and as a whole is professionally fully equipped to contribute to PANDORAs business and there's good 'chemistry' and respect among board members. The conclusions from this assessment has also resulted in further strengthening of the succession planning process, as well as further structuring of the work of the nomination- and remuneration committees. Once a year, the Chairman of the Board carries out a formal assessment of the Executive Board.

BOARD OF DIRECTORS

Allan Leslie Leighton was born in 1953, is an English citizen and currently lives in London, United Kingdom. Allan attended Harvard University's Advanced Management Program. He has an Honorary Degree from Cranfield University and an Honorary Fellowship from the University of Lancashire. Currently, Allan is chairman of Pace PLC, Office Ltd and Music Maqpie.co.uk, chairman of the board of directors of Matalan Ltd, non-executive director of Bighams Ltd, and he is a patron of Breast Cancer Care. Allan has been Chairman of the Board of Directors of PANDORA A/S since August 2010 and is also Chairman of the Board of Directors' Remuneration Committee and Nomination Committee. He is regarded as an independent board member.

The special skills possessed by Allan that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his extensive experience within general management in listed companies, financial management in listed companies, global supply chain and sourcing, consumer sales and retail marketing, and global cross platform branding.

Marcello Vittorio Bottoli was born in 1962, is an Italian citizen and currently lives in Surlej-Silvaplana, Switzerland. Marcello holds an Italian Doctorate in Business Administration from BOCCONI University in Milan, Italy. Currently, Marcello is chairman of the board of directors of Pharmafortune S.A., non-executive director of International Flavour & Fragrances Inc., True Religion Apparel, Inc and Blushington LCC. Furthermore, he is operating partner of Advent International, a global private equity firm. Marcello has been a member of the Board of Directors of PANDORA A/S since August 2010 and is also a member of the Board of Directors' Remuneration Committee. Marcello is not regarded as an independent board member as he has acted as interim Chief Executive Officer of PANDORA A/S for a period.

The special skills possessed by Marcello that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his extensive experience within general management in listed companies, consumer sales and retail marketing, global cross platform branding, and the affordable goods industry.

Torben Ballegaard Sørensen was born in 1951, is a Danish citizen and currently lives in Højbjerg, Denmark. Torben holds an MBA from Aarhus School of Business and is an adjunct professor at the Department of Organisation and Management at Aarhus University. Currently, Torben is managing director of Investeringsselskabet af 1. juli 2008 ApS. Furthermore, he is chairman of the boards of directors of AS3 Companies A/S, CAT Forsknings- og Teknologipark A/S, Realfiction A/S and Tajco Group A/S. Torben is a member of the boards of directors of Fonden CAT, Fonden Invest Zealand, Egmont Fonden, Egmont International Holding A/S, Ejendomsselskabet Vognmagergade 11 ApS, Ejendomsselskabet Gothersgade 55 ApS, LEGO A/S, Systematic A/S, and AB Electrolux. Torben has been a member of the Board of Directors of PANDORA A/S since March 2008 and is also a member of the Board of Directors' Remuneration Committee. Torben is regarded as an independent board member.

The special skills possessed by Torben that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his extensive experience within general management in listed companies, financial management in listed companies, consumer sales and retail marketing and global cross platform branding.

Andrea Dawn Alvey was born in 1967, is an American citizen and currently lives in Raleigh, North Carolina, USA. Andrea holds a Bachelor of Science in Business Economics/ Statistics from Southern Connecticut State University. Currently, Andrea is president of Kitabco Investments, Inc. and regional developer for Peak Franchising. Andrea has been a member of the Board of Directors of PANDORA A/S since August 2010 and is also a member of the Board of

Directors' Audit Committee. Andrea is regarded as an independent board member.

The special skills possessed by Andrea that are important for the performance of her duties as a member of the Board of Directors of PANDORA A/S are her extensive experience within general management in listed companies, financial management in listed companies, global supply chain and sourcing, as well as consumer sales and retail marketing.

Povl Christian Lütken Frigast was born in 1951, is a Danish citizen and currently lives in Klampenborg, Denmark. Christian holds an MSc in Political Science and Economics from the University of Copenhagen. Currently, Christian is managing partner of Axcel Management A/S and chief executive officer of Axcel Industriinvestor A/S, CCTC Invest A/S, Axcel II Management A/S, Axcel II A/S, Axcel III KS Invest ApS, Axcel Management A/S, MP-AX I Invest ApS, MP-AX II Invest ApS and MNGT1 ApS. Furthermore, he is currently chairman of the boards of directors of AX Cimbria Invest ApS, Prometheus Invest ApS, Axcel Prometheus NewCo 4 ApS, AX NO Invest ApS, Junckers Holding A/S, AX MITA Invest ApS and AX Investment Invest ApS. In addition, Christian is deputy chairman of the boards of directors of Royal Scandinavia A/S, DVCA Danish Venture Capital and Private Equity Association. He is also a member of the boards of directors of Axcel Management A/S and Royal Scandinavia Invest A/S. Christian has been a member of the Board of Directors of PANDORA A/S since August 2010 and is also a member of the Board of Directors' Remuneration Committee and Nomination Committee. He is not regarded as an independent board member due to his position as managing partner of Axcel.

The special skills possessed by Christian that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his extensive experience within general management in listed companies, financial management in listed companies, consumer sales and retail marketing, and the affordable goods industry.

Nikolaj Vejlsgaard was born in 1971, is a Danish citizen and currently lives in Vedbæk, Denmark. Nikolaj holds an MSc in Economics and Business Administration from Copenhagen Business School. Currently, Nikolaj is a partner of Axcel Management A/S and managing director of Prometheus Invest ApS, Royal Scandinavia Invest A/S, Waldorf & Statler ApS, AXIII MPH Invest ApS, UIM Holding ApS and 3 subsidiaries. Furthermore, he is currently chairman of the boards of directors of IP Gruppen Holding ApS and IP Development A/S and deputy chairman of the board of directors of F. Junckers Industrier A/S. Nikolaj is also a member of the boards of directors of Axcel Prometheus Newco 4 ApS, Royal Scandinavia Invest A/S, Royal Scandinavia A/S, ERA Biler ApS, ERA A/S, ERA Ejendomme A/S, IP Online A/S, IP Administration A/S, Prometheus Invest ApS, Royal Scandinavia II ApS, MNGT2 ApS, MNGT Komplementar ApS, AXIII MP Holding ApS, Junckers Holding A/S and Axcel-Junckers Invest A/S. Nikolaj has been a member of the Board of Directors of PANDORA A/S since March 2008 and is also a member of the Board of Directors' Audit Committee. He is not regarded as an independent board member due to his position as a partner of Axcel.

The special skills possessed by Nikolaj that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his extensive experience within general management in listed companies, financial management in listed companies, consumer sales and retail marketing, and the affordable goods industry.

Anders Boyer-Søgaard was born in 1970, is a Danish citizen and lives in Charlottenlund, Denmark. Anders holds a M.Sc. (finance and accounting) from Copenhagen Business School from 1997. Currently, Anders is CFO of GN Store Nord A/S. Anders has been a member of the Board of Directors of PANDORA A/S since March 2012 and is also Chairman of the Board of Directors' Audit Committee. He is regarded as an independent board member in respect of the composition of the Board of Directors.

The special skills possessed by Anders that are important for the performance of his duties as a member of the Board of Directors of PANDORA A/S are his experience within general management in listed companies, financial management in listed companies, as well as global supply chain and manufacturing.

Ronica Wang was born in 1962, is a citizen of Hong Kong and is currently based in Asia, where she spends most of her time in China. Ronica holds a MBA from The Wharton Business School, University of Pennsylvania, and a Bachelor Degree in Applied Science and Engineering (Industrial Engineering) from the University of Toronto. She has also studied multinational management at The London Business School. Currently, Ronica is managing director of The InnoGrowth Group, Ltd., which she co-founded in 2007. She has been a member of the Board of Directors of PANDORA A/S since March 2012 and is also member of the Board of Directors' Remuneration and Nomination committee. Ronica is regarded as an independent board member in respect of the composition of the Board of Directors.

The special skills possessed by Ronica that are important for the performance of her duties as a member of the Board of Directors of PANDORA A/S are her extensive international experience within general management in listed companies, consumer sales and retail marketing, global cross platform branding and the affordable goods industry.

EXECUTIVE MANAGEMENT

Bjørn Gulden (born 1965)
President, Chief Executive Officer
Chairman of the Executive Board
Other board memberships:

- Expert AS – Norway (BM)
- Ekornes AS – Norway (BM)
- Tchibo GmbH – Germany (BM)

Henrik Holmark (born 1965)
Executive Vice President, Chief Financial Officer
Member of the Executive Board

Sten Daugaard (born 1957)
Executive Vice President, Chief Development Officer
Member of the Executive Board

Thomas Ryge Mikkelsen (born 1972)
Executive Vice President, Chief Merchant
Other board memberships:

- Prokura P/S (BM)

(BM) Board member

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

PANDORA shares are listed on the NASDAQ OMX Copenhagen stock exchange. PANDORA was included in the blue chip index OMXC20 at the semi-annual revision of the index in June 2012, and is also part of the elite index in the following period running from December 2012 to June 2013.

TURNOVER

In 2012 the lowest closing price was DKK 52 on 17 July 2012, and the highest closing price was DKK 131 on 17 December 2012. More than 134 million PANDORA shares were traded in 2012 with an average trading volume of approximately 540,000 shares per day.

DIVIDEND

The Board of Directors aims to maintain a stable and then increasing nominal dividend per share, using the dividend for 2011 of DKK 5.50 per share as the reference point. PANDORA shares are traded ex-dividend the day after the Annual General Meeting, which will be held on 20 March 2013. The dividend will be paid automatically via the VP Securities on 26 March 2013.

SHAREHOLDERS

As of 31 December 2012, PANDORAs largest shareholder was Prometheus Invest ApS, company registration number (CVR. no.) 28 48 30 23, holding 65,704,750 shares with a nominal value of DKK 1 each in PANDORA A/S equivalent to 50.49% of the share capital and the corresponding number of voting rights. Other major shareholders include institutional shareholders in mainly Denmark, the USA and the UK, while the Company also has a significant number of private shareholders in Denmark. Approximately 50% of the shares in the free-float are held outside Denmark.

INVESTOR RELATIONS

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

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

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

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

Company announcement
The publication of company announcements takes place in accordance with the rules set forth in Danish legislation. Immediately after publication, the information is published on PANDORAs 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 invites all interested parties to sign up to email alerts on the Investor website.

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

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

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

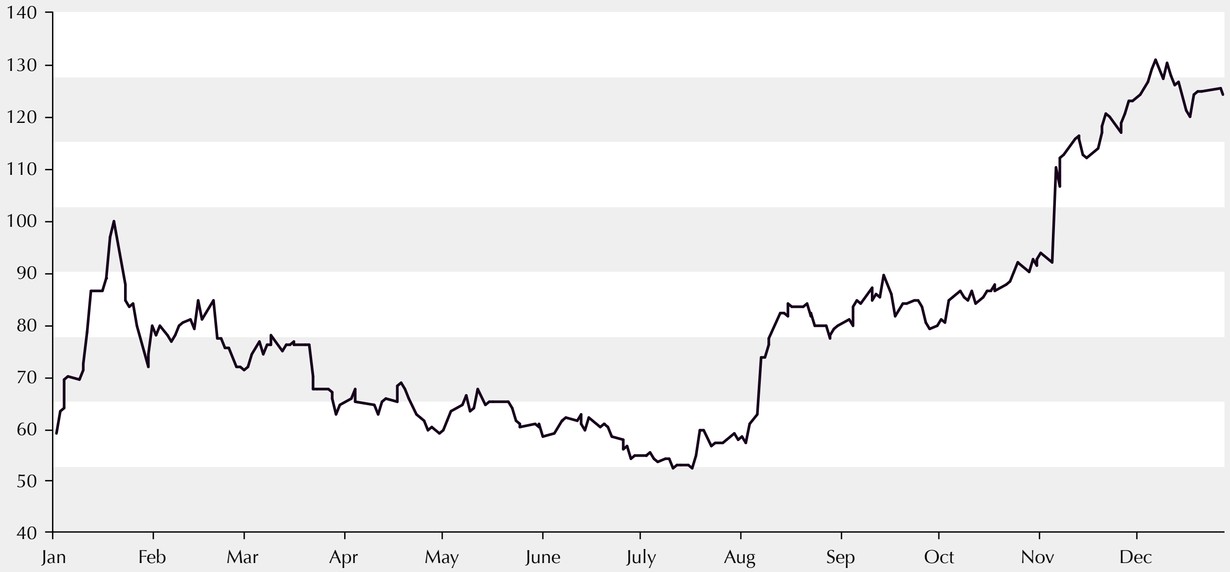
Silent period
For a period of four weeks prior to the planned release of any quarterly financial reports, PANDORA does not comment on matters related to financial results or expectations.

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

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

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

SHARE PRICE DEVELOPMENT 2012
DKK million



Financial calendar 2013

26 February 2013	Annual report 2012
20 March 2013	Annual General Meeting
26 March 2013	Payment of annual dividend
14 May 2013	Interim report for the first quarter of 2013
13 August 2013	Interim report for the second quarter of 2013
12 November 2013	Interim report for the third quarter of 2013

Share information

Exchange:	NASDAQ OMX Copenhagen
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
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Carnegie	Lars Topholm	Email: Lars.topholm@carnegie.dk Phone: +45 32 88 03 53
Danske Bank	Kenneth Leiling	Email: Kele@danskebank.dk Phone: +45 45 12 80 59
Goldman Sachs	William Hutchings	Email: William.hutchings@gs.com Phone: +44 20 7051 3017
Handelsbanken CM	Klaus Madsen	Email: Klma02@handelsbanken.dk Phone: +45 46 79 12 89
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J.P. Morgan Cazenove	Chiara Battistini	Email: Chiara.x.battistini@jpmorgan.com Phone: +44 20 7134 5417
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Sydbank	Søren Løntoft Hansen	Email: S.loentoft@sydbank.dk Phone: +45 74 37 44 64

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 – 31 December 2012.

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 at 31 December 2012 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion, the Management's review includes a fair review of the development in the Group's and the Parent Company'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, 26 February 2013

Executive Board:

Bjørn Gulden
Chief Executive Officer

Henrik Holmark
Chief Financial Officer

Sten Daugaard
Chief Development Officer

Board of Directors

Allan Leighton
Chairman

Marcello V. Bottoli
Deputy Chairman

Andrea Alvey

Anders Boyer-Søgaard

Christian Frigast

Torben Ballegaard Sørensen

Nikolaj Vejlsgaard

Ronica Wang

INDEPENDENT AUDITOR'S REPORT

To the shareholders of PANDORA A/S

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE 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 2012, 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 are 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 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 misstatements, 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 the 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 misstatements.

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 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 2012 and of the results of the Group's and the Company's operations and cash flows for the financial year 1 January – 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies

STATEMENTS 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, 26 February 2013

Ernst & Young
Godkendt Revisionspartnerselskab

Robert Christensen
State Authorized Public Accountants

Niels-Jørgen Andersen
State Authorized Public Accountants

CONSOLIDATED INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2012	2011
Revenue	2	6,652	6,658
Cost of sales		-2,223	-1,798
Gross profit		**4,429**	**4,860**
Distribution expenses		-2,084	-2,053
Administrative expenses		-870	-749
Operating profit		**1,475**	**2,058**
Financial income	8	132	660
Financial expenses	9	-128	-349
Profit before tax		**1,479**	**2,369**
Income tax expenses	10	-277	-332
Net profit for the year		**1,202**	**2,037**
Attributable to:			
Equity holders of PANDORA A/S		1,202	2,037
Total		**1,202**	**2,037**
Earnings per share and dividend	11		
Profit for the year attributable to ordinary equity holders of the parent, basic		9.2	15.7
Profit for the year attributable to ordinary equity holders of the parent, diluted		9.2	15.7

COMPREHENSIVE INCOME STATEMENT

Net profit for the year		**1,202**	**2,037**
Exchange rate differences on translation of foreign subsidiaries		-65	247
Commodity hedging instruments			
Realised in financial income and expense		8	-127
Realised in Cost of sales		167	-173
Realised in inventory end of year		-48	-231
Value adjustment		7	38
Interest rate hedging instruments			
Realised in financial income and expense		1	-
Value adjustment		-	-3
Foreign exchange hedging instruments			
Realised in financial income and expense		101	5
Value adjustment		-33	-60
Income tax on other comprehensive income	15	-18	13
Other comprehensive income, net of tax		**120**	**-291**
Total comprehensive income for the year		**1,322**	**1,746**
Attributable to:			
Equity holders of PANDORA A/S		1,322	1,746
Total		**1,322**	**1,746**

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2012	2011
ASSETS			
Non-current assets			
Goodwill	12, 13	1,922	1,928
Brand	12, 13	1,053	1,053
Distribution network	12	331	336
Distribution rights	12, 13	1,045	1,064
Other intangible assets	12	136	95
Property, plant and equipment	14	472	429
Deferred tax assets	15	190	209
Other non-current financial assets		26	34
Total non-current assets		**5,175**	**5,148**
Current assets			
Inventories	16	1,318	1,609
Trade receivables	17,18	940	900
Other receivables	18	502	177
Tax receivables		138	41
Cash and short-term deposits	18	341	176
Total current assets		**3,239**	**2,903**
Total assets		**8,414**	**8,051**
EQUITY AND LIABILITIES			
Shareholders' equity	20		
Share capital		130	130
Share premium		1,248	1,248
Treasury shares		-38	-38
Foreign currency translation reserve		703	768
Hedge reserve		-51	-236
Other reserves		-	88
Proposed dividend for the year		715	715
Retained earnings		3,331	2,736
Total shareholders' equity		**6,038**	**5,411**
Non-current liabilities			
Interest-bearing loans and borrowings	18	151	375
Provisions	21	7	64
Deferred tax liabilities	15	552	552
Other long-term liabilities	18	2	2
Total non-current liabilities		**712**	**993**
Current liabilities			
Interest-bearing loans and borrowings	18	7	10
Provisions	21	463	230
Trade payables	18	219	288
Income tax payables		283	344
Other payables	18,19	692	775
Total current liabilities		**1,664**	**1,647**
Total liabilities		**2,376**	**2,640**
Total equity and liabilities		**8,414**	**8,051**

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	Total equity
Shareholders' equity at 1 January 2012		130	1,248	-38	768	-236	88	715	2,736	5,411
Net profit for the year		-	-	-	-	-	-	-	1,202	1,202
Exchange rate differences on translation of foreign subsidiaries		-	-	-	-65	-	-	-	-	-65
Value adjustment of hedging instruments		-	-	-	-	203	-	-	-	203
Income tax on other comprehensive income		-	-	-	-	-18	-	-	-	-18
Other comprehensive income, net of tax		**-**	**-**	**-**	**-65**	**185**	**-**	**-**	**-**	**120**
Total comprehensive income for the year		**-**	**-**	**-**	**-65**	**185**	**-**	**-**	**1,202**	**1,322**
Transfer to retained earings		-	-	-	-	-	-88	-	88	-
Sharebased payments	5	-	-	-	-	-	-	-	20	20
Dividend paid	11	-	-	-	-	-	-	-715	-	-715
Proposed dividend	11	-	-	-	-	-	-	715	-715	-
Shareholders' equity at 31 December 2012		**130**	**1,248**	**-38**	**703**	**-51**	**-**	**715**	**3,331**	**6,038**
Shareholders' equity at 1 January 2011		130	1,248	-38	521	302	88	650	1,414	4,315
Net profit for the year		-	-	-	-	-	-	-	2,037	2,037
Exchange rate differences on translation of foreign subsidiaries		-	-	-	247	-	-	-	-	247
Value adjustment of hedging instruments		-	-	-	-	-551	-	-	-	-551
Income tax on other comprehensive income		-	-	-	-	13	-	-	-	13
Other comprehensive income, net of tax		**-**	**-**	**-**	**247**	**-538**	**-**	**-**	**-**	**-291**
Total comprehensive income for the year		**-**	**-**	**-**	**247**	**-538**	**-**	**-**	**2,037**	**1,746**
Dividend paid	11	-	-	-	-	-	-	-650	-	-650
Proposed dividend	11	-	-	-	-	-	-	715	-715	-
Shareholders' equity at 31 December 2011		**130**	**1,248**	**-38**	**768**	**-236**	**88**	**715**	**2,736**	**5,411**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2012	2011
Profit before tax		1,479	2,369
Financial income	8	-132	-660
Financial expenses	9	128	349
Amortisation/depreciation	3	180	221
Share-based payments	4	20	-
Change in inventories		302	-310
Change in receivables		-368	15
Change in trade payables		-67	43
Change in other liabilities		289	270
		1,831	**2,297**
Other non-cash adjustments		-21	50
Interests etc. paid		-47	-99
Interests etc. received		4	4
Income tax paid		-428	-429
Cash flow from operating activities		**1,339**	**1,823**
Acquisition of subsidiaries, net of cash acquired		-	-116
Purchase of intangible assets	12	-109	-119
Purchase of property, plant and equipment	14	-167	-150
Change in other non-current assets		9	-5
Proceeds from sale of property, plant and equipment and intangible assets		36	26
Cash flow from investing activities		**-231**	**-364**
Dividend paid		-715	-650
Dividend paid to non-controlling interests		-	-13
Proceeds from loans and borrowings		3	537
Repayment of loans and borrowings		-231	-2,376
Cash flow from financing activities		**-943**	**-2,502**
Net cash flow for the year		**165**	**-1,043**
Cash and short-term deposits at 1 January		176	1,224
Net exchange rate adjustment		-	-5
Net cash flow for the year		165	-1,043
Cash and short-term deposits at 31 December		**341**	**176**
Unutilised credit facilities inclusive cash and cash equivalents		2,898	2,492

The above can not 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 PANDORAs assets and liabilities. The most significant accounting estimates and judgements are presented below. PANDORAs significant accounting policies are described in detail in note 25.

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.

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, sales taxes or duties.

Balancing Stock
PANDORA has carried out a one-off, time limited global stock balancing campaign replacing discontinued products with new products at the same value. The revenue recognition is based on the matching principle, while only products that have been both received and subsequently replaced with new products are recognised in revenue.

Return provision
PANDORA 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.

NOTES

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
In connection to the Initial Public Offering og 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. The purchase price has been based on an earn-out on the future earnings of PANDORA Jewelry Central Western Europe A/S. The earn-out has been 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.

PANDORAs 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 13.75% (2011: 12.3%). 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 2012, the carrying amount of the earn-out provision has been set to DKK 0 million (2011: DKK 51 million). Refer to note 21.

Tax
Management applies certain estimates based on historical practice in setting up PANDORAs 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 PANDORAs profit could have significant impact on the Group's consolidated tax payments.

Intangible assets
Intangible assets with indefinite lives are tested for impairment on an annual basis and comprise the brand "PANDORA" as a trademark, goodwill and distribution rights acquired. Goodwill is allocated to cash generating units (CGUs) or the smallest group of CGUs which is monitored by Management. Calculation of the recoverable amounts of the CGUs are based on expectations to future cash flows, which again depends on future growth as well as discount rate used. Refer to note 13.

Foreign Currency
The majority of PANDORAs activities and investments are in other currencies than DKK. The majority of PANDORAs currencies are in USD, EUR, GBP, AUD and CAD.

Hedging
The most important raw materials used in production are gold and silver, which are priced in USD. PANDORA has since January 2010 used the principles of hedge accounting for commodity contracts designated as cash flow hedges. PANDORA formally designates and documents hedge relationships between commodity contracts and transactions. Refer to note 19 and 20.

NOTES

NOTE 2. OPERATING SEGMENT INFORMATION

PANDORAs 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).

DKK million	Americas	Europe	Asia Pacific	Unallocated cost	Total Group
At 31 December 2012					
Income Statement:					
External revenue	**3,312**	**2,542**	**798**	**-**	**6,652**
Segment profit (EBITDA)	**1,415**	**595**	**191**	**-543**	**1,658**
Adjustments:					
Amortisation/depreciation					-180
Gain/losses from sales of non-current assets					-3
Consolidated operating profit					**1,475**
At 31 December 2011					
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 sales of non-current assets					-2
Consolidated operating profit					**2,058**

NOTES

NOTE 2. OPERATING SEGMENT INFORMATION, CONTINUED

DKK million	2012	2011	Stock Balancing Campaign 2012 Received	Stock Balancing Campaign 2012 Replaced
Product information:				
Revenue				
Charms	4,958	4,639	260	446
Silver and gold charms bracelets	846	786	4	85
Rings	427	401	93	30
Other Jewellery	421	832	252	48
Total	**6,652**	**6,658**	**609**	**609**
Geographic information:				
Revenue				
United States	2,579	2,537	284	284
Other Americas	733	607	59	59
United Kingdom	869	951	79	79
Germany	469	638	28	28
Denmark	45	59	6	6
Other Europe	1,159	975	100	100
Australia	618	656	44	44
Other Asia Pacific	180	235	9	9
Total	**6,652**	**6,658**	**609**	**609**

No single external customer accounts for 10 percent or more of PANDORAs revenue in 2012 or 2011.

NOTES

NOTE 2. OPERATING SEGMENT INFORMATION, CONTINUED

Non-current tangible and intangible assets:

DKK million	2012	2011
United States	1,316	1,318
Germany	608	592
Denmark	1,910	1,975
Thailand	597	549
Australia	417	428
Other countries	111	43
Total	**4,959**	**4,905**

NOTE 3. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

DKK million	2012	2011
Intangible assets	87	158
Property, plant and equipment	93	63
Total	**180**	**221**

Amortisation/depreciation and impairment losses have been recognised in the consolidated income statement:

DKK million	2012	2011
Cost of sales	21	18
Distribution expenses	102	163
Administrative expenses	57	40
Total	**180**	**221**

NOTE 4. EMPLOYEE BENEFIT EXPENSES

DKK million	2012	2011
Wages and salaries	980	815
Pensions, defined contribution plans	50	35
Share-based payments	20	-
Social security costs	50	27
Other staff costs	97	120
Total	**1,197**	**997**
Average number of employees during the year	5,753	5,186
The employee benefit expenses have been recognised in the consolidated income statement:		
Cost of sales	222	183
Distribution expenses	642	558
Administrative expenses	333	256
Total	**1,197**	**997**
Compensation of key management personnel of PANDORA		
Wages and salaries		
Executive Board		
Bjørn Gulden	9.2	-
Sten Daugaard *	7.6	-
Marcello V. Bottoli	11.1	12.3
Mikkel Vendelin Olesen	-	16.7
Henrik Holmark	4.9	2.7
Total	**32.8**	**31.7**
Board of Directors		
Allan Leighton	2.6	2.6
Torben Ballegaard Sørensen	0.6	0.9
Andrea Alvey	0.6	0.6
Marcello V. Bottoli	0.8	0.6
Sten Daugaard *	-	0.7
Christian Frigast	0.6	0.6
Erik D. Jensen	0.3	0.6
Nikolaj Vejlsgaard	0.6	0.6
Ronica Wang	0.5	-
Anders Boyer-Søgaard	0.5	-
Total	**7.1**	**7.2**

* Sten Daugaard has joined the Executive Board on 30 January 2012 and has simultaneously withdrawn his membership at the Company's Board of Directors.

Mikkel Vendelin Olesen resigned 2 August 2011. Redundancy payment has no effect in 2012, and the total amount of DKK 5.9 million is included in total wages and salaries in 2011.

NOTE 4. EMPLOYEE BENEFIT EXPENSES, CONTINUED

Number of shares in PANDORA A/S	2011	Purchase of shares	Selling of shares	2012
Executive Board				
Sten Daugaard *	4,285	6,500	-	10,785
Henrik Holmark	426,825	-	-	426,825
Total	**431,110**	**6,500**	**-**	**437,610**
Board of Directors				
Allan Leighton	12,380	-	-	12,380
Torben Ballegaard Sørensen	342,670	-	-150,000	192,670
Andrea Alvey	2,857	3,250	-	6,107
Marcello V. Bottoli	4,761	24,700	-	29,461
Sten Daugaard *	4,285	6,500	-	10,785
Christian Frigast	59,636	-	-	59,636
Erik D. Jensen	109,003	-	-	109,003
Nikolaj Vejlsgaard	57,630	-	-	57,630
Ronica Wang	-	4,070	-	4,070
Anders Boyer-Søgaard	-	-	-	-
Total	**593,222**	**38,520**	**-150,000**	**481,742**
* Sten Daugaard transferred to Executive Board	-4,285	-6,500	-	-10,785
Total	**588,937**	**32,020**	**-150,000**	**470,957**

Number of shares in PANDORA A/S	2010	Purchase of shares	Selling of shares	2011
Executive Board				
Mikkel Vendelin Olesen	504,034	-	-	504,034
Henrik Holmark	402,825	24,000	-	426,825
Total	**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
Total	**517,722**	**75,500**	**-**	**593,222**

* Sten Daugaard has joined the Executive Board on 30 January 2012 and has simultanously withdrawn his membership at the Company's Board of Directors.

PANDORA has established a board member share plan whereby the Chairman and the other members of the Board are each required to own a minimum number of shares corresponding to the amount of their respective initial gross annual compensation. Board of Directors must hold the shares as long as there is a membership of the Board of Directors of PANDORA.

NOTES

NOTE 5. SHARE-BASED PAYMENTS

The decision to grant share options is made by the Board of Directors in accordance with the 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 and Board of Directors	Other employees	Total	Average exercise price per option, DKK
Share options outstanding at 1 January 2012	6,190	144,258	150,448	2.10
Share options granted during the year	227,680	782,297	1,009,977	0.52
Share options lapsed during the year	-	-52,302	-52,302	1.29
Share options outstanding at 31 December 2012	**233,870**	**874,253**	**1,108,123**	
Share options outstanding at 1 December 2011	-	-	-	
Share options granted during the year	6,190	144,258	150,448	2.10
Share options outstanding at 31 December 2011	**6,190**	**144,258**	**150,448**	

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

Granted 2012
There have been 1,009,977 share options granted in 2012. The recogised value of the share options in the income statement is DKK 20 million, and DKK 20 million in equity, based of the likelyhood that the targets for Group revenue and EBITDA for 2014 will be reached, and that the share options will vest.

Granted 2011
There have been 150,448 share options granted in 2011. The recogised value of the share options in the income statements and in equity is DKK 0, because it is unlikely that the share options will vest.

Granted 2010
The Chairman of the Board of Directors is eligible for a one-off additional bonus for a share amount of DKK 6.5 million if certain EBITDA (on an adjusted basis) targets defined in PANDORAs business plan are met for the full year periods of 2013, 2014 or 2015.

NOTES

NOTE 5. SHARE-BASED PAYMENTS, CONTINUED

Assumptions concerning the calculation of fair value at time of granting:
Given that the exercise price for one option equals 1% of the market price of a share as at grant date, the fair value of one option almost equals the market value of one share at grant date. As such, the assumptions listed below, has a very limited impact on the esimated fair value of the options granted.

Year of granting	Exercise price	Expected volatility	Risk free interest rate	Dividend per share
2012	0.52	100%	1.34%	5.50
2011	2.10	100%	1.82%	5.50

The volatility was in 2011 calculated on the basis of a group of peer enterprises. 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. For the 2012 programme volatility is based on historical volatility the preceding two years.

NOTE 6. DEVELOPMENT COSTS

Development costs within design and product development are recognised as distribution expenses in the consolidated income statement, during the year. They amount to DKK 15 million in 2012 (2011: DKK 15 million).

NOTE 7. FEES TO THE AUDITOR APPOINTED BY THE COMPANY AT THE GENERAL MEETING, ERNST & YOUNG

DKK million	2012	2011
Fee for statutory audit	3	3
Other assurance engagements	2	3
Tax consultancy	9	6
Other services	1	3
Total	**15**	**15**

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

NOTES

NOTE 8. FINANCIAL INCOME

DKK million	2012	2011
Financial income originated from financial assets and liabilities at fair value through consolidated income statement:		
Fair value adjustments on derivatives	-	127
Total	**-**	**127**
Financial income originated from receivables and loans measured at amortised cost:		
Exchange rate gains	77	18
Interest income, bank	2	2
Interest income, loans and receivables	2	2
Total	**81**	**22**
Value adjustment CWE earn-out provision	51	511
Total financial income	**132**	**660**

NOTE 9. FINANCIAL EXPENSES

DKK million	2012	2011
Financial expenses originated from financial assets and liabilities at fair value through consolidated income statement:		
Fair value adjustments on derivatives	9	-
Total	**9**	**-**
Financial expenses originated from financial receivables and liabilities measured at amortised cost:		
Exchange rate losses	72	211
Interest on CWE earn-out provision	-	44
Interest on loans and borrowings	25	45
Other finance costs	22	49
Total	**119**	**349**
Total financial expenses	**128**	**349**

NOTE 10. INCOME TAX

DKK million	2012	2011
Income tax recognised in the consolidated income statement:		
Current income tax charge	252	468
Prior-year adjustments	23	7
Changes in deferred tax	2	-143
Income tax expenses	**277**	**332**
Tax reconciliation		
Profit before tax	1,479	2,369
At PANDORA A/S statutory income tax rate 25% (2011: 25%)	370	592
Tax effect of:		
Effect of tax rates for foreign subsidiaries	7	123
Tax exempted income	-109	-289
Revaluation of deferred tax assets, net	-27	-15
Non deductible expenses	11	26
Changes in tax rates	-	-5
Prior-year adjustments	23	7
Value adjustment CWE earn-out provision	-13	-128
Other	15	21
Total	**277**	**332**
Effective income tax rate	18.7%	14.0%

NOTE 11. 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	2012	2011
Profit attributable to the ordinary equity holders of PANDORA A/S	**1,202**	**2,037**
Weighted average number of ordinary shares	129,960,333	129,960,333
Effect of share options	983,164	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**130,943,497**	**129,960,333**
Basic earnings per share, DKK	9.2	15.7
Diluted earnings per share, DKK	9.2	15.7

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 A/S.

Dividend

At the end of 2012, proposed dividend (not yet declared) of DKK 5.50 per share (2011: DKK 5.50 per share) corresponds to DKK 715 million. Declared dividend of DKK 5.50 per share corresponding to DKK 715 million in 2011 has been paid to the shareholders in 2012. No dividend is declared on treasury shares.

NOTES

NOTE 12. INTANGIBLE ASSETS

The majority of the intangible assets have been acquired through business combinations.

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
Cost at 1 January 2012	1,928	1,053	451	1,358	117	4,907
Additions	2	-	27	-	80	109
Disposals	-	-	-	-	-2	-2
Exchange rate adjustment	-8	-	-	-	-	-8
Cost at 31 December 2012	**1,922**	**1,053**	**478**	**1,358**	**195**	**5,006**
Amortisation and impairment losses 1 January 2012	-	-	115	294	22	431
Amortisation and impairment losses for the year	-	-	32	17	38	87
Disposals	-	-	-	2	-1	1
Amortisation and impairment losses at 31 December 2012	**-**	**-**	**147**	**313**	**59**	**519**
Carrying amount at 31 December 2012	**1,922**	**1,053**	**331**	**1,045**	**136**	**4,487**
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**

NOTE 12. 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	2012	2011
PANDORA core business*	729	731
Pandora Jewelry America ApS, the American distributor	241	245
AD Astra Holdings Pty Ltd., the Australian distributor	361	359
PANDORA Jewelry Central Western Europe A/S, the German distributor	591	593
Total	**1,922**	**1,928**

* PANDORAs 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.

Brand

The brand is a group of complementary intangible assets related to the trademark, domain name, 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 PANDORAs 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.

NOTES

NOTE 12. INTANGIBLE ASSETS, CONTINUED

Distribution rights
Distribution rights cover PANDORAs distribution rights for PANDORA products in the North America, the German, Swiss and Austrian market as well as the distribution rights for PANDORA products in the French market.

The distribution right for the PANDORA products in the North American market 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 2012 (2011: DKK 1,037 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 0 million at 31 December 2012 (2011: DKK 17 million).

Additional distribution right for the PANDORA products in the Swiss and Austrian market are acquired in 2011 and measured based on the Multi-period Excess Earnings Model. Both are amortised over their useful life of 2 years. The carrying amount is DKK 8 million at 31 December 2012 (2011: DKK 10 million).

Other intangible assets
Other intangible assets cover completed software projects.

NOTES

NOTE 13. 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 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.

Allocation of intangible assets on CGUs:

DKK million	Goodwill	Brand	Distribution rights	Total
2012				
Americas	463	-	1,034	1,497
United Kingdom	37	-	-	37
Central Western Europe (CWE)	690	-	11	701
Australia	530	-	-	530
Distributors & Travel Retail	202	-	-	202
Group	-	1,053	-	1,053
Total	**1,922**	**1,053**	**1,045**	**4,020**
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
Total	**1,928**	**1,053**	**1,064**	**4,045**

NOTE 13. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

The recoverable amount has been based on a calculation of the value using cash flow estimates based on budgets and expectations for 2013-2015 (2011: 2012 - 2014).

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% (2011: 2.0%). The impairment tests do not indicate a need for a write-down. Discount rates and growth rate in terminal period. The calculations of the recoverable amounts of the CGU's or groups of CGU's are based on the following assumptions:

Discount rates and growth rate in terminal period

	Americas	United Kingdom	Central Western Europe (CWE)	Australia	Distributors & Travel Retail	Group
2012						
Discount rate before tax	11.9%	11.3%	12.6%	13.3%	10.3%	12.6%
Growth rate in the terminal period	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
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%

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

NOTE 13. IMPAIRMENT TEST, INTANGIBLE ASSETS, CONTINUED

EBIT
The EBIT figures used in the impairment test are based on the budget for 2013 (2011: 2012), prepared and approved by Management, and the expectation for the period 2014-2015 (2011: 2013 - 2014). In the budget for 2013 (2011: 2012) for the individual CGU's, the EBIT margin is based on historical experience and expectations to growth and is maintained in the period 2014-2015 (2011: 2013 - 2014) as well as in the terminal period.

Investments
The value of capital investments in the cash flow computations represents a fixed percentage of each individual CGU's revenue in the years concerned. Management has set this percentage based on historical experience and their expectations as to the scope of future investments to secure and increase the level of activity in the CGU's so that the budget for 2013 (2011: 2012) and the activity and earning targets in the expectations are supported.

Working capital
The value of net working capital in the budget for 2013 (2011: 2012), relative to the revenue for the individual CGU's, is based on historical experience and is maintained in the period 2014-2015 (2011: 2013 -2014) 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 probable change in any of the above key assumptions would cause the carrying value of the Group or CGU's to materially exceed its recoverable amount.

NOTES

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	PP&E under construction	Total
Cost at 1 January 2012	221	335	24	580
Additions	4	83	80	167
Disposals	-1	-32	-17	-50
Reclassifications	4	17	-22	-1
Exchange rate adjustment	4	2	-	6
Cost at 31 December 2012	**232**	**405**	**65**	**702**
Revaluation during the year	-	-2	-	-2
Revaluation at 31 December 2012	**-**	**-2**	**-**	**-2**
Depreciation and impairment losses at 1 January 2012	33	118	-	151
Depreciation for the year	10	83	-	93
Disposals	-	-16	-	-16
Depreciation and impairment losses at 31 December 2012	**43**	**185**	**-**	**228**
Carrying amount at 31 December 2012	**189**	**218**	**65**	**472**
Carrying amount of assets pledged as securities	2	1	-	3
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**

NOTE 15. DEFERRED TAX

DKK million	Balance sheet 2012	Balance sheet 2011	Income statement 2012	Income statement 2011
Property, plant and equipment	-11	2	-12	2
Distribution rights	609	611	-3	-26
Inventories	-79	-137	58	-50
Trade receivables	-6	-3	-3	-1
Tax losses carried forward	1	-12	1	-12
Other	-152	-118	-39	-56
Deferred tax, net	**362**	**343**		
Deferred tax income (-)			**2**	**-143**
Deferred tax is recognised in the consolidated balance sheet:				
Deferred tax assets	-190	-209		
Deferred tax liabilities	552	552		
Deferred tax, net	**362**	**343**		
Reconciliation of deferred tax:				
At 1 January	343	499		
Exchange rate adjustments	-1	-		
Tax expenses recognised in the income statement	2	-143		
Tax expenses recognised in other comprehensive income	18	-13		
Total	**362**	**343**		

PANDORA had a balance of DKK 61 million (2011: DKK 67 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 16. INVENTORIES

DKK million	2012	2011
Raw materials and consumables	255	232
Work in progress	56	37
Finished goods	1,007	1,340
Total	**1,318**	**1,609**
Inventory write-downs during the year	130	93

The write-downs of inventories is recognised under Cost of sales DKK 71 million (2011: DKK 14 million), Distribution expenses DKK 59 million (2011: DKK 79 million).

NOTE 17. TRADE RECEIVABLES

Trade receivables at 31 December 2012 include receivables at a nominal value of DKK 972 million (2011: DKK 925 million), which have been written down to DKK 940 million (2011: DKK 900 million).

DKK million	2012	2011
Analysis of movements in provisions for impairment of trade receivables:		
At 1 January	25	15
Utilised	-3	-4
Unused amounts reversed	-1	-5
Change for the year	11	19
At 31 December	**32**	**25**
Analysis of trade receivables that were past due, but not impaired, at 31 December:		
Until 30 days	270	257
Between 30 and 60 days	46	25
Between 60 and 90 days	12	31
Above 90 days	41	23
Past due, but not impaired	**369**	**336**
Neither past due nor impaired	571	564
Total	**940**	**900**

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

NOTES

NOTE 18. FINANCIAL ASSETS AND LIABILITIES

DKK million	2012 Carrying amount	2011 Carrying amount
Financial assets at fair value through other comprehensive income:		
Derivatives	4	6
Total financial assets at fair value	**4**	**6**
Loans and receivables measured at amortised cost:		
Trade receivables	940	900
Other receivables	35	17
Cash and Short term deposits	341	176
Total loans and receivables measured at amortised cost	**1,316**	**1,093**
Total financial assets	**1,320**	**1,099**
Financial liabilities at fair value through other comprehensive income:		
Derivatives	47	257
Total financial liabilities at fair value	**47**	**257**
Financial liabilities measured at amortised cost:		
Interest-bearing loans and borrowings	158	385
Other long-term liabilities	2	2
Trade payables	219	288
Other payables	491	402
Total financial liabilities measured at amortised cost	**870**	**1,077**
Total financial liabilities	**917**	**1,334**

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 2012 and 2011 of PANDORAs derivative financial instruments is measured in accordance with level 2 in the fair value hierarchy (IFRS7). Level 2 is based on non-quoted prices, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). PANDORA uses third-party valuation specialists to quote prices for the unrealised financial instruments. The prices for unrealised gold and silver instruments are testet against the fixing prices observable at LBMA (London Gold Market Limited). The prices for unrealised foreign exchange instruments are tested against observable foreign exchange forward rates.

NOTES

NOTE 19. 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 PANDORAs Group Treasury. To manage financial risks, PANDORA uses a number of financial instruments, such as forward contracts, silver and gold futures and swaps, 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

PANDORAs 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 PANDORAs 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 Group CFO must approve of significant transactions related to direct distributors and local key customers. Note 17 includes an overview of the credit risk related to trade receivables.

Credit risks related to PANDORAs 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 PANDORAs policy that Group Treasury monitors and manages these credit risks.

Liquidity risk

Liquidity risk is the risk that PANDORAs cash and cash equivalents should fail to cover PANDORAs payables due.

The aim of liquidity management is to maintain an optimal amount of liquidity to fund PANDORAs commitments at all times, to minimise interest and bank costs and to avoid financial distress. Group Treasury is responsible for monitoring and managing PANDORAs 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.

PANDORAs 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 PANDORAs 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 until March 2014. Furthermore, PANDORA has minor local uncommitted credit facilities to ensure efficient and flexible local liquidity management. These credits are facilitated by Group Treasury.

NOTE 19. FINANCIAL RISKS, CONTINUED

The liabilities fall due:

DKK million	Within 1 year	Within 1-5 years	After more than 5 years	Total
2012				
Derivative financial liabilities	47	-	-	47
Interest-bearing loans and borrowings	7	150	1	158
Other long-term liabilities	-	2	-	2
Trade payables	219	-	-	219
Other payables	692	-	-	692
Total	**965**	**152**	**1**	**1,118**
2011				
Derivative financial liabilities	257	-	-	257
Interest-bearing loans and borrowings	10	374	1	385
Trade payables	288	-	-	288
Other payables	514	4	-	518
Total	**1,069**	**378**	**1**	**1,448**

Capital management

The principal objectives of PANDORAs 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 PANDORAs 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 until March 2014.

Interest rate risk

Interest rate risk is the risk of interest rate fluctuations resulting in additional costs. Most of PANDORAs interest rate risk is related to floating-rate loans. It is PANDORAs 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 are unhedged.

NOTE 19. FINANCIAL RISKS, CONTINUED

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

The majority of PANDORAs 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 PANDORAs 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 intercompany 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's equity.

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 assets and liabilities in foreign currencies.

It is PANDORAs 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 PANDORAs 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.

NOTE 19. FINANCIAL RISKS, CONTINUED

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

Analysis on assets and liabilities

DKK million	Changes in foreign currencies	31 December 2012 Profit/loss before tax	31 December 2012 Shareholders' equity	31 December 2011 Profit/loss before tax	31 December 2011 Shareholders' equity
USD	-10%	132	15	270	40
USD	+10%	-132	-15	-270	-40
CAD	-10%	0	25	0	12
CAD	+10%	-0	-25	-0	-12
AUD	-10%	-3	18	-9	5
AUD	+10%	3	-18	9	-5
GBP	-10%	10	28	-10	9
GBP	+10%	-10	-28	10	-9
EUR	-1%	-6	-4	-7	-6
EUR	+1%	6	4	7	6
THB	-10%	-1	-46	-1	-33
THB	+10%	1	46	1	33

The analysis is based on monetary assets and liabilities as of end 2012 and 2011. 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. 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. PANDORA maintains the major part of its funding in EUR. Net positive cash flows in EUR are not hedged. Net cash flows in other significant currencies are hedged against DKK.

Financial risk related to raw material prices

PANDORAs 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 deviation from the policy must be approved by the Group 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. For fair value of hedging instruments refer to note 20.

NOTES

NOTE 20. SHARE CAPITAL AND RESERVES

Share capital	Shares (number)	Nominal Value (DKK)
Balance at 1 January 2012	130,143,258	130,143,258
Balance at 31 December 2012	**130,143,258**	**130,143,258**
Balance at 1 January 2011	130,143,258	130,143,258
Balance at 31 December 2011	**130,143,258**	**130,143,258**

Treasury shares	Number of Shares	Nom. (DKK)	Purchase price	% of Shares
Balance at 1 January 2012	182,925	182,925	38,414,250	0.1%
Balance at 31 December 2012	**182,925**	**182,925**	**38,414,250**	**0.1%**
Balance at 1 January 2011	182,925	182,925	38,414,250	0.1%
Balance at 31 December 2011	**182,925**	**182,925**	**38,414,250**	**0.1%**

At 31 December 2012, the share capital comprised 130,143,258 shares at a par value of DKK 1. No shares have special rights.

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

Foreign currency translation reserves
PANDORAs foreign currency translation reserves comprise foreign exchange adjustments from the 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 703 million as at 31 December 2012 (2011: DKK 768 million).

NOTE 20. SHARE CAPITAL AND RESERVES, CONTINUED

Hedge reserve

The fair value of the effective portion of the unrealised commodity hedge contracts is recognised in Group 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 commodity hedge contracts is recognised in Group inventory whereas the ineffective portion is booked in financial items.

The fair value of the effective portion of the unrealised currency 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.

PANDORAs hedging reserves comprise fair value of cash flow hedges. The fair value of the cash flow hedge are specified in the below table:

Hedge reserve

DKK million	2012	2011
Foreign exchange	4	-46
Interrest rate	-	-1
Commodity	-55	-189
Total	**-51**	**-236**

Other reserves

Other reserves stated in the consolidated statement of changes in shareholders' equity comprise of share based payments and capital infusion. Capital infusion of DKK 74 million (2011: DKK 74 million) comprises funding of a two month salary bonus to the employees by the selling shareholder in connection with the Initial Public Offering. Share based payment reserve is DKK 20 million as at 31 December 2012 (2011: DKK 0 million). Other reserves are transferred to retained earnings in December 2012.

Dividend

Refer to note 11.

NOTES

NOTE 21. PROVISIONS

DKK million	Earn-out, acquisition of non-controlling interests	Sales return	Other	Total
Provisions at 1 January 2012	51	225	18	294
Provisions made in 2012	-	476	61	537
Utilised in the year	-	-281	-26	-307
Unused amounts reversed	-	-	1	1
Value adjustment	-51	-	-	-51
Exchange rate adjustment	-	-4	-	-4
Provisions at 31 December 2012	**-**	**416**	**54**	**470**
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 are recognised in the consolidated balance sheet:				
Current 2012	-	416	47	463
Non-current 2012	-	-	7	7
Total	**-**	**416**	**54**	**470**
Current 2011	-	225	5	230
Non-current 2011	51	-	13	64
Total	**51**	**225**	**18**	**294**

Earn-out, acquisition of non-controlling interests

The earn-out provision relates to the acquisition of the non-controlling interests in PANDORA Jewelry Central Western Europe (CWE). PANDORA has adjusted the provision based on the revised outlook for PANDORA CWE. While the Italian market has developed positively compared to expectations, Germany, although showing positive signs, has not developed fully in accordance with expectations and this impacts the forecasted value of the earn-out liability related to CWE. Following this adjustment, the balance sheet no longer includes a provision for the CWE earn-out. Refer to note 1.

NOTE 21. PROVISIONS, CONTINUED

Sales return provisions
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 2013.

Regions

DKK million	2012	2011
Americas	317	200
Europe	66	25
Asia Pacific	33	-
Total	**416**	**225**

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

NOTES

NOTE 22. CONTINGENT LIABILITIES, SECURITY FOR LOANS AND OTHER FINANCIAL OBLIGATIONS

Legal claim contingency
PANDORA is not aware of any legal claims. Accordingly, no provision for any liability has been made.

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

Security for loans
PANDORA has pledged the following assets as security for loans:

DKK million	2012	2011
Land and buildings	2	2
Plant and equipment	1	3
Other	-	1
Total	**3**	**6**

Other obligations
PANDORAs other financial obligations mainly relate to leases for office premises and operating equipment. The total expenditure during the year was DKK 223 million (2011: DKK 182 million).

Future minimum lease payments on existing contracts at 31 December:

DKK million	2012	2011
Within 1 year	215	161
Between 1 -5 years	398	369
After 5 years	108	103
Land and buildings	**721**	**633**
Within 1 year	39	74
Between 1 -5 years	21	53
After 5 years	-	-
Plant and equipment	**60**	**127**
Total minimum lease payments are expected to fall due:		
Within 1 year	254	235
Between 1 -5 years	419	422
After 5 years	108	103
Total	**781**	**760**

NOTES

NOTE 23. RELATED PARTY TRANSACTIONS

Related parties of PANDORA with a controlling interest are the principal shareholder Prometheus Invest ApS (50.49% interest), company registration number (CVR. no.) 28 48 30 23, Sankt Annæ Plads 10, 1250 Copenhagen K. and the ultimate parent, Axcel III K/S 2 (32.34% 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 2012 and 2011.

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

Compensation and benefits received as a result of the membership of the Board of Directors, employment with PANDORA or shareholdings in PANDORA is specified in note 4 and 5. Furthermore Virima Consulting & Investments LLP has provided consultancy services to PANDORA during the year for an amount of DKK 4.6 million. The company is related to a member of the Board.

Share-based payments agreements and utilised share options in 2012 and 2011 relating to the Board of Directors and the Executive Board are included in note 5.

Transactions with Prometheus Invest ApS

There have been no other transactions than dividends between PANDORA and Prometheus Invest ApS during 2012 and 2011.

NOTE 24. POST BALANCE SHEET EVENTS

Change of distributor in Japan

PANDORA has terminated the cooperation with Vérité Co. Ltd. and simultaneously entered into an agreement with Bluebell Japan Limited.

The termination of the agreement with Vérité will initially lead to store closures in Japan during a transition period, which will also lead PANDORA to take back existing inventory worth DKK 38 million, with a corresponding negative impact on the revenue in Other Asia in 2012.

Bluebell Japan Limited, established in 1976, is a strong partner and currently manages 50 brands through 90 Points of Sale and has 420 employees, making Bluebell a major partner in the Luxury Industry in Japan.

NOTES

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES

Corporate information
The Annual General Meeting adopts the final approval of the annual report for the year ended 31 December 2012. The Management expects the annual report to be approved at the Annual General Meeting on 20 March 2013.

Generally
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as well as in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for the annual reports of listed Companies.

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, and effective for the financial year
PANDORA has adopted all new, amended standards, revised accounting standards and interpretations (IFRIC) as endorsed by the EU and which are effective for the financial year 1 January - 31 December 2012. The following new and amended IFRSs and Interpretations were implemented:

- IFRS 7 – The amendment prescribes further disclosure requirements in connection with transfer of financial assets.

PANDORA has thoroughly considered the impact of the new IFRS standards and interpretations. PANDORA has concluded that other standards which are effective for the financial year 1 January – 31 December 2012 are either of no relevance to the Group or exert no material impact on the financial statements for the current year.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Standards issued, but not yet effective
In addition to the above IASB has issued a number of IFRS standards, amended standards, revised accounting standards and IFRIC interpretations which are effective for financial years beginning on or after 1 January 2013. The major changes are:

- IFRS 9 – The number of categories of financial assets is reduced to two; amortised cost or fair value. The effect of changes in other credit risk on financial liabilities is recognised at fair value in other comprehensive income
- IFRS 10 – Clarification of the definition of control over another entity. Control exists when the following conditions are met:
  - Control of the entity
  - Exposure to variability in returns
  - Ability to exercise control of the entity to affect returns
- IFRS 11 – Joint arrangements are arrangements where joint control over a business activity exists and comprise two types: Joint operations and joint ventures
- IFRS 12 – Disclosure requirements concerning interests in other entities, including subsidiaries, joint operations, joint ventures and associates
- IFRS 13 General standard on fair value measurement
- Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income
- Amendment to IAS 27 – The consolidation rules are replaced by IFRS 10, and the standard then comprises the rules relating to Parent Company financial statements of the current IAS 27
- Amendments to IAS 28 – Joint arrangements classified as joint ventures under IFRS 11 are recognised under the equity method of the standard. The guidance of SIC 13 on non-monetary contributions from enterprises has been incorporated into the standard
- Amendments to IFRS 7 and IAS 32 – The amendment provides further guidance as regards offsetting and related disclosures
- Amendments to IFRS 10, 11 and 12 which clarify that the date of first adoption of the standards is the first day of the financial year in which the standards are implemented
- The annual improvements 2009 -2011 comprise:
  - IAS 1, clarification of comparative financial information when presenting balance sheets for three years
  - IAS 16, spare parts and servicing equipment for land, buildings and equipment are to be classified as property, plant and equipment rather than inventory when they qualify as such
  - IAS 32, clarification of tax in the income statement and equity, respectively
  - IAS 34, segment disclosures in interim financial statements

PANDORA has thoroughly considered the impact of the IFRS standards, amended standards and IFRIC interpretations not yet effective, and it is estimated that these standards and interpretations are deemed to exert no material impact on the Group´s and the Parent Company´s financial position or performance in the coming years. However, new disclosures will be required.

NOTES

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The consolidated financial statement
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which PANDORA obtains control, 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 intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intercompany transactions are eliminated in full. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if it 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.

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 PANDORAs cash generating units that are expected to benefit from the combination. 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 value of the operation disposed of and the portion of the cash generating unit retained.

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

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

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

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Group companies with another functional currency than DKK
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 duties.

Provisions for rebates discounts granted to wholesalers are recorded as a reduction of revenue. They are calculated on the basis of historical experience and the specific terms in the individual agreements.

The effect of expected future returns is recorded as a reduction of revenue. Where there is historical experience or a reasonably accurate estimate of expected future returns can otherwise be made, a provision for estimated sales returns is recorded. Revenue recognition for new product launches is based on specific facts and circumstances relating to those products, including estimated demand and acceptance rates for well-established products with similar market characteristics.

Cost of sales
Production costs comprise direct and indirect expenses incurred to generate the revenue of the year, 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 materials, 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 PANDORA, including expenses related to administrative staff and amortisation/depreciation.

Financial income and expenses
Financial income and expenses comprises interest income and expenses, realised and unrealised gains and losses on payables/receivables and transactions in foreign currencies. For all financial instruments measured at amortised cost, interest income or expenses are recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. The tax expenses for the period comprise current and deferred tax, including adjustments to previous years. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or equity.

Share-based payment transactions

Key employees 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.

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 PANDORAs 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.

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, expect in the case of financial assets recorded at fair value through profit or loss.

PANDORAs financial assets include cash and short-term deposits, trade receivables, loans and other receivables, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

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.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 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 as 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.

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 are 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.

Any gains or losses arising from changes in the fair value of derivatives are recognised in 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 is classified as cash flow hedge when hedging variability in cash flow 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.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Hedge accounting is accounted:

- The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the equity hedge reserve
- Amounts recognised in the equity hedge reserve are transferred to the income statement when the hedged transaction affects profit or loss. Where the hedged items are the costs of a non-financial asset, the amounts recognised in the equity 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 equity 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 equity hedge reserve remains in the equity hedge reserve 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 PANDORAs expected purchases or sales requirements are recognised in the income statement in cost of sales or financial items respectively

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 expenses on intangible assets with finite useful lives are 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. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Research and development costs
Clearly defined and identifiable development projects in which technical feasibility, adequacy of resources and potential market or development possibility in the enterprise can be demonstrated, and where it is the intention to produce, market or execute the project, are recognised in intangible assets if the cost can be reliably determined and there is adequate certainty that the future earnings or the net selling price can cover costs of raw materials, consumables and goods for resale, staff costs, other costs and amortisation, as well as the development costs. Other development costs are expensed in the income statement as incurred.

Property, plant and equipment (PP&E)
PP&E includes land and buildings, production plants and machinery and other plants, fixtures and fittings. PP&E 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 PP&E 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:

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

Gains or losses arising on derecognition of PP&E are 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 fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

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

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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:

- 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, as appropriate and when circumstances indicate that the carrying value may be impaired.

NOTE 25. 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 flow 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 shareholders in connection to the capital increase. The reserve is a part of the 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 proposed dividend in 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
Hedge reserve comprises the accumulated net change in fair value of hedging when qualifying for hedge accounting where the hedged transaction is not yet realised.

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

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

PANDORAs 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 and 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 risk free interest rate. Where discounting is used, the increase in the provision due to the passage of time is recognised as under financial expenses.

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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.

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 items are recognised in correlation to the underlying transaction either in the income statement, 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.

NOTES

NOTE 25. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Key figures and financial ratios

Key figures and financial ratios stated in the consolidated financial statements have been calculated as follows:

'Gross profit growth, %'	This year's gross profit / last year's gross profit
'Gross margin, %'	Gross profit / revenue
'Tax rate, %'	Income tax expense / profit before tax
'Capex'	Purchase of intangible assets and property, plant and equipment for the year, excluding acquisitions of subsidiaries undertakings

The other Key figures and financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines 'Recommendations and Financial Ratios 2010':

EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment losses
EBIT	Earnings before interest and tax
Invested capital	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)
Net working capital	Inventories and receivables less provisions, trade payables, income tax payables, other payables adjusted for derivative financial instruments
Net interest bearing debt	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 interest-bearing debt to EBITDA	Net borrowings / EBITDA
Equity ratio, %	Equity / assets
ROIC, %	EBIT / invested capital

NOTE 26. 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 Österreich GmbH	100%	Austria	23 May 2012
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
PANDORA Eastern Europe A/S	100%	Denmark	1 March 2009
PANDORA Jewelry Central Western Europe A/S	100%	Denmark	5 January 2010
PANDORA Finland Oy	100%	Finland	1 January 2012
PANDORA France SAS	100%	France	25 February 2011
PANDORA EMEA Distribution Center GmbH	100%	Germany	5 December 2011
PANDORA Jewelry Gmbh	100%	Germany	5 January 2010
PANDORA Jewelry Asia-Pacific Limited	100%	Hong Kong	1 November 2009
World Max International Trading Limited	100%	Hong Kong	21 December 2010
PANDORA Jewelry Hungary Kft.	100%	Hungary	2 June 2010
PANDORA Italia SRL	100%	Italy	23 May 2012
PANDORA Jewelry SRL (Merged into PANDORA Italia SRL)	100%	Italy	14 June 2010
PANDORA Jewelry Retail SRL (Merged into PANDORA Italia 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 Shared Services CEE Sp z.o.o.	100%	Poland	7 February 2012
PANDORA Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
PANDORA Jewelry Romania SRL	100%	Romania	18 August 2011
PANDORA 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
PANDORA Ventures LLC	100%	USA	10 May 2012

INCOME STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2012	2011
Revenue		4,021	4,752
Cost of sales		-3,070	-3,503
Gross profit		**951**	**1,249**
Distribution expenses	2,3	-245	-439
Administrative expenses	2,3,5,6	-388	-383
Operating profit		**318**	**427**
Dividends from subsidiaries		1,774	39
Financial income	7	123	772
Financial expenses	8	-59	-328
Profit before tax		**2,156**	**910**
Income tax expense	9	-94	-109
Net profit for the year		**2,062**	**801**

COMPREHENSIVE INCOME STATEMENT

Net profit for the year		2,062	801
Other		5	-
Exchange rate differences on translation of foreign subsidiaries		-	12
Value adjustment of hedging instruments		67	-52
Income tax on other comprehensive income	13	-17	13
Other comprehensive income, net of tax		**55**	**-27**
Total comprehensive income for the year		**2,117**	**774**

BALANCE SHEET

AT 31 DECEMBER

DKK million	Notes	2012	2011
ASSETS			
Non-current assets			
Intangible assets	11	2,895	2,929
Property, plant and equipment	12	33	31
Investments in subsidiaries	10	2,070	2,063
Other non-current financial assets		4	24
Total non-current assets		**5,002**	**5,047**
Current assets			
Inventories	14	650	340
Trade receivables	15,16	15	19
Receivables from subsidiaries	16	1,415	2,669
Other receivables		299	33
Cash and short-term deposits	16	52	33
Total current assets		**2,431**	**3,094**
Total assets		**7,433**	**8,141**
EQUITY AND LIABILITIES			
Shareholders equity	17		
Share capital		130	130
Share premium		1,248	1,248
Treasury shares		-38	-38
Hedge reserve		3	-47
Other reserves		-	88
Proposed dividend		715	715
Retained earnings		2,069	609
Total shareholders equity		**4,127**	**2,705**
Non-current liabilities			
Interest-bearing loans and borrowings	16	149	372
Provisions	18	-	51
Deferred tax liabilities	13	551	552
Total non-current liabilities		**700**	**975**
Current liabilities			
Interest-bearing loans and borrowings	16	3	8
Provisions	18	163	161
Trade payables	16	98	101
Payables to subsidiaries	16	2,171	3,679
Income tax payables		7	152
Other payables	16	164	360
Total current liabilities		**2,606**	**4,461**
Total liabilities		**3,306**	**5,436**
Total equity and liabilities		**7,433**	**8,141**

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 2012		**130**	**1,248**	**-38**	**-**	**-47**	**88**	**715**	**609**	**2,705**
Net profit for the year		-	-	-	-	-	-	-	2,062	2,062
Other		-	-	-	-	-	-	-	5	5
Value adjustment of hedging instruments		-	-	-	-	67	-	-	-	67
Income tax on other comprehensive income		-	-	-	-	-17	-	-	-	-17
Other comprehensive income, net of tax		**-**	**-**	**-**	**-**	**50**	**-**	**-**	**5**	**55**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**50**	**-**	**-**	**2,067**	**2,117**
Transfer to retained earnings		-	-	-	-	-	-88	-	88	-
Sharebased payments	4	-	-	-	-	-	-	-	20	20
Dividend paid		-	-	-	-	-	-	-715	-	-715
Proposed dividend		-	-	-	-	-	-	715	-715	-
Shareholders' equity at 31 December 2012		**130**	**1,248**	**-38**	**-**	**3**	**-**	**715**	**2,069**	**4,127**
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 rate 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 dividend		-	-	-	-	-	-	715	-715	-
Shareholders' equity at 31 December 2011		**130**	**1,248**	**-38**	**-**	**-47**	**88**	**715**	**609**	**2,705**

CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Notes	2012	2011
Profit before tax		2,156	910
Financial income	7	-123	-772
Financial expenses	8	59	328
Dividends from subsidiaries		-1,774	-39
Amortisation/depreciation	2	84	67
Share-based payments	4	20	-
Change in intercompany receivable/payable		-236	1,086
Change in inventories		-311	-294
Change in receivables		-261	40
Change in trade payables		-3	18
Change in other liabilities		-50	196
		-439	**1,540**
Other non-cash adjustments		-99	401
Interests etc. paid		-35	-10
Interests etc. received		72	27
Income tax paid		-253	-269
Cash flow from operating activities		**-754**	**1,689**
Purchase of intangible assets	11	-44	-84
Purchase of property, plant and equipment	12	-12	-19
Change in other non-current assets		-	-1
Proceeds from sale of property, plant and equipment		4	-
Dividends received		1,774	39
Investment in subsidiary and non-controlling interests		-7	1
Cash flow from investing activities		**1,715**	**-64**
Dividend paid		-715	-650
Proceeds from loans and borrowings		-	380
Repayment of loans and borrowings		-227	-1,983
Cash flow from financing activities		**-942**	**-2,253**
Net cash flow for the year		**19**	**-628**
Cash and short-term deposits at 1 January		33	661
Net cash flow for the year		19	-628
Cash and short-term deposits at 31 December		**52**	**33**
Unutilised credit facilities inclusive cash and cash equivalents		2,596	2,161

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

NOTES

NOTES

NOTE 1. SUPPLEMENT TO MANAGEMENT´S GROUP REVIEW

Transaction flow within the Group
The German and UK distribution centre have been transferred to PANDORAs Central European distribution centre in Hamburg. As a consequence receivables from subsidiaries have decreased. Receivables have been further impacted by a reduced net sales of goods to subsidiaries. Interest is calculated on overdue debtors normally after the current month + 30 days. Loans are interest calculated at the end of each month.

The inventory write down for 2012 relates to a loss in the Parent Company as a consequence of stock returns from subsidiaries (excess stock). These write offs are recognised in cost of sales. Write offs of furnitures and other point of sales materials are recognised under distribution expenses.

Hedging
PANDORAs total realised net loss on commodity hedge contracts relates to eliminations of over-hedged hedge positions. In 2012 PANDORA realised a loss on over-hedge of DKK 8 million (2011: Gain DKK 127 million).

Earn-out
Changes in the value of the earn-out provision, are recognised in the income statement as financial income or expenses. In 2012 the adjustment has been recognised as an income of DKK 51 million (2011: DKK 511 million). The present value of the earn-out provision is based on a discount rate of 13.75% (2011: 12.3%). Refer to note 1 in the Group.

Gross profit
Gross profit is influenced by write offs relating to remelt of discontinued products and higher commodity prices.

NOTES

NOTE 2. AMORTISATION/DEPRECIATION AND IMPAIRMENT LOSSES

DKK million	2012	2011
Intangible assets	74	61
Property, plant and equipment	10	6
Total	**84**	**67**
Amortisation/depreciation and impairment losses have been recognised in the income statement:		
Distribution expenses	58	39
Administrative expenses	26	28
Total	**84**	**67**

Refer to note 11 and 12.

NOTE 3. EMPLOYEE BENEFIT EXPENSES

DKK million	2012	2011
Wages and salaries	188	165
Pensions, defined contribution plans	7	5
Share-based payments	20	-
Social security costs	-	1
Other staff costs	6	6
Total	**221**	**177**
Average number of employees during the year	240	185
The employee benefit expenses have been recognised in the income statement:		
Distribution expenses	77	72
Administrative expenses	144	105
Total	**221**	**177**

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, refer to note 4 and 5 in the Group.

NOTE 4. SHARE-BASED PAYMENTS

The share option program described in note 5 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. Of the total expense of DKK 20 million (2011: DKK 0 million), DKK 7 million (2011: DKK 0 million) relates to subsidiaries.

NOTES

NOTE 5. DEVELOPMENT COSTS

Development costs within design and product development are recognised as distribution expenses in the income statement during the year. They amount to DKK 13 million in 2012 (2011: DKK 14 million).

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

DKK million	2012	2011
Fee for statutory audit	1	1
Other assurance engagements	1	1
Tax consultancy	3	5
Other services	-	1
Total	**5**	**8**

Fees are recognised as an administrative expense in the income statement.

NOTE 7. FINANCIAL INCOME

DKK million	2012	2011
Financial income originated from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments on derivatives	-	127
Financial income originated from loans and receivables measured at amortised cost:		
Interest income, bank	-	1
Interest income from subsidiaries	72	133
Total	**72**	**134**
Value adjustment CWE earn-out provision	51	511
Total financial income	**123**	**772**

NOTE 8. FINANCIAL EXPENSES

DKK million	2012	2011
Financial expenses originated from financial assets and liabilities at fair value through the income statement:		
Fair value adjustments on derivatives	9	-
Financial expenses originated from financial liabilities measured at amortised cost:		
Exchange rate losses, net	14	171
Interest to subsidiaries	-	24
Interest on loans and borrowings	25	42
Interest on earn-out provision	-	44
Other finance costs	11	47
Total	**50**	**328**
Total financial expenses	**59**	**328**

NOTE 9. INCOME TAX

DKK million	2012	2011
Income tax recognised in the income statement:		
Current income tax charge	107	152
Prior-year adjustments	5	2
Changes in deferred tax	-18	-45
Income tax expense	**94**	**109**
Tax reconciliation		
Profit before tax	2,156	910
Income tax rate 25% (2011: 25%)	539	227
Tax effect of:		
Tax exempted income	-445	-10
Non deductible expenses	8	18
Prior-year adjustments	5	2
Value adjustment CWE earn-out provision	-13	-128
Total	**94**	**109**

NOTES

NOTE 10. INVESTMENTS

DKK million	Investments in subsidiaries
Cost at 1 January 2012	2,063
Additions	7
Cost at 31 December 2012	**2,070**
Cost at 1 January 2011	1,490
Effect from merger	595
Additions	-22
Cost at 31 December 2011	**2,063**

Subsidiaries	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 Finland OY	Finland
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 Jewelry Shared Services CEE Sp z.o.o.	Poland
PANDORA Production Co. Ltd.	Thailand
PANDORA Services Thailand	Thailand
PANDORA Jewellery UK Limited	UK
PANDORA Jewelry Inc.	USA

Refer to note 26 in the Group for ownership and date of investment.

NOTE 11. INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution network	Distribution rights	Other intangible assets	Total
Cost at 1 January 2012	427	1,040	451	1,086	72	3,076
Additions	-	-	-	-	44	44
Reclassification	-	-	2	-2	-	-
Exchange rate adjustment	-4	-	-	-	-	-4
Cost at 31 December 2012	**423**	**1,040**	**453**	**1,084**	**116**	**3,116**
Amortisation and impairment losses at 1 January 2012	-	-	115	19	13	147
Amortisation and impairment losses for the year	-	-	31	17	26	74
Amortisation and impairment losses at 31 December 2012	**-**	**-**	**146**	**36**	**39**	**221**
Carrying amount at 31 December 2012	**423**	**1,040**	**307**	**1,048**	**77**	**2,895**
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**

No intangible assets existed at 31 December 2012 or 31 December 2011, which have been fully amortised. Refer to note 12, Intangible assets, in the Group for a description of the assets.
No intangible assets have been impaired in 2012 or in 2011. Refer to note 13 in the Group.

NOTES

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

DKK million	Plant and equipment	Total
Cost at 1 January 2012	42	42
Additions	12	12
Cost at 31 December 2012	**54**	**54**
Depreciation and impairment losses at 1 January 2012	11	11
Depreciation for the year	10	10
Depreciation and impairment losses at 31 December 2012	**21**	**21**
Carrying amount at 31 December 2012	**33**	**33**
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**

Refer to note 2.

NOTE 13. DEFERRED TAX

DKK million	Balance sheet 2012	Balance sheet 2011	Income statement 2012	Income statement 2011
Distribution rights	607	611	4	-2
Other	-56	-59	-22	-43
Deferred tax, net	**551**	**552**		
Deferred tax income (-)			**-18**	**-45**
Deferred tax is recognised in the consolidated balance sheet as follows:				
Deferred tax liabilities	551	552		
Deferred tax, net	**551**	**552**		
Reconciliation of deferred tax:				
At 1 January	552	609		
Tax expense recognised in the income statement	-18	-45		
Tax expense recognised in other comprehensive income	17	-12		
Total	**551**	**552**		

Refer to note 9.

NOTE 14. INVENTORIES

DKK million	2012	2011
Raw materials and consumables	44	-
Finished goods	606	340
Total	**650**	**340**
Inventory write-downs during period	310	265

The write-downs of inventories are recognised under Cost of sales DKK 306 million (2011: DKK 186 million), Distribution expenses DKK 4 million (2011: DKK 79 million).

NOTES

NOTE 15. TRADE RECEIVABLES

Trade receivables at 31 December 2012 include receivables at nom. DKK 16 million (2011: DKK 20 million), which have been written down to DKK 15 million (2011: DKK 19 million).

DKK million	2012	2011
Analysis of movements in bad debt provision:		
At 1 January	1	1
At 31 December	**1**	**1**
Analysis of trade receivables that were past due, but not impaired, at 31 December:		
Until 30 days	3	2
Between 30 and 60 days	1	-
Above 90 days	1	1
Past due, but not impaired	**5**	**3**
Neither past due nor impaired	10	16
Total	**15**	**19**

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

NOTE 16. FINANCIAL ASSETS AND LIABILITIES

DKK million	2012 Carrying amount	2011 Carrying amount
Financial assets at fair value through other comprehensive income:		
Derivatives	4	6
Total financial assets at fair value	**4**	**6**
Loan and receivables measured at amortised cost:		
Trade receivables	15	19
Intercompany receivables	1,415	2,669
Other receivables	6	11
Cash	52	33
Total loan and receivables measured at amortised cost	**1,488**	**2,732**
Total financial assets	**1,492**	**2,738**
Financial liabilities at fair value:		
Derivatives	47	257
Total financial liabilities at fair value	**47**	**257**
Financial liabilities measured at amortised cost:		
Interest-bearing loans and borrowings	152	380
Trade payables	98	101
Intercompany payables	2,171	3,679
Other payables	103	105
Total financial liabilities measured at amortised cost	**2,524**	**4,265**
Total financial liabilities	**2,571**	**4,522**

Refer to note 18 in the Group.

NOTE 17. SHARE CAPITAL AND RESERVES

For a specification and an explanation to the changes in share capital and reserves, refer to note 20 in the Group.

NOTES

NOTE 18. PROVISIONS

DKK million	Earn-out, acquisition of non-controlling interests	Sales return	Other	Total
Provisions at 1 January 2012	51	161	-	212
Provisions made in 2012	-	28	10	38
Utilised in the year	-	-36	-	-36
Unused amounts reversed	-51	-	-	-51
Provisions at 31 December 2012	**-**	**153**	**10**	**163**
Provision are recognised in the consolidated balance sheet as follows:				
Current 2012	-	153	10	163
Total	**-**	**153**	**10**	**163**
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**	**161**	**-**	**212**
Provision are recognised in the consolidated balance sheet as follows:				
Current 2011	-	161	-	161
Non-current 2011	51	-	-	51
Total	**51**	**161**	**-**	**212**

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 1 in the Group.

Sales return provisions

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.

From time to time the Parent Company takes back inventory from subsidiaries, primarily related to discontinued items and excess stock. Inventory is taken back at original sales prices invoiced to the subsidiaries. The 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 PANDORAs consolidated accounts.

Other provisions

Other provisions include provisions for product warranties.

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	2012	2011
Within 1 year	35	48
Between 1-5 years	29	27
After 5 years	11	15
Total	**75**	**90**

PANDORA A/S has issued a letter of support and letter of guarantee to the benefit of creditors of certain subsidiaries.

The Company is jointly taxed with Axcel Prometheus Newco 4 ApS as well as other Danish subsidiaries. The Company is jointly and severally liable with the other jointly taxed Danish companies within the group of withholding taxes payable first July 2012 or later in the joint taxation.

NOTES

NOTE 20. RELATED PARTY TRANSACTIONS

Besides the related parties mentioned in note 23 in the Group, 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 26, in the Group.

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

	Subsidiaries	
DKK million	2012	2011
Income statement:		
Sales to related parties	3,943	4,651
Purchases from related parties	-3,234	-2,889
Dividend	1,774	39
Financial income	72	133
Financial expenses	-	-24
Total	**2,555**	**1,910**
Balance sheet:		
Receivables	1,415	2,669
Payables	-2,171	-3,679
Total	**-756**	**-1,010**

NOTES

NOTE 21. SIGNIFICANT ACCOUNTING POLICIES

The 2012 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, refer to note 25 in the Group, with the exception of the items listed below.

Group internal restructuring

Transfer of businesses without consideration

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

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

Transfer of assets for shares

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

Dividends

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

Investments in subsidiaries

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

Share-based payments to employees in subsidiaries

The value of granted 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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