



PANDORA

ANNUAL REPORT 2021

CONSOLIDATED FINANCIAL STATEMENTS

Pandora A/S

Havneholmen 17-19
1561 Copenhagen V
Denmark
CVR no.: 28505116

OUR PURPOSE

WE GIVE A VOICE TO PEOPLE'S LOVES

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

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

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Annual Report

Our Annual Report is our detailed annual disclosure relating to company performance, strategy, corporate governance and financial results. The consolidated financial statements represent an extract of Pandora's complete Annual Report. The financial statements of the Parent Company is an integrated part of the full Annual Report and available at pandoragroup.com/investor/news-and-reports/annual-reports and at cvr.dk following approval at the Annual General Meeting.

Sustainability Report

Our Sustainability Report provides detailed information and data on sustainability and our responsible business behaviour. The Sustainability Report serves as our annual Communication on Progress to the United Nations Global Compact and as such is our disclosure in accordance with sections 99(a), 99(b) and 107(d) of the Danish Financial Statements Act. The report is available at pandoragroup.com/sustainability/resources/sustainability-reports.

Remuneration Report

Our Remuneration Report includes full disclosure of Board and Executive Management remuneration. The report is available at pandoragroup.com/investor/corporate-governance/remuneration-reports.



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THE BIG PICTURE



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AT A GLANCE

NO. 1 JEWELLERY BRAND IN THE WORLD

26%
online share
of revenue

54%
recycled silver
and gold

670+
million visits to
our physical and
online stores

102
million pieces
of jewellery sold

23.4
DKK billion
revenue

27,000
employees
on average

6,800
points of sale in more
than 100 countries



-  @PandoraJewelry
-  @theofficialpandora
-  Pandora-a-s
-  @theofficialpandora
-  @Pandora_Corp
-  @theofficialpandora
-  pandoragroup.com

LETTER TO THE SHAREHOLDERS

A NEW CHAPTER OF GROWTH

2021 was a landmark year for Pandora. We completed our two-year turnaround, laid out a path for the future with a new growth strategy and ended the year with record-high revenue. We are now ready to write a new chapter in the story of Pandora.

In the first chapter of Pandora's story, our founders introduced our original charms and bracelet concept, Moments, and focused strongly on product and manufacturing capabilities.

In the second chapter, Pandora built an extensive and profitable global retail network and became the world's largest jewellery maker.

Towards the end of the second chapter, growth started to decline and in late 2018 we initiated Programme NOW – a comprehensive two-year turnaround programme that has revitalised the brand and fundamentally changed how we operate Pandora.

We now have a high-performing online business, our product portfolio is slimmer and more productive, we have increased the use of data and analyses across the business, and our organisation is stronger, flatter and faster.

Pandora is now ready to embark on the third chapter: a chapter of growth. Our new Phoenix strategy is designed to drive sustainable top and bottom-line growth by leveraging our key assets: strong brand awareness, a global distribution network and industry-leading manufacturing capabilities.

We see significant, untapped growth potential within our core business. We have defined four pillars that will be driving our growth. The pillars are rooted in a deep understanding of who we want to interact with, what matters to them and then developing inspiring solutions for all touchpoints.

We have set an ambitious plan for our company. We want Pandora to become the largest and most desirable brand in the affordable jewellery market. And we want to lead on

PETER A. RUZICKA
Chair of the Board of Directors



sustainability in our industry to become a low-carbon and circular business that is also inclusive, diverse and fair.

We are proud of our achievements in 2021 – not least considering the challenging circumstances during the pandemic – and would like to thank all Pandora's employees for their commitment. Our combined efforts have changed the company's course and positioned us well as we enter this new chapter of growth. We would also like to thank our loyal customers and shareholders for their continued trust in Pandora.



ALEXANDER LACIK
President & CEO

EXECUTIVE SUMMARY

BACK ON A GROWTH TRACK

2021 was a milestone year for Pandora – another year where we took significant steps forward. We successfully completed our two-year turnaround, called Programme NOW. And we launched our new strategy, Phoenix, charting a new chapter of sustainable growth in the years ahead.

In 2021, Pandora delivered its highest ever revenue at DKK 23.4 billion. This corresponds to organic revenue growth of 23% compared to 2020. Exiting 2021, we saw broad-based growth across markets in Q4 and total sell-out reached the highest level ever. Throughout 2021, growth was supported by an extraordinarily strong year in our largest market, the US; growth in our core product platform, Moments; and continued solid performance in our online channel. Furthermore, despite COVID-19 and owing to significant mitigating actions, our production in Thailand and our ability to meet demand were not significantly impacted by the pandemic.

Growing the core and fuelling with more

In 2021, our Global Business Unit, Moments and Collabs represented 71% of total revenue and delivered sell-out growth of 20%. Growing Pandora Moments is a key pillar in the Phoenix strategy. The performance of Moments was supported by the launch of Wearing Occasions, such as bag holders and key rings.

Our second-largest platform, Pandora Timeless, represented 17% of total revenue in 2021, delivering sell-out growth of 19%. Timeless is part of Pandora's Global Business Unit Style and Upstream Innovation.

In order to drive incremental revenue growth, "fuel with more", Pandora is launching new product platforms that are within or close to the existing core business. In 2021, we launched

Pandora Brilliance, our first collection of lab-created diamond jewellery, as a pilot in the UK. The aim is to make Brilliance a new platform alongside Pandora Moments and Pandora Timeless by democratising diamonds. Pandora Brilliance will be sequentially rolled out globally from 2022.

At the end of September, we relaunched Pandora ME, which targets a Generation Z mindset. The relaunch saw significant engagement on social media. Pandora ME accounted for 4% of revenue in Q4 2021.

Digital investments continue to generate encouraging results

Our online channel continued to deliver very strong results and almost doubled compared to 2019. Online sales accounted for 26% of total revenue in 2021. Digital plays a key role in our new strategy, both as a foundation and a growth pillar. In most countries, our online store is the largest portal to our brand. Our new digital organisation delivers constant improvements to the customer experience. Tangibly, we note that online conversion continues to improve. We continue to expand our omnichannel features. There is strong consumer interest in Click & Collect in the US, which accounted for 11% of our US online sales in 2021. We recently rolled out Click & Collect in France, Italy, Germany, New Zealand, Canada and Australia.

Read more about our new strategy, Phoenix, on [page 17](#).

OUR GLOBAL BUSINESS UNITS

Share of revenue, % of total

Read more about segment and revenue information in [note 2.1](#)



71%

Moments and Collabs



29%

Style and Upstream Innovation

OUR CHANNELS

Revenue, DKK, and share of revenue, %

Pandora physical stores

9,945m
42% share of revenue

Pandora online stores

5,977m
26% share of revenue

Wholesale and third-party distribution

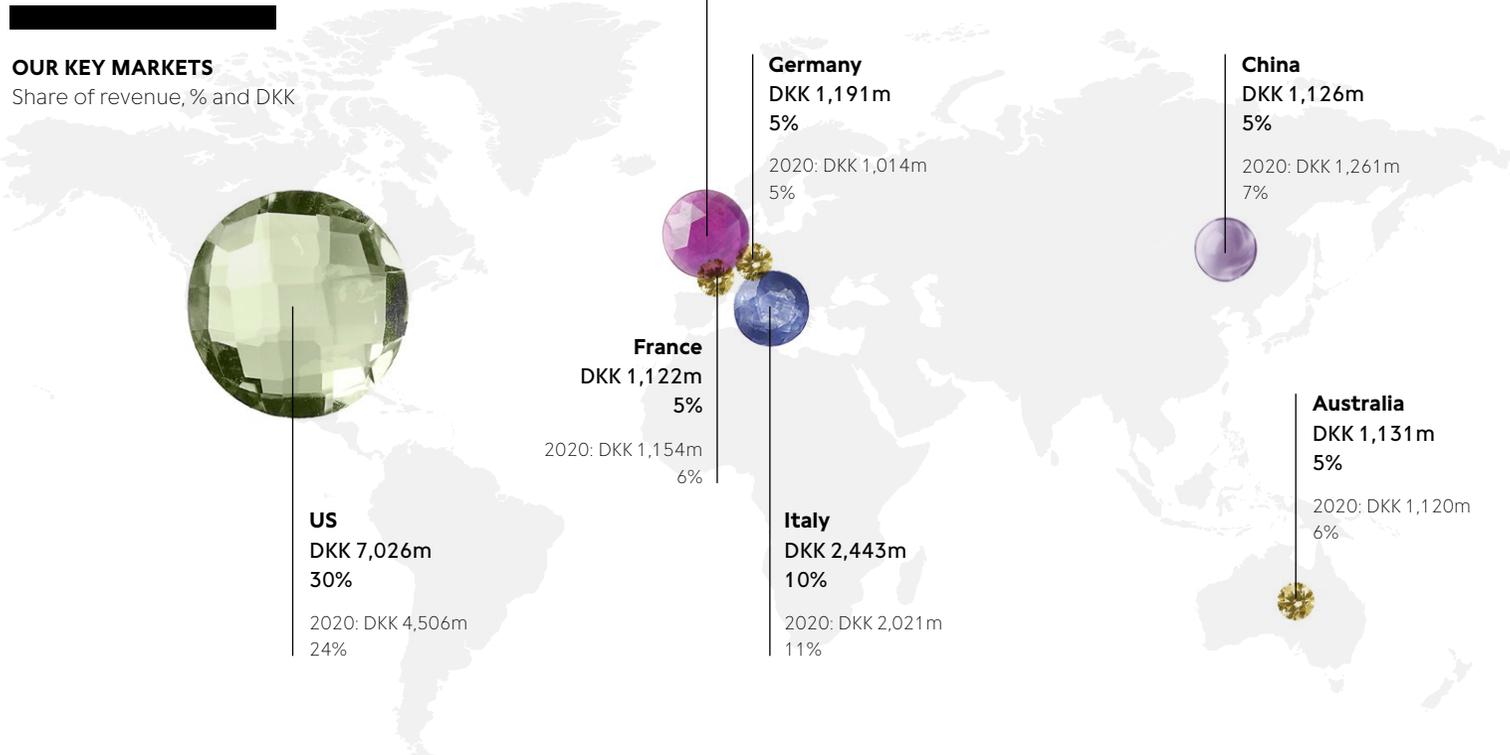
7,472m
32% share of revenue

Strong and broad-based underlying growth

Our largest market, the US, saw extraordinary growth in 2021. Organic growth compared to 2020 was 58%. There were two principal drivers of growth. Firstly, the entire jewellery segment grew, aided by the stimulus packages introduced to support the economy during the COVID-19 pandemic and the reallocation of consumer spending away from travel and services towards gifting and discretionary goods. Secondly, Pandora outperformed the market, driven by a range of initiatives across online, stores, omnichannel and media.

OUR KEY MARKETS

Share of revenue, % and DKK



Pandora continues to see ample growth opportunities in the US in the mid-term, for example through higher brand awareness and network expansion, as presented at the Capital Markets Day.

Our key markets in Europe were impacted by temporary store closures during the early part of 2021 due to COVID-19. As stores reopened, Pandora saw a strong rebound in these markets and delivered encouraging and positive growth in both Q3 and Q4.

Performance in China, Australia and other Asian markets was significantly impacted by COVID-19. Like our key European markets, performance in Australia was positive when stores were open, indicating a healthy underlying business. Due to the continued and widespread COVID-19 restrictions during the second half of 2021, Pandora postponed its planned investment to transform its business in China.

On average, the share of Pandora stores temporarily closed due to COVID-19 was 30% in Q1, 15% in Q2, 5% in Q3 and 3% in Q4. In addition to the temporary store closures, revenue was impacted by other types of COVID-19 restrictions imposed by governments during the year, not least in China.

Brand momentum remains strong

Our strong brand momentum continued in 2021 and Pandora maintained a leading brand position. Pandora's global unaided brand awareness remained well ahead of the closest competitor, and we ranked number one in five out of seven key markets.

Financial performance

Total revenue reached DKK 23.4 billion, corresponding to revenue growth of 24% in local currency. The revenue growth was reflected in an increase in the EBIT margin from 20.4% in 2020 to 25.0%, demonstrating the operating leverage in our business model.

In 2020, Pandora cautiously paused cash distribution to shareholders due to the pandemic. In 2021, Pandora resumed cash distributions. The distributions announced in 2021, including both dividends and share buybacks, totalled DKK 5.5 billion and were distributed to shareholders from May 2021 to February 2022. For 2022, the Board proposes a dividend of DKK 16 per share and a new share buyback programme of DKK 3.3 billion. Read more about our financial performance in our Financial review on [page 44](#).

HIGHLIGHTS 2021



Diamonds are for everyone

With the goal of making diamond jewellery accessible to a wider audience, we launched Pandora Brilliance, a collection of sustainably lab-created diamond jewellery. Pandora's diamonds are CarbonNeutral® certified and created using more than 60% renewable energy on average. We also announced that we will no longer use mined diamonds in our products. Lab-created diamonds are identical to mined diamonds, but created in a laboratory rather than extracted from a mine. The collection was initially test launched in the UK, with a sequential global roll-out to begin from 2022.

Read more on [page 20](#). ↗

Towards growth

Following a successful turnaround, we launched our new growth strategy, Phoenix, in May 2021. The strategy targets the significant untapped potential to grow Pandora's existing business and attract new consumers to the brand. Phoenix is based on four growth pillars: brand, design, personalisation and core markets, and aims at delivering sustainable and profitable revenue growth. The revenue growth target for 2021-2023 is 6-8% per annum and an EBIT margin of 25-27% in 2023.

New sustainability-linked loan

In April 2021, we secured a new EUR 950 million credit facility with an interest rate linked to two of our 2025 sustainability goals: becoming carbon neutral in own operations and using only recycled silver and gold. The new loan is part of our liquidity reserve and connects our capital structure to our sustainability agenda.



Cutting emissions

In September 2021, we announced that we will halve our greenhouse gas emissions across our own operations and entire value chain of suppliers and business partners by 2030. The target has been approved by the Science Based Targets initiative and is based on an extensive decarbonisation plan across Pandora's business to align with the Paris Agreement and what climate science says is necessary to limit global warming to 1.5°C. Pandora has also committed to net zero emissions across its entire value chain by 2040.

Read more about our sustainability efforts on [page 26](#). ↗



Plastic out

Switching to low-carbon packaging is important to reduce our greenhouse gas emissions, and in 2021 we introduced new and improved bags and boxes across our stores and online. Without compromising on quality, the new packaging cuts emissions by more than 60%, and because it is made with fewer materials, it is also easier to recycle. Our carrier bags will no longer contain any plastic, and plastic content in jewellery boxes will be reduced by more than 75%. The new designs are expected to reduce Pandora's carbon footprint by 3,600 tCO₂e per year, equivalent to the annual emissions of 800 cars or around 1% of Pandora's total emissions.

➔ **HIGHLIGHTS 2021**

Diversifying our global supply network

To meet expected future demand and diversify our geographical footprint, Pandora announced plans to invest DKK 1 billion in new manufacturing capacity. We will build a new facility in Vietnam, capable of crafting 60 million pieces of jewellery annually. Additional capacity of around 20 million pieces will also be added close to one of our existing production sites in Thailand. This represents a total expansion of our capacity by around 60%. The new crafting facilities are expected to open by the end of 2023 in Thailand and by the end of 2024 in Vietnam.



Pandora ME relaunch

Pandora initially launched Pandora ME in late 2019. The collection has since been refined to specifically target Generation Z, and in October 2021 a relaunch was initiated with the aim to establish Pandora ME as a new platform. We have combined Generation Z's love of music and fashion to inspire our fans, and the new collection includes many options for customisation, such as a variety of new metals, colours, mini dangles, link chain bracelets and necklaces. Pandora ME accounted for 4% of revenue in Q4 2021.



FIVE-YEAR SUMMARY

DKK million	2021	2020	2019	2018 ²	2017 ^{1,2}
Key financial highlights					
Organic growth, %	23%	-11%	-8%	-2%	11%
Organic growth, % vs 2019 ³	9%	n/a	n/a	n/a	n/a
Sell-out growth, incl. temporarily closed stores, %	20%	-12%	-8%	-4%	0%
Sell-out growth, incl. temporarily closed stores, % vs 2019 ³	7%	n/a	n/a	n/a	n/a
Gross margin, % ⁴	76.1%	76.5%	77.4%	74.3%	74.5%
EBIT margin, %⁴	25.0%	20.4%	26.8%	28.2%	34.2%
Consolidated income statement (reported)					
Revenue	23,394	19,009	21,868	22,806	22,781
Earnings before interest, tax, depreciation and amortisation (EBITDA)	7,838	4,999	6,148	7,421	8,505
Operating profit (EBIT)	5,839	2,684	3,829	6,431	7,784
Net financials	-461	-190	1	151	-117
Net profit for the period	4,160	1,938	2,945	5,045	5,768
Financial ratios					
Revenue growth, DKK, %	23%	-13%	-4%	0%	12%
Revenue growth, local currency, %	24%	-11%	-6%	3%	15%
Gross margin, %	76.1%	75.6%	72.7%	74.3%	74.5%
EBITDA margin, %	33.5%	26.3%	28.1%	32.5%	37.3%
EBIT margin, %	25.0%	14.1%	17.5%	28.2%	34.2%
Effective tax rate, %	22.6%	22.3%	23.1%	23.4%	24.8%
Equity ratio, %	38%	37%	24%	33%	37%
NIBD to EBITDA excl. restructuring costs, x ⁵	0.4	0.5	1.1	0.8	0.6
Return on invested capital (ROIC), % ⁵	59%	25%	27%	53%	68%
Cash conversion incl. lease payments, %	88%	183%	133%	86%	68%
Net working capital, % of last 12 months revenue	-5.0%	-7.6%	-1.3%	6.7%	8.8%

DKK million	2021	2020	2019	2018 ²	2017 ^{1,2}
Stock ratios					
Total payout ratio (incl. share buyback), % ⁶	115%	65%	147%	104%	99%
Dividend per share, proposed for the year, DKK	16.0	-	9.0	9.0	9.0
Dividend per share, paid, DKK	15.0	-	9.0	9.0	27.0
Earnings per share, basic, DKK	42.1	20.0	30.3	47.2	52.0
Earnings per share, diluted, DKK	41.7	19.9	30.1	47.0	51.8
Consolidated balance sheet					
Total assets	18,542	19,984	21,571	19,244	17,428
Invested capital ⁸	9,884	10,540	14,268	12,071	11,369
Net working capital	-1,181	-1,447	-293	1,536	2,008
Net interest-bearing debt (NIBD) ⁹	2,882	3,151	9,019	5,652	4,855
Equity	7,001	7,389	5,249	6,419	6,514
Consolidated statement of cash flow					
Cash flow from operating activities	6,228	5,975	6,775	6,624	6,606
Capital expenditure – total	641	491	822	1,129	1,388
Capital expenditure – property, plant and equipment	341	369	556	753	946
Free cash flow incl. lease payments	5,137	4,908	5,075	5,558	5,294
Sustainability					
Scope 1, 2 and 3 emissions, mtCO ₂ e ⁷	277,450	266,075	296,777	n/a	n/a
Recycled silver and gold, total, % ⁸	54%	57%	60%	n/a	n/a
Leadership gender ratio, female/male, % ⁹	23/77	n/a	n/a	n/a	n/a

¹ Figures have been restated to reflect the adoption of IFRS 15.

² Comparative figures have not been restated following the adoption of IFRS 16 Leases.

³ Revenue performance compared with 2020 was heavily distorted by COVID-19, as both years were impacted by store closures. Pandora has therefore added two supplementary growth KPIs vs 2019 to provide a cleaner view on the performance: Organic growth vs 2019 and Sell-out growth vs 2019. These two KPIs will be removed from 2022 onwards.

⁴ 2019 and 2020 figures exclude Programme NOW restructuring costs.

⁵ For 2017, Invested capital and NIBD have been restated due to immaterial reclassifications. Consequently, NIBD to EBITDA and ROIC have been recalculated.

⁶ Excluding sale of treasury shares amounting to DKK 1.8 billion in Q2 2020.

⁷ Within limited assurance scope, measured in mtCO₂e (metric tons of carbon dioxide equivalent). The Scope 2 emissions are calculated as market-based emissions.

⁸ Within limited assurance scope. As a requirement of our sustainability-linked credit facility, we have decided to report the actual percentage of our recycled silver and gold total.

⁹ Leaders from Vice President positions and up, incl. the Board.

FINANCIAL GUIDANCE 2022

Sustainable and profitable growth to continue

The Phoenix strategy aims to deliver sustainable and profitable growth. And in 2021 Pandora delivered on that promise. In 2022 Pandora expects to continue the journey and deliver solid organic revenue growth – confirming that the company is back on the growth track.

Pandora targets an organic growth of 3-6% and an EBIT margin of 25.0-25.5% in 2022. This includes expected headwinds when comparing to the unusually high US growth in 2021 and expected negative impact from COVID-19, especially in Q1 2022.

Given that the US constituted 30% of revenue in 2021 and given the unusually high growth in 2021, the guidance is based on certain assumptions about the growth in the overall US jewellery market. The guidance is also based on certain assumptions about the COVID-19 impact in 2022. The key assumptions behind the organic growth is illustrated to the right.

Revenue guidance

Pandora's guidance for 2022 is best understood by looking at the US and Rest of world separately. In 2022, Pandora assumes that the general US jewellery market will decline

10-20%, following the very strong growth in 2021. Pandora expects to continue outperforming the general US market – as has been the case for the last several quarters – and deliver organic growth in 2022 between high single-digit negative and slightly positive.

It should be noted that if Pandora's US revenue declines by a high single-digit percentage in 2022, it still equals an organic growth CAGR in the low teens compared to 2019.

Additionally, the low end of the 2022 guidance range assumes that COVID-19 will continue to impact performance negatively and mainly in Q1 (high single-digit percentage negative impact in Q1 2022, corresponding to a low single-digit percentage negative impact for the full year). This is obviously associated with uncertainty.

As a global brand, Pandora's financial performance is subject to changes in the macroeconomic environment, consumer behaviour as well as geopolitical unrest. Pandora sees greater uncertainty than usual around these factors in 2022. In addition, the guidance for 2022 does not assume further material COVID-19 outbreaks later in 2022 or major disruptions in the supply chain.

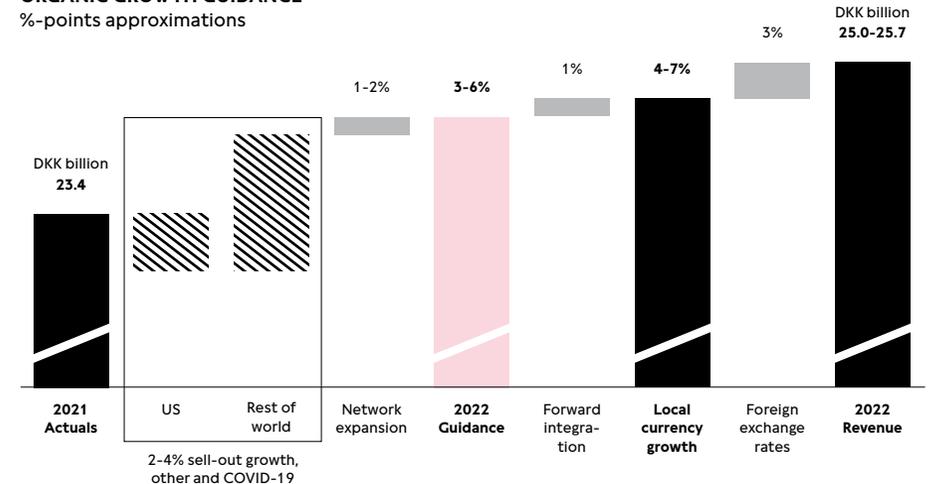
2022 ORGANIC GROWTH ASSUMPTIONS

Directional and indicative

	3%	6%
COVID-19	Low single-digit negative impact	No to very limited negative impact
Pandora US	Negative mid- to high single-digit	Flat to slightly positive
Pandora Rest of world	Positive high single-digit	Positive high single-digit

ORGANIC GROWTH GUIDANCE

%-points approximations



Profitability guidance

Pandora aims to continue to expand its EBIT margin and targets an EBIT margin of 25.0-25.5% in 2022. The building blocks in the guidance are illustrated in the bridge.

In 2021, a number of non-recurring factors positively impacted the EBIT margin by 0.5%. Pandora received DKK 152 million in government support and DKK 56 million in rent concessions, positively impacting the EBIT margin by 0.9%. This was partly offset by non-recurring costs of around DKK 100 million related to write-off of IT assets and a larger bonus pool in Q4 2021 dragging down the EBIT margin by 0.4%. Adjusting for these non-recurring impacts, the underlying EBIT margin in 2021 was 24.5%.

The margin expansion in 2022 is driven by operating leverage. Where Pandora will land within the 25.0-25.5% range, will depend primarily on the revenue performance. As in prior years and in line with normal seasonality, Q4 is expected to be the most profitable quarter of the year by far.

Current foreign exchange rates, if unchanged, are estimated to favourably impact the EBIT margin in 2022 by approximately 0.5% compared to 2021. This is offset by a negative impact from commodities, mainly silver prices, of approximately -1.0%.

2022 Guidance – other parameters

CAPEX for 2022 is expected to be around 6% of revenue (2021 actual: 3% of revenue). The increase is among others due to opening of new stores and expansion of manufacturing capacity. The guidance for the store network development is net 50-100 concept store openings (2021 actual: 71 net closures) while other points of sale is expected to increase by net 50-75. The effective tax rate is expected to be 23-24%, up from 22-23% in prior years. The increase is

related to among others increased withholding taxes on dividends upstreamed to the Parent Company and non-deductible expenses related to China and Panama.

2023 targets

Pandora reconfirms its targets communicated at the Capital Markets Day in September 2021. Pandora targets organic growth of 5-7% CAGR from 2021 to 2023 and 25-27% EBIT margin in 2023. As a consequence, the absolute revenue target in 2023 is raised from DKK 24.8-26.2 billion to DKK 27.0-28.1 billion.

Capital structure policy and cash distribution

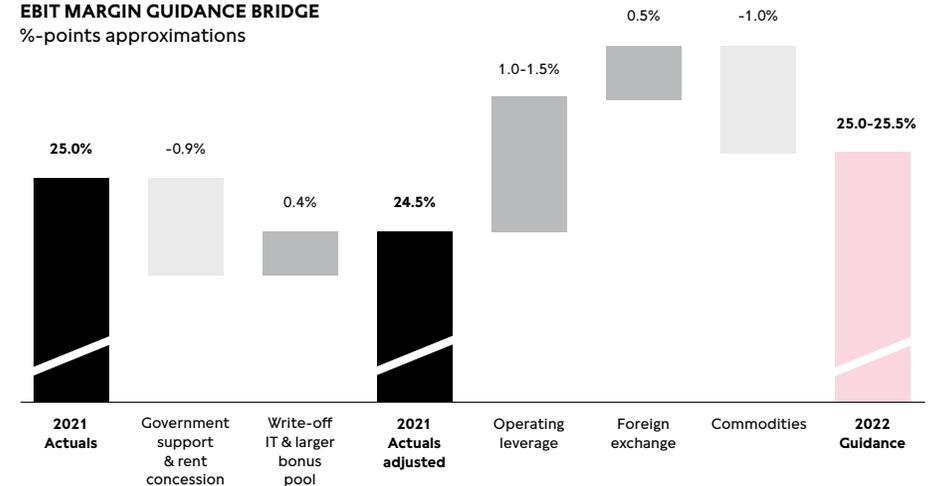
At the end of December 2021 and following another year of strong cash generation, Pandora's leverage was only 0.4x NIBD to EBITDA, below our capital structure policy of 0.5-1.5x. During 2021, Pandora paid extraordinary dividends of total DKK 15 per share. In addition, from 5 May 2021 to 4 February 2022, Pandora bought back 4.8 million shares at an average price of around DKK 829 equivalent to a total value of DKK 4.0 billion.

Based on the strong results for 2021, Pandora continues distributions to shareholders with a proposed dividend of DKK 16 per share and a new share buyback programme of DKK 3.3 billion.

Cash distribution to the shareholders is, by law, limited to the amount of the free reserves in the Parent Company. As of 31 December 2021, free reserves in the Parent Company amounted to DKK 7.5 billion.

Disclaimer: the guidance contains forward-looking statements, which include estimates of financial performance and targets. These statements are not guarantees of future performance and involve certain risks and uncertainties. Therefore, actual future results and trends may differ materially from what is forecast in this report due to a variety of factors, please also refer to the full disclaimer on [page 93](#).

EBIT MARGIN GUIDANCE BRIDGE
%-points approximations



FOREIGN EXCHANGE AND COMMODITY ASSUMPTIONS AND IMPLICATIONS	Average 2021	Average 2022	Financial impact 2022 Y-Y
USD/DKK	6.29	6.67	
THB/DKK	0.20	0.20	
GBP/DKK	8.39	8.95	
CNY/DKK	0.98	1.05	
AUD/DKK	4.72	4.70	
Silver/USD (per ounce)	21.1	24.9	

Revenue (DKK million)	Approx. 700
EBIT (DKK million)	Approx. 100
EBIT margin (FX)	Approx. 0.5%
EBIT margin (Commodities)	Approx. -1.0%

STORY

THE PANDORA CUSTOMER

Throughout history, humankind has shared feelings of happiness, love, pride and belonging. This need for self-expression lies at the heart of connecting with our partners, friends, family and many others, and it is the essence of our jewellery. That is why Pandora is a story about touching the lives of hundreds of millions of people. Every day, people express who they are and what matters to them with their Pandora jewellery.

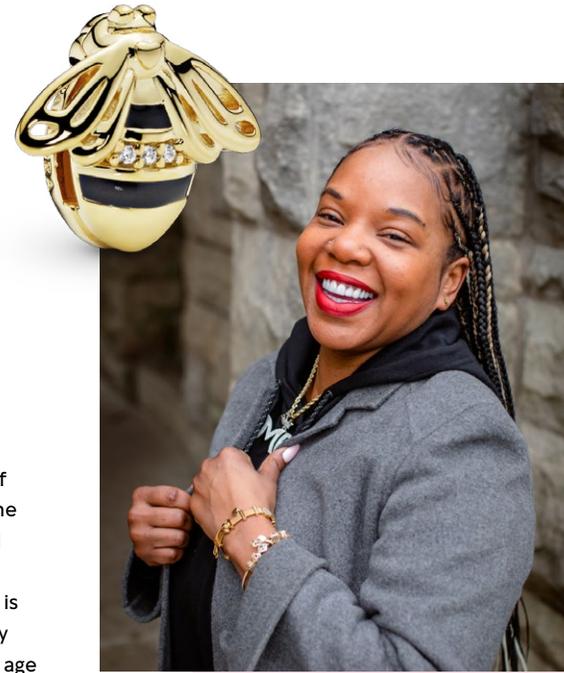
People of all backgrounds buy Pandora jewellery. In fact, it is not possible to define a typical customer by age, income bracket or other demographics, but rather a desire to express emotions for passions, places and people through their jewellery. If we look at our key markets, a Pandora customer generally owns more than ten pieces of Pandora jewellery.

Most Pandora wearers are women, but more than half of our customers are in fact men who buy jewellery as gifts for their loved ones. Research shows that women often influence the choice of gifts. Around half of presents are bought after a 'hint' from a woman.

The Pandora brand is accessible to people at all stages of life, and there is a fairly even split across age groups. In the coming years, Generation Z and Millennials are expected to be key growth drivers representing more than 60% of personal luxury goods consumption by 2026, so Pandora is increasing its investments in this target group. We already enjoy a fairly strong position among women in the 18-34 age bracket, who represent 44% of Pandora owners today.

"I treasure how I can express myself through Pandora. It symbolises me. My 'Wonder Woman' engraving makes me feel strong and reminds me to keep dreaming big and stay true to myself."

REBEKAH
Pandora wearer for 18 years



"I am wearing jewellery that represents me and what I want to give to the world. My beloved Queen Bee charm symbolises being the queen in my own life and standing tall in who I am."

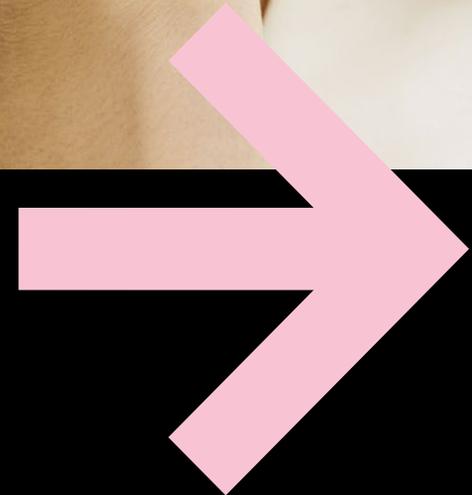
DESTINEE
Pandora wearer for 3 years



OUR BUSINESS

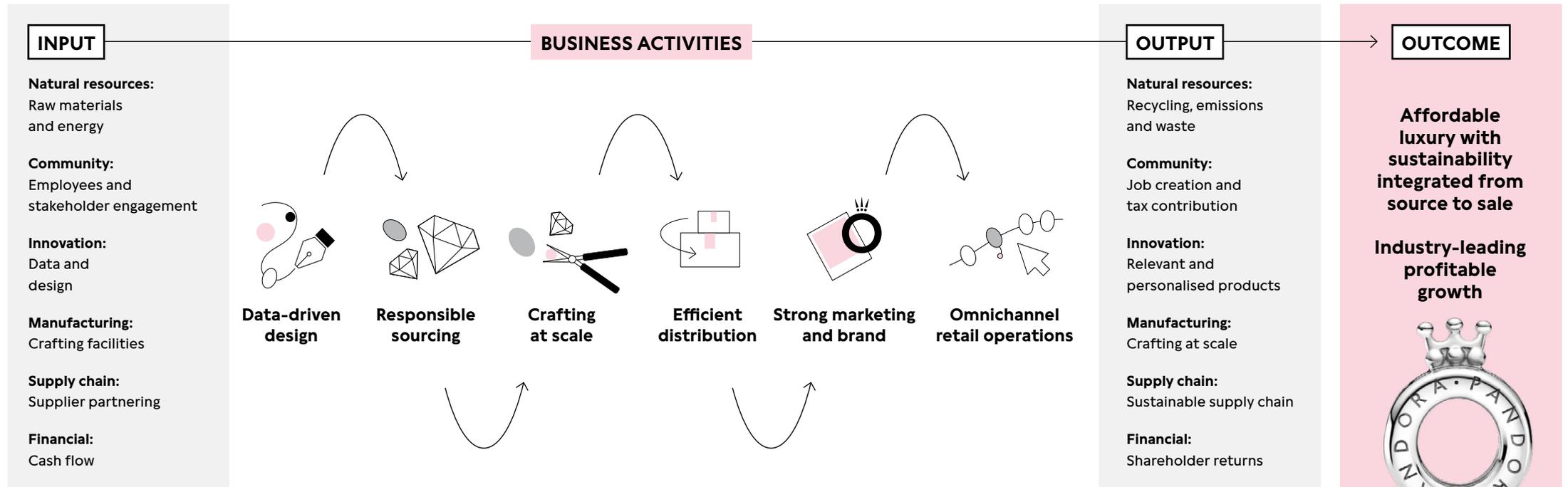


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OUR BUSINESS MODEL

Every day, millions of people express who they are and what matters to them with their Pandora jewellery. Whether it is a display of friendship or romance, or a love for art, gardening or our planet. Our jewellery is a way to show these loves. That is our purpose: **We give a voice to people's loves.**



OUR PHOENIX STRATEGY

In May 2021, Pandora completed its two-year turnaround programme, Programme NOW, and introduced a new growth strategy, Phoenix.

Programme NOW has stabilised Pandora’s top line while maintaining our industry-leading profitability. The programme has strengthened the foundation of Pandora and continues to do so.

Phoenix builds on our strong foundation and centers on the significant untapped opportunities in Pandora’s core business. The gross list of opportunities is rich and we have deliberately prioritised the most important ones to stay focused. The strategy has four pillars aiming at delivering sustainable and profitable revenue growth: brand, design, personalisation and core markets.

Strong foundation

To succeed with our strategy, we rely on our strong foundation:

People – We work as a world-class team leveraging our global presence. Our operating model enables us to deliver a strong and consistent customer shopping experience while we

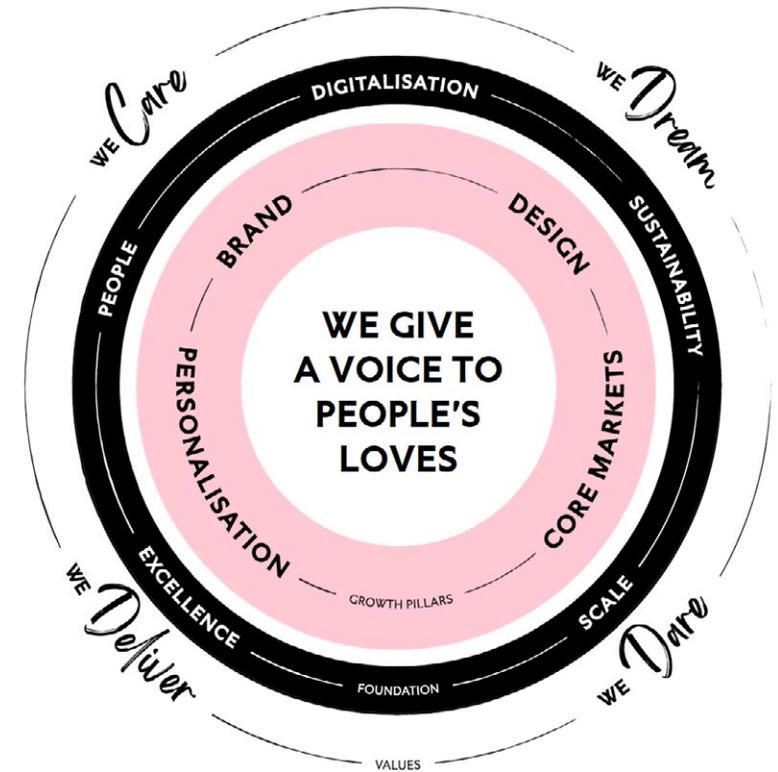
constantly refine our ability to work as one global company with one brand expression, shared processes and clear roles. We strive to create a healthy performance culture powered by innovative digital solutions.

Read more about people on [page 24](#).

Digitalisation – The solid digital foundation we are building will enable us to deliver on our strategy. This includes our new digital powerhouse in Copenhagen, more use of data and advanced analytics in everything we do, modern IT solutions, and many other aspects of digitalising our business.

Sustainability – We believe high-quality jewellery, strong business performance and high ethical standards go hand in hand, and we craft our jewellery with respect for resources, environment and people. Our ambition is to be an industry leader in sustainability as we strive to become a low-carbon and circular business that is also inclusive, diverse and fair with a positive impact across our entire supply chain.

Read more about sustainability on [page 26](#).



Phoenix builds on our strong foundation and is focused on the significant untapped opportunities in Pandora's core business.

Excellence – We will continue to improve our operational excellence, leveraging our profitable store network while at the same time continuing the cost-conscious mindset which we demonstrated through Programme NOW.

Scale – Pandora is the largest jewellery manufacturer in the world, and we will continue to strengthen this part of our organisation to benefit from our scale. Through an integrated and sustainable supply base we will enable consumer-centric, innovative products while at the same time driving continuous optimisation of cost, quality and service.

Growth pillar 1: Brand

Pandora is a global affordable luxury brand that enjoys a high level of consumer awareness, strong brand equity, and a loyal customer base. Our global brand tracker surveys show that consumer perception mirrors our brand promise, and Pandora scores higher than category average on key attributes that drive brand desire, such as “help me to express my personality”.

To ensure that Pandora also wins the hearts of the new generations, we will continue our efforts to increase brand desirability. We use behavioural science, data analytics and social listening to understand our consumers, as we aim to create engaging, authentic and culturally relevant brand experiences across all touchpoints, including products, campaigns, stores, selling ceremony, online and more.

We have increased our media investments significantly in the last three years, and we will continue to invest at a competitive level to maintain brand awareness leadership in today’s complex and fragmented media landscape.

The Pandora product universe



Moments and Collabs

Pandora Moments, home of our iconic snake chain bracelet and more than 12 different jewellery themes, is the core of our business and allows for self-expression, modern storytelling and collectability. We also collaborate with well-known brands to create jewellery with characters and icons from universes like Harry Potter, Star Wars (TM) and Disney. In total, Moments and Collabs accounts for 71% of revenue.



Style and Upstream Innovation

To fuel our brand with incremental growth, we offer our consumers additional collections.



The elegant designs from **Pandora Timeless** (17% of revenue) have a modern twist and include Pandora Timeless Wish with its wishbone motifs, and the distinct mesh bracelets from Pandora Reflexions.



Another collection is **Pandora Signature** (9% of revenue), characterised by the Pandora logo, pavé, heart motifs and geometric linear beauty.



Pandora ME (3% of revenue) pays tribute to a Generation Z mindset in a uniquely bold and customisable link chain design and styling accents to reflect every side of your personality.



Pandora Brilliance (0.2% of revenue) seeks to democratise diamonds by using sustainably lab-created diamonds elevated in designs of floating and unique shapes lending a stand-alone luxurious expression.

OUR GLOBAL BUSINESS UNITS

71%

Moments and Collabs
Share of revenue
2020: 71%

29%

Style and Upstream
Innovation
Share of revenue
2020: 29%

Growth pillar 2: Design

Pandora has three clear design priorities: drive the core (Moments), fuel the brand with more platforms, and establish dedicated support models for each platform.

Pandora's original charms and bracelet offering, Moments, has formed the basis for the company's success over the past two decades, and today Moments and Collabs jewellery accounts for 71% of total revenue. Pandora sees an opportunity to continue growing the Moments business by ensuring a strong pipeline of innovation behind charms and charms carriers, personalisation and collaborations. Combined with commercial focus and visibility this will ensure we build on our core strength.

To fuel the brand with more, Pandora will add new product platforms to its assortment, such as Pandora ME and Pandora Brilliance. These new brand universes will be designed to target specific consumer segments, and we view them as low-risk opportunities. For all new platforms, the aim is to drive incremental growth and reach at least 5% of revenue. When going to market, Pandora will introduce new platforms in steps to test, learn and adjust before potentially scaling up.

Both our core business and our new platforms will have dedicated support along the full value chain, from creation to purchase. Rather than leaving new products a few weeks after launch, we will continue to leverage their potential across the year.

Growth pillar 3: Personalisation

One of our key strengths at Pandora is our direct relationship to millions of consumers. This connection provides rich insights that can help the company offer a better and more personalised service throughout the whole customer journey. The aim is to provide a more relevant and customised omnichannel shopping experience across stores and online. The company is currently

testing a new store concept to support further personalisation. The first three stores under the new concept were launched for testing in the UK, Italy and China in late 2021.

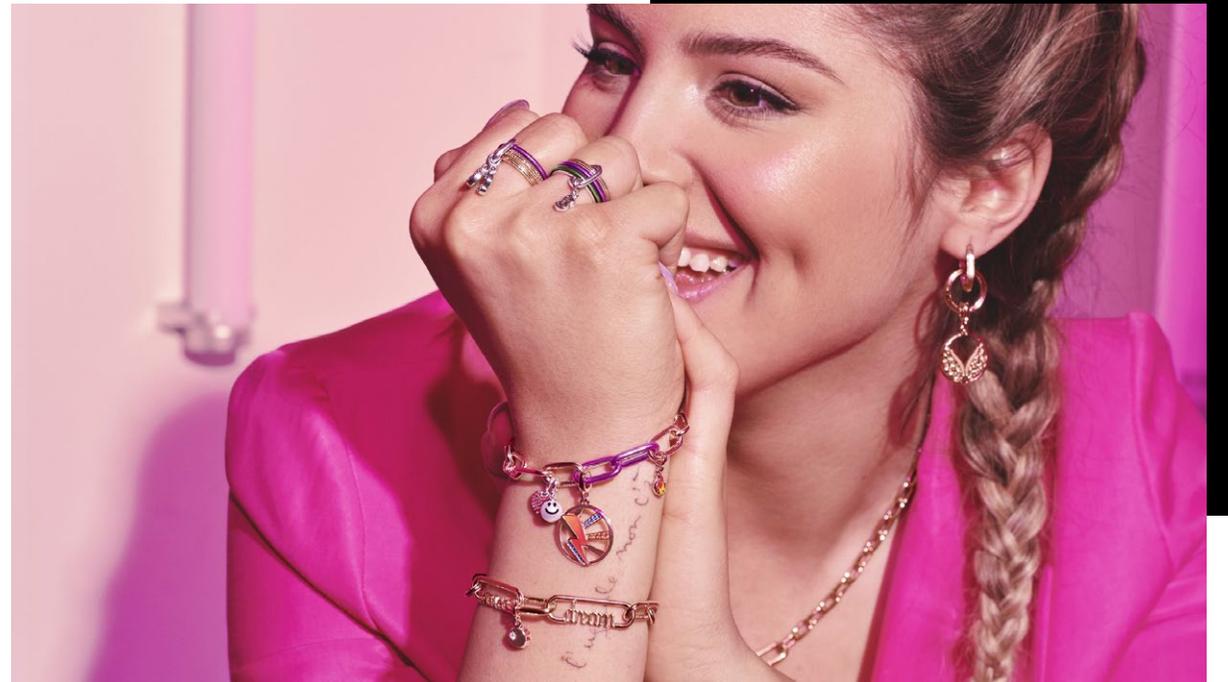
Read more about our omnichannel efforts on [page 32](#).

Growth pillar 4: Core markets

Pandora sees ample opportunities to grow its core markets. The highest potential for growth is in the US and China, where the network footprint is underpenetrated. Additionally,

the Pandora brand is not as strong as in the UK, Italy and Australia, and we see potential to drive revenue growth through higher brand awareness. The long-term ambition is to double revenue in the US and triple revenue in China using 2019 as a baseline. Markets like France and Germany also represent opportunities for growth, as brand awareness is also lower in these markets than in the UK, Italy and Australia.

Read more about our focus on the US and China on [page 23](#).



STORY

NOT JUST FOREVER

BUT FOR EVERYONE



36

piece collection, including rings, pendant and necklaces, bracelets, open bangles and earrings

+60%

of the energy used to create the lab-created diamonds on average comes from renewable sources

In 2021, Pandora introduced Pandora Brilliance, a jewellery collection featuring lab-created diamonds. The 36-piece collection includes rings, pendant and necklaces, bracelets, open bangles and earrings, each carrying a solitaire lab-created diamond hand-set within sterling silver, solid 14K yellow gold or solid 14K white gold. With Pandora Brilliance, Pandora aims to make diamond jewellery accessible to a wider audience by offering affordable, sustainably created products.

“The use of lab-created diamonds is new territory for Pandora. They are as much symbols of innovation and progress as enduring beauty, and the collection is testament to our ongoing and ambitious sustainability agenda. Diamonds are not only forever, but for everyone,” says Stephen Fairchild, Chief Product Officer.

Lab-created diamonds are identical to mined diamonds but created in a laboratory rather than extracted from a mine.

They have the same optical, chemical, thermal and physical characteristics and are graded by the same standards known as the 4Cs – cut, colour, clarity and carat – before being set within the Pandora Brilliance collection.

Pandora Brilliance was initially launched in the UK in order to test and learn. The test proved to be important and resulted in a range of adjustments to the go-to-market model for Pandora Brilliance. In November 2021 it was decided to initiate a step-wise global launch from 2022. The aim is to reach minimum 5% of global revenue and establish Pandora Brilliance as a new collection for the company alongside Pandora Moments, Pandora Timeless, Pandora Signature and Pandora ME.

Pandora’s diamonds are CarbonNeutral® certified and created using more than 60% renewable energy on average. We aim to reach 100% when we begin to sequentially roll out globally from 2022. 

INDUSTRY TRENDS

IN TIMES OF CHANGE

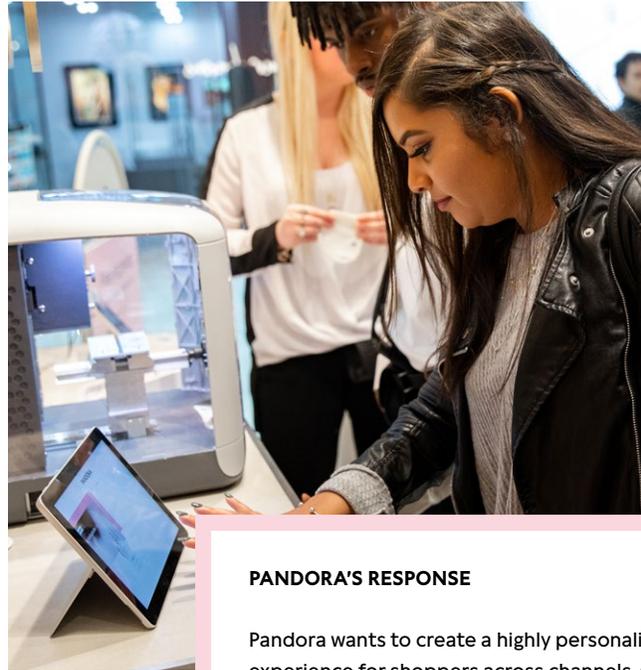
In the last decade, the global jewellery market has grown 4% per annum¹ to a total forecasted value of more than DKK 2,000 billion in 2021. The market remains highly fragmented, and although global brands are growing faster than the overall market, they still make up a relatively small share. The business landscape is currently undergoing dramatic changes, some of which have been accelerated by COVID-19. Four major industry trends are of particular relevance to our Phoenix strategy.

¹ Euromonitor data 2009-2019 – weighted market development with Pandora sales for top-10 markets.

Four major industry trends are of particular relevance to our Phoenix strategy.

TREND
Data-driven personalisation

One of the fundamental shifts in consumer behaviour is the demand for personalised products, services and interactions. As an example, 70% of consumers expect companies to deliver personalised interactions. In recent years, global brands have implemented more personalisation at consumer touchpoints across physical and online channels. Investments in machine learning and data analytics to increase the relevance of customer interactions are paying off.



PANDORA'S RESPONSE

Pandora wants to create a highly personalised experience for shoppers across channels. One important ingredient to be able to do that is data. In 2020, we ran a first pilot on personalised newsletters and banners to analyse the impact on our customers. In 2021, we scaled our personalised newsletter to eight key markets (the US, Australia, France, Germany, Italy, the UK, the Netherlands and Poland), and we started onboarding Spain in Q4 2021. In 2021, we sent 65 million emails with personalised product recommendations. The click-to-open rate increased by 50% compared to our standardised newsletters.

TREND
Acceleration of e-commerce

COVID-19 has accelerated the ongoing shift to digital as more consumers choose to shop from home. In 2021, online jewellery retail sales increased by 9% globally. Brands responded with digital innovations to bring the in-store experience online, such as virtual fitting rooms aided by augmented reality and online shopping events. It is believed this trend will continue: 50% of customers prefer flexible shipping and fulfilment options such as Click & Collect.

PANDORA'S RESPONSE

We have invested significantly in digital capabilities in recent years. We have established a strong Digital Hub with talent from around the world, and we are moving our online stores to a new and unified architecture and code base, which will make them easier to upgrade. Many of the digital initiatives we developed in response to COVID-19 have proven successful and will become permanent features. In 2021, visitors to pandora.net were 47% more likely to buy, if they used the Virtual Try-On feature. Pandora will continue to enhance the digital experience with new features such as an upgraded gift finder, a Pandora ME bracelet builder, online engraving, and continued roll-out of Click & Collect.

**TREND****Running the business, sustainably**

Consumers are increasingly willing to change their purchasing habits to reduce environmental impact, and brands must embrace sustainability to win the trust of younger consumers. Purchases of fine jewellery influenced by sustainability considerations are expected to increase significantly over the coming years. The COVID-19 pandemic has arguably generated even greater interest in social responsibility initiatives, notably related to safeguarding the health and safety of customers, employees and local communities.

PANDORA'S RESPONSE

Pandora has taken an industry lead by demonstrating how sustainability can be integrated across all activities, from source to sale. We have set ambitious targets to become a low-carbon and circular business that is also inclusive, diverse and fair. We also continue our partnership with UNICEF to support their work with children, especially girls, around the world through learning and skills development, rights awareness and gender equality activities. In 2021, we received the highest ranking in MSCI's annual sustainability rating for the sixth consecutive year.

Read more about our sustainability efforts on [page 26](#). ↗

**PANDORA'S RESPONSE**

Pandora has more than 27 million store transactions yearly, and physical retail remains central to meet our customers' shopping preferences. In 2021, we redeveloped our selling ceremony to focus not only on the physical store, but also online. In addition, we trained our teams to support new collections such as Pandora ME and, in the UK, [Pandora Brilliance](#). ↗

We have launched new and advanced in-store tech, providing store colleagues with more mobile points of sale, including digital queuing management systems to benefit an efficient customer journey. To further drive traffic and conversion, we are developing a new store concept, and late 2021 we started testing a pilot in Italy, the UK and China. We have also installed engraving machines in most of our stores in North America to enable even more personalised jewellery.

Read more about our omnichannel initiatives on [page 32](#). ↗

TREND**Repurposing store space**

The high street environment continues to change and has also had to adapt to social distancing and safety guidelines due to COVID-19. Customers have become more purposeful when visiting stores, leading to a decrease in shopping traffic, less patience for queues, and higher demand for an efficient experience.

While there has been a notable shift to online shopping due to COVID-19, physical retail is expected to continue to play a significant role in the way consumers shop, and the pandemic could be a catalyst for change. For example, brands experiment with creating modular spaces that can be used for retail as well as events.



GROWING

CORE MARKETS

STORY

The Phoenix strategy identifies significant growth opportunities for Pandora. We are focused on the core markets and our long-term ambition is to double the business in the US and triple the business in China versus 2019.

Pandora's position in these two markets is very different, and we have a tailored plan for each market.

To unlock our full potential in the US, we will fuel brand momentum, enhance product offering, drive strategic network expansion, and build out a superior omnichannel journey and fulfilment through a more cohesive presence. We want to create longer-lasting relationships with both existing and new customers, with particular focus on Generation Z. Pandora is also investing in the product offering, optimising assortment to be relevant to the US consumer. We are expanding our store network in areas where our presence and awareness are low. Lastly, advancing and enhancing our new omnichannel features continues to be a priority in the US.

To grow Pandora in China, the world's largest jewellery market, we have a comprehensive two-phase plan. First, Pandora will solidify the brand by establishing the core proposition of collectability, affordability and self-expression. This work involves many areas of the business, including a redesign of our marketing communication to make it more relevant, a transformation of our customer experience online and offline to make it more meaningful, and an optimisation of our product assortment and commercial calendar to better engage Chinese consumers. As the first phase gains traction, we will launch the second phase of growing our store network.

Both the US and China plans have a common, key element: our people. Having the right teams in our markets and supporting functions is critical to fuel our ambitions. We have therefore been investing in recruitment and internal development to bring on board and retain world-class talent.



PEOPLE AND SUSTAINABILITY

Building an agile organisation, cultivating top talent and a healthy performance culture and creating an industry-leading sustainability position all help drive future growth.

Innovative & agile organisation

Since 2020, we have redefined the way Pandora operates and built an organisation that balances art and science with the capabilities to deliver results. As the glue across our value chain, we have set up two Global Business Units responsible for developing and marketing our products. This helps us base product decisions on consumer insights and data. To bring leadership closer to customers and ensure strong execution, we have flattened our organisation and connected our Global Office directly to each of our nine trading clusters. We have also transformed our supply organisation to align with the new Global Business Units and increase speed and agility. To accelerate our digitalisation journey, we have established a powerful Digital Hub.

World-class talent

The talent we put into the organisation is just as important as the structure. This is why we want to drive world-class talents to perform and grow their careers and future-proof our performance.

Over the past two years, we have undertaken a massive retooling of Pandora and successfully attracted talent from across the global jewellery industry and leading global companies. We welcomed more than 700 new office colleagues in 2021. We also enrolled 170 top leaders on our new Chief Talent Officer Programme to strengthen their development and create a solid succession pipeline for the years to come.

FIVE INTEGRATED PEOPLE AND SUSTAINABILITY PRIORITIES

Leveraging synergies across a combined people and sustainability agenda, our work is focused on five key areas, underpinned by an advanced digital platform.



700+

office hires in 2021

170

top leaders enrolled on our new Chief Talent Officer Programme





Healthy performance culture

To foster a healthy working environment that empowers our people to deliver, we have redefined our way of working globally. In 2021, we launched a new set of growth-oriented company values: We Dream, We Dare, We Care, We Deliver.

We have introduced a consistent approach to goal-setting and performance evaluation that aligns with our new strategy and values. Combined with incentive programmes that drive shareholder value, we now have a complete framework for a healthy performance culture.

To track how this translates into employee advocacy, we have set Employee Net Promoter Score, a measure of employee sentiment, as a core KPI for the company. In 2021, our Employee Net Promoter Score averaged 38%, which is satisfactory given the many changes and transformation initiatives during the year.

Empowering & transformational leadership

To drive transformational and courageous global leaders who inspire and empower their colleagues, we have professionalised our leadership standards. Based on this, we will launch our first global leadership development programme in early 2022.

To track and guide leadership development, we have introduced Leadership Effectiveness Score as another core company KPI. In 2021, we scored 8 out of 10, which is an especially strong result considering the significant changes to the company's leadership over the past two years.

An employee survey also showed a strong understanding of the new long-term direction for Pandora, scoring 8 out of 10 on whether the new strategy and values have been 'well communicated to me'.

38%

Employee Net Promoter Score

8/10

Leadership Effectiveness Score

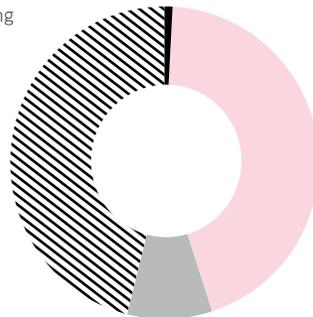
8/10

in employee understanding of new strategy

GLOBAL PEOPLE FOOTPRINT

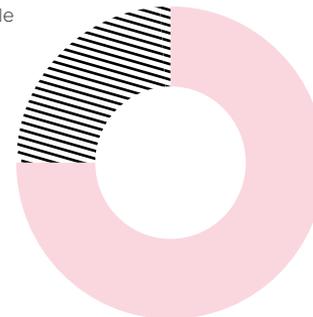
JOB TYPE

- 45% Manufacturing
- 45% Retail
- 9% Office
- 1% Distribution



GENDER

- 76% Female
- 24% Male



TENURE

- 36% 0-1 yrs
- 13% 1-3 yrs
- 22% 3-5 yrs
- 29% +5 yrs



Sustainability leader

As part of our Phoenix growth strategy, we have set out to take industry leadership in sustainability and be a positive force for change. Our work is based on recognised international standards and tools, such as the United Nations Sustainable Development Goals, the United Nations Guiding Principles on Business and Human Rights, and the Paris Agreement on Climate Change.

We work on three strategic priorities within sustainability, and in 2021 we set new and increased ambitions for each area.

SUSTAINABILITY PILLAR 1: LOW-CARBON BUSINESS

Transitioning to a low-carbon economy is now a major, global driver of change in society and business, and in 2020, Pandora committed to become carbon neutral in its own operations by 2025. In 2021, Pandora increased this ambition and announced a commitment to cut its emissions by 50% across its own operations and entire value chain of suppliers and business partners by 2030 and be net zero by 2040.

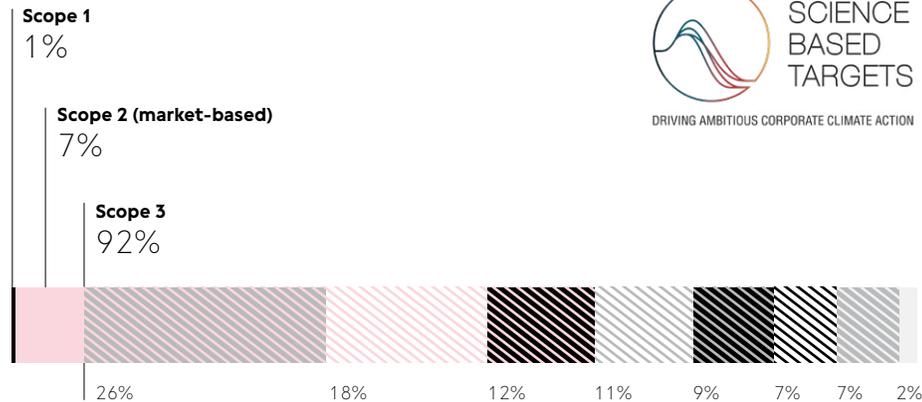
The new target to halve our emissions, one of the most ambitious in the jewellery industry, has been approved by the Science Based Targets initiative and aligns with the Paris Agreement and what climate science says is necessary to limit global warming to 1.5°C.

Read our full sustainability disclosure, cf. section 99(a), 99(b) and 107(d) of the Danish Financial Statements Act, in our **Sustainability Report 2021** available at our website: pandoragroup.com/sustainability/resources/sustainability-reports.

Top sustainability targets across Pandora’s strategic priorities

TOPIC	TARGET	PROGRESS TO DATE	STATUS
Low-carbon business			
	Use 100% renewable energy at our crafting facilities.	Achieved via the purchase of Renewable Energy Certificates and onsite solar generation.	✓ Achieved
	Set a science-based 1.5°C aligned target to reduce carbon emissions across our full value chain by 2021.	Target was approved by the <u>Science Based Targets initiative</u> in 2021.	✓ Achieved
	Reduce our greenhouse gas emissions by 50% by 2030 from a 2019 baseline (Scopes 1, 2 and 3). To achieve this, we will: <ul style="list-style-type: none"> become carbon neutral in our own operations by 2025, reducing emissions by at least 90% from a 2019 baseline (Scopes 1 and 2). Carbon removal mechanisms and off-sets will balance out any remaining emissions; reduce value chain emissions by 42% by 2030 from a 2019 baseline (Scope 3). 	In 2021, we continued to purchase Renewable Energy Certificates, reducing the Scope 2 market-based emissions of our crafting facilities and part of our retail operations by 58% since our baseline year of 2019. Informed suppliers about upcoming Supplier Engagement Programme on climate change.	➔ On track
	Achieve net zero emissions by 2040.	Roadmap under development.	⊕ Target set
Circular innovation			
	Use only recycled silver and gold in our jewellery by 2025.	In 2021, 54% of silver and gold in our products came from recycled sources. Secured increased certified volumes and began piloting a third-party audit mechanism for end-to-end traceability.	➔ On track
Inclusive, diverse and fair			
	Create an inclusive workplace and increase the share of underrepresented groups by 2025.	Roadmap under development.	⊕ Target set
	Achieve gender parity in leadership by 2030.	Roadmap under development.	⊕ Target set
	Reflect societal diversity in our market communications by 2025.	Roadmap under development.	⊕ Target set

GREENHOUSE GAS EMISSIONS (%)



OUR COMMITMENT

➔ **Reduce our greenhouse gas emissions by 50% by 2030 from a 2019 baseline, across our own operations and entire value chain of suppliers and business partners (Scopes 1, 2 and 3).**

To achieve this target we will:

- Become carbon neutral in our own operations by 2025, reducing emissions by at least 90% from a 2019 baseline (Scopes 1 and 2). Carbon removal mechanisms and offsets will balance any remaining emissions.
- We will shift to renewable energy and carry out energy optimisation projects. We will increase on-site generation of renewable energy by installing solar panels at our crafting facilities, and we will purchase Renewable Energy Certificates.
- In 2021, for the second year in a row, we powered our crafting facilities with 100% renewable energy. 2% was supplied by existing solar panels, and the remaining 98% through the purchase of Renewable Energy Certificates. We are working to secure Power Purchasing Agreements in Thailand to eliminate the need for certificates.
- We plan to purchase green power for our more than 1,400 owned and operated stores and distribution centres.
- Reduce value chain emissions by 42% by 2030 from a 2019 baseline (Scope 3).
 - Shift to low-carbon materials, including recycled and man-made materials
 - Improve production and logistics efficiency
 - Implement a sustainable packaging strategy
 - Develop a dedicated supplier engagement programme on climate

- **1% Scope 1**
Emissions from refrigerants and fossil fuels used at Pandora's facilities.
- **7% Scope 2 (market-based)**
Emissions from electricity and heating used at Pandora's facilities.
- **92% Scope 3**
Emissions from other sources outside of Pandora's own operations:
- **26% Crafting materials**
Raw materials such as gold, silver, cubic zirconia, and other metal alloys as well as production materials like gypsum and enamel.
- **18% Media & marketing**
Media spend across all channels ranging from TV campaigns to digital ads and email marketing.
- **12% Other**
Fuel- and energy-related activities, business travel, employee commuting, water supply, waste generated in operations, consultancy services, and facilities management.
- **11% Transportation**
Transportation and distribution of Pandora jewellery, including inbound logistics, outbound logistics and third-party distribution.
- **9% Franchises**
Pandora franchises, wholesalers, and other points of sale which are not directly owned by Pandora.
- **7% IT**
Outsourcing services, hardware, telecom data, and IT consultants.
- **7% Packaging & point-of-sale materials**
Bags, boxes, printed materials, campaign items, displays and trays, and other types of packaging.
- **2% Capital goods**
Various machines, crafting equipment and furniture in stores.

In 2021, we increased the use of low-carbon materials in our products and implemented new types of packaging materials. Our new carrier bags do not contain plastic, and plastic content in new jewellery boxes has been reduced by more than 75%. The jewellery box improvements have brought greenhouse gas emissions savings of over 60% compared to the retail boxes previously used, as they are made with fewer materials, increasing their recyclability.

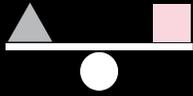
We are committed to transparent climate reporting and submit an annual survey response to CDP (formerly known as Carbon Disclosure Project), which monitors and compares corporate climate performance. We report according to the recommendations of the **Task Force on Climate-related Financial Disclosures** (TCFD). Read more in our [Sustainability Report 2021](#). ↗

SUSTAINABILITY PILLAR 2: CIRCULAR INNOVATION

The main components in Pandora's products are silver, gold, copper, palladium and man-made stones, and, in significantly smaller volumes, leather, polyester and glass.

Mining for precious metals and gemstones is an energy-intensive process and may also be linked to human rights risks. In 2021, Pandora stopped buying mined diamonds and switched to lab-created diamonds which are created using mainly renewable energy.

Pandora is committed to both reducing its carbon footprint related to materials sourcing and mitigating the risk of causing, contributing or being linked to adverse human rights impacts. Recycled metals have a much lower carbon footprint than newly mined metals. For example, the emissions for recycled silver are one third compared to mined silver.



30%

of branding content budget spent with producers owned by women or underrepresented groups.

EUR
950m

revolving credit facility with borrowing costs linked to progress on becoming carbon neutral in own operations and using only recycled silver and gold by 2025.

OUR COMMITMENT

→ Use only recycled silver and gold in our jewellery by 2025

This shift will allow Pandora to save 37,000 tCO₂e a year. In 2021, we saw a small decrease in the share of recycled silver and gold used from 57% in 2020 to 54%. As our production volumes grew by 17%, lead-times required for sourcing recycled metals were unable to keep pace with our increased demand. We are still on track to reach our target of using only recycled silver and gold by 2025.

We will use the Responsible Jewellery Council Chain of Custody standard to source recycled silver and gold. The standard adheres to a strict definition of what recycled means. In 2021, we began piloting an audit mechanism with third-party auditors to ensure our suppliers meet our strict requirements and to establish end-to-end traceability.

SUSTAINABILITY PILLAR 3: INCLUSIVE, DIVERSE AND FAIR

Ensuring an inclusive, diverse and fair culture is a key pillar of our sustainability programme. We respect the human rights of everyone whose lives we touch directly or indirectly, including employees, franchisees, consumers, suppliers and their workers and local communities.

Our commitment to equal rights and opportunities for all is reflected in our policies and programmes. In 2021, we updated our [Human Rights Policy](#), [Supplier Code of Conduct](#) and [Responsible Sourcing Policy](#). We also made progress on laying the foundations for a human rights programme across our business, which includes a commitment to conduct proactive due diligence in line with the United Nations Guiding Principles on Business and Human Rights. This is also instrumental in preparing Pandora for the upcoming EU legislation on mandatory due diligence.

We aim to secure an inclusive workplace for all employees, achieve gender parity in our leadership, and reflect societal diversity in our consumer engagement.

OUR COMMITMENT

→ 1/3 women in leadership by 2025 and full gender parity no later than 2030, and a workforce with a proportionate share of underrepresented groups.

23% of our leaders (Vice President and above) are women. This is on par with the average for companies in Denmark. As we work towards gender parity, we will ensure that all hires and promotions at top leadership levels will happen with gender balance.

Three out of seven members on our Board of Directors are women. This is above average for large publicly listed Danish companies. On our Executive Leadership Team, one out of eight members is a woman.

For underrepresented groups, work still remains on establishing a baseline as there are regulatory challenges in obtaining relevant data in several geographies.

→ 30% of branding content budget spent with producers owned by women or underrepresented groups.

Roadmap is under development and will be finalised in 2022.

→ 30% of our brand ambassadors in our global communication are from underrepresented groups.

Roadmap is under development and will be finalised in 2022.

Providing children and young people across the globe with opportunities to learn, express themselves and find work in the future is another important aspect of our work as an inclusive and fair company. In 2021, we donated USD 2.4 million

to UNICEF as part of our ongoing partnership. We raised the funds primarily through two campaigns under the concept of 'Charms for change' where a portion of the purchase price of each charm sold is donated to UNICEF. Since 2019, Pandora has donated a total of USD 5.8 million to UNICEF.

Pandora supports UNICEF's programmes to fund learning and skills development, rights awareness and gender equality activities in Burundi, China, Nepal, Guatemala and Serbia. In addition, 50% of our donation is allocated to support UNICEF's ongoing work with children exposed to conflict, diseases, natural disasters and other situations that threaten their safety and well-being.

Certified responsible in our business operations

In 2021, Pandora was successfully recertified under the Responsible Jewellery Council's Code of Practice. The certification requires documentation of good business practices and covers:

- responsible supply chain, human rights and due diligence;
- labour rights and working conditions;
- health, safety and environment – including water and waste management;
- product quality, safety, traceability and disclosure;
- responsible mining.

Pandora supports and aligns its approach with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. All silver and gold used to craft our jewellery comes from certified responsible sources according to the Responsible Jewellery Council Code of Practice or London Bullion Market Association Good Delivery Rules.

In addition, Pandora works with areas such as responsible marketing and consumer privacy in order to be recognised as a responsible company.

MANAGING RISKS

Pandora carefully monitors and assesses potential risks to the company on an ongoing basis.

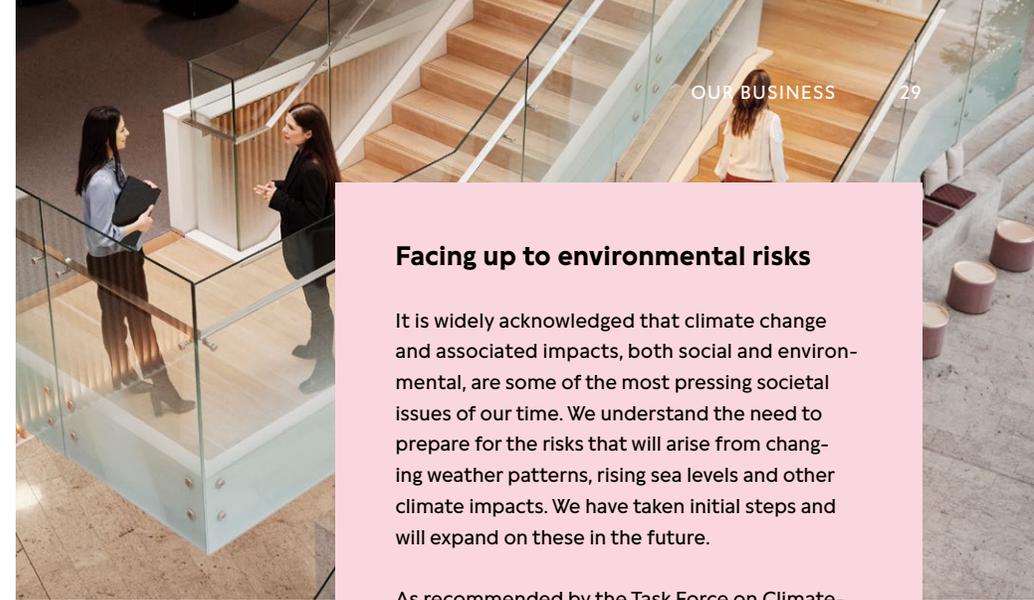
Our approach to risk management

Pandora's enterprise risk management is focused on identifying risks early, assessing them candidly, and taking actions to mitigate them so they will not prevent the company from achieving its business objectives. We see a well-functioning risk management process as key to maintaining and building Pandora's position as the world's largest jewellery brand. Pandora's Chief Financial Officer heads up the company's Risk Management Board, which consists of senior management representatives from across our value chain. All areas of our business are required to report their most significant

risks to the Global Insurance & Risk Office, along with assessments of those risks and an overview of implemented mitigations and next milestones. To read more about our enterprise risk management efforts, please visit pandoragroup.com.

Our key risks

The Board of Directors reviews and discusses the key risks that could threaten our business model or the future performance, solvency or liquidity of Pandora. The key risks and our responses to them are further described on the following pages. The key risks do not represent all the risks associated with our business. Other risks not presently identified or those currently deemed to be less material may also have an adverse effect on our business.



Facing up to environmental risks

It is widely acknowledged that climate change and associated impacts, both social and environmental, are some of the most pressing societal issues of our time. We understand the need to prepare for the risks that will arise from changing weather patterns, rising sea levels and other climate impacts. We have taken initial steps and will expand on these in the future.

As recommended by the Task Force on Climate-related Financial Disclosures, we will conduct a climate change scenario analysis in 2022 to identify short-, medium- and long-term risks in our production and supply chain so that we can ensure a steady supply of our products.

AREA	DESCRIPTION	RISK	MITIGATION
Brand and product relevance	As a large, global brand, the strength and integrity of our brand is a fundamental asset. It is important that our product offerings remain relevant to our customers.	A lack of brand or product relevance constitutes a significant business risk that could result in lower traffic to our stores and online shopping sites and reduce revenue.	<ul style="list-style-type: none"> • Create consumer-centric innovation, fuelled by consumer insights and rigorous testing • Build brand awareness through competitive media investments • Strengthen capabilities within data analytics and technology • Deliver 360 degree brand experience across all consumer touchpoints online and offline • Continue monitoring trademarks and patents and fighting infringements.
Brand access	We sell our products globally and rely on a strong channel network and solid insights to engage with consumers in their preferred marketplace. A personalised and unique shopping experience is important for developing customer loyalty.	Not being able to engage consumers and provide them with a relevant omnichannel shopping experience can result in a decline in revenue.	<ul style="list-style-type: none"> • Engage store associates by redeveloping the selling ceremony and focusing on training programmes • Strengthen focus on personalisation of shopping experiences across channels • Invest in improving digital and omnichannel customer experiences • Continuously optimise the store network by relocating, opening and closing stores • Develop and test new store concept.

AREA	DESCRIPTION	RISK	MITIGATION
<p>Pandemics, including COVID-19</p>	<p>Continued COVID-19 outbreaks or new pandemics may have an effect on the economy in general, consumer behaviour and demand. It may also require significant investments in and changes to Pandora's operating model etc.</p>	<p>Pandemics can result in both lower revenue and higher costs through temporary store and crafting facility closures, labour shortages, decreases in productivity, supply chain disruptions, and changes in the macroeconomic environment and consumer behaviour.</p>	<ul style="list-style-type: none"> • Planned investment in new factory in Vietnam, first unit to be produced end 2024 • Expansion of online distribution capacity • Increased inventories • Making shopping safer for customers through initiatives such as curbside pickup, pop-up stores, and Click & Collect • Review of supply chain, including dependency on individual suppliers and own production facilities and distribution centres • Increased focus on business continuity plans.
<p>Supply disruptions</p>	<p>Pandora operates a fully integrated value chain and most production is in-house. Procurement of raw materials and the ability to produce and distribute finished products are critical for meeting customer demand.</p>	<p>Lockdowns, breakdowns, political unrest, fire, natural catastrophes etc. at Pandora's or key suppliers' sites may result in disruption of our supply chain and have a significant impact on our financial performance. Having crafting facilities located exclusively in Thailand elevates the risk of supply disruption.</p>	<ul style="list-style-type: none"> • Dual sourcing where feasible • Buffers of production components and finished goods • Crafting at two separate locations in Thailand • Planned investment in additional production capacity at existing locations and an additional crafting site in Vietnam • Engagement of external manufacturers to provide flexibility • Ramped up B2B and B2C distribution capacity through additional warehouses.
<p>IT security breaches</p>	<p>Reliable IT systems and infrastructure are critical to the company's ability to operate effectively. We also have a duty to safeguard the data of our customers and partners as well as our own data.</p>	<p>Breaches of IT security, caused by malware attacks for example, could have a severe impact on Pandora's ability to maintain operations for a period of time and, hence, its financial performance. The disclosure of confidential information could compromise the privacy of customers or other individuals.</p>	<ul style="list-style-type: none"> • Comprehensive cyber security programme to upgrade existing capabilities • Ongoing security monitoring supported by incident-response teams • Third-party vulnerability and security maturity assessments • Cyber and information security awareness training and phishing tests to monitor response.
<p>Breakdown of IT systems</p>	<p>Operating a global company with a fully integrated value chain is heavily dependent on stable and efficient IT systems.</p>	<p>Pandora operates a number of legacy IT systems, including ERP. Should Pandora fail or otherwise be unable to upgrade its IT systems in a timely, precise and efficient manner, this could have a material negative effect on Pandora's operations and financial results. Further, a lack of interoperability and an obsolescence of core IT systems could have significant consequences in terms of operational efficiency and business continuity.</p>	<ul style="list-style-type: none"> • Significant investment in technology upgrades, including planned upgrade of ERP platform • Cross-functional alignment and project groups to ensure timely implementation of technology upgrades • Ongoing standardisation and consolidation of IT systems across geographies • Increased focus on business continuity plans.

AREA	DESCRIPTION	RISK	MITIGATION
<p>Talent attraction and succession</p>	<p>Pandora needs highly talented and capable people across all key functions and markets to drive growth and sustainable performance to deliver our strategy.</p>	<p>Failure to attract, develop and retain the right talent as well as maintaining a strong succession pipeline for leadership and critical roles could be a significant risk to delivery on our strategy.</p>	<ul style="list-style-type: none"> • Frequent employee advocacy surveys to measure employee engagement and leadership effectiveness • Chief Talent Officer Programme to get to know our talent, develop them for future roles and build succession depth • Enhanced focus on employer branding through targeted Employee Value Proposition for new hires linked to our new corporate values • Launch of new Inclusion & Diversity goals as part of our strategic priorities within sustainability.
<p>Responsible business behaviour</p>	<p>Pandora has a reputation for responsible business behaviour. This reputation benefits the company in several ways, from attracting new employees to meeting consumer expectations.</p>	<p>If Pandora violates legislation, disregards principles of good corporate citizenship or fails to adhere to social or environmental standards, it could damage our brand, reputation and financial position.</p>	<ul style="list-style-type: none"> • Launch of a new Global Code of Conduct • Mandatory ethics and compliance training • Upgrading external access to our whistleblower hotline • Responsible Supplier Programme, including training and vendor audits • Recurring Responsible Jewellery Council certification • Environmental, social and governance reporting to ensure transparency • Renewed commitment to more ambitious climate targets and other focused sustainability initiatives • Pandora's tax strategy aims at paying fair taxes in all markets where Pandora operates.
<p>Macroeconomic factors</p>	<p>As a global jewellery brand that relies heavily on discretionary consumer spending, Pandora is particularly exposed to a weak macroeconomic environment and general changes in consumer behaviour.</p>	<p>Adverse macroeconomic conditions and general changes in consumer behaviour may result in lower demand for our products, impacting our revenue and earnings.</p>	<ul style="list-style-type: none"> • Continuous monitoring of the macroeconomic landscape • Continuous monitoring of consumer behaviour and trends • Pursue flexibility in cost base, including frequent break options in store leases • Continued pursuit of cost savings • Geographical diversification of revenue streams • Introduction of buy now, pay later payment models.
<p>Market fluctuations</p>	<p>Our products are made of precious metals, mainly silver and gold. As a global business, Pandora has significant revenue in USD, USD-related currencies and GBP. Our crafting facilities are based in Thailand and consequently we have significant net cost in THB.</p>	<p>Pandora is exposed to a weakening of the USD, USD-related currencies and GBP and a strengthening of the THB and precious metal prices. Currency fluctuations and increases in the price of precious metals can have a significant impact on the company's financial performance and cash flow.</p>	<ul style="list-style-type: none"> • Hedging at least 50% of the combined annual commodity, exchange rate and interest rate risk. However, at least 70% of the annual commodity exposure must be hedged • Ongoing review of sales prices.



A TRUE OMNICHANNEL EXPERIENCE

STORY

One of the pillars of our Phoenix strategy is personalisation: to create a jewellery experience as unique as our customers. Customers should have a seamless online and offline journey, to easily discover, explore and purchase our products wherever and whenever they want. During 2021, we had more than 670 million visits to our various channels, including 90 million visits to concept stores.

"Customers today demand a personalised omnichannel experience. They move fluidly across different channels and might discover Pandora in a store in a mall, explore the brand on Instagram, buy online and pick up in-store. That is why it is important for us to be where the customer is, offering a true omnichannel experience throughout the entire shopping journey," says Chief Commercial Officer Martino Pessina.

In 2021, we advanced our personalisation goals with several initiatives. Click & Collect is now available in the majority of our owned concept stores in key markets, generating 6% of online revenue in 2021.

We also offer Endless Aisle, where the sales assistant can find the product online and have it shipped to the customer's home if not available in-store. In most markets, we also offer other digital features that support an omnichannel experience, like Virtual Try-On.

Our physical store is the key touchpoint in the omnichannel journey. We are testing a new store concept called Evoke, which will provide a more convenient and personalised shopping experience while providing a strong link to our online universe.

The opportunity to create unique, personalised jewellery with engravings is now possible in many US stores and a few in Canada, and we successfully tested online engraving in Italy.

Finally, our store staff play a key role in bringing personalisation to life. We are redesigning our customer experience with an omnichannel mindset, and we are investing in training and technology to empower sales associates to connect with customers in increasingly personalised ways. 

"It is important for us to be where the customer is, offering a true omnichannel experience throughout the entire shopping journey."

MARTINO PESSINA
Chief Commercial Officer

CORPORATE GOVERNANCE



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CORPORATE GOVERNANCE

Leadership structure

Corporate authority is divided between the Board of Directors (“the Board”) and Executive Management. The Board outlines the overall vision, strategy and objectives of Pandora’s business activities and supervises the performance of Executive Management.

The Board has established Audit, Remuneration and Nomination Committees and appoints members and Chairs to these committees from within the Board. The committees’ terms of reference are available at [pandoragroup.com](https://www.pandoragroup.com).

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

The Group also has an Executive Leadership Team, which is responsible for the day-to-day operations of their respective business areas while at the same time being part of the overall leadership of Pandora.

Board of Directors

Composition

The Board currently has seven members elected by the General Meeting for a term of one year. All Board members are independent.

The composition of the Board is intended to ensure complementary competencies and diversity to effectively support Pandora’s strategy and ensure that all decisions are well considered.

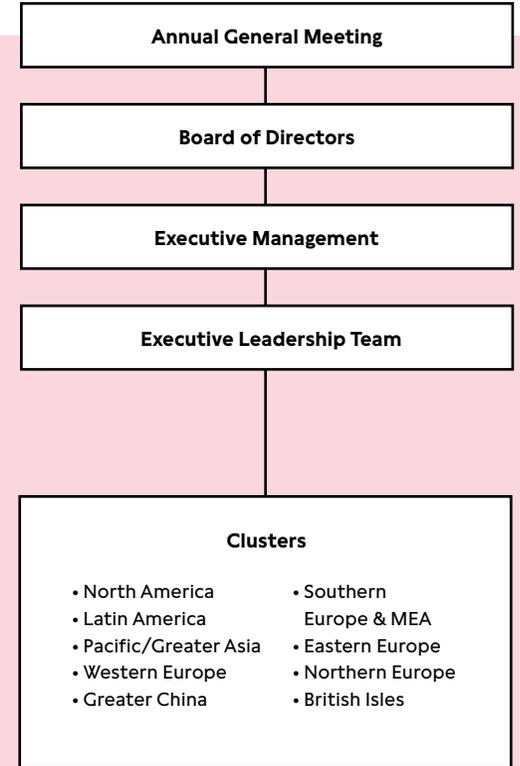
Board evaluation

Every year the Board conducts an internal self-evaluation focusing on the effectiveness of the Board and the skills of the Board. The ideal mix of skills and experiences needed of the Board members include:

Board experience	Executive management
Sectoral experience	Digitalisation
Sustainability	Retail
Marketing and brand	Finance

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

GOVERNANCE STRUCTURE



A CONNECTED ORGANISATION

Fast execution and collaboration across clusters and global functions. The nine clusters report to the Chief Commercial Officer.

REMUNERATION COMMITTEE Committee meetings attended

Peter A. Ruzicka ¹	● ● ● ● ● ●
Christian Frigast	● ● ● ● ● ●
Jan Zijderveld Joined on 11 March 2021	▨ ▨ ▨ ● ● ●
Andrea Dawn Alvey Left on 11 March 2021	● ● ● ▨ ▨ ▨
Ronica Wang Left on 11 March 2021	● ● ● ▨ ▨ ▨

¹ Chair
 ● Meeting attended ▨ Not a Committee member at the time

NOMINATION COMMITTEE Committee meetings attended

Christian Frigast ¹	● ● ●
Birgitta Stymne Göransson	● ● ●
Marianne Kirkegaard	● ● ●
Peter A. Ruzicka	● ● ●

¹ Chair
 ● Meeting attended ● Meeting not attended

In 2021, the Remuneration Committee met six times. Its main activities are described in the Remuneration Report available at our Investor website: pandoragroup.com/investor/corporate-governance/remuneration-reports. ↗

Nomination Committee

The Nomination Committee currently has four members appointed for a term of one year at a time. The Nomination Committee works according to its Terms of Reference and its main responsibilities are:

- assessment and evaluation of the Board and Executive Management, including performance, skills and experience;
- nomination of candidates to the Board and Executive Management;
- monitoring talent and succession policy and ensuring compliance when making Board, Executive Management and Executive Leadership Team appointments;
- succession planning for Executive Management positions;
- reviewing and monitoring diversity policy to ensure compliance.

In 2021, the Nomination Committee met three times and had a few additional ad hoc exchanges relating to the Board’s self-evaluation. Its main activities were to:

- prepare and conduct the Board assessment in accordance with the Danish Corporate Governance Recommendations;
- nominate candidates to the Board;
- assess performance of Executive Management and the cooperation between the Board and Executive Management.

Additional information

The Corporate Governance Statement for 2021, cf. section 107(b) of the Danish Financial Statements Act, is available at our Investor website: pandoragroup.com/investor/corporate-governance/governance-statement. ↗

Pandora’s Global Data Ethics Policy for 2021, cf. section 99(d) of the Danish Financial Statements Act, is available at: pandoragroup.com/investor/corporate-governance/data-ethics. ↗

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

The Board and Executive Management are responsible for Pandora’s internal control and risk management systems in relation to the financial reporting process.

Control environment

The Group’s internal control framework identifies key processes, inherent risks and control procedures to reduce and mitigate financial risks and ensure reliable financial reporting.

The Audit Committee assists the Board in supervising the financial reporting process and monitoring the effectiveness of the internal control and risk management systems. Executive Management is responsible for maintaining and strengthening the overall control environment, identifying weaknesses and ensuring necessary steps are taken to mitigate financial risks through standardisation and process optimisation.

A central Internal Audit and Compliance Controlling (IACC) function has been established to help Pandora accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of internal controls, compliance and governance processes. The IACC function reports to Pandora’s Group Finance function.

See Pandora’s Global Data Ethics Policy for 2021 ↗



The Board and Executive Management assess risks on an ongoing basis.

Risk assessment

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

The IACC function assists Pandora's Executive Management and the Audit Committee in identifying and mitigating financial risks in the financial reporting process.

The Audit Committee reviews selected high-risk areas on a frequent basis, including significant accounting estimates and material changes to accounting policies.

Control activities

The financial information reported by Pandora A/S and its subsidiaries follows a formalised and structured process and is controlled by local controllers with local market knowledge as well as the controlling function within Group Finance. The Group controlling function is continuously trained in new accounting and reporting requirements and monitors compliance with relevant legislation on an ongoing basis.

The financial reporting process is dependent on the Group's IT systems. Any weaknesses in system controls and related risks to the financial reporting are mitigated by manual controls.

Each entity assesses its control environment through a self-assessment of the effectiveness of the implemented controls. The IACC function evaluates the effectiveness of the Group's control environment on an ongoing basis and reports its findings to the Audit Committee.

Monitoring

Pandora's internal control procedures and risk management systems, including the whistleblower function, are continuously monitored, tested and documented.

The Audit Committee monitors internal controls and the risk management process to ensure that identified risks are mitigated.

In addition to monitoring of procedures and systems, financial risks are reviewed through monthly performance reviews and audits performed by the IACC function.

Information and communication

Group entities are assigned dedicated controllers within Group Finance to ensure a direct line of communication. The Group Finance function reports to the Chief Financial Officer (CFO).

In addition, the IACC function is present at all Audit Committee meetings and provides regular status updates on the control environment. Furthermore, the head of IACC has regular meetings with the CFO. This set-up ensures transparency and that communication is shared with the Audit Committee on a timely basis.

The Board has adopted an Investor Relations Policy that requires all communication to stakeholders, including financial reporting, to be conducted adequately, timely and openly – both internally and externally – and to be conducted factually and truthfully and in compliance with laws and applicable regulations.

BOARD OF DIRECTORS



Peter
A. Ruzicka



Christian
Frigast



Heine
Dalsgaard



Birgitta
Stymne
Göransson



Marianne
Kirkegaard



Catherine
Spindler



Jan
Zijderveld

BOARD OF DIRECTORS

The Board members' full CVs are available at [pandoragroup.com](https://www.pandoragroup.com).

Peter A. Ruzicka

Chair

Year of birth: 1964 **Member since:** 2019

Professional position:

Non-executive Board member.

Non-executive functions:

Chair of Ventotene Holding AS and member of the Boards of Royal Unibrew A/S, Aspelin Ramm Gruppen AS, AKA AS and Axfood AB.

Skills and experience:

Vast operational experience with strategy execution and transformation as well as retail and brand optimisation at executive level. Furthermore, Peter A. Ruzicka contributes with experience from other Board positions and insight into capital markets.

Christian Frigast

Deputy Chair

Year of birth: 1951 **Member since:** 2010

Professional position:

Executive Chair of Axcel Management A/S.

Non-executive functions:

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

Skills and experience:

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

Heine Dalsgaard

Year of birth: 1971 **Member since:** 2021

Professional position:

Chief Financial Officer of Carlsberg A/S.

Non-executive functions:

Member of the Boards of Novozymes A/S, Carlsberg Integrated Information Technology A/S, Carlsberg Shared Services Sp.z.o.o., Udviklingselskabet Carlsberg Byen P/S, Carlsberg Breweries A/S, Carlsberg Byen Komplementar ApS, and Carlsberg Ejendomme Holding A/S.

Skills and experience:

Experience within areas such as international financial and executive management from large corporate multinationals.

Birgitta Stymne Göransson

Year of birth: 1957 **Member since:** 2016

Professional position:

Non-executive Board member.

Non-executive functions:

Chair of Industrifonden and Min Doktor AB and member of the Boards of Asker AB, Elekta AB, Enea AB and LEO Pharma A/S.

Skills and experience:

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

Marianne Kirkegaard

Year of birth: 1968 **Member since:** 2020

Professional position:

CEO of Brill Bakery Solutions LLC.

Non-executive functions:

Member of the Boards of Faerch Group, Salling Group A/S, BioMar and AKK AB.

Skills and experience:

In-depth international insight into the consumer market, experience advancing the social sustainability agenda and her experience of the complete value chain within large corporate multinationals.

Catherine Spindler

Year of birth: 1977 **Member since:** 2020

Professional position:

Chief Brand Officer of Lacoste.

Non-executive functions:

None.

Skills and experience:

Experience within international brand strategy, digital transformation and vast experience in beauty and cosmetics, high-growth pureplay digital environments and lifestyle apparel retail.

Jan Zijderveld

Year of birth: 1964 **Member since:** 2021

Professional position:

Non-executive Board member.

Non-executive functions:

Member of the Board of Ahold Delhaize N.V. and Senior Advisor to a number of private equity firms.

Skills and experience:

International consumer market insight, extensive experience advancing environmental and social sustainability, and exposure to the full value chain.

EXECUTIVE LEADERSHIP TEAM



Alexander
Lacik



Anders
Boyer



Stephen
Fairchild



Carla
Liuni



Martino
Pessina



Jeerasage
Puranasamriddhi



Erik
Schmidt



David
Walmsley

EXECUTIVE LEADERSHIP TEAM

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

Alexander Lacik

President & Chief Executive Officer (CEO)

Year of birth: 1965 **Member since:** 2019

Registered Executive Management.

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

Anders Boyer

Executive Vice President & Chief Financial Officer (CFO)

Year of birth: 1970 **Member since:** 2018

Registered Executive Management.

Anders Boyer has more than 20 years' experience in finance, business management and turnarounds. Prior to joining Pandora, Anders held positions as Chief Financial Officer at Hempel and GN Store Nord, and Finance Director and subsequently Regional Director of ISS. Anders started his career at A.P. Moller-Maersk, where he worked for ten years. He has an MSc in Finance and Accounting from Copenhagen Business School, Denmark.

Stephen Fairchild

Chief Product Officer
Member since: 2011

Carla Liuni

Chief Marketing Officer
Member since: 2020

Martino Pessina

Chief Commercial Officer
Member since: 2020

Jeerasage Puranasamriddhi

Chief Supply Officer
Member since: 2020

Erik Schmidt

Chief HR Officer
Member since: 2019

David Walmsley

Chief Digital & Technology Officer
Member since: 2019

SHAREHOLDER INFORMATION

22%

total shareholder return in 2021

Pandora shares have been listed on the Nasdaq OMX Copenhagen stock exchange since 2010. Pandora is included in the blue chip OMX C25 index and has around 36,000 registered shareholders.

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

In 2021, the Pandora share price increased by 20% and ended the year with a closing price of DKK 815. The total return to shareholders was further fuelled by cash distributions in the calendar year of DKK 4.8 billion. In 2021, the total shareholder return was 22%.

The Pandora share's liquidity remains strong with a free float of 100% of total shares outstanding and around 119 million shares traded in 2021. The trading volume averaged around 474,000 shares per day.

Capital structure and cash allocation

Pandora's capital structure serves to ensure that the company has sufficient financial flexibility to pursue its strategic goals

and preserve a stable financial structure based on a strong balance sheet.

Pandora's capital structure policy is to maintain NIBD to EBITDA between 0.5 and 1.5. By the end of 2021, Pandora's leverage ratio was only 0.4x EBITDA and thereby slightly below the capital structure policy range. During the last couple of years, Pandora has successfully decreased net working capital by DKK 3 billion. At the same time, capitalised lease liabilities have decreased by more than DKK 1 billion. Combined, these two factors have decreased leverage by around 0.5x. As cash distributions to shareholders are limited to the amount of free reserves in the Parent Company, the lower net working capital and lease liabilities also currently impact the ability to reach the upper part of the leverage range. As of 31 December 2021, free reserves in the Parent Company amounted to DKK 7.5 billion.

Proposed distributions

Pandora continues to be highly cash generative and has ample liquidity to continue cash distribution to shareholders. For 2022, the Board proposes a dividend of DKK 16 per share and a new share buyback of DKK 3.3 billion. The Board already has the authority to initiate a share buyback at any point in time.

SHARE PRICE DEVELOPMENT 2021



ANNUAL DISTRIBUTIONS DKK billion	FY 2022 Proposed	FY 2021 Actual	FY 2020 Actual	FY 2019 Actual	FY 2018 Actual
Dividend (ordinary + interim)	1.6	1.5	0.8	1.8	1.9
Nominal dividend per share, DKK	16.0	15.0	9.0	18.0	18.0
Share buyback programme	3.7 ¹	3.3	-	2.2	4.0
Total cash return	5.3	4.8	0.8	4.0	5.9

¹ Includes DKK 0.7 billion from already announced share buyback running until 4 February 2022 and DKK 3.0 billion of new share buyback expected to be paid out in calendar year 2022.

Review of 2021 share buyback and dividends

In 2021, Pandora paid out an extraordinary dividend of DKK 15 per share. The total amount paid was around DKK 1.5 billion. In addition, The Board of Directors initiated share buyback programmes under which Pandora will buy back own shares to a maximum consideration of up to DKK 4 billion by 4 February 2022. Pandora repurchased shares for a value of DKK 3.3 billion in 2021.

Shareholders

As of 31 December 2021, Pandora had two major shareholders. BlackRock has disclosed holding rights to shares corresponding to 9.9% of the total outstanding voting rights and voting rights attached to financial instruments of 2.7%, while Parvus has disclosed holding rights to shares amounting to 5.1%.

As of 31 December 2021, the geographical split of institutional investors was (% of share capital):

- UK 26%
- US 19%
- Denmark 11%.

As of 31 December 2021, Pandora’s Board of Directors and Executive Management held a total of 82,380 and 266,748 Pandora shares respectively, corresponding to 0.35% of the total share capital.

Investor Relations

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

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

Company website

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

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

Pandora will ensure that the company is perceived as visible, accessible, reliable and professional.

Financial calendar 2022

- 09 Feb**
Annual Report 2021
- 10 Mar**
Annual General Meeting
- 04 May**
Interim Report Q1 2022
- 16 Aug**
Interim Report Q2 2022
- 08 Nov**
Interim Report Q3 2022

Share information

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

ADR information

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



FINANCIAL REVIEW



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GROUP PERFORMANCE

2021 was a record-breaking year for Pandora. Revenue was at all-time high, and Pandora outperformed its guidance on both organic growth and EBIT margin. 2021 was also the year Pandora released its long-term growth strategy Phoenix, charting a new chapter of sustainable growth for the years ahead.

COVID-19 continued to impact the business in 2021, but in spite of lockdowns and restrictions Pandora ended the year with strong results. Organic growth was 23% compared to 2020 and 9% compared to 2019.

The high growth was supported by a continued strong brand momentum, and investments in digital and commercial initiatives during the last couple of years paid off. Pandora continues to see strong traction on its personalised marketing initiatives and omnichannel features such as Click & Collect. Personalising the consumer journey is a key growth pillar in the Phoenix strategy.

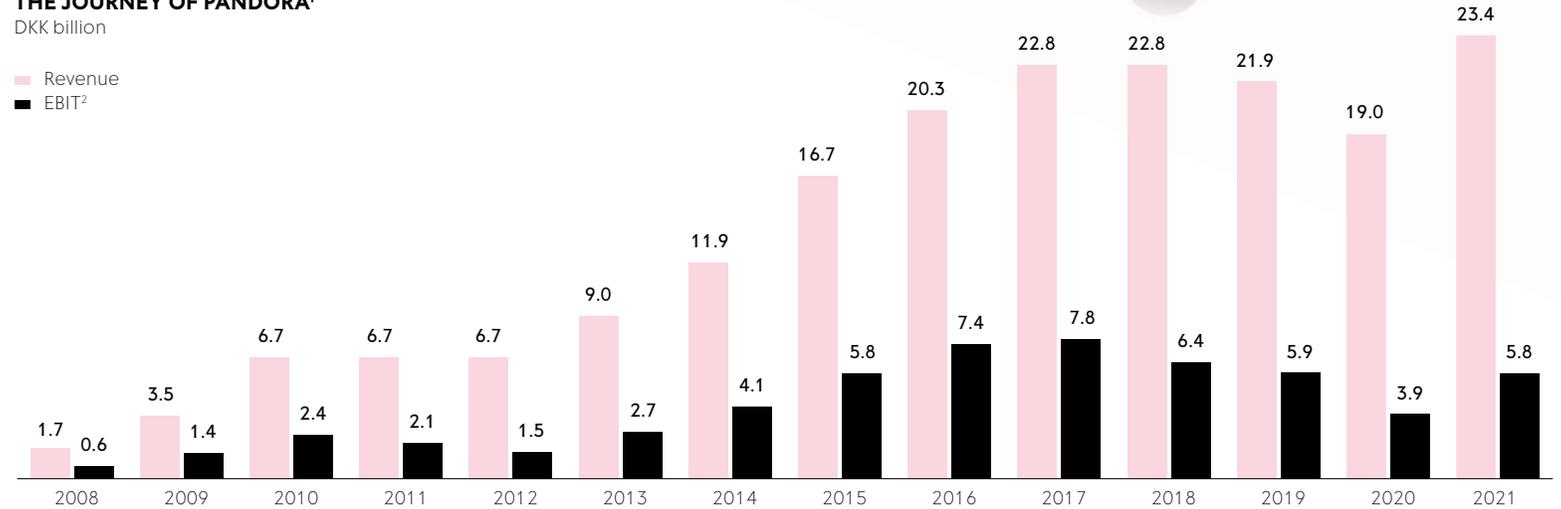
The year was furthermore marked by two developments in particular, which impacted performance in opposite directions:

On the one hand, the pandemic forced Pandora to temporarily close many of its stores, mostly in the first half of the year. Around 30% of stores were closed in Q1 and around 15% were closed in Q2. The pandemic also had a significant impact on store traffic in China, where footfall decreased

THE JOURNEY OF PANDORA¹

DKK billion

■ Revenue
■ EBIT²



¹ Presented on the basis of the applicable accounting standards at the time.

² 2019 and 2020 figures exclude Programme NOW restructuring costs.

up to 70% compared to 2019. The negative impact in China was visible throughout 2021, but especially prevalent in the second half of the year.

On the other hand, Pandora was positively impacted by unusually strong performance in the US. The market delivers strong growth throughout the year. While the growth was partly fuelled by government stimulus packages, data

indicates that Pandora outperformed the market notably. The US recorded 58% organic growth compared to 2020.

Record-breaking revenue in 2021

Pandora delivered a strong underlying performance in most of its key markets, and - as mentioned above - not least in the strategically important US market. It is Pandora's long-term ambition to double US revenue compared to 2019.

The UK, Pandora's second largest market, also delivered solid growth. The online store in particular performed strongly, generating 53% share of revenue compared with 55% in 2020 and 25% in 2019.

Italy and Germany both delivered solid double digit organic growth compared with 2020. The growth in both markets was driven by continued strong demand for the Pandora Moments platform. France was slightly down following COVID-19 store closures and restrictions, but ended the year with positive growth in Q4.

As expected, China was a drag on 2021 performance, but remains a high priority for Pandora. It is Pandora's long-term ambition to triple the revenue in China compared to 2019. The first steps in Pandora's turnaround in China were planned for the second half of 2021, but due to the continued significant impact of COVID-19 in China, Pandora postponed the investments to 2022.

Moments delivering solid results

Pandora's Global Business Units, Moments and Collabs and Style and Upstream Innovation, both delivered strong growth in 2021 and generated sell-out growth of 20% and 19%, respectively. The share of business for Moments and Collabs was 71%, unchanged from 2020. Pandora is very pleased with the development in both business units. Pandora's first priority is to continue to grow its Moments platform while simultaneously investing in new designs and developing the product offering. In 2021, Pandora test launched Pandora Brilliance in the UK and relaunched Pandora ME. In 2022, Pandora will do a sequential global roll-out of Brilliance, and Pandora will also introduce a new collaboration.

REVENUE BY CHANNEL

DKK million	2021	2020	Organic growth	Growth in local currency	Share of revenue FY 2021	Share of revenue FY 2020
Pandora owned retail	15,922	13,426	16%	18%	68%	71%
- of which concept stores	9,133	7,321	20%	25%	39%	39%
- of which online stores	5,977	5,483	8%	8%	26%	29%
- of which other points of sale	812	622	30%	30%	3%	3%
Wholesale	6,705	4,949	41%	37%	29%	26%
- of which concept stores	3,737	2,714	47%	39%	16%	14%
- of which other points of sale	2,968	2,235	35%	35%	13%	12%
Third-party distribution	767	634	24%	24%	3%	3%
Total revenue	23,394	19,009	23%	24%	100%	100%

REVENUE BY GLOBAL BUSINESS UNIT

DKK million	2021	2020	Sell-out growth	Growth in local currency	Share of revenue FY 2021	Share of revenue FY 2020
Moments and Collabs	16,610	13,562	20%	23%	71%	71%
- Moments	14,699	11,660	22%	27%	63%	61%
- Collabs	1,911	1,902	3%	0%	8%	10%
Style and Upstream Innovation	6,784	5,447	19%	25%	29%	29%
- Timeless	4,091	3,318	19%	24%	17%	17%
- Signature	1,990	1,739	12%	14%	9%	9%
- Me	656	390	42%	67%	3%	2%
- Brilliance	48	-	n/a	n/a	0%	-
Total revenue	23,394	19,009	20%	24%	100%	100%

Store network development

In 2021, Pandora closed net 71 concept stores due to a general pruning of the network. The closed stores were performing unsatisfactorily, even before the lockdowns. Some store openings were delayed or put on hold due to COVID-19, particularly in Latin America and China. Pandora see ample opportunities to grow the store network in the years to come. Pandora expects to open net 50-100 concept stores in 2022.

STORE NETWORK

Number of points of sale	2021	2020	Growth
Concept stores	2,619	2,690	-71
- of which Pandora owned	1,423	1,382	41
- of which franchise owned	700	797	-97
- of which third-party distribution	496	511	-15
Other points of sale	4,154	4,402	-248

GROUP PROFITABILITY

Profitability continues to be strong

Pandora's Global Business Unit Moments and Collabs generated a gross margin of 75.3% (2020: 76.1% excluding restructuring costs) while Style and Upstream Innovation generated a gross margin of 78.1% (2020: 77.4% excluding restructuring costs). Overall, gross margin was slightly down compared to 2020 (-0.4pp excluding restructuring costs) mainly following negative impacts from higher silver prices, but also various COVID-19 precautionary measures impacting gross margin negatively. Production in Thailand has been running throughout the year despite severe COVID-19 outbreaks in Thailand.

OPEX excluding restructuring costs increased by 13% in constant foreign exchange rates compared to 2020. The increase is significantly lower than the growth in revenue and mainly stems from higher marketing expenses, as Pandora has continued to invest in the brand. Marketing expenses increased by DKK 0.9 billion and ended at 15.3% of revenue (up 1 pp compared to 2020). In 2021, Pandora received DKK 152 million in government subsidies, impacting sales and distribution expenses. The EBIT margin ended at 25.0%, up 4.6pp compared to 2020 (excluding restructuring costs), equal to a 50% growth in absolute EBIT and a testimony to the operating leverage in Pandora's business model.

COST OF SALES AND GROSS PROFIT DKK million

	2021	2020	Growth	Share of revenue 2021	Share of revenue 2020
Revenue	23,394	19,009	23%	100.0%	100.0%
Cost of sales	-5,590	-4,475	25%	-23.9%	-23.5%
Gross profit excl. restructuring costs	17,803	14,534	22%	76.1%	76.5%
Restructuring costs	-	-159	-100%	-	-0.8%
Gross profit incl. restructuring costs	17,803	14,375	24%	76.1%	75.6%

OPERATING EXPENSES DKK million

	2021	2020	Growth	Share of revenue 2021	Share of revenue 2020
Sales and distribution expenses	-6,352	-6,234	2%	27.2%	32.8%
Marketing expenses	-3,587	-2,717	32%	15.3%	14.3%
Administrative expenses	-2,026	-1,702	19%	8.7%	9.0%
Total operating expenses excl. restructuring costs	-11,965	-10,652	12%	51.1%	56.0%
Restructuring costs	-	-1,038	-100%	-	5.5%
Total operating expenses incl. restructuring costs	-11,965	-11,691	2%	51.1%	61.5%
Operating profit (EBIT)	5,839	2,684	118%	25.0%	14.1%
Operating profit (EBIT) excl. restructuring costs	5,839	3,881	50%	25.0%	20.4%

BALANCE SHEET AND CASH FLOW

Solid capital position

Net working capital ended at a -5% of revenue in 2021, a very strong level and a result of the many improvements Pandora has carried out during the last couple of years. Throughout 2021, Pandora has deliberately increased inventory by around DKK 1 billion compared with 2020 to mitigate risk of stock-outs and disruptions in the supply chain. Furthermore, the lapse of Programme NOW restructuring costs in 2020 have decreased Trade payables. Free cash flow remained strong and ended the year at DKK 5.1 billion despite a DKK 1 billion inventory build-up.

In 2021, ROIC was 59% compared with 25% in 2020. This is the highest ROIC since 2017 where it was 69%. The improved underlying performance combined with the lapse of Programme NOW one-off restructuring costs as well as lower invested capital are all positively impacting ROIC. The high ROIC is evidence of Pandora's attractive business model.

Balance Sheet

Total non-current assets decreased to DKK 12.6 billion at the end of 2021 (2020: DKK 13.0 billion), mainly due to amortisation and depreciation.

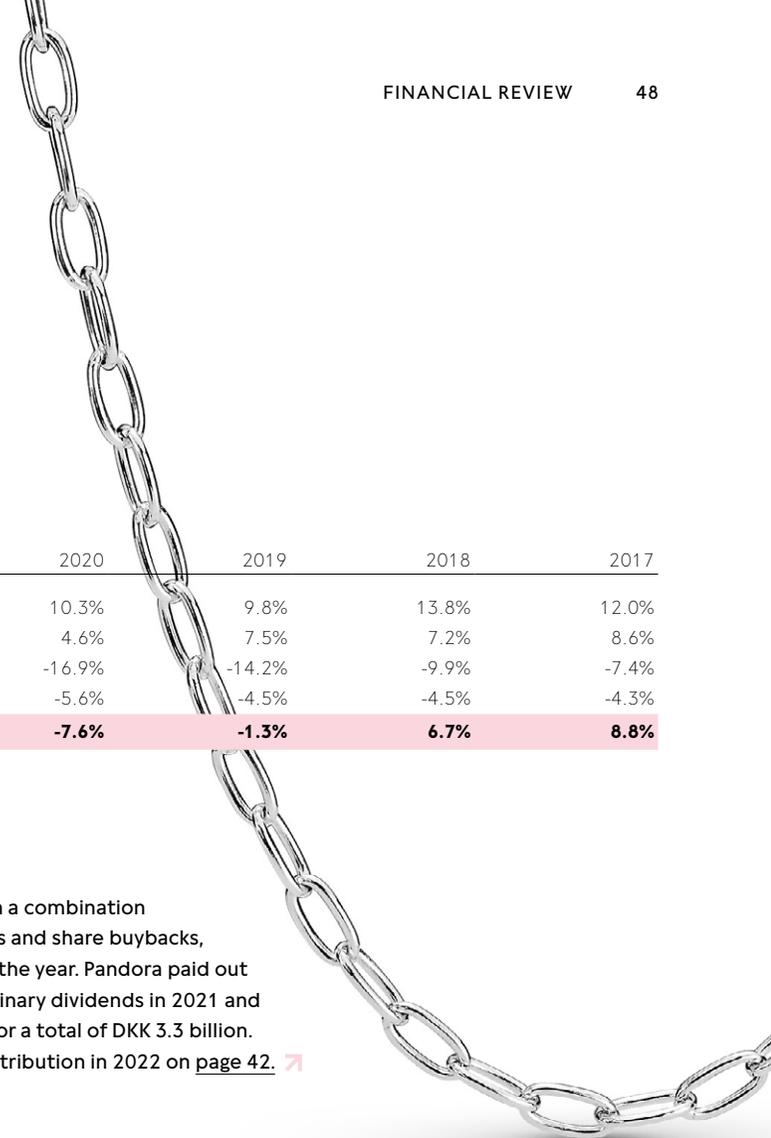
NET WORKING CAPITAL

Share of preceding 12 months' revenue	2021	2020	2019	2018	2017
Inventories	12.8%	10.3%	9.8%	13.8%	12.0%
Trade receivables	4.3%	4.6%	7.5%	7.2%	8.6%
Trade payables	-14.0%	-16.9%	-14.2%	-9.9%	-7.4%
Other net working capital elements	-8.2%	-5.6%	-4.5%	-4.5%	-4.3%
Total	-5.0%	-7.6%	-1.3%	6.7%	8.8%

Net interest-bearing debt amounted to DKK 2.9 billion at the end of 2021 (2020: DKK 3.2 billion), corresponding to a financial leverage of 0.4x (2020: 0.5x). The decrease in net interest-bearing debt was driven by a strong cash conversion, ending 2021 with a financial leverage slightly below the capital structure policy range of NIBD to EBITDA between 0.5 and 1.5x.

By the end of 2021, equity in Pandora amounted to DKK 7.0 billion, compared to DKK 7.4 billion in 2020. The decrease was primarily driven by payout of DKK 4.8 billion

to its shareholder through a combination of extraordinary dividends and share buybacks, partly offset by profit for the year. Pandora paid out DKK 1.5 billion in extraordinary dividends in 2021 and bought back own shares for a total of DKK 3.3 billion. Read more about cash distribution in 2022 on [page 42](#).



FINANCIAL STATEMENTS

The background features several decorative chains and a pearl necklace. There are silver, gold, and black chains, along with a pearl necklace. A large pink arrow points to the right, overlapping the bottom right of the title.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

CONSOLIDATED INCOME STATEMENT DKK million	Notes	2021	2020
Revenue	2.1	23,394	19,009
Cost of sales	2.3, 3.1, 3.2	-5,590	-4,634
Gross profit		17,803	14,375
Sales, distribution and marketing expenses	2.3, 3.1, 3.2	-9,939	-9,155
Administrative expenses	2.3, 3.1, 3.2	-2,026	-2,536
Operating profit	2.1	5,839	2,684
Finance income	4.6	152	316
Finance costs	4.6	-613	-507
Profit before tax		5,378	2,494
Income tax expense	2.5	-1,218	-556
Net profit for the year		4,160	1,938
Earnings per share, basic (DKK)	4.2	42.1	20.0
Earnings per share, diluted (DKK)	4.2	41.7	19.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME DKK million	Notes	2021	2020
Net profit for the year		4,160	1,938
Other comprehensive income:			
Items that may be reclassified to profit/loss for the year			
Exchange rate adjustments of investments in subsidiaries		370	-609
Commodity hedging instruments:			
- Realised in net cost of sales		-4	11
- Realised in net financials		-16	-31
- Realised in inventories		-141	-234
- Fair value adjustments		-219	490
Foreign exchange hedging instruments:			
- Realised in net financials		249	-49
- Fair value adjustments		-287	21
Tax on other comprehensive income, income/expense	2.5	83	-13
Items that may be reclassified to profit/loss for the year, net of tax		36	-416
Items not to be reclassified to profit/loss for the year			
Actuarial gain/loss on defined benefit plans, net of tax	2.3	10	6
Items not to be reclassified to profit/loss for the year, net of tax		10	6
Other comprehensive income, net of tax		46	-410
Total comprehensive income for the year		4,206	1,528



CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER

ASSETS DKK million	Notes	2021	2020	EQUITY AND LIABILITIES DKK million	Notes	2021	2020
Goodwill		4,418	4,247	Share capital	4.1	100	100
Brand		1,057	1,057	Treasury shares	4.1	-3,416	-93
Distribution		1,080	1,110	Reserves		795	750
Other intangible assets		538	529	Retained earnings		9,523	6,632
Total intangible assets	3.1	7,094	6,943	Total equity		7,001	7,389
Property, plant and equipment	3.2	1,816	2,054	Provisions	3.7	416	370
Right-of-use assets	3.3	2,532	3,007	Loans and borrowings	4.3, 4.4	2,765	2,066
Deferred tax assets	2.5	891	764	Deferred tax liabilities	2.5	113	368
Other financial assets		222	244	Total non-current liabilities		3,295	2,804
Total non-current assets		12,555	13,012	Provisions	3.7	26	29
Inventories	3.5	2,991	1,949	Refund liabilities	3.8	724	654
Trade receivables	3.6	1,009	870	Contract liabilities	3.8	163	82
Right-of-return assets	3.8	70	62	Loans and borrowings	4.3, 4.4	1,161	3,996
Derivative financial instruments	4.4, 4.5	69	351	Derivative financial instruments	4.4, 4.5	209	119
Income tax receivable	2.5	68	83	Trade payables	3.9, 4.4	3,267	3,211
Other receivables		738	745	Income tax payable	2.5	1,003	382
Cash		1,043	2,912	Other payables	4.4	1,694	1,317
Total current assets		5,988	6,972	Total current liabilities		8,246	9,790
Total assets		18,542	19,984	Total liabilities		11,541	12,595
				Total equity and liabilities		18,542	19,984

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	Share capital	Treasury shares	Translation reserve	Hedging reserve	Dividend proposed	Retained earnings	Total equity
2021								
Equity at 1 January		100	-93	535	215	-	6,632	7,389
Net profit for the year		-	-	-	-	-	4,160	4,160
Other comprehensive income, net of tax		-	-	370	-325	-	1	46
Total comprehensive income for the year		-	-	370	-325	-	4,161	4,206
Share-based payments	2.3, 2.4	-	1	-	-	-	209	210
Purchase of treasury shares	4.1	-	-3,325	-	-	-	-	-3,325
Dividend paid	4.2	-	-	-	-	-1,481	2	-1,479
Dividend proposed	4.2	-	-	-	-	1,481	-1,481	-
Equity at 31 December		100	-3,416	905	-110	-	9,523	7,001
2020								
Equity at 1 January		100	-1,964	1,112	54	836	5,110	5,249
Net profit for the year		-	-	-	-	-	1,938	1,938
Other comprehensive income, net of tax		-	-	-577	161	-	6	-410
Total comprehensive income for the year		-	-	-577	161	-	1,944	1,528
Share-based payments	2.3, 2.4	-	14	-	-	-	76	90
Purchase of treasury shares	4.1	-	-431	-	-	-	-	-431
Sale of treasury shares ¹	4.1	-	2,288	-	-	-	-509	1,779
Dividend paid	4.2	-	-	-	-	-836	11	-825
Dividend proposed	4.2	-	-	-	-	-	-	-
Equity at 31 December		100	-93	535	215	-	6,632	7,389

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 16 per share, corresponding to DKK 1.6 billion (2020: DKK 0 million), be distributed for 2021.

In 2021, an extraordinary dividend of DKK 15 per share was paid, corresponding to DKK 1.5 billion.

In 2021, Pandora initiated share buyback programmes, which resulted in repurchases of 3,943,797 treasury shares, corresponding to DKK 3.3 billion.

For further shareholder information on dividend payments, see [page 42](#). ↗

¹ On 5 May 2020, Pandora initiated an accelerated bookbuild for the sale of 8 million treasury shares, which was completed on the same day, generating approximately DKK 1.8 billion in net proceeds.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

DKK million	Notes	2021	2020
Operating profit		5,839	2,684
Depreciation and amortisation		1,999	2,315
Share-based payments	2.4	166	70
Change in inventories		-799	-96
Change in receivables		-77	869
Change in payables and other liabilities		327	724
Other non-cash adjustments	4.7	70	-155
Interest etc. received		3	3
Interest etc. paid		-468	-247
Income tax paid	2.5	-832	-192
Cash flows from operating activities, net		6,228	5,975
Acquisition of subsidiaries and activities, net of cash acquired	3.4	-66	-12
Purchase of intangible assets		-289	-130
Purchase of property, plant and equipment		-296	-374
Change in other non-current assets		17	19
Proceeds from sale of property, plant and equipment		2	13
Cash flows from investing activities, net		-631	-484
Acquisition of non-controlling interests		-	-42
Dividend paid	4.2	-1,479	-825
Purchase of treasury shares	4.1	-3,325	-431
Sale of treasury shares	4.1	-	1,778
Proceeds from loans and borrowings	4.3	1,315	5,861
Repayment of loans and borrowings	4.3	-3,004	-9,073
Repayment of lease commitments	4.3	-991	-839
Cash flows from financing activities, net		-7,484	-3,571
Net increase/decrease in cash		-1,887	1,920

DKK million	Notes	2021	2020
Cash at 1 January ¹		2,912	1,054
Exchange gains/losses on cash		18	-62
Net increase/decrease in cash		-1,887	1,920
Cash at 31 December¹		1,043	2,912
Cash flows from operating activities, net		6,228	5,975
- Interest etc. received		-3	-3
- Interest etc. paid		468	247
Cash flows from investing activities, net		-631	-484
- Acquisition of subsidiaries and activities, net of cash acquired		66	12
Free cash flow excl. lease payments		6,128	5,747
Free cash flow incl. lease payments		5,137	4,908
Unutilised committed credit facilities	4.4	6,023	6,998

¹ Cash comprises cash at bank and in hand.

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

§ ACCOUNTING POLICIES

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

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

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Notes

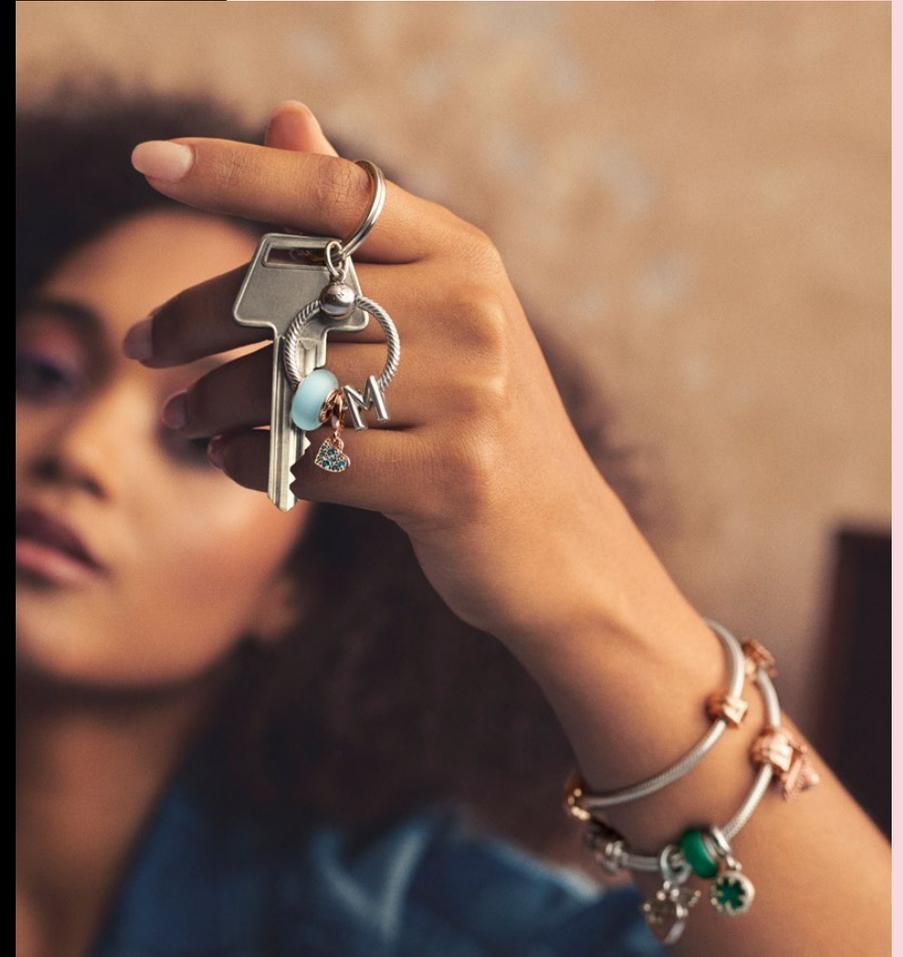
The notes are grouped into five sections related to key figures. The notes contain the relevant financial information as well as a description of accounting policies applied for the topics of the individual notes.

SECTION 1

BASIS OF PREPARATION

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

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



NOTE 1.1

PRINCIPAL ACCOUNTING POLICIES

Notes

- 2.1 Segment and revenue information
- 2.2 Government grants
- 2.3 Staff costs
- 2.4 Share-based payments
- 2.5 Taxation
- 3.1 Intangible assets
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- 4.2 Earnings per share and dividend
- 4.3 Net interest-bearing debt
- 4.5 Derivative financial instruments
- 4.6 Net financials

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

The Annual Report for the period 1 January – 31 December 2021 comprises the consolidated financial statements of Pandora A/S and its subsidiaries (the Group).

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

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

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

Apart from changes due to the implementation of new or amended standards and interpretations as described in [note 1.2 New accounting policies and disclosures](#) , accounting policies are unchanged from last year.

iXBRL reporting

Pandora A/S has filed the Annual Report in 2021 in the new European Single Electronic Format (ESEF), XHTML format that

can be displayed in a standard browser. The primary statements in the consolidated financial statements are tagged using eXtensible Business Reporting Language (iXBRL), which comply with the ESEF taxonomy included in the ESEF Regulation. The Annual Report submitted to the Danish Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a file named PAND-2021-12-31.zip.

Alternative performance measures

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

§ ACCOUNTING POLICIES

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

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

Consolidated financial statements

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

Functional and presentation currency

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

Transactions and balances

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

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

NOTE 1.1

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

lated using the exchange rates at the date when the fair value is determined.

Group companies with another functional currency than DKK

The assets and liabilities of foreign subsidiaries are translated into DKK at the rate of exchange prevailing at the reporting date, and their income statements are translated at the exchange rates prevailing at the dates of the transactions.

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

Consolidated income statement

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

Sales, distribution and marketing expenses comprise expenses related to the distribution of goods sold and sales campaigns, including packaging materials, brochures, wages and salaries and other expenses related to sales and distribu-

tion staff as well as depreciation, amortisation and impairment losses in respect of distribution equipment.

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

The allocation of amortisation and impairment losses from intangible assets is presented in [note 3.1](#) ↗ and the allocation of depreciation and impairment losses from property, plant and equipment in [note 3.2](#). ↗

Financial statements of the Parent Company

Under section 149 of the Danish Financial Statements Act, these consolidated financial statements represent an extract of Pandora's complete Annual Report. In order to focus on the overall, consolidated results for Pandora, we publish Group consolidated financial statements without the financial statements of the Parent Company, Pandora A/S. The Annual Report of the Parent Company is an integrated part of the full Annual Report and available at [cvr.dk](#) following approval at the Annual General Meeting.

NOTE 1.2

NEW ACCOUNTING POLICIES AND DISCLOSURES**Implementation of new or amended standards and interpretations**

Pandora has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January – 31 December 2021. The implementation of these new or amended standards and interpretations had no material impact on the financial statements for the year apart from the amendment in IFRS 16.

Amendment to IFRS 16 Leases

In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond 30 June 2021, an amendment to IFRS 16 Leases. The IASB extended the period of relief for leases arising as a direct consequence of the COVID-19 pandemic from 30 June 2021 to 30 June 2022.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 pandemic-related rent concession the same way it would account for the change under IFRS 16 if the change was not a lease modification. The extension of the practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

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

NOTE 1.2

 NEW ACCOUNTING POLICIES AND DISCLOSURES
(CONTINUED)

- than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2022 and increased lease payments that extend beyond 30 June 2022);
 - there is no substantive change to other terms and conditions of the lease.

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

NOTE 1.3

MANAGEMENT'S JUDGEMENTS AND ESTIMATES UNDER IFRS

Notes

- 2.1 Segment and revenue information
- 2.5 Taxation
- 3.3 Leases
- 3.5 Inventories
- 3.8 Contract assets and liabilities
- 5.1 Contingent liabilities

! SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

Climate change

In preparing the Consolidated Financial Statements, management has considered the impact of climate change, particularly in the context of sustainability targets. These considerations did not have a material impact on management's judgements and estimates, consistent with the assessment that climate change is

not expected to have a significant impact on the Group's future cash flow or going concern assessment.

In addition, consideration has been given to the potential financial impacts of climate-related risks on the carrying value of goodwill through qualitative review of the Group's climate change risk assessment. This review did not identify any material reporting impacts.

COVID-19

COVID-19 continues to affect the global economy, and Pandora continues to assess the value of intangible assets and property, plant and equipment, and internal forecasts have considered the ongoing impacts of the pandemic on income and expenses. Changes in selling prices and direct costs are based on past experience and management's expectation of future changes in the markets where the Group operates.

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

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

SECTION 2

RESULTS FOR THE YEAR

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

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

23,394

Revenue
DKK million
2020: 19,009

25.0%

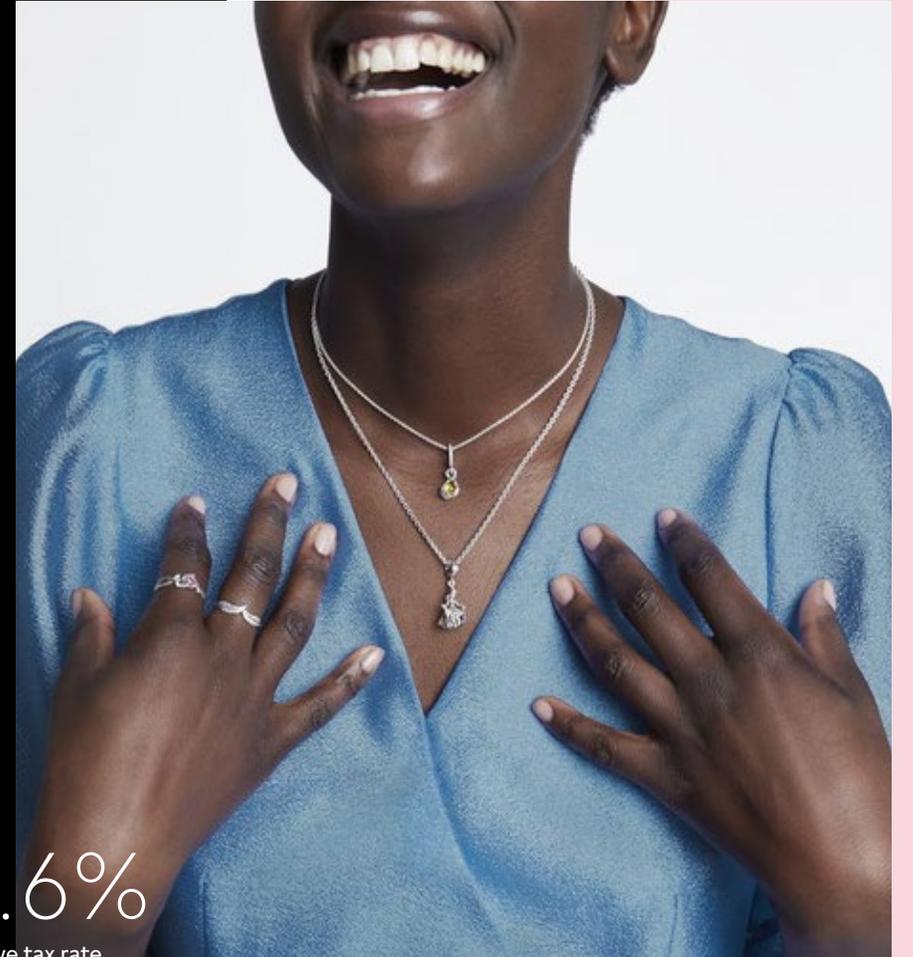
EBIT margin
2020: 20.4% excl.
restructuring costs

4,160

Net profit
DKK million
2020: 1,938

22.6%

Effective tax rate
2020: 22.3%



NOTE 2.1

SEGMENT AND REVENUE INFORMATION

Pandora's activities are segmented into two reportable segments (Global Business Units), each responsible for the end-to-end performance of products. One Global Business Unit is responsible for Moments and Collabs, while the other drives the newer collections and innovations.

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

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

As Programme NOW restructuring costs for 2020 cannot be meaningfully allocated to segments, segment performance for 2020 was measured and reported excluding restructuring costs. Segment information is recognised and measured in accordance with IFRS.

INCOME STATEMENT BY GLOBAL BUSINESS UNIT DKK million	Moments and Collabs	Style and Upstream Innovation	Group
2021			
Revenue	16,610	6,784	23,394
Cost of sales	-4,106	-1,485	-5,590
Gross profit	12,504	5,300	17,803
Operating expenses			-11,965
Consolidated operating profit (EBIT)			5,839
Profit margin (EBIT margin)			25.0%
2020¹			
Revenue	13,562	5,447	19,009
Cost of sales	-3,359	-1,275	-4,634
Gross profit	10,204	4,172	14,375
Operating expenses			-11,691
Consolidated operating profit (EBIT)			2,684
Profit margin (EBIT margin)			14.1%
Restructuring costs ²			-1,197
Profit margin (EBIT margin) excl. restructuring costs			20.4%

¹ The 'Garden' collection was reallocated from Style and Upstream Innovation to Moments and Collabs in Q2 2021. Comparative figures for 2020 were restated accordingly.

² Programme NOW was completed in 2020, thus no restructuring cost was recorded in 2021. Restructuring costs in 2020 amounted to DKK 1.2 billion, comprising mainly cost of sales (DKK 0.2 billion, primarily related to optimisation in production) and operating expenses (DKK 1.0 billion, primarily related to organisational restructuring, IT transformation and consultancy expenses). Restructuring costs impacted marketing expenses by DKK 0.1 billion, sales and distribution expenses by DKK 0.1 billion and administrative expenses by DKK 0.8 billion.

REVENUE BY GLOBAL BUSINESS UNIT DKK million	2021	2020
Moments and Collabs	16,610	13,562
- Moments	14,699	11,660
- Collabs	1,911	1,902
Style and Upstream Innovation	6,784	5,447
- Timeless	4,091	3,318
- Signature	1,990	1,739
- Me	656	390
- Brilliance	48	-
Total revenue	23,394	19,009
Goods transferred at a point in time	23,321	18,939
Services transferred over time	73	70
Total revenue	23,394	19,009

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



NOTE 2.1

SEGMENT AND REVENUE INFORMATION (CONTINUED)

REVENUE BY SALES CHANNEL		
DKK million	2021	2020
Pandora physical stores	9,945	7,943
Pandora online stores	5,977	5,483
Wholesale and third-party distribution	7,472	5,583
Total revenue	23,394	19,009

GEOGRAPHIC INFORMATION, REVENUE		
DKK million	2021	2020
UK	3,314	2,960
Italy	2,443	2,021
France	1,122	1,154
Germany	1,191	1,014
Denmark	32	30
US	7,026	4,505
Australia	1,131	1,120
China	1,126	1,261
Other	6,009	4,943
Total revenue	23,394	19,009

GEOGRAPHIC INFORMATION, ASSETS		
DKK million	2021	2020
Germany	602	645
Denmark	1,983	1,952
US	1,754	1,701
Australia	453	443
Thailand	516	535
Other	1,785	1,669
Total intangible assets¹	7,094	6,943
Property, plant and equipment ²	1,816	2,054
Right-of-use assets ³	2,532	3,007
Deferred tax assets	891	764
Other non-current financial assets	222	244
Current assets	5,988	6,972
Total consolidated assets	18,542	19,984

¹ The allocation of intangible assets in the table above reflects the country in which the assets were acquired, including goodwill, in the functional currency in which it is denominated. This is different from the presentation in [note 3.1 Intangible assets](#), where goodwill is allocated in accordance with management reporting and monitoring.

² The crafting facilities in Thailand accounted for DKK 1,025 million (2020: DKK 1,130 million), corresponding to 56.4% of property, plant and equipment (2020: 55.0%).

³ Right-of-use assets mainly relate to stores and offices.

! SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 2.1

SEGMENT AND REVENUE INFORMATION (CONTINUED)

§ ACCOUNTING POLICIES

Retail sales – products

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

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

The Group's obligation to repair or replace faulty products is part of the standard terms and is therefore recognised as a contract liability, see [note 3.8 Contract assets and liabilities](#). ↗ Revenue is further measured excluding sales taxes and duties when

these are passed on to customers. Sales taxes and duties incurred on sales that are not recoverable from the local taxation authorities are reported gross as part of revenue and cost of sales.

Wholesale and third-party distributors – products

Pandora manufactures and sells jewellery to wholesalers and third-party distributors. Revenue is recognised when control of the products has been transferred to the wholesaler or third-party distributor. Change of control of the products occurs when the products have been delivered to the wholesaler or distributor and no further obligation exists that can affect the transfer of control. Delivery has taken place when the products have been shipped to the location of the wholesaler or distributor and control of the goods has been transferred to the buyer. Revenue from the sale is recognised based on the price specified in the contract. Revenue is only recognised to the extent it is highly probable that a significant reversal will not occur. A refund liability and a right-of-return asset are recognised for products expected to be returned, see [note 3.8 Contract assets and liabilities](#). ↗ The estimate for returned products is based on historical experience

and expectations. Based on knowledge of the nature of returns in the wholesale and distributor channels, it is considered highly probable that a significant reversal of cumulative revenue recognised will not occur. Provisions for rebates and discounts granted to wholesalers and franchisees are recognised as a reduction in revenue.

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

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

NOTE 2.2

GOVERNMENT GRANTS

Pandora received government subsidies of DKK 152 million (2020: DKK 225 million) as a result of the COVID-19 pandemic for operations mainly in Europe. The majority of the subsidies were related to employee retention and facility cost and included the government programmes "Coronavirus Job Retention Scheme" and "Business Rates Relief" in the UK, "Unemployment Benefits" and "Tax Credit Rental" in Italy, and "Short-Time Work Subsidy" in Germany. There are no unfulfilled conditions or other contingencies attached to the subsidies recognised. During the pandemic, Pandora has retained all staff, including store staff while stores were closed. The government subsidies partially fund the associated cost, and relate mainly to sales and distribution.

§ ACCOUNTING POLICIES

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

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

NOTE 2.3

STAFF COSTS

DKK million	2021	2020
Wages and salaries	4,041	3,581
Pensions	177	178
Share-based payments	166	70
Social security costs	256	177
Other staff costs	395	472
Total staff costs	5,034	4,478
Staff costs have been recognised in the consolidated income statement:		
Cost of sales	1,063	913
Sales, distribution and marketing expenses	3,010	2,572
Administrative expenses	961	993
Total staff costs	5,034	4,478
Average number of full-time employees during the year	22,441	22,336

The Group's pension plans are primarily defined contribution plans. Pandora has defined benefit plans relating to employees in Thailand. The defined benefit plans are recognised at the present value of the actuarially measured obligations. In 2021, these obligations amounted to DKK 81 million (2020: DKK 74 million).

In 2021, the actuarial gain was DKK 10 million (2020: gain of DKK 6 million) recognised in other comprehensive income.

DKK million	Base pay	Bonus	Shares	Benefits	Other	Total
2021						
Total remuneration to Executive Management	16.2	16.6	26.6	2.4	-	61.9
The 2021 remuneration includes DKK 1.2 million cost of shares related to the former Executive Management.						
2020						
Total remuneration to Executive Management	14.0	15.7	13.1	1.7	-	44.5

The 2020 remuneration includes DKK 1.2 million cost of bonus and DKK 1.0 million cost of shares related to the former Executive Management.

DKK million	2021	2020
Total remuneration to Board of Directors	7.6	7.8

Board members receive a fixed travel fee when attending Board meetings abroad. Total travel fee for 2021 amounted to DKK 0.4 million (2020: DKK 1.0 million).

For further details, see the [Remuneration Report](#) available at pandoragroup.com.

§ ACCOUNTING POLICIES

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

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

NOTE 2.4

SHARE-BASED PAYMENTS

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

The total cost related to share-based payments was DKK 166 million (2020: net cost of DKK 70 million). The programmes for 2021 and for 2020 were recorded at the maximum level as the maximum performance is expected to be met. The cost of share-based payments is included in staff costs. In the remaining vesting periods, an amount of DKK 174 million (2020: DKK 95 million) is expected to be recognised in respect of the current programmes. The weighted average remaining contractual life of the shares at the end of the period was 1.5 years (2020: 2.9 years).

For shares exercised in 2021, the average share price at the time of exercise was DKK 637.

Long-term incentive programmes

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

SHARES OUTSTANDING	Executive Management	Other employees	Total	Average exercise price per performance share, DKK
2021				
Shares outstanding at 1 January	229,018	707,613	936,631	1.1
Shares granted during the year	50,288	205,415	255,703	-
Shares exercised during the year	-	-4,754	-4,754	-
Shares lapsed during the year	-	-38,676	-38,676	0.8
Shares outstanding at 31 December	279,306	869,598	1,148,904	0.9
2020				
Shares outstanding at 1 January	188,413	502,386	690,799	4.2
Shares granted during the year	115,491	446,854	562,345	-
Shares exercised during the year	-32,061	-19,079	-51,140	4.1
Shares lapsed during the year	-42,825	-222,548	-265,373	6.2
Shares outstanding at 31 December	229,018	707,613	936,631	1.1

NOTE 2.4

SHARE-BASED PAYMENTS (CONTINUED)

NUMBER OF SHARES IN PANDORA A/S	Expiry date	Exercise price, DKK	Shares 31 December 2021	Expected volatility	Risk-free interest rate	Maximum market value at launch (DKK million)	Accumulated cost recognised (DKK million)	Remaining value to be expensed (DKK million)
Programme start date								
November 2018 ^{1,2}	2023	2.65	7,865	43%	-0.1%	2	2	-
March 2019 ^{1,3}	2022	2.65	249,135	43%	-0.6%	93	57	-
March 2019 ^{1,2}	2024	2.65	105,662	43%	-0.5%	27	16	-
July 2020 ³	2023	0.00	419,864	42%	-0.6%	152	104	45
July 2020 ²	2025	0.00	115,491	42%	-0.6%	36	25	10
April 2021 ³	2024	0.00	200,599	50%	-0.5%	154	53	102
April 2021 ²	2026	0.00	50,288	50%	-0.5%	26	9	17
Total number of shares outstanding			1,148,904			490	265	174

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

² Programme related to Executive Management.

³ Programme related to other employees.

Assumptions

The volatility of the shares is based on the historical volatility of the price of Pandora A/S shares. The risk-free interest rate is based on a Danish government bond with similar maturity. The dividend yield applied is equal to 2.2% for the 2021 programme and is based on the assumed future dividend over the vesting period and the share price on the date of the grant. Actual paid dividends may differ from the assumptions applied in the valuation of the market value. Given that the exercise price for one performance share equals up to 1% of the market price of one share at grant date, the fair value almost equals the market value of one share at grant date. The assumptions in the table therefore have very limited impact on the estimated fair value of the shares granted.

§ ACCOUNTING POLICIES

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

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The calculated fair values are based on either the Black-Scholes model or the Monte Carlo model according to the performance conditions of each programme. The cost of equity-settled

transactions is recognised as staff costs together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled.

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

NOTE 2.5
TAXATION

Income taxes

Income tax expense

Income tax expense was DKK 1,218 million in 2021, corresponding to an effective tax rate of 22.6% (2020: DKK 556 million, 22.3%) for the Group. The tax rate of 22.6% was negatively impacted by non-capitalised tax assets, paid withholding taxes on dividend and other payments, and non-deductible expenses from limitation in deduction for marketing expenses in China and other expenses with no tax deduction. The effective tax rate was reduced by non-taxable income in Thailand as part of the investment agreement with the Thai government, Board of Investment, and further reduced by adjustments to tax for prior years.

The corporate income tax rate in Pandora's key markets is higher than the Danish tax rate of 22%, except for the UK and Thailand.

INCOME TAX EXPENSE DKK million	2021	2020
Current income tax charge for the year	1,500	604
Change in deferred tax for the year	-201	-66
Impact of change in tax rates	1	2
Adjustment to current tax for prior years	-42	-52
Adjustment to deferred tax for prior years	-40	68
Total income tax expense	1,218	556
Deferred tax on other comprehensive income	-92	45
Income tax on other comprehensive income	9	-32
Total tax on other comprehensive income	-83	13

RECONCILIATION OF EFFECTIVE TAX RATE AND TAX	2021		2020	
	%	(DKK million)	%	(DKK million)
Profit before tax		5,378		2,494
Corporate tax rate in Denmark, 22%	22.0%	1,183	22.0%	549
Deviation in foreign subsidiaries' tax rates compared with the Danish rate	0.3%	17	0.2%	5
Deferred tax impact of change in tax rates	0.0%	1	0.1%	2
Non-deductible expenses	3.1%	166	2.7%	68
Tax incentives	-2.9%	-157	-3.9%	-98
Adjustment to tax for prior years	-1.6%	-82	0.7%	16
Non-capitalised tax assets, net	0.6%	30	-0.1%	-2
Withholding taxes/other taxes	1.1%	60	0.7%	17
Effective income tax rate/income tax expense	22.6%	1,218	22.3%	556

§ ACCOUNTING POLICIES

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

! SIGNIFICANT ACCOUNTING ESTIMATES

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

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

NOTE 2.5

TAXATION (CONTINUED)

Deferred tax

At the end of 2021, deferred tax assets amounted to DKK 891 million (2020: DKK 764 million) and deferred tax liabilities amounted to DKK 113 million (2020: DKK 368 million). Net deferred tax assets amounted to DKK 778 million (2020: DKK 396 million).

Of the total deferred tax assets recognised, DKK 23 million (2020: DKK 14 million) related to tax loss carryforwards, the utilisation of which depends on future positive taxable income exceeding realised deferred tax liabilities. It is management's opinion that these tax loss carryforwards can be utilised.

Tax assets not recognised were DKK 62 million (2020: DKK 33 million), of which DKK 36 million (2020: DKK 28 million) relate to tax loss carryforwards that are not expected to be utilised in the foreseeable future. Tax losses that can expire amounted to DKK 18 million (2020: DKK 14 million).

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

Only insignificant latent tax liabilities remained at 31 December 2021. These liabilities are not recognised as the Group is able to control this liability and it is considered probable that the liability will not crystallise in the foreseeable future.

DEFERRED TAX DKK million	2021	2020
Deferred tax at 1 January	396	440
Exchange rate adjustments	6	-15
Recognised in the income statement	241	-2
Recognised in other comprehensive income	92	-45
Recognised in equity, share-based payments	44	20
Impact of change in tax rates	-1	-2
Deferred tax at 31 December	778	396
Deferred tax assets	891	764
Deferred tax liabilities	-113	-368
Deferred tax, net	778	396

BREAKDOWN OF DEFERRED TAX DKK million	2021	2020
Intangible assets	-633	-612
Property, plant and equipment	7	-6
Right-of-use assets	16	11
Current assets	999	792
Non-current assets and liabilities	366	197
Tax loss carryforwards	23	14
Deferred tax, net	778	396

§ ACCOUNTING POLICIES

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

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

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

NOTE 2.5

TAXATION (CONTINUED)

Our approach to taxes and taxes paid

Sustainability and responsible business practices have been part of Pandora's way of doing business since the very beginning. Our sustainability strategy is reflected in our approach to taxes and we aim to pay a fair tax in all markets where we operate. Pandora is committed to ensure compliance with the letter and spirit of tax law in the markets where we operate, while striving to maximise shareholder value in a responsible way. The Group tax policy, which has been approved by the Board of Directors of Pandora, is available at pandora-group.com/investor/corporate-governance/tax-information and includes more information on our approach to taxes.

Pandora A/S is the principal value driver and also assumes the majority of business risks. Pandora allocates a profit margin, based on benchmark studies, to all entities in the Group, and the residual profit (or loss) in the value chain remains with Pandora A/S. With a principal tax model, Pandora by nature has a significant number of intercompany transactions. Intercompany transactions are based on arm's length standard and therefore priced on a basis consistent with the way unrelated parties would have priced such transactions. This impacts the taxes we pay in the countries in which we do business. Pandora understands the need for more transparency by both taxpayers and tax administrations, and the need to provide more clarity about Pandora's position on tax. In doing so we provide insight in accordance with the EU Directive to be adopted, which introduces public country-by-country

reporting for our key markets. The full country-by-country report for all markets is available at pandoragroup.com/investor/corporate-governance/tax-information.

In 2021, we paid corporate taxes in the amount of DKK 832 million (2020: DKK 192 million). The increased tax payments mainly relate to Denmark and the US as the profit in these markets has increased significantly and as last year was impacted by tax refunds in both markets. The major part of the taxes paid is attributable to Pandora's key markets and most of the tax payments relate to the current year.

CASH INCOME TAX PAID

DKK million	2021	2020
Income tax expense in income statement	-1,218	-556
Tax on other comprehensive income	-9	32
Adjustments regarding deferred taxes	-240	4
Movement in income tax receivable/payable	635	328
Income tax paid in the year	-832	-192
- of which relates to prior years	9	81
- of which relates to current year	-841	-273
Income tax paid in the year	-832	-192

COUNTRY-BY-COUNTRY OVERVIEW FOR KEY MARKETS¹
DKK million

Business activities	Total revenue incl. related party ²	Third-party revenue in P&L	Profit before tax	Tax paid	Current income tax charge for the year	Employees (FTE)	Accumulated earnings	
UK	● 3,583	3,314	198	10	42	887	172	
Italy	● 2,639	2,443	108	14	32	758	93	
France	● 1,237	1,122	64	22	44	509	119	
Germany	●● 1,601	1,191	88	14	26	908	99	
Denmark	●● 14,729	32	6,282	480	1,011	823	11,018	
USA	●● 14,091	7,026	348	153	148	1,497	275	
Australia	● 1,370	1,131	212	58	74	271	36	
China	● 1,140	1,126	18	19	35	1,228	46	
Thailand	● 6,010	-	918	20	28	11,767	448	
Rest of world	● 6,394	6,009	233	41	81	3,793	1,367	
IFRS eliminations		604	-	-3,093	-	-	-1,293	
Total Group		-	23,394	5,378	832	1,500	22,441	12,378

¹ The country-by-country overview for key markets is based on IFRS principles.

² Total revenue includes third-party revenue, related party revenue, other income and financial income.

● Headquarters ● Warehouse ▨ Production ● Distribution



NOTE 2.5

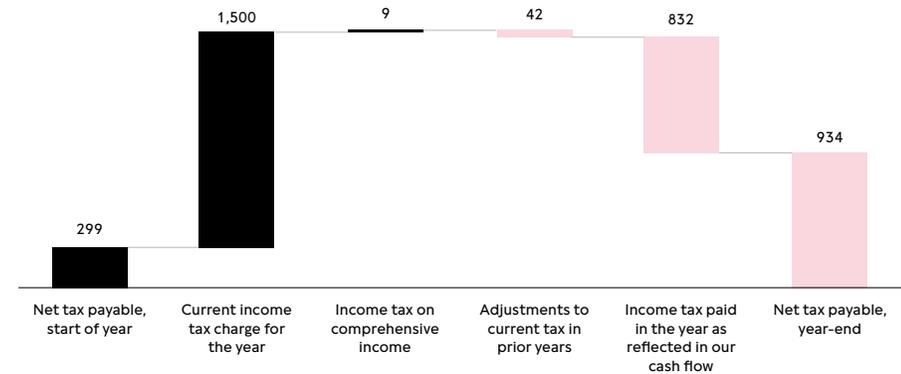
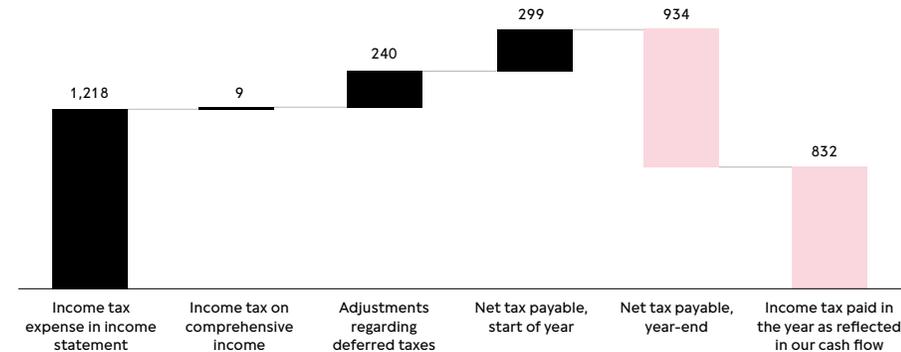
TAXATION (CONTINUED)

Paid income tax

Income tax paid reflects the cash tax payments made in the year and relates to taxes on account for the current year as well as payments regarding prior years. For the majority of the countries, the final taxes are paid in the year following the financial year, creating a timing difference in cash tax payments.

At the beginning of the year, net income tax payable by Pandora amounted to DKK 299 million. The net income tax payable increased to DKK 934 million during the year, as shown in the bridge “Movement in net tax payable”. The increase reflects the higher profit before tax in 2021 compared to 2020, which is due for payment in 2022.

The difference between income tax expense in the income statement and income tax paid is explained in the bridge “From income tax expense to tax paid”. The income tax expense in the income statement for 2021 has been calculated at DKK 1,218 million. The income tax expense includes taxes on other income posted on equity and adjustments to taxes for timing differences. Adding the tax payable from 2020 of DKK 299 million, we have a total tax payable of DKK 1,766 million. Of this amount DKK 934 million is due to be paid in 2022 or later, and the remaining DKK 832 million were settled as cash tax payments in 2021.

MOVEMENT IN NET TAX PAYABLE
DKK million**FROM INCOME TAX EXPENSE TO TAX PAID**
DKK million

SECTION 3

INVESTED CAPITAL AND WORKING CAPITAL ITEMS

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

Financial risks are described in [note 4.4](#). ↗

641

CAPEX
DKK million
2020: 491

-5.0%

Net working
capital/ revenue
2020: -7.6%

9,884

Invested capital
DKK million
2020: 10,540

WORKING CAPITAL			
DKK million	Notes	2021	2020
Inventories	3.5	2,991	1,949
Trade receivables	3.6	1,009	870
Trade payables	3.9	-3,267	-3,211
Operating working capital		732	-391
Other receivables		808	807
Current provisions	3.7, 3.8	-750	-683
Commodity derivatives, net		-113	221
Contract liabilities		-163	-82
Other payables		-1,694	-1,317
Net working capital		-1,181	-1,447

INVESTED CAPITAL			
DKK million	Notes	2021	2020
Intangible assets	3.1	7,094	6,943
Property, plant and equipment	3.2	1,816	2,054
Right-of-use assets	3.3	2,532	3,007
Other non-current financial assets		222	244
Non-current provisions	3.7	-416	-370
Net working capital		-1,181	-1,447
Deferred tax, net	2.5	778	396
Currency derivatives, net		-27	12
Income tax receivables/payable, net		-935	-299
Invested capital		9,884	10,540

NOTE 3.1
INTANGIBLE ASSETS

DKK million	Goodwill	Brand	Distribution	Other intangible assets	Total
2021					
Cost at 1 January	4,247	1,057	1,601	1,747	8,652
Acquisition of subsidiaries and activities	12	-	13	-	25
Additions	-	-	-	300	300
Disposals	-	-	-	-6	-6
Exchange rate adjustments	161	-	-5	18	173
Cost at 31 December	4,418	1,057	1,609	2,059	9,143
Amortisation and impairment losses at 1 January	-	-	491	1,218	1,708
Amortisation for the year	-	-	33	219	251
Impairment loss for the year ¹	-	-	-	85	85
Disposals	-	-	-	-5	-5
Exchange rate adjustments	-1	-	5	4	8
Amortisation and impairment losses at 31 December	-1	-	528	1,521	2,049
Carrying amount at 31 December	4,418	1,057	1,080	538	7,094

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

¹ The impairment loss of DKK 85 million relates to write-down of software applications. The loss is mainly recognised as sales, distribution and marketing expenses in the income statement.

DKK million	2021	2020
Amortisation and impairment losses have been recognised in the income statement as follows:		
Cost of sales	46	105
Sales, distribution and marketing expenses	146	104
Administrative expenses	144	199
Total	337	408

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

¹ The impairment loss of DKK 82 million relates to scrapped software applications and design rights, the value in use of which has been estimated to be lower than the carrying amount. The loss is mainly recognised as cost of sales in the income statement.

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

Goodwill

Additions in 2021 relate to acquisitions of activities.

[Note 3.4 Business combinations](#)  includes an overview of acquired goodwill for the year.

Brand

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

Distribution

Distribution includes distribution network and distribution rights.

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

Distribution rights mainly relate to the distribution rights for Pandora products in North America. These were acquired with the American distributor in 2008 and the carrying amount at 31 December 2021 was DKK 1,034 million (2020: DKK 1,034 million).

Other intangible assets

Other intangible assets mainly comprise software.

§ ACCOUNTING POLICIES

All intangible assets are tested for impairment if there is any indication of impairment. Intangible assets with indefinite useful life are tested at least annually.

Goodwill

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

Brand

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

Distribution

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

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

The distribution rights for Pandora products in the North American market are measured based on a

residual model, since the distribution agreement underlying the distribution rights is non-terminable. Consequently, the distribution rights are considered to have an indefinite useful life.

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

Other intangible assets

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

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

Impairment

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

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

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

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

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

- decreasing revenue;
- decreasing brand value;
- changes to the product mix.

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

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

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

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

Method for impairment testing

In the impairment test, the recoverable amount is compared with the carrying amount. The recoverable amount is based on a calculation of the value in use using cash flow estimates based on the budget for 2022 and a forecast for the two subsequent years. The long-term growth rate in the terminal period has been set so that it equals the expected long-term rate of inflation.

ALLOCATION OF INTANGIBLE ASSETS TO CGUS

DKK million	Goodwill	Brand	Distribution
2021¹			
Moments and Collabs	3,204	766	783
Style and Upstream Innovation	1,214	291	298
Total	4,418	1,057	1,080
2020			
Moments and Collabs	2,981	742	779
Style and Upstream Innovation	1,265	315	331
Total	4,247	1,057	1,110

¹ The 'Garden' collection was reallocated from Style and Upstream Innovation to Moments and Collabs in Q2 2021. Comparative figures for 2020 were restated accordingly.

DISCOUNT RATES AND GROWTH RATES IN TERMINAL PERIOD

	Discount rate before tax	Growth rate in terminal period
2021		
Moments and Collabs	11.7%	2%
Style and Upstream Innovation	11.7%	2%
Group	11.7%	2%
2020		
Moments and Collabs	11.2%	2%
Style and Upstream Innovation	11.3%	2%
Group	11.3%	2%

Assumptions

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

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

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

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

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

- revenue development taking into account development in network (stores, retail/wholesale share), product mix and market share as well as the COVID-19 impact on temporarily closed stores and online revenue growth;

- cost of sales based on raw materials consumption affected by mix of materials (stones, gold and silver), salaries and average lagged hedge commodity prices at the time the budget is prepared;
- development in operating expenses;
- currency rates are based on actual rates at the time the budget is prepared.

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

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

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

Even with a significant reduction in growth rate and an increase in discount rate, management has not identified any likely impairment.

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT

DKK million	Land and buildings	Plant and equipment	Assets under construction	Total
2021				
Cost at 1 January	1,238	3,461	44	4,742
Acquisition of subsidiaries and activities	-	-	11	11
Additions	11	129	199	339
Disposals	-40	-249	-	-289
Transfers	14	150	-164	-
Exchange rate adjustments	-30	91	2	64
Cost at 31 December	1,193	3,582	91	4,866
Depreciation and impairment losses at 1 January	323	2,366	-	2,689
Depreciation for the year	90	492	-	582
Disposals	-38	-242	-	-280
Exchange rate adjustments	-8	68	-	59
Depreciation and impairment losses at 31 December	366	2,684	-	3,050
Carrying amount at 31 December	827	898	91	1,816
2020				
Cost at 1 January	1,287	3,591	33	4,912
Acquisition of subsidiaries and activities	-	-	-	-
Additions	4	111	247	362
Disposals	-34	-146	-	-180
Transfers	102	130	-232	-
Exchange rate adjustments	-121	-225	-5	-351
Cost at 31 December	1,238	3,461	44	4,742
Depreciation and impairment losses at 1 January	246	2,081	-	2,326
Depreciation for the year	136	563	-	699
Disposals	-34	-136	-	-170
Exchange rate adjustments	-25	-142	-	-167
Depreciation and impairment losses at 31 December	323	2,366	-	2,689
Carrying amount at 31 December	915	1,095	44	2,054

DKK million	2021	2020
Depreciation has been recognised in the income statement as follows:		
Cost of sales	176	241
Sales, distribution and marketing expenses	364	416
Administrative expenses	42	42
Total	582	699

§ ACCOUNTING POLICIES

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

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

NOTE 3.3 LEASES

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

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

RIGHT-OF-USE ASSETS DKK million	2021	2020
Property	2,507	2,975
IT	3	5
Cars	14	18
Other	8	10
Total right-of-use assets	2,532	3,007

Additions of right-of-use assets were DKK 690 million in 2021 (2020: DKK 817 million).

LEASE LIABILITIES DKK million	2021	2020
Non-current	1,724	2,066
Current	886	993
Total lease liabilities	2,610	3,059

Lease liabilities are recognised in loans and borrowings.

Amounts recognised in the income statement:

RECOGNISED DEPRECIATION AND IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS CHARGED TO THE INCOME STATEMENT FOR THE PERIOD 1 JANUARY – 31 DECEMBER:

DKK million	2021	2020
Property ¹	1,066	1,190
IT	1	1
Cars	9	11
Other	4	5
Total depreciation and impairment losses on right-of-use assets for the period	1,081	1,208

¹ Including impairment losses of DKK 128 million in 2020 due to revaluation of right-of-use assets in connection with COVID-19.

Costs recognised in the period for short-term and low-value leases were DKK 39 million (2020: DKK 33 million). Expenses are recognised on a straight-line basis.

OTHER ITEMS RELATING TO LEASES

DKK million	2021	2020
Interest income from subleases	-	1
Interest expense	-99	-97
Total interest for the period	-99	-96

COVID-19-related rent concessions of DKK 56 million (2020: DKK 112 million) were recognised within sales and distribution expenses in the income statement in 2021. In addition, repayment of certain fixed leases was negotiated and a cash settlement was agreed with landlords and deferred with immaterial effect (2020: DKK 52 million). Overall financing cash flow was positively impacted by DKK 56 million (2020: DKK 164 million) due to rent relief and rent deferrals.

Total cash outflow for the year relating to leases was DKK 1,377 million (2020: DKK 1,164 million), comprising of fixed lease payments in scope of IFRS 16 of DKK 991 million (2020: DKK 839 million), variable lease payments of DKK 248 million (2020: DKK 196 million), interest paid of DKK 99 million (2020: DKK 96 million), and short-term and low-value leases of DKK 39 million (2020: DKK 33 million).

Many of the Group's property leases contain variable payment terms that are linked to the volume of sales made from leased stores according to normal market practice. In 2021, around 18% (2020: 17%) of the lease payments recognised in the income statement were variable rent. Pandora has estimated that a 1% increase in annual physical store revenue would consequently result in a 0.5% (2020: 0.7%) increase in lease payments. The average standard store leases are three to five years with a three to five-year option to extend in approximately 18% (2020: 23%) of current leases, typically with one or more break options. Approximately 27% of current leases are up for renegotiation in 2022. The estimated value of lease extensions that Pandora is not reasonably certain to exercise is around DKK 0.4 billion (2020: DKK 0.6 billion).

NOTE 3.3

LEASES (CONTINUED)

! SIGNIFICANT ACCOUNTING ESTIMATES

When assessing the lifetime of leases, Pandora considers the non-cancellable lease term and options to extend the lease where Pandora is reasonably certain to extend. Leases in Pandora mainly comprise stores, office buildings, cars, IT and other office equipment. Most lease contracts for stores average three to five years with a three to five-year option to extend in approximately 18% of current leases, typically with one or more break options. The lease term for stores has been assessed to be up to ten years, depending on location, revenue and earnings. For office buildings, the lease term is usually five to fifteen years. For other assets, the life is equal to the non-cancellable lease term, and extensions are not considered for these.

§ ACCOUNTING POLICIES

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

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

Pandora recognises lease liabilities at the commencement date of the lease, measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable. Some leases

are exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. Payments relating to services are not included in lease liabilities. Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs and are not included in the lease liability.

In calculating the present value of lease payments, Pandora uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments. Lease payments are classified in financial activities in the cash flow statement.

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

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

In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond 30 June 2021 - amendment to IFRS 16 Leases. The IASB extended the period of the relief for lessees arising as a direct consequence of the COVID-19 pandemic from 30 June 2021 to 30 June 2022. As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 pandemic-related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification.

Pandora applied the extension of the practical expedient to all contracts with rent concessions occurring as direct consequence of COVID-19 and where they meet all conditions of the practical expedient.

NOTE 3.4
BUSINESS COMBINATIONS

ACQUISITIONS DKK million	2021	2020
Distribution rights	13	-
Property, plant and equipment and right-of-use assets	84	4
Inventories	34	4
Assets acquired	131	8
Non-current liabilities	50	2
Other current liabilities	27	1
Liabilities assumed	77	3
Total identifiable net assets acquired	54	5
Goodwill arising on acquisitions	12	2
Purchase consideration	66	7
Cash movements on acquisitions:		
Consideration transferred regarding previous years	-	5
Net cash flows on acquisitions	66	12

Acquisitions in 2021

In 2021, Pandora took over 29 concept stores in the US in two business combinations. Net assets acquired mainly consist of store properties, inventories and related liabilities. The total purchase price for the acquisitions was DKK 66 million. Based on the purchase price allocations, goodwill was DKK 12 million. Goodwill from the acquisitions is mainly related to the synergies from converting the stores from wholesale to Pandora owned retail. Of the goodwill acquired, DKK 12 million is deductible for income tax purposes.

Cost relating to the acquisitions was immaterial and is recognised as operating expenses in the income statement.

The contributions to Group revenue and net profit from acquisitions for the period 1 January - 31 December 2021 were DKK 307 million and DKK 93 million respectively.

On a pro forma basis, if the acquisitions had been effective from 1 January 2021, the impact on Group revenue and net profit for the period 1 January - 31 December 2021 would have been approximately DKK 358 million and DKK 112 million respectively.

Acquisitions in 2020

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

Acquisitions after the reporting period

No acquisitions, to an extent of significance to Pandora, took place after the reporting period.

§ ACCOUNTING POLICIES

Business combinations are accounted for in accordance with the IFRS 3 acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree.

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

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

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

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

NOTE 3.5
INVENTORIES

DKK million	2021	2020
Raw materials and consumables	779	358
Work in progress	148	119
Finished goods	1,911	1,392
Point-of-sale materials	153	80
Total inventories at 31 December	2,991	1,949
Inventory write-downs at 1 January	740	837
Write-downs during the year	154	361
Utilised in the year	-129	-458
Inventory write-downs at 31 December	765	740

Write-downs

Inventory write-downs primarily relate to finished goods and are recognised in cost of sales, DKK 141 million (2020: DKK 312 million), and operating expenses, DKK 13 million (2020: DKK 49 million). Write-downs include mainly the cost of remelting obsolete jewellery.

Remelting of goods (realised and unrealised) negatively impacted gross profit by DKK 103 million (2020: DKK 110 million).

Production overheads

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

Net realisable value

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

§ ACCOUNTING POLICIES

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

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

! SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 3.6
TRADE RECEIVABLES

DKK million	2021	2020
Receivables related to third-party distribution and wholesale	672	600
Receivables related to retail revenue sales	337	270
Total trade receivables at 31 December	1,009	870
Ageing of trade receivables at 31 December		
Not past due	850	746
Up to 30 days	159	124
Between 30 and 60 days	-	-
Between 60 and 90 days	-	-
Over 90 days	-	-
Total past due, not impaired	159	124
Total trade receivables at 31 December	1,009	870
Development in impairment losses on trade receivables		
Impairment at 1 January	121	129
Additions	12	53
Utilised	-20	-11
Unused amounts reversed	-30	-44
Exchange rate adjustments	3	-5
Impairment at 31 December	86	121

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

While realised losses are immaterial and remain low, Pandora continued to apply an increased risk factor in light of COVID-19. The impairment on receivables decreased by DKK 35 million for the year. Realised losses remained within the expected range.

NOTE 3.6
TRADE RECEIVABLES (CONTINUED)

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

§ ACCOUNTING POLICIES

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

Pandora applies the simplified approach to measure expected credit losses, using a lifetime expected loss allowance.

In view of the low historical loss rates on receivables, adjusting these rates to reflect current and forward-looking information on macroeconomic factors such as GDP and the unemployment rate that affects the ability of customers to settle receivables will not increase the risk of losses significantly.

NOTE 3.7
PROVISIONS

DKK million	2021	2020
Provisions at 1 January	399	332
Additions in the year	127	142
Utilised in the year	-11	-26
Unused provisions reversed	-77	-33
Exchange rate adjustments	5	-16
Provisions at 31 December	442	399
Provisions are recognised in the consolidated balance sheet as follows:		
Current	26	29
Non-current	416	370
Provisions at 31 December	442	399

Our provisions are liabilities of uncertain timing or amount and consist of defined benefit pension plans of DKK 81 million (2020: DKK 74 million), obligations to restore leased property of DKK 132 million (2020: DKK 124 million), and other legal and constructive obligations of DKK 203 million (2020: DKK 172 million). See [note 5.1 Contingent liabilities](#) for estimates relating to litigation.

§ ACCOUNTING POLICIES

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

NOTE 3.8
CONTRACT ASSETS AND LIABILITIES

DKK million	2021	2020
Contract assets		
Receivables from sale of products, see note 3.6	1,009	870
Right-of-return assets	70	62
Total contract assets	1,078	932
Contract liabilities		
Prepayments from customers	11	10
Coupons, gift cards etc.	92	72
Loyalty programme	60	-
Refund liabilities	724	654
Total contract liabilities	887	736

! SIGNIFICANT ACCOUNTING ESTIMATES

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

NOTE 3.8
CONTRACT ASSETS AND LIABILITIES (CONTINUED)

§ ACCOUNTING POLICIES

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

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

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

As a common practice in Pandora, no costs to obtain contracts with customers have been capitalised in 2021 or previous years.

DKK million	Refund	Warranty	Total
2021			
Liability at 1 January	382	273	654
Performance obligations to which consideration has been received	1,238	218	1,456
Revenue recognised, included in the contract liability	-974	-171	-1,145
Contract liabilities reversed	-189	-80	-269
Exchange rate adjustments	21	6	27
Refund and warranty liability at 31 December	478	246	724
2020			
Liability at 1 January	428	325	753
Performance obligations to which consideration has been received	936	281	1,217
Revenue recognised, included in the contract liability	-845	-238	-1,084
Contract liabilities reversed	-109	-85	-194
Exchange rate adjustments	-27	-10	-38
Refund and warranty liability at 31 December	382	273	654

NOTE 3.9
TRADE PAYABLES

The Group generally accepts that vendors sell off their receivables arising from the sale of goods and services to the Group to a third party. Pandora has established a supply chain financing programme where vendors can sell off their receivables from Pandora on attractive terms, based on invoices approved by Pandora, but at the bank's sole discretion. Pandora is not directly or indirectly a party to these agreements. The amounts payable to suppliers included in the supply chain financing programme are classified as trade payables in the balance sheet as well as in the cash flow statement (working capital within cash flow from operations) and amounts to DKK 24 million at 31 December 2021 (DKK 26 million at 31 December 2020).





SECTION 4

CAPITAL STRUCTURE AND NET FINANCIALS

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

Pandora's capital structure policy is to maintain a leverage ratio (NIBD to EBITDA ratio) between 0.5 and 1.5 (excluding restructuring costs and including leases in accordance with IFRS 16). At 31 December 2021, the ratio was 0.4x, reflecting Pandora's continued strong cash generation. In 2021, cash conversion was 88% and Pandora continued to operate with negative net working capital.

6bn
DKK

Undrawn committed facilities of DKK 6 billion, out of DKK 7 billion with maturity in 2026, underpin Pandora's strong liquidity position.

NET INTEREST-BEARING DEBT		
DKK million	2021	2020
Loans and borrowings, non-current	1,041	-
Lease liabilities, non-current	1,724	2,066
Loans and borrowings, current	274	3,003
Lease liabilities, current	886	993
Cash	-1,043	-2,912
Net interest-bearing debt	2,882	3,151

NOTE 4.1
SHARE CAPITAL

SHARE CAPITAL			Number of shares	Nominal value (DKK)
2021				
Balance at 1 January			100,000,000	100,000,000
Balance at 31 December			100,000,000	100,000,000
2020				
Balance at 1 January			100,000,000	100,000,000
Balance at 31 December			100,000,000	100,000,000
TREASURY SHARES				
	Number of shares	Nominal value (DKK)	Purchase price	% of shares
2021				
Balance at 1 January	322,839	322,839	92,742,356	0.3%
Used to settle performance shares	-4,754	-4,754	-1,264,761	0.0%
Purchase of treasury shares	3,943,797	3,943,797	3,324,724,241	3.9%
Balance at 31 December	4,261,882	4,261,882	3,416,201,836	4.3%
2020				
Balance at 1 January	7,070,524	7,070,524	1,964,356,664	7.1%
Used to settle performance shares	-51,140	-51,140	-14,363,322	-0.1%
Purchase of treasury shares	1,303,455	1,303,455	430,511,739	1.3%
Sale of treasury shares	-8,000,000	-8,000,000	-2,287,762,725	-8.0%
Balance at 31 December	322,839	322,839	92,742,356	0.3%

At 31 December 2021, the share capital comprised 100,000,000 shares with a par value of DKK 1. No shares have special rights.

In 2021, Pandora launched two share buyback programmes under which Pandora expects to buy back own shares to a value of DKK 4.0 billion. In 2021, Pandora bought 3,943,797 treasury shares, corresponding to a total purchase price of DKK 3.3 billion. At 31 December 2021, Pandora had yet to repurchase own shares at a total purchase price of DKK 0.7 billion as part of the share buyback programmes.

Own shares of DKK 0.7 billion have been repurchased after 31 December 2021.

Treasury shares

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



NOTE 4.2

EARNINGS PER SHARE AND DIVIDEND

DKK million	2021	2020
Profit attributable to equity holders	4,160	1,938
Weighted average number of ordinary shares	98,775,946	97,048,768
Effect of performance shares	898,708	374,286
Weighted average number of ordinary shares adjusted for the effect of dilution	99,674,654	97,423,054
Basic earnings per share, DKK	42.1	20.0
Diluted earnings per share, DKK	41.7	19.9

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

Dividend

The Board of Directors will propose at the Annual General Meeting that a dividend of DKK 16 per share (2020: DKK 0), corresponding to DKK 1.6 billion, be distributed for 2021.

In 2021, extraordinary dividend of DKK 1.5 billion in total was paid. Dividend paid had no effect on the Group's tax expense for the year.

For further shareholder information on dividend payments, see [page 42](#). 

Distributable reserves

Cash distribution to the shareholders are, by law, limited to the amount of the free reserves of the Parent Company. As of 31 December 2021, free reserves in the Parent Company amounted to DKK 7.5 billion. When calculating the amount available for distribution of dividend and share buyback, treasury shares are deducted from distributable reserves.

§ ACCOUNTING POLICIES

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



NOTE 4.3

NET INTEREST-BEARING DEBT

TOTAL LIABILITIES FROM FINANCING ACTIVITIES DKK million	Financial liabilities 1 January	Cash flows, net	New leases, etc.	Other ¹	Foreign exchange adjustments	Financial liabilities 31 December
2021						
Non-current borrowings	-	1,315	-	-273	-	1,041
Non-current lease liabilities	2,066	-	495	-899	61	1,724
Current borrowings	3,003	-3,004	-	274	1	274
Current lease liabilities	993	-991	215	637	32	886
Total liabilities from financing activities	6,063	-2,680	710	-262	94	3,926
2020						
Non-current borrowings	5,157	-2,182	-	-2,976	-	-
Non-current lease liabilities	2,804	-	588	-1,225	-101	2,066
Current borrowings	1,057	-1,028	-	2,976	-1	3,003
Current lease liabilities	1,012	-839	261	608	-49	993
Total liabilities from financing activities	10,031	-4,050	849	-617	-150	6,063

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

§ ACCOUNTING POLICIES

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

NOTE 4.4
FINANCIAL RISKS

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

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

It is Pandora’s policy to hedge at least 50% of the combined commodity, exchange rate and interest rate risk. However, at least 70% of estimated commodity purchases for the next 12 months must be hedged.

The table to the right illustrates the sensitivity on 2021 revenue, EBIT and EBIT margin from exchange rates and commodity price movements. In addition, the sensitivity of assets and liabilities as of 31 December from currency movements is illustrated on the next page.

Commodity price risk

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

It is the policy of Pandora to ensure stable, predictable raw material prices. Based on a rolling 12-month production plan,

the general policy is for Group Treasury to hedge at least 70% of the Group’s expected purchases.

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

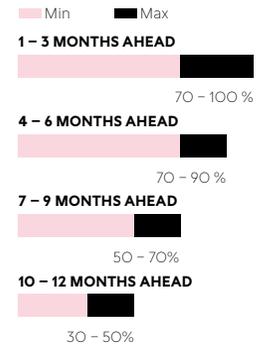
Commodity hedging is updated at the end of each month or in connection with revised 12-month rolling production plans. Actual production may deviate from the 12-month rolling production plan. In case of deviations, the realised commodity

hedge ratio may deviate from the estimated hedge ratio. The effective portion of the realised gain or loss from commodity hedging is recognised in Group inventories and subsequently in cost of sales. For the fair value of hedging instruments, see [note 4.5 Derivative financial instruments](#).

Foreign currency risk

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

COMMODITY HEDGE RATIO TARGET (%)



SENSITIVITY ANALYSIS ON EXCHANGE RATES AND COMMODITY PRICES¹
DKK million

	Change in exchange rate and commodity prices	2021			2020		
		Revenue	EBIT	EBIT margin impact	Revenue	EBIT	EBIT margin impact
USD	+10%	748	350	0.7%	480	138	0.3%
CAD	+10%	65	38	0.1%	57	36	0.1%
AUD	+10%	127	81	0.2%	123	83	0.3%
GBP	+10%	333	235	0.6%	299	209	0.9%
EUR	+1%	62	39	0.1%	53	30	0.1%
CNY	+10%	111	7	-0.1%	125	30	0.1%
THB	+10%	-	-238	-1.0%	-	-227	-1.2%
GOLD and SILVER	+10%	-	-182	-0.8%	-	-124	-0.7%

¹ Revenue and EBIT would have been impacted by the above amounts if exchange rates and commodity prices in 2021 had been higher than the realised exchange rates and commodity prices. The impact would have been the opposite if exchange rates and commodity prices had been decreasing by similar percentages. The analysis is based on the transaction currency. The analysis excludes the effects of hedging and time lag of inventory.

NOTE 4.4

FINANCIAL RISKS (CONTINUED)

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

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

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

It is Pandora’s policy to hedge foreign currency risks related to the risk of declining net cash flows resulting from exchange rate fluctuations. Pandora does not hedge balance sheet items or ownership interests in foreign subsidiaries. For 2021, 70% of the cash flows from the main currencies have been hedged based on a rolling 12-month liquidity forecast. Cash flows are hedged from 1 to 12 months forward with a hedge ratio that

decreases with time to maturity. Foreign currency hedging is updated at the end of each month or in connection with revised 12-month rolling cash forecasts. The realised profit (loss) from exchange rate hedging is taken to financial items.

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

Credit risk

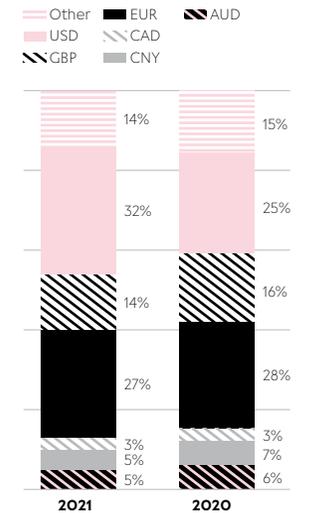
Credit risk is primarily related to trade receivables, cash and unrealised gains on financial contracts. The maximum credit risk related to financial assets corresponds to the carrying amounts recognised in the consolidated balance sheet.

It is Pandora’s policy for subsidiaries to be responsible for credit evaluation and credit risk on their trade receivables. Any deviations from standard agreements must be approved by Group Treasury and/or the Chief Financial Officer.

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

Credit risks related to Pandora’s other financial assets mainly include cash and unrealised gains on financial contracts.

REVENUE BREAKDOWN BY CURRENCY (%)



CURRENCY EXPOSURE FROM ASSETS AND LIABILITIES DKK million	Change in exchange rate	31 December 2021		31 December 2020	
		Profit (loss) before tax	Equity	Profit (loss) before tax	Equity
USD	+10%	38	-188	-118	36
CAD	+10%	28	-8	14	-4
AUD	+10%	8	-43	2	-35
GBP	+10%	-47	-159	43	-54
EUR	+1%	3	3	2	31
THB	+10%	-71	170	-52	121
CNY	+10%	-21	-35	60	36

¹ The movements in the income statement arise from monetary items (cash, borrowings, receivables and payables) where the functional currency of the entity differs from the currency that the monetary items are denominated in. The movements in equity arise from monetary items and hedging instruments where the functional currency of the entity differs from the currency that the hedging instruments or monetary items are denominated in. The impact would have been the opposite if exchange rates had been decreasing by similar percentages. The analysis is based on the transaction currency.

NOTE 4.4

FINANCIAL RISKS (CONTINUED)

The credit risk is related to default of the counterparty with a maximum exposure corresponding to the carrying amount of the assets. Group Treasury is responsible for managing these credit risks.

Liquidity risk

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

Pandora has a new revolving credit facility of DKK 7,065 million committed until April 2026¹. Pandora has uncommitted credit facilities to ensure efficient and flexible local liquidity management. The credit facilities are managed by Group Treasury.

Interest rate risk

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

All else being equal, it is estimated that a general increase in interest rates by one percentage point would lead to a DKK 6 million decrease in profit before tax and equity, excluding tax effect (2020: no impact).

Contractual maturities of financial liabilities

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

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

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

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

LIABILITIES FALL DUE AS FOLLOWS DKK million	Falling due within 1 year	Falling due between 1 and 5 years	Falling due after more than 5 years	Total
2021				
Non-derivatives				
Loans and borrowings	274	1,050	-	1,324
Lease liabilities	977	1,600	275	2,851
Trade payables	3,267	-	-	3,267
Other payables	289	-	-	289
Derivatives				
Derivative financial instruments	209	-	-	209
Total at 31 December	5,016	2,650	275	7,941
2020¹				
Non-derivatives				
Loans and borrowings	3,033	-	-	3,033
Lease liabilities	1,079	1,863	356	3,298
Trade payables	3,211	-	-	3,211
Other payables	293	-	-	293
Derivatives				
Derivative financial instruments	119	-	-	119
Total at 31 December	7,735	1,863	356	9,954

¹ Items not classified as financial instruments were excluded in 2020.

¹ Two year extension option (1+1) subject to bilateral consent between Pandora and bank group.

NOTE 4.5

DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments include silver and gold swaps and foreign exchange forward contracts.

DKK million	Assets	Liabilities	Carrying amount	Hedge reserve, net of tax
2021				
Commodities	8	-121	-113	-90
Foreign exchange	61	-88	-27	-20
Total derivative financial instruments	69	-209	-140	-110
2020				
Commodities	231	-10	220	206
Foreign exchange	120	-108	12	9
Total derivative financial instruments	351	-119	232	215

It is Pandora's policy to hedge at least 70% of the Group's expected gold and silver consumption based on a rolling 12-months production plan. The table to the right illustrates the timing of the hedges related to the purchase of silver for production, i.e. excluding the time-lag effect from inventory to cost of sales (when the product is sold). The time-lag from use in production to impact on cost of sales is usually 2-7 months.

HEDGED AND REALISED PURCHASE PRICES At use of the silver and gold for production

	Realised in 2021	Hedged Q1 2022	Hedged Q2 2022	Hedged Q3 2022	Hedged Q4 2022
Gold price	1,785	1,806	1,802	1,794	1,807
Silver price	23.72	25.65	25.59	23.72	23.44
Commodity hedge ratio, %	Realised	70-100%	70-90%	50-70%	30-50%

Classification according to the fair value hierarchy

The fair value at 31 December 2021 and 2020 of Pandora's derivative financial instruments was measured in accordance with level 2 in the fair value hierarchy (IFRS 13). Level 2 is based on non-quoted prices, observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). Pandora uses input from third-party valuation specialists to quote prices for unrealised derivative financial instruments. The value of unrealised silver and gold instruments is tested against the prices observable at London Bullion Market Association (LBMA). The value of unrealised foreign exchange instruments is tested against observable foreign exchange forward rates.

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

Derivative financial instruments that qualify for cash flow hedge accounting

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

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

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

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

NOTE 4.5
DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The ineffectiveness impact in net financials was a gain of DKK 16 million (2020: gain of DKK 31 million).

For information about risk management strategy, see [note 4.4 Financial risks](#).

§ ACCOUNTING POLICIES

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

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

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

NOTE 4.6
NET FINANCIALS

FINANCE INCOME DKK million	2021	2020
Reclassified from equity hedge reserves	53	149
Total finance income from derivative financial instruments	53	149
Finance income from loans and receivables measured at amortised cost:		
Foreign exchange gains	78	160
Interest income, bank	19	6
Interest income, loans and receivables	2	1
Total finance income from loans and receivables	99	167
Total finance income	152	316

FINANCE COSTS DKK million	2021	2020
Reclassified from equity hedge reserves	286	68
Total finance costs from derivative financial instruments	286	68
Finance costs from financial liabilities measured at amortised cost:		
Foreign exchange losses	116	186
Interest on loans and borrowings	34	61
Interest on lease liabilities	99	97
Other finance costs	78	95
Total finance costs from loans and borrowings	327	439
Total finance costs	613	507

§ ACCOUNTING POLICIES

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

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

NOTE 4.7
OTHER NON-CASH ADJUSTMENTS

OTHER NON-CASH ADJUSTMENTS DKK million	2021	2020
Effects from exchange rate adjustments	129	52
Effects from derivative financial instruments	-	-91
Effects from IFRS16 rent concessions	-56	-112
Other, including gains/losses from the sale of property, plant and equipment	-4	-4
Total other non-cash adjustments	70	-155



SECTION 5

OTHER DISCLOSURES



NOTE 5.1
CONTINGENT LIABILITIES

Litigation

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

! SIGNIFICANT ACCOUNTING ESTIMATES

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

Contractual obligations

Pandora has entered into a number of long-term purchase, sales and supply contracts in the course of the Group's ordinary business. Contractual obligations amounted to DKK 500 million at 31 December 2021 (2020: DKK 462 million).

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

NOTE 5.2
RELATED PARTIES

Related parties with significant interests

At 31 December 2021, treasury shares accounted for 4.3% of the share capital (2020: 0.3%), see [note 4.1 Share capital](#).

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

Transactions with related parties

As part of the share buyback carried out in 2021, Pandora purchased own shares from major shareholders. The shares were purchased at the volume-weighted average purchase price for the shares purchased under the share buyback programme in the market on the relevant day of trading.

Pandora did not enter into any significant transactions with members of the Board or the Executive Management, except for compensation and benefits received as a result of their membership of the Board, employment with Pandora or shareholdings in Pandora. See [notes 2.3 Staff costs](#) and [2.4 Share-based payments](#).

NOTE 5.3
FEES TO INDEPENDENT AUDITOR

DKK million	2021	2020
Fee for statutory audit	10	11
Other assurance engagements	1	1
Total audit related services	11	12
Tax consultancy	-	-
Other services	-	1
Total non-audit services	-	1
Total fees to independent auditor	11	13

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

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

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

NOTE 5.4
EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

NOTE 5.5

COMPANIES IN THE PANDORA GROUP

The table below shows information about the Group entities at 31 December 2021.

Company	Ownership	Registered office	Date of consolidation
OWNED BY PANDORA A/S			
Pandora Jewelry Argentina SRL	100%	Argentina	27 September 2017
Pandora Österreich GmbH	100%	Austria	23 May 2012
Pandora Jewellery Belgium NV	100%	Belgium	13 April 2017
Pandora do Brasil Participações Ltda.	100%	Brazil	24 October 2013
Pandora Jewelry Ltd.	100%	Canada	7 March 2008
Pandora Jewelry Chile SpA	100%	Chile	7 May 2017
Pandora Jewelry Colombia S.A.S	100%	Colombia	17 January 2019
Pandora Int. ApS	100%	Denmark	1 October 2009
Pan Me A/S	100%	Denmark	16 January 2015
Pandora Jewelry Taiwan A/S	100%	Denmark	18 May 2018
Pandora Jewellery DMCC	100%	Dubai	8 October 2014
Pandora Jewellery UK Limited	100%	England	1 December 2008
Pandora Jewelry Finland Oy	100%	Finland	1 January 2012
Pandora France SAS	100%	France	25 February 2011
Pandora Jewelry GmbH	100%	Germany	5 January 2010
Pandora EMEA Distribution Center GmbH	100%	Germany	5 December 2011
Pandora Jewelry Asia-Pacific Limited	100%	Hong Kong	1 November 2009
Pandora Jewelry Limited	100%	Ireland	10 January 2018
Pandora Italia SRL	100%	Italy	23 May 2012
Pandora Jewelry Mexico Import, S.A. de C.V.	100%	Mexico	4 April 2018
Pandora Jewelry Mexico, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Mexico Servicios, S.A. de C.V.	100%	Mexico	8 March 2017
Pandora Jewelry Panama S.A.	100%	Panama	5 July 2016
Pandora Jewelry Peru S.A.C	100%	Peru	10 July 2018
Pandora Jewelry Shared Services Sp. z.o.o.	100%	Poland	7 February 2012
Pandora Jewelry CEE Sp. z.o.o.	100%	Poland	1 March 2009
Pandora Jewelry Slovakia s.r.o.	100%	Slovakia	6 September 2016
Pandora Jewellery South Africa Pty Ltd.	100%	South Africa	31 January 2017
Pandora Jewellery Spain S.L	100%	Spain	28 September 2017
Pandora Sweden AB	100%	Sweden	4 November 2013

Company	Ownership	Registered office	Date of consolidation
Pandora Schweiz AG	100%	Switzerland	6 December 2011
Pandora Production Co. Ltd.	100%	Thailand	7 March 2008
Pandora Services Co. Ltd.	100%	Thailand	15 October 2010
Pandora Jewelry Mücevherat Anonim Şirketi	100%	Turkey	4 November 2013
Pandora Jewelry Inc.	100%	USA	1 July 2008
Pandora Jewelry Latam LLC	100%	USA	20 October 2021

OWNED BY OTHER COMPANIES IN THE PANDORA GROUP

AD Astra Holdings Pty Ltd.	100%	Australia	1 July 2009
Pandora Retail Pty Ltd.	100%	Australia	1 July 2009
Pandora Jewelry Pty Ltd.	100%	Australia	1 July 2009
Pandora do Brasil Comércio e Importação Ltda.	100%	Brazil	24 October 2013
Pandora Franchise Canada Ltd.	100%	Canada	19 January 2011
Pandora Retail Canada Ltd.	100%	Canada	4 February 2014
Pandora Jewelry (Shanghai) Company Ltd.	100%	China	4 February 2015
Pandora Jewelry Design (Beijing) Company Ltd.	100%	China	1 March 2016
Pandora Jewelry CR s.r.o.	100%	Czech Republic	2 December 2009
Panmeas Jewellery LLC	100%	Dubai	16 January 2015
Pandora Jewelry Hong Kong Company Ltd.	100%	Hong Kong	4 February 2015
Pandora Jewelry Hungary Ltd.	100%	Hungary	2 June 2010
Pandora Jewelry Japan Ltd.	100%	Japan	29 October 2014
Pandora Jewelry Macau Company Ltd.	100%	Macau	1 January 2016
Pandora Jewelry B.V.	100%	Netherlands	20 September 2010
Pandora Norge AS	100%	Norway	17 August 2010
Pandora Jewelry Romania SRL	100%	Romania	18 August 2011
Pandora Jewelry Singapore Pte. Ltd..	100%	Singapore	1 January 2016
Pandora ECOMM LLC	100%	USA	21 August 2014
Pandora Jewelry LLC	100%	USA	7 March 2008
Pandora Franchising LLC	100%	USA	1 November 2009
Pandora Ventures LLC	100%	USA	10 May 2012

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

Pandora A/S has no dormant companies.

NOTE 5.6

FINANCIAL DEFINITIONS

Key figures and financial ratios stated in the consolidated financial statements have been calculated in accordance with the CFA Society Denmark guidelines.

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

Forward-looking statements

This Annual Report contains forward-looking statements, including, but not limited to, guidance, expectations, strategies, objectives and statements regarding future events or prospects with respect to the Company's future financial and operating results. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words such as "expect", "estimate", "intend", "will be", "will continue", "will result", "could", "may", "might" or any variations of such words or other words with similar meanings. Forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from the results discussed in such forward-looking statements. Prospective information is based on management's then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, may change. The Company assumes no obligation to update any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements. Some important risk factors that could cause the Company's actual results to differ materially from those expressed in its forward-looking statements include, but are not limited to: economic and geopolitical uncertainty (including interest rates and exchange rates), financial and regulatory developments, general changes in market trends and end-consumer preferences, demand for the Company's products, competition, the availability and pricing of materials used by the Company, production- and distribution-related issues, IT failures, litigation, pandemics, and other unforeseen factors. The nature of the Company's business means that risk factors and uncertainties may arise, and it may not be possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on the Company's business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Accordingly, forward-looking statements should not be relied on as a prediction of actual results.

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

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

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



STATEMENT BY THE EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS

The Board of Directors and the Executive Management have today discussed and approved the Annual Report of Pandora A/S for 2021.

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

It is our opinion that the consolidated financial statements and the Parent Company financial statements give a true and

fair view of the financial position of the Group and the Parent Company at 31 December 2021 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 2021.

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

In our opinion, the Annual Report of Pandora A/S for the financial year 1 January to 31 December 2021 with the file name PAND-2021-12-31.zip has been prepared, in all material respects, in compliance with the ESEF Regulation.

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

Copenhagen,
9 February 2022

Executive Management

Alexander Lacik
Chief Executive Officer

Anders Boyer
Chief Financial Officer

Board of Directors

Peter A. Ruzicka
Chair

Christian Frigast
Deputy Chair

Heine Dalsgaard

Birgitta Stymne Göransson

Marianne Kirkegaard

Catherine Spindler

Jan Zijderveld

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Pandora A/S

Our opinion

We have audited the consolidated financial statements and the Parent Company financial statements of Pandora A/S for the financial year 1 January – 31 December 2021, which comprise statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the Parent Company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 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 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Basis for opinion

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

Independence

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

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

Appointment of auditor

Subsequent to Pandora A/S being listed on Nasdaq OMX Copenhagen, EY was appointed auditors of Pandora A/S on

8 April 2011. We have been reappointed annually at the General Meeting for a total consecutive period of 11 years up to and including the financial year 2021. Subsequent to a tender process, we were re-appointed at the Annual General Meeting on 11 March 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2021. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

DESCRIPTION OF
MATTER**Revenue and sales return**

Revenue is recognised when control of the goods has been transferred to the buyer and it is measured at fair value of the expected consideration to be received, less rebates, discounts, sales taxes, duties and expected sales returns. Revenue recognition and measurement of the related expected sales returns was a matter of most significance in our audit due to the inherent risk in the estimates and judgements which Management makes in the normal course of business as to timing of revenue and measurement of expected sales returns.

Details on revenue recognition and expected sales returns are provided in sections 2.1 and 3.8 of the consolidated financial statements and in section 2.1 and 3.5 of the Parent Company financial statements, to which we refer.

CONSIDERATION OF THE
MATTER IN THE AUDIT

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

Taxation

The Group has extensive international operations and in the normal course of business, Management makes judgements and estimates in determining the recognition of income taxes, deferred taxes and provisions for uncertain tax positions. In Thailand, the Group is subject to Board of Investment (BOI) agreements, where many, but not all, types of net income are tax-exempt, and therefore, changes in profit allocation could significantly impact the Group's consolidated tax expense. On this basis, taxation was a matter of most significance in our audit. Additional details on income taxes are provided in section 2.5 of the consolidated financial statements, to which we refer.

Our procedures in relation to recognition of income taxes, deferred taxes and provisions for uncertain tax positions included assessing the Group's processes for recording and continual re-assessment of provisions for uncertain tax positions. Our procedures also covered evaluating the assumptions applied by Management in determining the recognition and measurement of income taxes and deferred taxes while taking into account relevant correspondence with relevant tax authorities. Our own tax specialists performed an assessment of the Group's recognition of income taxes and deferred taxes, including correspondence with relevant tax authorities to consider the completeness of the tax provisions. In addition, we assessed the assumptions used, taking into consideration our own tax specialists' knowledge and experience. Further, we evaluated the disclosures provided by Management in the consolidated financial statements and the Parent Company financial statements to applicable accounting standards.

Inventory

The Group carries inventory in the balance sheet at the lower of cost and net realisable value. Significant management judgements are required with regards to valuation of inventories due to the uncertainty associated with the estimate of slow-moving items and expected value of the reusable raw materials, as well as calculations of elimination of internal gain. Given the level of significant management judgements and estimates, inventory valuation was a matter of most significance in our audit. Additional details on the valuation of inventories are provided in section 3.5 of the consolidated financial statements and in section 3.4 of the Parent Company financial statements, to which we refer.

Our procedures in relation to inventory valuation included assessing the Group's processes related to inventory valuation including on a sample basis testing of direct costs related to raw materials, labour costs and attributable overhead costs incurred in the manufacturing process, recording of write-downs and understanding of the process for internal gain elimination. We challenged the basis for write-downs and performed analytical procedures to assess slow-moving items. We assessed the key assumptions applied by Management regarding items life-cycle status and expected value of the reusable raw materials based on our knowledge of the business, and on a sample basis tested the supporting documentation. Further, on a sample basis we tested the calculation of elimination of internal gain at group level. Furthermore, we evaluated the disclosures provided by Management in the consolidated financial statements and the Parent Company financial statements to applicable accounting standards.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud

is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

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

Report on compliance with the ESEF Regulation

As part of our audit of the Consolidated Financial Statements and Parent Company Financial Statements of Pandora A/S we performed procedures to express an opinion on whether the Annual Report of Pandora A/S for the financial year 1 January to 31 December 2021 with the file name PAND-2021-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the Annual Report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

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

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

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

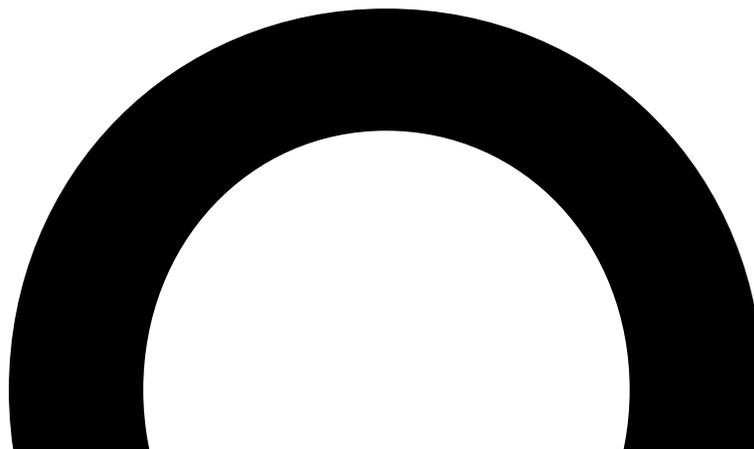
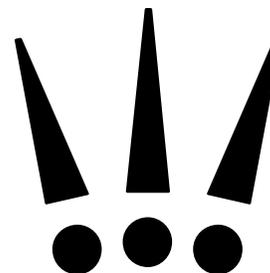
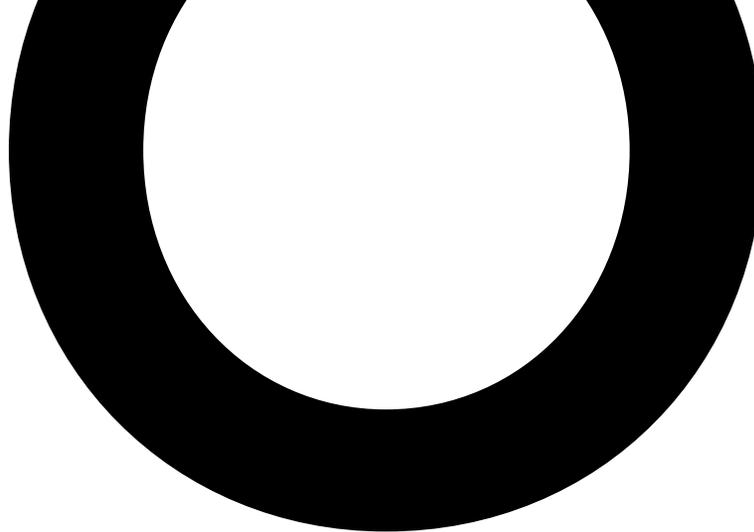
- Testing whether the Annual Report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness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

In our opinion, the Annual Report of Pandora A/S for the financial year 1 January to 31 December 2021 with the file name PAND-2021-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen,
9 February 2022
EY Godkendt
Revisionspartnerselskab
CVR no. 30 70 02 28

Mikkel Sthyr
State Authorised
Public Accountant
mne26693

Jens Thordahl Nøhr
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