Inter IKEA Holding B.V. Annual Report FY19

Inter IKEA Holding B.V.

Contents

REPORT FROM THE MANAGEMENT BOARD

The Management Board of Inter IKEA Holding B.V. hereby presents its annual report for the 12-month period ended 31 August 2019.

General

Inter IKEA Group
Inter IKEA Holding B.V. ('the Company') is the ultimate parent company of the Inter IKEA Group ('the Group'). The Company is ultimately controlled by Interogo Foundation.

The Group consists of three core businesses: Franchise, Range & Supply and Industry. These three core businesses work together with franchisees and suppliers to co-create an even better IKEA offer and franchise system. The aim is to provide franchisees with best possible conditions for implementing and operating the IKEA Concept, and to create a strong platform for future expansion and growth.

As at 31 August 2019, 11 franchisees operate 433 IKEA stores. During FY19, a franchise agreement was signed with S.A.C.I. Falabella, who is yet to open their first store. Franchisees implement the IKEA Concept by marketing and selling the IKEA product range. With the exception of the IKEA Delft store in the Netherlands, all IKEA stores operate under franchise agreements with Inter IKEA Systems B.V. Each franchisee has the responsibility to run, manage and develop its local business. All franchisees are independent from and unrelated to Inter IKEA Group.

Franchise
Core Business Franchise includes Inter IKEA Systems B.V. – owner of the IKEA Concept and the IKEA franchisor – and its related businesses. Inter IKEA Systems B.V. continuously develops the IKEA Concept to ensure its successful implementation in new and existing markets. This enables IKEA to remain forward-looking in areas such as brand development, retail methods, sustainability, market potential and expansion.

Range & Supply
Core Business Range & Supply works under assignments from Inter IKEA Systems B.V. Range is mainly responsible for developing and designing the overall IKEA product range, including food and furnishings. They also have a communication agency that creates and produces IKEA communication for customers and other IKEA organisations. Supply maintains relationships with suppliers, procures finished IKEA products, and then sells and supplies these products to IKEA retailers around the world.

Industry
Core Business Industry manufactures IKEA home furnishing products and develops unique IKEA capabilities and capacities in relevant parts of the value chain (e.g. material and manufacturing). Industry produces approximately 12% of the total IKEA range, with its main focus on wood based furniture. Its operations are conducted through 38 production units that include forestry, sawmills, as well as production of board material, wood components and ready furniture.

Governance structure

The Group's governance is also organised through the three core businesses with the risk management structures, internal control and compliance tailored to their specific business characteristics. The Group's governance structure is based on two main considerations: to secure the growth and development opportunities of the IKEA Brand and the IKEA Concept, and to guarantee the Group's independence and ability to maintain a long-term perspective.

The legal structure follows along the lines of governance with separate parent companies for each of the core businesses. The Company has two main governing bodies: the Management Board and the Supervisory Board.

Financial information

These financial statements cover the 12-month period from 1 September 2018 to 31 August 2019 ('FY19'). Comparative figures reflect the 12-month period from 1 September 2017 to 31 August 2018 ('FY18').

Profit and loss account

Total revenues in FY19 amount to EUR 24.9 billion, mainly generated through sales of finished goods to IKEA franchisees and through charged franchise fees. The development of revenues is directly linked to the retail sales of all IKEA franchisees worldwide since these sales drive the Group's wholesale activities and form the base for the franchise fees. Global IKEA retail sales in FY19 amounted to EUR 41.3 billion and increased by 6.5% compared to FY18. E-commerce sales continue to increase.

Group revenues also include franchisees' food purchases. We are currently finalising the integration of the Bring Group, a food distributor which was acquired in FY17, into Core Business Range & Supply to allow the establishment of a food wholesaler. Additionally, Inter IKEA Group owns and operates one IKEA store in Delft, the Netherlands, and these sales also included in the Group's revenues.

The majority of our operating expenses comprise cost of raw materials and consumables relating to the manufacturing and procurement of finished goods. Approximately 12% of finished goods are manufactured by Core Business Industry, the remaining part is purchased from external suppliers by Core Business Range & Supply. Cost of raw materials and consumables also include direct transport, storage and handling cost. In FY18, we faced higher prices for raw materials, especially wood and metal products. During FY19 this trend started to turn, with prices decreasing and now stabilised.

Other operating expenses include salary cost, utilities, fixed asset depreciation, rent and other costs related to day-to-day operations. An important component of our operating expenses are co-worker compensation and benefits. This mainly consists of wages and salaries, but also includes Thanks! – the Group's co-worker loyalty programme.

The effective tax rate for FY19 is 16.8%, following the nominal tax rates in the Netherlands, Sweden and Switzerland where the majority of the Group's businesses are located. The effective tax rate increased by 1.8% compared to the previous year. This is mainly due to the change in the nominal tax rates in the Netherlands.

In December 2017, the European Commission opened a formal investigation, with their Opening Decision published on 6 April 2018, to examine whether decisions by the tax authorities in The Netherlands with regard to the corporate income tax paid by one of our subsidiaries, comply with European Union rules on state aid. The Company co-operates and responds to questions which the European Commission has in relation to this investigation.

At this moment, although we consider the risk of a cash out flow unlikely, it is not possible to assess a financial impact, if any, of the outcome of this EC investigation. We are actively monitoring and addressing these developments and believe that the corporate income tax position is appropriately reflected in the financial statements.

Cash flows
The overall movement in the Group's liquidity was limited as the cash generated by operating activities after interest, investments and financial charges was mainly used to repay loans and distribute dividend to the non-controlling shareholder, Interogo Holding AG. The Group monitors its cash position by using a cash flow forecast model to ensure the cash position is always sufficient to meet the financial obligations towards staff members, creditors, tax authorities and other third parties.

Balance sheet
The Group's balance sheet positions as per 31 August 2019 have not changed significantly when compared to 31 August 2018. Fixed assets primarily comprise the IKEA Proprietary Rights ("IP Rights"), relating to the IKEA trademark, protection rights, intellectual property rights and the rights to the IKEA catalogue, with a book value of EUR 10.2 billion.

Additionally, the Group owns 38 IKEA furniture production units, mostly located in Europe, as well as two factories that produce furniture components. In FY19, two IKEA furniture production units were sold and one was announced to close down in December 2019. In most cases co-workers have remained in the same units under new ownership or moved to new jobs in other nearby units. We are investing in the extension of existing factories in Poland, Lithuania and Russia. Additionally, we are building a new factory for furniture components in China.

The Group also owns several property buildings, offices and distribution centres around the world, including the IKEA Delft store. We are currently building a new distribution centre in Malaysia to better serve the South-East Asian markets.

Inventories mostly consist of IKEA products located in distribution centres. Inventory increased in FY18 due to lower than expected sales growth and effective measures were taken to reduce the inventory levels in FY19. Receivables mainly relate to IKEA retailers for franchise fees as well as IKEA products sold and invoiced. The Company also holds receivables on related parties.

Group equity increased from EUR 7.3 billion to EUR 8.3 billion in FY19. Of the EUR 1.5 billion profit achieved during FY19, EUR 850 million will be distributed as a dividend to our shareholder. The remaining EUR 635 million will be added to Group equity.

Provisions for the majority comprise pension commitments. Other provisions have been recognised for deferred taxes, legal disputes and product claims. Most of the non-current liabilities, amounting to EUR 6.5 billion, concern two loans received from Interogo Holding AG. As in FY19 and prior years, we will continue to repay EUR 500 million each year on one of these loans until 2021. Current liabilities consist of short-term loans, trade payables and the current portion of the long-term loans.

Increased Group equity combined with further reduction of our current and non-current liabilities result in an improved equity ratio of 39% in FY19 versus 34% in FY18.

Risk management

Risk management approach
The Group has a responsibility to continuously protect the IKEA Brand, our co-workers, customers, business partners and assets based on a common methodology and harmonized approach. This framework is designed to enable the organisation to identify and anticipate risks, reduce likelihood, and mitigate their impact should they materialise, or if possible navigate risks into opportunities.

The Group continuously identifies and reviews key business risks. Control strategies are determined with consideration of how those risks may affect the achievement of business objectives taking into account the risk appetite. Additional means for risk reduction are put in place to reduce the impact should any risk materialise:

- IKEA values is one of the key cornerstones of the organisation, which shape the organisation's culture. We rely on the strong IKEA values and culture that promote the responsibility of everyone to do the right thing. We strive to find a healthy balance between '*trust and control*' in the risk management and compliance activities.

- The approach to risk management is to focus on gathering risks and insights bottom up across the organisation. This approach aims at providing senior management with key business risks and risk management practices in managing those risks with support from the risk and compliance function. The Group risk register is periodically reviewed and validated by the Risk & Compliance community and the respective management boards. The risk register is discussed at the Audit Committee (a subcommittee of the Supervisory Board).

- A compliance framework is aimed at designing effective internal controls with a risk based mind-set. Considerable efforts have been devoted to developing internal controls including Group policies and procedures to contribute to an adequate system of internal controls and an effective control environment.

- The Group takes responsibility ensuring that the internal controls that are put on the business are consistent throughout the IKEA value chain. Either reflected through internal steering documents or through codes of conduct designed for our franchisees and suppliers. Continuous efforts are ongoing to implement and follow up on those controls.

- Emergency and crisis management is designed to manage emergencies and prevent crises. In the event of a crisis, procedures are designed to bring business back to normal as quick as possible and minimise impacts across the organisation.

Key risks potentially impacting the Group
A number of strategic, operational, compliance and financial risks may, to some extent impact the achievement of the long term objectives of the Group. The main risks are described below.

Scarcity and depletion of natural resources
IKEA is a resource intensive business with sourcing activities all over the globe. Depending on the region and/or commodity, there will always be risks of negative environmental impact due to use of land, non-sustainable harvesting or production practices. The Group's sustainability commitments continue to be a business focus, aiming to transform the way we use natural resources, including designing all products with new circular principles, where products can be reused, upgraded and recycled. The huge commitment marked the Group's ambition not just to address this risk but also to make a positive impact to the people and planet. As we have always set high ambitions for ourselves and throughout our supply chain system, we would continue to do so and ensure all relevant parties adhere to our strict expectations to meet IKEA's ambition on sustainability.

Product quality and safety compliance
For the Group and its business partners, product safety and quality are top priorities. The commitment for safe and quality products is an important basis to build customer trust. We aim to secure sellable products that correspond to legal requirements, industry standards as well as customer needs and quality expectations. This include not only home furnishing products but also food products sold at IKEA. In close cooperation with our franchisees and suppliers, IKEA has clear processes in place to guarantee product quality and compliance with regulatory requirements in all markets. The risk appetite in this respect is very low, therefore we respond to non-compliance to product quality and safety requirements with the highest priority.

Supply chain security
Supply chain is the backbone of the IKEA business and plays a crucial role in delivering products to our retail networks. Disruption to the supply chain may occur externally and, or internally due to events such as terrorism, human trafficking, theft or violence. The uncertainty of the threat is a prevailing risk not only for the Group but also to franchisees. Should the risk materialize, it may disrupt the availability of goods to our end customers. As such, the risk continue to remain high on the Group's radar. Programs are put in place to continuously monitor the potential threats and incidents occurred. We are also working closely with our retailers to have an effective, secure plan to manage and minimize this risk. The Group's risk appetite on the supply chain security risk is low.

Safety and security
The Group's commits to take great care of our co-workers and providing them with a safe and secured environment. We invest in and maintain a high level of co-worker trainings, safety and security measures and follow up procedures to prevent and mitigate incidents and accidents across all operations. This includes all factories, the supply chain system, offices and during business travels. As we have a very low appetite in this regard, it is the Group's priority to ensure a safe and secure environment.

Information security
The digital era has increased the risk of information security to a different magnitude especially through cyberattacks. Information security also has a significant effect on data privacy. We are continuously working on improving the way we protect and secure data. We recognise that

information needs to be reliable, protected and treated with utmost care whilst respecting ethical values. The Group has a low risk appetite in this matter.

Business ethics

The Group operates in an international environment where practices may varies in different local settings. It is our upmost priority to conduct business in an ethical manner in accordance with our code of conduct. As we continue to expand in markets with different culture and norms, we recognize that more emphasize is needed to ensure that the Group's code of conduct is adhered to throughout the organization. Programs to enhance our controls in this area such as the Policy on Anti-Corruption have been introduced by the Group. The Group's risk appetite in this regard is low.

Geopolitical risks

The IKEA business is now present in 52 markets and will continue to expand digitally and physically into new territories across the globe. The Group also produces, manufactures and sources for products from a large number of countries. Unexpected geopolitical events or changes in the economic outlook could impact the operations. Significant regulatory changes that may originate from these events, could as well affect the ability to do business in some countries. Therefore, geopolitical changes are monitored closely and we aim to mitigate those risks and minimize the impact on our business. The Group has a medium risk appetite in this regard.

Financial risks

The Group purchases IKEA products mainly from third parties and supplies these products to its franchisees. For a number of suppliers, the Group has guaranteed local currency wholesale prices for a large portion of the product range. The resulting foreign currency exchange rate risk is actively managed using derivative contracts. For more details we refer to section 15 of the financial statements.

Credit risk arises mainly from the Group's trade and other receivables. Trade receivables amount to EUR 2,972 million (FY18: EUR 2,840 million) which mainly relate to sales of IKEA products to 11 franchisees. A long standing relationship exists with these counterparties, they have satisfied their obligations to pay. Credit risk on franchise fee receivables are minimised through frequent invoicing and fixed payment schedules.

The Group monitors its cash position by using a cash flow forecast model. This model considers the maturity of its assets and liabilities and the projected cash flows from the operation with the aim to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and long term loans. This enables management to ensure that the cash position is sufficient to meet the financial obligations towards creditors and other third parties.

The Group interest rate risk is limited given the fact that nearly all interest bearing loans have a fixed interest rate. The Group risk appetite towards financial risk is low.

Tax compliance and tax risks

Through our worldwide operations, the Group is subject to local tax laws and regulations in the countries where the Group operates in. As a good corporate citizen, in line with the IKEA values, we are committed to being tax compliant. In recent years there has been increased attention from both governments and media on taxation of multinational companies. We have been actively monitoring these developments and are addressing them by implementing a Group-wide tax control framework and simplifying the Group structure. The increasing requirements on multinational companies with regard to transfer pricing and transparency are high on the Group's agenda. The Group risk appetite towards tax risk is low.

We also refer to our comments on income tax in the Financial Information paragraph.

Sustainability

The IKEA sustainability agenda is described in the sustainability strategy "People & Planet Positive". During FY18, Inter IKEA Group updated the strategy and introduced new sustainability ambitions and commitments addressing the entire IKEA franchise system and value chain. In FY19, efforts were made to translate these ambitions and commitments into more concrete targets and actions, enabling structured progress follow-up in the future.

The IKEA sustainability strategy secures a common sustainability agenda for all stakeholders in the IKEA value chain. We have a long-term perspective on our business. Profitability and responsibility are not opposing forces, on the contrary, they are interdependent. We can only ensure long-term profitability by acting in a way that creates positive impact and trust among all stakeholders.

The IKEA People & Planet Positive Strategy provides a common framework for all trademark users and units to develop and integrate sustainability tactics and actions into their own business plans, but gives flexibility for local, market relevant approaches and solutions.

All IKEA franchisees gather their sustainability work into three focus areas:

1. Healthy and sustainable living: our ambition for 2030 is to inspire and enable more than 1 billion people to live a better everyday life within the limits of the planet.
2. Circular & climate positive: our ambition for 2030 is to become climate positive and regenerate resources while growing the IKEA business.
3. Fair & equal: our ambition for 2030 is to create a positive social impact for everyone across our value chain.

The Group's progress on the IKEA People & Planet Positive Strategy across all three focus areas is communicated through the IKEA sustainability report.

Suppliers

We have a responsibility to secure good social, environmental and working conditions for the many people in the IKEA supply chain. The supplier code of conduct IWAY sets out our minimum requirements on environmental, social and working conditions. It is a starting point for developing shared values and expectations with our suppliers. Since its inception in 2000, IWAY has been regularly updated to address emerging social and environmental risks. IWAY requirements include a set of requirements applicable to every supplier. In addition to the main document, there are several industry-specific supplements and a special code of conduct to rule out child labour. IKEA suppliers are responsible for communicating the content of the IKEA Supplier code of conduct to their employees and sub-suppliers and ensuring that all required measures are implemented at their own operations.

Co-workers
With the base of IKEA values and leadership, together with compensation and benefits, our co-workers are provided with a safe working environment. The Inter IKEA Group code of conduct applies to all co-workers within the Group and can be found on our website.

The Group has presence in many different countries. Equality, inclusion and diversity increase our understanding of each other. That is why the Group recruits for and embraces diversity – to engage with co-workers of all ages, backgrounds, mind-sets and perspectives. In an environment of openness where everyone is important, and feels comfortable to experiment and try new ways.

Within the Group, women are largely represented in our co-worker and manager base. The Group's Management Board and the Supervisory Board had no female members in FY19. The composition of the Management Board and the Supervisory Board is evaluated regularly, taking into consideration a number of criteria including relevant knowledge and experience, as well as a balanced gender distribution. We actively pursue all aspects of diversity, equality and inclusion across the whole Group.

Environmental issues
No material environmental issues occurred during FY19. Especially within Core Business Industry, much attention is given to compliance with environmental regulations through regular equipment verification and condition checks, and through active air emission monitoring and documentation.

Development and innovation
The Group continues to invest significant resources to make IKEA more affordable, accessible and sustainable for customers everywhere. We have the ambition to reach and interact with 3 billion people. To make that happen, we invest in new ways to shop, more sustainable ways of working, and an inspiring, functional and affordable IKEA product range.

New formats
The Group works with IKEA franchisees to bring the IKEA experience closer to more people through three new formats:

1. Smaller IKEA stores make it possible to open stores in city centre locations. The size is flexible and scalable, depending on the context. During FY19, two of these smaller stores were opened by our franchisees.
2. IKEA pick-up points are a convenient and affordable alternative to home delivery or buying products at an IKEA store.
3. IKEA pop-up stores are temporary spaces (maximum six months) that focus on specific themes, events or messages.

Range development
IKEA product range development delivered many new products designed for urban small spaces and the mobile lifestyle. The design focus has been on creating products with multi-purpose and functionality, to enable using the space you have in the best way possible: smart space living. Example products are the VALLENTUNA sofas and beds with hidden storage, and the new ROGNAN robotic furniture solution, designed to easily transform a living room into a bed room or vice versa.

The first ever complete collection targeting super small space living (RÅVAROR) will become available to customers in 2020. The collection will include 20 products, such as daybed and sofa, tables, mini kitchen, open storage solutions on castors, storage boxes, textile and lighting. All items are designed with optimisation of space in mind where flexibility and the ability to move easily are key ingredients.

Another important development initiative is IKEA Home Smart, integrating technology into home furnishings. One example is the Group's partnership with Sonos, resulting in the new range SYMFONISK, which became available to IKEA customers in summer 2019. New products within the Home Smart range focuses on smart lighting and smart blinds.

Industry automation

Core Business Industry continues to work on automating industrial processes through building digital manufacturing capabilities (Manufacturing System of the Future). First efforts include automated packaging solutions, automatic drill-holl detection and a new approach to spray-lacquering products and materials. Initial results show reduced production costs, increased efficiency and improved product quality. It has also led to more ergonomic workplaces for IKEA co-workers. Long-term development will eventually lead to stronger connections across the IKEA supply chain – enabling end-to-end traceability and circularity.

Outlook for financial year FY20

In FY20, we expect similar retail sales growth as in FY19. The expected growth directly contributes to our franchise fee and wholesale revenues. The Group expects to finance its investments primarily from its own funds. We expect to be profitable in FY20.

During FY20, we will continue to invest in research activities and in the development of our core businesses Franchise, Range & Supply and Industry.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Martin van Dam

Delft, 7 November 2019

CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2019

(before profit appropriation, in millions of EUR)

	FY19	FY18
Fixed assets		
Intangible fixed assets (4)	10,355	10,700
Tangible fixed assets (5)	1,663	1,618
Financial fixed assets (6)	295	256
Total fixed assets	**12,313**	**12,574**
Current assets		
Inventories (7)	4,312	4,632
Receivables (8)	4,692	4,046
Cash and cash equivalents (9)	153	230
Total current assets	**9,157**	**8,908**
TOTAL ASSETS	**21,470**	**21,482**
Group equity (10)	**8,298**	**7,298**
Provisions (11)	**705**	**578**
Non-current liabilities (13)	**6,487**	**7,068**
Current liabilities (14)	**5,980**	**6,538**
TOTAL EQUITY AND LIABILITIES	**21,470**	**21,482**

(See accompanying notes)

CONSOLIDATED PROFIT AND LOSS ACCOUNT FY19

(in millions of EUR)

	FY19	FY18
Revenues	25,228	24,894
Changes in inventories of finished products	(309)	597
Other Revenues	26	25
Total Revenues (17)	**24,945**	**25,516**
Cost of raw materials and consumables	20,394	20,825
Cost of outsourced work and other external costs	267	502
Salaries	820	797
Social charges	200	190
Pension expenses	113	104
Depreciation and amortisation	522	488
Impairment	34	63
Other operating expenses	739	585
Total operating expenses (18)	**23,089**	**23,554**
Operating income	**1,856**	**1,962**
Financial income	305	188
Financial expense	370	445
Financial income and expense (19)	**(65)**	**(257)**
Result before tax	**1,791**	**1,705**
Income tax (20)	301	256
Share of results from participating interests	5	-
Net result	**1,485**	**1,449**

(See accompanying notes)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FY19

(in millions of EUR)

	FY19	FY18
Net Result	1,485	1,449
Change in unrealised derivatives	118	(347)
Remeasurement IAS19	(116)	(19)
Exchange rate differences	-	(24)
Other	13	(7)
Total comprehensive income	**1,500**	**1,052**

CONSOLIDATED CASH FLOW STATEMENT FY19

(in millions of EUR)

	FY19	FY18
Operating result	**1,856**	**1,962**
Adjusted for:		
- Depreciation/amortisation	522	488
- Other value adjustments	46	63
- Changes in provisions	127	81
- Changes in financial fixed assets	(32)	(1)
- Changes in working capital	475	(896)
Cash flow from business operations	*2,994*	*1,697*
Interest received	9	10
Interest paid	(370)	(401)
Income tax paid	(175)	(205)
Cash flow from operating activities	**2,458**	**1,101**
Investments in:		
- Intangible fixed assets	(4)	(51)
- Tangible fixed assets	(261)	(332)
- Acquisition of companies	-	(2)
Disposals of:		
- Tangible fixed assets	-	5
Cash flow from investing activities	**(265)**	**(380)**
Issuance of debt	(5)	(14)
Repayments	(594)	(588)
Long term financing	13	95
Short term financing	(1,180)	463
Dividend paid	(500)	(750)
Cash flows from financing activities	**(2,266)**	**(794)**
Net cash flow	**(73)**	**(73)**
Exchange rate and translation differences on cash	(4)	19
Changes in cash and cash equivalents	**(77)**	**(54)**
Cash and cash equivalents at beginning	230	284
Cash and cash equivalents at end	153	230
Net movement in cash	**(77)**	**(54)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Inter IKEA Holding B.V. ('the Company'), was incorporated on 30 September 1992, is registered in Delft (Chamber of Commerce registration number 27232886) and has its corporate seat at Olof Palmestraat 1 in Delft. Inter IKEA Holding B.V. is the ultimate parent of a group of companies that together form the Inter IKEA Group ('the Group').

The Company has issued 1 class A share and 125 class B shares. The class A share is held by Interogo Foundation, entitling Interogo Foundation to voting rights in the General Meeting. This share does not give right to a share in distributable profits and reserves. The class B shares are held by Interogo Holding AG. These shares do not entitle the holder to voting rights in the General Meeting, they only entitle the holder to a share in the distributable profits and reserves.

These financial statements cover the 12-month period which ended at 31 August 2019 ('FY19'). Comparative figures reflect the 12-month period which ended at 31 August 2018 ('FY18').

2. BASIS OF PREPARATION

Both the consolidated financial statements and the company financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. The accounting policies applied for measurement of assets and liabilities and the determination of results are based on the historical cost convention, unless otherwise stated in the further accounting principles.

The Company's financial information is included in the consolidated financial statements. For this reason, in accordance with Section 402, Book 2 of the Netherlands Civil Code, the separate profit and loss account of the Company exclusively states the share of the result of participating interests after tax and the other results after tax. The financial statements have been prepared on the basis of the going concern assumption.

3. SIGNIFICANT ACCOUNTING POLICIES

General

Assets and liabilities are measured at nominal value, unless otherwise stated in the further principles.

An asset is recognised in the balance sheet when it is probable that the expected future economic benefits, that are attributable to the asset, will flow to the Company and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow of resources embodying economic benefits and the amount of the obligation can be measured reliably. Liabilities that are not recognized in the balance sheet are considered off-balance sheet liabilities.

An asset or liability that is recognised in the balance sheet, remains on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. An asset or liability is no longer recognised in the balance sheet when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability being transferred to a third party. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, of which the size can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, of which the size can be measured with sufficient reliability.

Functional and presentation currency

The financial statements are presented in euros ('EUR'), which is also the Company's functional currency. All financial information in euros has been rounded to the nearest million.

Assumptions and estimates

The preparation of the financial statements requires management to form opinions and to make estimates and assumptions that have an impact on the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. Estimates and the underlying assumptions are constantly assessed. Revisions to estimates are recognised prospectively.

The following accounting policies are in the opinion of management the most critical for the purpose of presenting the financial position and require estimates and assumptions.

- The useful life of fixed assets;
- Obsolescence of stock;
- Impairments;
- Provisions; and
- Taxation (including uncertain tax positions).

Refer to the accounting policies of the respective balance sheet items for details on the assumptions made.

Consolidation scope

The consolidated financial statements include the financial data of the Company and its subsidiaries. Subsidiaries are participating interests in which the Company (and/or one or more of its subsidiaries) can exercise more than half of the voting rights in the general meeting, or can appoint or dismiss more than half of the managing directors or supervisory directors.

Newly acquired participating interests are consolidated as from the date that decisive influence (control) can be exercised. Participating interests disposed of remain included in the consolidation until the date of loss of this influence.

For an overview of all subsidiaries included in the group, reference is made to the listing of subsidiaries that has been filed by the Company at the Chamber of Commerce.

Business combinations

A business combination is a transaction whereby the group obtains control over the assets and liabilities and the activities of the acquired party. Business combinations are accounted for using the 'purchase accounting' method on the date that control is transferred to the group (the acquisition date). The transaction price is the cash consideration or equivalent agreed as part of the acquisition, or the fair value of the consideration transferred at the acquisition date. Transaction costs that are directly attributable to the business combination are allocated to the transaction price. In case of deferred payment of the consideration, the transaction price is the discounted value of the consideration.

The group recognises the identifiable assets and liabilities of the acquiree at the acquisition-date. These assets and liabilities are recognised individually at their fair values, provided that it is probable that future economic benefits will flow to the group (assets) or settlement will result in an outflow of resources embodying economic benefits (liabilities), and the cost or fair value thereof can be measured with reliability.

Consolidation method
The consolidated financial statements are prepared by using uniform accounting policies for measurement and determination of Group's result.

In the consolidated financial statements, intragroup shareholdings, liabilities, receivables and transactions are eliminated. Also, the results on transactions between group companies are eliminated to the extent that the results are not realised through transactions with third parties outside the group and no impairment loss is applicable. For a transaction whereby the Company has a less than a 100% interest in the selling group company, the elimination from the group result is allocated pro rata to the minority interest based on the interest of the minority in the selling group company.

Translation of foreign currencies
At initial recognition, transactions denominated in a foreign currency are translated into the Company's functional currency at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognised in profit and loss in the period in which the exchange difference occurs. Exempt from this are exchange differences on monetary items that are part of a net investment in a foreign operation.

Non-monetary assets and liabilities denominated in foreign currency that are measured based on historical cost, are translated into the functional currency at the exchange rates as at the date of the transactions.

The assets and liabilities that are part of the net investment in a foreign operation are translated into the functional currency at the exchange rate prevailing on the reporting date. The income and expenses of such a foreign operation are translated into euros at the average exchange rate for the year. Currency translation differences are recognised in the translation reserve within equity.

Financial instruments
Financial instruments include trade and other receivables, cash, loans and other financing commitments, trade payables, other amounts payable and derivative financial instruments.

Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate. Financial instruments are derecognised if a transaction results in a considerate part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

Financial and non-financial contracts may contain terms and conditions that meet the definition of derivative financial instruments. Such an agreement is separated from the host contract and accounted as a stand-alone derivative if its economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value with changes in fair value recognised in the profit and loss account. Financial instruments embedded in contracts that are not separated from the host contract are recognised in accordance with the host contract. Derivatives separated from the host contract are, in accordance with the measurement policy for derivatives for which no cost price hedge accounting is applied, measured at cost or lower fair value.

A purchase or sale of non-derivative financial assets according to standard market conventions is, by class of financial assets and financial liabilities, systematically recognised or derecognised in the balance sheet on the settlement date (date of transfer).

Financial instruments are initially measured at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition. After initial recognition, financial instruments are valued in the manner described below.

Trade and other receivables
Receivables are short-term in nature, initially measured at fair value and subsequently at amortized costs (except for derivatives) less allowance for uncollectible amounts.

Financial liabilities
Financial liabilities are recognised initially at fair value, which includes directly attributable transactions costs, and subsequently carried at amortised cost. If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

Derivatives and hedge accounting
Derivatives are measured at fair value with recognition of all changes in value in the profit and loss account, except where hedge accounting is used to hedge the variability of future cash flows that affect the profit and loss account (cash flow hedge accounting).

Cash flow hedge
If cash flow hedge accounting is used, the effective portion of the fair value changes of the derivatives is initially recognised in other comprehensive income. As soon as the expected future transactions lead to the recognition of gains or losses in the profit and loss account, the respective amounts are transferred from the hedging reserve of other comprehensive income to the profit and loss account. The net result of these gains and losses is recognised as financial income and expenses.

If a derivative no longer meets the conditions for hedge accounting, expires or is sold, or if the Company has decided to no longer apply hedge accounting, the hedging relationship is terminated. The deferred gains or losses recognised at the time of the termination of the hedging relationship remain in equity until the expected future transaction takes place. If the transaction is no longer expected to take place, the deferred gain or loss on the hedge recognised in equity is transferred to the profit and loss account.

Conditions for hedge accounting
The Company uses hedge accounting documentation, documenting the specific hedge relationships in the dedicated treasury management system and regularly assesses the effectiveness of the hedging relationships by establishing whether the hedge is effective or that there is no over-hedging.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking hedge transactions together with methods selected to assess hedge effectiveness. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in future cash flows (the hedged items). The effectiveness test is performed by comparing the critical attributes of the hedging instrument with the hedged item, namely currency pair, maturity date and notional amount. If there is an over-hedge, the related value based on the lower of cost or fair value is recognised directly in the profit and loss account.

Impairment of financial assets
Financial assets (e.g. long-term loans receivable) are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, indications that a debtor or issuer is approaching bankruptcy, or the disappearance of an active market for a security.

The entity considers evidence of impairment for financial assets measured at amortised cost both individually and on a portfolio basis. All individually significant assets are assessed individually for impairment. Those individually significant assets found not to be individually impaired and assets that are not individually significant are then collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of collections and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset stated at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the profit and loss account and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on the impaired asset continues to be recognised by using the asset's original effective interest rate.

When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

Offsetting financial instruments
A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously.

Intangible fixed assets
Intangible fixed assets are only recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably.

Intangible fixed assets are measured at acquisition or development cost, less accumulated amortisation and impairment losses.

Expenditures made after the initial recognition of an acquired or constructed intangible fixed asset are included to the acquisition or construction cost if it is probable that the expenditures will lead to an increase in the expected future economic benefits, and the expenditures and the allocation to the asset can be measured reliably. If expenditures do not meet these conditions, they are recognised as an expense in the profit and loss account.

The accounting principles for the recognition of an impairment are included under the section 'Impairment of fixed assets'.

Proprietary Rights
The Proprietary Rights include the IKEA trademark, protection rights, intellectual property rights and the rights to the IKEA catalogue.

The IKEA Brand and Concept have shown strong income and cash flow performance over the last decades. We have the intent and ability to support the IKEA Brand with marketplace spending for the foreseeable future. Applicable Dutch accounting principles require us to amortise these Proprietary Rights based on expected economic life. Determining an expected economic life of the Proprietary Rights requires management assessment and is based on a number of factors, including: expected usage of the IKEA Brand and Concept, development of our market share, expectations on market development, consumer awareness and anticipated future expansion. Based on these factors, the expected economic life is set at 45 years.

At the end of each financial year, the recoverable amount of the Proprietary Rights is assessed for impairment, even if there is no indication of impairment.

Goodwill
Goodwill represents the excess of the cost of the acquisition of the participating interest (including transaction costs directly related to the acquisition) over the Company's interest in the net realisable value of the assets acquired and the liabilities assumed of the acquired entity, less cumulative amortisation and impairment losses. Internally generated goodwill is not capitalised.

Goodwill paid upon the acquisition of foreign group companies and subsidiaries is translated at the exchange rates at the date of acquisition.

Reacquired rights
The Company has granted IKEA of Sweden AB the right to develop products and establish the IKEA product range. The useful life of the reacquired rights has been determined during the transaction at year-end 2016 (in which the entities performing the range, supply and production activities were acquired by the Company) and was set at 5 years.

Software in development
The capitalised externally developed software is amortised on a straight-line basis over the estimated useful life, determined at 3 years.

Other intangibles
Other intangibles mainly relate to land lease rights; ownership of a temporary right to lease land which has been paid in advance. The useful life is equal to 50 years or, when applicable, the contract period.

Tangible fixed assets
Tangible fixed assets are recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably.

Land and buildings, machinery and equipment, construction in progress and other and idle assets are stated at cost less accumulated depreciation and impairment losses. The cost comprises the price of acquisition or manufacture, plus other costs that are necessary to bring the assets to their location and in condition for their intended use. Investment grants are deducted from the cost of the assets to which the grants relate. Expenditure is only capitalised when it extends the useful life of the asset. Costs of major rebuilding, repairs or maintenance are capitalised at cost, when incurred and if the recognition criteria are met, using the component approach. All other repair and maintenance costs are charged directly to the profit and loss account.

The Company applies the component approach for tangible fixed assets if important individual components of a tangible fixed asset can be distinguished from each other. Taking into account differences in useful life or expected pattern of use, these components are depreciated separately.

Depreciation is recognised in the profit and loss account on a straight-line basis over the estimated useful lives of each item of the tangible fixed assets. Depreciation starts as soon as the asset is available for its intended use, and ends at decommissioning or divestment. No depreciation is recognised on land.

The following depreciation periods (in years) are applied:

- Land and Buildings: 0-25
- Machinery and equipment: 3-15

Financial fixed assets

Long-term loans receivable

Loans granted and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these loans and receivables are measured at amortised cost based on the effective interest rate method, less impairment losses. The effective interest and impairment losses, if any, are directly recognised in the profit and loss account.

Deferred tax assets

The valuation of deferred tax assets is explained under the heading 'Corporate income tax'.

Impairment of fixed assets

Tangible and intangible fixed assets are assessed at each reporting date whether there is any indication of an impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of value in use and net realisable value. If it is not possible to assess the recoverable amount for an individual asset, the recoverable amount is assessed for the cash-generating unit (CGU) to which the asset belongs.

When the carrying amount of an asset or CGU exceeds its recoverable amount, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount. If there is an impairment loss for a CGU, the loss is first allocated to goodwill allocated to the CGU. Any residual loss is allocated to the other assets of the unit pro rata to their book values.

Subsequently, at each reporting date, the entity assesses whether there is any indication that an impairment loss that was recorded in previous years has been decreased. If any such indication exists, then the recoverable amount of the asset or CGU is estimated.

Reversal of a previously recognised impairment loss only takes place when there is a change in the assessment used to determine the recoverable amount since the recognition of the last impairment loss. In such case, the carrying amount of the asset (or CGU) is increased to its recoverable amount, but not higher than the carrying amount that would have applied (net of depreciation) if no impairment loss had been recognised in previous years for the asset (or CGU).

An impairment loss of goodwill is not reversed in a subsequent period.

Contrary to what is stated above, on each balance sheet date the recoverable amount is assessed for intangible fixed assets that are amortised over a useful life of more than 20 years (counting from the moment of initial operation/use) regardless of whether there is any indicator of an impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes the expenses for acquisition or manufacture, plus other expenditure to bring the inventories to their present location and condition. Net realisable value is based on the most reliable estimate of the sales proceeds the inventories will generate, less costs still to make.

Valuation of inventory is calculated based on the 'first in – first out' (FIFO) method which assumes that the goods purchased first, are the first goods to be sold.

Other receivables
The accounting policies applied for the valuation of other receivables are disclosed under the heading 'Financial instruments'.

Cash and cash equivalents
Cash and cash equivalents are measured at nominal value. If cash and cash equivalents are not readily available, this is taken into account in the measurement.

Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in the functional currency at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

Shareholders' equity
Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Share Premium
Amounts contributed by the shareholder(s) of the Company in excess of the nominal share capital, are accounted for as share premium. This also includes additional capital contributions by existing shareholders without the issue of shares or issue of rights to acquire shares of the Company.

Translation reserve
Exchange gains and losses arising from the translation of the functional currency of foreign operations to the reporting currency of the parent are accounted for in this legal reserve. In the case of the sale of a participating interest, the associated accumulated exchange differences are transferred to other reserves.

Provisions
A provision is recognised if the following applies:

- the Company has a legal or constructive obligation arising from a past event;
- and the amount of the liability can be estimated reliably;
- and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

If all or part of the payments that are necessary to settle a provision are likely to be fully or partially compensated by a third party upon settlement of the provision, then the compensation amount is presented separately as an asset.

Provisions are measured at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses.

Provisions are carried at non-discounted value, with the exception of:

- the provision for pensions which is carried at discounted value; and
- provisions for other employee benefits carried at discounted value if the effect of the time value is material.

Provision for deferred tax liabilities
The valuation of deferred tax liabilities is explained under the heading ‘Corporate income tax’.

Pensions and other post-employment benefits
The Company operates a number of pension plans, which have been established in accordance with the regulations and practices of the individual countries. The plans include both defined contribution plans and defined benefit plans. Accounting policy RJ 271 “Employee Benefits” offers the possibility to apply IFRS EU standards relating to the accounting treatment of pensions (IAS 19 “Employee Benefits”) in financial statements that have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code. This makes the IFRS standard for pension obligations a factual part of the Dutch guidelines (RJ 271.101). The Company applies IAS 19 to all post-employment benefits.

Defined contribution plans
Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans
The net obligations in respect of defined benefit plans are calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Provision for claims, disputes and lawsuits
The provision represents the best estimate of the amount for which the claim can be settled, including the costs of litigation.

Non-current liabilities
The valuation of non-current liabilities is explained under the heading 'Financial instruments'.

Revenue recognition
Sale of goods
Revenue from the sale of goods is accounted for in net turnover at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue from the sale of goods is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer, the amount of the revenue can be determined reliably, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods.

Franchise fees
Franchise fees are received for the use of the IKEA trademarks, patents and software. Revenue is recognised when the amount of the consideration receivable can be determined reliably and recovery is probable.

Revenue and expenses are allocated to the period to which they relate.

Expenses
Expenses, including interest, are determined with due observance of the aforementioned accounting policies and allocated to the year to which they relate. Foreseeable and other obligations as well as potential losses arising before the financial year-end are recognised if known before the financial statements are prepared and provided all other conditions for the recognition of a provision are met.

Employee benefits
Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

For benefits with accumulating rights and bonuses, the projected costs are taken into account during the employment. An expected payment resulting from profit-sharing and bonus payments is recognised if the obligation for that payment has arisen on or before the balance sheet date and a reliable estimate of the liabilities can be made.

If a benefit is paid in case of non-accumulating rights (e.g., continued payment in case of sickness or disability), the projected costs are recognised in the period in which such benefit is payable. For existing commitments at the balance sheet date to continue the payment of benefits (including termination benefits) to employees who are expected to be unable to perform work wholly or partly due to sickness or disability in the future, a provision is recognised.

The recognised liability relates to the best estimate of the expenditure necessary to settle the obligation at the balance sheet date. The best estimate is based on contractual agreements with employees (collective agreement and individual employment contract). Additions to and reversals of liabilities are charged or credited to the profit and loss account.

The liability for benefits during employment is measured at present value of the expenditure expected to be required to settle the obligation.

Leasing

The Company may enter into finance and operating leases. A lease agreement under which the risks and rewards of ownership of the leased object are carried entirely or almost entirely by the lessee are classified as finance leases. All other leases are classified as operating leases. For the lease classification, the economic substance of the transaction is conclusive rather than the legal form.

At inception of an arrangement, the Company assesses whether the lease classifies as a finance or operating lease. The Group has not entered into any finance leases.

If the Company acts as lessee in an operating lease, the leased property is not capitalised. Benefits received as an incentive to enter into an agreement are recognised as a reduction of rental expense over the lease term. Lease payments and benefits regarding operating leases are recognised to the profit and loss account on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the benefits from the use of the leased asset.

Financial income and expenses

Financial income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method. Financial expenses and similar expenses are recognised in the period to which they belong.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. If the carrying amounts of assets and liabilities for financial reporting differ from their values for tax purposes (tax base), this results in temporary differences. For taxable temporary differences, a provision for deferred tax liabilities is recognised.

For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

For taxable temporary differences relating to group companies, foreign branches, associates and joint ventures, a deferred tax liability is recognised, unless it is probable that the temporary difference will not reverse in the foreseeable future. The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the Company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

Cash flow statement
The cash flow statement is prepared using the indirect method. Cash and cash equivalents include cash and investments that are readily convertible to a known amount of cash without a significant risk of changes in value. Cash flows in foreign currency are translated into euros using the average rates. Currency translation differences with regard to cash and cash equivalents are presented separately in the cash flow statement.

Receipts and payments of interest and income taxes are presented within the cash flows from operating activities. Payments of dividends are presented within the cash flows from financing activities.

Cash flows from derivative financial instruments that are accounted for as fair value hedges or cash flow hedges, are classified in the same category as the cash flows from the hedged balance sheet items. Cash flows from derivative financial instruments whereby hedge accounting is no longer applied, are classified in accordance with the nature of the instrument, from the date at which hedge accounting is ended.

Determination of fair value
The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other.

- The fair value of listed financial instruments is determined on the basis of the exit price.
- The fair value of non-listed financial instruments is determined by discounting the expected cash flows to their present value, applying a discount rate that is equal to the current risk-free market interest rate for the remaining term, plus credit and liquidity surcharges.
- The fair value of derivatives involving the exchange of collateral is determined without the credit or liquidity surcharges since this risk is mitigated by the collateral exchange.

Related parties and related party transactions
Transactions with related parties are assumed when a relationship exists between the company and a natural person or entity that is affiliated with the company. This includes, amongst others, the relationship between the company and its subsidiaries, shareholders, directors and key management personnel. Transactions are transfers of resources, services or obligations, regardless whether anything has been charged.

Subsequent events
Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements. Events that provide no further information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the

economic decisions of users of the financial statements, the nature and the estimated financial effects are disclosed in the financial statements.

4. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets were as follows:

	Proprietary rights	Reaquired Rights	Software in dev.	Other	Total
Balance as at 1 September 2018:					
Purchase price	11,800	514	143	185	12,642
Accumulated amortisation and impairment	(1,345)	(339)	(123)	(135)	(1,942)
Carrying amount	**10,455**	**175**	**20**	**50**	**10,700**
Changes in carrying amount:					
Additions	-	-	-	4	4
Amortisation	(273)	(61)	(10)	-	(344)
Other	-	(2)	-	(3)	(5)
Balance	**10,182**	**112**	**10**	**51**	**10,355**
Balance as at 31 August 2019:					
Purchase price	11,800	512	143	186	12,641
Accumulated amortisation and impairment	(1,618)	(400)	(133)	(135)	(2,286)
Carrying amount closing	**10,182**	**112**	**10**	**51**	**10,355**
Estimated useful life (years)	45	5	3	Various	

Proprietary Rights
The Company (through its subsidiary Inter IKEA Systems B.V.), acquired the beneficial interest of the IKEA Proprietary Rights ("IP Rights") from Interogo Foundation for a total consideration of EUR 11,800 million. These Rights include the IKEA trademark, protection rights, intellectual property rights and the rights to the IKEA catalogue.

Reacquired rights
These rights have been reacquired during the transaction in which the entities performing the range, supply and production activities were acquired by the Company. The useful life for the reacquired rights is 5 years.

Software in development
Software in development relates to the Ecommerce platform.

Other
Other intangibles mainly relate to land lease rights; ownership of a temporary right to lease land which has been paid in advance. The useful life is equal to 50 years or, when applicable, the contract period.

5. TANGIBLE FIXED ASSETS

Movements in tangible fixed assets were as follows:

	Land and buildings	Mach. and equip.	Constr. in progress	Other assets	Total
Balance as at 1 September 2018:					
Purchase price	1,047	751	170	72	2,040
Accumulated depreciation and impairment	(155)	(227)	-	(40)	(422)
Carrying amount	**892**	**524**	**170**	**32**	**1,618**
Changes in carrying amount:					
Investments	19	21	216	5	261
Disposals	(3)	(6)	(3)	-	(12)
Transfers	71	101	(174)	2	-
Depreciation	(61)	(104)	-	(13)	(178)
Impairment	(12)	(22)	-	-	(34)
Other	9	(2)	1	-	8
Balance	**915**	**512**	**210**	**26**	**1,663**
Balance as at 31 August 2019:					
Purchase price	1,143	865	210	79	2,297
Accumulated depreciation and impairment	(228)	(353)	-	(53)	(634)
Carrying amount	**915**	**512**	**210**	**26**	**1,663**
Estimated useful life (years)	25	3-15		Various	

In FY19, an impairment loss of EUR 34 million was recognised with respect to tangible fixed assets. The loss is mainly related to lower volumes in two furniture production units, resulting in the recoverable amount of these units falling below their carrying amount. The difference is included as an impairment loss in the profit and loss account.

Tangible fixed assets carried at cost do not include capitalised interest charges.

Tangible fixed assets include an amount of EUR 15 million (FY18: EUR 19 million), which is pledged for debts to credit institutions.

6. FINANCIAL FIXED ASSETS

Movements in financial fixed assets were as follows:

	Investment in associates	Deferred tax asset	LT loans receivable	Total
Balance as at 1 September 2018:	**2**	**187**	**67**	**256**
Changes in carrying amount:				
Additions	-	44	-	44
New loans	-	-	5	5
Used	-	7	-	7
Released	-	(25)	-	(25)
Repayments	-	-	(2)	(2)
Other	-	6	4	10
Balance	**-**	**32**	**7**	**39**
Balance as at 31 August 2019:	**2**	**219**	**74**	**295**

The deferred tax assets relate to deductible temporary differences. The deferred tax assets will not be offset within one year.

The long term loans receivable mainly encompass supplier financing (EUR 90 million), this amount includes a provision of EUR 38 million. The current part of the long term loans receivable has been accounted for under Receivables.

7. INVENTORIES

	FY19	FY18
Raw materials	244	242
Work in progress	40	52
Finished goods	4,028	4,338
Total	**4,312**	**4,632**

The movement in the provision for obsolescence for finished goods is as follows:

	FY19	FY18
Balance as at 1 September 2018	144	142
Addition, charged to the profit and loss account	31	30
Write-offs charged against the provision	-	(1)
Release, credited to the profit and loss account	(50)	(27)
Balance as at 31 August 2019	**125**	**144**

8. RECEIVABLES

	FY19	FY18
Trade receivables	2,972	2,840
Current portion of long-term loans receivable	44	43
Income tax receivable	19	119
Indirect tax receivable	152	232
Receivable on related parties	1,229	562
Derivatives assets	30	53
Prepaid expenses and accrued income	167	99
Other receivables	79	98
Total	**4,692**	**4,046**

The trade receivables all have an estimated maturity shorter than one year.

The carrying values of the recognised receivables approximate their respective fair values, given the short maturities of the positions and the fact that allowances for doubtful debts have been recognised, if necessary.

	FY19	FY18
Amortised cost of outstanding receivables	2,976	2,844
Less: allowance for doubtful debts	(4)	(4)
Trade Receivables	**2,972**	**2,840**

Receivables on related parties relate to regular cash pool management with Interogo Holding AG.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include an amount of EUR 10 million (FY18: EUR 3 million) that is not immediately accessible.

10. GROUP EQUITY

For details on shareholders' equity, refer to note 4 in the Company financial statements.

11. PROVISIONS

Movements in provisions can be specified as follows:

	Deferred tax liability	Pension	Tax	Legal Claims	Other	Total
Balance as at 1 September 2018:	**80**	**375**	**49**	**36**	**38**	**578**
Changes:						
- Provisions made during the year	5	172	-	-	8	**185**
- Provisions used during the year	(2)	(3)	-	-	(1)	**(6)**
- Provisions released during the year	(46)	(1)	(6)	(8)	(1)	**(62)**
- Other	7	8	-	-	(5)	**10**
Balance as at 31 August 2019:	**44**	**551**	**43**	**28**	**39**	**705**

The Company has recognised a provision for deferred taxes for differences between valuation principles for financial reporting purposes and for tax purposes mainly related to tangible fixed assets. The deferred tax liabilities will not be utilized within one year.

For details on the provision for pensions commitments in Sweden, the Netherlands and Switzerland refer to note 12. The remaining amount is divided over several countries.

The provision for tax expenses is recorded for unfavourable outcomes in tax audits and disputes.

The provision in respect of claims, disputes and lawsuits relates to product claims involving the Company and/or its group companies.

12. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

	FY19	FY18
Defined benefit obligation - funded plans	236	164
Defined benefit obligation - unfunded plans	497	354
Fair value on plan assets	(191)	(154)
Net defined benefit liability	**542**	**364**

The Company has a number of defined benefit pension plans, predominantly in Sweden, the Netherlands and Switzerland.

There are minimum funding requirements applicable for the pension plans in the Netherlands and Switzerland as set out by local legislation.

Movement in Net defined benefit liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Balance at 1 September	**518**	**481**	**(154)**	**(134)**	**364**	**347**
Included in profit or loss						
Current service cost	44	38	-	-	44	38
Interest cost	13	11	(3)	(3)	10	8
	57	**49**	**(3)**	**(3)**	**54**	**46**
Included in OCI						
Remeasurement						
- Actuarial loss (gain) arising from:						
- demographic assumptions	(1)	-	-	-	(1)	-
- financial assumptions	162	(3)	-	-	162	(3)
- experience adjustment	4	31	-	-	4	31
- Return on plan assets excluding interest income	-	-	(18)	(4)	(18)	(4)
Effect of movements in exchange rates	(8)	(39)	(2)	(1)	(10)	(40)
	157	**(11)**	**(20)**	**(5)**	**137**	**(16)**
Other						
Contributions paid by the employer	(3)	(3)	(13)	(15)	(16)	(18)
Participation contribution	5	5	(5)	(5)	-	-
Other	(1)	(3)	4	8	3	5
	1	**(1)**	**(14)**	**(12)**	**(13)**	**(13)**
Balance at 31 August	**733**	**518**	**(191)**	**(154)**	**542**	**364**

The present value of the defined benefit liability is detailed as below:

Plan assets

The major categories of plan assets of the fair value of the total plan assets are, as follows:

	FY19	**FY18**
Cash and cash equivalents	7	1
Equity instruments	69	58
Debt instruments	98	81
Real estate	17	14
Total	**191**	**154**

The plan assets do not include investments in shares, issued debt or property owned by the Company. Total plan assets with a quoted market prices amounts to EUR 174 million (FY18: EUR 140 million).

Defined benefit obligation

Actuarial assumptions

The principal weighted-average assumptions used in determining the defined benefit obligations are shown below:

	FY19	FY18
Discount rate	1.5%	2.5%
Future salary increase rate	3.0%	3.0%

The pre-retirement mortality assumption has been calculated per country, based on generally accepted mortality tables, such as DUS14 for Sweden and BVG2015 Generational for Switzerland.

The average duration of the defined benefit plan obligation at 31 August 2019 is 25 years (FY18: 26 years).

The Company expects to contribute EUR 70 million to its defined benefit pension plans in FY20.

Sensitivity analysis
Sensitivity analyses (in- and decrease by 0.5%) have been performed on both the discount rate and the salary increase rate, calculating the present value of the defined benefit obligation as at 31 August 2019.

	Discount rate		Salary increases	
	+50 bp	-50 bp	+50 bp	-50 bp
Present value defined benefit obligation	646	833	781	688

13. NON-CURRENT LIABILITIES

	FY19	FY18
Debts to related party	6,483	7,065
Other debts	4	3
Closing Balance	**6,487**	**7,068**

The Company is financed, primarily, by loans granted by the non-controlling shareholder Interogo Holding AG:

- relating to the acquisition of the Proprietary Rights; EUR 5,400 million. This loan will be repaid in December 2023.
- relating to the acquisition of the range, supply and production activities; EUR 1,500 million. EUR 500 million will be repaid each year in September, therefore this amount is classified as current liability. The balance due will be paid in September 2021.

Refer to note 15 for more details on interest rates and conditions.

The debts to related party can be further disclosed as follows:

- Repayment obligation 2020: EUR 500 million
- Remaining duration 1-5 year: EUR 6,483 million
- Remaining duration >5 year: EUR 0 million

The movements in debts to shareholders can be specified as follows:

	FY19	FY18
Principal amount	8,577	8,557
Repaid until 31 August	(1,011)	(500)
Outstanding principal amount as per 1 September	*7,566*	*8,057*
Repayments	(596)	(511)
Additions	13	20
Oustanding principal amount as at 31 August	*6,983*	*7,566*
Current as at 31 August	(500)	(501)
Non-current as at 31 August	**6,483**	**7,065**

14. CURRENT LIABILITIES

	FY19	FY18
Current portion of long term debt	500	501
Short-term borrowings	98	121
Accounts payable trade	1,722	1,637
Income taxes payable	188	114
Indirect tax payable	179	161
Payable related parties	2,757	3,270
Payable staff	137	137
Derivatives liabilities	10	106
Bank overdraft	81	134
Accrued liabilities and deferred income	193	179
Other Liabilities	115	178
Total	**5,980**	**6,538**

Short-term borrowings at different finance institutions bear market interest rates according to local conditions for currencies involved.

Payable related parties mainly relate to regular cash pool borrowing from Interogo Holding AG amounting to EUR 2,696 million (FY18: EUR 2,399 million.)

All current liabilities have an estimated maturity shorter than one year.

15. FINANCIAL INSTRUMENTS

General

During the normal course of business, the Company uses various financial instruments that expose it to currency, interest, cash flow, fair value, market, credit and liquidity risks. To control these risks, the Company has instituted a policy including a code of conduct and procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the financial performance of the Company.

Credit risk

Credit risk arises principally from the Company loans and receivables presented under financial fixed assets, trade and other receivables, cash and the positive fair value of derivatives. The maximum amount of credit risk that the Company incurs is EUR 4,987 million (FY18: EUR 4,302 million), consisting of EUR 295 million (FY18: EUR 256 million) financial fixed assets and EUR 4,692 million (FY18: EUR 4,046 million) receivables. The credit risk is concentrated to trade receivables for EUR 2,972 million (FY18: EUR 2,840 million) which mainly consists of 11 franchisees. Long standing relationships exist with these counterparties, securing the obligations to pay. Furthermore, the Company holds receivables of EUR 1,229 million (FY18: EUR 562 million) on related parties.

Credit risk mitigating aspects
For derivatives traded with banking partners, there is a collateral management process where the net asset or liability value is exchanged in the form of cash collateral with each counterparty. At year-end 2019, EUR 74 million was received as collateral against the positive value of derivative contracts, EUR 170 million was delivered as collateral against the negative value of derivative contracts.

Interest rate risk and cash-flow risk
The Company runs an interest rate risk on interest bearing assets and liabilities and on the refinancing of existing loans. For assets and liabilities with variable interest rate agreements, the Company runs a risks of future cash flows relating to the interest element. For fixed interest rate loans the Company runs a fair value risk.

The Company has liabilities and receivables with the following interest rates:

- Receivable on related parties EUR 1,229 million (floating %, currency specific base rate minus 5 basis points with a floor of 0%);
- Long-term debt to shareholder EUR 5,400 million (6% fixed);
- Long-term debt to shareholder EUR 1,500 million (0,85% fixed); and
- Payable related parties EUR 2,778 million (floating %, currency specific base rate plus 50 basis points).

Currency risk
The Company is exposed to currency risk on:

- Franchise fees: the franchise fees are partly earned outside of the Euro zone, where the Euro is the Company's reporting currency. As a result from a reporting perspective, the Company is exposed to the volatility of foreign exchange market. The currency risk run on the positions is limited, considering the amounts involved and regular settlements combined.
- Goods flows: the Company is exposed to foreign exchange rate risks arising from purchase and sales of goods, freight and indirect materials and services transactions. The currencies in which these transactions primarily are denominated are CNY, PLN, GBP and USD. The Company's exchange rate risk is actively managed by using derivatives contracts.

At year-end 2019, the total net fair value of the derivatives used to manage exchange risk is EUR 83 million negative (FY18: EUR 200 million negative).

Hedge accounting is applied with the impact of effective hedging taken to other comprehensive income of EUR 102 million loss (FY18: EUR 220 million loss). The impact of results of derivatives which did not meet the hedging criteria and are therefore directly reported under result from hedges in the profit and loss account (EUR 9 million gain).

The strategy to mitigate the currency risk is centralised and managed by the separate Treasury function within the Group, which is responsible for mitigating the Group's financial risks. Based on the forecasted business plan, the Treasury function determines and is responsible for the risk management strategy. As a consequence, the Company has opted to recognise the realised hedge results (gains and losses) in financial income and expenses.

The Company applies derivatives, including currency options and forward exchange contracts to control its risks. A minimum of 80% of the forecasted foreign exchange exposure should be hedged within 2 months of setting fixed rates.

In FY19, the result from hedging recognised in the profit and loss account amounted to a gain of EUR 235 million (FY18: gain of EUR 178 million).

Liquidity Risk
The Company monitors its cash position by using liquidity planning. Management ensures that the cash position is sufficient to meet the company's financial obligations towards creditors.

Fair value
The fair value of most of the financial instruments stated on the balance sheet, including receivables, securities, cash and cash equivalents and current liabilities, is approximately equal to their carrying amount. The fair value of the debts to related party as reported under the non-current liabilities can be specified as follows, in billions:

	Fair value	Carrying amount
Debts to related party	8.0	7.0

The fair value is the present value of future cash-flows discounted on the interest rate that would apply at the balance sheet date for similar loans, including a risk premium for each individual loan. The average interest rate applied was 1.35%.

16. COMMITMENTS AND CONTINGENT LIABILITIES

The commitments can be detailed as follows:

Price Guarantee Period
Inter IKEA Group has guaranteed its wholesale prices to certain franchisees for the period from 1 September 2020 to 31 August 2021 (the "Price Guarantee Period").

Purchase commitments
The Group has entered into purchase agreements with external suppliers for a total value of EUR 4,892 million at 31 August 2019 (FY18: EUR 6,376 million).

IT Services commitments
The Group has entered into IT services agreements. This agreement includes both 'Agreed Services', such as maintenance, operations and infrastructure and 'Consultancy Services''. The commitment for the coming year for these agreements amounts to approximately EUR 80 million (FY18: EUR 97 million).

Distribution Services Commitments
The Group has entered into agreements covering the services for distribution. These agreements have different remaining periods, ranging from 2 to 7 years. The commitment for the coming years for the distribution services amounts to approximately EUR 3,845 million (FY18: EUR 4,042 million).

Construction commitments
Commitments for the construction of tangible fixed assets amounted to EUR 82 million at 31 August 2019 (FY18: EUR 13 million).

Operating leases – Group as lessee
The Company and its subsidiaries have entered into several other lease and rental agreements for various periods. Future minimum rental payable under non-cancellable operating leases as at 31 August 2019 is as follows:

	FY19	FY18
< 1 year	11	12
1-5 years	26	26
> 5 years	47	37
Total	**84**	**75**

Lease payments recognised as an expense in FY19 amount to EUR 27 million (FY18: EUR 37 million).

The contingent liabilities can be detailed as follows:

Guarantees
Issued guarantees towards external parties amounted to EUR 10 million at 31 August 2019 (FY18: EUR 3 million).

Litigation
The Company is or may become involved in legal proceedings, as well as in investigations (see also note 11) and disputes regarding tax. When no estimate can be made of the financial consequences, if any, or if the risk of a future cash outflow is less than probable, no provisions have been recognised in the balance sheet. Management believes that no pending litigation to which the Company is a party will have a material adverse effect on the financial position or the results from operations.

Uncertain tax positions
We refer to note 20 of the financial statements.

17. REVENUES

The breakdown of net turnover by revenue categories is as follows:

	FY19	FY18
Revenue Goods	23,986	23,651
Franchise Fees	1,195	1,200
Other revenue (including changes in inventories of finished products)	(236)	665
Total	**24,945**	**25,516**

The geographical distribution of revenue is as follows:

	FY19	FY18
The Netherlands	1,012	961
Europe	15,885	15,838
Rest of the world	8,048	8,717
	24,945	**25,516**

18. OPERATING EXPENSES

Salaries and wages

During FY19, the average number of staff employed with the Group, converted into full-time equivalents, amounted to 26,227 (FY18: 26,504). Of this number, 25,379 people (FY18: 25,641 people) were employed outside the Netherlands.

The staffing level can be divided into the following staff categories:

	FY19	FY18
Franchise	1,159	1,295
Industry	17,563	18,092
Range & Supply	7,367	7,050
Other functions	138	67
	26,227	**26,504**

Depreciation and amortisation

	FY19	FY18
Depreciation:		
Land and buildings	61	51
Machines and equipment	104	109
Construction in progress	-	-
Other and idle assets	13	13
	178	**173**
Amortisation:		
Proprietary rights	273	212
Reacquired rights	61	63
Software in development	10	37
Other assets	-	3
	344	**315**
Total amortisation and depreciation	**522**	**488**

Other operating expenses

The main categories within the other operating expenses are rent, maintenance and utilities (EUR 185 million), other staff expenses (EUR 106 million), product development and communication (EUR 81 million) and general administrative expenses (EUR 127 million).

19. FINANCIAL INCOME AND EXPENSE

The financial income and expense can be broken down as follows:

	FY19	FY18
Interest income	9	10
Result from hedges	235	178
Other financial income	61	-
Total	**305**	**188**
Interest expense	368	408
Other financial expense	2	37
Total	**370**	**445**

20. INCOME TAXES

The Group has unrecognised tax loss carry forwards available related to losses incurred in several countries for approximating EUR 97 million (FY18: EUR 143 million). No deferred tax asset has been recognised for these tax loss carry forwards due to uncertainty with respect to availability of taxable profits in the future within the limitations imposed in enacted tax legislation.

The applicable weighted average tax rate is 16.8% (FY18: 15.0%), following the nominal tax rates in the Netherlands, Sweden and Switzerland where the majority of the Group's businesses are located. The effective tax rate increased by 1.8% compared to the previous year. This is mainly due to the change in the nominal tax rates in the Netherlands.

The tax expense recognised in the profit and loss account for FY19 amounts to EUR 301 million (FY18: EUR 256 million).

The reconciliation between the applicable and the effective tax rate is as follows:

	FY19	FY18
Result before tax	1,791	1,705
Income tax using the applicable tax rate in the Netherlands	448	426
Tax effect of:		
- Other applicable tax rates abroad	(191)	(191)
- Exempt income	(5)	(12)
- Non-deductible expenses	10	4
(De)recognition of tax losses	10	6
Adjustment for prior periods	2	4
Changes in tax rates	18	1
Other	9	18
Tax expenses	**301**	**256**

In case of a fiscal unity, the companies being part of the fiscal unity are treated as if they were independently taxable, including accounting of deferred taxes. Recharges between the Company and its subsidiaries are settled through current account positions.

Uncertain tax positions
Corporate income tax is actively addressed by international institutions and local governments and the taxation of large multinational companies receives continued media attention.

In December 2017, the European Commission opened a formal investigation, with their Opening Decision published on 6 April 2018, to examine whether decisions by the tax authorities in The Netherlands with regard to the corporate income tax paid by one of our subsidiaries, Inter IKEA Systems B.V., comply with European Union rules on state aid. The Company co-operates and responds to questions which the European Commission has in relation to this investigation. At this moment, although management considers the risk of a cash out flow unlikely, it is not possible to assess a financial impact, if any, of the outcome of this EC investigation. The aforementioned outcome is not expected to have a material adverse impact on financial position of The Company.

The Company is actively monitoring and addressing these developments and believes that its corporate income tax position is appropriately reflected in the financial statements.

21. TRANSACTIONS WITH RELATED PARTIES

Related party transactions not on an arm's length basis have not occurred.

Interogo Holding AG
The Company has a regular cash pool for cash management and various loans from its non-controlling shareholder; Interogo Holding AG.

On 11 December 2011, the Proprietary Rights were acquired. The acquisition price was partly financed by a long term loan, amounting to EUR 5,400 million, with an interest rate of 6% to be repaid in December 2023.

The acquisition of the range, supply and production activities was financed by a long term loan, amounting to EUR 2,000 million, with an interest rate of 0.85%. Of the outstanding amount of EUR 1,500 million, EUR 500 million will be repaid each year in September, the balance due will be repaid in September 2021.

The Company paid a dividend of EUR 500 million to the shareholder.

Participating interests
As part of its ordinary activities, the companies within the Inter IKEA Group buy and sell goods and services from and to other Inter IKEA group companies. These transactions are conducted on a commercial basis under comparable conditions that apply to transactions with third parties. In FY19, the purchases of goods and services from Inter IKEA Group companies amounted to EUR 7,284 million (FY18: EUR 8,600 million), and the sales of goods and services to Inter IKEA Group companies amounted to EUR 7,284 million (FY18: EUR 8,600 million).

Group companies
Since the company exercises influence on the business and financial policy, all companies belonging to the group are treated as related parties.

The remuneration of the managing directors and supervisory directors is included in note 8 of the Company financial statements.

22. AUDITOR'S FEES

The following fees were charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code.

EUR x 1,000	KPMG Accountants N.V.	Other KPMG Network	Total KPMG
Audit of financial statements	1,497	1,912	3,409
Other audit engagements	808	228	1,036
Tax-related advisory	-	1,285	1,285
Other non-audit services	44	173	217
	2,349	**3,598**	**5,947**

The fees mentioned in the table for the audit of the FY19 financial statements relate to the total fees for the audit of the FY19 financial statements, irrespective of whether the activities have been performed during FY19.

23. SUBSEQUENT EVENTS

There are no significant subsequent events.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Martin van Dam

SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Delft, 7 November 2019

COMPANY BALANCE SHEET AS AT 31 AUGUST 2019

(before profit appropriation, in millions of EUR)

	FY19	FY18
Fixed assets		
Financial fixed assets (2)	10,287	10,619
Total fixed assets	**10,287**	**10,619**
Current assets		
Receivables (3)	25	13
Total current assets	**25**	**13**
TOTAL ASSETS	**10,312**	**10,632**
Group equity		
Additional paid in capital	7,564	7,564
Other legal reserves	(2)	(2)
Other reserves	(749)	(1,713)
Result for the year	1,485	1,449
Total equity (4)	**8,298**	**7,298**
Non-current liabilities (5)	**1,000**	**1,500**
Current liabilities (6)	**1,014**	**1,834**
TOTAL EQUITY AND LIABILITIES	**10,312**	**10,632**

(See accompanying notes)

COMPANY PROFIT AND LOSS ACCOUNT FY19

(in millions of EUR)

	FY19	FY18
Share in net result from part. interests	1,499	1,475
Other results, net of income taxes	(14)	(26)
Net result	**1,485**	**1,449**

(See accompanying notes)

NOTES TO COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The principles for the valuation of assets and liabilities and the determination of the result are the same as those applied to the consolidated financial statements, with the exception of the following principles:

Financial instruments
In the separate financial statements, financial instruments are presented on the basis of their legal form.

Participating interests in group companies
Participating interests where significant influence can be exercised over the business and financial policy, are valued according to the equity method on the basis of net asset value. If measurement at net asset value is not possible because the information required for this cannot be obtained, the participating interest is measured according to the visible equity.

The net asset value is calculated on the basis of the company's accounting policies. If the company transfers an asset or a liability to a participating interest that is measured according to the equity method, the gain or loss resulting from this transfer is recognised to the extent of the relative interests of third parties in the participating interest (proportionate determination of result). Any loss that results from the transfer of current assets or an impairment of fixed assets is fully recognised. Results on transactions involving transfer of assets and liabilities between the company and its participating interests and mutually between participating interests are eliminated to the extent that these cannot be regarded as having been realised.

Participating interests with a negative net asset value are valued at nil. This measurement also covers any long-term receivables on the participating interests that are, in substance, an extension of the net investment. In particular, this relates to loans for which settlement is neither planned nor likely to occur in the foreseeable future. A share in the profits of the participating interest in subsequent years will only be recognised if and to the extent that the cumulative unrecognised share of loss has been absorbed. If the company fully or partially guarantees the debts of the relevant participating interest, or if has the constructive obligation to enable the participating interest to pay its debts (for its share therein), then a provision is recognised accordingly to the amount of the estimated payments by the company on behalf of the participating interest.

Shareholders' equity
As per year end, the financial instruments that have the legal form of equity, are presented in the equity of the separate financial statements. Refer to the accounting policies of the group financial statements for accounting policies applied.

Share of result of participating interests
The share in the result of participating interests concerns the Company's share in the results of the participating interests.

If the company transfers an asset or a liability to a participating interest that is measured according to the equity method, the gain or loss resulting from this transfer is recognised to the extent of the relative interests of third parties in the participating interest (proportionate determination of result). Any loss that results from the transfer of current assets or an impairment of fixed assets is fully recognised. Results on transactions involving transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests are eliminated to the extent that these cannot be regarded as having been realised.

The results of participating interests acquired or sold during the financial year are stated in the group result from the date of acquisition or until the date of sale respectively.

Corporate income tax

The Company is the head of the fiscal unity. The Company recognises the portion of corporate income tax that it would owe as an independent tax payer, taking into account the allocation of the advantages of the fiscal unity. Settlement within the fiscal unity between the Company and its subsidiaries takes place through current account positions.

2. FINANCIAL FIXED ASSETS

The movement in financial fixed assets is as follows:

	Investm. In part. Interests
Balance as at 1 September 2018	10,619
Investments	344
Share in result of participating interests	1,499
Dividends received	(2,181)
Other	6
Net book value	**10,287**

In accordance with article 403, Book 2 of the Dutch Civil Code, the Company has guaranteed the liabilities of Inter IKEA Systems B.V., Inter IKEA Assets B.V., Inter IKEA Developments Holding B.V., Inter IKEA Development B.V., Inter IKEA Services B.V. and IKEA Social Entrepreneurship B.V. Company financial statements of these subsidiaries are therefore not filed at the Trade Register of the Chamber of Commerce.

For an overview of capital interests, reference is made to the listing of subsidiaries that has been filed by the Company at the Chamber of Commerce.

3. RECEIVABLES

	FY19	**FY18**
Income tax receivable	2	2
Receivable on participating interests	21	11
Receivable on related parties	2	-
Total	**25**	**13**

4. SHAREHOLDERS' EQUITY

	Share premium	Legal reserve	Transl. reserve	Other reserve	Unappr. profit	Total
Balance as at 1 September 2018	7,564	27	(29)	(1,713)	1,449	7,298
Changes in financial year 2019:						
Appropriation of result	-	-	-	1,449	(1,449)	-
Net result	-	-	-	-	1,485	1,485
Share premium	-	-	-	-	-	-
Dividend paid	-	-	-	(500)	-	(500)
Change in unrealised result derivatives	-	-	-	118	-	118
Remeasurement IAS19	-	-	-	(116)	-	(116)
Exchange rate differences	-	-	-	-	-	-
Other	-	-	-	13	-	13
Balance as at 31 August 2019	**7,564**	**27**	**(29)**	**(749)**	**1,485**	**8,298**

Issued capital
The Company's issued and outstanding share capital is comprised of 126 shares, each with a par value of EUR 1,000. The issued and paid-up share capital consists of 1 share class "A" and 125 shares class "B".

Share premium
The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income). This also includes additional capital contributions by existing shareholders without the issue of shares or issue of rights to acquire shares of the Company.

The share premium mainly relates to acquisition of the Proprietary Rights, which has been partially financed by a share premium of EUR 6,400 million, and the additional paid in capital relating to the acquisition of range, supply and production activities.

Translation reserve
Exchange gains and losses arising from the translation of the functional currency of foreign operations to the reporting currency of the parent are accounted for in this reserve. In the case of the sale of a participating interest, the associated accumulated exchange differences are transferred to the profit and loss account. The translation legal reserve of EUR -29 million relates to investments in participating interests in various countries.

Other reserves
The final dividend relating to FY18 of EUR 250 million and the interim dividend relating to FY19 of EUR 250 million paid out in 2019 has been deducted from other reserves in shareholders' equity.

Unappropriated profit
Appropriation of profit of 2019
The financial statements for the reporting year 2019 have been adopted by the General Meeting on 7 November 2019. The General Meeting has adopted the appropriation of profit after tax as proposed by the Board of Management.

Proposal for profit appropriation 2019
The General Meeting of Shareholders will be asked to approve the following appropriation of the FY19 net result: an amount of EUR 850 million to be paid out as dividend and the remaining amount of EUR 635 million to be added to the other reserves.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit in so far as (1) the Company can continue to pay its outstanding debts after the distribution (the so-called distribution test), and (2) the shareholders' equity exceeds the legal reserves and statutory reserves under the articles of association to be maintained (the so-called balance sheet test). If not, the Company's management shall not approve the distribution. Preliminary tests carried out by management in October 2019 revealed no indications that the proposed distribution of dividend will not be possible, but these tests have to be finalized (and management has to approve the distribution) prior to the actual payment of the dividend.

5. NON-CURRENT LIABILITIES

The non-current liabilities consist of the shareholder loan related to the acquisition of the range, supply and production activities. The interest percentage on the loan is 0.85%. Of the original amount of EUR 2,000 million, EUR 500 million will be repaid each year in September. The balance due will be repaid September 2021.

6. CURRENT LIABILITIES

Current liabilities mainly relate to the current portion of long-term debt with Interogo Holding AG (EUR 500 million, interest rate 0.85%) and short term loans with Interogo Holding AG (EUR 486 million).

7. OFF BALANCE SHEET ASSETS AND LIABILITIES

Fiscal Unity
The Company forms a fiscal unity for corporate income tax purposes together with Inter IKEA Systems B.V., Inter IKEA Assets B.V., Inter IKEA Developments Holding B.V., Inter IKEA Development B.V., Inter IKEA Services B.V. and IKEA Social Entrepreneurship B.V.

8. REMUNERATION MANAGEMENT AND SUPERVISORY BOARD

The emoluments, including pension costs as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to EUR 3.2 million (FY18: EUR 3.1 million) for management board members, and EUR 0.4 million (FY18: EUR 0.4 million) for supervisory board members.

9. SUBSEQUENT EVENTS

There are no significant subsequent events.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Martin van Dam

SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Delft, 7 November 2019

OTHER INFORMATION

Articles of association relating to the allocation of the result

In accordance with its Articles of Association, the Company keeps a Dividend Reserve A and a Dividend Reserve B. Holders of class A are entitled to Dividend Reserve A and holders of class B are entitled to Dividend Reserve B. In accordance with Article 4.1.2 of the Articles of Association, 5% of the total aggregate par value of the class A shares is added to the Dividend Reserves A and the remainder is added to dividend reserve B.

No proposal for dividend distribution has been included in these Financial Statements.

Independent auditor's report

To: the General Meeting of Inter IKEA Holding B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements for the year ended as at 31 August 2019 of Inter IKEA Holding B.V., based in Delft.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Inter IKEA Holding B.V. as at 31 August 2019 and of its result for the year ended on 31 August 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1 the consolidated and company balance sheet as at 31 August 2019;

2 the consolidated and company profit and loss account for the year ended on 31 August 2019;

3 the consolidated statement of comprehensive income for the year ended on 31 August 2019;

4 the consolidated cash flow statement for the year ended on 31 August 2019; and

5 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Inter IKEA Holding B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report from the Management Board;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the Report from the Management Board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors 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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtaining 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 Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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 findings in internal control that we identify during our audit.

Amstelveen, 7 November 2019

KPMG Accountants N.V.

R.J. Aalberts RA