



# Inter IKEA Holding B.V. Annual Report FY20

Inter IKEA Holding B.V.



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## **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 2020.

### **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.

In FY20, the Group changed the set-up of its core businesses. Core Business Range & Supply is split into Core Business Range and Core Business Supply, while Core Business Industry will be part of Core Business Supply. Integrating Industry into Supply provides opportunities to optimise the entire IKEA value chain. Both Supply and Industry have similar processes and ways of working in place. By bringing both operations closer together, for instance in automation, quality and lean, this will deliver synergies and eliminate double work. Core Business Range remains an integral part of the IKEA value chain and an important business partner for Supply, with the main focus on product development.

This means going forward the Group consists of three core businesses: Franchise, Range and Supply. 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 2020, 11 franchisees operate 445 IKEA stores plus several test formats. 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 and test locations 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**

Core Business Range includes IKEA of Sweden AB, IKEA Communications AB and related businesses. Range works under assignments from Inter IKEA Systems B.V. and is mainly responsible for developing and designing the overall IKEA product range, including home furnishings and food. They also have a communication agency that creates and produces IKEA communication for customers and other IKEA organisations.

#### **Supply**

Core Business Supply includes IKEA Supply AG, IKEA Industry AB and related businesses. Inter

IKEA Systems B.V. assigns IKEA Supply AG to source, sell and distribute IKEA products to IKEA franchisees. IKEA Industry AB is a strategic IKEA manufacturer that produces 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 11% of the total IKEA range, with its main focus on wood based furniture. Its operations are conducted through 40 production units that include forestry, sawmills, as well as production of board material, wood components and ready furniture.

In FY21, the organisational set-up and processes within Industry will be integrated deeper into Core Business Supply, simplifying ways of working and allowing for faster decision-making.

### **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 2019 to 31 August 2020 ('FY20'). Comparative figures reflect the 12-month period from 1 September 2018 to 31 August 2019 ('FY19').

#### **Profit and loss account**

Total revenues in FY20 amount to EUR 23.6 billion (-6% compared to FY19), mainly generated through sales of goods to IKEA franchisees and through charged franchise fees. 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 amount to EUR 39.6 billion in FY20 which is a decrease of 4.1% compared to FY19.

The decline in IKEA retail sales – and therefore Inter IKEA Group revenues – was caused by the closure of many IKEA stores during several weeks in the period March-June in order to prevent the spread of the Corona virus. In this period, the online sales channel was used extensively, compensating for part of store sales lost. After stores re-opened, many customers returned to fulfil their home furnishing needs. At the same time, online sales remained at its high level. Although challenges exist to maintain the supply of furniture to the retailers, retail sales recovered stronger than anticipated.

The majority of our operating expenses comprise cost of raw materials and consumables relating to the manufacturing and procurement of finished goods. Approximately 11% of finished goods are manufactured by IKEA Industry, the remaining part is purchased from external suppliers. Cost of raw materials and consumables also include direct transport, storage and handling cost. In FY20, a continuing downward trend in prices for raw materials was favourable to the Group, resulting in a strong gross profit.

Additionally, immediately after stores closed down, the Group called for prudence in cost, meaning only the business critical activities continued. This delivered significant cost savings for FY20.

The 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.

Staff cost decreased significantly compared to FY19 due to a change in funding of the pension scheme at IKEA of Sweden AB. The current pension obligations were settled by paying a one-time premium to a pension fund. By settling the obligations, IKEA of Sweden AB no longer needs to provide for the obligations and has released its pension provision from the balance sheet. This results in a one-time benefit of EUR 113 million recorded in staff cost. The change in financing does not have any effects for co-workers.

Financial income comprises from hedging activities and favourable currency translation effects. Financial expenses comprise interest expenses connected to long and short term loans as well as unfavourable currency translation effects. Contrary to FY19, currency developments were less favourable this year, resulting in a translation loss and a financial expense instead of financial income.

The effective tax rate for FY20 is 14.6%, 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 decreased by 2.2% compared to the previous year. This is mainly due to a higher nominal tax rate in The Netherlands (than originally projected) as well as changes in the profitability per core business. Given our financial strength the Group's businesses did not make use of pandemic-related government assistance.

In December 2017, the European Commission opened a formal investigation, with their Opening Decision published on 6 April 2018 which was complemented by their Decision published on 10 July 2020, 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 the 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.

Net profit for the year amounts to EUR 1.7 billion (FY19: EUR 1.5 billion).

### **Cash flows**

The cash flow from operating activities improved to EUR 2.6 billion. Although the closure of IKEA stores due to the pandemic affected the efficiency of our operations and the supply chain towards

the retailers, our cash flows remained at a stable level. Retailers and suppliers were offered financial support to be able to deliver towards our customers.

The overall movement in the Group's liquidity was limited. 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 2020 have not changed significantly when compared to 31 August 2019. 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 9.9 billion. In FY20, the core businesses have assessed their software development projects. In this assessment, individual projects were identified to have a benefit to the core businesses for multiple years ahead. The development costs for these projects – EUR 31 million in total – are capitalized as intangible assets and depreciated over their useful life.

The Group owns 40 IKEA furniture production units, mostly located in Europe, as well as two factories that produce furniture components (screws, plugs, etc.). In FY20, two IKEA furniture production units were sold to an external company. In most cases co-workers have remained in the same unit under new ownership or moved to new jobs in other nearby units. Investments were made in extending or improving existing production units in Poland, Sweden and Lithuania. Additionally, a new factory for furniture components in China was completed and started operation at 1 September 2020.

The Group also owns several property buildings, offices and distribution centres across the world, including the IKEA Delft store. Construction of a new distribution centre in Malaysia to better serve the South-East Asian markets was completed in August 2020.

Inventories mostly consist of IKEA products located in distribution centres. Inventory levels decreased in FY20 due to lockdown of supplier factories following the Corona virus outbreak as well as higher than expected demand after IKEA stores re-opened. Stock levels are being replenished in FY21 as factories have started up again, working full speed to fulfil the customer demand. 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 8.3 billion to EUR 9.5 billion in FY20. Of the EUR 1.7 billion profit achieved during FY20, EUR 850 million will be distributed as a dividend to our shareholder. The remaining EUR 881 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 6.0 billion, concern two loans received from Interogo Holding AG. We will continue to repay EUR 500 million in FY21 as scheduled. Current liabilities consist of short-term loans, trade payables and the current portion of the long-term loans.

Increased Group equity (before dividend distribution) combined with further reduction of our current and non-current liabilities result in an improved equity ratio of 45% in FY20 versus 39% in FY19.

## **Risk management**

### **Risk management approach**

The company 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 company continuously identifies and reviews key business risks in close cooperation with the core businesses. Control strategies are determined with consideration of how those risks may impact the brand and 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 consider the IKEA values and culture as our strongest control. 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 insight in key business risks and managing those risks with support from the Risk & Compliance function. The company's 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 company 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 review the existing codes of conduct and to implement and follow up on those.
- The Risk & Compliance function is process owner of the crisis management process. 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 company. The Corona virus creates an uncertain environment for our business as explained in the Outlook section. The main risks are described below.

### ***Product safety compliance***

For the company and its business partners, product safety is a top priority. The commitment for safe 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 includes 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 compliance with regulatory requirements in all markets. The risk appetite in this respect is very low, therefore we respond to non-compliance to product 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, smuggling, cyber-attack or violence. The uncertainty of the threat is a prevailing risk not only for the company but also to suppliers and franchisees. Should the risk materialize, it may disrupt the availability of goods to our end customers. As such, the risks continue to remain high on the company's risk map. Programs are put in place to continuously monitor the potential threats and incidents occurred. We are also working closely with our franchisees to have an effective, secure plan to manage and minimize this risk. The company's risk appetite on the supply chain security risk is very low.

### ***Safety and security***

The company's commits to take great care of our co-workers and providing them with a safe and secured environment. Particularly facing a pandemic, the safety of our co-workers has our highest priority and will never be compromised. 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 company's priority to ensure a safe and secure environment.

### ***Information security***

The digital era has increased the importance of safeguarding personal data and raised the risk of information security to a different magnitude especially through cyberattacks. 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 company has a very low risk appetite to data privacy non-compliance.

### ***Business ethics***

The company operates in an international environment where practices may vary in different local settings. It is our utmost 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 company's code of conduct is adhered to throughout the organization and that whistleblowing facilities are effective. Programs



to enhance our controls in this area such as the Policy against corruption have been introduced by the company. The company's risk appetite in this regard is low.

### ***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 3,094 million (FY19: EUR 2,972 million) which mainly relate to sales of IKEA products to 11 franchisees. Long standing relationships exist with these counterparties. Credit risk on franchise fee receivables are minimised through frequent invoicing and fixed payment schedules.

The Group monitors its cash position by using various cash flow forecast models. A short-term 6 week rolling forecast is produced alongside models with a longer-term outlook. These models consider 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 as there is an appropriate mix of fixed and floating interest rate applied to the debt. 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**

### **People & Planet Positive strategy**

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, with ambitions leading to 2030.

The IKEA sustainability strategy secures a common sustainability agenda for all stakeholders in the IKEA value chain with a long-term perspective on the business. Profitability and responsibility

are not opposing forces, on the contrary, they are interdependent. Long-term profitability can only be ensured by acting in a way that creates positive impact and trust among all stakeholders.

The 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.

The strategy is built up around three focus areas:

1. Healthy and sustainable living: the 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: the ambition for 2030 is to become climate positive and regenerate resources while growing the IKEA business.
3. Fair & equal: the ambition for 2030 is to create a positive social impact for everyone across our value chain.

Progress on the People & Planet Positive strategy in all three focus areas is communicated through the separate 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, 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 the Company's 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 paid attention to its composition and welcomed its first female Supervisory Board member in FY20. 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. All aspects of diversity, equality and inclusion are actively pursued across the whole Group.

## **Environmental issues**

No material environmental issues occurred during FY20. Especially within the production units, 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. Besides new physical formats, new digital formats are being tested as well. On 10 March 2020, Inter IKEA Systems B.V., IKEA Retail China and Alibaba Group Holding Ltd. launched the first virtual IKEA store on Tmall, offering around 3,500 IKEA products and home furnishing solutions. The partnership provides an opportunity to learn about this new format as a complement to its existing customer meeting points. Based on the test, Inter IKEA Systems B.V. will evaluate if and how third-party platforms fit into the IKEA channel mix.

### **Range development**

IKEA product range development delivered many new products this year. Some highlights are described below.

RÅVAROR is a new collection designed specifically for urban small spaces and the mobile lifestyle. The collection consists of items that quickly turn small spaces into smart spaces with the convenience and comfort of home. It includes 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. And when it is time to move, it is simple to pack up, stack the items together and relocate to the next home.

BOTANISK is a gardening collection with tool kits, clay pots and large baskets, also appropriate to create your own urban jungle. All products are handmade in collaboration with six social businesses around the world, like Jordan River Foundation, which creates jobs for Syrian refugees and Jordanian women.

Then for the first time since the launch in 1985, the much-loved IKEA meatball faces serious competition. HUVUDROLL is made with pea protein, oats, potatoes, apples and onion, but has the look, taste and juicy bite of a meatball. And the climate footprint is only 4% of its meaty counterpart.

### **Manufacturing and distribution**

In August 2020, Core Business Supply completed a 100,000 square metre distribution centre in Kuala Lumpur, Malaysia. It is the third largest IKEA distribution centre in the world and serves IKEA operations in Malaysia, Singapore, Thailand, Indonesia and India. It will also service the store in Manilla, the Philippines, when it opens in FY21.

Core Business Industry continues to work on automating industrial processes through building digital manufacturing capabilities (Manufacturing System of the Future) in order to future-proof manufacturing operations, increase efficiency, reduce costs and support sustainability. A new pilot site in Lubawa, Poland, integrates advancements such as automation, connectivity and artificial intelligence. It went operational in August 2020.

Additionally, the production site in Hultsfred, Sweden, invested EUR 12 million to support a circular business model by using recycled wood to produce wood-based boards for IKEA furniture. During the coming years, the factory in Zbaszynek, Poland, will install 52,000 solar panels, delivering an estimated yearly savings of 15,200 tonnes of CO<sub>2</sub>. It will be one of the largest solar installations in Europe.

## **Outlook for financial year FY21**

FY21 will be another challenging year for the Group and the IKEA franchise system. The predicted adverse economic developments in combination with a second wave of Covid-19 infections, possibly leading to lockdowns and store closures, creates an uncertain environment for our business. Nonetheless, the first few weeks of FY21 have been positive and expectation is IKEA retail sales will grow compared to FY20. This growth directly contributes to the Group's franchise fee income and wholesale revenues. Expectation is the Group will be profitable in FY21.

During FY21, although being prudent and cost conscious, investments in research activities and the development of core businesses Franchise, Range and Supply will continue. The Group will finance these investment from its own funds.

## **MANAGEMENT BOARD**

Jon Abrahamsson Ring (Chairman)

Martin van Dam

Delft, 29 October 2020

## **CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2020**

*(before profit appropriation, in millions of EUR)*

	<b>FY20</b>	<b>FY19</b>
<b>Fixed assets</b>		
Intangible fixed assets (4)	10,004	10,355
Tangible fixed assets (5)	1,691	1,663
Financial fixed assets (6)	250	295
<b>Total fixed assets</b>	<b>11,945</b>	<b>12,313</b>
<b>Current assets</b>		
Inventories (7)	3,661	4,312
Trade and other receivables (8)	5,276	4,692
Cash and cash equivalents (9)	225	153
<b>Total current assets</b>	<b>9,162</b>	<b>9,157</b>
<b>TOTAL ASSETS</b>	<b>21,107</b>	<b>21,470</b>
<b>Group equity (10)</b>	<b>9,541</b>	<b>8,298</b>
<b>Provisions (11)</b>	<b>322</b>	<b>705</b>
<b>Non-current liabilities (13)</b>	<b>5,979</b>	<b>6,487</b>
<b>Current liabilities (14)</b>	<b>5,265</b>	<b>5,980</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>21,107</b>	<b>21,470</b>

*(See accompanying notes)*

## **CONSOLIDATED PROFIT AND LOSS ACCOUNT FY20**

*(in millions of EUR)*

	<b>FY20</b>	<b>FY19</b>
Net turnover	23,724	25,228
Change in inventory of finished goods	(134)	(70)
Other operating income	23	26
<b>Total operating income (17)</b>	<b>23,613</b>	<b>25,184</b>
Cost of raw materials and consumables	18,860	20,633
Cost of outsourced work and other external costs	224	267
Salaries and wages	835	820
Social charges	175	200
Pension expenses	21	113
Depreciation and amortisation (4,5)	533	522
Impairment (5)	9	34
Other operating expenses	732	739
<b>Total operating expenses (18)</b>	<b>21,389</b>	<b>23,328</b>
<b>Operating result</b>	<b>2,224</b>	<b>1,856</b>
Financial income	219	305
Financial expense	420	370
<b>Financial income and expense (19)</b>	<b>(201)</b>	<b>(65)</b>
<b>Result before tax</b>	<b>2,023</b>	<b>1,791</b>
Income tax (20)	295	301
Share of results from participating interests	3	(5)
<b>Net result</b>	<b>1,731</b>	<b>1,485</b>

*(See accompanying notes)*

## CONSOLIDATED CASH FLOW STATEMENT FY20

(in millions of EUR)

	FY20	FY19
<b>Operating result</b>	<b>2,224</b>	<b>1,856</b>
Adjusted for:		
- Depreciation / amortisation (4,5)	533	522
- Other value adjustments (6)	15	46
- Changes in provisions (11)	(383)	127
- Changes in financial fixed assets (6)	16	(32)
- Changes in working capital	782	475
<i>Cash flow from business operations</i>	<i>3,187</i>	<i>2,994</i>
Interest received	7	9
Interest paid	(357)	(370)
Income tax paid	(245)	(175)
<b>Cash flow from operating activities</b>	<b>2,592</b>	<b>2,458</b>
Investments in:		
- Intangible fixed assets (4)	(32)	(4)
- Tangible fixed assets (5)	(247)	(261)
Disposals of:		
- Tangible fixed assets (5)	25	-
<b>Cash flow from investing activities</b>	<b>(254)</b>	<b>(265)</b>
Issuance of debt (6)	(23)	(5)
Repayment of borrowings (6)	2	(594)
Long term financing (13)	(510)	13
Short term financing (8,14)	(1,143)	(1,180)
Dividend paid (10)	(600)	(500)
<b>Cash flows from financing activities</b>	<b>(2,274)</b>	<b>(2,266)</b>
<b>Net cash flow</b>	<b>64</b>	<b>(73)</b>
Exchange rate and translation differences on cash	8	(4)
<b>Changes in cash and cash equivalents</b>	<b>72</b>	<b>(77)</b>
Cash and cash equivalents at beginning	153	230
Cash and cash equivalents at end	225	153
<b>Net movement in cash</b>	<b>72</b>	<b>(77)</b>

## **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FY20**

*(in millions of EUR)*

	<b>FY20</b>	<b>FY19</b>
Net result	1,731	1,485
Change in unrealised derivatives	133	118
Remeasurement IAS19	28	(116)
Exchange rate differences	(52)	-
Other	3	13
<b>Total comprehensive income</b>	<b>1,843</b>	<b>1,500</b>



## **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 27163852) 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 2020 ('FY20'). Comparative figures reflect the 12-month period which ended at 31 August 2019 ('FY19').

### **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.

#### ***Application of Section 402, Book 2 of the Dutch Civil Code***

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.

#### ***Going Concern***

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.

For comparison purposes a reclassification is made in the comparative figures of the consolidated profit and loss account between changes of inventories and finished goods and costs of raw materials and consumables of EUR 175 million.

#### ***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, unless stated otherwise.

#### ***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 acquired party 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 where the Company has a less than 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 considerable 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 amortised cost (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.

#### *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.

#### *Development costs*

Internally developed software is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method and starts when the software is ready for usage. Internally developed software is capitalized if the following conditions are met, the intention exists to complete the asset and after completion to use or sell it (including the availability of adequate technical, financial and other resources to achieve this), it is probable that the asset will generate future economic benefits, and the costs during the development phase can be determined reliably. The useful life differs per software platform.

A legal reserve is formed for the capitalised development costs that have not yet been amortised.

#### *Other intangibles*

Goodwill represents the excess of the cost of the acquisition of the participating interest (including transactions 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 companies and subsidiaries is translated at the exchange rates at the date of acquisition.

#### ***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 fixed operating assets are stated at cost less accumulated depreciation and impairment losses. The cost comprises the price of acquisition or manufacturing, 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).



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.

### ***Disposal of fixed assets***

Fixed assets available for sale are measured at the lower of their carrying amount and net realisable value.

### ***Inventories***

Inventories are valued at the lower of cost and net realisable value. Cost includes the expenses for acquisition or manufacturing, 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 valid 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 that are 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 benefits 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 ('asset ceiling').

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.

##### *Change in inventory of finished goods*

Changes in inventories of finished products is related to the production activities of Core Business Industry.

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:

	<b>Proprietary rights</b>	<b>Reaquired rights</b>	<b>Developm. costs</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 September 2019:					
Purchase price	11,800	512	143	186	12,641
Accumulated amortisation and impairment	(1,618)	(400)	(133)	(135)	(2,286)
<b>Carrying amount</b>	<b>10,182</b>	<b>112</b>	<b>10</b>	<b>51</b>	<b>10,355</b>
Changes in carrying amount:					
Additions	-	-	31	1	32
Amortisation	(273)	(59)	(10)	-	(342)
Presentation under tangible fixed assets	-	-	-	(49)	(49)
Translation differences	-	4	-	-	4
Other	-	4	-	-	4
<b>Balance</b>	<b>9,909</b>	<b>61</b>	<b>31</b>	<b>3</b>	<b>10,004</b>
Balance as at 31 August 2020:					
Purchase price	11,800	523	174	138	12,635
Accumulated amortisation and impairment	(1,891)	(462)	(143)	(135)	(2,631)
<b>Carrying amount closing</b>	<b>9,909</b>	<b>61</b>	<b>31</b>	<b>3</b>	<b>10,004</b>
<b>Estimated useful life (years)</b>	45	5	3-5	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.

### **Development costs**

Development costs relate to various internally developed software to gain economic benefits. The expected useful life is aligned with the expected economic benefits.

## **5. TANGIBLE FIXED ASSETS**

Movements in tangible fixed assets were as follows:

	<b>Land and buildings</b>	<b>Mach. and equip.</b>	<b>Constr. in progress</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 September 2019:					
Purchase price	1,143	865	210	79	2,297
Accumulated depreciation and impairment	(228)	(353)	-	(53)	(634)
<b>Carrying amount</b>	<b>915</b>	<b>512</b>	<b>210</b>	<b>26</b>	<b>1,663</b>
Changes in carrying amount:					
Investments	18	33	191	5	247
Disposals	(8)	(20)	(2)	(1)	(31)
Translation differences	(24)	(8)	(8)	-	(40)
Transfers	61	84	(149)	4	-
Presentation from intangible fixed assets	49	-	-	-	49
Depreciation	(59)	(120)	-	(12)	(191)
Impairment	(6)	(3)	-	-	(9)
Reversal of impairment	2	7	-	-	9
Other	(4)	-	(3)	1	(6)
<b>Balance</b>	<b>944</b>	<b>485</b>	<b>239</b>	<b>23</b>	<b>1,691</b>
Balance as at 31 August 2020:					
Purchase price	1,235	954	239	88	2,516
Accumulated depreciation and impairment	(291)	(469)	-	(65)	(825)
<b>Carrying amount</b>	<b>944</b>	<b>485</b>	<b>239</b>	<b>23</b>	<b>1,691</b>
<b>Estimated useful life (years)</b>	0-25	3-15		Various	

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

Tangible fixed assets include an amount of EUR 15 million (FY19: EUR 15 million), which is pledged for debts to credit institutions.

## 6. FINANCIAL FIXED ASSETS

Movements in financial fixed assets were as follows:

	Deferred tax asset	LT loans receivable	Other	Total
<b>Balance as at 1 September 2019:</b>	<b>219</b>	<b>74</b>	<b>2</b>	<b>295</b>
Changes in carrying amount:				
Investments	-	-	2	2
Additions	43	-	-	43
New loans	-	23	-	23
Used	(65)	-	-	(65)
Released	(28)	-	-	(28)
Repayments	-	(2)	-	(2)
From long-term to current portion	-	(22)	-	(22)
Effect of tax rate changes	12	-	-	12
Impairments	-	(8)	-	(8)
<b>Balance</b>	<b>(38)</b>	<b>(9)</b>	<b>2</b>	<b>(45)</b>
<b>Balance as at 31 August 2020:</b>	<b>181</b>	<b>65</b>	<b>4</b>	<b>250</b>

The deferred tax assets relate to deductible temporary differences. It is expected EUR 22 million will be offset within one year.

The long term loans receivable mainly encompass supplier financing (EUR 91 million), this amount includes a provision of EUR 46 million. The current part of the long term loans receivable has been accounted for under Receivables.

Other financial fixed assets relate to investments in associates.

## 7. INVENTORIES

	FY20	FY19
Raw materials	211	244
Work in progress	37	40
Finished goods	266	400
Trade goods	3,147	3,628
<b>Total</b>	<b>3,661</b>	<b>4,312</b>

The movement in the provision for obsolescence for inventories is as follows:

	FY20	FY19
Balance as at 1 September 2019:	125	144
Addition, charged to the profit and loss account	34	31
Release, credited to the profit and loss account	(48)	(50)
<b>Balance as at 31 August 2020:</b>	<b>111</b>	<b>125</b>



## 8. TRADE AND OTHER RECEIVABLES

	FY20	FY19
Trade receivables	3,094	2,972
Current portion of long-term loans receivable	159	44
Income tax receivable	67	19
Indirect tax receivable	174	152
Receivable on related parties	1,565	1,229
Derivatives assets	28	30
Prepaid expenses and accrued income	118	167
Other receivables	71	79
<b>Total</b>	<b>5,276</b>	<b>4,692</b>

The trade and other 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.

	FY20	FY19
Amortised cost of outstanding receivables	3,097	2,976
Less: allowance for doubtful debts	(3)	(4)
Trade Receivables	<b>3,094</b>	<b>2,972</b>

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 29 million (FY19: EUR 10 million) that is not immediately accessible.

## 10. GROUP EQUITY

For details on shareholders' equity, refer to note 5 in the Company financial statements.

## 11. PROVISIONS

Movements in provisions can be specified as follows:

	Deferred tax liability	Pension	Tax	Legal Claims	Other	Total
<b>Balance as at 1 September 2019:</b>	<b>44</b>	<b>551</b>	<b>43</b>	<b>28</b>	<b>39</b>	<b>705</b>
Changes:						
- Provisions made during the year	34	10	1	24	13	<b>82</b>
- Provisions used during the year	(16)	(1)	-	(31)	(4)	<b>(52)</b>
- Provisions released during the year	(10)	(400)	(8)	-	(8)	<b>(426)</b>
- Transfers	-	-	-	13	(13)	-
- Other	4	8	1	-	-	<b>13</b>
<b>Balance as at 31 August 2020:</b>	<b>56</b>	<b>168</b>	<b>37</b>	<b>34</b>	<b>27</b>	<b>322</b>

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 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 mainly relates to product claims involving the Company and/or its group companies.

## 12. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

	FY20	FY19
Defined benefit obligation - funded plans	136	236
Defined benefit obligation - unfunded plans	256	497
Fair value on plan assets	(233)	(191)
<b>Net defined benefit liability</b>	<b>159</b>	<b>542</b>

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

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

The pension obligation of IKEA of Sweden was transferred from PRI to Alecta during FY20. For most salaried employees in Sweden, the ITP 2 plan's defined-benefit pension commitments for old-age and family pensions are secured through insurance with Alecta. According to IAS 19 the pension plan ITP 2 financed through insurance in Alecta is a defined benefit plan that covers multiple employers. For the financial year ending 31 August 2020, the company has not had access to information in order to be able to report its proportional share of the plan's obligations, plan assets and costs, which meant that the plan was not possible to report as a defined benefit plan. The ITP 2 pension plan that is secured through insurance with Alecta is therefore reported as a defined contribution plan. Premiums for the defined-benefit old-age and family pensions are calculated individually and are dependent on, among other things, salary, previously earned pension and expected remaining period of service. Anticipated premiums for the next reporting period for ITP 2 pensions with Alecta amount to EUR 27 million.

The collective consolidation level is the market value of Alecta's assets as a percentage of the insurance commitments calculated according to Alecta's actuarial methods and assumptions. The collective consolidation level should normally be allowed to vary between 125 and 175 percent. In order to strengthen the level of consolidation if it is deemed to be too low, one measure may be to increase the agreed price for new subscriptions and changes of existing benefits. If the consolidation level exceeds 150 percent, premium reductions can be introduced. At the end of June 2020, Alecta's surplus in the form of the collective consolidation level amounted to 140 percent (2019: 144 percent).

## ***Movement in Net defined benefit liability***

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2020	2019	2020	2019	2020	2019
<b>Balance at 1 September</b>	<b>733</b>	<b>518</b>	<b>(191)</b>	<b>(154)</b>	<b>542</b>	<b>364</b>
<b>Included in profit or loss</b>						
Current service cost	48	44	-	-	48	44
Past service cost	(4)	-	-	-	(4)	-
(Gain) / loss on settlements	(142)	-	-	-	(142)	-
Interest cost	9	13	(2)	(3)	7	10
	<b>(89)</b>	<b>57</b>	<b>(2)</b>	<b>(3)</b>	<b>(91)</b>	<b>54</b>
<b>Included in OCI</b>						
Remeasurement						
- Actuarial loss (gain) arising from:						
- demographic assumptions	(2)	(1)	-	-	(2)	(1)
- financial assumptions	(10)	162	-	-	(10)	162
- experience adjustment	(2)	4	-	-	(2)	4
- Return on plan assets excluding interest income	-	-	(21)	(18)	(21)	(18)
Effect of movements in exchange rates	14	(8)	(1)	(2)	13	(10)
	-	<b>157</b>	<b>(22)</b>	<b>(20)</b>	<b>(22)</b>	<b>137</b>
<b>Other</b>						
Contributions paid by the employer	(3)	(4)	(13)	(9)	(16)	(13)
Settlement payments by the employer	(254)	-	-	-	(254)	-
Participation contribution	5	5	(5)	(5)	-	-
	<b>(252)</b>	<b>1</b>	<b>(18)</b>	<b>(14)</b>	<b>(270)</b>	<b>(13)</b>
<b>Balance at 31 August</b>	<b>392</b>	<b>733</b>	<b>(233)</b>	<b>(191)</b>	<b>159</b>	<b>542</b>

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:

	FY20	FY19
Cash and cash equivalents	6	7
Equity instruments	95	69
Debt instruments	109	98
Real estate	23	17
<b>Total</b>	<b>233</b>	<b>191</b>

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 209 million (FY19: EUR 174 million).

### ***Defined benefit obligation***

#### ***Actuarial assumptions***

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

	FY20	FY19
Discount rate	1.3%	1.5%
Future salary increase rate	2.5%	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 2020 is 26 years (FY19: 25 years).

The Company expects to contribute EUR 29 million to its defined benefit pension plans in FY21.

#### *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 2020.

	Discount rate		Salary increases	
	+50 bp	-50 bp	+50 bp	-50 bp
Present value defined benefit obligation	345	446	407	378

### **13. NON-CURRENT LIABILITIES**

	FY20	FY19
Debts to related party	5,973	6,483
Other debts	6	4
<b>Closing Balance</b>	<b>5,979</b>	<b>6,487</b>

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 1,000 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 5,973 million
- Remaining duration >5 year: EUR 0 million

The movements in debts to related party can be specified as follows:

	FY20	FY19
Principal amount	8,590	8,577
Repaid until 31 August	(1,607)	(1,011)
<i>Outstanding principal amount as per 1 September</i>	<i>6,983</i>	<i>7,566</i>
Repayments	(513)	(596)
Additions	13	13
Difference in foreign currency translation	(4)	-
<i>Outstanding principal amount as at 31 August</i>	<i>6,479</i>	<i>6,983</i>
Current as at 31 August	(506)	(500)
<b>Non-current as at 31 August</b>	<b>5,973</b>	<b>6,483</b>

#### 14. CURRENT LIABILITIES

	FY20	FY19
Current portion of long term debt	506	500
Short-term borrowings	125	98
Payable related parties	1,950	2,757
Accounts payable trade	1,653	1,722
Income taxes payable	261	188
Indirect tax payable	196	179
Payable staff	142	137
Derivatives liabilities	37	10
Bank overdraft	1	81
Accrued liabilities and deferred income	245	193
Other Liabilities	149	115
<b>Total</b>	<b>5,265</b>	<b>5,980</b>

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 1,839 million (FY19: EUR 2,696 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's loans and receivables presented under financial fixed assets, trade and other receivables and cash and cash equivalents. The maximum amount of credit risk that the Company incurs is 5,751 million (FY19: EUR 5,140 million), consisting of EUR 250 million (FY19: EUR 295 million) financial fixed assets, EUR 5,276 million (FY19: EUR 4,692 million) trade and other receivables and EUR 225 million (FY19: EUR 153 million) cash and cash

equivalents. The credit risk is concentrated to trade receivables for EUR 3,094 million (FY19: EUR 2,972 million) which mainly consists of 11 franchisees. Long standing relationships exist with these counterparties. Furthermore, the Company holds receivables of EUR 1,565 million (FY19: EUR 1,229 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 2020, EUR 79 million was received as collateral against the positive value of derivative contracts, EUR 40 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 risk 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 1,565 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 1,000 million (0,85% fixed); and
- Payable related parties EUR 1,950 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 2020, the total net fair value of the derivatives used to manage exchange risk is EUR 36 million positive (FY19: EUR 83 million negative).

Hedge accounting is applied with the impact of effective hedging taken to other comprehensive income of EUR 31 million gain (FY19: EUR 102 million loss). The results of derivatives which did not meet the hedging criteria are directly reported under result from hedges in the profit and loss account (EUR 2 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 FY20, the result from hedging recognised in the profit and loss account amounted to a gain of EUR 212 million (FY19: gain of EUR 235 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	7.2	6.5

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 market interest rate applied was 1.60%.

## **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 2021 to 31 August 2022 (the "Price Guarantee Period").

### *Purchase commitments*

The Group has entered into purchase agreements with external suppliers for a total value of EUR 6,148 million at 31 August 2020 (FY19: EUR 4,892 million). These agreements have different remaining periods, ranging from 1 to 10 years.

### *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 85 million (FY19: EUR 80 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 10 years. The commitment for the coming years for the distribution services amounts to approximately EUR 2,723 million (FY19: EUR 3,845 million).

#### *Construction commitments*

Commitments for the construction of tangible fixed assets amount to EUR 4 million at 31 August 2020 (FY19: EUR 82 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 2020 is as follows:

	<b>FY20</b>	<b>FY19</b>
< 1 year	16	11
1-5 years	29	26
> 5 years	26	47
<b>Total</b>	<b>71</b>	<b>84</b>

Lease payments recognised as an expense in FY20 amount to EUR 23 million (FY19: EUR 27 million).

The contingent liabilities can be detailed as follows:

#### *Guarantees*

Issued guarantees towards external parties amounted to EUR 29 million at 31 August 2020 (FY19: EUR 10 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, based on legal advice, 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:

	<b>FY20</b>	<b>FY19</b>
Revenue Goods	22,387	23,917
Franchise Fees	1,162	1,195
Other revenue	64	72
<b>Total</b>	<b>23,613</b>	<b>25,184</b>



The geographical distribution of revenue is as follows:

	FY20	FY19
The Netherlands	1,036	1,012
Europe	13,672	16,124
Rest of the world	8,905	8,048
	<b>23,613</b>	<b>25,184</b>

## 18. OPERATING EXPENSES

### *Salaries and wages*

During FY20, the average number of staff employed with the Group, converted into full-time equivalents, amounted to 24,771 people (FY19: 26,227 people) of which 23,877 (FY19: 25,379) were employed outside the Netherlands.

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

	FY20	FY19
Franchise	1,172	1,159
Industry	15,278	17,563
Range	2,985	2,745
Supply	5,104	4,622
Other functions	232	138
	<b>24,771</b>	<b>26,227</b>

### *Other operating expenses*

The main categories within the other operating expenses are IT (EUR 253 million), rent, maintenance and utilities (EUR 162 million), other staff expenses (EUR 89 million) and general administrative expenses (EUR 135 million).

## 19. FINANCIAL INCOME AND EXPENSE

The financial income and expense can be specified as follows:

	FY20	FY19
Interest income	7	9
Result from hedges	212	235
Other financial income	-	61
<b>Total</b>	<b>219</b>	<b>305</b>
Interest expense	355	368
Other financial expense	65	2
<b>Total</b>	<b>420</b>	<b>370</b>

## 20. INCOME TAXES

The Group has unrecognised tax loss carry forwards available related to losses incurred in several countries for approximating EUR 76 million (FY19: EUR 97 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 14.6% (FY19: 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 decreased by 2.2% compared to the previous year. This is mainly due to a higher nominal tax rate in The Netherlands (than originally projected) as well as changes in the profitability per core business.

The tax expense recognised in the profit and loss account for FY20 amounts to EUR 295 million (FY19: EUR 301 million).

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

	<b>FY20</b>	<b>FY19</b>
Result before tax	2,023	1,791
Income tax using the applicable tax rate in the Netherlands	506	448
Tax effect of:		
- Other applicable tax rates abroad	(202)	(191)
- Exempt income	(5)	(5)
- Non-deductible expenses	12	10
(De)recognition of tax losses	10	10
Adjustment for prior periods	(2)	2
Changes in tax rates	(8)	18
Other	(16)	9
<b>Tax expenses</b>	<b>295</b>	<b>301</b>

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 which was complemented by their Decision published on 10 July 2020, 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 the 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 1,000 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 600 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 FY20, the purchases of goods and services from Inter IKEA Group companies amounted to EUR 6,694 million (FY19: EUR 7,284 million), and the sales of goods and services to Inter IKEA Group companies amounted to EUR 6,694 million (FY19: EUR 7,284 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 9 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.

	KPMG Accountants N.V.	Other KPMG Network	Total KPMG
EUR x 1,000			
Audit of financial statements	1,554	1,956	3,510
Other audit engagements	779	219	998
Tax-related advisory	-	1,466	1,466
Other non-audit services	250	324	574
	<b>2,583</b>	<b>3,965</b>	<b>6,548</b>

The fees mentioned in the table for the audit of the FY20 financial statements relate to the total fees for the audit of the FY20 financial statements, irrespective of whether the activities have been performed during FY20.

### **23. SUBSEQUENT EVENTS**

There are no significant subsequent events.

## MANAGEMENT BOARD

Jon Abrahamsson Ring (Chairman)

Martin van Dam

## SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Aline Santos

Delft, 29 October 2020

## COMPANY BALANCE SHEET AS AT 31 AUGUST 2020

(before profit appropriation, in millions of EUR)

	FY20	FY19
<b>Fixed assets</b>		
Financial fixed assets (3)	11,233	10,287
<b>Total fixed assets</b>	<b>11,233</b>	<b>10,287</b>
<b>Current assets</b>		
Receivables (4)	96	25
<b>Total current assets</b>	<b>96</b>	<b>25</b>
<b>TOTAL ASSETS</b>	<b>11,329</b>	<b>10,312</b>
<b>Group equity</b>		
Additional paid in capital	7,565	7,565
Other legal reserves	2	(2)
Other reserves	243	(750)
Result for the year	1,731	1,485
<b>Total equity (5)</b>	<b>9,541</b>	<b>8,298</b>
<b>Non-current liabilities (6)</b>	<b>500</b>	<b>1,000</b>
<b>Current liabilities (7)</b>	<b>1,288</b>	<b>1,014</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>11,329</b>	<b>10,312</b>

(See accompanying notes)

## COMPANY PROFIT AND LOSS ACCOUNT FY20

(in millions of EUR)

	FY20	FY19
Share in net result from part. interests	1,742	1,499
Other results, net of income taxes	(11)	(14)
<b>Net result</b>	<b>1,731</b>	<b>1,485</b>

(See accompanying notes)

## **NOTES TO COMPANY FINANCIAL STATEMENTS**

### **1. GENERAL**

The separate financial statements are part of the FY20 statutory financial statements of the Company. The financial information of the Company is included in the Company's consolidated financial statements.

If no further explanation is provided of items in the separate balance sheet and the separate profit and loss account, please refer to the notes to the consolidated balance sheet and profit and loss account.

### **2. 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.

## **3. FINANCIAL FIXED ASSETS**

The movement in financial fixed assets is as follows:

	<b>Investm. In part. Interests</b>	<b>Deferred tax asset</b>	<b>Total</b>
Balance as at 1 September 2019	10,287	-	10,287
Investments	30	-	30
Additions	-	2	2
Share in result of participating interests	1,742	-	1,742
Dividends received	(939)	-	(939)
Other	111	-	111
<b>Net book value</b>	<b>11,231</b>	<b>2</b>	<b>11,233</b>

Other includes movements in the equity of the participating interests relating to IAS19 pensions, derivatives and exchange rate differences.

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.

#### 4. RECEIVABLES

	FY20	FY19
Income tax receivable	13	2
Receivable on participating interests	82	21
Receivable on related parties	1	2
<b>Total</b>	<b>96</b>	<b>25</b>

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

#### 5. 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
Dividend paid	-	-	-	(500)	-	(500)
Change in unrealised result derivatives	-	-	-	118	-	118
Remeasurement IAS19	-	-	-	(116)	-	(116)
Other	1	-	-	12	-	13
<b>Balance as at 31 August 2019</b>	<b>7,565</b>	<b>27</b>	<b>(29)</b>	<b>(750)</b>	<b>1,485</b>	<b>8,298</b>
Changes in financial year 2020:						
Appropriation of result	-	-	-	1,485	(1,485)	-
Net result	-	-	-	-	1,731	1,731
Dividend paid	-	-	-	(600)	-	(600)
Addition to legal reserve	-	39	-	(39)	-	-
Change in unrealised result derivatives	-	-	-	133	-	133
Remeasurement IAS19	-	-	-	28	-	28
Exchange rate differences	-	-	(52)	-	-	(52)
Other	-	15	2	(14)	-	3
<b>Balance as at 31 August 2020</b>	<b>7,565</b>	<b>81</b>	<b>(79)</b>	<b>243</b>	<b>1,731</b>	<b>9,541</b>

#### *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.

### ***Legal reserve***

Legal reserves consist of a legal reserve for participating interests, a legal reserve for capitalised development costs and a legal reserve for capitalised incorporation costs.

### ***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 -79 million relates to investments in participating interests in various countries.

### ***Other reserves***

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.

The final dividend relating to FY19 of EUR 600 million paid out in December 2019 has been deducted from other reserves in shareholders' equity.

### ***Unappropriated profit***

The General Meeting of Shareholders will be asked to approve the following appropriation of the FY20 net result: an amount of EUR 850 million to be paid out as dividend and the remaining amount of EUR 881 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 2020 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.

## **6. 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.

## **7. 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 775 million).

## **8. 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.

## **9. 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 3.5 million (FY19: EUR 3.2 million) for previous and current management board members, and EUR 0.4 million (FY19: EUR 0.4 million) for supervisory board members.

## **10. SUBSEQUENT EVENTS**

There are no significant subsequent events.

## MANAGEMENT BOARD

Jon Abrahamsson Ring (Chairman)

Martin van Dam

## SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Aline Santos

Delft, 29 October 2020

## ***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.

## **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 2020 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 2020 and of its result for the year ended on 31 August 2020 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 2020;
- 2 the consolidated and company profit and loss account for the year ended on 31 August 2020;
- 3 the consolidated statement of comprehensive income for the year ended on 31 August 2020;
- 4 the consolidated cash flow statement for the year ended 31 August 2020; 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 engagement 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 among others:

- 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, 29 October 2020

KPMG Accountants N.V.

R.J. Aalberts RA