



Inter IKEA Group Financial Summary FY18

Inter IKEA Group



Hej!

This document summarises the Inter IKEA Group financial performance for financial year 2018 (FY18). FY18 is the period from 1 September 2017 to 31 August 2018. This year's Financial Summary is more comprehensive than in previous years. FY17 was our first year in a new setup, and we can now compare this year's performance in a more meaningful way to the year before.

IKEA is a franchise business. That means many people and companies with different owners work under one IKEA Brand, dedicated to one IKEA vision: to create a better everyday life for the many people. With that in mind, the IKEA businesses touched about 750 million people around the world in FY18 with the aim to help them live better, more sustainable lives.

As announced already in October, IKEA franchisees saw continued growth in FY18 despite a challenging and changing retail environment. Adjusted for currency impact, their retail sales grew by 4.5%. Total retail sales, which includes sales of both products and services to IKEA customers, amounted to EUR 38.8 billion. Nearly all IKEA markets showed growth.

Retail sales growth mean positive results for Inter IKEA Group. IKEA franchisees buy their products from Inter IKEA Group companies and pay a franchise fee based on their annual turnover. These and other income resulted in total revenues for Inter IKEA Group of EUR 25.5 billion and a net result of EUR 1.4 billion in FY18.

FY18 also presented business challenges. Although retail sales continued to grow, they landed lower than expected while at the same time raw material prices went up. Also, with online sales growing we are making changes to our supply chain setup to accommodate for alternative ways to deliver IKEA products to end customers. In this we have to become more efficient still.

Despite these challenges, Inter IKEA Group invested significant resources to make IKEA more affordable, accessible and sustainable for customers everywhere. By 2025, the objective is to reach and interact with 3 billion people. To make that happen, we continue to invest in new ways to shop, more sustainable ways of working, and an inspiring, functional and affordable IKEA product range.

I trust this Financial Summary offers you a good overview of our performance, which was realised thanks to contributions from many people. In the meantime, we will continue to work together with our partners in the IKEA value chain to deliver results in FY19.

Martin van Dam

CFO, Inter IKEA Group

12 November 2018

FY18 IKEA retail sales

FY18 IKEA retail sales were EUR 38.8 billion. This includes sales of IKEA products, food and related services. India and Latvia became new IKEA markets. Together, 422 IKEA stores in more than 50 markets welcomed 957 million visitors.

The IKEA website had 2.5 billion visits this year – nearly the combined population of India and China. E-commerce sales grew by 31% in local currencies. Yet it only accounted for 5% of overall sales.

While there was growth in all product areas, the living room was our big focus this year as part of the commercial theme “Make room for life”. To support the theme, IKEA introduced FÄRLÖV, a traditional living room seating collection, and the VIMLE sofa series, which was featured on the cover of the FY18 IKEA catalogue.

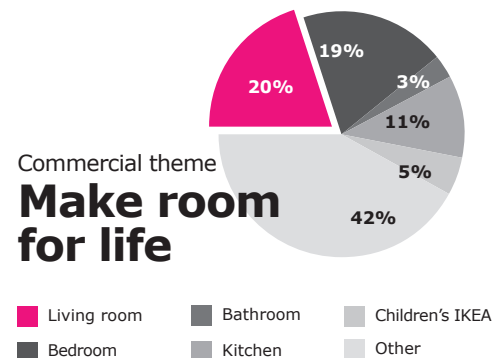
As a result of “Make room for life”, living room products outperformed other areas, accounting for 20% of sales. Arm chairs, sofa beds and storage solutions were especially popular.

Retail sales

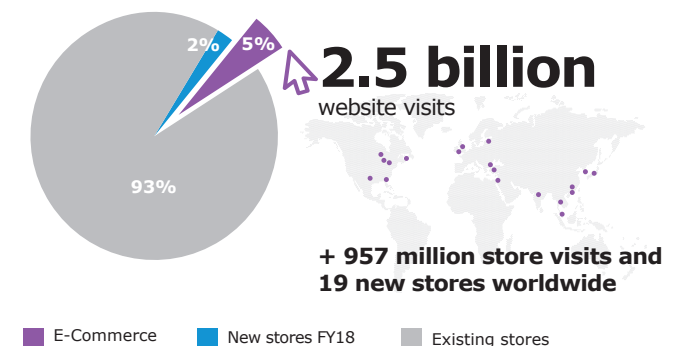
€38.8 billion
retail sales

4.5%
growth rate

Retail sales per area of the home



Retail sales per type



The IKEA franchise system

The IKEA franchise system is a network of different companies operating under the IKEA brand. It consists of IKEA franchisees, range, supply, communications and the IKEA franchisor.

IKEA franchisees meet IKEA customers and ensure a high-quality customer experience. Inter IKEA Systems B.V., the IKEA franchisor, has assigned other Inter IKEA Group companies to secure the IKEA range development, supply chain and communication activities.

The diagram on the next page shows a simplified overview. Inter IKEA Systems B.V., IKEA of Sweden AB, IKEA Supply AG and IKEA Communications AB are Inter IKEA Group companies. IKEA Industry – also part of Inter IKEA Group – is not shown as it's one of many IKEA suppliers, which deliver into the franchise system.

The diagram includes a new IKEA partner – Chile-based S.A.C.I. Falabella. A memorandum of understanding (MOU) was signed by S.A.C.I. Falabella and Inter IKEA Systems B.V. in May regarding franchise rights in Chile, Colombia and Peru. The first store is expected to open in the city of Santiago at the end of 2020. Lima and Bogotá will follow.

The companies in the franchise system are moving beyond cash & carry to meet the needs of today's consumer. Together they're developing new approaches to product design and packaging, more agile distribution setups, new store formats and more.

Together these efforts aim to make IKEA more affordable, accessible and sustainable than ever before.

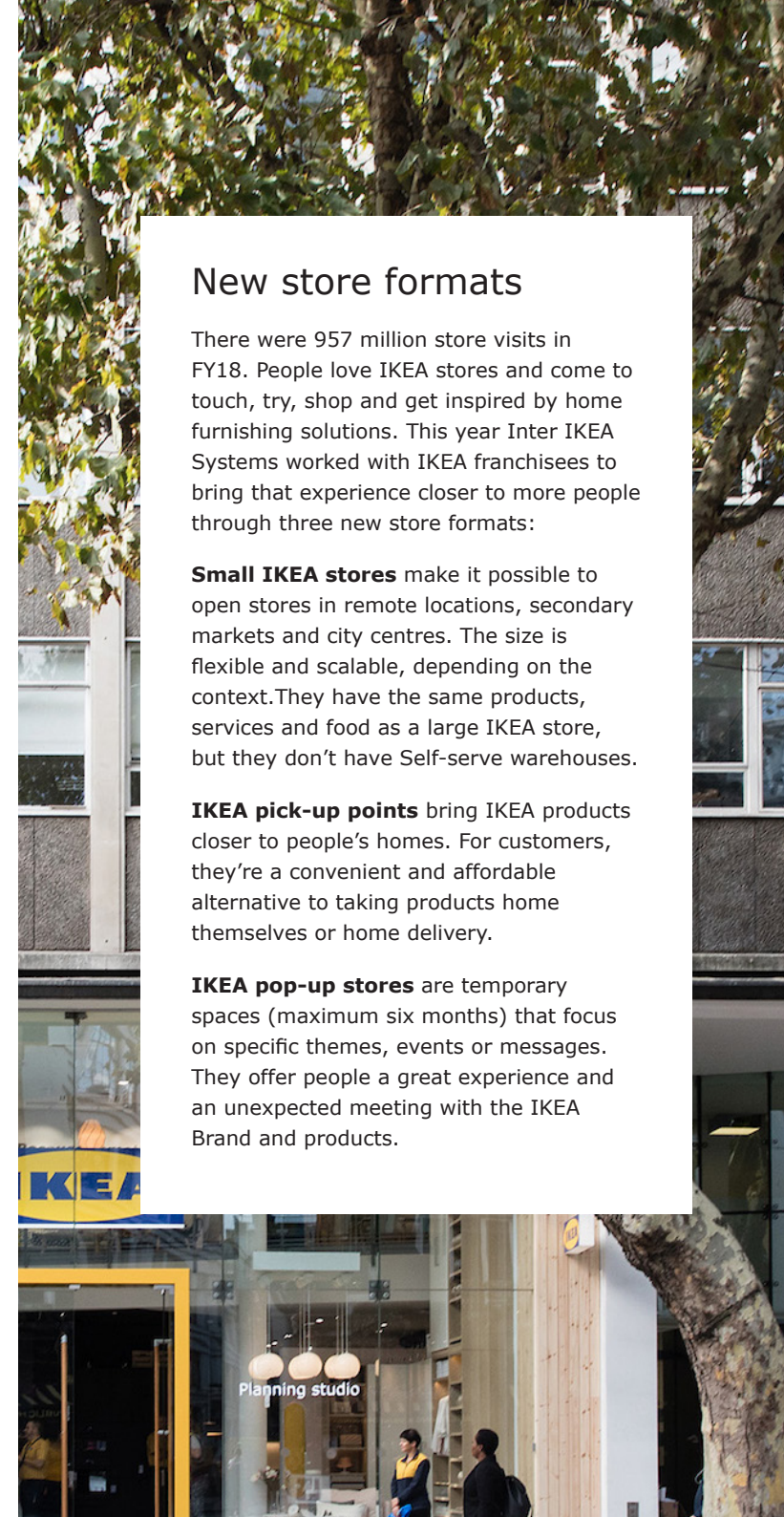
New store formats

There were 957 million store visits in FY18. People love IKEA stores and come to touch, try, shop and get inspired by home furnishing solutions. This year Inter IKEA Systems worked with IKEA franchisees to bring that experience closer to more people through three new store formats:

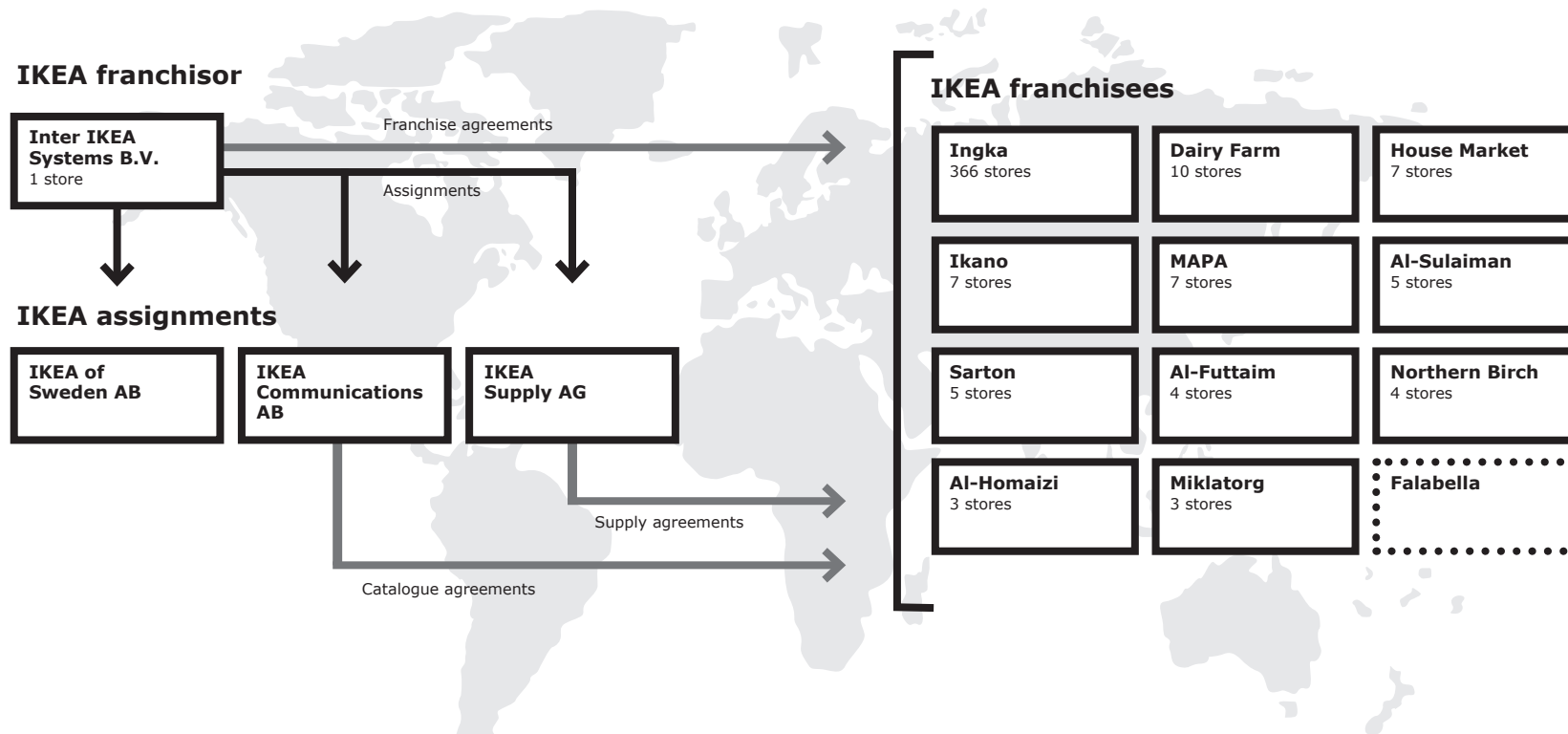
Small IKEA stores make it possible to open stores in remote locations, secondary markets and city centres. The size is flexible and scalable, depending on the context. They have the same products, services and food as a large IKEA store, but they don't have Self-serve warehouses.

IKEA pick-up points bring IKEA products closer to people's homes. For customers, they're a convenient and affordable alternative to taking products home themselves or home delivery.

IKEA pop-up stores are temporary spaces (maximum six months) that focus on specific themes, events or messages. They offer people a great experience and an unexpected meeting with the IKEA Brand and products.

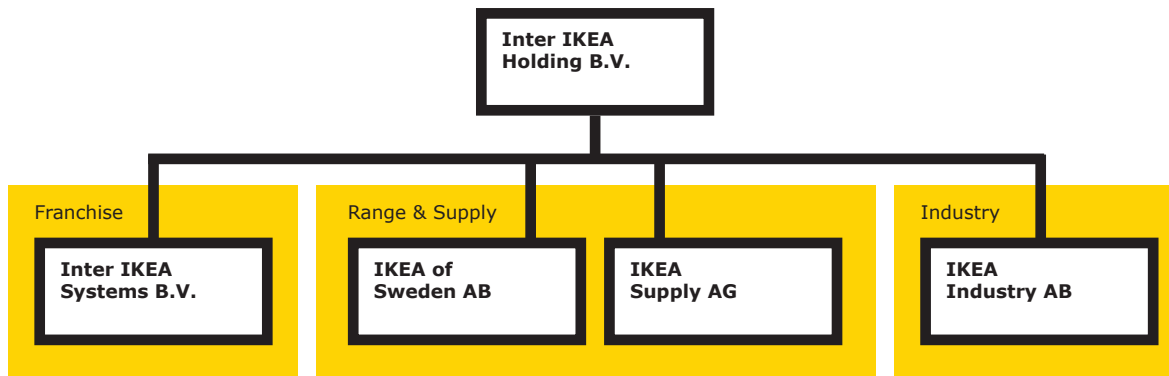


Overview of the IKEA franchise system



The list above refers, in a simplified way, to companies/groups of companies operating IKEA retail businesses in one or more markets. The listed names do not represent the legal company name of the franchisee companies that have entered into franchise agreements with Inter IKEA Systems B.V.

We are Inter IKEA Group



Inter IKEA Group is the group of companies that connects IKEA franchisees with range development and suppliers, and aligns the overall IKEA strategic direction. All to create a better everyday life for the many people.

Our Group consists of three core businesses: Franchise, Range & Supply and Industry.


The three core businesses work together with franchisees and suppliers to co-create an even better IKEA offer and franchise system.

Our aim is to provide franchisees with the best possible conditions for implementing and operating the IKEA Concept, and to create a strong platform for future expansion and growth.

Core Business Franchise

Core Business Franchise consists of Inter IKEA Systems B.V. and its subsidiaries. Inter IKEA Systems licenses the IKEA retail system and trademarks to IKEA franchisees worldwide.

Core Business Franchise 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, sustainability, people and environment, market potential and expansion.



Driving the next industrial revolution

Inter IKEA Group is building the digital manufacturing capabilities necessary to meet the growing and ever-changing needs of the many people.

The world is on the brink of the next industrial revolution. Digitalization is affecting all parts of society, and Core Business Industry is at center of this change.

Today Industry is accelerating efforts to automate industrial processes and leverage the benefits of a data-driven manufacturing. First efforts include fully integrated robot solutions, automated data collection, as well as end-to-end control over product data and production processes.

Digitalization will lead to reduced production costs, increased efficiency and improved product quality. It will also lead to more ergonomic workplaces for IKEA co-workers.

Furthermore it will allow us to have a seamless end-to-end IKEA supply chain, improving traceability and circularity.

Core Business Range & Supply

Core Business Range & Supply is responsible for developing and supplying the global IKEA range.

Range & Supply work throughout the whole value chain. They include IKEA of Sweden AB, IKEA Communications AB, IKEA Supply AG and related businesses. All work under assignment from Inter IKEA Systems B.V.

IKEA of Sweden is responsible for developing and designing the overall IKEA product range – including home furnishings, food, and home electronics. They also have a communication agency that creates and produces IKEA communication for customers and other IKEA organisations.

IKEA Supply procures IKEA products, and then supplies these products to IKEA franchisees around the world.

Core Business Industry

Core Business Industry manufactures IKEA home furnishing products and develops unique IKEA capabilities and capacities in relevant parts of the value chain (e.g. material, manufacturing and distribution).

Industry produces approximately 10-12% of the total IKEA range, with its main focus on furniture. They operate 40 production units including forestry, sawmills, and production of board material, wood components and ready furniture.

About our owners

Inter IKEA Group (Inter IKEA Holding B.V. and all its subsidiaries) is ultimately owned by Interogo Foundation, based in Liechtenstein and established in 1989. Interogo Holding AG is a co-shareholder, contributing capital and loans to Inter IKEA Group. Interogo Foundation is the sole controlling shareholder in Inter IKEA Holding B.V.

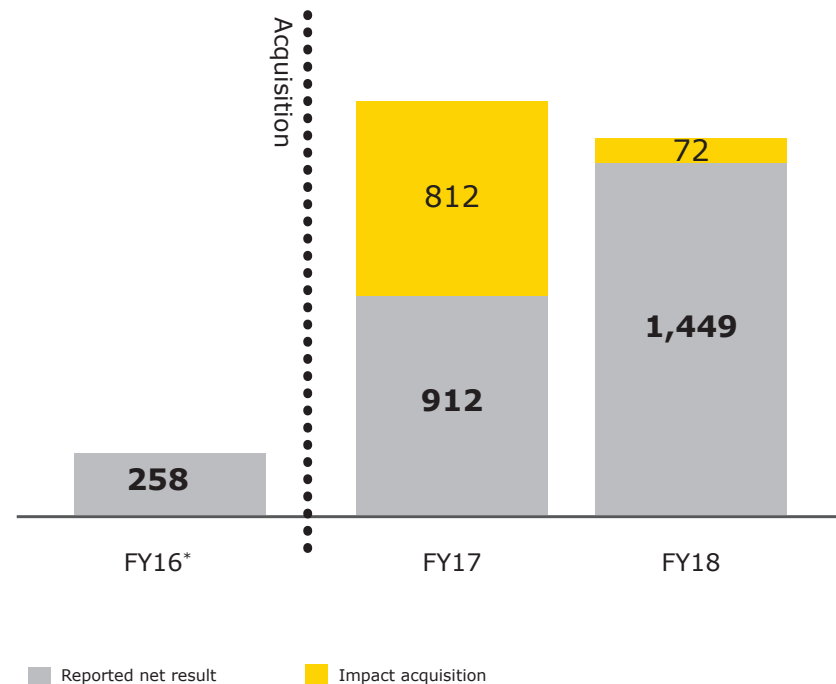
Inter IKEA Group financial performance FY18

The past three years have been a time of great change for Inter IKEA Group. This year's income statement is the first to reflect comparable financial performance in our new structure.

In FY16 we adjusted our financial year to better align with other IKEA businesses (our financial year now runs from 1 September through 31 August). As a result, FY16 covered only eight months. Additionally, we welcomed range, supply and industrial companies into our Group on 31 August 2016 – the last day of FY16 – but the acquisition's effects were not fully visible until the following financial year. As a result, the FY17 income statement shows large changes in income, expenses and tax.

The acquisition reduced our FY17 net result by EUR 812 million. As part of the transaction, we purchased inventory at market value and re-acquired the range and supply assignments at an extra cost. Similar costs of EUR 72 million reduced our FY18 net result as well.

Net result
(in millions of EUR)



* FY16 consists of 8 months only

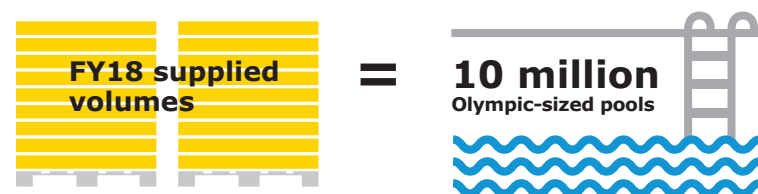
Our consolidated income statement shows a simplified overview of this year's financial performance.

Consolidated income statement

<i>in millions of EUR</i>	FY18	FY17
Sales of goods	23,651	20,778
Franchise fees	1,200	1,156
Other income	665	994
Total revenues	25,516	22,878
Cost of goods sold	20,825	18,688
Gross profit	4,691	4,190
Operational expenses	2,729	2,894
Total operating income	1,962	1,296
Financial income and expense	-257	-143
Total income before taxes	1,705	1,153
Income taxes	-256	-241
Net income	1,449	912

Sales of goods

IKEA franchisees purchased more than 38.4 million cubic metres of IKEA products from IKEA Supply. That's as much volume as the water in 10 million Olympic-sized swimming pools!



Our sales also include franchisees' food purchases from the Bring Group, a food distributor, which we acquired in FY17. We are now integrating the Bring Group's competence and capabilities into Core Business Range & Supply to enable the establishment of a food wholesaler.

In addition, Inter IKEA Systems owns and operates the IKEA store in Delft, the Netherlands. Its retail turnover is also included in the Group's overall sales figure.

Franchise fees

IKEA franchisees pay Inter IKEA Systems B.V. an annual fee of 3% over their net sales. In return, they are authorised to market and sell the IKEA product range and operate IKEA stores and other sales channels around the world. This year, franchise fee income increased slightly, reflecting both IKEA franchisees' sales development and the impact of fluctuating currencies.

Responsible textiles

Inter IKEA Group is a key investor in TreeToTextile, a Swedish-based company that transforms wood pulp to viscose-like textile fibres. The other shareholders are clothing retailer Hennes & Maurits and Kiram, owned by chemist Lars Stigsson. The technology is based on mutual research as well as Lars Stigsson's patent. Compared to traditional viscose manufacturing, the technique is better for people and the environment. Our aim with this investment is to reduce dependence on cotton.

Each year, around 1% of the world's total supply of cotton is used for IKEA products. Cotton is a beautiful, useful material, but conventional cotton production is water intensive and often relies on toxic pesticides and fertilisers. We want to change that – not just for the cotton we use, but for the entire industry.

Inter IKEA Group always aims to source the raw materials for IKEA products in a responsible way – developing standards that include environmental, social and animal welfare criteria. In FY18, 85% of the wood and 100% of the cotton sourced for use in IKEA products came from sources defined as more sustainable. IKEA is also a founding member of the Better Cotton Initiative, a multi-stakeholder organisation that sets social and environmental criteria for more sustainable cotton.

Other income

Other income mainly consists of income from selling the IKEA catalogue and other marketing materials created for IKEA retailers including the IKEA Delft store.

Costs of goods sold

The cost of goods sold relate to both wholesale and Delft store sales. Core Business Range & Supply also sources food and home furnishing products from nearly 1,000 external suppliers. Core Business Industry costs are also one component of these costs.

This year costs outpaced sales. Raw material prices have gone up, especially for wood and metal products. Increased tariffs and import duties also had a negative impact, though we improved efficiency for handling and transporting products.

Although we tried to offset the majority of these costs, it led to an approximately 1% lower gross margin and an average 0.2% price increase to IKEA retailers.

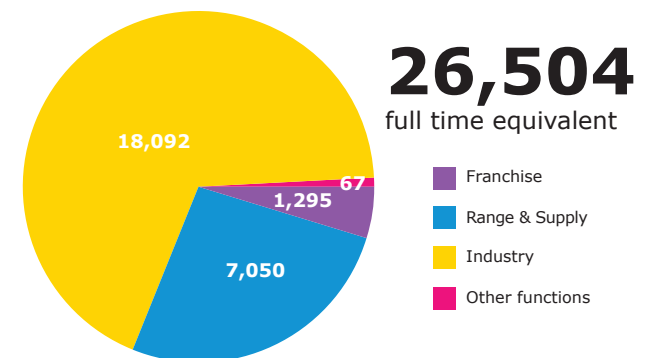
To make IKEA products more affordable in the future, we're moving to better material use, smarter production technologies and even more efficiency in our supply chain.

Operational expenses

Operational expenses include staff costs, utilities, rent and other costs related to day-to-day operations.

Staff costs mainly consist of salaries, benefits, training and social costs. This year there were also costs related to changes in Core Business Franchise.

Distribution of Inter IKEA Group co-workers



Core Business Franchise is currently transforming to deliver a stronger and more innovative franchise offer. At the start of this change process, co-workers were offered a voluntary leave programme. Total restructuring costs, including this program, amount to EUR 22 million.

Operational costs also include expenses for several development initiatives. This includes new products such as flat-pack sofas, one thousand products for under 200 rupees in India, and new solutions for saving water. If 1 billion people used our new MISTELN water nozzle for a year, they'd save as much water as the people of Sweden use in 12 years.



**Using MISTELN
reduces water
usage by
90%**

We're also developing new products in collaboration with global brands, start-ups, students designers and social entrepreneurs. One example is the MARKERAD collection, designed by Virgil Abloh. We're also creating products with Adidas, Lego and Sonos.

This year IKEA announced commitments to inspire and enable sustainable living. This includes reducing the total IKEA climate footprint by an average of 70% per product, using only renewable or recycled materials by 2030 and removing all single-use plastic products from the IKEA range globally by 2020.

To meet these challenges, we're investing resources to develop new materials and a truly circular IKEA range. Total costs for range development amounted to EUR 380 million.

This year Core Business Franchise worked closely with franchisees to test and develop new city centre stores formats. Test locations have opened in Madrid, London and other locations around the world.

Sonos and SYMFONISK

This year's operational costs include several initiatives to better integrate technology into IKEA customers' home furnishings. Collectively these initiatives are known as IKEA Home Smart.

One example is IKEA of Sweden's partnership with Sonos, a California-based company with a vision to reinvent home audio for today and tomorrow.

The result is SYMFONISK, a great sounding Wi-Fi speaker designed to beautifully integrate with IKEA customer's home furnishings. The new speaker also works with all Sonos products.

The SYMFONISK range will be available after summer in 2019.

Financial income and expense

Financial income and expense is mainly interest expenses for long-term loans. Positive currency results partly offset these expenses. You can learn more about our long-term loans in the section Inter IKEA Group assets and liabilities.

Income taxes

This year our tax charge was EUR 256 million, EUR 15 million more than last year. This equals 15% of our pre-tax income, compared to 21% in FY17. Inter IKEA Group operates in several countries, but our main activities are in the Netherlands, Sweden and Switzerland. Each has its own corporate tax rate.

The Inter IKEA Group's effective tax rate decreased by six percentage points, mainly due to the acquisition of range, supply and production activities in FY17. As a result, Inter IKEA Group incurred lower gross profit and higher costs for a total amount of EUR 812 million, which were not fully tax deductible in FY17. This meant the FY17 taxable profit was higher than the commercial profit, leading to a higher effective tax rate.

The effective tax rate of around 15% follows from the nominal tax rates in the countries where we operate. We expect our effective tax rate to remain at a similar level going forward.

Related information

In December 2017, the EU Commission announced that that they would open an investigation into potential state aid given by the Netherlands in connection with the tax treatment of Inter IKEA Systems B.V., a subsidiary to Inter IKEA Holding B.V.

Inter IKEA Group, including its subsidiary Inter IKEA Systems B.V., is committed to paying taxes in accordance with laws and regulations wherever we operate.

The way we have been taxed by national authorities has in our view been in accordance with EU rules. We co-operate and respond to questions the Dutch authorities and the European Commission have in relation to this investigation.

Inter IKEA Group assets and liabilities

The consolidated balance sheet shows an overview of our assets as well as our liabilities to our owner, suppliers, partners and other organisations.

Intangible fixed assets

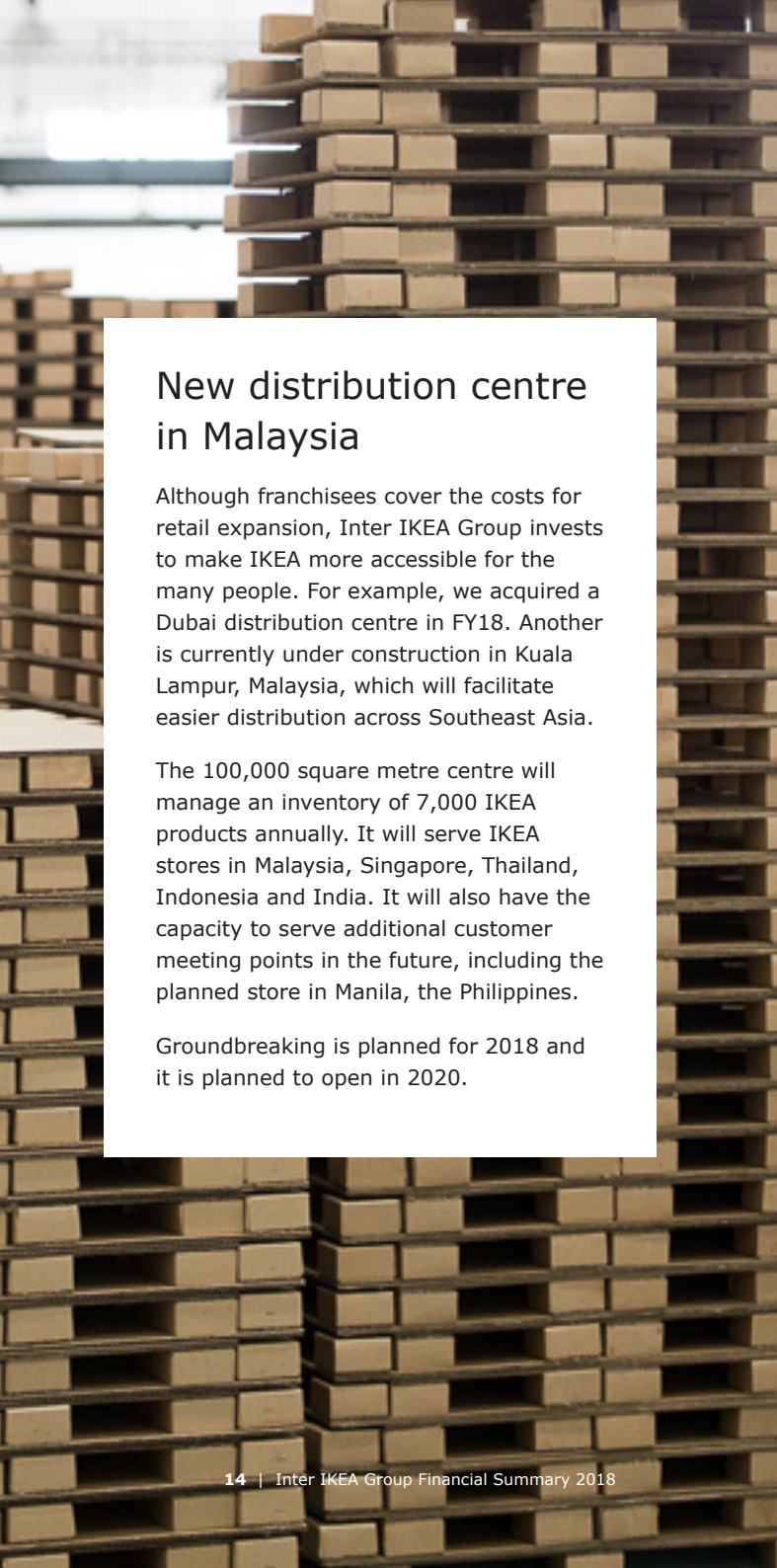
In general terms, fixed assets are business property intended for long-term use. Intangible fixed assets are things that don't physically exist like patents, concepts and intellectual proprietary rights that deliver a business benefit in years to come.

The majority of intangible fixed assets are intellectual proprietary rights with respect to the IKEA trademarks. Inter IKEA Group acquired these rights for a preliminary price of EUR 9 billion from Interogo Foundation in 2011. This price was to be revisited and adjusted in 2023 based on business growth and performance.

Now the business environment and Inter IKEA Group's role have changed. This was amplified by the acquisition of the range, supply and industrial activities. Because of this, it was agreed to revisit the price already during this financial year. This resulted in a final price adjustment of EUR 2.8 billion, which was financed through a share premium contribution from Interogo

Consolidated balance sheet

<i>in millions of EUR</i>	31 Aug 2018	31 Aug 2017
Intangible fixed assets	10,700	8,243
Tangible fixed assets	1,618	1,451
Financial fixed assets	256	246
Total fixed assets	12,574	9,940
Inventories	4,632	3,998
Receivables	4,046	4,435
Cash and cash equivalents	230	284
Total current assets	8,908	8,717
Total assets	21,482	18,657
Group equity	7,298	4,194
Provisions	578	497
Non-current liabilities	7,068	7,861
Current liabilities	6,538	6,105
Total liabilities	14,184	14,463
Total equity and liabilities	21,482	18,657



New distribution centre in Malaysia

Although franchisees cover the costs for retail expansion, Inter IKEA Group invests to make IKEA more accessible for the many people. For example, we acquired a Dubai distribution centre in FY18. Another is currently under construction in Kuala Lumpur, Malaysia, which will facilitate easier distribution across Southeast Asia.

The 100,000 square metre centre will manage an inventory of 7,000 IKEA products annually. It will serve IKEA stores in Malaysia, Singapore, Thailand, Indonesia and India. It will also have the capacity to serve additional customer meeting points in the future, including the planned store in Manila, the Philippines.

Groundbreaking is planned for 2018 and it is planned to open in 2020.

Holding AG. As we expect a positive return for a long period, we spread these costs over a period of 45 years, which started in 2012. This makes it easier to compare our yearly income with our expenses.

Tangible fixed assets

Tangible fixed assets are things like real estate and equipment that you can physically touch and feel. Inter IKEA Group tangible fixed assets are mainly factories and distribution centres.

Inter IKEA Group owns 42 factories, mostly located in Europe. The majority produce IKEA furniture, and two produce furniture components. This year we have sold two Industry factories and closed one other. In most cases co-workers have remained in the same factories under new ownership or moved to new jobs in other nearby factories with support from the Inter IKEA Group.

At the same time we have invested to expand existing factories in Poland,

Russia and Lithuania. And we are currently building a new factory in Nantong, China, which will produce components for IKEA furniture.

This year we also acquired various properties in the IKEA hometown of Älmhult, Sweden, which we previously rented. In addition, the Group owns several offices and distribution centres around the world.

Inventories and receivables

Inventories mostly consist of IKEA products in warehouses. Inventory values increased quite a lot this year because of lower than expected sales. We have taken measure to reduce inventory levels going forward.

Receivables is money owed to the Inter IKEA Group by our business partners. Most of our current receivables are for franchise fees and products sold and invoiced to IKEA franchisees.

Group equity, provisions and liabilities

Equity is the capital invested by shareholders of the Inter IKEA Group plus accumulated results over time.

Equity increased with EUR 2.8 billion, making it possible for us to finance the price adjustment for intellectual proprietary rights.

Of the EUR 1.4 billion profit we achieved during FY18, EUR 0.5 billion will be distributed as a dividend to Interogo Holding AG. The remaining EUR 0.9 billion will be added to our equity.

Provisions are money set aside for pension commitments, deferred taxes and product claims.

Liabilities is the money we owe to others. Most of our non-current liabilities, which are due over a long period of time, are for loans from Interogo Holding AG. As in FY18, we will continue to repay EUR 500 million each year.

Current liabilities are short-term loans, money owed to suppliers and the current portion of our long-term loans from Interogo Holding AG.

It is generally healthy to have a higher portion of equity versus liabilities. The equity ratio for Inter IKEA Group has improved considerably from 22% in FY17 to 34% in FY18.

Conclusion

FY18 marked 75 years of continuous growth for the IKEA Brand and businesses. Going forward, we will continue to face the challenges of a rapidly-changing retail landscape. Our aim is to make IKEA affordable for people who could not afford our products and services in the past, develop new ways to meet and interact with people when, where and how they want, and create a positive impact on people, society and the planet.

IKEA founder Ingvar Kamprad once said, “profit gives us resources”. FY18 has given us the resources to come closer to our vision of a better everyday life for the many people.

Note to reader: the included abbreviated financial statements are an abridged version of the consolidated financial statements of Inter IKEA Holding B.V. as included in the Annual Report for the financial year 2018. An unqualified auditor’s report dated 8 November 2018 was issued on these financial statements. Inter IKEA Holding B.V.’s consolidated financial statements, from which these abbreviated financial statements have been derived, have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code.

In FY18 IKEA franchisees saw continued growth despite a challenging and changing retail environment. Strong retail sales mean positive results for Inter IKEA Group. Inside, learn more about IKEA and Inter IKEA Group financial performance for the year that has passed.

For further information, please visit the Inter IKEA Group website: www.inter.IKEA.com

Released 10 October 2018



IKEA Facts and Figures

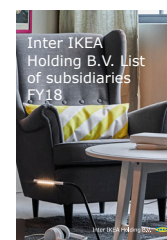
Released 12 November 2018



Inter IKEA Group Financial Summary FY18



Inter IKEA Group Annual Report FY18



Inter IKEA Group List of subsidiaries FY18

Coming early 2019



IKEA Sustainability Report

Inter IKEA Group 

The IKEA logo and the IKEA wordmark are registered trademarks of Inter IKEA Systems B.V. All copyrights in the pictures used in this document are owned by Inter IKEA Systems B.V. and may in no way be copied or reproduced without the consent of Inter IKEA Systems B.V.