Inter IKEA Holding B.V. Annual Report FY17

KUNGSBACKA
Drawer front
€24.-

* Price in the Netherlands (may vary per country)

Inter IKEA Holding B.V.

Annual Report Table of contents

REPORT FROM THE MANAGEMENT BOARD 3

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET 11

CONSOLIDATED PROFIT AND LOSS ACCOUNT 12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 12

CONSOLIDATED CASH FLOW STATEMENT 13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 14

COMPANY BALANCE SHEET 44

COMPANY PROFIT AND LOSS ACCOUNT 44

NOTES TO COMPANY FINANCIAL STATEMENTS 45

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT 52

REPORT FROM THE MANAGEMENT BOARD

(in millions of EUR, unless otherwise indicated)

The Management Board of Inter IKEA Holding B.V. hereby presents its annual report for the 12-month period ended 31 August 2017 (FY17).

General

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

Around the globe, a large number of franchisees operate under the IKEA trademarks. At 31 August 2017, there were 11 franchisees having total retail sales of EUR 38.3 billion, including sales of services to IKEA customers, and operating 403 stores. Inter IKEA Systems B.V., a subsidiary of the Company, is the franchisor and owner of the IKEA Concept, including the IKEA trademarks. Inter IKEA Systems B.V. franchises systems, methods and proven solutions to franchisees worldwide for the sale of IKEA products under the IKEA trademarks. Inter IKEA Systems B.V. has the assignment to continuously develop the IKEA Concept and ensure its successful implementation in existing and new markets. The IKEA Concept rests on a firm foundation of a low-price offer in home furnishings.

With the franchise business model we can expand the business, keep the concept together and maintain an entrepreneurial spirit – all with the goal of achieving our vision of *creating a better everyday life for the many people*. IKEA franchisees implement the IKEA Concept by marketing and selling the IKEA product range. With the exception of the IKEA Delft store in the Netherlands, all IKEA stores operate under franchise agreements with Inter IKEA Systems B.V. Each IKEA franchisee has the responsibility to run, manage and develop its local business. All IKEA franchisees are independent from and unrelated to the Group.

The Group is composed of three core businesses: Franchise, Range & Supply and Industry. The core business Range & Supply is responsible for developing and supplying the global IKEA product range, based on an assignment from Inter IKEA Systems B.V. From the relationship with the suppliers, where products get co-designed, to distribution and transport and setting the range for the IKEA franchisees. Together with other units, Range & Supply is responsible for creating range and product information.

IKEA Industry is producer of wooden furniture and manufactures wood-based furnishings for IKEA. IKEA Industry also secures production capacities for growth. The aim of IKEA Industry is to create outstanding customer value in terms of quality and price.

The Group's governance is also organised through the three core businesses with the related control, risk management structures 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: a Management Board and a Supervisory Board.

Financial information

These Financial Statements are the first financial statements covering a full 12-month period. During 2016, the Company changed the end of its financial year from 31 December to 31 August with the purpose of aligning to the IKEA business cycle. The comparative figures (referred to as FY16) therefore cover an 8-month period from 1 January 2016 to 31 August 2016. The profit and loss account for the current year (referred to as FY17) covers a 12-month period from 1 September 2016 to 31 August 2017. Additionally, the range, supply and production activities were acquired at 31 August 2016 meaning these activities had no effect on the profit and loss account in FY16.

Total revenues in FY17 amount to EUR 22.9 billion, mainly generated through sales of finished goods to IKEA franchisees and through charged franchise fees. The operating expenses are impacted by the acquisition of the range, supply and production activities as at 31 August 2016. The recognition of goodwill and intangible assets in the transaction have for the most part been released to the FY17 profit and loss account, resulting in an additional one-off expense for Depreciation and amortisation. The Group achieved a net profit of EUR 0.9 billion, being 4% of the revenues.

The overall movement in the Group's liquidity was limited as the cash generated by operating activities after interest and financial charges was mainly used to repay its loans to the non-controlling shareholder, Interogo Holding AG, and to distribute a dividend to 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, the tax authorities and other third parties.

The Group's balance sheet positions as per 31 August 2017 have not changed considerably when compared to 31 August 2016. The balance sheet has a solvency ratio of 22%.

Risk management and financial instruments

The IKEA vision is *to create a better everyday life for the many people*. It guides the entire organisation and the everyday work-life for IKEA co-workers worldwide. Our way of doing business is based on our culture and values. Risk management plays a crucial role in protecting the IKEA values and ensuring that the IKEA brand continues to be strong.

As the owner of the IKEA brand, we are strongly committed to being a meaningful and trusted company whilst recognising our responsibility beyond homes, through the impact of our business and our role in society, we are accountable towards the people and the planet.

Our risk management approach

A structured and consistent approach to managing risk is key to achieving our objectives. The goal of risk management of the Group is to continuously protect our brand, people and assets based on a common methodology. Our risk management approach includes a systematic risk management process for the organisation to identify and anticipate risks, reduce their likelihood,

and mitigate their impact should they materialise, or if possible navigate the risks into opportunities.

- Our work is based on common sense, honesty, openness, respect and integrity. The IKEA values promotes the responsibility of everyone to do the right thing. To support and ensure that the organisation is aligned with these values, the Inter IKEA Group Code of Conduct helps to guide our co-workers on what is expected of them.
- Our risk management approach provides senior management insights on key business risks and risk management practices in managing those risks with support from the risk and compliance function. Key business risks of the core businesses across the Group have been consolidated into a risk map for the Group. The risks are presented and discussed with the management of the different core businesses and presented to the Audit Committee of the Supervisory Board where the risk appetite as well as desired risk-levels are confirmed.
- The issue & crisis management set up continues to provide the organisation a robust way of handling issues and crisis. The reporting system alerts management on issues enabling coordination of efforts to minimise impacts across the organisation. Under the new constellation of the Group, the issue & crisis management approach has been harmonised in FY17.
- The Group is covered by a comprehensive insurance program ensuring certain risks are (partly) transferred to reduce the financial impacts of claims, damages or third party compensation.
- We take responsibility into ensuring the network of franchisees as well as the operations in our suppliers are aligned with the group culture and values. We therefore actively review the operations of our franchisees, as well as our suppliers against IKEA requirements.

Key risks potentially impacting the Group

In the course of achieving our strategic objectives, management pursued opportunities and undertaken business decisions in a responsible, risk conscious manner. Throughout the financial year, there has not been any occurrence of risks or uncertainties, which have had a significant financial impact. Specific measures, in addition to the approach mentioned above, are taken to reduce the likelihood of a number of key risks occurring and to reduce the impact to an acceptable level in line with the Group's risk appetite.

Compliance with the legal and regulatory requirements
Untimely or not responding to changes in the legislative and regulatory environment in the different countries, could constitute significant risks. The Group constantly monitors changes and aims for full compliance to applicable laws and regulations, especially on the emerging laws and legislations around data privacy, as well as legislations on anti-corruption in the countries where Inter IKEA Group entities and its franchisees are operating. The Group's risk appetite in this regard is low, in which we continuously strive for legal and regulatory compliance.

Scarcity and depletion of natural resources
Inter Ikea Group is a resource intensive business with sourcing activities all over the globe. Depending on the sourcing region and/or commodity, there will always be risks of severe negative environmental impact due to use of land, or non-sustainable harvesting or production practices. The Group has high ambitions for a sustainable future in both the resources we deploy as well as the circumstances of our suppliers in producing IKEA products. The requirements are therefore

high, for us and our suppliers. Controls are defined to ensure that all relevant parties adhere to our strict requirements to meet the Group's low risk appetite on sustainability matters.

Product quality and safety compliance
Our product design secures sellable products that correspond to the local regulatory requirements for safety. For Inter IKEA Group and our business partners, product safety and quality are top priorities. Non-compliance to both quality and safety requirements is therefore a risk which we take with the highest priority and our risk appetite in this regard is very low. In close cooperation with our franchisees and suppliers, the Group has clear processes in place to guarantee product quality and compliance with regulatory requirements in all markets.

Information security and IT for growth
IKEA culture is characterized by openness, honesty and trust. Sharing information is essential for improving our competitive advantage, securing future growth and ensuring the continuing business success of IKEA around the world. Information needs to be reliable, protected and treated with utmost care whilst respecting ethical values. This helps us to create lasting confidence in the IKEA brand. Considerable programs have been initiated within the Group to further secure compliance with relevant industry and legal standards whilst improving our IT infrastructure. The intensity of these programs reflects our low risk appetite in this regard.

Tax
With our worldwide operation, the Group is exposed to the local laws and regulations where we operate. As a good corporate citizen, in line with the IKEA values, we are committed to be compliant. In recent years there has been increased attention from both governments and media on taxation of multinational companies. We have been actively monitoring and addressing these developments by implementing a Group-wide tax control framework and simplifying the Group tax structure. The increasing requirements on multinational companies with regard to transfer pricing and transparency are high on the agenda.

Financial Risks
As of 1 September 2016, the Group supplies IKEA products to the franchisees. The Group has guaranteed local currency wholesale prices for a large portion of the product range in this financial year. The resulting foreign currency exchange rate risk is actively managed using derivative contracts.

Market risk is the risk that changes in market prices, mainly due to interest rates and foreign exchange rates, will affect the Group's purchase transactions or the value of its financial instruments. Market risk exposures are limited since the Group actively uses derivative contracts and since there are almost no loans taken from external parties.

Credit risk arises principally from the Group's trade and other receivables. The exposure to credit risk on sales of IKEA products and on franchise fee receivables are minimal since the majority of these sales are settled through frequent invoicing and fixed payments schedules.

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

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

Financial and non-financial performance indicators

The development of revenues is directly linked to the sales of all IKEA franchisees worldwide since these sales lead the Group's wholesale activities and form the base for the franchise revenues. Worldwide IKEA sales in FY17 increased by 4% compared to the same period in the previous year.

It should be noted that due to the inclusion of the range, supply and production activities in the Profit and loss account starting FY17, there is little benefit for comparison to the FY16 profit and loss account.

Social responsibility

Social responsibility is anchored within the strategy of the Group and forms an integrated part of our business. We strive to create shared value between ourselves and our primary stakeholders: franchisees, co-workers, customers, suppliers and society as a whole. Our businesses and way of doing business are guided by the IKEA values, culture and our roots in Småland, Southern Sweden. Together they drive us to make the best possible use of the limited resources available. In addition, our values are built around principles for behaviour, both within the Group and towards business partners and other stakeholders.

We have a long-term perspective on our business. Profitability and responsibility are not opposing forces, on the contrary, they are interdependent. We can only ensure long-term profitability by acting in a way that creates trust among all stakeholders.

The Group's supplier code of conduct IWAY – the IKEA way on purchasing products, materials and services – was first introduced in 2000. IWAY specifies the requirements that we place on suppliers of products and services and details what they can expect in return from IKEA. In addition to the main document, there are several industry-specific supplements and a special code of conduct for 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, the IKEA co-workers are provided with a safe working environment. The *Inter IKEA Group code of conduct* applies to all co-workers within the Group and can be found on our website.

A key element in the HR policy is the training of our co-workers. Learning and know-how have been key focus areas over many years. Today, new learning platforms, online and offline, accessible to all IKEA franchisees, remain a vital area for development. We are introducing new training solutions with the objective to meet current and future expectations of our co-workers and customers.

Information on male/female ratio

The Group's Management Board and Supervisory Board members are 100% male. Diversity and inclusiveness are actively pursued within the Group, resulting in persons with different backgrounds, nationalities and gender holding management positions within the Group. We believe the current male/female ratio throughout the Group is sufficient to achieve a balanced leadership.

Sustainability

The *IKEA Sustainability Direction* provides a common framework for all trademark users to develop and integrate sustainability strategies and tactics into their own business plans, but gives flexibility for local, market relevant approaches and solutions.

All IKEA franchisees now are able to categorise their sustainability work into the three same change drivers:

1. Inspire and enable millions of customers to live a more sustainable life at home by developing and promoting products and solutions that help customers save or generate energy, reduce or sort waste, use less or recycle water, at the lowest possible price.
2. Strive for resource and energy independence by securing long-term access to sustainable raw materials, having a positive impact on the communities where we source materials and using resources within the limits of the planet, and through producing as much renewable energy as the energy we consume and driving energy efficiency throughout our value chain.
3. Take a lead in creating a better life for the people and communities impacted by our business. Further extend our code of conduct throughout our value chain; be a good neighbour, support human rights and act in the best interest of children.

The Group will now begin to strengthen the sustainability direction across all three change drivers, and in doing so will evaluate how and where to set future minimum requirements on all IKEA trademark users. This will support a more uniform approach regardless of operating company and geographic location.

Environmental issues

No material environmental issues occurred during FY17. Especially within Core Business Industry, much attention is given to compliance with environmental regulations through regular equipment verification and condition checks, and through active air emission monitoring and documentation.

Research and development

The IKEA Concept rests on a firm foundation: a low-price offer in home furnishing products. As the franchisor, Inter IKEA Systems B.V. is continuously developing the IKEA Concept to ensure its implementation remains successful in new and existing markets, and the company works to meet consumer needs in life at home as well as new opportunities and challenges that arise from the world around us. Developments include the review and re-establishment of different areas of the IKEA Concept to align multichannel retailing and which allow us to remain forward-looking in

areas such as Brand Development, Sustainability, People and Environment, Social Media and Market Potential & Expansion. Planned projects range from repositioning in certain markets to automating our goods flow and further digitalisation of the IKEA catalogue.

Range has the responsibility to develop, design and produce home furnishing solutions available to everyday home furnishing needs. The foundation of all product development is the idea that even with a thin wallet people should still be able to create a beautiful home with functional, safe and healthy products. The products are designed in accordance with the principles of democratic design, meeting requirements on form, function, quality, sustainability and low price. Each year approximately 2,000 new articles are introduced.

The Company expects to continue its research and development activities, as well as investing in strategic development projects, material and techniques, range and production capacity. To meet the needs of today's customers, multichannel retailing is an essential focus area impacting our total value chain.

Outlook for financial year FY18

We expect retail sales growth by our franchisees in FY18, building on the development of FY17. The expected growth directly contributes to our franchise fee and wholesale revenue for FY18. The Company expects to finance its investments primarily from its own funds and not enter into external funding.

Since the FY17 operating expenses are impacted downward by the amortisation of goodwill and intangible assets due to the acquisition of the range, supply and production activities as at 31 August 2016, the net profit for FY18 is expected to be higher than in FY17.

During FY18, we will continue to invest in research activities and in the development of our core businesses Franchise, Range & Supply and Industry. Most importantly, we will continue to invest in our co-workers who contribute to realising the Group's goals every day.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Anders Gårlin

Martin van Dam

Delft, 5 December 2017

CONSOLIDATED BALANCE SHEET

(before profit appropriation, in millions of EUR)

	31/08/17	31/08/16
Fixed assets		
Intangible fixed assets (5)	8,243	8,932
Tangible fixed assets (6)	1,451	1,336
Financial fixed assets (7)	246	322
Total fixed assets	**9,940**	**10,590**
Current assets		
Inventories (8)	3,998	4,284
Receivables (9)	4,435	3,783
Cash and cash equivalents (10)	284	302
Total current assets	**8,717**	**8,369**
TOTAL ASSETS	**18,657**	**18,959**
EQUITY AND LIABILITIES		
Group equity (11)	**4,194**	**4,258**
Provisions (12)	**497**	**538**
Non-current liabilities (14)	**7,861**	**8,601**
Current liabilities (15)	**6,105**	**5,562**
TOTAL EQUITY AND LIABILITIES	**18,657**	**18,959**

(See accompanying notes)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(in millions of EUR)

	31/08/17	31/08/16
Revenues	23,188	2,174
Changes in inventories of finished products	-339	0
Other revenues	29	2
Total revenues (18)	**22,878**	**2,176**
Cost of raw materials and consumables	18,688	1,292
Cost of outsourced work and other external costs	385	33
Salaries and wages	738	54
Social charges	170	9
Pension expenses	91	7
Depreciation and amortisation	860	147
Other operating expenses	650	83
Total operating expenses (19)	**21,582**	**1,625**
Operating result	**1,296**	**551**
Financial income	289	15
Financial expense	432	237
Financial income and expense (20)	**-143**	**-222**
Income before taxes	**1,153**	**329**
Income tax (21)	241	71
Net result	**912**	**258**

(See accompanying notes)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of EUR)

	31/08/17	31/08/16
Net result	912	258
Change in unrealised derivatives	65	0
Remeasurement pension provisions	-2	-4
Translation differences on foreign operations	-10	-1
Other	-29	0
Total comprehensive income	**936**	**253**

CONSOLIDATED CASH FLOW STATEMENT

(in millions of EUR)

	31/08/17	31/08/16
Operating result	1,296	551
Adjusted for:		
- Depreciation/amortisation	860	147
- Other value adjustments	9	-1
- Changes in provisions	-41	0
- Changes in financial fixed assets	-69	0
- Changes in working capital	-668	-29
Cash flow from business operations	*1,387*	*668*
Interest received	9	16
Interest paid	-413	-254
Income tax paid	-306	-116
Cash flow from operating activities	**677**	**314**
Investments in:		
- Intangible fixed assets	-16	-19
- Tangible fixed assets	-280	-13
- Acquisition of group companies	-25	*267*
Cash flow from investing activities	**-321**	**235**
Issuance of debt	-6	0
Repayment of debt	57	0
Repayment of borrowings	-864	-32
Take-up of long-term debt	166	0
Take-up of short-term debt	1,269	0
Dividend paid	-1,000	-242
Cash flows from financing activities	**-378**	**-274**
Net cash flow	**-22**	**275**
Exchange rate and translation differences on cash	4	0
Changes in cash and cash equivalents	**-18**	**275**
Cash and cash equivalents at beginning	302	27
Cash and cash equivalents at end	284	302
Net movement in cash	**-18**	**275**

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 802707543) and has its corporate seat at Olof Palmestraat 1 in Delft. Inter IKEA Holding BV is the ultimate parent of a group of companies that together form the Inter IKEA Group.
The Company has issued class A and class B shares. The class A shares are held by Interogo Foundation, giving Interogo Foundation control over the Company. Class B shares are held by Interogo Holding AG.
The operation of Inter IKEA Group is organised in three core businesses; Franchise, Range & Supply and Industry. The main activities of the group of which the Company is the parent, consist of the following:

- IKEA Franchising: Inter IKEA Systems B.V. is the franchisor and the owner of the IKEA Concept, including the IKEA trademarks. Inter IKEA Systems B.V. franchises systems, methods and proven solutions to franchisees worldwide for the sale of IKEA products under the IKEA trademarks.
- IKEA Range & Supply is responsible for developing and supplying the Global IKEA range. This means IKEA Rang & Supply works with the value chain end to end from supplier to customer.
- IKEA Industry is the largest producer of wooden furniture in the world and manufactures wood-based furniture for IKEA customers. IKEA Industry secures production capacities for growth.

These financial statements cover the financial reporting period for the financial year 2017. During the year 2016, the Company has changed the end of its financial year from 31 December to 31 August. By changing its financial year, it is now in line with the IKEA business cycle. The financial statements 2016 cover the 8 months period from 1 January 2016 to 31 August 2016 and therefore the profit and loss account is non-comparable to the current period. In case of the profit and loss account, related information "2016" means 1 January 2016 up to and including 31 August 2016 and "2017" means 1 September 2016 up to and including 31 August 2017.

2. BASIS OF PREPARATION

Both the company financial statements and the consolidated financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

The accounting policies applied for measuring assets and liabilities and the determination of result are based on the historical cost convention, unless otherwise stated in the further principles.

The Company's financial information is included in the consolidated financial statements. For this reason, in accordance with Section 402, Book 2 of the Dutch Civil Code, the Company's separate profit and loss account exclusively states the share of the result of participating interests after tax and the company result after tax.

The financial statements have been prepared on the basis of the going concern assumption.

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

The figures for 2016 have been adjusted in order to make them comparable to current year's presentation. These adjustments relate to the provisional accounting for the acquisition of the range, supply and industry activities and are disclosed in note 4.

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 entity 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.

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.

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, the size of which 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, the size of which can be measured with sufficient reliability.

Revenue and expenses are allocated to the period to which they relate. Revenues are recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer.

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. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

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;
- Obsolesence of stock;
- Impairments;

- Provisions; and
- Taxation.

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

Basis of consolidation

The consolidated financial statements include the financial data of The Company, its subsidiaries in the group, other group companies and other companies over which The Company can exercise control or of which it conducts the central management. 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. Group companies are participating interests in which the company has a majority interest, or in which it can exercise decisive influence (control) by other means. In assessing whether controlling interest exists, potential voting rights are taken into account that can be exercised in such a way that they will provide the company with more or less influence.

The consolidated financial statements are prepared by applying uniform accounting policies for measurement and determination of result of the group.

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.

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.

In the consolidated financial statements, intra-group shareholdings, debts, 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. For a transaction whereby 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

Each entity in the Group determines its own functional currency; items included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are initially carried at the functional exchange rates applying on the date of transaction. Monetary balance sheet items denominated in foreign currencies are translated at the functional exchange rates applying on the balance sheet 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 the profit and loss account in the period in which they arise, except for 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 at historical cost, are translated into euros at the functional exchange rates applying on the transaction date.

The assets and liabilities that are part of the net investment in a foreign operation are translated into euros at the exchange rate prevailing on the balance sheet 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.

Offsetting
Assets and liabilities are only offset in the financial statements, if and to the extent that:

- an enforceable legal right exists to offset the assets and liabilities and settle them simultaneously; and
- the intention is to settle the assets and liabilities on a net basis or simultaneously.

Financial instruments
Financial instruments include trade and other receivables, cash, loans and other financing commitments, trade payables and other amounts payable. These financial statements contain the following financial instruments: financial instruments held for trading (financial assets and liabilities), loans granted and other liabilities, other financial liabilities and derivatives.

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 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 financial asset or a financial liability is recognised in the balance sheet when the contractual rights or obligations in respect of that instrument arise.

A financial instrument is no longer recognised in the balance sheet when there is a transaction that results in a transfer to a third party of all or substantially all of the rights to economic benefits and all or substantially all of the risks related to the position.

A purchase or sale 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, including the derivative financial instruments separated from the host contracts, are recognised initially at fair value, including discounts/premium and any directly attributable transaction costs. If instruments are not subsequently measured at fair value with value changes recognised in the profit and loss account, any directly attributable transaction costs are included to the initial measurement.

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.

Derivatives and hedge accounting
Derivatives are stated 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).

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value. Fair values are obtained from valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, unless the possibility to offset exists, then the values will be netted per counterparty. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument.

The commercial flows of the group are subject to currency risk. As part of its treasury activities certain derivatives are designated as hedges of highly probable future cash flows attributable to a forecast transaction in foreign currencies. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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 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 hedged position in respect of an expected future transaction leads to the recognition in the balance sheet of a non-financial asset or a non-financial liability, the company adjust the cost of this asset by the hedging results. This is done through a transfer from other comprehensive income of the results that have been deferred in this reserve until such time.
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 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 taken to the profit and loss account.

The Company uses generic hedge accounting documentation, documenting the specific hedge relationships in the dedicated treasury management system business solutions 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. Inter IKEA Group 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

Financial assets, e.g. long-term loans receivable, that are measured at (amortised) cost, 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.

A previously recognised impairment loss is reversed if the decrease of the impairment can be related objectively to an event occurring after the impairment was recognised. The reversal is limited to at most the amount required to measure the asset at its original amortised cost at the date of reversal had the impairment not been recognised.

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.

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.

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

Financial liabilities
Financial liabilities are recognised initially at fair value, which includes directly attributable transactions costs, and subsequently carried at amortised cost.

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

Intangible fixed assets
An intangible fixed asset is recognised in the balance sheet if:

- it is probable that the future economic benefits that are attributable to the asset will flow to the Company; and
- the cost of the asset can be measured reliably.

Costs relating to intangible fixed assets not meeting the criteria for capitalisation are immediately recognised in the profit and loss account.

Intangible fixed assets are carried at the lower of cost of acquisition or production net of accumulated amortisation and recoverable amount (being the higher of value in use and fair value less costs to sell). Intangible fixed assets are amortised on a straight-line basis over their expected useful economic lives.

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

The IKEA trademark 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 and concept with marketplace spending for the foreseeable future. We therefore believe that the Proprietary Rights have an indefinite life. However, applicable Dutch accounting principles require us to amortise these Proprietary Rights based on expected economic life. Determining an expected 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 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. The accounting principles for the recognition of an impairment are included under the section 'Impairment of fixed assets'.

Goodwill
Goodwill represents the excess of the cost of the acquisition of the participating interest (including transaction costs directly related to the acquisition) over the company's interest in the net realisable value of the assets acquired and the liabilities assumed of the acquired entity, less

cumulative amortisation and impairment losses. Internally generated goodwill is not capitalised.

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

The expected useful life for Goodwil related to transaction in which the legal entities that hold the range, supply and production activities transferred to Inter IKEA Holding B.V. is determined at 1 year.

Reacquired rights
Reacquired rights relate to the following:

- the Company has granted IKEA of Sweden AB the right to develop products and establish the IKEA product range,
- the Company has granted IKEA Supply AG a purchase agreement.

These rights have been reacquired during the transaction in which the entitities performing the range, supply and prduction activities were acquired by Inter IKEA Holding B.V.
The remaining useful life for the reacquired rights has been determined during the transaction: 5 years for IKEA of Sweden AB and 1 year for IKEA Supply AG.

Software in development
Externally developed software is capitalised on the balance sheet and depreciated over a term of 3 years.

Tangible fixed assets
Land and buildings, machinery and equipment, contruction in progress and other assets are stated at cost less accumulated depreciation and impairment losses. The cost comprises the price of acquisition or manufacture, plus other costs that are necessary to bring the assets to their location and in condition for their intended use. Expenditure is only capitalised when it extends the useful life of the asset. Costs of major rebuilding, repairs or maintenance are recognised as part of the 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.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of the tangible fixed assets. Land and prepayments on tangible fixed assets are not depreciated. Depreciation starts as soon as the asset is available for its intended use, and ends at decommissioning or divestment.

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 carried at amortised cost based on the effective interest rate method, less impairment losses.

Deferred tax assets
The valuation of deferred tax assets is explained under the heading ‘Corporate income tax’.

Impairment of fixed assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. 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 of the cash flow generating unit to which the asset belongs.

When the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount. Any residual loss is allocated to the other assets of the unit pro rata to their book values.
In assessing the value in use, the estimated future cash flows are discounted to their present value using a market based pre-tax discount rate. In determining fair value less cost to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In case of an impairment loss of a cash flow generating unit, the loss is first allocated to goodwill that has been allocated to the cash flow generating unit. Any remaining loss is allocated to the other assets of the unit in proportion to their carrying values.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised in prior years. Such reversal is recognised in the profit and loss account.

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

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

Inventories
Inventories mainly comprise of finished goods and are measured at the lower of cost (first-in, first-out basis) and net realisable value. Cost includes the expenses for acquisition or manufacture, plus other expenditure to bring the inventories to their present location and condition. Net realisable value is based on the most reliable estimate of the amount the inventories will generate at the most, less costs still to make. Valuation of inventory is calculated based on the FIFO method which assumes that the goods purchased first, are the first goods to be sold.

Cost includes the purchase price and expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. The valuation of inventories includes possible write-offs that arise on the balance sheet date.

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 defined as cash on hand, deposits and short-term, highly liquid investments readily convertible to predetermined amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this is taken into account in the measurement.

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

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

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

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 statutory reserve. In the case of the sale of a participating interest, the associated accumulated exchange differences are taken to other reserves.

Provisions
A provision is recognised if the Group:
- has a legal or constructive obligation arising from a past event,
- it is probable that the Company will have to settle the obligation
- and the amount of the liability can be estimated reliably.

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 stated at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses concerned at balance sheet date. Provisions are carried at non-discounted value, with the exception of:
- the provision for pensions which is carried at discounted value; and
- provisions for other employee benefits carried at discounted value if the effect of the time value is material.

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 19R "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
The contributions related to defined contribution plans are charged to the Profit and loss account in the period to which these contributions relate.

Defined benefit plans
The net obligations in respect of defined benefit plans are calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Defined benefit plan pension commitments are calculated annually by a qualified actuary in accordance with the projected unit credit method. Under this method, the present value of pension commitments is determined and is discounted using the market rate of interest on high-quality corporate bonds with lifetimes that corresponds to the Group's pension obligations.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding any changes recorded as net interest and the return on plan assets (excluding net interest), are recognised immediately in the balance sheet and through other comprehensive income in equity (retained earnings). Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

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.

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

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

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 a business combination.

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.

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.

If the carrying amounts of assets and liabilities for financial reporting differ from their tax bases, these are 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 the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at nominal value.

Leasing

Assessing whether an agreement contains a lease, is based on the substance at the inception date of the agreement. An agreement is regarded as a lease if its fulfilment depends on the use of a specific asset, or on whether the lease contains the right of use of a specific asset. The Group may enter into financial and operating leases. A lease contract where the risks and rewards associated with ownership of the leased property are transferred substantially all to the lessee, is referred to as a financial lease. All other leases are classified as operating leases. In classifying leases, the economic reality of the transaction is decisive rather than its legal form.

For FY 17, the Group did not have any financial 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.

Revenue

Revenue is recognised for the amounts received by the company on its own account. Amounts received by the company on behalf of third parties are not recognised as revenue.
When the group acts in a transaction in the capacity of an agent rather than of a principal, the revenue recognised in the profit and loss account is the net amount of commission received by the group in respect of the transaction.

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 assets of a company, such as trademarks, patents and software. Revenue is recognised when the amount of the consideration receivable can be determined reliably and recovery is probable.

Revenue from franchise fees is based upon the franchise fee percentage over the actual sales income of the franchisees over the reporting period.

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. At balance sheet date, a liability is recognised for this purpose. The recognised liability reflects the best estimate of the expenditure necessary to settle the obligation. 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.

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 nominal value of the expenditure expected to be required to settle the obligation.

The Company prepares its financial statements for pensions and 'post retirement benefits' on IFRS standards instead of RJ 271.3, by using RJ 271.101. For foreign pension plans that are not comparable in design and functioning to the Dutch pension system, a best estimate is made of the liability as at balance sheet date.

If, on the basis of the contractual conditions, there is an obligation at the balance sheet date and it is probable that an outflow of resources will be required and the amount thereof can be estimated reliably, a provision is recognised. Refer to the accounting policies of 'Provisions' for the pension provisions.

Software and other development costs

Software and other development costs are in general not capitalised, but recognised directly into the profit and loss account. Each project is analysed separately to determine whether the costs should be capitalised or recognised directly into the profit and loss account.

Financial income

Financial income is recognised in the period to which it belongs, taking into account the effective interest of the related asset.

Financial expenses

Financial expenses and similar expenses are recognised in the period to which they belong.

Cash flow statement

The Statement of Cash Flows is prepared using the indirect method. Cash flows in foreign currency are translated into euros using the average rates. Currency translation differences on cash and cash equivalents (if any) are presented separately in the statement of cash flows.

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.

Related parties and related party transactions

Transactions with related parties are assumed when a relationship exists between the company and an 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 prepared, are recognised in the financial statements.

Events that provide further information on the actual situation at the balance sheet date and that appear after the financial statements have been prepared but before the adoption of the financial statements, are recognised in the financial statements only if it is essential for the true and fair view.

Events that appear after the financial statements have been adopted are not recognised in the financial statements. If it appears that the financial statements do not provide a true and fair view as a result of these events, the events are reported without delay to the shareholders and a notice is deposited at the office of the Chamber of Commerce.

Events that provide no further information on the actual situation at the balance sheet date are not recognised in the financial statements.

4. ACQUISITIONS

A business combination is a transaction whereby the acquirer 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 thereof agreed as part of the acquisition, or the fair value at the acquisition date of other consideration transferred. Transaction costs that are directly attributable to the business combination are also included in the transaction price. In case of deferred payment of the consideration, the transaction price is the discounted value of the consideration.

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

Refer to the accounting policy under the heading Intangible fixed assets for the recognition of positive or negative goodwill resulting from a business combination.

An agreed possible adjustment to the purchase price that is contingent on future events is included in the purchase price if the adjustment is probable and the amount can be measured reliably. Such an adjustment will also result in an adjustment to (positive or negative) goodwill with retrospective effect.

As per 30 June 2017 the Company acquired 100% of the shares of the Bring SCM AB business, an entity to which the food supply chain management had been outsourced to. The total consideration amounted to EUR 25 million, not generating any goodwill. Since no goodwill is acquired, we have allocated the consideration to the assets and liabilities based on the values at acquisition date. Management can make adjustments to the above for 12 months after the transaction date. Adjustments to the acquisition accounting during the ‘measurement period’ reflects additional information about facts and circumstances that existed at the acquisition date. As per 31 August 2017, none are expected.

A Better IKEA

As a result from the acquisition of the range, supply and production activities from INGKA Holding B.V. as per 31 August 2016, we have adjusted the accounting during the measurement period of twelve months as described. Based on these accounting adjustments we have restated the opening balances for these items. Please refer to the table below.

Restatements	Closing balance Financial Statements 2016	Adjustments	Adjusted opening balance Financial statements 2017
Intangible fixed assets	8,880	52	8,932
Tangible fixed assets	1,346	-10	1,336
Financial fixed assets	364	-42	322
Receivables	3,634	149	3,783
Provisions	530	8	538
Current liabilities	5,421	141	5,562

5. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets were as follows:

	Proprietary rights	Reacquired rights	Goodwill	Software in dev.	Total
Balance as at 1 September 2016:					
Purchase price	9,000	588	183	94	9,865
Accumulated amortisation and impairment	-933	0	0	0	-933
Carrying amount	**8,067**	**588**	**183**	**94**	**8,932**
Changes in carrying amount:					
Additions	0	0	0	16	16
Amortisation	-200	-285	-189	-32	-706
Other	0	-5	6	0	1
Balance	**7,867**	**298**	**0**	**78**	**8,243**
Balance as at 31 August 2017:					
Purchase price	9,000	583	189	111	9,883
Accumulated amortisation and impairment	-1,133	-285	-189	-33	-1,640
Carrying amount closing	**7,867**	**298**	**0**	**78**	**8,243**
Estimated useful life (years)	45	1/5		3	

The opening balance for Goodwill has been adjusted, refer to note 4, A Better IKEA.

At the end of each financial year, the recoverable amount of the intangible assets that 'are not yet into use and are amortised over a useful life of more than twenty years' is assessed for impairment, even if there is no indication of impairment. The accounting principles for the recognition of an impairment are included under the section Impairments.

Proprietary Rights

End of 2011 the Proprietary Rights were acquired for a consideration of EUR 9,000 million. These Rights include the IKEA trademark, protection rights, intellectual property rights and the rights to the IKEA catalogue. As at 31 August 2017, there was no need for an impairment.

Reacquired rights

These rights have been reacquired during the transaction in which the entitities performing the range, supply and production activities were acquired by Inter IKEA Holding B.V.
The remaining useful life for the reacquired rights has been determined during the transaction: 5 years for IKEA of Sweden AB and 1 year for IKEA Supply AG.

Goodwill
On 31 August 2016, Inter IKEA Holding B.V. and Ingka Holding B.V. closed a transaction in which the entitities performing the range, supply and production activities were acquired by Inter IKEA Holding B.V. This transaction generated a goodwill of EUR 183 million. Next to the goodwill originating from this acquisition, goodwill holds the related acquisition costs and goodwill from a small acquisition.

Software in development
Software in development costs charged to the profit and loss account amount to EUR 40 million, including amortisation of capitalised costs of development EUR 32 million.

6. TANGIBLE FIXED ASSETS

Movement in tangible fixed assets were as follows:

	Land and buildings	Mach. and equip.	Constr. in progress	Other and idle assets	Total
Balance as at 1 September 2016:					
Purchase price	639	571	184	28	1,422
Accumulated depreciation and impairment	-59	-11	0	-16	-86
Carrying amount	**580**	**560**	**184**	**12**	**1,336**
Changes in carrying amount:					
Investments	80	55	137	8	280
Disposals	-3	-6	-1	0	-10
Transfers	94	52	-157	17	6
Depreciation	-42	-109	0	-11	-162
Reversal of impairments	0	8	0	0	8
Other	16	-29	-1	7	-7
Balance	**725**	**531**	**162**	**33**	**1,451**
Balance as at 31 August 2017:					
Purchase price	826	643	162	60	1,691
Accumulated depreciation and impairment	-101	-112	0	-27	-240
Carrying amount	**725**	**531**	**162**	**33**	**1,451**
Estimated useful life (years)	25	3-15			

The opening balance for tangible fixed assets has been adjusted, refer to note 4, A Better IKEA.

Tangible fixed assets carried at cost do not include capitalised interest charges. Tangible fixed assets include an amount of EUR 16 million (2016: EUR 28 million), which is pledged for debts to credit institutions.

7. FINANCIAL FIXED ASSETS

Movements in financial fixed assets were as follows:

	LT loans receivable	Deferred tax asset	Total
Balance as at 1 September 2016:			
Cost price	108	214	322
Carrying amount	**108**	**214**	**322**
Changes in carrying amount:			
Additions	0	51	51
New loans	6	0	6
Repayments	-57	0	-57
Netting	0	-69	-69
Other	3	-10	-7
Balance	**-48**	**-28**	**-76**
Balance as at 31 August 2017			
Cost price	60	186	246
Carrying amount	**60**	**186**	**246**

The opening balance for LT loans receivable has been adjusted, refer to note 4, A Better IKEA.

The long term loans receivable mainly encompass supplier financing (EUR 56 million), this amount includes a provision of EUR 38 milllion. The current part of the long term loans receivable has been accounted for under Receivables.

The deferred tax assets relate to the recognised unused tax loss carry-forwards (EUR 13 million) and deductible temporary differences (EUR 173 million). It is expected that EUR 3.7 million of the deferred tax assets will be offset within one year.

The tax loss carry-forward that has not been recognised amounts to EUR 193 million.

8. INVENTORIES

	31/08/17	31/08/16
Raw materials	217	143
Work in progress	50	53
Finished goods	3,731	4,088
Total	**3,998**	**4,284**

The provision for obsolescence amounts to EUR 142 million (2016: EUR 181 million). The realisable value of stock is equal or above book value of stock. No other movements than the release of the provision are applicable during the year.

9. RECEIVABLES

	31/08/17	31/08/16
Trade receivables	2,872	2,774
Current portion of long-term loans receivable	70	451
Income tax receivable	12	17
Indirect tax receivable	170	167
Receivable on related parties	800	0
Derivative assets	229	149
Prepayments and accrued income	126	166
Other receivables	156	59
Total	**4,435**	**3,783**

The opening balance for Other receivables has been adjusted, refer to note 4, A Better IKEA.

The trade receivables are all due within one year.

	31/08/17	31/08/16
Trade debtors	2,874	2,776
Provision for bad debt	-2	-2
Trade debtors, less allowance	**2,872**	**2,774**

Receivables related parties are mainly related to Inter Finance SA (EUR 328 million) and Interogo Holding AG (EUR 459 million). All transactions have occurred at an arm's length basis.

The Prepaid expenses and accrued income balance and the Accrued liabilities and deferred income balance at 31 August 2017 include a amount receivable related to the fair value of derivatives (netted where offsetting is allowed). These derivatives hedge the foreign exchange risk of the expected purchase and sales transactions, i.e. the commercial flows, of the group for the next financial year. For more information on financial risk management refer to note 20.

10. CASH AND CASH EQUIVALENTS

The total balance is available without restrictions to the Company except for EUR 92 million guarantees mainly relating to the Portuguese authorities in case of environmental claims not covered by the insurance company.

11. GROUP EQUITY

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

12. PROVISIONS

Movements in provisions can be specified as follows:

	Deferred tax liability	Pension	Tax expenses	Other	Total
Balance as at 1 September 2016:	162	305	50	21	538
Provisions made during the year	52	49	1	3	105
Provisions reversed during the year	-59	0	0	-11	-70
Netting	-69	0	0	0	-69
Other	-5	1	2	-5	-7
Balance as at 31 August 2017	**81**	**355**	**53**	**8**	**497**

The opening balance for Other has been adjusted, refer to note 4, A Better IKEA.

The main components within the provision for deferred tax liabilities are EUR 26 million related to inventories, and EUR 20 million related to tangible fixed assets.
The largest part of the deferred tax liabilities will mature after one year. The part of the deferred tax liabilities that will be utilized within one year, amounts to around EUR 26 million.

For details on the provision for pensions commitments refer to note 13.

The provision for tax expenses relates to estimated future tax expenses where for some reason it is difficult to assess the time of payment or the amount.

Other mainly relates to a provision for claims, disputes and lawsuits and a jubilee provisions. The provision in respect of claims, disputes and lawsuits relates to disputes involving the company and/or its group companies. Although the outcome of these disputes cannot be predicted with certainty, it is expected, partly based on legal advice, that the disputes will probably not have a material negative effect on the consolidated financial position.

13. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

	31/08/17	31/08/16
Defined benefit obligation - funded plans	161	140
Defined benefit obligation - unfunded plans	320	286
Less: Fair value on plan assets	-134	-121
Net defined benefit liability	**347**	**305**

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

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

Net expense

The following table shows the pension and other post-employment benefits expenses recognised

in the profit and loss account.

	31/08/17	31/08/16
Company service cost	37	3
Net interest costs	8	0
Total expense	**45**	**3**

Liability for defined benefit obligations

The movements in the liability for the net defined benefit obligations are as follows:

	31/08/17	31/08/16
Opening balance	305	4
Net expense for the year	45	3
Remeasurement (gain)/loss	11	5
Employer contributions	-12	-6
Employer direct benefit payments	-2	0
Acquisition	0	299
Closing balance	**347**	**305**

Assets and liabilities

The following table shows the changes in benefit obligations and plan assets of the employee benefit plans.

	Projected benefit obligation	Fair value plan assets
Opening balance	426	121
Company service cost	37	0
Employer contributions	0	12
Changes in financial assumptions	-12	0
Changes in experience adjustments	19	0
Other	11	1
Closing balance	**481**	**134**

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

Allocation of plan assets

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

	31/08/17	31/08/16
	Quoted	Quoted
Cash and cash equivalents	2	2
Equity instruments	53	42
Debt instruments	70	69
Real estate	8	7
Insurance contracts	1	1
Total	**134**	**121**

The plan assets do not include investments in shares, issued debt or property owned by the Company.

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

	31/08/17	**31/08/16**
Discount rate	2.4%	2.2%
Future salary increase rate	3.1%	3.0%

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

The average duration of the defined benefit plan obligation at 31 August 2017 is 26 years (2016: 26 years).

The Company expects to contribute EUR 49 million to its defined benefit pension plans in FY18.

Sensitivity analysis
Sensitivity analyses (in- and decrease by 50bp) has been done on both the discount rate and the salary increase rate, calculating the present value of the defined benefit obligation as at 31 August 2017.

	Discount rate		Salary increases	
	+50 bp	-50 bp	+50 bp	-50 bp
Present value defined benefit obligation	422	548	515	449

14. NON-CURRENT LIABILITIES

	Shareholder	**Other**	**Total**
Principal amount	8,400	201	8,601
Additions	162	4	166
Repayments	-500	-204	-704
Exchange rate differences	-5	3	-2
From long-term to current portion	-200	0	-200
Closing Balance	**7,857**	**4**	**7,861**

The opening balance for Other has been adjusted, refer to note 4, A Better IKEA.
Of the debts mentioned above, an amount of EUR 6,900 million has a remaining term of more than 5 years (2016: MEUR 7,600).

The Company is financed, amongst others, by two shareholder loans. 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. This loan will be repaid in 2023. Another loan amounting to EUR 3,000 million relates to the acquisition of the range, supply and production activities. Of the outstanding amount, EUR 500 million was repaid in 2017 and EUR 200 million will be repaid each year in September, the balance due will be paid 31 December 2023.
Next to these loans, granted by the non-controlling shareholder Interogo Holding AG, there are some local currency facilities.

The current part of the non-current liabilities has been accounted for under current liabilities.

15. CURRENT LIABILITIES

	31/08/17	31/08/16
Current portion of long term debt	200	360
Short-term borrowings	518	626
Accounts payable trade	1,586	1,593
Income taxes payable	88	95
Indirect tax payable	147	130
Payable related parties	2,807	1,487
Payable staff	114	142
Derivatives liabilities	28	50
Bank overdraft	160	0
Accrued liabilities and deferred income	227	225
Other liabilities	230	854
Total	**6,105**	**5,562**

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

All current liabilities have a residual term within one year.

16. 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.
The company applies derivatives, including currency options and forward exchange contracts to control its risks.

Credit risk

Credit risk arises principally from the company loans and receivables presented under financial fixed assets, trade and other receivables, cash and the positive fair value of derivatives.
The maximum amount of credit risk that the company incurs is EUR 4,681 million, consisting of EUR 246 million financial fixed assets and EUR 4,435 million receivables. The credit risk is is concentrated to trade receivables for EUR 2.8 billion which mainly consists of 11 franchisees. A long standing relationship exists with these counterparties, they have always satisfied their obligations to pay. Furthermore, the Company holds receicavables (EUR 800 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 2017, EUR 204 million was received as collateral against the positive value of derivative contracts, EUR 22 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 Group runs a risks of future cash flows relating to the interest element. For fixed interest rate loans the Group runs a fair value risk.

The Group has liabilities and receivables with the following interest rates:
- Receivable on related parties EUR 800 million (floating %);
- Long-term debt to shareholder EUR 5.4 million (6% fixed);
- Long-term debt to shareholder EUR 2.5 million (2,5% fixed); and
- Payable related parties EUR 2.8 million (floating %).

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.
- Commercial Flows: the Company is exposed to foreign exchange rate risks arising from purchase and sales of goods, freight and indirect materials and services transactions ('commercial flows'). The currencies in which these transactions primarily are denominated are PLN and USD. The Company's exchange rate risk is actively managed by using derivatives contracts.

At year-end 2017, the total net fair value of the derivatives used to manage exchange risk is EUR 201 million positive (2016: EUR 98 million positive).

Hedge accounting is applied with the impact of effective hedging taken to other comprehensive income (EUR 127 million gain) and the impact of results of derivatives which did not meet the hedging criteria and are therefor directly reported in the profit and loss account (EUR 19 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.

In 2017, the currency translation differences recognised in the profit and loss account amounted to a gain of EUR 279 million (2016: EUR 3 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 and to stay within the limits of its loan covenants.

17. COMMITMENTS AND CONTINGENT LIABILITIES

The commitments can be detailed as follows:

Price Adjustment Mechanism Proprietary Rights
On 11 December 2011, Inter IKEA Group has purchased the beneficial interest in the IKEA Proprietary Rights (PR). The consideration amounted to EUR 9,000 million and was settled in a debt for EUR 5,400 million and through a share premium contribution of EUR 3,600 million. In the purchase agreement a price adjustment mechanism has been agreed upon. Until 31 December 2023 this mechanism could lead to an adjustment to the consideration based on the fair value as at that date. Any adjustment will be settled in debt and equity, consistent with the ratio applied at the time of the purchase.
In connection to this purchase and the agreed mechanism, Inter IKEA Group has the right to transfer back the PR against settlement of the loan and equity contribution.

Price Guarantee Period
Inter IKEA Group has guaranteed its wholesale prices to certain franchisees for the period from 1 September 2017 to 31 August 2018 (the "Price Guarantee Period"). Next to that, Inter IKEA Group will undertake that certain franchisees will be invoiced in a currency of its choice, most often the official currency of the jurisdiction where the franchisee operates.

Purchase commitments
The Group has entered into purchase agreements with external suppliers for a total value of EUR 6.0 billion at 31 August 2017 (2016: EUR 6.9 billion).

IT Services commitments
Certain companies within the Inter IKEA group have entered into a IT Services Agreement. This agreement includes both ‘Agreed Services’, such as maintenance, operations and infrastructure and ‘Consultancy Services”. The commitment for the coming years for the Agreed Services amounts to around EUR 175 million (2016: EUR 236 million).

Distribution Services Commitments
The Group has entered into agreements covering the services for distribution. These agreements has been entered into for a period of 5 years, in which the Group has committed to using these services. The commitment for the coming years for the distribution services amounts to around EUR 5.4 billion (2016: EUR 5.8 billion).

Construction commitments
Commitments for the construction of tangible fixed assets amounted to EUR 29 million at 31 August 2017 (2016: EUR 56 million).

Guarantees
Issued guarantees towards external parties amounted to EUR 92 million at 31 August 2017 (2016: EUR 18 million). These guarantees mainly relate to the Portuguese authorities in case of environmental claims not covered by the insurance company.

Legal proceedings
The Company is from time to time involved in litigations. Management believes that no pending litigation to which the Company is a party will have a material adverse effect on the financial position

or the results from operations.

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 2017 is as follows:

	31/08/17	**31/08/16**
< 1 year	16	9
1-5 years	26	7
> 5 years	47	9
	89	**25**

Lease payments recognised as an expense in 2017 amount to EUR 38 million.

18. REVENUES

All revenue recognised in 2017 relates to revenue goods, franchise fees and other. The breakdown of net turnover by revenue categories is as follows:

	31/08/17	**31/08/16**
Sales of Goods	20,778	1,337
Franchise fees	1,156	725
Other	944	114
	22,878	**2,176**

The geographical distribution of revenue is as follows:

	31/08/17
Netherlands	4%
Europe	64%
Rest of the world	32%
	100%

Comparable 2016 is not shown, since this only related to the Franchise business and is therefore not comparable.

19. OPERATING EXPENSES

Salaries and wages
During the 2017 financial year, the average number of staff employed with the group, converted into full-time equivalents, amounted to 27,267 (2016: 1,197). Of this number, 25,922 people (2016: 129 people) were employed outside the Netherlands. This staffing level can be divided into the following staff categories:

	31/08/17	**31/08/16**
Franchise & Group	1,354	1,197
Industry	18,997	0
Range & Supply	6,916	0
	27,267	**1,197**

Depreciation and amortisation

	31/08/17	31/08/16
Depreciation:		
Land and buildings	42	3
Machines and equipment	101	8
Construction in progress	0	0
Other and idle assets	11	3
	154	**14**
Amortisation:		
Proprietary rights	200	133
Reacquired rights	285	0
Goodwill	189	0
Software in construction	32	0
	706	**133**
Total amortisation and depreciation:	**860**	**147**

Other operating expenses

The main categories within the other operating expenses are rent, maintenance and utilities (EUR 158 million), other staff expenses (EUR 120 million), product development and communication (EUR 101 million), general administrative expenses (EUR 96 million) and product claims (EUR 60 million).

20. FINANCIAL INCOME AND EXPENSE

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

	31/08/17	31/08/16
Interest income	10	1
Results from hedges	279	0
Other financial income	0	14
Total	**289**	**15**
Interest expense	433	225
Other financial expense	-1	12
Total	**432**	**237**

21. INCOME TAXES

The Group has unrecognised tax loss carry forwards available related to losses incurred in several countries for approximating EUR 193 million (2016: EUR 177 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 in order to utilise the tax losses.

The applicable weighted average tax rate is 21.0% (2016: 21.6%), whereby the weighted average has been calculated based on the results before taxes in the various tax jurisdictions. The tax expense recognised in the profit and loss account for 2017 amounts to EUR 241 million, or 21.0% of the result before tax (2016: 21.6%).

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

	31/08/17	31/08/16
Result before tax	289	82
Income tax using the applicable tax rate in the Netherlands		
Tax effect of:		
- Other applicable tax rates abroad	-119	-11
- Non-deductible expenses	63	0
Adjustment for prior periods	8	0
Tax liability	**241**	**71**

In case of an fiscal unity, the companies being part of the fiscal unity are treated for reporting purposes as if they were independently taxable, including accounting fo deferred taxes.

Corporate income tax is actively addressed by international institutions and local governments and the taxation of large multinational companies receives continued media attention. The Company is actively monitoring and addressing these developments and believes that its corporate income tax position is appropriately reflected in the financial statements.

22. TRANSACTIONS WITH RELATED PARTIES

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

Parent company
The company has two loans from its parent company. 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%. Another loan amounting to EUR 3,000 million with an interest rate of 2.5% relates to the acquisition of the range, supply and production activities. Of the outstanding amount, EUR 200 million will be repaid each year in September, the balance due will be paid 31 December 2023.
The Company paid a dividend of EUR 1 billion to the parent company.

Inter Finance SA
The Company has a liability towards Inter Finance SA. This liability consists of a receivable of EUR 800 million and a liability of EUR 2.8 billion.

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 2017, the purchases of goods and services from other Inter IKEA Group companies amounted to EUR 7.7 billion (2016: EUR 45 million), and the sales of goods and services other Inter IKEA Group companies amounted to EUR 7.7 billion (2016: EUR 45 million).

Group companies
Since the company excercises 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 statement.

23. 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.

TEUR	KPMG Accountants NV	Other KPMG Network	Total KPMG
Audit of financial statements	1,296	1,654	2,950
Other audit engagements	0	180	180
Tax-related advisory services	0	1,390	1,390
Other non-audit services	0	505	505
	1,296	**3,729**	**5,025**

The fees mentioned in the table for the audit of the financial statements 2017 relate to the total fees for the audit of the financial statements 2017, irrespective of whether the activities have been performed during the financial year 2017.

24. SUBSEQUENT EVENTS

There are no subsequent events.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Anders Gårlin

Martin van Dam

SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Delft, 5 December 2017

COMPANY BALANCE SHEET

	31/08/17	31/08/16
Fixed assets		
Intangible fixed assets (2)	0	180
Financial fixed assets (3)	7,820	7,899
Total fixed assets	**7,820**	**8,079**
Current assets		
Receivables (4)	127	1
Total current assets	**127**	**1**
TOTAL ASSETS	**7,947**	**8,080**
EQUITY AND LIABILITIES		
Shareholders' equity		
Additional paid in capital	4,764	4,764
Other legal reserves	22	32
Other reserves	-1,504	-796
Result for the year	912	258
Total shareholder's equity (5)	**4,194**	**4,258**
Non-current liabilities (6)	**2,300**	**3,042**
Current liabilities (7)	**1,453**	**780**
TOTAL EQUITY AND LIABILITIES	**7,947**	**8,080**

(See accompanying notes)

COMPANY PROFIT AND LOSS ACCOUNT

	31/08/17	31/08/16
Share in net income from participating interests	1,105	265
Other results, net of income taxes	-193	-7
Net result	**912**	**258**

(See accompanying notes)

NOTES TO COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

Financial instruments

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

Participating interests in group companies

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

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

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

Shareholders' equity

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

Share of result of participating interests

The share in the result of participating interests concerns the Company's share in the results of the participating interests, determined on the basis of the accounting principles of the Group.

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
All companies within a fiscal unit are treated as independent taxable entities for reporting purposes.

2. INTANGIBLE FIXED ASSETS

The movement in Intangible Fixed Assets is as follows:

	Goodwill	**Total**
Balance as at 1 September 2016:		
Purchase price	180	180
Carrying amount	**180**	**180**
Changes in carrying amount:		
Other	6	6
Amortisation	-186	-186
Balance	**0**	**0**
Balance as at 31 August 2017:		
Purchase price	186	186
Accumulated amortization and impairment	-186	-186
Carrying amount closing	**0**	**0**

3. FINANCIAL FIXED ASSETS

The movement in Financial Fixed Assets is as follows:

	Investm. In part. Interests	**Total**
Balance as at 1 September 2016	7,899	7,899
Share in result of participating interests	1,105	1,105
Dividends received	-1,177	-1,177
Other	-7	-7
Net book value	**7,820**	**7,820**

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 Development Holding B.V. and Inter IKEA Development 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

	31/08/17	31/08/16
Income tax receivable	2	0
Receivable on participating interests	125	1
Total	**127**	**1**

5. SHAREHOLDERS' EQUITY

	Add. paid-in capital	Legal reserves	Transl. reserves	Retained earnings	Result of the year	Total
Balance as at 1 September 2016	4,764	27	5	-796	258	4,258
Changes in financial year 2017:						
Appropriation of result	0	0	0	258	-258	0
Net income	0	0	0	0	912	912
Dividend paid	0	0	0	-1,000	0	-1,000
Change in unrealised result derivatives	0	0	0	65	0	65
Remeasurement IAS19	0	0	0	-2	0	-2
Exchange rate differences	0	0	-10	0	0	-10
Other	0	0	0	-29	0	-29
Balance as at 31 August 2017	**4,764**	**27**	**-5**	**-1,504**	**912**	**4,194**

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".

Additional paid in capital

The Additional paid in capital mainly relates to acquisition of the Proprietary Rights, which has been partially financed by an Share Premium of EUR 3,600 million, and the additional paid in capital relating to acquisition of range, supply and production activities.

Translation reserve

The foreign currency translation legal reserve of EUR -5 million relates to investments in participating interests in various countries.

Retained earnings

The result after tax for 2017 is included in the item Result for the year within equity.

Proposal for profit appropriation

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2017 net income: an amount of EUR 500 million to be paid out as dividend and the remaining amount of EUR 412 million to be added to the other reserves. The net income for 2017 is included under unappropriated profit in shareholders' equity.

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 2017 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 share holder loan related to the acquisition of the range, supply and production activities. The interest percentage on the loan is 2.5%. Of the original amount of EUR 3 billion, EUR 500 million has been repaid in 2017. Of the outstanding amount of EUR 2.5 billion, EUR 200 million will be repaid each year in September, the balance due will be repaid 31 December 2023.

7. CURRENT LIABILITIES

	31/08/17	**31/08/16**
Current portion of long term debt	850	71
Payable related parties	501	382
Other liabilities	102	327
Total	**1,453**	**780**

Current portion of long term debt relates to loans with Inter IKEA Systems B.V. (EUR 500 million, interest rate: 0.2%), IKEA of Sweden AB (EUR 150 million, interest rate: 0.0%) and the shareholder loan (EUR 200 million, interest rate 2.5%).
Payable related parties relates to regular cashpool borrowing.

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 Services B.V., Inter IKEA Developments Holding B.V., Inter IKEA Development B.V., Inter IKEA Assets B.V., IKEA Industry Holding B.V., IKEA Industry Subholding I B.V. and IKEA Industry Subholding II B.V. Each of the companies recognises the portion of corporate income tax that the relevant company would owe as an independent tax payer, taking into account the tax facilities applicable to the company.

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 3.9 million (2016: EUR 2.4 million) for managing directors and

former managing directors, and EUR 0.4 million (2016: EUR 0.1 million) for supervisory directors and former supervisory directors.

MANAGEMENT BOARD

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Mathias Kamprad

Birger Lund

Delft, 5 December 2017

OTHER INFORMATION

The Company has 125 non-voting shares. These shares do not entitle the holder to voting rights in the General Meeting, but only entitle the holder to a share in the distributable profits and reserves.
Moreover, the company has 1 ordinary share that does not give right to a share in the distributable profits and reserves. However, these shares do entitle the holder to voting rights in the General Meeting.

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 net proft is added to the Dividend Reserves A and the remainder is added to dividend reserve B. No proposal for dividend distribution has been included in these Financial Statements.

INDEPENDENT AUDITOR'S REPORT

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

Report on the accompanying financial statements

Our opinion

We have audited the financial statements for the year ended on 31 August 2017 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 2017 and of its result for the year ended on 31 August 2017 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 2017;

2 the consolidated and company profit and loss account for the year ended on 31 August 2017;

3 the consolidated statement of comprehensive income as at 31 August 2017;

4 the consolidated cash flow statement for the year ended on 31 August 2017; 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 '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 that 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; and
- 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 frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

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

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

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than

for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represents 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 or operations. 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 the Supervisory Board 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.

Rotterdam, 5 December 2017

KPMG Accountants N.V.

F.J. van het Kaar RA