

SKOGSTA
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€39⁹⁵

* Dutch price (actual price may vary per country)

Inter IKEA Holding B.V. Annual Report FY16

Inter IKEA Holding B.V.



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REPORT FROM THE MANAGEMENT BOARD

(in millions of EUR, unless otherwise indicated)

The Management Board of Inter IKEA Holding B.V. hereby presents its financial statements for the 8-month period ending 31 August 2016 (FY16).

General

Around the globe, a large number of franchisees operate under the IKEA trademarks. 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.

The overall purpose of Inter IKEA Group is to secure continuous improvement, development, expansion and a long life of the IKEA Concept. The IKEA Concept is the core asset of Inter IKEA Group and its franchising operation. The three main components of the IKEA Concept are: the IKEA product range; efficient systems, methods and proven solutions for marketing and selling the range; and the IKEA symbols, of which the most important are the IKEA trademarks. All IKEA franchisees are independent and unrelated to the Inter IKEA Group.

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.

The Group judged that the rapidly changing retail environment and historical growth of IKEA called for simplifying and improving the IKEA franchise system, creating better conditions for increased customer focus and future expansion.

Therefore, the Group took the initiative to start a dialogue with INGKA Holding B.V. with the goal of insourcing some key assignments that had been outsourced to subsidiaries of INGKA Holding B.V. (the parent company of the INGKA group of companies). These assignments originated from a time when the IKEA business was much smaller and the retail environment very different.

This initiative has resulted in the Company acquiring the range, supply and production activities. The transaction was completed at 31 August 2016.

As a result of the transaction, the Group is now 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. This means Range & Supply works with the IKEA value chain end to end, from supplier to customer. 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 wood 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.

Corporate governance

The governance structure of the Group was formed with two main considerations in mind: to secure the growth and development opportunities of the IKEA Brand and the IKEA Concept, and guarantee the Group's independence and ability to maintain a long-term perspective.

Governance of the Group is organised through the three core businesses: Franchise, Range & Supply and Industry, with governance and related control, risk management structures and compliance tailored to their specific business characteristics.

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 published by the Company. Up to and including the financial year 2015, the financial results of the Company were included in the financial statements of its parent company and no separate filing of financial statements of the Company was required.

During 2016, the Company changed the end of its financial year from 31 December to 31 August to align with the IKEA business cycle. These Financial Statements therefore cover the 8-month period from 1 January 2016 to 31 August 2016 (referred to as FY16). The Income Statement includes only 8 months, whereas comparative figures cover a period of 12 months.

The inclusion of the range, supply and production activities has no effect on the Income Statement in 2016 since the transaction related to these activities was completed at year-end.

The overall movement in the liquidity of the Company was limited. The cash generated by operating activities after interest and financial charges was mainly used to pay a dividend to the non-controlling shareholder, Interogo Holding AG. The acquisition of the range, supply and production activities from INGKA Holding B.V. was financed with loans and a capital contribution.

After the transaction, the balance sheet positions as of 31 August 2016 have changed considerably when compared to 31 December 2015. The fair value of the net assets acquired amounted to approximately EUR 5,160 million, while the consideration amounts to EUR 5,288 million. A total of EUR 128 million has been accounted for as goodwill. The balance sheet shows a solvency ratio of around 23%.

Risk management and financial instruments

Approach to risk management

A structured and consistent approach to managing risks is key to achieving our objectives. The goal of risk management within the Group is to continuously protect our brand, people and assets.

The risks from the different core businesses are periodically reviewed and consolidated into a Group risk register. The risks are presented and discussed with the Audit Committee of the Supervisory Board.

In the Code of Conduct, the Group has summarised its values and culture. Shared values and culture also mitigates risks, reduce their likelihood and their potential impact. Furthermore, the Group has several insurance programmes aiming to transfer the risk and by that reduce the financial impact of claims, damages or third-party compensation. In light of the acquired business, the insurance coverages have been reviewed and adjusted accordingly.

Selected risks potentially impacting the Group

The basic principle behind the Group's risk management process, is accepting risks which, on occurrence, would have a low impact and avoiding or mitigating risks of which occurrence would have a high impact (either in financial or non-financial terms). During the year, there has not been any occurrence of risks or uncertainties, which have had a significant financial impact.

A number of risks may, on occurrence, have a significant negative impact on the achievement of the goals and objectives of the Group. Certain of these risks are new to the Group or enhanced, since they are associated with the range, supply and production activities. The main risks that we face are described below, including the measures to reduce their likelihood and potential impact.

The integration of the range, supply and production activities in itself, constitutes a short term risk of disruptions. These risks were and will be addressed through increased management oversight, adjusted governance structure, specific integration projects and additional internal and external reviews. In addition, external expertise has been engaged to address competence and resource needs.

Brand reputation

As the owner of the IKEA Brand we have high ambitions to protect it across the entire IKEA value chain, which includes many business partners. Therefore, we take all the necessary steps to be positively perceived and positioned in the hearts and minds of our customers and key stakeholders through a proactive public relations policy and strive for full compliance with laws and regulations. We also actively review the operations of our franchisees against the requirements of the IKEA Concept.

Legal and regulatory environment

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 continuously strives for full compliance to applicable laws and regulations.

Supply chain volatility

Disruption in the supply chain due to geopolitical events, terrorist acts or natural catastrophes could harm product availability for our IKEA franchisees. Supply routines deal with safety stocks, back-up suppliers and other ways to mitigate the issues caused by supply chain volatility. We also work closely together with our franchisees to manage this risk, so that supply and demand are kept aligned.

Product and food safety

All our products should always be safe to prevent any injury or illness to the end-users of our products. The companies now included in the Group have had for a long time clear processes and procedures in place to guarantee product quality and compliance with product requirements in all our markets. We permanently strive for compliance with international and local laws and regulations applicable to the products in our range.

Geopolitical risks

The Group now faces a higher risk of unexpected geopolitical events, uncertainty around ability to do business in some countries or faces significant changes in the economic outlook of certain countries. We aim to anticipate all such changes to mitigate those risks and keep their impact to a minimum.

Information security

The Group continuously invests in implementing relevant industry standards with regard to information security and to comply with regulations and legislations. We support Information Management and Information Security initiatives, including data privacy, aimed at implementing an updated governance and securing sensitive information. It covers the aspects of confidentiality, integrity, and availability, as well as relevance of information.

Financial risks

As of 1 September 2016, the Group supplies IKEA products to the IKEA franchisees. The Group has guaranteed local currency wholesale prices to certain franchisees on a large part of the product range for the period as of 1 September 2016 up to and including 31 August 2017. The resulting foreign currency exchange rate risks are actively managed by using derivative contracts.

The currency risks the Company runs on foreign currency positions is limited, considering the amounts involved and regular settlements.

The interest paid on loans is almost fully based on fixed interest rates.

Frequent invoicing and the option of suspending sales combined, minimises the credit risk run by the Group on outstanding goods- and franchise-fee receivables.

The Group manages its liquidity and cash flow risk by liquidity planning.

Financial and non-financial performance indicators

The development of franchise fees is directly linked to the sales of all IKEA franchisees worldwide. The franchise fee on IKEA sales forms the base for the franchise revenues. Worldwide IKEA sales increased by 7.6% over the first 8 months of 2016 compared to the same period in the previous year. Franchising operating profit decreased slightly on a comparable basis.

On a comparable basis, sales of our store in Delft grew by around 8%. The gross margin is slightly higher compared to the previous year. Combined with a decrease in operating expenses, operating profit has increased on a comparable basis.

It should be noted that due to the inclusion of the range, supply and production activities, the Income Statement will change significantly in both absolute numbers and in ratios in the new financial year. As part of the post-acquisition integration project, specific financial and non-financial performance indicators will be established or existing ones adjusted.

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. The *Inter IKEA Group code of conduct* applies to all co-workers within the Group and can be found on our website.

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.

A key element in the Group's HR policy is the training of our co-workers. Learning and know-how have been key franchise 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 now introducing new training solutions with the objective to meet current and future expectations of our co-workers and customers.

In FY16, the Group has donated an amount of EUR 29 million to the Kamprad Foundation. The Kamprad Foundation is aimed at supporting, stimulating and rewarding education and scientific research to promote entrepreneurship, the environment, competence, health and social improvement.

Sustainability

The Group has a sustainability direction, applicable for all IKEA trademark users. 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 trademark users now are able to categorise their sustainability work into the three same change drivers: more sustainable life at home, resource and energy independence, and a better life for people and communities.

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.

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.

The Company expects to continue its research and development activities, including for the businesses it acquired during 2016, 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 focal point. Pick-up and order points have been developed to improve the customer experience, meet expectations and generate a wider customer base.

Outlook for financial year FY17

We expect retail sales growth by our franchisees in 2017, building on the positive development of financial year 2016. The expected growth directly contributes to our franchise fee and wholesale revenue for 2017.

The Company expects to finance its investments primarily from its own funds and not enter into additional external funding.

In FY17, the newly acquired range, supply and production activities will fully contribute to the results of the Company. This will have a substantial impact on revenue, gross profit, operating expenses and net profit, all of which will increase considerably.

At the time of the acquisition, the balance sheets of the acquired entities were accounted for at fair value. This has resulted in an increase in value, mainly on inventory and re-acquired rights, which for a large part will be amortised in financial year 2017. This will have a relative downward effect on net profit.

During FY17 we will continue to invest in research and the development of our core businesses Franchise, Range & Supply and Industry. Most importantly, we will also continue to invest in our co-workers who contribute every day to realising the goals of the Company.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Anders Gärln

Martin van Dam

Delft, 1 December 2016

CONSOLIDATED BALANCE SHEET before profit appropriation*(in millions of EUR)***ASSETS**

	31/8/16	31/12/15
Fixed assets		
Intangible fixed assets (4)	8,880	8,281
Tangible fixed assets (5)	1,346	76
Financial fixed assets (6)	364	73
Total fixed assets	10,590	8,430
Current assets		
Inventories (7)	4,284	15
Receivables (8)	3,634	648
Cash and cash equivalents (9)	302	27
Total current assets	8,220	690
TOTAL ASSETS	18,810	9,120

EQUITY AND LIABILITIES

Group equity	4,258	3,247
Provisions (11)	530	4
Non-current liabilities (13)	8,601	5,405
Current liabilities (14)	5,421	464
TOTAL EQUITY AND LIABILITIES	18,810	9,120

(See accompanying notes)

CONSOLIDATED INCOME STATEMENT*(in millions of EUR)*

	31/8/16	31/12/15
Income	2,174	3,271
Other income	2	1
Total revenue (15)	2,176	3,272
Cost of goods sold	1,292	1,955
Bought services	33	27
Salaries and wages	54	71
Social charges	9	22
Pension expenses	7	20
Depreciation and amortization	147	207
Other operating expenses	83	108
Total operating expenses (16)	1,625	2,410
Operating income	551	862
Financial Income	15	20
Financial Expense	237	345
Financial income and expense (17)	-222	-325
Income before taxes	329	537
Income taxes (18)	-71	-103
Net income	258	434

*(See accompanying notes)***CONSOLIDATED STATEMENT OF RECOGNISED INCOME***(in millions of EUR)*

	31/8/16	31/12/15
Net income	258	434
Translation differences foreign	-1	4
Remeasurement Pension Provisions	-4	4
Total recognised income	253	442

CONSOLIDATED CASH FLOW STATEMENT*(in millions of EUR)*

	31/8/16	31/12/15
Cash flow from operating activities		
Operating income	551	862
Adjustments for:		
Depreciation and amortization	147	207
Movements in provisions	3	1
Remeasurements defined benefit plans	-4	0
Decrease/(Increase) in working capital	-29	-71
<i>Net cash provided by operations</i>	<i>668</i>	<i>999</i>
Interest received	16	20
Interest paid	-254	-342
Taxation paid	-116	-97
Net cash from operating activities	314	580
Cash flow from investing activities		
Additions tangible fixed assets	-19	-93
Additions intangible fixed assets	-13	0
Additions financial fixed assets	0	-1
Repayment of loans receivable	8	0
Acquisition of subsidiary	267	0
Net cash used in investing activities	243	-94
Cash flow from financing activities		
Repayment of short and long term loans	-40	46
Dividends paid	-242	-522
Net cash from financing activities	-282	-476
Increase/(decrease) cash	275	10
Cash and cash equivalents at beginning	27	17
Cash and cash equivalents at end	302	27
Net movement in cash	275	10

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Inter IKEA Holding B.V. ('the Company'), was incorporated on 30 September 1992, is registered in Amsterdam (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 the Inter IKEA Group is organised in three core businesses: Franchise, Range & Supply and Industry. The Inter IKEA Group includes Inter IKEA Systems B.V., the worldwide IKEA franchisor and owner of the IKEA Concept and the IKEA trademarks. Inter IKEA Systems B.V. franchises systems, methods and proven solutions to franchisees worldwide for sale of IKEA home furnishing products under the IKEA trademarks.

These financial statements cover the financial reporting period for the financial year 2016. 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 and the financial year of the companies acquired from Ingka Holding B.V. The Financial Statements 2016 cover the 8 months period from 1 January 2016 to 31 August 2016 and therefore the Income Statement is non-comparable to the previous period. In case of the Income statement, related information "2016" means 1 January 2016 up to and including 31 August 2016 and "2015" means 1 January 2015 up to and including 31 December 2015.

2. BASIS OF PREPARATION

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 Income Statement exclusively states the share of the result of participating interests after tax and the general result after tax.

Both the company financial statements and the consolidated financial statements have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. The financial statements are drawn up and signed by the Management Board on 1 December 2016.

The Company's consolidated financial statements are prepared on a historical cost basis, except for the valuation of certain financial instruments that, subsequent to initial recognition at fair value (which is equal to cost), are re-measured to fair value, in accordance with Dutch generally accepted accounting principles (Dutch GAAP).

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

All amounts are in millions of EUR, unless otherwise stated.

For 2015, a 403-statement was issued for the Company by Interogo Holding AG (formerly Inter IKEA Holding SA). The figures of Inter IKEA Holding BV, based on Luxembourg accounting principles, were consolidated into the financial statements of Inter IKEA Holding SA over 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

General

Assets and liabilities are measured at nominal value, unless otherwise stated.

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 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. Further, assets are no longer recognised in the balance sheet if economic benefits are no longer probable and/or cannot be measured reliably anymore.

Income is recognised in the Income Statement 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.

Income and expenses are allocated to the period to which they relate. The financial statements are presented in euros, the Company's functional currency. All financial information in euros has been rounded to the nearest million.

Assumptions and estimates

The Group makes various judgments and estimates, when applying the accounting policies and rules for preparing the financial statements. The principal judgments and estimates, including underlying assumptions relate to provisions, impairments, recoverability of deferred tax assets and the useful life of fixed assets. Actual results may differ from these estimates. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

In the notes included in these financial statements, the most critical assumptions and estimates required, are stated.

Basis of consolidation

The consolidated financial statements include the Company's financial data, its group companies and other companies over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Group companies are commonly participating interests in which the Company has a direct or indirect controlling interest.

Group companies are consolidated in full as from the date on which control is obtained and until the date that control no longer exists, whereby a minority interest is presented separately within equity.

In the consolidated financial statements, intragroup 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 and no impairment loss is applicable.

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.

Acquisitions

Acquisitions are accounted for using the purchase method. This means that all identifiable assets and liabilities acquired are recognised at fair value as at the acquisition date. The difference between consideration transferred (which includes the transaction cost) and the Company's share of the fair value of the identifiable assets and liabilities acquired at the time of the transaction of a participating interest is recognised as goodwill.

Translation of foreign currencies

Each entity in the Group determines its own functional currency and 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 Income Statement 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 balance sheet items that are measured at historical cost in a foreign currency are translated at the functional exchange rates applying on the date of transaction.

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 exchange rate on the transaction date. Currency translation differences are recognised in the translation reserve within equity. Goodwill resulting from the acquisition of a foreign operation and fair value adjustments made at the acquisition date are translated into euros at the exchange rate applying on the balance date.

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.

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 reliably measured.

Costs relating to intangible fixed assets not meeting the criteria for capitalisation are immediately recognized in the income statement.

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. Determining an expected life of the Proprietary Rights requires management judgement 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 an impairment test is performed.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the company's interest in the net realisable value of the assets acquired and the liabilities assumed at the transfer date, less cumulative amortisation and impairment losses. Goodwill is capitalised and amortised over its expected useful life, determined at 5 years.

Development costs

Externally developed software is capitalized on the balance sheet and depreciated over a term of 3 years.

Prepayments

Prepayments on intangible fixed assets are valued at cost. Prepayments on intangible fixed assets are not amortised.

Tangible fixed assets

Land and buildings, machinery and equipment, construction in progress and other assets are carried at the lower of cost (of acquisition or production, net of accumulated amortisation and accumulated impairment losses) or recoverable amount (being the higher of value in use and fair value less costs to sell). Costs of major maintenance are recognised as part of the cost when incurred and if the recognition criteria are met. All other repair and maintenance costs are charged directly to the income statement.

Depreciation is calculated on a straight-line basis over their expected useful economic lives, taking into account their residual value. Changes in the expected depreciation method, useful life and/or residual value over time are treated as changes in accounting estimates. Land is not being depreciated.

A tangible fixed asset is derecognised upon sale or when no further economic benefits are expected from its continued use.

Financial fixed assets

Long-term loans receivable

Loans granted and other receivables are financial fixed 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.

Deferred tax assets

If the carrying values of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. For deductible temporary differences, unused loss carry forwards and unused tax credits, a deferred tax asset is recognised, but only in so far as it is probable that taxable profits will be available in the future for offset 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. Deferred tax assets are stated at nominal value.

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.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable value of an individual asset, then the recoverable value of the cash flow generating unit to which the asset belongs is estimated.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is impaired and is written down to its recoverable amount. The impairment loss is recognised in the income statement under other expenses.

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 income statement.

An impairment loss for goodwill is not reversed in a subsequent period, unless the previous impairment loss was caused by an extraordinary specific external event that is not expected to recur and if there are successive external events that undo the effect of the earlier event.

As a departure from the above, on each balance sheet date the recoverable value is determined for the following assets, regardless of whether there are indications of impairment:

- intangible fixed assets that have not yet been taken into use;
- intangible fixed assets that are amortised over a useful life of more than 20 years (starting from the time when they are taken into use).

Inventories

Inventories mainly comprise finished products and are carried at the lower of cost (first-in, first-out basis) or net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred for completion and disposal.

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.

Financial Instruments

Financial instruments include long-term loans receivable, investments in equity instruments, receivables, securities, cash and cash equivalents, financial liabilities, derivative financial instruments and other amounts payable.

Financial instruments also include derivative financial instruments embedded in contracts. Derivatives embedded in contracts are separated from the host contract and accounted for as a separate financial instrument if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- 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 through profit and loss.

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, specifically, the fair value of:

- listed financial instruments is determined on the basis of the exit price.
- 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.
- derivatives involving the exchange of collateral is determined by discounting the cash flows to present value, applying the (Eonia) swap curve. This is used because the credit and liquidity risk is mitigated by the collateral exchange.
- derivatives that do not involve exchange of collateral is determined by discounting the cash flows to present value, applying the relevant swap curve plus credit and liquidity surcharges.

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.

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 carried at their nominal value.

Provisions

A provision is recognized 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 reliably estimated. The amount of the provision is determined based on a best estimate of the amounts required to settle the liabilities and losses concerned at the 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.

If expenses required to settle a provision are probable to be reimbursed by a third party, the reimbursement is recognised as a separate asset.

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 income statement in the period to which these contributions relate.

Defined benefit plans

The net obligations in respect of defined benefit plans is 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.

Jubilee provision

The jubilee provision is the provision for future long-service awards. The provision is recognised for the estimated amount of future long-service awards, which is calculated on the basis of the commitments made, the likelihood of the staff concerned remaining with the Company, and their age.

Provision for claims, disputes and lawsuits

A provision for claims, disputes and lawsuits is established when it is expected that the Company will be sentenced in legal proceedings. 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

If the carrying values of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. A provision for deferred tax liabilities is recognised for taxable temporary differences. Deferred tax liabilities are stated at nominal value.

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 Income Statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Leasing

Assessing whether an agreement contains a lease is based on the substance at the inception date of the agreement. The agreement is regarded as a lease if the fulfilment of the agreement 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.

Under operating leases, the lease income is charged to the income statement on a straight-line basis over the term of the lease.

Under finance leases, at the inception of the lease, the lease property and related liability are carried at the lower of the fair value of the lease property at the inception of the lease and the present value of the minimum lease payments. The interest rate applied for the calculation of present value is the implicit interest rate. The lease is initially recognised including the initial direct costs incurred by the lessee.

The minimum lease payments are split into interest expense and redemption of the lease liability. The interest charges are allocated during the lease term to each period in such a way that this results in a constant periodic interest rate over the remaining net liability with regard to the financial lease.

The capitalised lease property is accounted for in accordance with the accounting principles described under tangible fixed assets. The property is depreciated over the shorter of the term of the lease and the useful economic life of the property, if there is no reasonable certainty as to whether ownership of the property is transferred to the lessee at the end of the term of the lease.

Income

Income mainly represents the income from retail sales in the store, franchise fees, media income and distribution income. Income from retail sales in the store are recognised when risks and rewards of ownership of the goods have been transferred to the customer. This coincides with the payment at the cash register. Income from franchise fees is based upon the franchise fee percentage over the actual sales income of the franchisees over the reporting period. Income from media sales is based upon full completion and delivery of the catalogue. Distribution income is recognised when risks and rewards of ownership of the goods have been transferred to the customer.

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.

Cash flow statement

The Statement of Cash Flows has been prepared using the indirect method. Cash flows in foreign currencies 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.

4. INTANGIBLE FIXED ASSETS

	Proprietary Rights	Goodwill	Software in constr.	Other	Total
Purchase Price	9,000	0	81	0	9,081
Accumulated amortization	-800	0	0	0	-800
Carrying amount opening	8,200	0	81	0	8,281
Investments	0	0	13	0	13
Acquisitions	0	131	0	588	719
Amortization	-133	0	-0	0	-133
Closing balance	8,067	131	94	588	8,880
Purchase Price	9,000	131	94	588	9,813
Accumulated amortization	-933	0	-0	0	-933
Carrying amount closing	8,067	131	94	588	8,880
Estimated useful life (years)	45	5	3	1-50	

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 2016, there was no need for an impairment.

Goodwill

On 31 August 2016, Inter IKEA Holding B.V. and Ingka Holding B.V. closed a transaction in which the entities performing the range, supply and production activities were acquired by Inter IKEA Holding B.V. We refer to note 22 for more details regarding this acquisition. This transaction generated a goodwill of EUR 128 million. Next to the goodwill originating from this acquisition, goodwill holds the related acquisition costs and goodwill from a small acquisition.

Goodwill is depreciated over a period of 5 years in accordance with the timeline of anticipated future economic benefits arising from the investment.

Other intangibles

Other intangible fixed assets mainly consist of re-acquired rights (identified and valued in applying acquisition accounting for an amount of EUR 547 million) and land lease rights in China (EUR 35 million). The re-acquired rights have a depreciation term between 1 and 5 years. The landlease rights are being depreciated over a 48 year term.

5. TANGIBLE FIXED ASSETS

	Land and buildings	Mach. and equip.	Constr. in progress	Other and idle assets	Total
Purchase Price	115	3	9	20	147
Accumulated depreciation	-52	-3	0	-13	-68
Accumulated impairment	-3	-0	0	0	-3
Carrying amount opening	60	0	9	7	76
Investments	0	0	15	4	19
Acquisitions	521	568	176	0	1,265
Impairment	0	-8	0	0	-8
Depreciation	-3	-0	0	-3	-6
Transfers	4	1	-9	4	0
Closing balance	582	561	191	12	1,346
Purchase Price	641	572	191	28	1,432
Accumulated depreciation	-55	-3	0	-16	-74
Accumulated impairment	-4	-8	0	0	-12
Carrying amount closing	582	561	191	12	1,346
Estimated useful life (years)	25	3-15			

Tangible fixed assets carried at cost do not include capitalised interest charges. Pledged assets amount to EUR 28 million (2015: EUR 0 million) and mainly consist of property pledged as collateral for external liabilities.

6. FINANCIAL FIXED ASSETS

	LT loans receivable	Deferred tax asset	Total
Opening balance	1	72	73
Additions	0	15	15
Acquisitions	149	125	274
Other	0	2	2
Net book value	150	214	364

The long term loans receivable mainly encompass supplier financing. The current part of the long term loans receivable has been accounted for under Receivables.

The deferred tax asset at 31 August of EUR 214 million includes an amount of EUR 75 million following the consolidation of the acquired range, supply and production activities, while an amount of EUR 49 million results directly from accounting for the acquisition. Finally, around EUR 83 million originates from deferred tax asset of EUR 233 million on depreciation of the Proprietary Rights, netted with a deferred tax liability of EUR 150 million on provisions. The largest part of the Deferred Tax Assets will be utilized after one year.

7. INVENTORIES

	31/8/16	31/12/15
Raw materials	143	2
Work in progress	53	7
Finished goods	4,088	6
Total	4,284	15

Due to fair value accounting for inventory at inclusion of supply and manufacturing activities, the allowance for obsolescence amounts to nil million at 31 August 2016 (2015: EUR 0 million). The realizable value of stock is equal or above book value of stock.

8. RECEIVABLES

	31/8/16	31/12/15
Trade debtors, less allowance	2,774	558
Current portion of long-term loans receivable	451	74
Income tax receivable	17	1
Indirect tax receivable	167	2
Receivable on staff	2	0
Other receivables	57	7
Prepaid expenses and accrued income	166	6
Total	3,634	648

The Prepaid expenses and accrued income balance and the Accrued liabilities and deferred income balance at 31 August 2016 include a net amount receivable related to the fair value of derivatives. 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.

9. CASH AND CASH EQUIVALENTS

The total balance is available without restrictions to the Company except for EUR 5.5 million (2015: EUR 5.5 million) of VAT deposits that have a set maturity date of less than one year.

10. SHAREHOLDER'S EQUITY

For details on shareholder's equity, refer to note 6 in the Company financial statements.

11. PROVISIONS

	31/8/16	31/12/15
Provision for deferred taxation	162	0
Provision for pension commitments	305	4
Other	63	0
Total	530	4

The main components within the provision for deferred taxation are an amount of around EUR 23 million resulting from the consolidation of the range, supply and production activities and an amount of EUR 140 million originating from acquisition accounting on this transaction. The largest part of the Deferred Tax Liability will mature after one year. The part of the deferred tax liabilities that will be utilized within one year, amounts to around EUR 6 million.

For details on the provision for pensions commitments refer to note 12.

Other provisions includes claims and other provisions, arisen due to the acquisition of range, supply and manufacturing activities. An amount of EUR 6 million (2015: EUR 0 million) is due within one year.

12. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

	31/8/16	31/12/15
Defined benefit obligation – funded plans	140	64
Defined benefit obligation – unfunded plans	286	0
Less: Fair value of plan assets	-121	-60
Net Defined Benefit Liability	305	4

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

The nature of the benefits provided by the Company are based on salary pension plans (88%) and contribution based plans with guarantee (12%) per 31 August 2016.

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 income statement.

	31/8/16	31/12/15
Company service cost	3	5
Total expense	3	5

Liability for defined benefit obligations

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

	31/8/16
Opening balance	4
Net expense for the year	3
Remeasurement (gain)/loss	5
Employer contributions	-6
Acquisition	299
Closing balance	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	64	60
Company service cost	3	0
Net interest	1	1
Plan participant contributions	2	2
Employer contributions	0	6
Return on plan assets	0	9
Changes in financial assumptions	14	0
Acquisition	335	36
Currency translation	7	7
Closing balance	426	121

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

	31/8/16	31/12/15
Salary based pension plans	375	64
Contribution based plans with a guarantee	50	0
Other	1	0
Closing balance	426	64

Allocation of plan assets

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

	31/8/16	31/12/15
	Quoted	Quoted
Cash and cash equivalents	2	-0
Equity instruments	42	22
Debt	69	38
Real estate	7	0
Insurance contracts	1	0
Total	121	60

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

Assumptions

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

	31/8/16	31/12/15
Discount rate	2.2%	2.9%
Future salary increases	3.0%	2.3%

The average duration of the defined benefit plan obligation at 31 August 2016 is 26 years (2015: 30 years).

The Company expects to contribute EUR 46 million to its defined benefit pension plans in FY17.

Sensitivity analysis

Sensitivity analyses (in- and decrease by 50bp) has been done on both the discount rate and the salary increase rate, calculating the defined benefit obligation as at 31 August 2016.

	Discount rate		Salary increases	
	+50bp	-50bp	+50bp	-50bp
Defined benefit obligation	373	485	454	402

13. NON-CURRENT LIABILITIES

	Share- holder	Credit institut.	Total
Opening balance	5,400	5	5,405
Additions	3,000	0	3,000
Acquisitions	0	196	196
Closing balance	8,400	201	8,601

Annual maturities of long-term debt scheduled for repayment during the next years are as follows:

Financial Year	Amount
Between 1 and 5 years	1,000
After 5 years	7,601
Total	8,601

The liabilities to credit institutions for the main part fall due within 1 year. The interest rates on these liabilities range between 0.5% and 13.4% with a weighted average of 3.2% in 2016. Virtually all loans have fixed interest rates.

The share-holder loans consist of long-term debt. The Company is financed, amongst others, by two 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. Another loan amounting to EUR 3,000 million relates to the acquisition of the range, supply and production activities. Next to these loans, granted by the non-controlling shareholder Interogo Holding AG, there are some local currency facilities.

The interest rates on the non-current liabilities falling due after one year range between 2.5% and 6% (2015: 6%) with a weighted average of 4,8% (2015: 6%) in 2016. These loans have fixed interest rates.

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

Pledged assets amount to EUR 28 million (2015: EUR 0 million) and mainly consist of property pledged as collateral for external liabilities.

14. CURRENT LIABILITIES

	31/8/16	31/12/15
Current portion of long-term debt	1,317	62
Short-term borrowings	626	0
Accounts payable	1,593	215
Income taxes payable	95	53
Indirect tax payable	130	9
Wage tax payable	33	12
Pension premiums	1	1
Payable staff	142	7
Other liabilities	1,358	20
Accrued liabilities and deferred income	126	85
Total	5,421	464

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

15. INCOME

All income recognized in 2016 relates to retail sales in the store, franchise fees, media income and distribution income.

The geographical distribution of revenue is as follows:

	31/8/16
Europe	45%
Asia Pacific	22%
Middle East and Northern Africa	25%
Rest of the world	8%
	100%

16. OPERATING EXPENSES*Wages*

The geographical split of employees (average headcount), the cost of which are included in operating expenses, is as follows:

	31/8/16	31/12/15
The Netherlands	1,049	981
Rest of the World	441	388
	1,490	1,369

As a result of the acquisition of the range, supply and production activities, around 27,000 employees joined the Group as per 31 August 2016.

17. FINANCIAL INCOME AND EXPENSE

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

	31/8/16	31/12/15
Interest Income	1	1
Other financial income	14	19
Total	15	20
Interest Expense	225	325
Other financial expense	12	20
Total	237	345

18. INCOME TAXES

Deferred income tax assets are accounted for when relating to temporal valuation differences between accounting valuation and fiscal valuation and for tax losses carry forwards. Deferred tax assets are only recognised if recovery is probable.

The Group has unrecognised tax loss carry forwards available related to losses incurred in several countries approximating EUR 177 million (2015: EUR 0 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 major components of current income tax expense are as follows:

	31/8/16	31/12/15
<i>Current income tax:</i>		
Current income tax charge	85	122
<i>Deferred tax:</i>		
Origination and change in temporary differences	-14	-19
Total tax expense	71	103

The reconciliation between the effective tax rate and the tax rate applicable to the consolidated financial statements is as follows (in %):

	31/8/16	31/12/15
Applicable tax rate	25.0%	25.0%
Different tax rates outside The Netherlands	-3.4%	-5.8%
Effective tax rate	21.6%	19.2%

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 for deferred taxes.

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

19. 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 2016 to 31 August 2017 (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.

Commitments

Purchase commitments

The Group has entered into purchase agreements with external suppliers for a total value of EUR 6.9 billion at 31 August 2016 (2015: EUR 0 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 236 million (2015: EUR 0 billion).

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 5.8 billion (2015: EUR 0 billion).

Construction commitments

Commitments for the construction of tangible fixed assets amounted to EUR 56 million at 31 August 2016 (2015: EUR 0 million).

Around 26% of the total of the commitments stated above, will fall due within 1 year, 67% will fall due within 2 to 5 years and 7% will fall due after 5 years.

Guarantees

Issued guarantees towards external parties amounted to EUR 18 million at 31 August 2016 (2015: EUR 0 million). These commitments fall due within 1 year.

Legal proceedings

The Company is from time to time involved in legal proceedings in the ordinary course of business. 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 is as follows:

	31/8/16	31/12/15
Within one year	9	0
After one year but no more than five years	7	14
More than five years	9	0
Total	25	14

403-statement

Guarantees have been issued for Inter IKEA Systems B.V., Inter IKEA Assets B.V., Inter IKEA Developments Holding B.V. and Inter IKEA Development B.V.

20. FINANCIAL RISK MANAGEMENT**Interest rate risk**

We refer to Note 13 on Non-current Liabilities and associated interest rates.

Credit risk

Credit risk is run on receivables on franchisees. These receivables mainly originate from invoicing of the franchise fees and the sale of finished goods. Franchise fees are invoiced on a periodic basis (monthly, quarterly). Sales of goods are invoiced on a monthly basis. When receivables are not paid, the future sales of goods could in theory be suspended until payment. Frequent invoicing and the option of suspending future sales combined, minimizes the credit risk run by the Company. Furthermore, the Group might hold receivables on Inter Finance S.A., a subsidiary of Interogo Holding A.G.

Liquidity and cash flow risk

The Company manages its liquidity and cash flow risk by liquidity planning.

Exchange rate risk*Foreign currency positions*

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.

Commercial flows

The Company will be exposed from 1 September 2016 onwards to foreign exchange rate risks arising from purchase and sales transactions ('commercial flows') as well as holding net positions denominated in foreign currency (receivables and payables). The Company's exchange rate risk is actively managed by using derivative contracts.

At year-end 2016, the total fair value of the derivatives used to manage exchange rate risk is EUR 62 million positive (2015: EUR 0 million).

Hedge accounting will be applied from 2017 onwards, when the derivatives portfolio to hedge the FY18 flows will have been acquired. The current portfolio was bought as part of the acquisition and from 1 September onwards economically hedging the commercial flows FY17.

21. RELATED PARTIES

Any sales, purchases, rendering of services and lending to and from related parties are entered into at arm's length prices.

22. ACQUISITIONS

On 31 August 2016, Inter IKEA Holding B.V. and Ingka Holding B.V. completed a transaction in which the legal entities that hold the range, supply and production activities were transferred to Inter IKEA Holding B.V. Group (the "transaction").

A 'business combination' is a transaction or other event in which an acquirer obtains control of one or more businesses (activities). A business normally concerns processes that are capable of producing products or delivering services. In the transaction at hand, Inter IKEA Holding B.V. obtains actual control over the companies it acquires (directly or via one of its group companies) from Ingka Holding B.V. This control is, amongst others, substantiated by the fact that Inter IKEA Holding B.V., directly or indirectly via its subsidiaries, has a 100% stake and ownership in the companies acquired. The companies acquired, both stand alone and from a holistic view, are capable of and actually are producing products and/or delivering services. The Transaction meets the definition of a business combination and therefore RJ 216 *Business Combinations* is applicable for the transaction and the 'purchase method' is used to account for the acquisition.

Although acquiring control over the entities in scope of the transaction takes place via a number of individual transactions in which the shares are acquired, the transaction can be seen as one event in applying RJ 216 Business Combinations, and not as separate transactions. This is justified by the background and rationale of the deal and the fact that just one Sale and Purchase Agreement ("SPA") is applicable.

The acquisition date is the date on which control over the acquired entities is deemed to be effectively transferred (actual transfer of risks and rewards to the acquirer). During the last days three days of August 2016, the sale and purchase of shares has taken place. The distribution over three days has operational and legal reasons. On 31 August 2016, the transaction was fully completed and control and economic ownership transferred.

The consideration is defined in the SPA. As the Group operates in many countries with differing currency rates, it's exposed to currency rate development. A significant part of the financial flows in

foreign currency relate to the acquired range, supply and production activities, which have been hedged. In the SPA between the Company and Ingka Holding B.V., it has been agreed that the FY17 result related to these hedging activities will be shared between the Company and Ingka Holding B.V., leading to an expected earn out of EUR 100 million.

The directly to the transaction attributable expenses are added to the total consideration transferred. The consideration was mainly financed through a capital contribution and a loan by Interogo Holding AG and payments were done on behalf of the Company.

Goodwill is recognised as the difference between the consideration transferred (including acquisition cost) minus the fair value of the identifiable assets and liabilities acquired at acquisition-date, measured in accordance with RJ 216.

The Fair Value of the business acquired amounted to EUR 5,160 million. The total consideration (including acquisition costs) amounted to EUR 5,288 million and acquisition costs amounted to EUR 3 million, generating a goodwill of EUR 128 million. 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 2016, none are expected.

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Anders Gårlin

Martin van Dam

SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

Delft, 1 December 2016

COMPANY BALANCE SHEET before profit appropriation**ASSETS**

	31/8/16	31/12/15
Fixed assets		
Intangible fixed assets (2)	128	0
Tangible fixed assets (3)	0	64
Financial fixed assets (4)	7,909	3,176
Total fixed assets	8,037	3,240
Current assets		
Receivables (5)	1	9
Total current assets	1	9
TOTAL ASSETS	8,038	3,249

EQUITY AND LIABILITIES

Group equity		
Additional paid-in capital	4,764	3,764
Other legal reserves	32	6
Other reserves	-796	-940
Result for the year	258	417
Total equity (6)	4,258	3,247
Non-Current liabilities (7)	3,000	0
Current liabilities (8)	780	2
EQUITY AND LIABILITIES	8,038	3,249

(See accompanying notes)

COMPANY INCOME STATEMENT

	31/8/16	31/12/15
Share in net income from part. interests	265	434
Other results, net of income taxes	-7	0
Net income	258	434

(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 Income Statement, 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 in group companies are accounted for in the separate financial statements according to the equity accounting method on the basis of net asset value.

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. In so far as gains or losses on transactions involving the transfer of assets and liabilities between the company and its participating interests or between participating interests themselves can be considered unrealised, they have not been recognised. The results of participating interests acquired or sold during the financial year are stated in the 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
Carrying amount opening	0
Acquisitions	128
Closing balance	128
Purchase Price	128
Accumulated amortization	0
Accumulated impairment	0
Carrying amount closing	128

3. TANGIBLE FIXED ASSETS

The movement in Tangible Fixed Assets is as follows:

	Land and buildings	Constr. in progress	Other and idle assets	Total
Purchase Price	111	6	3	120
Accumulated depreciation	-51	0	-2	-53
Accumulated impairment	-3	0	0	-3
Carrying amount opening	57	6	1	64
Acquisitions	0	5	0	5
Depreciation	-3	0	-0	-3
Divestments	-54	-11	-1	-66
Closing balance	0	0	-0	-0
Purchase Price	0	0	0	0
Accumulated depreciation	0	0	0	0
Accumulated impairment	0	0	0	0
Carrying amount closing	0	0	0	0

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

4. FINANCIAL FIXED ASSETS

The movement in Financial Fixed Assets is as follows:

	Deferred tax asset	Investm. in part. interests	Total
Opening balance	3	3,173	3,176
Translation adjustment	0	-1	-1
Acquisitions	0	4,718	4,718
Released	-3	0	-3
Share in result of participating intrests	0	263	263
Dividends received	0	-240	-240
Other	0	-4	-4
Net book value	0	7,909	7,909

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. Separate financial statements of these subsidiaries are therefore not filed at the Trade Register of the Chamber of Commerce.

5. RECEIVABLES

	31/8/16	31/12/15
Current portion of long-term loans receivable	0	9
Receivable on participating interests	1	0
Total	1	9

6. SHAREHOLDER'S EQUITY

Changes in the total shareholder's equity for the year ended 31 August 2016 are as follows:

	31/8/16
Opening balance	3,247
Net income	258
Additional paid-in capital	1,000
Translation differences	-1
Dividend paid	-242
Remeasurement Pension Provisions	-4
Closing balance	4,258

The movement of each component included in shareholders' equity is as follows:

	Add. paid-in capital	Legal reserves	Transl. reserves	Retained Earnings	Result of the year
Opening balance	3,764	0	6	-940	417
Transfer	0	27	0	390	-417
Net income	0	0	0	0	258
Translation differences	0	0	-1	0	0
Capital contributions	1,000	0	0	0	0
Dividend paid	0	0	0	-242	0
Remeasurement IAS19	0	0	0	-4	0
Closing balance	4,764	27	5	-796	258

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".

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.

The legal reserves relate to specific reserves required by law in certain subsidiaries within the Group.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the reporting of foreign activities.

7. NON-CURRENT LIABILITIES

The non-current liabilities consist of a loan related to the acquisition of the range, supply and production entities. The interest percentage on the loan is 2.5%.

Of the outstanding amount, no amount will mature within 1 year. An amount of EUR 800 million will mature between 1 and 5 years and the remainder thereafter.

8. CURRENT LIABILITIES

The Current liabilities consist mainly of Other liabilities due to the acquisition of the range, supply and production activities.

9. AUDIT FEES

The audit fees incurred for services rendered by Ernst & Young Accountants LLP as Dutch auditor to legal entities within the group in financial year 2016 in connection with the audits of the statutory financial statements of these entities amount to EUR 0,2 million (2015: EUR 0,1 million). Non-audit fees invoiced by the auditors to these Dutch legal entities in financial year 2016 amount to nil (2015: EUR 0,1 million) and no tax fees were invoiced by the auditors (2015: 0 million).

10. REMUNERATION MANAGEMENT AND SUPERVISORY BOARD

The remuneration of the current and former members of the Company's Management Board includes base salary, incentive plans, employer's pension commitments and any other periodic contributions as provided by the Company and/or its consolidated subsidiaries. The total compensation to the members of the current and former Management Board amounts to EUR 2,4 million for 2016 (2015: EUR 1,9 million). The remuneration of the current and former members of the Company's Supervisory Board amounts to EUR 0.1 million for 2016 (2015: EUR 0.1 million).

MANAGEMENT BOARD

Torbjörn Lööf (Chairman)

Anders Gårlin

Martin van Dam

Delft, 1 December 2016

SUPERVISORY BOARD

Anders Dahlvig (Chairman)

Søren Hansen

Mathias Kamprad

Birger Lund

OTHER INFORMATION

Subsequent events

There are no subsequent events.

Proposed profit appropriation

The Company keeps in accordance with its Articles of Association 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 profit 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 management board of Inter Ikea Holding B.V.

Report on the financial statements

We have audited the accompanying financial statements for the 8 month period ended 31 August 2016 of Inter Ikea Holding B.V., Delft, which comprise the consolidated and company balance sheet as at 31 August 2016, the consolidated and company income statement for the 8 month period then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of Inter Ikea Holding B.V. as at 31 August 2016 and of its result for the 8 month period then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Unaudited corresponding figures

We have not audited the financial statements for the year ended 31 December 2015. Consequently, we have not audited the corresponding figures included in the income statement.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report from the management board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report from the management board, to the extent we can assess, is consistent with the company financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

The Hague, 1 December 2016

Signed by M. de Kimpe