IKEA LIMITED

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

IKEA LIMITED

CONTENTS

COMPANY INFORMATION

Directors	G Drakeford A Musca J Petersson J Söderberg T-J Eelkema
Secretary	Shoosmiths Secretaries Limited 500-600 Witans Gate West Milton Keynes MK9 1SH
Company number	01986283
Auditor	KPMG LLP 15 Canada Square London E14 5GL
Bankers	HSBC City of London Branch 60 Queen Victoria Street London EC4N 4TR
Registered office	Witan Gate House 500-600 Witan Gate West Milton Keynes MK9 1SH

Introduction

IKEA Limited operates as a home furnishings retailer and had a total number of 19 retail outlets and 4 order and collect points during the 2016 financial year. Its overall objective is to deliver "growth and sustained long term profitability" by being "the leader in life at home".

Business review

In the current year the Company reported a profit before tax of £140 million (2015: £87 million).

Turnover in the year improved by 9% to £1.71 billion (2015: £1.57 billion). Our strategy remains one of offering a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.

We remain confident that our expansion plan, investment in ecommerce, enhanced services offer, and our commitment to quality and price will enable us to strengthen our market position. In support of this, in financial year 2016 we opened a new store in Reading as well as order and collection points in Norwich, Aberdeen, Birmingham and Stratford. In September 2016 we introduced a new web platform to enhance the online experience for our customers and we intend to open a store in Sheffield during FY17.

We will also continue to increase our investment in sustainability initiatives as we strive to inspire and enable millions of people to live a more sustainable life at home. At the same time, as a Company we will progress towards becoming resource and energy independent and continue to take a lead in creating a better life for the people and communities connected with our business.

Principle risks and uncertainties

Overview

The board of directors are responsible for determining the level of risk acceptable to the Company; this is subject to a regular review. The Company has regular board and management meetings to manage all risks. The Board has considered the potential consequences of the UK referendum result to leave the European Union. The relatively short trading period makes it hard to predict the impact of the EU Referendum on the retail market; however, as of the date of this report, the directors do not envisage a material adverse impact in the near-term of the Company and its operations and believe that IKEA is well positioned for continued growth within the UK. The execution of the Company's strategy is subject to a number of risks:

Financial risk management

Financial instruments are governed by the commercial policies of the international IKEA Group. Consequently, treasury operations are centralised and managed by an IKEA Group Company outside the UK Group; a nominated resource within this Company is responsible for reviewing the risk exposure together with key UK management on a regular basis.

i. **Exchange rate risk**

   The exchange rate risk of the Company is actively managed and reduced by using derivative contracts.

ii. **Interest rate risk**

   Interest rate risk is managed via a series of fixed and floating rate instruments.

iii. **Liquidity risk**

   The Company maintains a mixture of long and short term debt instruments that are designed to ensure it has availability of sufficient funds for operations and planned expansion.

iv. **Credit risk**

   Conservative gearing limits and the use of highly rated financial institutions are used to manage the credit risk.

Price risk

IKEA at a global level employs supply chain specialists across the world to source products and sustainable materials at the lowest price so that the business may deliver its price and value promise to customers.

Key performance indicators

The directors consider the key performance indicators of the Company to be turnover, gross margin, operating profit and net debt of the Company. Key operational indicators include customer satisfaction and market share development.

On behalf of the board

A Musca
Director
24th November, 2016

The directors present their annual report and the financial statements of IKEA Limited for the year ended 31 August 2016. The Company operates in the UK with no branches outside of the UK.

Profitability

The profit before tax for the year was £140 million (2015: £87 million). The profit after tax was £110 million (2015: £70 million).

Dividends

The Company paid dividends of £70 million in financial year 2016 (2015: £nil).

Directors

The following directors held office during the year up to the date of this report:

G Drakeford
J Petersson
J Söderberg
A Musca
T-J Eelkema

Employees and employee policies

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status, and offers appropriate training and career development for disabled staff. If members of staff become disabled, the Company continues employment wherever possible and arranges retraining. The Company is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. In addition, the Company encourages the involvement of employees by means of team meetings and newsletters.

Political contributions

The Company did not make any significant political donations in either the current or prior year.

Disclosure of information to auditor

So far as each person who was a director at the date of approving this report is aware there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group auditor, each director has taken all steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to ascertain that the auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies act 2006, the auditor will deemed to be re-appointed and KPMG LLP will therefore continue in office.

On behalf of the board

A Musca
Director
24th November, 2016

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of their profit or loss for that period.

In preparation of the Company financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements and estimates that are reasonable and prudent;
• state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

A Musca
Director
24th November, 2016

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IKEA LIMITED

We have audited the financial statements of IKEA Limited for the year ended 31 August 2016 set out on pages 6 to 18.

The *financial reporting framework* that has been applied in their preparation is applicable law and the UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2016 and its profit for the year then ended;
- have been properly prepared in accordance with the UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Cooper (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

24 November 2016

IKEA LIMITED
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 AUGUST 2016

	Note	2016 £'000	2015 £'000
TURNOVER	1	1,711,641	1,570,383
Cost of sales		(1,101,233)	(1,068,939)
Gross profit		610,408	501,444
Administrative expenses		(482,073)	(430,170)
Other operating income		7,800	9,821
Operating profit	4	136,135	81,095
Profit on ordinary activities before interest		136,135	81,095
Interest receivable and similar income	2	4,461	4,240
Interest payable and similar charges	3	(2,782)	(1,812)
Dividend received		2,000	3,000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		139,814	86,523
Tax on profit on ordinary activities	6	(29,430)	(16,872)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		110,384	69,651
Retained earnings as at 1 September	15	137,576	67,925
Dividend paid	15	(70,000)	-
Retained earnings as at 31 August	15	177,960	137,576

The notes on pages 8 to 18 form part of the financial statements.

IKEA LIMITED
BALANCE SHEET
AS AT 31 AUGUST 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Tangible assets	7	61,982	41,754
Investments	8	108,621	108,621
CURRENT ASSETS			
Stock	9	61,792	61,036
Debtors (amounts due within one year)	10	256,504	175,623
Debtors (amounts due in more than one year)	10	6,984	8,630
Cash at bank		524	457
		325,804	245,746
CREDITORS: Amounts falling due within one year	11	(305,435)	(245,344)
NET CURRENT ASSETS		20,369	402
TOTAL ASSETS LESS CURRENT LIABILITIES		190,972	150,777
CREDITORS: Amounts falling due after more than one year	12	(4,066)	(4,141)
PROVISIONS FOR LIABILITIES	14	(2,946)	(3,060)
NET ASSETS		183,960	143,576
CAPITAL AND RESERVES			
Called up share capital	15	6,000	6,000
Profit and loss account	15	177,960	137,576
TOTAL SHAREHOLDERS' FUNDS	15	183,960	143,576

The notes on pages 8 to 18 form part of these financial statements

These financial statements were approved by the board of directors on 24th November 2016 and were signed on its behalf by:

A Musca
Director

Accounting policies

IKEA Limited is a Company limited by shares and incorporated and domiciled in the UK.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with The Financial Reporting Standard 102 applicable in the UK and Republic of Ireland (FRS 102) as issued in August 2014. The principal accounting policies, which have been applied consistently within the accounts from one financial year to another are set out below.

The presentation currency of these financial statements is Sterling. All amounts in the financial statements have been rounded to the nearest £1,000. These financial statements present information about the Company as an individual undertaking and not about its Group.

The Company is exempt by virtue of S400 the Companies Act 2006 from the requirement to prepare Group financial statements. The Company's ultimate parent undertaking, INGKA Holding BV includes the Company in its consolidated financial statements. The consolidated financial statements of INGKA Holding BV are publicly available and from KVK, Watermolenlaan 1, PO Box 265, 3440 AG Woerden, The Netherlands.

In the transition to FRS 102 from old UK GAAP, the Company has made no measurement and recognition adjustments.

The Company's ultimate parent undertaking, INGKA Holdings BV includes the Company in its consolidated financial statements. The consolidated financial statements of INGKA Holdings BV are prepared in accordance with Dutch GAAP and are available to the public and may be obtained from KVK, Watermolenlaan 1, PO Box 265, 3440 AG Woerden, The Netherlands. In these financial statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash flow statement and related notes; and
- Key management personnel compensation

As the consolidated financial statements of INGKA Holdings BV include the equivalent disclosures, the Company has also taken the exemption under FRS 102 available in respect of the disclosures required by FRS 102 Basic financial statements.

The Company has taken advantage of the exemption conferred by FRS 102 33.1A "Related Party Disclosures" from disclosing details of transactions with its immediate parent Company and any other Company within the 100% wholly owned Group.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis. Judgements made by directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 21.

The Company's business activities together with the factors likely to affect its future development, performance and position are set out in the strategic report on page 2. In addition, the strategic report also outlines the Company's financial risk management objectives and its exposures to credit and liquidity risk.

After reviewing current forecasts, considering the availability of funding and making appropriate enquires, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Impairment financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured 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. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Tangible fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses and are depreciated over the shorter of their useful economic life or lease life. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful economic life, as follows:

Computer equipment	3 years
Plant & machinery (including fixtures, fittings, equipment and motor vehicles)	5-8 years
Short leaseholds	10 years
Building installations	10 years
Buildings	35 Years

No depreciation is provided on construction in progress or land.

In accordance with FRS 102.27 "Impairment of Assets", the Company has determined that each store is an income generating unit. Recoverable amounts for income generating units are based upon value in use, which is calculated from cash flow projections using data from the Company's internal forecasts, the results of which are reviewed by the board.

Accounting policies (continued)

The carrying amounts of the Company's non-financial assets other than stock and deferred tax assets are reviewed at each reporting date for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable Group of assets that generates income that is largely independent of the income streams from other assets or Groups of assets.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Investments in subsidiaries

The Company's investment in subsidiary undertakings is recognised at cost and is accounted for net of impairment losses. Impairment reviews are carried out by management annually when there is an indication of impairment in line with FRS 102 27.5 "Impairment". Income from investments is recognised in the statement of income and retained earnings to the extent that profits are distributed.

Stocks

Stocks are stated at the lower of cost and net realisable value and are accounted for on a first-in first-out basis. Net realisable value is based upon estimated selling prices less further costs expected to be incurred to disposal. Provision is made for obsolete and slow moving items.

Basic financial instruments

Trade and other debtors and creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Cash and cash equivalents

The Group's cash balances are pooled and bank interest is earned or paid on this Group balance to/from IKEA Limited (the Parent Company). The respective bank balances of the subsidiaries are taken in to account when computing the inter Group interest.

Interest-bearing borrowing classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method, less any impairment losses.

Other financial instruments

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss

Financial instruments are governed by the commercial policies of IKEA Group. Consequently, the treasury operations are centralised and managed by a fellow IKEA subsidiary, outside the UK Group. A central treasury function reviews the risk exposure together with key management in the UK.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.29 "Income Tax".

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Accounting policies (continued)

Finance leases

Lease arrangements that transfer substantially all the risks and rewards of ownership to the lessee are treated as finance leases. Land and buildings which are the subject of finance leases are dealt with in the financial statements as tangible fixed assets and equivalent liabilities, at what would otherwise have been the cost of outright purchase.

Rentals are apportioned between reductions of the respective liabilities and finance charges, the latter being calculated by reference to the rates of interest implicit in the leases. The finance charges are dealt with under interest payable in the profit and loss account.

Leased assets are depreciated in accordance with the depreciation accounting policy over the anticipated working lives of the assets or the term of the lease, if shorter.

Sale and leaseback

A sale and leaseback transaction is where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying lease classification principles described above) and whether or not the sale was made at the asset's fair value. For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term.

For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit and loss from the sale is recognised immediately.

Following initial recognition, the lease treatment is consistent with those principles described above.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Annual rentals for operating leases are charged to the profit and loss account on a straight line basis over the lease term. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the lease.

Turnover

Turnover from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated, there is no continuing management involvement with the goods and the amount of turnover can be reliably measured.

Interest

Interest payable and receivable are accounted for on an accruals basis. Interest is charged on all trading inter-company balances.

Provision

The returns provision is management's best estimate of the value of goods expected to be returned post year end in relation to sales made pre-year end.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or the agreed contractual rate. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Other operating income

Any non goods (other rental) related income streams are classified as other operating income.

Returns provision

The returns provision is management's best estimate of the value of goods expected to be returned post year end, in relation to sales made pre year end.

Dividend policy

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Estimates and judgements

Judgements made by the Directors, in the application of the above accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1 Turnover

The Company's turnover was all derived from its principal activity in the United Kingdom.

2 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest income from third parties	4,461	4,240

3 Interest payable and similar charges

	2016 £'000	2015 £'000
Exchange loss	2,782	1,812

4 Operating profit

This is stated after charging / (crediting):

	2016 £'000	2015 £'000
Wages and salaries	159,954	138,315
Social security costs	14,641	12,432
Other pension costs	3,624	2,879
Total staff costs	178,219	153,626
Depreciation of tangible assets		
- owned assets	16,824	14,455
Operating lease charges		
- plant and machinery	508	512
- other	61,862	59,344
Amounts receivable by auditors and their associates in respect of:		
Auditor's remuneration – audit of annual financial statements	85	79
Loss on disposal of plant and machinery	68	68
Net exchange loss/(gain)	2,713	(327)
Release of deferred gain on previously leased premises	7,400	-

5 Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	805	627

	2016 £'000	2015 £'000
Highest paid director		
Total amount of emoluments	469	379

	2016 £'000	2015 £'000
Pension contributions to the money purchase scheme	61	59

Retirement benefits are accruing to two (2015: two) directors under the money purchase scheme.

The emoluments of G Drakeford and A Musca are included in the above emoluments. The emoluments of J Söderberg, T Eelkema and J Petersson are paid by other IKEA Group Companies outside the UK Group. Their emoluments are deemed to be wholly attributable to their services to other IKEA non-UK Group Companies. Accordingly, the above details include no emoluments in respect of these directors.

Employee information

	2016 Number	2015 Number
Stores and warehouses	7,996	7,111
Country management and co-ordination	378	311
	8,374	7,422

6 Taxation on profit for the year

(a) Analysis of tax charge on ordinary activities

	2016 £'000	2015 £'000
Current tax:		
Current tax on income for the period	27,208	16,907
Adjustments in respect of previous periods	576	(1,043)
Total current tax charge	27,784	15,864
Deferred Tax		
Origination and reversal of timing differences	861	577
Effects of changes in tax rates and laws	872	(29)
Adjustments in respect of previous periods	(87)	460
Total deferred tax	1,646	1,008
Tax on profits on ordinary activities	29,430	16,872

	£'000 *Current tax*	£,000 *Deferred tax*	2016 £,000 *Total tax*	2015 £'000 *Total tax*
Recognised in Profit and Loss account	27,784	1,646	29,430	16,872
Total tax	27,784	1,646	29,430	16,872

6 Taxation on profit for the year (continued)

(b) Analysis of current tax recognised in profit and loss

	2016 £'000	2015 £'000
UK Corporate tax	27,784	15,864
Total current tax recognised in profit and loss	27,784	15,864

(c) Factors affecting current tax charge for year

The tax assessed for the year is higher (2015: lower) than the standard rate of corporation tax in the UK applicable to the Company of 20% (2015: 20.58%) the differences are explained below:

	2016 £'000	2015 £'000
Profit excluding taxation	139,814	86,523
Total tax expense	(29,430)	(16,872)
Profit for the year	110,384	69,651
Tax on profit on ordinary activities at the UK corporation tax rate of 20% (2015: 20.58%)	27,963	17,807
Effects of:		
Expenses not deductible for tax purposes	603	412
Non taxable income	(400)	(712)
Tax Rate Differences	776	(29)
Group relief claimed	-	(23)
Adjustments in respect of previous periods	488	(583)
Total tax expense included in statement of income and retained earnings	29,430	16,872

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 August 2016 has been calculated based on these rates. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

7 Tangible fixed assets

	Freehold Land & Buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 September 2015	19,991	159,546	179,537
Additions	-	37,120	37,120
Disposals	-	(4,195)	(4,195)
At 31 August 2016	19,991	192,471	212,462
Depreciation			
At 1 September 2015	(19,991)	(117,792)	(137,783)
Charge for the year	-	(16,824)	(16,824)
Disposals	-	4,127	4,127
At 31 August 2016	(19,991)	(130,489)	(150,480)
Net book value			
At 31 August 2016	-	61,982	61,982
At 31 August 2015	-	41,754	41,754

8 Investments

	Subsidiary undertakings £'000
At net book value	
1 September 2015 and 31 August 2016	108,621

The directors believe that the book value of investments is supported by their underlying net assets.

The Company holds an investment in the following undertakings (direct and indirect):

	Country of incorporation	Class of holding	Proportion held	Nature of Business
Direct holding of subsidiary undertakings:				
IKEA Properties Investments Limited	United Kingdom	Ordinary	100%	Property investment
IKEA Distribution Services Limited	United Kingdom	Ordinary	100%	Warehousing
IKEA Leasing Limited	United Kingdom	Ordinary	100%	Non trading
IKEA Energy Services Limited	United Kingdom	Ordinary	100%	Sustainable Energy Investment
Indirect holding of subsidiary undertaking:				
Dummuies Windfarm Huntly Limited	United Kingdom	Ordinary	100%	Sustainable Energy Investment

9 Stocks

	2016 £'000	2015 £'000
Finished goods and goods for resale	61,792	61,036

The amount of inventories recognised as income during the year amounted to £1.6m (2015: £nil).

10 Trade and other debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	3,571	2,955
Amounts due from Group undertakings	233,808	163,696
Other debtors	437	590
Prepayments and accrued income	18,688	8,382
	256,504	175,623
Amounts falling due in more than one year:		
Deferred tax asset	6,984	8,630
	6,984	8,630

Deferred tax assets comprise:

	2016 £'000	2015 £'000
Accelerated capital allowances	5,457	5,558
Other timing differences	1,527	3,072
	6,984	8,630

The amounts due from Group undertakings in the Company consists of an intra UK Group loan balance of £202m (2015: £152m), the remainder are trading balances. All trading and loan balances with fellow IKEA subsidiaries are unsecured and are repayable on demand. Interest is applied on Group loan balances and inter UK trading balances at LIBOR plus a margin. All other trading balances with other IKEA companies are interest free.

11 Creditors: Amounts falling due within one year

	2016 £'000	2015 £'000
Bank and related party loans	-	420
Bank overdraft	25,966	2,193
Amounts owed to Group undertakings	13,363	107,648
Trade creditors	147,551	19,047
Corporation tax payable	15,688	13,823
VAT	20,742	21,679
Other tax and social security costs	4,941	3,205
Other creditors (including Accruals and Deferred Income)	77,184	77,329
	305,435	245,344

Bank loans are secured via a floating charge, are repayable on demand and bear interest at LIBOR plus a margin.

All trading and short term loan balances with fellow IKEA subsidiaries are unsecured and are repayable on demand. Interest is applied on Group loan balances and inter UK trading balances at LIBOR plus a margin. All other trading balances with other IKEA companies are interest free.

Bank overdrafts bear interest at LIBOR plus a margin.

Due to an INGKA Group restructure at the current year-end, certain balances previously recognised as intercompany are now classified as third party

12 Creditors: Amounts falling due after more than one year

	2016 £'000	2015 £'000
Other Accruals	4,066	4,141

13 Maturity analysis

	2016 £'000	2015 £'000
Repayable in instalments		
Within one year	-	420
	-	420

All external loans are secured by way of fixed and floating charges. All loans carry interest at LIBOR plus a margin.

14 Provision for liabilities and charges

	2016 £'000	2015 £'000
Returns provision		
At beginning of year	3,060	2,152
Utilised in year	(3,060)	(2,152)
Charge to profit and loss	2,946	3,060
At end of year	2,946	3,060

The returns provision relates to the Company's sales returns policy in the UK where the customers have 365 days to return their goods. The returns provision is calculated based on a historical pattern of returns and this trend is reviewed annually.

15 Called up share capital, movement on reserves and reconciliation of movement in equity shareholders' funds

	Share Capital £'000	Profit & Loss account £'000	Total £'000
As at 1 September 2015	6,000	137,576	143,576
Profit for the year	-	110,384	110,384
Dividend	-	(70,000)	(70,000)
As at 31 August 2016	6,000	177,960	183,960

	Authorised 2016 and 2015 No.	Allotted, issued and fully paid 2016 and 2015 No.
Ordinary Shares of £1 each	20,000,000	6,000,000

16 Pension scheme

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £3.6m (2015: £2.9m).

17 Capital commitments

	2016 £'000	2015 £'000
Capital expenditure contracted for but not provided in the financial statements	101	230

18 Commitments under operating leases

At 31 August 2016 there were annual commitments under non-cancellable operating leases for assets as follows:

	2016 £'000	2015 Restated £'000
Expiring within		
Land and buildings		
1 year	63,987	55,126
2-5 years	254,455	207,536
After 5 years	1,006,177	863,578
Other		
1 year	207	232
2-5 years	98	209

19 Contingent guarantees

The Company is party to a cash pooling arrangement for the IKEA UK Group with one of its bankers. There was no unprovided exposure to the Company at the year end (2015: £nil).

20 Key management personnel

Remuneration of key management personnel is disclosed in note 5. During the year, there were no material transactions or balances between the Company and its key management personnel or members of their close families.

21 Accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Provisions and liabilities

Provisions and liabilities recognised at the balance sheet date are detailed include customer returns and refunds, stock obsolescence, external warehouse dilapidations and unredeemed gift cards. The calculations of these provisions and liabilities are based on past history and trends and although provisions and liabilities are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Useful lives of tangible assets
Tangible assets are measured at cost less accumulated depreciation and impairment. The useful lives and residual values of assets are based on management's best estimate reflecting the nature of their business use.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

22 Ultimate Parent Undertaking

INGKA Holding BV, a Company registered in the Netherlands, is the ultimate controlling party. INGKA Holding BV is the parent undertaking of the largest Group to consolidate these financial statements. Financial statements are available and copies publicly available from KVK, Watermolenlaan 1, PO Box 265, 3440 AG Woerden, The Netherlands.