

IKEA LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

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IKEA LIMITED

CONTENTS

	Page
Company information	1
Strategic report	2-3
Directors' report	4
Directors' responsibilities statement	5
Independent auditor's report to the members of IKEA Limited	6-7
Statement of income and retained earnings	8
Balance sheet	9
Notes to the financial statements	10-19

IKEA LIMITED

COMPANY INFORMATION

Directors	G Drakeford	(Resigned 01 June 2018)
	A Musca	(Resigned 02 October 2017)
	J Söderberg	(Resigned 31 August 2018)
	S Shah	(Appointed 02 October 2017)
	H Olshov	
	M Deblinska Hajdas	(Appointed 20 September 2017)
	J Quinones Cespedes	(Appointed 01 June 2018; resigned 09 April 2019)
	B Frau Uriarte	(Appointed 18 October 2018; resigned 09 April 2019)
	P Jelkeby	(Appointed 09 April 2019)
	S Vanoverbeke	(Appointed 09 April 2019)
Secretary	Shoosmiths Secretaries Limited 500-600 Witan Gate West Milton Keynes MK9 1SH	
Company number	01986283	
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF	
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 and Principal Activities

IKEA Limited operates as a home furnishings retailer and had a total number of 21 retail outlets and 4 order and collection points during the 2018 financial year with the 20th store in Sheffield opening in September 2017 and the 21st store in Exeter opening in May 2018. The vision of the Company is to help improve the lives at home of the people of the UK. This is done through our business idea of offering a wide range of well-designed, functional, quality and sustainably produced products at prices so low that as many people as possible can afford them. It is the Company belief that delivering continued growth and sustained long-term profitability will enable this vision.

Business review

In the current year the Company reported a loss before tax of £4.1 million (2017: profit of £86.7 million). Turnover in the year improved by 5.6% to £1.96 billion (2017: £1.86 billion). During FY18 the Company was impacted by a weak Sterling, increased distribution costs coming from more online sales and then deciding not to pass all these additional costs on. In addition during the year, two new stores were opened. 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.

Future Developments

The Company remains confident that the future expansion plans which are focused on the city centre, with the continued investment in ecommerce and enhanced service offers, and its commitment to quality and price will strengthen its position in the market. Two new stores were opened in the current year with Sheffield opening in September 2017 and Exeter in May 2018 as well as two new planning and order points in London opening post year-end and a new store in Greenwich which opened in February 2019.

There will also continue to be further investment in sustainability initiatives as the business strives to inspire and enable millions of people to live a more sustainable life at home. At the same time, further progression towards becoming resource and energy independent will be made while continuing to take a lead in creating a better life for the people and communities connected with the business. This includes continuing to pay all co-workers a Real Living Wage, as defined by the Living Wage Foundation.

Principal 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 decision to leave the European Union. The business is analysing potential implications arising from the potential outcomes of Brexit and is preparing its plans for these scenarios. It is still unclear how this change will impact the retail market, however management are keeping close to the negotiations and the potential impact on the business. The Directors do not envisage a material adverse impact in the near-term to the Company and its operations and believe that IKEA Limited 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 Ingka Group. Consequently, treasury operations are centralised and managed by an Ingka 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. The cash flow risk of the Company is addressed under the following headings:

i. Exchange rate risk

The exchange rate risk of the Company is actively managed by reviewing currency needs in advance and in line with Ingka Group policies.

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.

v. Cash flow risk

The Company manages cash flow risk by maintaining 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.

Price risk

The Ingka Group 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 current assets of the Company.

Turnover in the year improved by 5.6% to £1.96 billion (2017: £1.86 billion). This is largely due to the opening of the Sheffield and Exeter stores during the current year as well as continued growth with E-commerce. Gross margin decreased from 33% in 2017 to 28% in 2018. This is largely due to the decline in Sterling causing an increase in goods prices as well as continued investment in our on-line services offer.

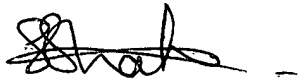
The operating result decreased from £83.28 million profit in 2017 to a £9.89 million loss in 2018. This is largely due to the changes in gross margin already explained. Net current assets have decreased from £85.58 million in 2017 to £84.06 million in 2018. This is largely due to an increase in stock holding at year-end, in line with increased sales and having two additional stores.

Key operational indicators include customer satisfaction and market share development.

The Company monitors customer satisfaction through customer surveys where improvements have been seen in the overall customer experience.

The Company has continued to follow its market share development plan with the opening of two new stores in the current year. The Company will continue to follow its UK retail market development plan with a focus on the London market and customer fulfilment in the next financial year.

On behalf of the board



S Shah
Director
26 April 2019

**IKEA LIMITED
REGISTERED NO: 01986283
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2018**

The Directors present their annual report and the financial statements of IKEA Limited for the year ended 31 August 2018. The Company operates in the UK with no branches outside of the UK.

Results and dividends

The loss before tax for the year was £4.08 million (2017: profit of £86.66 million). The loss after tax was £3.65 million (2017: profit of £69.37 million). The Company paid no dividends in the financial year 2018 (2017: £nil).

Directors

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

G Drakeford	(Resigned 01 June 2018)
A Musca	(Resigned 02 October 2017)
J Söderberg	(Resigned 31 August 2018)
S Shah	(Appointed 02 October 2017)
H Olshov	
M Deblinska Hajdas	(Appointed 20 September 2017)
J Quinones Cespedes	(Appointed 01 June 2018; resigned 09 April 2019)
B Frau Uriarte	(Appointed 18 October 2018; resigned 09 April 2019)
P Jelkeby	(Appointed 09 April 2019)
S Vanoverbeke	(Appointed 09 April 2019)

No Director held any interest in the shares of the Company during the period.

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.

Research and development

No research and development activities were undertaken during the year.

Political contributions

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

Subsequent Events

There are no events subsequent to the Reporting Date requiring adjustment or disclosure in the financial statements.

Financial Risk Management

The financial risk management policies of the Company are disclosed in the Strategic Report.

Future Developments

The planned future development activities of the Company are disclosed in the Strategic Report.

Disclosure of information to auditor

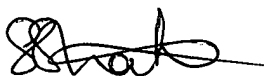
So far as each person who was a Director at the date of approving this report is aware there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group auditor, 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.

Going concern

The financial statements show net current assets of the company of £84.01 million (2017: £85.58 million). The operating result decreased from £83.28 million profit in 2017 to a £9.88 million loss in 2018. However, as the ultimate parent Company INGKA Holding BV, has expressed its willingness to support the Company via letter of support to meet its present and future obligations, the Directors believe the going concern assumption is appropriate for the following reasons;

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.

On behalf of the Board



S Shah
Director
26 April 2019

**IKEA LIMITED
DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2018**

The directors are responsible for preparing the Strategic Report, 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and the company and of the profit or loss of the group for that period.

In preparing those 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



S Shah
Director
26 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IKEA LIMITED

Opinion

We have audited the financial statements of IKEA Limited for the year ended 31 August 2018 which comprise the Statement of Income and Retained Earnings, Balance Sheet and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 August 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IKEA LIMITED**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Christine Chua (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

3/5/19

IKEA LIMITED
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
TURNOVER	2	1,960,221	1,855,646
Cost of sales		(1,415,143)	(1,234,831)
Gross profit		<u>545,078</u>	<u>620,815</u>
Administrative expenses		(566,858)	(548,373)
Other operating income		11,894	10,838
Operating (loss) / profit	3	<u>(9,886)</u>	<u>83,280</u>
(Loss) / Profit on ordinary activities before interest		<u>(9,886)</u>	<u>83,280</u>
Interest receivable and similar income	4	3,214	2,444
Interest payable and similar charges	5	(403)	(2,067)
Dividend received		3,000	3,000
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(4,075)</u>	<u>86,657</u>
Tax credit / (charge) on profit on ordinary activities	7	427	(17,288)
(LOSS) / PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		<u>(3,648)</u>	<u>69,369</u>
Retained earnings as at 1 September	16	<u>247,329</u>	<u>177,960</u>
Dividend paid	16	<u>-</u>	<u>-</u>
Retained earnings as at 31 August	16	<u>243,681</u>	<u>247,329</u>

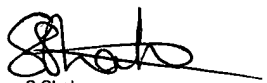
The notes on pages 10 to 19 form part of the financial statements.

IKEA LIMITED
BALANCE SHEET
AS AT 31 AUGUST 2018

	Note	2018 £'000	2017 £'000
FIXED ASSETS			
Intangible assets	8	1,110	-
Tangible assets	9	72,146	68,675
Investments	10	108,621	108,621
CURRENT ASSETS			
Stock	11	78,591	63,090
Debtors (amounts due within one year)	12	335,352	341,506
Debtors (amounts due in more than one year)	12	7,453	7,516
Cash at bank		575	427
		<u>421,971</u>	<u>412,539</u>
CREDITORS: Amounts falling due within one year	13	<u>(337,914)</u>	<u>(326,959)</u>
NET CURRENT ASSETS		<u>84,057</u>	<u>85,580</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>265,934</u>	<u>262,876</u>
CREDITORS: Amounts falling due after more than one year	14	(6,556)	(5,913)
PROVISIONS FOR LIABILITIES	15	(9,697)	(3,634)
NET ASSETS		<u>249,681</u>	<u>253,329</u>
CAPITAL AND RESERVES			
Called up share capital	16	6,000	6,000
Profit and loss account	16	243,681	247,329
TOTAL SHAREHOLDERS' FUNDS	16	<u>249,681</u>	<u>253,329</u>

The notes on pages 10 to 19 form part of the financial statements.

These financial statements were approved by the Board of Directors on 26 April 2019 and were signed on its behalf by:


S Shah
Director
26 April 2019

**IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018**

Statement of Compliance

The company's financial statements of IKEA Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) and the Companies Act 2006.

1. Accounting policies

IKEA Limited is a private company limited by shares and incorporated and domiciled in the UK. The company's registered address is: Witan Gate House 500-600 Witan Gate West, Milton Keynes, MK9 1SH. The company's registered number is 01986283.

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 Companies Act 2006 and the applicable accounting standards in the UK as issued by the Financial Reporting Council, in particular FRS 102. 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 £',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 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:

- The requirements of Section 7 Cash flow statement and Section 3 Financial Statement Presentation 3.17 (d)
- The requirements of Section 11 Basic Financial Instruments
- The requirements of Section 33 Related Party Disclosures

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 instrument.

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.

Going concern

The financial statements show net current assets of the company of £84.01 million (2017: £85.58 million). The operating result decreased from £83.28 million profit in 2017 to a £9.88 million loss in 2018. However, as the ultimate parent Company INGKA Holding BV, has expressed its willingness to support the Company via letter of support to meet its present and future obligations, the Directors believe the going concern assumption is appropriate for the following reasons;

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

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.

Accounting policies (continued)

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful life with zero residual value. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic life of intangible assets are as follows:

Initial Franchise Fee	5 years
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The initial Franchise Fee amortisation period of 5 years is in line with a new store start up period. If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate

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
Building installations	10 years
Building equipment	15 years

No depreciation is provided on construction in progress.

In accordance with FRS 102.27 "Impairment of Assets", the Company has determined that each primary market area 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.

Impairment of non-financial assets

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 Company and its subsidiaries (IKEA UK Group) cash balances are pooled and bank interest is earned or paid on this IKEA UK 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.

Accounting policies (continued)

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 the Ingka Group. Consequently, the treasury operations are centralised and managed by a fellow Ingka Group 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.

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 and services 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.

Provisions

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. The warranty provision is management's best estimate of the expected cost to make good of any future claim received for past transactions.

Other provisions are recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

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.

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.

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

2. Turnover

The Company's turnover was all derived from its principal activity in the United Kingdom and represents the sales of goods and services as follows:

	2018	2017
	£'000	£'000
Sales of goods	1,911,872	1,809,520
Sales of services	48,349	46,126
	<u>1,960,221</u>	<u>1,855,646</u>

The Company's turnover was all derived from its principal activity in the United Kingdom. There has been a restatement which affects the presentation of turnover, cost of goods sold and administration costs. Previously, services income and costs were reported net within administration cost. In FY18, services income is reported as turnover and services costs are reported as cost of goods sold. FY17 numbers have been restated and as such, turnover has increased by £46,126k; cost of goods sold has increased by £65,753k and administrative costs have decreased by £19,627k. This prior period error correction has no impact on reported profit.

3. Note to income statement

Operating (loss) / profit is stated after charging / (crediting):

	2018	2017
	£'000	£'000
Impairment of tangible assets	1,100	-
Depreciation of tangible assets		
- owned assets	21,711	19,598
Operating lease charges		
- plant and machinery	766	798
- buildings	75,139	73,378
Amounts receivable by auditors and their associates in respect of:		
Auditor's remuneration – audit of annual financial statements	116	102
Loss on disposal of plant and machinery	71	33
Net exchange (gain) / loss	(230)	1,481

The impairment of tangible assets relates to an order and collection point which closed prior to year-end. The impairment loss represents the expected net book value of assets not expected to be recovered.

4. Interest receivable and similar income

	2018	2017
	£'000	£'000
Interest income from third parties	73	-
Interest income from intercompany	2,885	1,918
Exchange gain	256	526
	<u>3,214</u>	<u>2,444</u>

5. Interest payable and similar charges

	2018	2017
	£'000	£'000
Interest payable to third parties	14	60
Interest payable to intercompany	363	-
Exchange loss	26	2,007
	<u>403</u>	<u>2,067</u>

6. Staff costs and benefits

Staff Costs	2018	2017
	£'000	£'000
Wages and salaries	207,967	188,111
Social security costs	17,357	15,028
Other pension costs	5,879	4,511
Total staff costs	<u>231,203</u>	<u>207,650</u>

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

6 Staff costs and benefits (continued)

Employee Information

	2018	2017
	Number	Number
Stores and warehouses	9,179	9,644
Country management and co-ordination	1,336	423
	<u>10,515</u>	<u>10,067</u>

Directors' Remuneration

	2018 £'000	2017 £'000
Aggregate remuneration in respect of qualifying services	554	637
Pension contributions to the money purchase scheme	33	49
In respect of the highest paid director:		
Aggregate remuneration	281	326
Pension contributions to the money purchase scheme	7	23

Retirement benefits are accruing to two (2017: two) directors under the money purchase scheme.

The emoluments of G Drakeford, A Musca, S Shah and J Quinones Cespedes are included in the above emoluments. The emoluments of J Söderberg, H Olshov and M Deblinska Hajdas are paid by other Ingka Group Companies outside the UK Group. Their duties for IKEA Limited are deemed to be incidental relative to their overall responsibilities within the Ingka Group. Accordingly, the above details include no emoluments in respect of these directors.

7. Taxation on (loss) / profit for the year

(a) Analysis of tax charge on ordinary activities

	2018 £'000	2017 £'000
Current tax:		
Current tax on income for the period	(116)	18,078
Adjustments in respect of previous periods	(375)	(258)
Total current tax charge	<u>(491)</u>	<u>17,820</u>
Deferred Tax		
Origination and reversal of timing differences	(648)	(781)
Effects of changes in tax rates and laws	540	63
Adjustments in respect of previous periods	172	186
Total deferred tax	<u>64</u>	<u>(532)</u>
Tax on (loss) / profit on ordinary activities	<u>(427)</u>	<u>17,288</u>

	£'000 Current tax	£,000 Deferred tax	2018 £,000 Total tax	2017 £'000 Total tax
Recognised in Profit and Loss account	(491)	64	(427)	17,288
Total tax	<u>(491)</u>	<u>64</u>	<u>(427)</u>	<u>17,288</u>

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

7. Taxation on (loss) / profit for the year (continued)

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

	2018 £'000	2017 £'000
UK Corporate tax	(491)	17,820
Total current tax recognised in profit and loss	(491)	17,820

(c) Factors affecting current tax charge for year

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK applicable to the Company of 19% (2017: 19.58%) the differences are explained below:

	2018 £'000	2017 £'000
(Loss) / Profit on ordinary activities before tax	(4,075)	86,657
Tax (credit) / charge on profit on ordinary activities at the UK corporation tax rate of 19% (2017: 19.58%)	(774)	16,967
Effects of:		
Expenses not deductible for tax purposes	581	917
Non taxable income	(570)	(587)
Tax Rate Differences	540	64
Adjustments in respect of previous periods	(204)	(73)
Total tax expense included in the statement of income and retained earnings	(427)	17,288

(d) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 August 2018 has been calculated based on 17%.

8. Intangibles assets

	Initial Franchise Fees £'000	Total £'000
Cost		
At 1 September 2017	-	-
Additions	1,314	1,314
At 31 August 2018	1,314	1,314
Amortisation		
At 1 September 2017	-	-
Charge for the year	(204)	(204)
At 31 August 2018	(204)	(204)
Net book value		
At 31 August 2018	1,110	1,110
At 31 August 2017	-	-

Intangible assets represent the initial Franchise Fee paid to the Franchisor when a new store opens in line with the Franchise Agreement and are amortised on a straight line basis over five years.

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

9. Tangible fixed assets

	Freehold Land & Buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 September 2017	-	208,845	208,845
Additions	-	26,399	26,399
Disposals	-	(4,898)	(4,898)
At 31 August 2018	-	230,346	230,346
Depreciation			
At 1 September 2017	-	(140,170)	(140,170)
Charge for the year	-	(21,711)	(21,711)
Impairment	-	(1,100)	(1,100)
Disposals	-	4,781	4,781
At 31 August 2018	-	(158,200)	(158,200)
Net book value			
At 31 August 2018	-	72,146	72,146
At 31 August 2017	-	68,675	68,675

The impairment of fixed assets relates to an order and collection point which closed prior to year-end. The impairment loss represents the expected net book value of assets not expected to be recovered.

10. Investments

<i>At net book value</i>	Subsidiary undertakings £'000
1 September 2017 and 31 August 2018	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

The registered office of all of the subsidiary companies is Witan Gate House, 500 – 600 Witan Gate West, Milton Keynes MK9 1SH. 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.

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

11 Stock

	2018 £'000	2017 £'000
Finished goods and goods for resale	<u>78,591</u>	<u>63,090</u>

The amount of stock recognised as an expense in the year was £1.32 billion (2017: £1.17 billion).

12 Trade and other debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade debtors	4,933	3,847
Amounts due from Group undertakings	314,028	326,322
Other debtors	1,542	806
Prepayments and accrued income	<u>14,849</u>	<u>10,531</u>
	<u>335,352</u>	<u>341,506</u>

Amounts falling due in more than one year:		
Deferred tax asset	<u>7,453</u>	<u>7,516</u>
	<u>7,453</u>	<u>7,516</u>

Deferred tax assets comprise:

	2018 £'000	2017 £'000
Accelerated capital allowances	5,214	5,500
Other timing differences	<u>2,239</u>	<u>2,016</u>
	<u>7,453</u>	<u>7,516</u>

The amounts due from Group undertakings in the Company consists of an intra UK Group loan balance of £312m (2017: £309m), the remainder are trading balances. All trading and loan balances with fellow Ingka Group 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 Ingka Group companies are interest free.

The amount of the net reversal of the deferred tax balance expected to occur during the next financial year is £648k.

13 Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Bank overdraft	8,156	12,237
Amounts owed to Group undertakings	38,658	37,329
Trade creditors	173,805	157,548
Corporation tax payable	3,496	14,237
VAT	25,739	26,003
Other tax and social security costs	5,248	4,532
Other creditors (including Accruals and Deferred Income)	<u>82,812</u>	<u>75,073</u>
	<u>337,914</u>	<u>326,959</u>

The bank overdraft balance is stated net of cash and card in transit for cash collected and card payments taken that have not yet cleared in the bank balance at year end.

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 Ingka Group 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 Ingka Group companies are interest free.

Bank overdrafts bear interest at LIBOR plus a margin.

IKEA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 AUGUST 2018

14 Creditors: Amounts falling due after more than one year

	2018 £'000	2017 £'000
Other Accruals & Retentions	6,556	5,913

15 Provision for liabilities and charges

	2018 £'000	2017 £'000
Returns provision		
At beginning of year	2,359	2,946
Utilised in year	(2,359)	(2,946)
Charge to profit and loss	2,580	2,359
At end of year	2,580	2,359
Legal provision		
At beginning of year	1,275	-
Charge to profit and loss	-	1,275
At end of year	1,275	1,275
Warranty provision		
At beginning of year	-	-
Utilised in year	-	-
Charge to P&L	5,842	-
At end of year	5,842	-
Total provision for liabilities and charges	9,697	3,634

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.

The legal provision is a best estimate in relation to an ongoing regulatory investigation.

The warranty provision relates to a 25 year warranty period where there are limited spare parts for claims.

16 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 2017	6,000	247,329	253,329
(Loss) / Profit for the year	-	(3,648)	(3,648)
As at 31 August 2018	6,000	243,681	249,681

	Authorised 2018 and 2017 No.	Allotted, issued and fully paid 2018 and 2017 No.
Ordinary Shares of £1 each	20,000,000	6,000,000

Each ordinary share entitles the shareholder to one vote on a written resolution; one vote (per shareholding) on a resolution on a show of hands at a meeting; and one vote on a resolution on a poll taken at a meeting.

The profit and loss account represents cumulative profits or losses net of dividends paid

17 Capital commitments

	2018 £'000	2017 £'000
Capital expenditure contracted for but not provided in the financial statements	2,766	15,467

18 Commitments under operating leases

At 31 August 2018 there were non-cancellable operating leases for assets which have future minimum lease payments as follows:

	2018 £'000	2017 £'000
Land and buildings		
1 year	71,674	64,043
2-5 years	283,432	252,769
After 5 years	970,610	943,647
Other		
1 year	321	266
2-5 years	255	228

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 (2017: £nil).

20 Key management personnel

Remuneration of key management personnel is disclosed in note 6. During the year, there were no 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 are revised 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, sales warranty provision, 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 smallest and 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.