

# IKEA GROUP

Ingka Holding B.V. and  
its controlled entities

# SUSTAINABILITY REPORT FY16



The financial year 2016 (referred to as FY16) of the IKEA Group (Ingka Holding B.V. and its controlled entities) refers to the period between 1 September 2015 and 31 August 2016 and the entities controlled by Ingka Holding B.V. during this time.

The IKEA Group franchises the IKEA retail system and methods from Inter IKEA Group B.V. in the Netherlands. Inter IKEA Group B.V. is the owner of the IKEA Concept and is the worldwide IKEA franchisor.

On 31 August 2016 we sold our product development, supply chain and production companies to Inter IKEA Group.



The mark of  
responsible forestry

FSC™ N001972

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# INTRODUCTION

**IKEA was founded seven decades ago, in the farmlands of Småland, Sweden. The world has changed a lot since then, and so has IKEA.**

But even as a major global retailer, we always stay true to our values of being thrifty with what we have, working together and turning challenges into possibilities.

Today, these values are more relevant than ever, as society faces some of the greatest social and environmental challenges of our time.

We want to use our influence, as a global company, to contribute to tackling these challenges. That is why we have set an ambitious strategy to create a positive impact on people and the planet. Read on to find out how we are working to achieve it.

# IKEA GROUP AT A GLANCE

**783 MILLION STORE VISITS**

**425 MILLION SHOPPING CENTRE VISITS**



## IKEA GROUP STORES IN 28 COUNTRIES

In addition to our 340 stores in 28 countries, at the end of FY16 we had 22 Pick-up and Order Points in 11 countries, 41 Shopping Centres in 15 countries and 38 Distribution sites in 18 countries.



## EUR 34.2 BILLION TOTAL SALES FY16

Total sales translated into Euro increased by 7.1%. Adjusted for currency impact, total sales increased by 7.9%.

FY06	FY15	FY16
17.4	31.9	34.2

In FY16, our total revenue was EUR 35.1 billion.

## EUR 4.2 BILLION NET PROFIT

## IT STARTS WITH THE FOOD

Celebrating everyday life in and around the kitchen, our theme for FY16, It Starts with the Food provides inspiration and solutions for food activities, from growing and cooking to serving and storing.

## 9,500 PRODUCTS ACROSS THE IKEA RANGE

Every year we renew our range, launching approximately 2,500 new products, designed by our in-house and contracted designers.

## EUR 1.7 BILLION IKEA FOOD TURNOVER

Sales at our restaurants, bistros, Swedish Food Markets and co-worker restaurants.



## IKEA FAMILY

## 100 MILLION IKEA FAMILY MEMBERS

Born in 1984, IKEA FAMILY has now reached 100 million members. Over 10 million new members join every year - that's around 30,000 new members every day!

## 163,600\* CO-WORKERS IN FY16

Retail - 124,400  
Distribution - 7,500  
Shopping Centres - 2,150  
IKEA Industry - 19,850  
Range & Supply & Other - 9,700

\* With the change in ownership of product development, supply chain and production companies, some 26,000 co-workers became part of the Inter IKEA Group during FY16.

## 2.1 BILLION VISITS TO IKEA.COM

An increase of 9% compared to FY15.

## 110 MILLION VISITS

to the catalogue and store apps.

## EUR 1.4 BILLION ONLINE SALES

Across 14 IKEA Group markets.



## 48% FEMALE MANAGERS

We want a workplace where 50% of leadership positions are held by women and 50% by men. Today, more than half of our co-workers are women, as are 48% of our managers and 33%\* of Group Management.

\* This number has changed for FY17 due to new management structure.

## 21.6% CORPORATE INCOME TAX

In FY16, corporate income tax increased to EUR 1.2 billion globally, which equals an effective corporate income tax rate of 21.6% (18.9% in FY15). In FY16, our total tax bill including other taxes and duties amounted to approximately EUR 1.9 billion.

# A MESSAGE FROM PETER

In FY16 we had over 783 million visits to our stores and around 2.1 billion to IKEA.com. One of the greatest impacts we can have is to inspire and enable our customers to live a more sustainable life at home.

For us, sustainability is not just about making our operations more sustainable; it's a huge business opportunity for those who can get it right.

We've had a really good year with continuous growth in all our sales channels, and a strong financial result. We have also made good progress in becoming more sustainable. That's not a coincidence because sustainability is an integral part of our growth agenda and essential for business success.

In the past, choosing sustainable products was often a compromise. They could be quite ugly, seldom worked well and often cost more. IKEA stands for just the opposite. We design every product to be beautiful, functional, high-quality, affordable, and sustainable. When you combine all these things, it's good for the customer, the planet and for IKEA.

Take lighting as an example. LED bulbs use up to 85% less energy than traditional incandescent models, saving both money and

energy. But a few years ago they used to cost around EUR 10 each. We began work with our manufacturing partners and are now selling LED bulbs for EUR 1.50 – making them affordable for those with thin wallets. Our efforts enabled us to convert our whole lighting range to LED.

Another example is renewable energy, where we're going all-in and have committed to own and operate 327 wind turbines and installed 730,000 solar panels on our buildings. We can do a lot ourselves, but we can only tackle the big challenges facing the world today by working together with others. That's why we joined forces with other businesses and investors to launch RE100, a group of companies who only want to use renewable electricity. Now over 80 major companies have signed up, and more are set to join.

With widespread support for the Paris agreement on climate change, we are finally seeing the start of something big. This is the decarbonisation of the economy, which will transform the way we live and how business is done. These are exciting times and there are many opportunities ahead for forward-thinking businesses to contribute to, and benefit from, the development of the low-carbon economy.

We have achieved a lot over the past year, but still we are just at the beginning and we have so much more to do. The IKEA vision, to create a better everyday life for the many people, gives us the opportunity – as well as the responsibility – to act and to meet the needs of future generations.

PETER AGNEFJÄLL  
President and CEO, IKEA Group  
INGKA Holding B.V. and its  
controlled entities



# A MESSAGE FROM STEVE

Twice last year the international community got things absolutely right: the Paris Agreement on climate change and the Sustainable Development Goals (SDGs). These agreements mark a significant step forward in the journey towards a cleaner, fairer world, and we're fully committed to both.

The Paris meeting turned climate change from a point of disagreement to agreement. It's the fastest ever signing of an international settlement and has created huge momentum. We threw everything we had behind Paris, going all-in to demonstrate our support for government efforts and to show how small changes to the way we live can add up to make a big difference to the planet.

These global agreements are significant, but they are just the beginning. Governments and business must now be bold – moving from commitments to action. And while some will try, no business or government should seek to stand against progress. They will find themselves on the wrong side of history.

We're making good progress against the commitments in our People & Planet Positive strategy, but we have a lot more to do. We must build on our successes and continue to develop a culture that inspires us to hit every target.

I'm proud of the great progress we have made with our code of conduct for suppliers – IWAY. It is an integral part of the relationship with our business partners that is contributing to better lives for workers by supporting decent jobs. We support vulnerable groups in our value chain by, for example, working in partnership with the International Organization for Migration to protect migrant workers from abuse.

Similarly, we promote gender equality in everything we do and support our LGBT+ co-workers' right to be themselves. We know that taking a positive, proactive approach to equality is not just good for society, our co-workers and our customers, but it benefits our business too.

We're sourcing more of our materials from more sustainable sources – 61% of our wood and 100% of our cotton. And we're working with others to make sustainable practices the norm in the industry, not just our own supply chain.

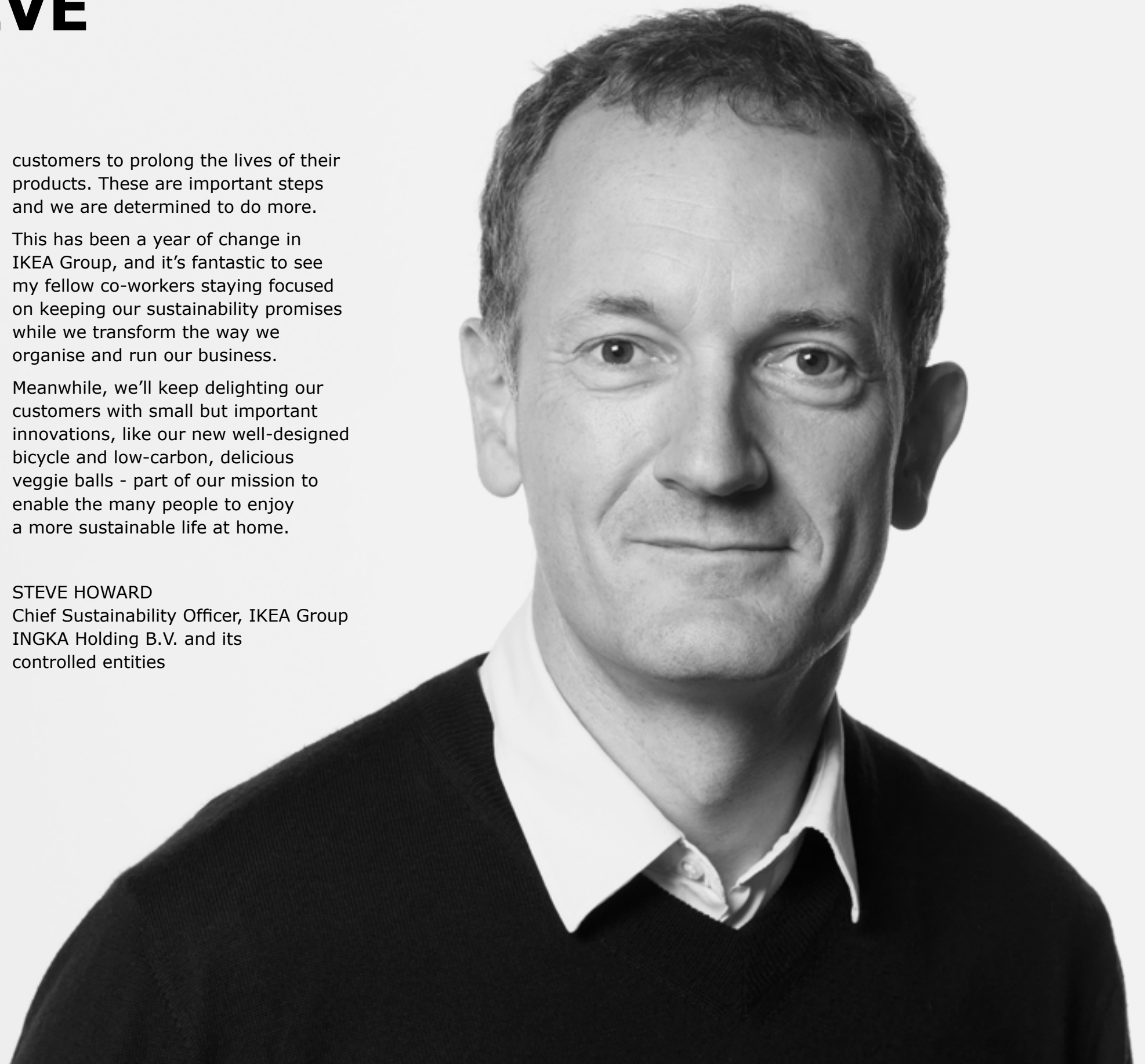
We also want a waste-free world, and that's why we support a shift to the circular economy that turns waste into a resource for new products. We're using more recycled content in our products, supplying over one million spare parts for easy repair each year, and looking at how we can support our

customers to prolong the lives of their products. These are important steps and we are determined to do more.

This has been a year of change in IKEA Group, and it's fantastic to see my fellow co-workers staying focused on keeping our sustainability promises while we transform the way we organise and run our business.

Meanwhile, we'll keep delighting our customers with small but important innovations, like our new well-designed bicycle and low-carbon, delicious veggie balls - part of our mission to enable the many people to enjoy a more sustainable life at home.

**STEVE HOWARD**  
Chief Sustainability Officer, IKEA Group  
INGKA Holding B.V. and its  
controlled entities



# THE YEAR IN BRIEF

## RAISING OUR VOICE ON CLIMATE CHANGE

World leaders met in Paris in December 2015 and achieved a historic agreement to tackle climate change. We were there - calling for climate action and lighting up the city with 800,000 Christmas lights, powered by clean energy.

PHOTO: LUMENTO



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## SUPPORTING REFUGEES

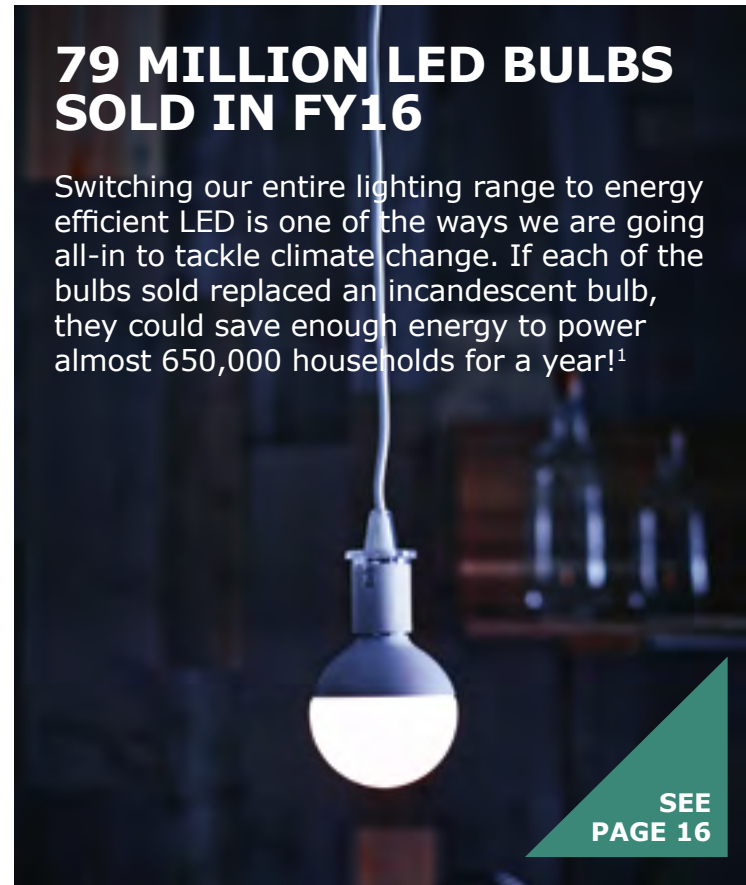
Around the world, millions of people have had to leave their everyday lives behind. In many IKEA retail countries, co-workers have dedicated time and resources to creating better conditions for newly arrived refugees.



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## 79 MILLION LED BULBS SOLD IN FY16

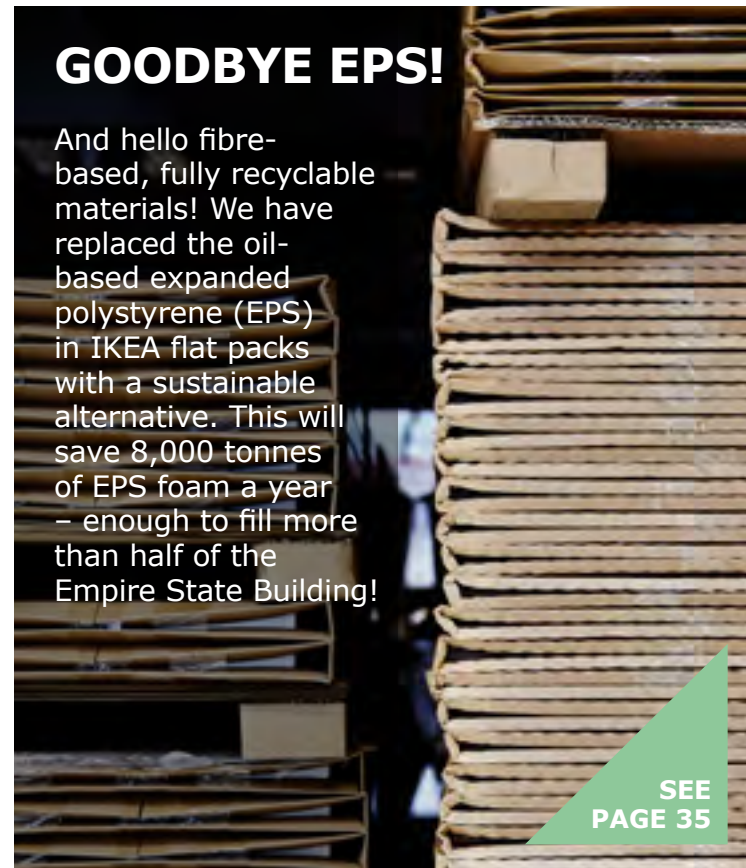
Switching our entire lighting range to energy efficient LED is one of the ways we are going all-in to tackle climate change. If each of the bulbs sold replaced an incandescent bulb, they could save enough energy to power almost 650,000 households for a year!<sup>1</sup>



SEE PAGE 16

## GOODBYE EPS!

And hello fibre-based, fully recyclable materials! We have replaced the oil-based expanded polystyrene (EPS) in IKEA flat packs with a sustainable alternative. This will save 8,000 tonnes of EPS foam a year – enough to fill more than half of the Empire State Building!



SEE PAGE 35

## COTTON AND WOOD FROM MORE SUSTAINABLE SOURCES

All of the cotton we use for our products comes from more sustainable sources.<sup>2</sup> In FY16, 61% of wood came from more sustainable sources,<sup>3</sup> and we aim for 100% by 2020.



SEE PAGE 24

## EUR 23.5 MILLION RAISED DURING GOOD CAUSE CAMPAIGNS IN FY16

As a result of the **Soft Toys for Education** and **Brighter Lives for Refugees** campaigns, IKEA Foundation donated EUR 23.5 million. These funds will improve opportunities for children in some of the world's poorest communities.



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## A WORKPLACE FOR EVERYONE

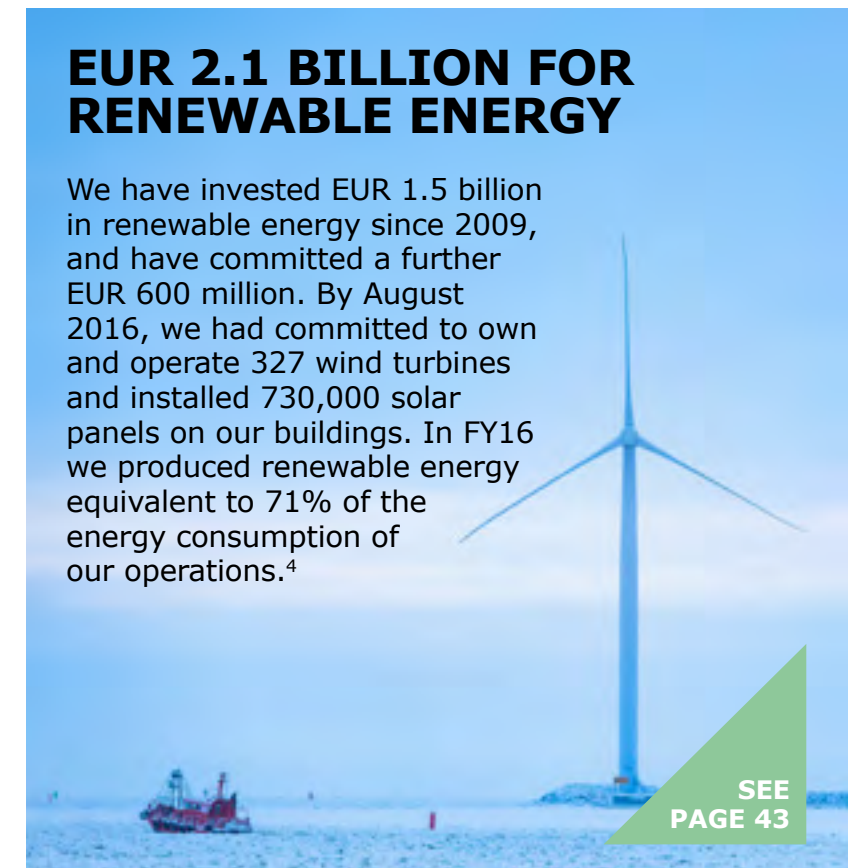
We want to create a fully inclusive work environment where all our co-workers are able to be themselves. In 2015, IKEA Group became a member of the Workplace Pride Foundation, which strives for greater acceptance of LGBT+ people in the workplace and in society.



SEE PAGE 53

## EUR 2.1 BILLION FOR RENEWABLE ENERGY

We have invested EUR 1.5 billion in renewable energy since 2009, and have committed a further EUR 600 million. By August 2016, we had committed to own and operate 327 wind turbines and installed 730,000 solar panels on our buildings. In FY16 we produced renewable energy equivalent to 71% of the energy consumption of our operations.<sup>4</sup>



SEE PAGE 43

<sup>1</sup> Calculation based on the electricity consumption of an average European household.

<sup>2</sup> Includes cotton grown to the Better Cotton Standard; by farmers working towards Better Cotton; recycled cotton and more sustainable cotton from the USA (such as the 'e3 Cotton Program').

<sup>3</sup> Currently defined as FSC™-certified or recycled wood.

<sup>4</sup> Excluding IKEA Centres, the IKEA Group shopping centre business.



# PEOPLE & PLANET POSITIVE STRATEGY

We are taking bold steps to transform our business and respond to a rapidly changing world. This is our opportunity to play a small, but significant, role in helping to create a more sustainable planet.

FY16 has been an important year. In December 2015, the world's leaders committed to keep global warming well below the 2°C threshold, and the launch of the UN Sustainable Development Goals (SDGs) established a strategic direction for governments and business to create a sustainable future.

We know that to be a viable business in the long term, we need to be a sustainable business. And we want to go beyond this, by going all-in to create a positive impact for people and the planet.

## The People & Planet Positive strategy

Our sustainability strategy, People & Planet Positive, sets out how we are working to make a positive difference for people and the environment today and tomorrow. The strategy focuses on three areas where we can have the most positive impact. Learn more about how we focus our efforts on [page 89](#).

- **Inspire and enable millions of customers to live a more sustainable and healthier life at home.** Take the lead in developing and promoting products and solutions that help customers save and generate energy, reduce and sort waste and use water more efficiently – all at the lowest possible price.

- **Strive for resource and energy independence.** Secure long-term access to sustainable raw materials, promote recycling, and use resources within the limits of the planet. Produce more renewable energy than we consume and drive energy efficiency throughout our value chain.
- **Take a lead in creating a better life for the people and communities impacted by our business.** Extend our code of conduct throughout our value chain; be a good neighbour, act in the best interests of children and support human rights.



## WHAT IS IN THE REPORT?

This Report is an account of our progress in FY16 against the targets set out in the People & Planet Positive strategy. Find the People & Planet Positive strategy on our [website](#). Read on to learn about how far we have progressed and our ambitions to do even more.

The report covers all wholly owned companies in the IKEA Group in FY16. At the beginning of FY17, the composition of IKEA Group changed when IKEA range, supply and production activities were transferred from the IKEA Group to the Inter IKEA Group. See [page 83](#) for more information and read about the scope of this report on [page 89](#).

## FIND OUT MORE

About the IKEA Group, our vision and our business idea on the [IKEA website](#).

## Growing IKEA Together 2020+

Our vision, to create a better everyday life for the many people, is at the heart of our sustainability strategy, People & Planet Positive. Sustainability is one of the strategic cornerstones in the IKEA Group direction – Growing IKEA Together 2020+. The direction outlines our aim to create a better IKEA, to position IKEA in the hearts and minds of the many people, and to achieve long-term growth and profitability. It sets a high level direction for IKEA Group, complemented by our People & Planet Positive strategy. Find out more about our governance on [page 84](#), and how sustainability is integrated across our business on [page 19](#).

GROWING IKEA TOGETHER 2020+

OBJECTIVES

IKEA in the hearts and minds of the many people

Growth and long term profitability

A better IKEA

CORNERSTONES

1

**GROWING  
IKEA**

...through providing a great customer experience, bringing our strong and inspiring home furnishing offer and expertise closer to the many people

2

**PEOPLE**

...through developing co-workers, strengthening our culture and making IKEA a great place to work

3

**SUSTAINABILITY**

...through becoming "people and planet positive" and always acting in a responsible way

4

**PERFORMANCE**

...through unleashing our full potential, constantly finding better ways and building long term value

GOALS

# IKEA GROUP AND THE SUSTAINABLE DEVELOPMENT GOALS

“The UN Sustainable Development Goals are the master plan for a cleaner, fairer world. We want to lead with passion and purpose to help make that world possible.”

**STEVE HOWARD**  
Chief Sustainability Officer  
IKEA Group



The UN aims to drive global action through the Sustainable Development Goals (SDGs) that set a framework for a better future.

This set of 17 goals, launched in September 2015, responds to the biggest challenges facing our world. It guides governments, businesses and civil society in ending poverty, fighting inequality and injustice, and tackling climate change by 2030. The goals can inspire business to turn today’s challenges into tomorrow’s opportunities: entering new markets, developing new products and services, and ultimately transforming their business and the world.

IKEA Group welcomes the Sustainable Development Goals as a catalyst towards achieving a more sustainable and equal world. We will use the goals to guide and inspire us in developing our sustainability agenda.

We have mapped our People & Planet Positive strategy against the goals, and identified seven in particular where we can make the greatest contribution. Find out more about these on the right. And see how we are supporting all 17 goals in the SDG index on [page 91](#).

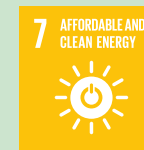


**GENDER EQUALITY** – Achieve gender equality and empower all women and girls



**“To close the gender gap, we must all join together – governments, businesses and individuals. There is a lot we can do in IKEA to boost women’s empowerment. And every step we take contributes to a better society. In September 2015, IKEA Switzerland became the first company in the world to reach the highest level of EDGE – the leading global standard for gender equality. This reinforces our commitment to ensuring a company structure and culture that prevents pay gaps and underrepresentation of women in management positions, and that offers different career paths for women.”**

**SIMONA SCARPALEGGIA**  
IKEA Retail Switzerland  
Country Retail Manager and  
co-chair of the UN High Level Panel on  
Women’s Economic empowerment

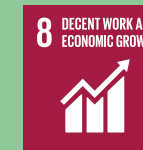


**AFFORDABLE AND CLEAN ENERGY** – Ensure access to affordable, reliable, sustainable and modern energy for all



To secure a reliable source of energy for the future, we must transition to renewables. Since 2009, we have committed to invest EUR 2.1 billion in renewable energy. We have already committed to own and operate 327 wind turbines and installed 730,000 solar panels on our buildings (see [page 43](#)).

We work to improve energy efficiency across our value chain – in our own operations (see [page 41](#)) and by working with our suppliers (see [page 38](#)). We offer products that enable our customers to save energy at home – like energy-saving LED bulbs. And our new home solar offer enables customers to turn their roofs into power stations, contributing to our ambition to make clean energy available and affordable for as many people as possible (see [page 16](#)).



**DECENT WORK AND ECONOMIC GROWTH** – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

We employed over 163,600 co-workers around the world in FY16, and we create employment for millions of people indirectly through our extended value chain. We want to ensure that what we do has a positive impact on their lives. Everyone should have access to decent work, under safe conditions.

We set minimum requirements on environment, social and working conditions throughout our supply chain through our code of conduct and programme for suppliers, IWAY. It ensures a mutual understanding with our suppliers – some of whom we have worked with for several decades.

We pay particular attention to vulnerable groups in our supply chain, such as migrant workers and home-based workers, to ensure that they can access decent employment. Find out more on [page 68](#).





**REDUCED INEQUALITIES –**  
Reduce inequality within and among countries



We want to contribute to a more equal and inclusive society. Within our own operations, we want to create a work environment that enables all our co-workers to be themselves, regardless of their gender identity or sexual orientation.

We take a stand for decent jobs, fair wages and equality for the people in our supply chain. By helping to improve their lives, we can support positive economic, social and environmental development that contributes to reduced inequalities within and among countries. Read more on [page 68](#).



**RESPONSIBLE CONSUMPTION AND PRODUCTION –**  
Ensure sustainable consumption and production patterns

**“Humanity is using the planet’s resources at an unsustainable rate. It’s time to start looking at waste differently – as a resource. At IKEA, our focus is on ensuring customers can make the most of their products. We will support them to care for and repair, rent and share, and eventually return them to IKEA. Then we can close the loop, giving our products – and the materials they are made from – a second life.”**



**PIA HEIDENMARK COOK**  
Head of Sustainability for Retail & Expansion  
IKEA Group

We aim to make high-quality, sustainable home furnishings that are accessible for the many people, not just the fortunate few. And we want to minimise the environmental impact of each product at every stage of its life – from sourcing, to production, transport, use, and eventually end of life. Find out more on [page 22](#).

We want our products to last as long as our customers need them – and even longer! There comes a time when they’re no longer needed, and we are exploring how to close the loop to turn old products into a new resource. We already do this in our operations, and many of our home furnishing products are made from renewable, recyclable and recycled materials. See [page 34](#).

It is not just about what we do, but what we can inspire our customers to do. Many of our products enable customers to live a more sustainable life at home, saving water and energy, and minimising waste. Find out more on [page 12](#).



**CLIMATE ACTION –**  
Take urgent action to combat climate change and its impacts



**“Urgent action is needed to tackle climate change – communities across the world and the success of business depend on it. That’s why IKEA Group is going all-in to be part of the solution. We see action on climate change as a driver of innovation, investment and renewal.”**

**PETER AGNEFJÄLL**  
President and CEO, IKEA Group

We need bold action from governments and businesses to secure the future of our planet. We use our scale and influence to advocate for strong policies on climate change. Our Chief Executive Officer and Chief Sustainability Officer were both at the COP21 climate conference in Paris in December 2015 (see [page 13](#)). And we partner with others through coalitions such as We Mean Business and RE100, to promote a low-carbon economy.

With 783 million visitors to our stores each year, we have a great opportunity to inspire people to act on climate change in their everyday lives, by taking small steps to cut energy and water use, or reduce waste. Find out more about how we are inspiring action on climate change on [page 13](#).



**LIFE ON LAND –** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

The production of raw materials we source can have a big impact on local ecosystems, biodiversity and communities. The materials we use most are wood and cotton, and we have a big responsibility to source them in a way that protects, restores and promotes sustainable use of terrestrial ecosystems and biodiversity. We have a great opportunity to use our scale and influence to transform the wider industry for these materials to more sustainable sources.

All the cotton we use for our products is from more sustainable sources, using more sustainable farming practices that improve farmers’ livelihoods and working conditions, and protect the environment. Now we are going beyond our supply chain to make more sustainable sources the norm across the whole industry. Find out more on [page 24](#).

In FY16, we sourced 61% of wood from more sustainable sources. To reach 100% by 2020, we need to work with others to increase the global supply of sustainable sources of wood. Our goal is to become forest positive and promote the adoption of sustainable forestry methods. See [page 24](#).





## A MORE SUSTAINABLE AND HEALTHIER LIFE AT HOME

**We are committed to inspiring and enabling all our customers to live a more sustainable and healthier life at home.**

A sustainable and healthy lifestyle should be accessible to the many people, without having to compromise on style, function, quality, or price. We design products that meet these criteria, and

enable customers to save energy and water, reduce waste, live more healthily, and save money. We call this our 'More sustainable life at home' range, and we are constantly developing and improving it to meet our goal of a fourfold increase in sales of these products by August 2020, compared with FY13.

WATCH THE VIDEO



# INSPIRING ACTION ON CLIMATE CHANGE

IN DECEMBER 2015, GOVERNMENTS AGREED TO FIGHT CLIMATE CHANGE TOGETHER, SIGNING THE HISTORIC PARIS AGREEMENT.

IKEA Group is committed to going all-in on climate change, in our own business and beyond. We made our views heard in the lead up to the United Nations climate change conference in Paris, and have been working with others to increase our impact and drive positive change.

In the run-up to the conference, we helped establish We Mean Business, a coalition of organisations calling for action on climate change, and RE100, a group of businesses committed to using renewable energy. We encouraged our co-workers and customers to sign a petition at [www.momentforaction.org](http://www.momentforaction.org), which was delivered to world leaders at COP21.

Peter Agnefjäll, our President and CEO, and Steve Howard, our Chief Sustainability Officer, attended the Paris conference along with many co-workers who transformed the iconic Champs-Élysées into a showcase for renewable energy and LED lighting.

A wind turbine, 440 solar panels and 25 human-powered generators kept 800,000 LED lights ablaze along the entire avenue.

Thousands of families and friends joined in the fun: swinging, running and cycling to keep the lights sparkling. We encouraged our customers to visit the IKEA France website to learn more about how they could fight climate change by making small but significant changes in their lives.

“It was an amazing journey,” says Myriam Galopin Degrave, Sustainability Project Leader at IKEA France.



PHOTOS: LUMENTO

“There was incredible enthusiasm in IKEA France and great support throughout IKEA. Seeing so many people take part showed how sustainability can also drive fun and engagement.”

IKEA is the world’s biggest home furnishing retailer and we have a responsibility – and a huge opportunity – to contribute to tackling climate change.

We work to reduce our energy use and have committed to generate as much energy from renewables as all of the energy we use in our own operations, by 2020. Since 2009, we have invested EUR 1.5 billion in wind turbines and solar panels, and in June 2015, IKEA Group and the IKEA Foundation committed a total of EUR 1 billion to climate action. This consisted of a EUR 600 million commitment by IKEA Group for investments in renewable energy and a EUR 400 million commitment by the IKEA Foundation to support communities most impacted by climate change.

But we know that this is not enough. With 783 million visits to our stores and 2.1 billion

visitors to IKEA.com, we have an opportunity to inspire and enable millions of customers to live more sustainably. Many of our products and solutions enable our customers to save and generate energy, conserve water, reduce waste and live healthier lives. And we are determined to develop more products like these.

In 2015, we switched our entire lighting range to energy-efficient LED. LED bulbs use up to 85% less energy than incandescent bulbs, and last for up to 20 years. They’re the future of lighting and we aim to sell 500 million by 2020. If these replaced incandescent bulbs, it would save enough energy each year to meet the annual electricity needs of every household in Paris and London.

Many of our customers can now generate their own renewable energy too. Our new solar panel offer, launched in FY16 in the Netherlands, Switzerland and the UK, guides customers all the way from planning and purchase to fitting and maintenance – at the lowest possible price. During FY17, we will expand this offer to a further nine countries.

This is just the start of our contribution to the pledges made in Paris, and we have much more to do.

Read more about how we are transforming our business (see [page 22](#)), working with others to call for positive change (see [page 84](#)), and inspiring our customers to take action (see [page 19](#)).



WATCH THE VIDEO

# ENABLING A MORE SUSTAINABLE AND HEALTHIER LIFE AT HOME

WE CAN HAVE A BIG IMPACT ON THE PLANET BY INSPIRING AND ENABLING OUR MILLIONS OF CUSTOMERS TO LIVE MORE SUSTAINABLE AND HEALTHIER LIVES.

The possibilities are huge. If each of the 79 million LED bulbs we sold in FY16 replaced an incandescent bulb, they could save enough energy to power almost 650,000 households for a year!<sup>1</sup>

We firmly believe that more sustainable living should not have to be a compromise. We design every product based on the principles of our Democratic Design approach – combining form, function, quality and sustainability at an affordable price. This means that customers can enjoy the same high quality and low cost for any product and benefit from simple and

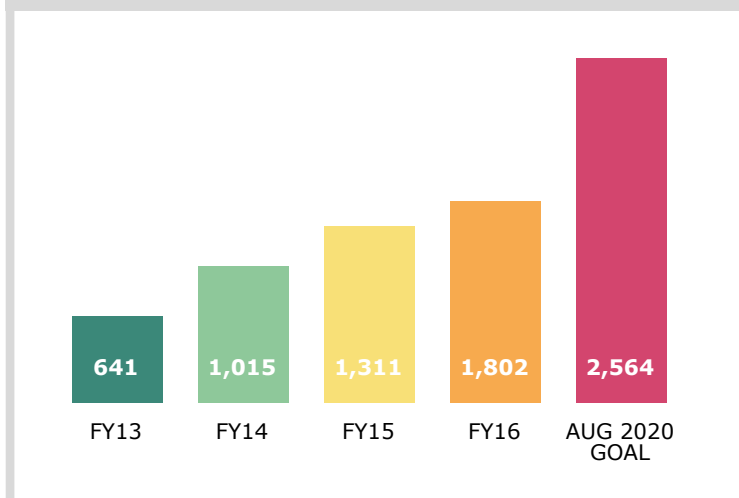
creative ways to save water or energy, reduce waste and live healthier lives.

These products that enable more sustainable and healthier living form our 'More sustainable life at home' range. There are now 1,138 products in this range – from LED light bulbs to water efficient taps, indoor gardening equipment, and even a bike (see [page 15](#)). We track sales of these products to measure our impact, and we aim to achieve a fourfold increase in these sales by 2020, compared with FY13. In FY16, sales of these products totalled EUR 1,802 million, bringing us 70% of the way towards our target.

Sales are one way of measuring. We use surveys and studies with co-workers and customers to gain a unique insight into how our products and solutions can be used to live more sustainably, and to improve people's lives. We want to share these ideas and know-how to inspire even more people – whether through fun and original interior design ideas in our catalogue, or enthusiastic sustainability co-worker ambassadors helping customers in our stores. Read about how we engage our co-workers and customers in more sustainable living on [page 19](#). And for our latest insights, see our [Life at home report](#).

<sup>1</sup> Calculation based on the electricity consumption of an average European household.

**SALES VALUE OF PRODUCTS CLASSIFIED AS 'MORE SUSTAINABLE LIFE AT HOME' (MILLION EUR)**



(MILLION EUR)

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
Take the lead in developing and promoting products and solutions that inspire and enable people to live a more sustainable life at home, and achieve more than a fourfold increase in sales by August 2020, compared to FY13.		Sales of products for a more sustainable life at home increased to EUR 1,802 million (EUR 641 million in FY13).
By September 2017, offer the most energy-efficient home appliances at the lowest price.		We continue to launch new energy-efficient appliances, including cookers, dishwashers, fridges, oven hoods and washing machines. In FY17, we will launch new dishwashers with A+++ ratings in Europe and in North America we will only offer cooling products with an Energy Star rating.
By September 2016, all our electric hobs will be energy-efficient induction hobs.		We continue to expand our range of energy-efficient induction hobs that enable customers to save energy. 63% of our electric hobs were energy-efficient induction hobs in FY16, down from 66% in FY15.
Offer leading water and energy saving solutions in our range of taps, showers, sink accessories and dishwashers by September 2016 – all at the lowest possible price.		Our dishwashers are a great alternative to hand washing, using less energy and water. In FY17, we plan to launch new models with A+++ ratings in Europe to offer even more energy-efficient dishwashers to customers. Our new range of showers and taps with energy and water saving features will be launched outside the target date.
Take action in more healthy and sustainable food by enabling and encouraging a more balanced diet.		We continue to use our Balanced Meal standard to assess the nutritional value of our meals and products. And we work to provide more information for our customers to learn more about our food range, such as allergen and nutritional information.

LEGEND: Achieved Ongoing Not achieved

# BEING HEALTHIER

Eating well and exercising are key to healthy living, but busy lifestyles, urban living and a culture of convenience can get in the way. We are developing products that make it easier to live a healthy life and spend more time on the important things.

## Food in our stores

Food is a fundamental part of our daily life. We want to offer healthy and more sustainable food in our IKEA restaurants, IKEA bistros, Swedish Food Markets and co-worker restaurants, to enable our customers and co-workers to eat well at our stores, and at home.

Our food range follows our principles of Democratic Design – great-tasting products that are sustainable and affordable. We continue to use our Balanced Meal standard, developed in FY15, to measure and improve the nutritional value and calorie counts of

our meals and products. In FY16, we continued to work on providing more information online and in our restaurants for customers to find out more about our food range, such as nutrition, allergens and ingredients.

We aim to source all of our food ingredients responsibly, in a way that is good for people and the planet. To find out more, see [page 31](#).

## At home

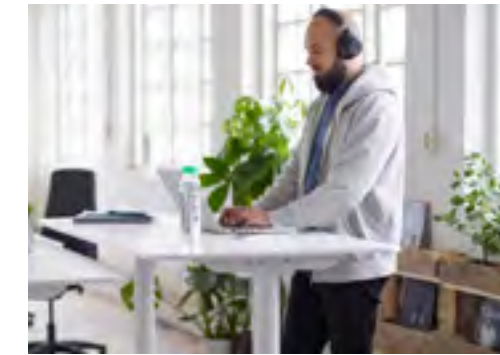
More people live in urban environments than ever before – by 2050, over two thirds of the world's population will live in cities.<sup>2</sup> This means a different way of life, including smaller living spaces and restricted access to nature. We think about these trends when we develop products and now offer solutions that enable customers to connect with nature, stay healthy and grow and cook their own fresh food.

<sup>2</sup> <https://esa.un.org/unpd/wup/Publications/Files/WUP2014-Highlights.pdf>



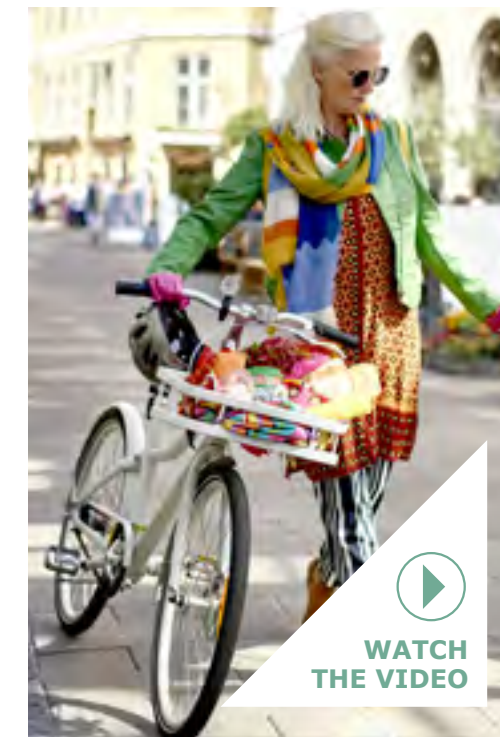
## KRYDDA/VÄXER

Our new KRYDDA/VÄXER series uses hydroponics and a built-in LED. So even the most urban-loving city-dwellers can enjoy growing and eating their own fresh food throughout the year, without the need for sunlight or soil.



## BEKANT desk

With an adjustable height, this desk allows you to change between sitting and standing – helping you feel and work better. It has a deep table top to give you a generous work space that lets you sit at a healthy distance from the computer screen.



## SLADDA bicycle

In FY16, we launched the SLADDA bike. We know that looking after bikes can be complicated, costly and time-consuming. That's why we designed the SLADDA with a rubber belt drive – a rustproof, durable and maintenance-free alternative to a regular chain.

It is light, low-maintenance and comes with customisable accessories including a basket and a trailer, making car-free journeys achievable for all.

And it's built to last, with a guarantee of 25 years on the frame and 10 years on the belt drive. The SLADDA has received international acclaim for great product design, with a [Red Dot Design Award](#).



# SAVING AND GENERATING ENERGY

For many people, energy is the biggest household expense. Our products enable customers to cut their energy use, bills and carbon emissions.

There are many simple ways to save energy at home. It all starts with gaining a better understanding of how much energy you are using, and where. Our SPARSNÄS energy meters receive real-time data through a wireless transmitter, displaying information in an easy to understand format, so that customers can target their energy-saving efforts.

Homes lose heat through floors, doors and windows. Rugs and curtains provide insulation and are a simple way to save energy and regulate indoor temperatures. For example, hanging our ANVÄNDBAR drapes on the inside of the door helps to prevent drafts.

**“The energy of the future is going to be about millions of homes making energy, not big coal fired power stations.”**

**STEVE HOWARD**

Chief Sustainability Officer, IKEA Group

and our partners’ expertise in solar, to create the best offer for our customers. By using these high-quality, affordable solar systems, customers can save up to 50% on their electricity bills.

We are on an exciting journey to make solar energy mainstream around the world. During FY17 we aim to launch home solar across a further nine countries.



## More energy efficient products

Many of our products support customers to manage their energy use. Our cold-start mixer taps, including BOSJÖN, cut energy consumption by around 30% by preventing unintentional use of hot water. We are developing a new range of showers and taps that save energy and water.

Our energy-efficient induction hobs cook food faster and use less energy than conventional stoves. In FY16, 63% of our hobs were induction models, slightly less than FY15. Not all homes have the electrical infrastructure needed for induction hobs, and we are re-assessing our

target accordingly. We are also looking into other potential solutions that are relevant in all our markets.

Our new TILLREDA portable induction hob is 40% more energy efficient than other hob varieties. It uses induction technology to prevent heat loss by adapting to any size or shape of pan, halving cooking time compared to conventional hobs. TILLREDA won international recognition in 2016, receiving the [Red Dot design award](#).

We aim to offer the most energy-efficient home appliances at the lowest price. Many of our ovens, fridges, dishwashers and washing machines are A and A+++ classified. In FY17, we plan to launch new dishwashers with A+++ ratings in Europe to offer even more energy-efficient options for customers. In North America, we will only offer cooling products with an Energy Star rating. We are working to ensure that these products are available across our markets.

## Switching to LED

LED bulbs use up to 85% less energy than traditional incandescent bulbs, and last up to 20 years. But for a long time, people were reluctant to switch, because of the high price and the perception of lower quality light. We took the LED lightbulb and started again, to create a range that

**“Since I swapped all my 28 light bulbs to LEDARE – it has made a huge difference to my bill, I now pay around 25% less per quarter for my electricity.”**

**PETERSON LAI**

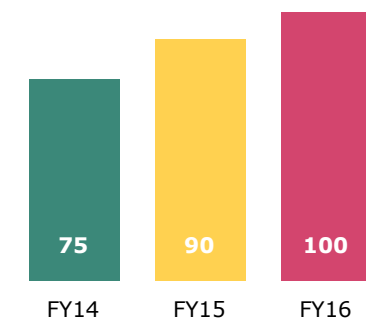
Co-worker & Sustainability Ambassador  
IKEA Australia

offers high-quality lighting at a low cost. And in September 2015, we achieved our goal to convert our entire lighting range to LED.

In December 2015, we joined the Global Lighting Challenge ([www.globallightingchallenge.org](http://www.globallightingchallenge.org)), an initiative that aims to achieve cumulative global sales of 10 billion energy-efficient bulbs. As part of this, we announced our ambition to sell 500 million LED bulbs between the start of 2015 and the end of 2020. If all of these bulbs replace incandescent models, it will save enough energy each year to meet the annual electricity needs of every household in Paris and London.<sup>3</sup> In FY16, we sold 79.1 million LED bulbs, bringing us 16% of the way towards this ambition. All of our lamps that include an in-built light are also LED, enabling our customers to reduce their energy consumption. We sold over 28 million LED lamps in FY16. We are going all-in with LED across our own buildings too, see [page 45](#).

## ENERGY-EFFICIENT PRODUCTS

% OF ALL LIGHTING PRODUCTS WHICH WERE LED OR WERE COMPATIBLE WITH LED BULBS<sup>4</sup>



<sup>3</sup> <http://www.globallightingchallenge.org/WhosIn/Participants/IKEA>

<sup>4</sup> By September 2015 our entire lighting range was LED or compatible with LED bulbs.





## RECHARGING FOR THE PLANET!

RECHARGEABLE BATTERIES – AN EXPENSIVE, INCONVENIENT ALTERNATIVE TO DISPOSABLE BATTERIES? NOT ANYMORE.

There couldn't be a simpler way to save money, time, and the planet.

Our LADDA rechargeable batteries can be charged up to 1,500 times, saving time and money. For example, a family in Germany can save up to EUR 75 in one year by using LADDA batteries instead of disposable batteries. And we've expanded our range of LADDA rechargeable batteries to include higher-energy models for all needs.

But we know that finding somewhere to store and recharge batteries can be difficult. That's why we developed STORHÖGEN, which charges up to 12 batteries at the same time. Indicator lights show when batteries are fully charged, and the device then switches to standby, offering safe and stylish storage. A smaller portable charger, VINNINGE, charges two batteries at a time by USB, keeping you powered up wherever you are.

**"I would normally spend a lot on single use batteries. After using LADDA rechargeable batteries I'll have recouped the cost in less than 10 months! More importantly, I'll never get caught short of batteries when my game equipment or wireless keyboard batteries fade. And, in four and a half years I'll have diverted at least 495 batteries from being thrown in the bin."**

HUW LIGHTFOOT Co-worker, IKEA UK



Products like our **VARIERA** bins enable customers to sort waste for recycling – so that their waste can become a resource. The bins are easy to carry, lock in odours and can be customised to fit any space.

## WASTING LESS

Everyone can recycle and avoid producing excessive waste. And by only using what we need, we can save money while protecting the planet. Materials like plastic, paper and metal can have a new life after recycling, turning waste into a resource. We offer a range of simple and affordable solutions for customers to sort and reduce waste at home.

### Food waste

Every year, around a third of all food produced in the world is wasted. Our products and solutions enable customers to waste less and save on their food bills. But this is not always easy, especially if you do not know how.

We researched households in Germany and China in FY15, and found that the biggest challenges facing customers are a lack of know-how on food storage, shortage of space, and a lack of systems in modern houses to store food. These findings guide the development of our future products.

Customers can find out how to make the most of our products to preserve food, using the tips on our website. In some countries we go further to get the message out. For example, in the Czech



**KORKEN** glass jars are a great way to store dry food and preserve fruits and vegetables.

Republic we covered bus and tram stops with posters demonstrating how to store food and sort waste.

### Sorting waste

Recycling and waste collection systems vary around the world and it can be difficult to understand how to sort waste. Having the right bins helps.

### Long-lasting products

We want customers to enjoy our products for as long as possible. Find out more about how we design long-lasting and durable products on [page 34](#).

### Furniture take-back

In some markets, customers can take back their unwanted furniture to our stores and we work with local charity partners to rehome the old furniture. For example, in Finland, IKEA FAMILY members can exchange their unwanted furniture for an IKEA gift card. Learn more about how we are supporting the transition to a circular economy on [page 23](#).

## SAVING WATER

Water is a precious resource and we want to give our customers the products and know-how to conserve it.

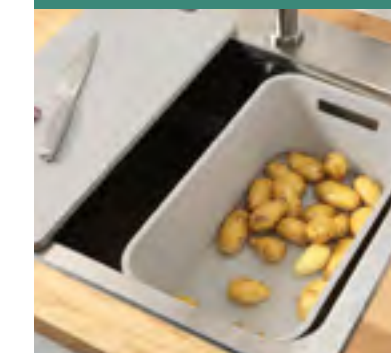
Many of our taps combine pressure-compensating aerators and cold-start functions, which save energy and water. The pressure-compensating aerator featured in all our kitchen taps reduces water use by up to 40%. All new bathroom taps have a cold start function that enables customers to cut energy use. Our water-efficient dishwashers, such as LAGAN, also enable customers to use less water than hand washing.

We are also developing a new range of showers and taps with more water saving features.

**"Washing up by hand is a thing of the past in our house. We save 1,100 litres every month with our dishwasher, that's almost six bathtubs full. And that's not all: we have regained two hours of time that we previously needed to wash by hand."**

SANDRINE AND JÉRÉMIE  
Switzerland

All of our kitchen taps, including **BOSJÖN**, feature a pressure compensating aerator that restricts the flow of water, reducing water use by up to 40%.



Our washing up bowls, like **GRUNDTVATTNET** mean that you do not need to keep the tap running.

# STAKEHOLDER CHALLENGE REINVIGORATING THE MOVEMENT FOR SUSTAINABLE LIVING



Dear IKEA,

**“You have switched the entire IKEA lighting range to LED, you offer waste sorting bins and food containers – but what’s next? How can you really contribute to more sustainable living through your range?”**

**IAN CHRISTIE**

Fellow, Centre for Environment and Sustainability, University of Surrey



Hej Ian!

“Innovative products will always play a big role in sustainable living. But new, better products will never be enough: it’s the small everyday changes in the way we live that add up to big, positive impacts on the planet. This demands two actions: a decision to make a change, and support in making it happen. IKEA can offer inspiration and support.

We’re obsessed with life at home. For decades, we’ve visited people’s homes all around the world, learning about their everyday lives, their challenges, and what they love or want to change about their homes.

This insight is the first stage of our product development. We use it to identify our customers’ needs and dreams. Then we use the principles of Democratic Design to create products with good form, function, quality, low cost, and built-in sustainability. The principles are critically important – following them is how we ensure that all of our products maintain the same high standards at low cost.

Sometimes our innovation process leads to solutions that you might not expect from a home furnishing company – like our SLADDA bike. Many of our customers live in cities, without a car of their own. So we designed a bike that requires minimum maintenance and makes sustainable transport easy, low cost and accessible to the many people. We applied the same principles to our iconic meatballs. Raising animals has a big impact on the planet, so we came up with a tasty and affordable vegetarian alternative - the GRÖNSAKSBULLAR veggie balls!

But sustainable innovations are wasted if people aren’t inspired to use them. In FY16, there were

783 million visits to our stores across 28 countries. The greatest impact we can have is to inspire people to live more sustainably. Our *More sustainable life at home* engagement project is working with co-workers and customers in 22 countries, offering them the solutions, support and ideas they need to make a change to sustainable living.

Our ambition is to stimulate the movement for sustainable living. We have accomplished a lot but we know there is more we can do. We will continue researching how best we can achieve our aim, and how best to use our influence for a better – and more sustainable – life at home.”

**NANETTE WEISDAL**

Development Leader  
Sustainability Range  
IKEA of Sweden

# INSPIRING MORE SUSTAINABLE AND HEALTHY LIVING

WE WANT TO INSPIRE AND EXCITE OUR CUSTOMERS AND CO-WORKERS ABOUT SUSTAINABLE, HEALTHY LIVING. FUN, SIMPLE AND EFFECTIVE COMMUNICATION IS KEY.

People can read about the sustainability benefits of our products on our website, social media, catalogue, price tags, and through in-store events and communications.

Our co-workers are the face of our business, and the best people to

engage our customers. The more they know about our products and services, the better they can inspire customers to live a more sustainable and healthier life. Read more about how sustainability is embedded across IKEA in the feature on the right.



## PUTTING SUSTAINABILITY ON THE AGENDA

"I ALWAYS INTRODUCE MYSELF AS CO-RESPONSIBLE FOR SUSTAINABILITY ALONG WITH 163,600 CO-WORKERS," SAYS STEVE HOWARD, IKEA GROUP CHIEF SUSTAINABILITY OFFICER.

Fortunately for Steve, sustainability is on the agenda for Country Retail Managers around the world.

"In Switzerland, sustainability is always on the agenda of our leadership meetings and is one of the three main focus areas of our business strategy," explains IKEA Retail Switzerland's Country Retail Manager, **Simona Scarpaleggia**. "The People & Planet Positive strategy has anchored the topic at the highest level."

Over the years, our Country Retail Managers have seen their roles change. Along with running the day-to-day operations, they have become advocates for sustainability. Simona, for example, is co-chair of the UN High Level Panel on Women's Economic Empowerment.

Our Country Retail Manager in Canada, **Stefan Sjöstrand**, encourages his family to make changes around the house like switching to LED and sorting waste. "When I became Country Retail Manager, I really wanted to inspire my co-workers and customers to live a more sustainable life at home. I told



everyone at work and found out I wasn't the only one. We all really love what we are doing in sustainability. The more we talk about it, the bigger impact we can have on our co-workers and wider society. It is what you and I do every day, small and big, that makes a difference."

**Pia Heidenmark Cook**, Head of Sustainability for Retail & Expansion, has found that more and more people are becoming interested in sustainability. "IKEA leaders are increasingly engaged in sustainability, as they see that it contributes to growth, positioning and engages both co-workers and customers, and the communities around our stores," she says.

**Tolga Öncü**, Country Retail Manager, IKEA Retail Spain, agrees: "I love retail. I have a passion for the customer, the range and growth. And sustainability is great for retail. It has been so encouraging to see everyone across the value chain – not just in Spain – walk the walk and create a positive impact on people and the planet."



### PEOPLE & PLANET POSITIVE TARGETS

#### STATUS

#### PERFORMANCE IN FY16

Take a lead, together with our customers and others in society, in re-thinking the nature of future homes and communities to provide examples of attractive, affordable and sustainable living.



Continued research into future homes and how to enable more sustainable living.

Enable our co-workers to live a more sustainable life at home by using our solutions or knowledge for reducing energy, water and waste at home, through a dedicated global project beginning in 2014.



771 co-workers across nine countries participated in *More sustainable life at home* projects in FY16 and we extended the project to 227 customers.

LEGEND: Achieved Ongoing Not achieved

# ENGAGING OUR CO-WORKERS AND CUSTOMERS

The best way to understand the benefits of our products is to try them at home. Since FY14, our *More sustainable life at home co-worker engagement* project has given around 3,300 co-workers from across 22 countries the opportunity to take home IKEA products from the 'More sustainable life at home' range. Having tried the products, participants are encouraged to become ambassadors for a sustainable life at home, sharing their new understanding and experience on blogs, social media and with fellow co-workers. As well as being a great way for co-workers to improve their understanding of the range so they can talk to customers from experience, it provides an opportunity for them to build confidence, be creative and gain new skills for career development.

We extended this project to our customers in FY15, and have since engaged 418 customers and bloggers across nine countries.

We want to engage the communities both near, and further away, from our stores. In Switzerland, we are promoting energy-efficient products on a roadshow across nine Swiss cities, as part of a year-long national campaign called Energy Challenge. In Norway, we opened a neighbourhood pop-up restaurant where guests brought their unwanted food to be converted into delicious meals.



"The co-worker project has opened up some fantastic opportunities for me to expand my skills as a co-worker – like trying out public speaking at the IKEA FAMILY Mega events."

**DENNIZ FJERDINGBY**  
Deputy Shopkeeper  
Kitchen and Dining Team  
IKEA Norway



Participants from our **MORE SUSTAINABLE LIVING PROJECT** share their experiences on social media



"I used to work in Recovery, but after really enjoying taking part in the co-worker engagement project, I realised that I wanted to be the one to share IKEA's sustainability stories and People & Planet Positive initiative. So I applied for an internal communication role, and now I lead the co-worker project in my store! I am so excited about the next stages of my career!"

**CHARMAGNE YEUNG**  
Communication Responsible,  
IKEA Canada

## IKEA FAMILY

IKEA FAMILY is a loyalty programme that provides exclusive benefits and rewards to customers. In FY16, there were over 100 million IKEA FAMILY members, across 28 different markets. We regularly engage with our members on how to live more sustainably through digital communications and benefit schemes. And we often hold Mega events for members in our stores around the world, including sustainability themed days where attendees can learn all about living sustainably at home. In FY16, we hosted events like these in 17 countries.

In Austria, we held an 'Ideas Festival' where members learned more about sustainability and took part in family activities, like arts and crafts, and treasure hunts themed around living a more sustainable and healthier life at home. In Italy, we launched the *Make your home greener* competition, for all IKEA FAMILY members around a two-day Mega event. The winners received a voucher to spend on More sustainable life at home products, and learned about sustainable living from our sustainability co-worker ambassadors. In many countries, the *More sustainable life at home customer engagement* project was run in

close collaboration with IKEA FAMILY – engaging hundreds of members to live sustainably. In Sweden, for example, 100 members participated in the IKEA HÅLLBARA IHOP project. We created an online community where participants could share their tips and held Mega events in all stores across Sweden. We hope to extend the benefits of this project to more of our members around the world.



**“It makes me proud to sort my waste at home. I am proud when I cook vegetarian food and my kitchen is filled with home grown vegetables. I might have been able to do this on my own, but it is really IKEA that got me started. And for that I am grateful.”**

**MOSAWER AHMAD**  
Customer, Sweden

**“We’ve learned to use our home a little better: using less lighting, turning down the boiler, a different setting for the dishwasher. We can all benefit from making small changes to live more sustainably, for ourselves, our children and for our planet. It’s those small changes that have reduced my monthly energy costs by 20% – I’m very pleased with that!”**

**GEMMA MATHISON**  
Customer, UK



## DOWNTOWN KITCHEN POLAND

THE KITCHEN IS THE HEART OF THE HOME. IT IS WHERE WE COOK AND SHARE MEALS WITH OUR LOVED ONES, AND IT UNITES US AROUND ONE OF THE MOST IMPORTANT THINGS IN LIFE – FOOD.

We wanted to provide a space to gather people in the kitchen and give them the opportunity to see, touch and use our products that can support them in living a more sustainable life at home.

We created [Kuchnia Spotkan](#), a bookable meeting and social space in the centre of Warsaw, Poland, where members of the public can bring their friends and make use of two kitchens over two storeys, filled with sustainable products. Use of the space is free, guests just bring their own ingredients and can make meals using our ovens, wash up with our dishwashers and relax on our chairs and sofas. There is even an area for children to play with our toys.

Since opening in November 2015, Kuchnia Spotkan has transformed from a space focused

on food and togetherness into a centre for learning about a sustainable way of life. We hold workshops offering sustainable living tips, like how to preserve, store and grow your own food, sort waste, and save energy and water. At the end of each event, we test our guests' new knowledge and gather their feedback on a dedicated app, so that we can constantly improve.

Guests don't even need to be physically there. We host media debates and share our know-how and information on our products and solutions on our website and social media channels. And customers and bloggers often share their own pictures and videos online.

So far, our campaign has reached over 8 million people, including more than 5,000 guests.



# RESOURCE AND ENERGY INDEPENDENCE

**You will find IKEA products in millions of homes around the world. But the planet is our home too. We want the way we use resources and energy to have a positive impact on people and the planet.**

To do this, we must find sustainable sources of materials and use them responsibly. We think about sustainability at all stages of product design, and use it to guide our work with suppliers. And in our own operations, we make sure to use resources and energy as efficiently as possible.

# TRANSITIONING TO A CIRCULAR ECONOMY

TAKE, MAKE, DISPOSE. THAT'S THE MODEL OUR ECONOMY IS BASED ON. BUT IT'S NOT SUSTAINABLE.

The global population is growing, and many people are coming out of poverty. This provides a huge opportunity for IKEA to grow and enable even more people to create a better everyday life at home. But resources are not unlimited, and we need to find new ways of working to be able to meet people's needs and dreams at home while staying within the limits of our planet.

We want IKEA to have a positive impact on people and the planet. That includes playing our part in the shift to a circular economy, and eliminating waste across our value chain.

Our focus is on three important areas.

## 1. Products and services

It all starts here. Products must be designed to:

- last as long as they are needed and give our customers the best value for money
- make the most efficient use of resources – more from less
- use materials that are recyclable, recycled, or renewable, and from more sustainable sources
- be easy to care for, repair, adapt, disassemble and reassemble, and recycle.

Read more about our work to design and develop more sustainable products on [page 34](#).

## 2. Buildings and transport

We will work across our own operations and with our suppliers and partners to produce and distribute our products in the most efficient way. This means:

- minimising or eliminating waste through our goal to strive for zero waste wherever possible
- turning unavoidable waste into resources

- generating our own renewable energy and using it efficiently.

Read more about how we improve the sustainability of our operations on [page 41](#).

## 3. Meeting our customers

We will support our customers to prolong the life of their products and find new uses for things they no longer need. We will meet our customers more often, to enable them to:

- repair products
- rent and share them
- return unwanted products to IKEA, to be given a second life in another home or recycled into a new product.

Read more about how we inspire our customers to live more sustainably on [page 19](#), and our takeback services available in some markets on [page 17](#).

The transition to a circular economy is critical to securing the sources of materials that we use to create our products. It will allow us to continue to meet the needs of the many people in life at home and ensure the future success of our business.

We already aim to increase the share of renewable, recyclable or recycled materials in our products, but we want to go beyond that. Our ambition is to reuse and recycle waste – including that from our own operations and products – to cut our demand for virgin raw materials.

This requires the commitment of everyone across our value chain – from the people who source our materials to our customers who care for their products and choose what to do with their old products.

We are only at the beginning, and we have already created new, beautiful and functional products from materials that would otherwise have been thrown away (see right).

**IKEA PS VASE** – Glass that has been rejected in the production of other IKEA products, due to bubbles or defects, is melted down and mouth-blown into the PS Vase. Using leftover material in a range of colours makes each one unique.



PRODUCTS  
COMING IN  
FEBRUARY  
2017



**TOMAT spray bottle** – Part of the virgin plastic used in the bottle is replaced with waste plastic from our stores.

**KUNGSBACKA kitchen fronts** – Made from FSC® certified recycled wood and plastic foil made from recycled PET bottles collected by Japanese municipalities.



# RESPONSIBLE SOURCING

PROTECTING THE RAW MATERIALS THAT GO INTO IKEA PRODUCTS AND ENSURING A SUSTAINABLE SUPPLY CHAIN IS VITAL FOR THE LONG-TERM VIABILITY OF OUR BUSINESS.

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
By August 2017, at least 50% of our wood will come from more sustainable sources. By August 2020, we aim to source 100% of our wood, paper and cardboard from more sustainable sources. <sup>1</sup>	●	Achieved ahead of schedule – in FY16, 61% of our wood was from more sustainable sources.
By August 2015, all cotton used in IKEA products will be sourced from more sustainable sources, and we will continuously investigate complementary fibres with improved sustainability performance compared to cotton.	●	Achieved – 100% of cotton from more sustainable sources. <sup>2</sup>
By December 2015, all palm oil, currently used in home furnishing products such as candles or as a food ingredient, will either come from certified segregated sustainable sources or be substituted with more sustainable alternatives.	◐	Total 96% (Candles 100%, food approximately 50%).
By August 2017, we will have secured traceability of all leather back to slaughter house level and will have developed and started to implement requirements to secure social & animal welfare issues at these sites.	◐	On track – achieved traceability of cattle leather and hides back to slaughterhouses in FY16.
All seafood sourced for IKEA will be certified.	●	Achieved, with some exceptions - see <a href="#">page 31</a> .

**LEGEND:** ● Achieved   ◐ Ongoing   ○ Not achieved

1 Currently defined as FSC® certified or recycled wood.      2 Includes cotton grown to the Better Cotton Standard; by farmers working towards Better Cotton; recycled cotton and more sustainable cotton from the USA (such as the 'e3 Cotton Program').

Many of our materials – like wood and cotton – are renewable, and we need to make sure they are grown and harvested responsibly. Other raw materials – including fossil-based plastic and metals – are not renewable. Our challenge is to use those that are recyclable and recycled where we can.

Whatever the material, we want to go beyond just reducing the negative impact.

Our goal is for responsible sourcing to have a positive impact on people and the planet. This sometimes means going beyond our supply chain, to make sustainable resource management the norm across the industry. Together with suppliers, governments, businesses and other partners, we can find new ways to innovate and create positive change.





# WOOD AND PAPER



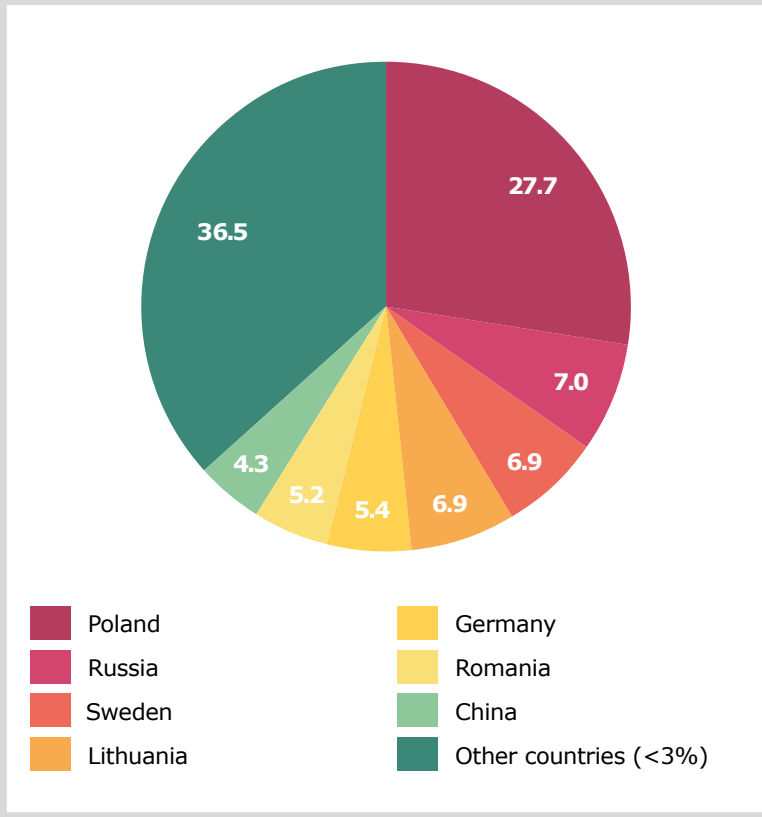
Wood is fundamental to IKEA. We are one of the biggest users of wood in the retail sector globally. Around two thirds of IKEA home furnishing products contain wood, and we use paper in notebooks, napkins and much of our packaging. In FY16, we used 15.75 million m<sup>3</sup> of roundwood equivalent, which is 2% less than FY15, despite an increase in the volume of products containing wood that we sold. This was thanks to new product designs and materials that enable us to make more from less.

Wood is a beautiful, durable material that can last for generations. But forests are fragile and sensitive to how we treat them. The size of our operations means we have a great opportunity – and responsibility – to protect the world’s forests. That is why we have a goal to become forest positive. We aim to source 100% of our wood from more sustainable sources, and work with others to increase the area of global forests that are managed sustainably.

## TOTAL WOOD IN IKEA PRODUCTS (MILLION M<sup>3</sup> RWE)<sup>3</sup>



## COUNTRIES WE SOURCE WOOD FROM (FY16) (% WOOD SOURCED)



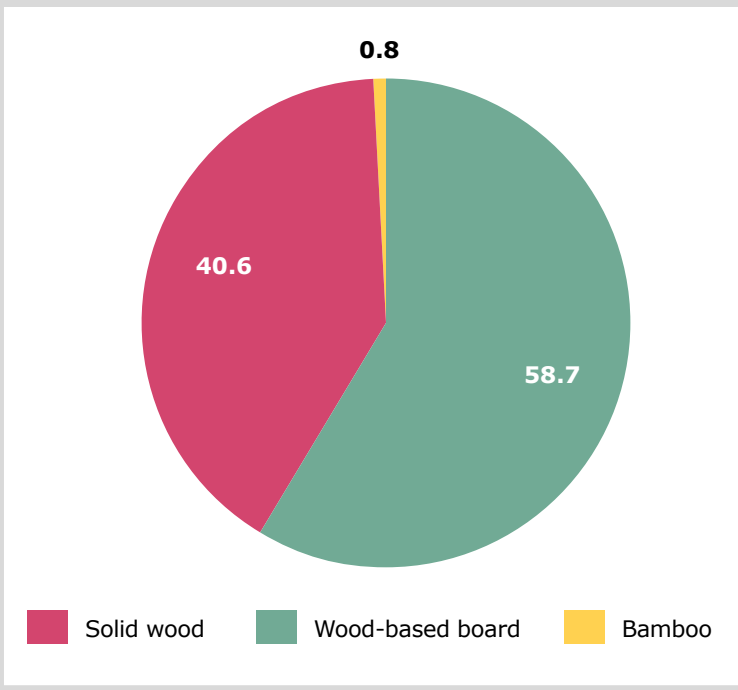
<sup>3</sup> Roundwood equivalent (rwe) is the volume of roundwood (logs) required to produce IKEA products. Data covers all solid wood and wood-based board used in IKEA products, but excludes wood used in packaging and printing and paper used in products such as napkins.

## 61% OF WOOD WAS FROM MORE SUSTAINABLE SOURCES IN FY16<sup>3</sup>

All our wood is sourced in compliance with the IKEA Forestry Standard (see [page 27](#)). In FY16, 61% of the wood we sourced came from more sustainable sources, including 57% from FSC<sup>®</sup> certified and 4% from recycled sources. IKEA is one of the world’s biggest users of FSC certified wood, purchasing over 9 million m<sup>3</sup> annually – which accounts for over 3% of global output.

Around 30% of the wood we use comes from priority areas, where there is a higher risk of illegal or irresponsible forestry practices, such as China, Russia, South and Southeast Asia and Southeast Europe. We set an ambitious goal that all wood from these countries would come from more sustainable sources by August 2017. This raised the status of more sustainable sources

## TYPES OF WOOD SOURCED (%)



of wood from those countries from a ‘goal’ to a ‘requirement’. We have achieved this milestone and from 1 September 2016 100% of our wood from priority areas was from more sustainable sources. This required a focused effort and engagement from our forestry teams, business categories and business teams, suppliers, their partners and IKEA forestry partnerships around the world.

From 50% in FY15 to 61% in FY16, we are moving closer to our 2020 target to source 100% of wood from more sustainable sources. However, reaching this goal will be a challenge. Although all wood that we source fulfils the IWAY Forestry Standard, we are already starting to see the limits of FSC certified wood available in the markets we source from – particularly given our big push in FY16. With current global availability, we predict that we could hit 80% by 2020. To reach 100% we need to think bigger.

## WOOD FROM MORE SUSTAINABLE SOURCES<sup>4</sup> (% WOOD SOURCED)



<sup>4</sup> From forests certified to the FSC Forest Management standard and recycled wood. Includes solid wood and wood-based board.



## FOCUS ON FSC CERTIFICATION

FSC (the Forest Stewardship Council) is an international organisation dedicated to promoting responsible management of the world's forests. Its certification system has two key components.

- **Forest Management:** Ensures that forests are managed to high social, economic and environmental standards.
- **Chain of Custody:** Traces wood from forests through processing and distribution, ensuring that no non-certified material enters the certified value chain.

## Scaling up forest positive

Together with a wide range of partners, we are working to increase the global supply of wood from more sustainable sources. This is not just about our own target to source 100% of our wood from more sustainable sources. Our goal is to become forest positive – when our contribution goes far beyond our own needs, helping to transform the industry and drive positive change through society. We do this by working to end deforestation by promoting the adoption of sustainable forestry methods.

In FY16, we worked with WWF to increase levels of wood from more sustainable sources in priority countries.<sup>5</sup> Together we contributed to the certification of an additional 1.8 million hectares of forest to FSC® standards. This is an area far greater than would be needed to meet our wood demand in these countries – that's what we mean by forest positive.

Strengthening the business case for certified forests is an important way to increase supply of more sustainable wood. One way to do this is by assessing the impacts of FSC certification, and demonstrating clear evidence of the benefits to forests and communities. In 2014, we joined forces with Tetrapak and Kingfisher to form VIA, the Value and Impact Analysis Initiative, a precompetitive collaboration to understand the best ways to measure and communicate the positive impacts of FSC certification. In FY16, leading expert members of the Technical Advisory Group met to evaluate specific methodologies.

Smallholder farmers represent an important source of wood worldwide, but often find it difficult to become FSC certified (see feature on [page 28](#)). It is often expensive and complicated for them to become FSC certified, and they therefore risk being excluded from the sustainable wood supply chain. We are working with the United Nations Food and Agriculture Organization (FAO) to understand how best to remove obstacles for forest certification and ensure smallholders have access to global supply chains. The project is working with farmers in Vietnam to understand

the current situation and how they can form co-operatives and farmer groups. We are also working with WWF in Thailand to identify alternative ways to transform smallholder forestry practices to become more sustainable. To further strengthen availability of this wood in IKEA supply chains, we plan to expand the criteria for wood from more sustainable sources to include wood from such projects with small forest holders.

Efficient use of resources is another important part of becoming forest positive. We are working with one of our outdoor furniture suppliers in Vietnam – Woodsland – to improve resource efficiency. The project is based on value chain optimisation and making more from less. There is great potential to improve the total yield from log to component by around 8 to 10% simply by improving sawing and drying techniques.



**“Smallholders and community enterprises form the backbone of rural livelihoods in Vietnam and underpin its supply of wood and non-wood products to commercial markets. Together, WWF and IKEA have shown that sustainable acacia, bamboo and rattan can benefit rural communities while reducing pressure on forest ecosystems. We must now scale up the approaches developed through this partnership, to tackle today's challenges of decreasing forest resources and a growing population.”**

**THIBAULT LEDECQ**  
Regional Forest Coordinator  
WWF-Greater Mekong Programme

## FOCUS ON BAMBOO



To meet fast-growing demand for our products, we need sustainable and fast-growing raw materials. Bamboo can reach full height in two months, and can be ready to harvest after three to seven years.

Provided that it is FSC certified and grown in an environmentally, socially and economically responsible way, bamboo can be a fantastic sustainable raw material. We have been working with our suppliers to secure good working conditions for farmers and make sure the bamboo we use in IKEA products has a positive impact on people and the planet.

More than 90% of the bamboo we use is grown in China, and in FY16 90% of the Chinese bamboo we used was FSC certified.

Larry Lin is the founder of Dasso, one of our bamboo suppliers in China: “Together with IKEA we have raised quality and efficiency for material use and production. I firmly believe that IKEA has helped to increase standards throughout the bamboo industry in China, as well as securing work for many bamboo farmers.”

We have come a long way in China, and look forward to rolling out these standards to develop the bamboo industry in India and Vietnam.

<sup>5</sup> Countries where there is a higher risk of illegal or irresponsible forestry practices, such as China, Russia, Southeast Asia and Southeast Europe.

# TRANSFORMING THE BOARD INDUSTRY IN CHINA WITH FSC

THERE ARE NO HALF MEASURES IF YOU WANT TO MAINTAIN HIGH STANDARDS IN FORESTRY.

We learned that lesson in China in 2015 after Sunway, a big fibreboard producer that supplies several of our suppliers, failed to prove the legal origin of its wood. This was a serious violation of our forestry standards and we had to take action.

We understood Sunway's challenge. To get the information we needed, Sunway had to navigate an intricate supply chain of many small forest farmers. Complex local laws made it very difficult to monitor legal compliance.

In 2013, we had completed a successful project with WWF to certify the timber produced by a group of more than 4,000 small growers in northern China to FSC standards. If we could succeed with those farmers, why not with the growers who supplied Sunway?

That is why we decided to take a big step and encourage Sunway suppliers to aim for FSC certification. The process was not easy, but it was an essential step for Sunway to meet our supplier standards and continue operating in our supply chain. We worked with almost 5,000 growers to improve their forest management and safety practices, and provided the training they needed to meet FSC requirements.

The Sunway project was a success and inspired us to apply the same high standards to all board suppliers in China. After huge efforts from IKEA teams, suppliers and their partners – supported by WWF and the China Academy of Forestry – some 16,000 small growers have now dramatically improved their forestry practices. More than 81,000 hectares of forest have gained FSC certification as a result.



Other board producers saw the benefits and have worked to get certification. We now have more FSC certified board than we need for IKEA products. Over a relatively short period, we encouraged the board industry in China to transform its raw material sourcing to become more responsible – a major step on our way to becoming forest positive.

## Purchasing our own forests

Investing in our own forest land enables us to promote responsible forestry and support local economies, while securing a reliable source of wood for our business. In Romania, we now own 46,700 hectares of forest land, which has already been awarded FSC certification for forest management.

IKEA Industry Malacky, in Slovakia, purchased a 4,000 hectare short-rotation plantation (SRP) in 2015. Tree species used in SRPs mature much faster than traditional species, producing wood that is strong, lightweight, and can be more frequently harvested. By FY20 the wood will be ready to harvest, and will provide 30% of the wood needed to make products at Malacky.

## Auditing and compliance

The IKEA forestry team works closely with suppliers to ensure that they meet IKEA requirements on wood. The IKEA Way on Purchasing Products and Services (IWAY) contains minimum requirements for wood, bamboo and board suppliers, known as the IWAY Forestry Standard. The requirements state that wood must come from legally harvested forests free from social conflict, and not from high conservation value natural forests, converted tropical and sub-tropical forest or genetically modified tree plantations. All suppliers must follow these requirements. Read more about IWAY on [page 61](#).

By January 2017 we aim to release an updated standard that will cover more materials, including paper and wood-plastic mixes. Instead of being only for home furnishing products, the scope will include all wood-based items purchased across IKEA, such as paper and packaging as well as our home furnishing products.

We also encourage suppliers to work towards FSC Chain of Custody (CoC) to ensure that the certified wood they use is not contaminated. Depending on the standards they use, suppliers are audited differently.

- Suppliers who have achieved FSC CoC certification and make IKEA products from

## AUDITS OF OUR WOOD SUPPLY CHAIN

	FY14	FY15	FY16
<b>FSC Chain of Custody certification</b>			
IKEA suppliers that are FSC Chain of Custody certified (%)	66.1	72	77
Total wood volume from FSC Chain of Custody certified suppliers (%)	94.8	98	99
<b>IWAY Forestry Standard audits</b>			
Number of IKEA audits — under IWAY Forestry Standard and IKEA wood supply chain audits (number performed by 3rd party auditors)	143 (4)	108 (6)	181 (8)
Wood volumes that underwent an IKEA audit that comply with IKEA Forestry Standards (%)	99.0	98.2	99.4

FSC certified wood are audited predominantly on an annual basis by independent FSC accredited certification organisations.

- Suppliers not covered by FSC CoC certification are audited by IKEA or independent auditors acting on our behalf.
- IKEA audits of suppliers in higher-risk areas can cover the entire supply chain back to the forest, including wood processing.

It is important to train relevant forestry co-workers so that they fully understand and can maintain these standards. Training people involved in wood purchasing operations is part of our obligation under the EU Timber Regulation. During FY16, we ran one-day training sessions for 146 co-workers in 11 countries on the importance of wood to IKEA, legal requirements, and types of certification.

# STAKEHOLDER CHALLENGE FOREST CERTIFICATION – LEAVING NO-ONE BEHIND



**Dear IKEA,**

"Sourcing wood from sustainable forest operations around the world can be a challenge. Governments are not always able to enforce minimum legal requirements; companies and foresters may be reluctant to change the status quo; and much of the world's wood is grown by smallholders, who are harder for large companies like IKEA to buy from.

For companies wanting to minimise their environmental and social impact, buying certified wood might seem like an obvious choice. But certification can sometimes be a barrier to positive change – particularly for smallholder forestry operations.

Many certification schemes have long lists of requirements that are difficult to implement, and slow to evolve. Each country or region is different – so a 'one size fits all' solution does not work at smallholder level. Far too many of the audits performed on behalf of certifiers are too dispersed and do not focus on real, practical issues in each landscape.

**"Companies need to break away from outdated systems and focus on real impacts on the ground. How will IKEA encourage this move and address the challenges posed by certification?"**

**RICHARD Z. DONOVAN**

Senior Vice President & Vice President of Forestry  
Rainforest Alliance



**Hej Richard!**

"IKEA is committed to becoming forest positive by increasing the share of wood from more sustainable sources, and making responsible forestry practices an industry norm. Today, only FSC certified and recycled wood meet our criteria for more sustainable sources.

But we know that there are places in the world where wood is grown sustainably without being certified. For smallholders, for example, FSC standards may be too expensive to verify.

At the same time, we want to encourage smallholders to make positive change in the forests they manage, but sometimes FSC standards are not designed for small growers – and in such cases might not result in improved forest management.

Together with our partners, we are working on a number of projects to understand the specific challenges growers face. Then we can define responsible forestry criteria that ultimately benefit smallholders, and incentivise positive change. Eventually, we plan to integrate a new category into our definition of wood from more sustainable sources: wood from responsible forestry projects with smallholders.

We will not replace existing certification mechanisms. FSC is well-known, well-established, and has a solid compliance monitoring mechanism. We hope our work with smallholders will support FSC to improve its regional standard-setting process.

IKEA has come a long way already in sustainable forestry. In priority areas, where there is a higher risk of illegal or irresponsible forestry practices, we now source 100% of our wood from more sustainable sources. We want to extend sustainable forestry even further, making sure that no-one is left behind. Community forest enterprises represent a significant proportion of the world's forest supply, and we are determined to ensure that they continue to have access to the IKEA supply chain, and become a viable part of it."

**MIKHAIL TARASOV**

Global Forestry Manager  
IKEA of Sweden

# COTTON

We love working with cotton. In FY16 we used 130,000 tonnes for our bed linen, towels, furniture covers and more. That amounts to around 1% of the world's cotton supply. But we are uncomfortable with the fact that conventional cotton production can have a negative environmental impact, and may be harmful for cotton farmers and their families. Many cotton farmers are smallholders with income levels close to or below the poverty line.

That is why we commit to sourcing all our cotton from more sustainable sources, and are working to improve conditions in the cotton supply chain. Organisations like the Better Cotton Initiative (BCI) support farmers to improve their yields and incomes, enabling them to break the cycle of poverty.

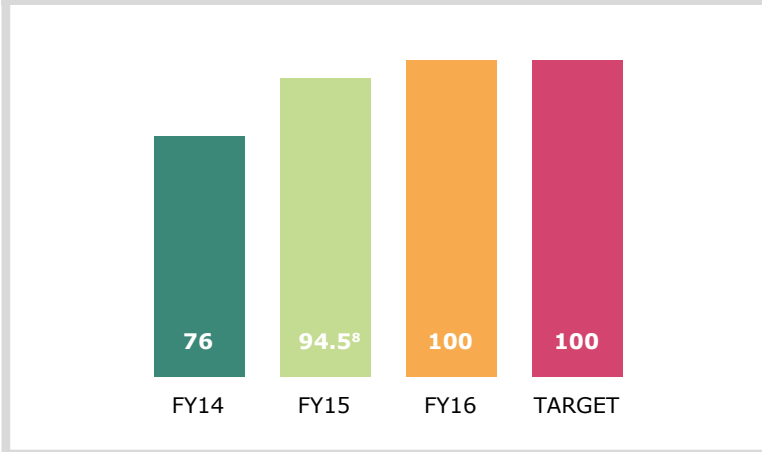
**100%** OF COTTON WAS FROM MORE SUSTAINABLE SOURCES IN FY16

In FY16, all of the cotton we used came from more sustainable sources. Of the total amount we use in IKEA products, 17.8% is recycled cotton. The remaining 82.2% is cotton grown to the Better Cotton Initiative (BCI) Standard (69.4%), or farmers working towards Better Cotton<sup>6</sup> or other more sustainable cotton, such as the 'e3 Cotton Program' in the USA (12.9%).

We reached this milestone at the end of FY15, so our challenge this year was to maintain 100%. To do this, we focused on putting the routines, training and processes in place to turn cotton from more sustainable sources from an ambitious, ground-breaking project to our usual way of doing business. For example, we are planning a learning and development programme for co-workers, suppliers and sub-suppliers to keep them up to date with IKEA requirements and connect them to changes happening at farm level. See the feature (Transforming our textiles together, right) for more about our work with suppliers.



COTTON FROM MORE SUSTAINABLE SOURCES<sup>7</sup> (% COTTON SOURCED)



Regular traceability assessments enable us to guarantee that the cotton we use comes from more sustainable sources. In FY16, we conducted 40 audits with our suppliers and sub-suppliers.

We want our customers to know that all of the cotton in IKEA products is produced in ways that are better for people and planet. That is why, in FY16, we communicated the milestone and the benefits it brings through store communication, videos, on our website and through social media.

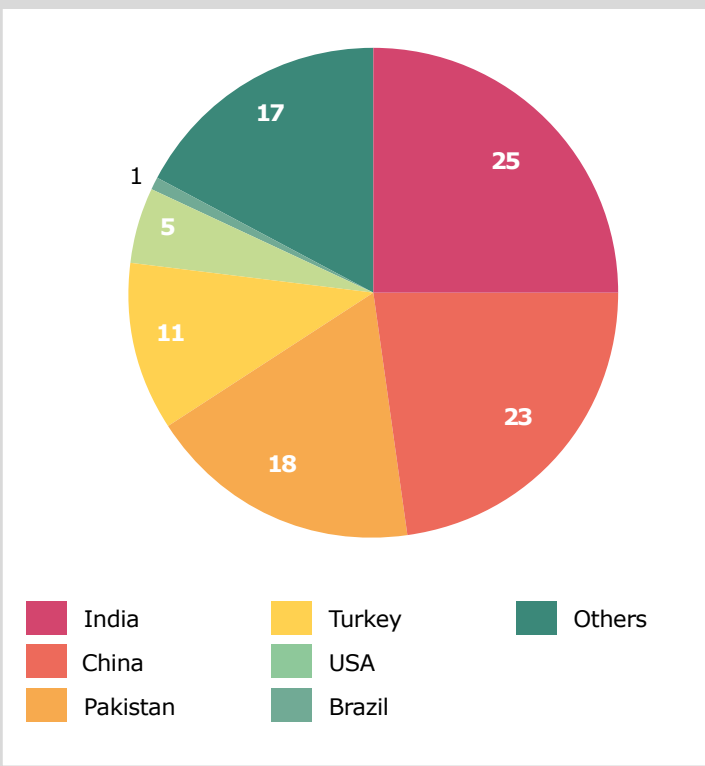
## Evolving the cotton industry

We are positive about our progress, but we know that just one company by itself cannot transform a whole industry. Collaboration is key. IKEA is a founding member of the Better Cotton Initiative (BCI), a multi-stakeholder organisation that aims to make cotton production better for the people who grow it, better for the environment, and better for the entire sector. We are one of the world's largest users of Better Cotton.

By sharing learning and experiences with the wider industry, BCI aims to improve the lives of cotton farmers and increase demand for – and supply of – Better Cotton so that it makes up 30% of global cotton production by 2020. Our Cotton Leader, Pramod Singh, sits on the BCI Council and provides support and advice for new members of BCI.

We work with government agencies, global and local partners to run projects in our sourcing countries.

COUNTRIES WE SOURCE COTTON FROM (FY16) (% COTTON SOURCED)



<sup>6</sup> Towards Better Cotton is a standard developed by IKEA following the same principles and criteria as Better Cotton, on its way to become Better Cotton.  
<sup>7</sup> Includes cotton grown to the Better Cotton Initiative (BCI) Standard, farmers working towards BC, sustainable cotton from the USA (such as the 'e3 Cotton Program'), and recycled cotton.

## TRANSFORMING TEXTILES TOGETHER

Nothing makes us prouder than to work with suppliers who share our values. Since 2000, we have been working closely with Mustaqim Dyeing and Printing – one of our suppliers for bedsheets, curtains and other cotton products – to learn from and inspire each other on sustainability. Based in Pakistan, Mustaqim supplies Better Cotton to its customers at no extra charge, and has acquired its own spinning mill to ensure better traceability. Shahid Hasan, General Manager of Marketing at Mustaqim, is excited about the potential impact of this work: "We believe Better Cotton can transform the textile market and make it more sustainable."

For example, in India we are partnering with WWF and the Gujarat Green Revolution Company, a Gujarat state government company, to reduce the environmental effects of cotton farming and improve farmers' profitability. So far, over 4,000 farmers in nine districts of Gujarat have received training on sustainable cotton principles. We are also exploring an interactive, web-based app that will provide information and advice on crop management (e.g. irrigation scheduling). For more examples on how we work directly with farmers, see feature on [page 30](#).

**"Cotton from more sustainable sources across all IKEA products is a potential game-changer for the global cotton market because it demonstrates the clear business case for sustainability. We need more companies to follow IKEA's lead."**

**RICHARD HOLLAND**  
 Director, WWF Market Transformation Initiative<sup>9</sup>

<sup>8</sup> We reached the 100% milestone at the end of FY15, which is why not all the cotton we sourced during the year was from more sustainable sources.  
<sup>9</sup> <http://www.ikea.com/gb/en/this-is-ikea/newsroom/press-release/ikea-first-major-retailer-to-use-100-percent-cotton/>

# BECOMING WATER POSITIVE

WE ARE COMMITTED TO BEING WATER POSITIVE – USING WATER AS EFFICIENTLY AS POSSIBLE IN OUR OPERATIONS, AND PROMOTING GOOD WATER STEWARDSHIP THROUGHOUT AND BEYOND OUR VALUE CHAIN.

Our Water Working Group is developing milestones and a detailed roadmap to become water positive (see [page 49](#)), based on WWF’s water stewardship model. We will contribute, with others, to improved water management and governance in areas of our supply chain with high water risk, focusing on:

- reducing the impact of our operations and suppliers’ operations
- supporting sustainable water management in river basins
- increasing people’s access to clean water.

One dimension of our work to become water positive focuses on cotton – one of the most high-impact crops when it comes to water. For many years, we have worked with WWF on the Pakistan Sustainable Cotton Initiative, supporting farmers in Pakistan to grow Better Cotton. Since FY14, the water project has expanded to support cotton growers in the Punjab region.

We provide farmers with training on better water management practices, and establish community-based Water User Associations. The project has demonstrated that by using better practices on farm and irrigation channels, farmers can grow cotton with less water, allowing the water to be diverted to other uses – such as sharing it between more farmers. As well as water savings, better farming techniques promote efficient use of fertilisers and pesticides and offer opportunities for education.



**“I have been growing cotton for two decades. For most of that, my land was not properly irrigated and I was totally dependent on the local pesticide dealer, spraying almost eight times per season – costing 15,000 rupees (around EUR 200) per hectare. When WWF and IKEA started the project and invited farmers to participate, I was hesitant at first as I lacked the knowledge. But after training, I felt confident that Better Cotton production principles could help me save money. This season, I used 30% less water and I spent a lot less on pesticides - just 5,900 rupees (around EUR 80) per hectare. My net income almost doubled, and I no longer have to rely on expensive dealers for the choice of product.”**

**KHALIL AHMAD**

Lead Farmer of the Learning Group and  
President of Water User Association  
Punjab, Pakistan

In India, we are working with WWF to improve water management and security in the Jalna region of Maharashtra, which has high levels of water risk. The project is investigating better ways to manage water locally, such as using dykes to recharge groundwater for use in cotton farming, without affecting local water levels. We are also exploring new technologies like drones, soil moisture sensors and weather stations to collect and analyse data on water use in cotton farming, and will make it easily accessible by SMS or web-based applications.

We hope to use the results of the project to demonstrate the benefits of water-smart cotton farming and irrigation management. This will help us engage cotton organisations, local and national governments, and other stakeholders in the region. By working together, we could create holistic approaches to water management that improve crop productivity, boost farmers’ incomes and contribute to food security.

# MAKING WATER SAFE FOR THE WHOLE COMMUNITY

Water is a precious resource. And it is unique because it is shared. Because of this, the actions of an individual can change its quality and quantity, affecting access for everyone else.

Ensuring that a whole community has access to clean, safe water can only be achieved by getting everyone to work together to look after it.

This is the focus of Asian Fabricx, our supplier in Tamil Nadu, India – an area prone to water scarcity.

By partnering with WaterAid, local government, and local NGO LEAF Society, and with support from IKEA, Asian Fabricx has launched a Water, Sanitation and Hygiene (WASH) project that will reach 10,000 people. First, it will explain to everyone in the community about their shared role to protect and maintain the water supply. At the same time, partners will support communities to build 500 household toilets, train 2,000 workers at the Asian Fabricx factory to save water and use it safely, and share these messages with surrounding schools and communities. The project will also regenerate the local pond, supporting biodiversity and improving the ecosystem’s natural ability to clean the water.

There has already been a great response to the first stages of the project, and we are looking forward to continuing our water stewardship journey with all of our suppliers.

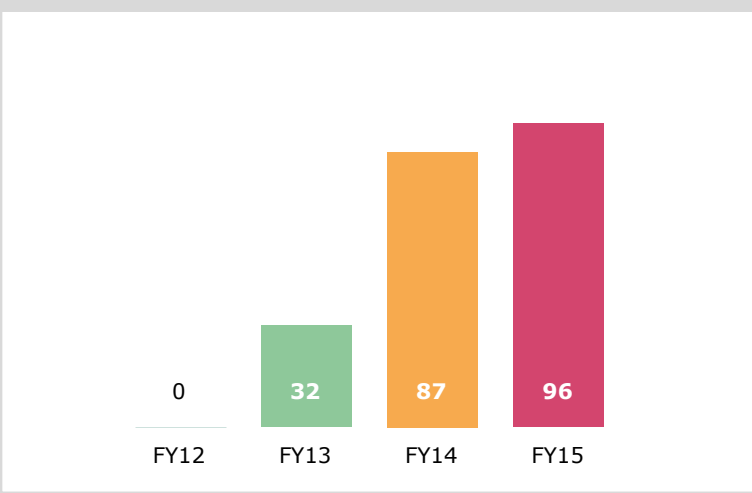
# PALM OIL

Compared to other raw materials, we use relatively small quantities of palm oil – 41,686 tonnes in 2015. The majority (more than 90%) is in our candles, and the remainder is used as an ingredient in our food. We take responsibility for our role in reducing the social and environmental footprint of palm oil to make it a sustainable raw material, with a positive impact on livelihoods.

**96%** OF PALM OIL WAS FROM MORE SUSTAINABLE SOURCES IN 2015

We define palm oil from more sustainable sources as being from Roundtable for Sustainable Palm Oil (RSPO) certified, segregated sources. This means that certified palm oil is kept apart from non-certified material in the supply chain. Our target was to reach 100% by December 2015. We reached 96% by the end of 2015, but completing the switch to segregated palm oil in our local food supply chains remains challenging. The remaining 4% is not segregated, but we purchase certificates that generate a premium for producers working to RSPO standards, even when the palm oil itself is not segregated.

**PALM OIL FROM RSPO-CERTIFIED, SEGREGATED SOURCES (% PALM OIL SOURCED)<sup>10</sup>**



<sup>10</sup> Certified palm oil is measured by calendar year, not fiscal year.

## Strengthening standards in our supply chain

We support RSPO certification, which includes eight social, environmental and economic principles to protect people and the planet. The IKEA palm oil sourcing strategy goes even further, with two additional criteria. We require that palm oil used in IKEA products must not:

- contribute to destruction of high value forests
- come from plantations that have been newly developed on peat, since peat wetlands are important carbon stores with high biodiversity value.

By December 2017, all our suppliers must ensure that the palm oil used in IKEA products meets these additional criteria (or is replaced by more sustainable raw materials). All our candle suppliers have now produced roadmaps showing how they will reach this target. We will work closely with suppliers and sub-suppliers to monitor their progress, and support them to strengthen commitments where necessary. It has proved challenging to do the same for the food supply chain, because of the number of products and the huge range of ingredients they contain. Since the majority of our palm oil is used in candles, we will continue to focus our efforts there.

## Partnering with others

As well as being an active member of RSPO, we are partnering with the United Nations Development Programme, the Government of Indonesia, and other global corporations to set up the Sustainable Palm Oil Initiative (SPO). The project is working to make the Indonesian palm oil industry more sustainable by reducing deforestation and improving smallholder incomes and yields. In November 2015, IKEA co-workers visited Indonesia to meet with smallholder farmers, local NGOs, government representatives and certification organisations to discuss the challenges they faced. We are looking forward to continuing this work in FY17.

# FOOD

No trip to IKEA is complete without a visit to our restaurant, bistro or Swedish Food Market.

We want to offer a modern taste of Sweden – honest, healthy food that is good for people and the planet – and we take pride in serving delicious food that people love to eat.

We work with a large number of global and local suppliers. Around half of the food we offer is sourced locally. This allows us to meet regional or cultural taste preferences, source seasonal ingredients where applicable, while keeping a strong Swedish profile to offer a true taste of Sweden.



PHOTO: LINNA ARVIDSSON

## Our food strategy

We want to provide healthy food and sustainable food. For more information about the health component, see [page 15](#). In terms of sustainability, we are committed to offering food that is sourced in a way that is affordable, sustainable, transparent and traceable, with good standards of animal welfare – all within the limits of one planet.

Many elements of our strategy are important for both health and sustainability. For example, we are encouraging people to choose healthier, more sustainable alternatives to meat like our veggie balls, GRÖNSAKSBULLAR. They are tasty and nutritious, have been well received by our customers and have sold over forecast in FY16. After launching the veggie balls in IKEA restaurants and Swedish Food Markets in 2015, we are now including them in the IKEA Bistro range in some markets including Germany, Sweden and the Netherlands, to offer customers that want a quick and tasty snack a sustainable, meat-free option.

## Fish and seafood

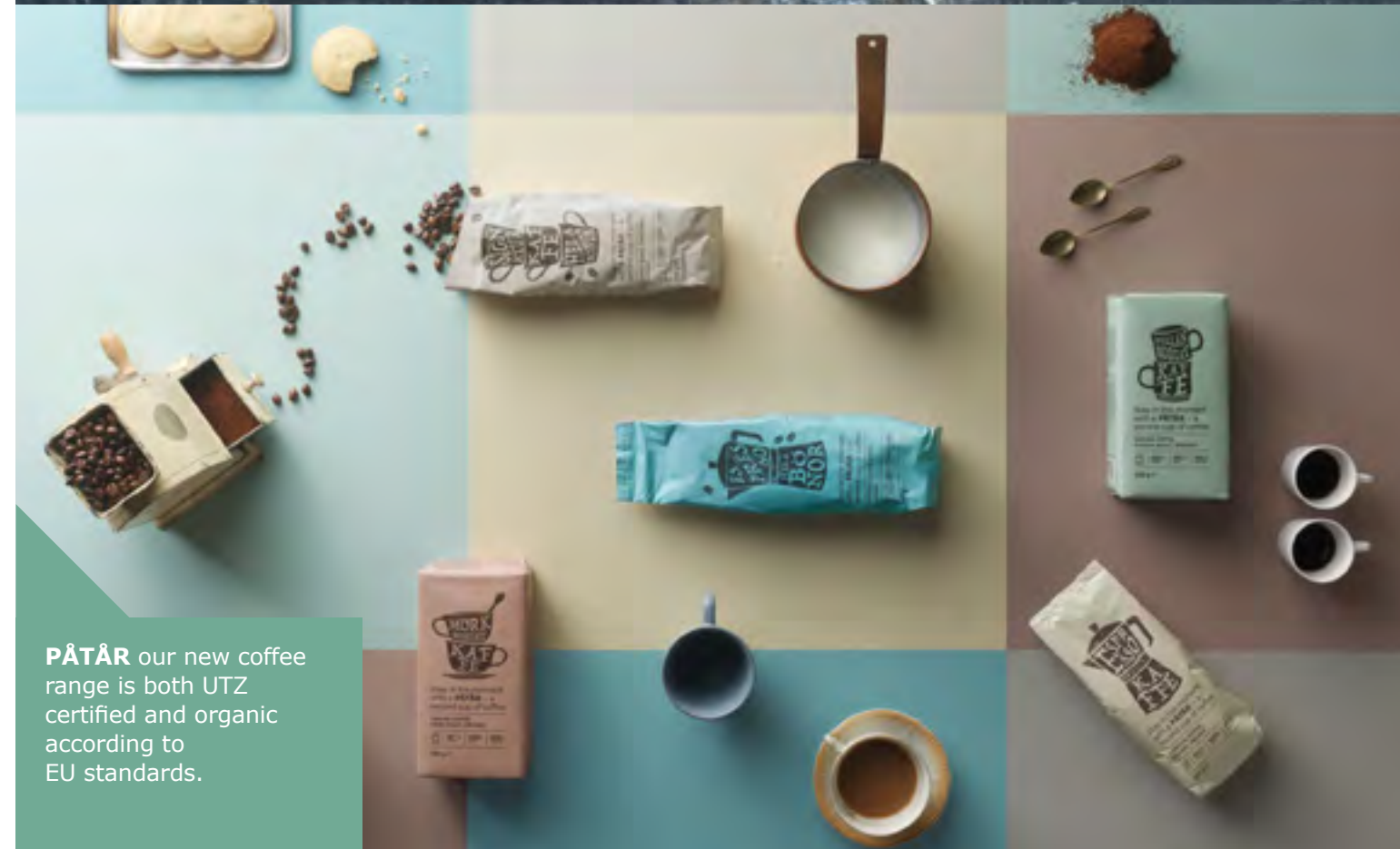
We remain committed to only sourcing Aquaculture Stewardship Council (ASC) or Marine Stewardship Council (MSC) certified fish and seafood. In doing this, we have brought responsibly and sustainably sourced fish and seafood to several countries that had never before used ASC or MSC labels such as Turkey, Iceland and Saudi Arabia.

In four of our smaller markets, there are complex import restrictions or a limited availability of certified seafood. In these markets, we are working closely with ASC and MSC to overcome challenges and switch to certified fisheries, farms or suppliers.

Another exception is crayfish: there is currently no certified crayfish available in the world. Instead of removing crayfish from our menus, we are working in partnership with MSC and our supplier in China to encourage fisheries to work towards certification. In FY16 IKEA co-workers visited the Hubei region in China to understand the challenges and opportunities for these fisheries, where crayfish are often raised as part of the natural ecosystem in rice paddy fields, lakes and rivers.



**GRÖNSAKSBULLAR** our veggie balls are tasty and nutritious and provide a sustainable alternative to meat.



**PÅTÅR** our new coffee range is both UTZ certified and organic according to EU standards.

## Soy

Soy can be used as an ingredient for food products as well as in animal feed. One of the biggest environmental risks in the soy supply chain is deforestation.

Our priority is the soy used for animal feed, which accounts for the majority of the soy we use. In FY16, 100% of the salmon and around 68% of the chicken that we source globally used soy feed that is certified to Round Table on Responsible Soy (RTRS) or Pro Terra standards. 11% comes from producers who are part of the soy moratorium, a voluntary agreement not to buy soy grown in the Amazon on land deforested after 2006. 14% comes from the US, which is not considered a high risk country for deforestation.

One of the most challenging factors is that segregated, certified soy is not yet available in all the countries we source from. We will continue to focus on how to increase the availability of sustainable soy in these places.

In more complex supply chains – such as pork, beef and dairy – influencing the feed used by farmers is more challenging. We are taking a longer-term approach to address farming practices in these supply chains, by integrating deforestation-free feed requirements into our agricultural standards.

## Cocoa, coffee and tea

All the cocoa we use in IKEA-branded chocolate bars is UTZ certified, meaning it has been sourced in a way that is fair to producers, suppliers and the environment. All of our coffee is also UTZ certified, and in October 2016 we launched PÅTÅR, our new coffee range in the Swedish Food Market, which is both UTZ certified and organic according to EU standards. We serve coffee carrying both certifications in IKEA restaurants and IKEA Bistros. In FY16, 59% of markets served certified tea, compared to 34% in FY15. This is because as well as UTZ certified tea, we have expanded our scope to include Rainforest Alliance and Fairtrade tea.



# ANIMAL WELFARE

Our goal is to ensure animals in our supply chain – whether cattle, pigs, poultry, sheep, goats or fish – are treated humanely, with the opportunity to express natural behaviours. Over the past year we have developed the IKEA Farm Animal Welfare position to drive progress on animal welfare for all animals in our supply chains.



## Our vision for animal welfare

We commit to protecting animals' health, physiological and behavioural needs. This is true for animal-derived raw materials used as food ingredients (such as beef, chicken, pork and salmon), or in our home furnishing range (such as leather, wool, down and feathers). It applies at all stages of an animal's life, along all points in our supply chain.

To achieve this, we will work with suppliers that share our values, and are willing to work together towards higher animal welfare standards. For more information about our supplier standards, see [page 61](#). We also take part in constructive, collaborative partnerships and dialogue with

experts, veterinarians, governments, academics, NGOs, and other businesses. Our work has been improved by collaborations with organisations such as the Food Animal Initiative (FAI), Compassion in World Farming (CIWF) and World Animal Protection (WAP).

## Pork and beef

We have created holistic guidelines to address how pigs are bred and reared, to ensure they are healthy, able to express natural behaviours and do not suffer from unnecessary discomfort and confinement. For example, we source pork meat from outdoor bred pig farms in the UK that uphold these practices. Our next step will be to develop similar programmes for other animals, starting with cattle.

## Eggs

We committed to sourcing only free range eggs (fresh, whole and liquid) by August 2015, but we have not been able to meet this target. We will continue to phase out caged production in the IKEA supply chain, and aim to source eggs from hens that are raised in non-confined production systems. These enable hens to be free to move around and perform natural behaviours such as foraging and dustbathing. In FY16, 61% of our stores served eggs from free range or cage-free hens in their restaurants.

We are working closely with our markets to increase the supply of free range eggs. But in some countries, free range eggs are not yet available. As an interim step, we have allowed a move to cage-free (or 'barn') eggs in these countries. In FY16, 51% of our markets served eggs from free-range or cage-free hens. Our goal remains to increase the share of eggs from non-caged systems.



## Down and feathers

All down and feathers used in IKEA products come from ducks. We do not use down and feathers from geese due to the risk of live plucking, which is a cruel and unacceptable practice. In FY14 we developed requirements for the conditions in, and transport to and from, slaughterhouses. Since then we have performed annual audits at all slaughterhouses for ducks.

In FY16 we have developed requirements for farms that will further strengthen animal welfare, and in FY17 we will start performing audits for farms, in addition to the audits for slaughterhouses and transport. We aim to audit 20% of our farms by August 2017. We are also assessing the possibilities for using alternative materials.

## Wool

Our main focus in FY16 has been to find reliable ways of tracing and verifying our wool back to source, and we have made great progress. Now that we better understand the supply chain, in FY17 we will begin to set detailed animal welfare standards for every stage.

# LEATHER

Every year we use about 3 million m<sup>2</sup> of leather in our home furnishing products, including sofas and rugs. This comes from eight leather suppliers and three hair-on-leather suppliers. We work closely with our partners to reduce the environmental and social issues that can be common in leather supply chains, such as forced labour and chemical pollution.

## Reducing chemicals

Chrome is widely used in the tanning process to soften leather, but it is extremely toxic and can be harmful for workers and the environment. FY16 was the first year where 100% of the leather we used was produced with chrome-free processes. We are proud to have reached this milestone by working with suppliers and encouraging them to make the switch.

## Improving traceability

The leather supply chain is notoriously complex because the production involves many steps. Because of this complexity, we had to revise our traceability target. Instead of securing chain of custody back to the farm by August 2017, we aimed to trace leather back to the slaughterhouse by the same date, while keeping the long term ambition for full chain of custody.

We have already collected information on almost all of the slaughterhouses in our leather supply chain – one year before the target. That means we are confident of meeting this goal in early FY17. During the rest of FY17 we will continue to focus on securing chain of custody verification routines and setting clear social, environmental and animal welfare standards.

# MORE SUSTAINABLE PRODUCTS

AFFORDABLE PRODUCTS ARE OFTEN CONSIDERED LOWER QUALITY, AND SOMETIMES THE MOST BEAUTIFUL DESIGNS ARE THE MOST EXPENSIVE. WE WANT TO CHANGE THAT.

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
By August 2020, 90% of the total sales value will come from home furnishing products classified as more sustainable.	●	On track – 55% in FY16
By August 2015, all our home furnishing materials, including packaging, will be either made from renewable, recyclable <sup>1</sup> or recycled materials.	●	Approximately 98%
By August 2020, 100% of material in our plastic products will be renewable and/or recycled, representing around 40% of our total plastic use.	●	Ongoing – 24% in FY16
Encourage and enable our direct suppliers to become 20% more energy efficient by August 2017, compared to FY12.	●	Ongoing – 19% in FY16
By August 2015, reduce carbon emissions of our suppliers by 20%, compared to FY12.	○	By FY16, suppliers reduced relative carbon emissions by 17.3%

**LEGEND:** ● Achieved    ● Ongoing    ○ Not achieved

1 On an industrial scale in at least one market where we have retail operations.

At IKEA, the way we think about designing and making products is called Democratic Design. It is based on the five principles below – all equally important to making the right product.

- **Form** – products that make our customers feel good while making the world a more beautiful place
- **Function** – products that work well and make everyday life easier and more meaningful
- **Quality** – high quality and long-lasting products that weather the wear and tear of everyday life
- **Sustainability** – products made in ways that are good for people and the planet, and which can enable people to live more sustainable lives at home
- **Low price** – products that are affordable and accessible to the many people.



# SUSTAINABILITY PRODUCT SCORECARD

We use the Sustainability Product Scorecard to measure how sustainable our products are, and to see how well we are moving towards that component of Democratic Design. Since FY10, we have been using the scorecard's 11 criteria to measure sustainability at every stage of our products' life cycle – see below.

## THE IKEA SUSTAINABILITY PRODUCT SCORECARD

- 1 **More from less** (using lightweight materials and smart designs that require fewer resources)
- 2 **Renewable materials**
- 3 **Reused and recycled materials**
- 4 **Materials from more sustainable sources**
- 5 **Recyclability at products' end of life**
- 6 **Quality**
- 7 **Transport efficiency**
- 8 **Energy use in production**
- 9 **Renewable energy in production**
- 10 **Raw-material utilisation in production**
- 11 **Sustainable life at home** (products that enable customers to reduce energy and water use, cut waste, and live a healthier lifestyle)

**Some of our favourite product examples.** Every year, our designers create wonderful products, guided by the five pillars of Democratic Design. Here are some of the highlights of products launched during FY16 that made our range more sustainable.

### LUNGÖRT and LÖVKOJA

These popular cushion covers are made with 100% cotton from more sustainable sources. Combining a low price with great form and good quality, they excel in all five aspects of Democratic Design. It's no wonder our customers love them!



**EKTORP** This classic IKEA sofa has removable covers that can be machine washed, or even replaced once they get old. Customers can enjoy a whole new look and feel to their sofa, without having to replace the whole thing – saving precious cash and natural resources.

**VALLENTUNA** This sofa is completely modular, allowing customers the flexibility to buy the seats, armrests, backrests, and cushions separately. They can repurpose it based on their evolving needs as they move home, change lifestyle, or just want a new style!



A product is classified as 'more sustainable' if it scores points above a certain threshold, and products are only approved for production if they score higher than existing, equivalent products. If the design scores poorly, we will find ways to improve – for example, by choosing different materials or working with different suppliers. Product development teams should then set out an action plan to increase the score within one year.

**55%** OF TOTAL SALES VALUE CAME FROM HOME FURNISHING PRODUCTS CLASSIFIED AS 'MORE SUSTAINABLE' IN FY16

Our goal is for 90% of our total sales to come from products classified as 'more sustainable' by FY20.

Approximately 98% of our home furnishing materials, including packaging, are made from renewable, recyclable or recycled materials. Measuring progress towards this target has proved challenging, therefore we provide our best estimate. Due to regional legislation and specific requirements for some materials, we may never reach the 100% target. The new Sustainability Product Scorecard will measure product sustainability in a different way and will help us more accurately track progress (see left).

### Updating the scorecard

We are proud of the Sustainability Product Scorecard and have learnt a lot in the six years we've been using it. To make sure it remains

## POLYSTYRENE-FREE FLAT PACKS

Expanded polystyrene (EPS) foam has traditionally been used extensively for packaging, because it is cheap, durable and lightweight. But it is fossil-based, and hard to recycle in many places. We set out to find a replacement, and after a lot of research, we succeeded!

The new material is honeycomb-shaped and acts as a natural shock absorber. Because of the holes between the hexagons, it is light, yet strong; and it is made from fibre-based materials and therefore fully recyclable.

After four years' work, we have now phased out EPS foam from all IKEA flat packs,<sup>2</sup> reducing EPS foam volumes by 8,000 tonnes per year – more than half the volume of the Empire State Building!

<sup>2</sup> EPS is still present in the packaging for our appliances. Since we purchase these directly from suppliers, and have a fairly small impact in this area, it has been more of a challenge to affect this industry. But we will continue to work with suppliers to explore a more sustainable solution.

relevant for the future, we have been updating the criteria and tools in FY16, and will create new ways of working with it in FY17.

We worked closely with product development teams to understand their needs, and how to improve the usability and effectiveness of the scorecard. After tweaking the focus areas, the new scorecard will include nine criteria organised around design, material and supply. In FY17 we will affirm the definitions and scope for each criterion, and support teams through competence-developing programmes and an easy-to-use IT system. Because we collaborated with the people who actually use the scorecard, we are confident it will now be scaled up and integrated across the business to drive more sustainable product design.

## QUALITY FOR CUSTOMERS

Quality has always been part of our vision to create a better life for the many people. It is not only about following the principles of Democratic Design to provide affordable, well-designed, long-lasting and durable products. We must also ensure that whenever and wherever our customers choose to meet with us, they have a positive experience. This includes a customer's interaction with IKEA – whether online or in store – and the packaging of products, which should protect, inform and engage without being wasteful. For more on how we engage and inform customers, see [page 19](#).

We work closely with our suppliers to ensure we live up to our customers' quality expectations and legal requirements. The IKEA Supplier Quality Standard, based on the ISO 9001 criteria, ensures that our suppliers meet internationally agreed quality principles. For example, we made significant progress with one of our suppliers of taps. At the end of FY13 we realised there was a problem with some of our taps, when more than 75 products were returned every day because of quality issues such as leaking. We took immediate action, halting all sales of these taps, and worked with the supplier to create a quality product that

### THE IKEA QUALITY FOR LIFE STRATEGY

In FY15, we launched our updated, customer-focused approach to quality: the Quality for Life strategy. It has three strategic pillars that serve as a promise to our customers:

- **Long-lasting value at low prices** – using our home furnishing knowledge and customer insights to create the best quality, value for money products
- **Quality in every touch point** – ensuring that every time we connect with customers, we leave a lasting quality impression
- **Quality through transparency** – listening to our customers and sharing our stories together to understand what matters most to them.

we can be proud of. For more on the requirements for IKEA suppliers, see [page 61](#).

In FY15, we launched our updated, customer-focused approach to quality: the Quality for Life strategy. It has three strategic pillars that serve as a promise to our customers (see box).

The first pillar considers products, where we identified three focus areas for FY16-17:

- Making sure customers are happy, healthy and safe by complying to the right quality standards around the world
- Creating quality products that are right from the beginning and exceeding customers' expectations by choosing sustainable and long-lasting materials, and building quality into the design
- Using customer feedback and supplier knowledge to continually improve our products.

**HEMNES** product illustrating the use of powder coating instead of wet-painting that gives the product more protection in countries where high levels of humidity are a problem.



**VALJE, REGISSÖR TINGBY** and **LISABO** use new innovative wedge dowel fixings that come pre-installed in furniture panels and replace more traditional metal fittings.



In FY17, we will define new targets that measure the impact of quality on customer happiness and sustainability (especially waste reduction). We have already identified and started around 60 activities across IKEA Group that will improve quality for customers. For example, as IKEA expands globally we know that more of our customers are living in humid climates, which can cause damage to furniture such as bending, cracking or mould. We have updated several products to be more resistant to humidity, like our **HEMNES** bathroom series that uses a new painting technique (powder coating instead of wet-painting) that makes it much more water-resistant. More furniture with better humidity resistance will be available to customers from mid-2017.

Today, people are moving around a lot more and living in smaller spaces. We want to make it easier for customers to take products with them when

they move. That means making furniture that is easy to assemble and disassemble. In 2012, we introduced an innovation that replaces traditional metal fittings with a small ribbed fitting called a wedge dowel. The dowels come pre-installed in the furniture panels and simply click into place, requiring fewer tools and shorter assembly time. Recently we have installed the wedge dowel to many more products, including our **VALJE** and **REGISSÖR** wall cabinets, and **TINGBY** and **LISABO** tables, and will continue to roll out in FY17.

Instead of throwing away damaged products, we actively encourage and support people to repair them, or replace missing components. We have a policy of offering customers spare and replacement parts and in FY16, IKEA Components dispatched 1.3 million repair kits to customers, 155,000 more than in FY15.

# PRODUCT SAFETY

Product safety is a top priority at IKEA. We want our customers' homes to be as safe as possible, and they should always feel confident that our products are safe and healthy to use. We use risk assessments during the product development process to make sure we live up to our customer promise as well as all regulatory requirements.

We test products at our own accredited laboratory in Sweden, as well as at independent research institutions around the world. When needed, we create our own test methods for certain product types. Our focus is on safety and prevention. Whenever we are alerted to a possible safety issue with the design or manufacture of our products, we investigate. If a safety or compliance issue is confirmed, we take prompt corrective actions.

One of the tools that we have at our disposal is the voluntary product recall. The IKEA range comprises approximately 9,500 products and during FY16, we had seven global recalls. It is important to note that not all recalls are global, some recalls are due to local compliance issues. For example, in June 2016 we launched a local recall of chests of drawers in North America that

did not comply with the performance requirements with the voluntary ASTM industry standard. For a full list of the recalls that took place in your market in FY16, visit your IKEA country website.

Tragically, we are aware that tip-over accidents happen with IKEA furniture involved, often as a consequence of the furniture not being properly anchored to the wall. That's why IKEA launched its 'Secure it!' campaign globally in FY16. IKEA is investing in communication to help raise awareness of the importance of securing chests of drawers to the wall, and urges consumers to follow all safety and assembly instructions. Customers who have misplaced their tip-over-restraint can order replacements online or pick them up for free at any IKEA store.

We are investing in innovation, product development and testing solutions to improve the quality and safety of all our products. For example, from 1 January 2016, IKEA window blinds and curtains are cordless (or have non-accessible cords) to minimise risk of strangulation. We have pledged to share our innovations in safety, free of charge, with the whole furniture industry.

## Chemicals

Chemical substances are useful in many IKEA products, providing beautiful colours, giving texture to materials, acting as glue to keep our products together, and protecting products with paint and other coatings. Most chemicals are safe to use, but some pose health risks. At IKEA, we have a responsibility to ensure the chemicals in our products are safe, and that products are produced in a way that protects co-workers and the environment.

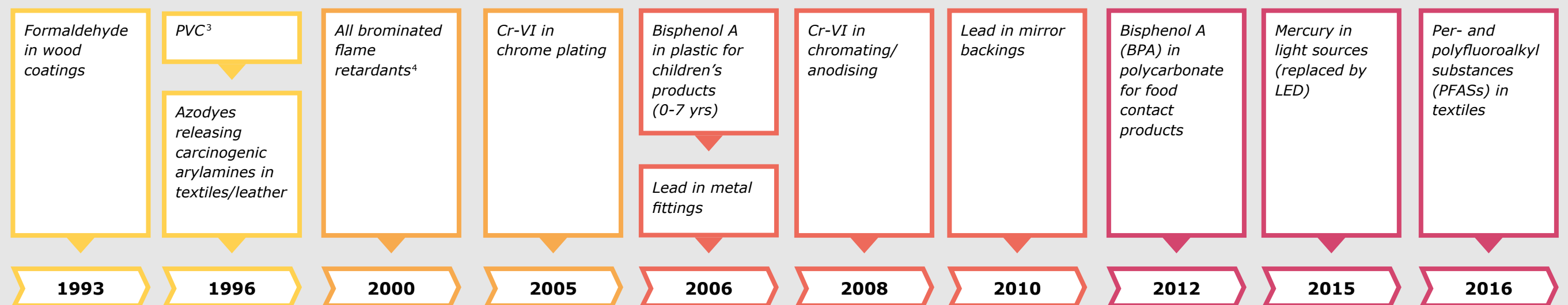
For many of our products we go above and beyond legal requirements. We have phased out any chemicals that are suspected of being harmful or causing reactions. For example, colourants that have been identified as carcinogenic are banned from use in our products. And where we can, we avoid substances and fragrances that are known to be allergenic.

## THE IKEA CHEMICAL STRATEGY

In FY16 we updated our chemical strategy to reflect changing demands and new evidence about the hazards of some chemicals. We have five objectives, with associated KPIs, to ensure that we create safe and healthy products.

- Increased information on chemical content of our products
- All materials used in IKEA products are assessed for chemical safety
- Phase out substances and materials that could cause harm
- Our suppliers share our values on chemical safety and compliance
- Increased awareness among co-workers, consumers and other key stakeholders about our work on chemicals.

### OUR BIGGEST MILESTONES: YEARS WHEN WE PHASED OUT OR BANNED CERTAIN CHEMICALS



3,4 Except for electrical articles.

# SUPPLIER DEVELOPMENT

Partnering with our suppliers is essential to making our products more sustainable. By working closely with suppliers, we ensure efficient organisation that shortens the distance between supplier and customer.

The IKEA Purchasing organisation is responsible for our vision to build a more sustainable supplier base. Sustainability Managers and Sustainability Developers implement projects with suppliers – see the infographic for more detail. In FY16 we strengthened our Purchasing organisation to ensure that we can continue to go beyond the requirements of our Supplier Code of Conduct, IWAY. We restructured the way we work to be organised by Category Area, enabling a more specialised sustainability focus for each one. Instead of being generalists across all categories, we can now make decisions based on themes that are common to each area, and collaborate closely with suppliers on projects related to their material and production methods (see diagram below).

## Supporting suppliers to improve sustainability

Our aim is to encourage and enable our direct suppliers to become 20% more energy efficient by August 2017, and to become water positive by August 2020 by promoting water stewardship throughout our value chain (read more on [page 30](#)). As well as working on specific materials or products, we work closely with tier 1 home furnishing and components suppliers to monitor and improve their greenhouse gas, energy and water performance. Compared to the FY12 baseline, suppliers have reduced relative carbon emissions by 17.3%, improved energy efficiency by 18.7%, and increased water efficiency by 41.6%.

## Supplier Sustainability Index

The Supplier Sustainability Index (SSI) helps us measure the impact of our supplier development. And it feeds into the Sustainability Product Scorecard to create an overall score for each product (see [page 35](#)). In FY16 we updated the SSI, following feedback from suppliers.

It is now easier to use, more action-oriented, includes many learnings from our energy and water projects, and goes hand in hand with our Good Examples booklet that offers ideas and inspiration for suppliers.

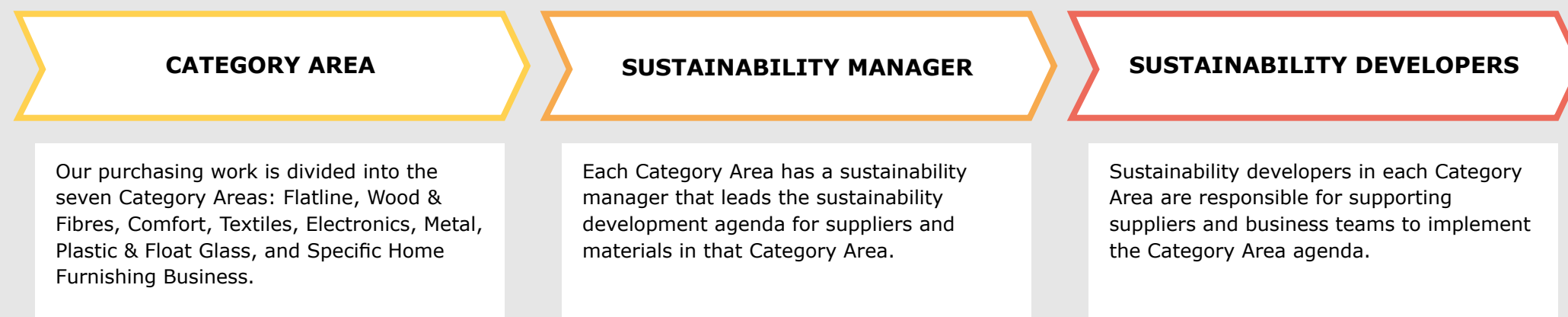
The SSI measures suppliers' performance in four areas.

- Strategy and management systems
- Sourcing and procurement of energy, water, chemicals and materials
- Manufacturing processes and resource use
- Non-utilised resources including waste chemicals, materials and water.

## TIER 1 HOME FURNISHING (HF) SUPPLIER DATA

	FY12 BASELINE	FY14	FY15	FY16
<b>Energy</b>				
Energy consumed (GWh)	7,853	6,744	7,727	7,938
Energy efficiency (kWh/m <sup>3</sup> product purchased)	308.0	250.0	253.9	250.4
Renewable energy share (%)	24.8	26.6	28.0	31.8
<b>Greenhouse gas emissions</b>				
Greenhouse gas emission (tonnes CO <sub>2</sub> eq)	2,024,195	1,888,114	2,126,674	2,082,279
Greenhouse gas emission efficiency (kg CO <sub>2</sub> eq/m <sup>3</sup> )	79.4	70.0	69.9	65.7
<b>Water</b>				
Total water consumption (m <sup>3</sup> )	34,340,809	24,507,975	25,692,285	24,904,176
Water efficiency (litres/m <sup>3</sup> )	1,346	908	844	786

## BETTER PURCHASING STRUCTURE



# WORKING WITH THE SEVEN IKEA HOME FURNISHING SUPPLIER CATEGORIES

## FLATLINE

Products made from particleboard and fibreboard (MDF, HDF, hardboard).



The Flatline category aims to source 100% of our solid wood, board and paper from more sustainable sources by August 2019.

We worked with one of our suppliers to update their approach to purchasing and install better systems to monitor materials. From zero materials from sustainable sources in FY11, the supplier now offers more than 80% wood from more sustainable sources – with full traceability and FSC® Chain of Custody certification.

## ELECTRONICS

Appliances, lighting and home electronic products.



We purchase ready-made electronics products from suppliers for our lighting, bathroom and kitchen appliances range. By collaborating with suppliers, and sharing best practice with one another, we ensure the products are manufactured sustainably.

Projects include efforts to improve energy and water monitoring systems, and encourage waste separation and reuse. Together we also explore ways to improve specific manufacturing processes – for example using a new paint coating process that reduces phosphates, and reducing air emissions and hazardous waste from tin soldering.

## WOOD & FIBRES

Products made from hardwood (such as pine and spruce), layer-glued wood, bamboo, paper and natural fibres.



We aim to use materials more efficiently to make more from less, and to source 100% of our wood, paper and cardboard from more sustainable sources by August 2020.

Since FY12, we have been working with our Romania-based supplier, Aviva SRL, to use their innovative new types of engineered wood in more of our product ranges. Their solution uses up to 60% less material – reducing transport costs and emissions.

As with other Category Areas, we are supporting all of our wood and fibre suppliers to phase out coal use in their operations by FY18.

## METAL, PLASTIC & FLOAT GLASS

Products made from metals, plastic and float glass.



We are collaborating with a number of suppliers to transform waste plastic into beautiful new products. Through close collaboration and a step-by-step approach we were able to set up a new system for recycled PET production. In FY16, 26% of the raw materials in products from this category came from renewable or recycled sources. For plastics, our goal is to reach 100% from recycled or renewable sources by FY20. This is a challenging target and we are developing roadmaps for the different kinds of plastics that we use, in order to bring us closer to our goal.

## COMFORT

Mattresses, upholstered and filled products



Traditional mattress foam is made of petroleum-based, non-renewable resources, and we are working to change this. In FY15 we started using a new mattress foam made of 15% soy-oil. We have now increased this to 30% for some foam types.

One of our suppliers, Dendro Poland, can now chemically recycle foam that is wasted during the manufacturing process. This can replace even more petroleum-based raw material content in our mattresses. Best of all, these two solutions can be combined to create the most sustainable foam available!

## SPECIFIC HOME FURNISHING BUSINESS

Small household items such as candles, ceramics, frames, green plants and toys.



Every home can be brightened up with some plants – but it can sometimes be a challenge to grow them in a sustainable and responsible way. Our co-workers responsible for green plants products have teamed up with Terramera Inc., a Canadian company that is developing a unique plant based technology for pest and disease control to replace synthetic chemical pesticides. IKEA Greentech, our wholly owned venture capital company, has also invested in Terramera.

## TEXTILES

Fabrics, home textiles, furniture covers, carpets, blinds, curtains and textile storage solutions.



Cotton is one of the main raw materials for this category, and since the end of FY15, all the cotton we use in our products comes from more sustainable sources. But our journey is far from over!

Our Synthetic Textiles Category is working with suppliers to improve the sustainability of their production techniques. For example, together with our supplier, Hilong, we recently introduced a fibre dyeing technique, called dope dyeing, that reduces water consumption by 80% because fewer steps are involved in the dyeing

process. Now Hilong saves nearly 300,000 litres of water a year, and more suppliers are following suit – with nearly 50% of the polyester used in the IKEA supply chain now dope dyed.

Since many of our textiles suppliers are based in water-scarce regions, we have developed Water Guidelines for Textiles Suppliers that provide a starting point for improving water efficiency. We also work with the Sweden Textiles Water Initiative (STWI), an organisation that connects textile retailers who share suppliers so that they

can collaborate on projects and develop consistent water guidelines. During FY16, we continued our work in STWI-led projects in India (two suppliers, one sub-supplier), China (one supplier) and Turkey (three suppliers).

See [page 30](#) for how we are becoming water positive across our entire supply chain.

# THE IKEA CATALOGUE

The IKEA catalogue showcases our latest product ranges, interspersed with creative home furnishing ideas and tips for living a more sustainable and healthier life. It is the world's largest FSC certified publication, with 213 million copies in FY16. We focus on sourcing FSC certified paper (rather than recycled paper) in order to assure more sustainable origins of the raw materials. Currently there is not enough high-quality recycled paper to meet our needs.

## Reducing the catalogue's carbon footprint

Now that we have secured certified paper, we are focused on reducing the carbon footprint of the catalogue. The first step is to measure the carbon footprint at each stage of the catalogue's life cycle, from forest to mailbox – quite a challenge with seven paper suppliers and 23 printers across 19 countries!

In FY16, we cut carbon emissions from catalogue production by 26%, and water consumption by 35%, compared to FY15, by selecting suppliers with lower environmental footprints.

## The digital catalogue

There were 49 million visits to the digital versions of the catalogue – app and website – in FY16. We have now established a baseline measurement for the environmental impact of the digital catalogue. This is much more complex than for the printed version, because we need to account for making, using and disposing of the devices, running the data server centres and using the internet. We are exploring partnerships with leading companies in the digital sector and hope to learn from their experiences.

### ENVIRONMENTAL DATA FOR TOTAL CATALOGUE PRODUCTION

	FY10 BASELINE	FY14	FY15	FY16
Printed number of catalogues (millions)	197	217	211	213
Volume of paper used (tonnes)	102,476	102,077	100,390	96,934
FSC certified Chain of Custody fibre (% of virgin fibre content)	21	100	100	100
Renewable energy used in production (% of total energy)	50	44	32.25	42
ISO 14001 certified paper suppliers (%)	89	100	100	93 <sup>5</sup>

### ENVIRONMENTAL DATA PER PRINTED COPY

	FY10 BASELINE	FY14	FY15	FY16
Energy consumption (kWh/copy)	2.96	2.78	2.54	2.64
Carbon emissions from catalogue production, from forest to paper mill (kg CO <sub>2</sub> /copy)	0.49	0.76	0.74	0.55
Water consumption (litres/copy) <sup>6</sup>	-	-	1.28	0.83

<sup>5</sup> This number decreased because we began working with a new supplier in North America that is not yet certified to ISO 14001 standards.

<sup>6</sup> The difference between water withdrawn and water discharged.





# MORE SUSTAINABLE OPERATIONS

MAKING OUR OPERATIONS MORE SUSTAINABLE IS GOOD FOR PEOPLE AND THE PLANET, AND MAKES GOOD BUSINESS SENSE.

At the end of FY16 there were 340 IKEA stores, 41 shopping centres, 38 distribution sites, 22 Pick-up and Order Points and 41 factories operated by IKEA Group around the world.

We want all of these to be sustainable. This means reducing carbon emissions, using water efficiently, and being smarter with our waste.



## INTEGRATING IKEA CENTRES IN REPORTING

For the first year, this report includes data and information on IKEA Centres, the IKEA Group shopping centre organisation formed in FY15. IKEA Centres is active in 15 countries, with more than 3 million m<sup>2</sup> of floor area and approximately 425 million visitors a year. IKEA Centres owns and operates the shopping centres, leasing units to other retailers (tenants).

landlord and tenant consumption in the future.

- Carbon emissions data includes emissions from all energy purchased by IKEA Centres, including energy used by tenants with sub-meters, which is reported as scope 3.
- Water and waste data includes water and waste collection services purchased by IKEA Centres and provided to tenants, common areas and shared services.

In this report:

- Energy data for shopping centres focuses on our own operations, including energy purchased by IKEA Centres for:
  - common areas such as malls and toilets, and shared services such as central heating and cooling.
  - tenants that do not have energy sub-meters and whose energy use cannot be separated from the total. We are rolling out sub-metering across our shopping centres to be able to separately measure

Some of the data in this chapter is presented in two ways – including and excluding shopping centres. This is because IKEA Centres was not part of the IKEA Group when our targets were set. The data excluding shopping centres shows figures comparable to previous years. For transparency, we also provide the figures including shopping centres. From FY17, we will fully integrate shopping centres in all our targets and reporting.

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
By August 2015, reduce carbon emissions from our own operations by 50%. <sup>1</sup>	○	Very close to reaching our FY15 target – we reached 49% in FY16. <sup>2</sup>
By August 2020, produce as much renewable energy as we consume in our operations. <sup>3</sup>	◐	We produced renewable energy equivalent to 71% of that consumed. <sup>4</sup>
Become 30% more energy efficient in our own operations by August 2020. <sup>5</sup>	◐	Retail – 15.5%, Distribution centres – 28.6%, IKEA Industry (Divisions Flatline and Solid Wood) – 14%, IKEA Industry (Division Board) – 1.4%, IKEA Components <sup>6</sup> – 48.3%. <sup>7</sup>
By August 2016, reduce carbon emissions from the transport of goods by 20% compared to FY11, and by 30% compared to FY12 by August 2020. <sup>8</sup>	◐	28.7%. We achieved the 20% goal last year and are now close to reaching our 30% target.
By August 2020, 90% of the waste from our own operations will be recycled or energy recovered. Of this, 80% of the waste from stores and distribution centres and 90% from IKEA Industry will be material recycled.	◐	88.7% overall. For material recycling, we achieved: Retail – 80.3%, Distribution centres – 81.7%, IKEA Industry – 80.5%.
By August 2020, reduce waste from our store operations by 10%. <sup>9</sup>	◐	Not on track – in FY16 we produced 16.5% more than the FY13 baseline.

**LEGEND:** ● Achieved   ◐ Ongoing   ○ Not achieved

<sup>1</sup> Compared to FY10 in relative terms, measured by CO<sub>2</sub>/m<sup>3</sup> goods purchased.

<sup>2</sup> Excluding shopping centres.

<sup>3</sup> 'Our operations' currently relates to distribution centres, stores, offices and IKEA Industry Group factories. We will update our target for renewable energy production during FY17 to reflect our new company structure.

<sup>4</sup> Excluding shopping centres. With shopping centres we produced 61%.

<sup>5</sup> Compared to FY10 in relative terms.

<sup>6</sup> Baseline year: FY13

<sup>7</sup> Not including shopping centres, which were not part of our operations in the base year, FY10.

<sup>8</sup> Compared in relative terms and measured by m<sup>3</sup> transported goods.

<sup>9</sup> Baseline year: 12.5 kg/m<sup>3</sup> in FY13. This is measured as kg/m<sup>3</sup> sold goods.

# CARBON EMISSIONS

We are going all-in to tackle climate change by investing in renewable energy and energy efficiency. We are in the process of setting a new science based target to ensure that we play our role in cutting our emissions to the level required to keep global warming below the 2°C threshold. To learn more about how we are inspiring action on climate change, see [page 13](#).

Tracking our emissions enables us to monitor progress towards our goal to decarbonise our operations. This includes:

- measuring absolute emissions from our entire operations to understand our overall environmental footprint
- measuring relative emissions per product sold, to show how efficiently our business is manufacturing and delivering products to customers.

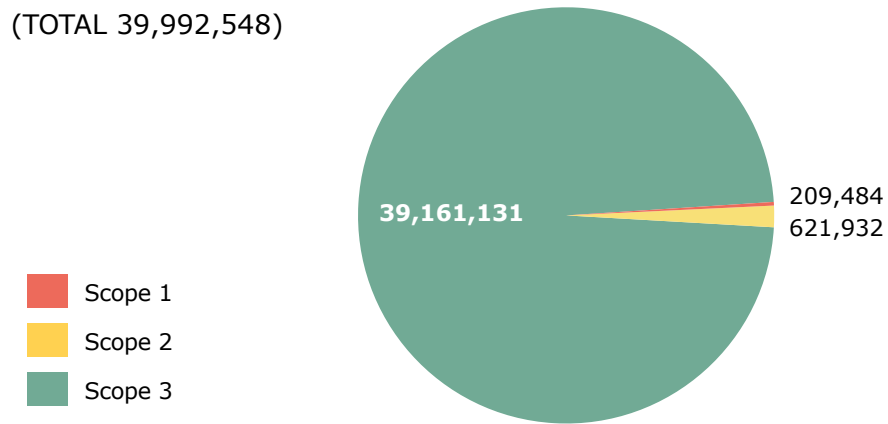
In FY16, carbon emissions from our own operations, excluding IKEA Centres, were 17.5 kg CO<sub>2</sub> per m<sup>3</sup> of product sold. This is 49% lower than in FY10 which means that we are now very close to reaching our FY15 target of reducing emissions by 50%. Including IKEA Centres, the figure was 32.8 kg CO<sub>2</sub> per m<sup>3</sup> of product sold, since our shopping centres generate carbon emissions without selling IKEA products.

## CARBON EFFICIENCY FOR SCOPE 1 AND 2 EMISSIONS

	FY10	FY14	FY15	FY16 (EXCLUDING IKEA CENTRES)	FY16 (INCLUDING IKEA CENTRES)
Kg CO <sub>2</sub> per m <sup>3</sup> product sold	34.3	27.5	24.4	17.5	32.8

## IKEA CARBON FOOTPRINT IN FY16 (TONNES CO<sub>2</sub>)

(TOTAL 39,992,548)



## IKEA CARBON FOOTPRINT AT EACH STAGE OF OUR VALUE CHAIN (TONNES CO<sub>2</sub>)<sup>10</sup>

	FY16	SEE PAGE
Raw materials	16,562,759	<a href="#">24</a>
Production and distribution	3,142,796	
Suppliers (home furnishing and catalogue)	2,199,035	<a href="#">38</a>
Goods transport <sup>11</sup>	943,761	<a href="#">46</a>
IKEA Group operations	1,020,366	
Scope 1 and 2 from IKEA operations	831,416	<a href="#">41</a>
Business travel <sup>12</sup>	52,368	<a href="#">48</a>
Co-worker commuting	136,582	<a href="#">48</a>
Shopping centre tenants <sup>13</sup>	172,373	
Customers	18,162,615	
Transportation to stores	3,480,107	<a href="#">48</a>
Product use (light sources and appliances)	14,682,507	<a href="#">16</a>
Products' end-of-life <sup>14</sup>	931,639	<a href="#">34</a>
<b>Total</b>	<b>39,992,548<sup>15</sup></b>	

## SCOPE 1 AND 2 EMISSIONS FROM IKEA BUILDINGS (TONNES CO<sub>2</sub>)

	FY14	FY15	FY16
Retail	333,576	338,720	294,950
Distribution centres	28,251	29,883	28,025
Shopping centres	-	-	296,923 <sup>16</sup>
IKEA Industry	422,851	358,444	198,900
IKEA Components	1,095	1,178	1,741
Offices	3,481	3,346	9,357
Other units	-	-	1,519
<b>Total</b>	<b>789,593</b>	<b>731,571</b>	<b>831,416<sup>17</sup></b>

## CARBON EFFICIENCY (% IMPROVEMENT AGAINST FY10 BASELINES)

	FY14	FY15	FY16	FY20 GOAL
Retail	37.8	39.6	48.0	50
Distribution centres	51.2	54.1	58.2	50
IKEA Industry Group Divisions Flatline and Solid Wood	18.3	30.9	71.0	50
IKEA Industry Group Division Board <sup>18</sup>	3.0	18.7	36.4	50
IKEA Components ( <i>Base year FY13</i> )	7.8	33.8	35.8	50
<b>Total</b>	<b>19.8</b>	<b>28.9</b>	<b>49.0<sup>19</sup></b>	<b>50</b>

## IKEA GROUP LOCATION/MARKET BASED EMISSIONS FROM CONSUMED ELECTRICITY IN FY16<sup>20</sup>

Consumed electricity (MWh)	3,008,893
Location based emissions (tonnes CO <sub>2</sub> )	1,266,578
Market based emissions (tonnes CO <sub>2</sub> )	578,551
Footprint reduction from using electricity from renewable sources (%)	54.3

<sup>10</sup> Some data based on models and estimations. See [page 89](#).

<sup>11</sup> Global ocean and land transport, excludes customer deliveries.

<sup>12</sup> Includes air travel, rental cars, public transport and taxis for business travel.

<sup>13</sup> Scope 3 emissions related to energy obtained by IKEA Centres and (sub)metered exclusively to tenants.

<sup>14</sup> Includes operational waste emissions.

<sup>15</sup> Excluding shopping centres, carbon emissions are 39,695,625.

<sup>16</sup> Emissions related to landlord-obtained energy for common

areas, shared services and tenants without sub-metering.

<sup>17</sup> Excluding shopping centres total scope 1 and 2 emissions are 534,493 tonnes CO<sub>2</sub>.

<sup>18</sup> In FY15 we reported against an FY11 baseline. Historical figures have therefore been restated.

<sup>19</sup> Excluding shopping centres.

<sup>20</sup> Location based emissions and market based emissions reported as per Greenhouse gas protocol definitions (see more on [page 89](#)). The footprint reduction represents the CO<sub>2</sub> reduction achieved by choosing electricity from renewable sources instead of the general market electricity mix in the countries where we operate.

# RENEWABLE ENERGY

We aim to be a leader in renewable energy, producing as much energy as we consume by 2020. Since 2009 we have invested EUR 1.5 billion in purchasing our own wind and solar power generation equipment and in FY15 we committed a further EUR 600 million.

**71%** GENERATED RENEWABLE ENERGY EQUIVALENT TO 71% OF ENERGY CONSUMPTION IN FY16<sup>21</sup>

During FY16 we produced 3,209 GWh of renewable energy from wind, solar and biomass. That is 33% more than in FY15, partly thanks to our large new wind farms in Poland and the US becoming fully operational. In FY16 we committed to buy 13 new wind turbines in Finland, bringing the total to 327, and installed 85,000 solar panels, bringing the total to 730,000.

In FY16, we produced renewable energy equivalent to 71% of our energy consumption, excluding IKEA Centres, compared to 53% in FY15. Including shopping centres, the share is 61%, as shopping centres have low renewable energy generation in relation to their energy consumption.

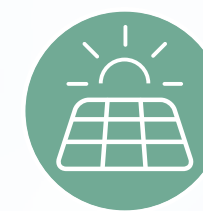
We have committed to produce as much renewable energy as all of the energy we consume in our operations by 2020. There have been two major changes to the structure of IKEA Group, that impact the scope of both energy generation and energy consumption. We incorporated IKEA Centres into our reporting scope for the first time. At the end of FY16, we divested Range & Supply and IKEA Industry, which will be reflected in the FY17 data. We will update our target for renewable energy



## GOING ALL-IN FOR RENEWABLE ENERGY



COMMITTED TO OWN AND OPERATE **327 WIND TURBINES**



INSTALLED **730,000 SOLAR PANELS** ON OUR BUILDINGS

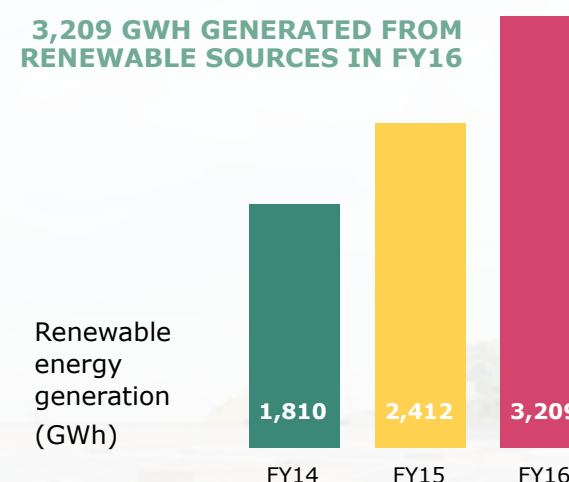


GENERATED HEAT FROM **RENEWABLE SOURCES**



GENERATED ELECTRICITY THROUGH **BIOMASS**

**3,209 GWH GENERATED FROM RENEWABLE SOURCES IN FY16**



**EQUIVALENT TO 71% OF ENERGY USED IN OUR OPERATIONS<sup>17</sup>**

### RENEWABLE ENERGY PRODUCED BY TYPE (GWh)

	FY14	FY15	FY16
Wind	410	985	1,789
Solar PV	90	109	127
Biomass for electricity			23
% of total electricity consumption	16.2	33.3	77.3 <sup>22</sup>
Heat from renewable sources (biomass heat, solar water heating, geothermal)	1,310	1,319	1,271
% of total heat energy consumption	42.0	53.4	63.1 <sup>23</sup>
<b>Total (GWh)</b>	<b>1,810</b>	<b>2,412</b>	<b>3,209</b>
<b>% of total energy consumption</b>	<b>42</b>	<b>53.4</b>	<b>71.0<sup>24</sup></b>

<sup>22</sup> Excluding shopping centres. With shopping centres, renewable generation is equivalent to 64.5% of our total electricity consumption.

<sup>23</sup> Excluding shopping centres. With shopping centres, renewable generation is equivalent to 55.4% of our total heat energy consumption.

<sup>24</sup> Excluding shopping centres. With shopping centres, renewable generation is equivalent to 60.5% of our total energy consumption.

<sup>21</sup> Excludes shopping centres.

production during FY17, to reflect our new company structure. We maintain our high ambitions for energy generation and will continue to invest in renewable energy across our operations.

As well as generating our own renewable energy, IKEA sites purchase renewable energy directly from the grid, or through district heating. This is one of the major contributors to reducing our reported emissions. In FY16, 61.0% of the electricity we purchased from the grid was renewable. Using biomass for heat is another important way of reducing emissions. IKEA Industry uses large amounts of heat during production, and in FY16, 78.8% of its heat energy was generated by biomass.

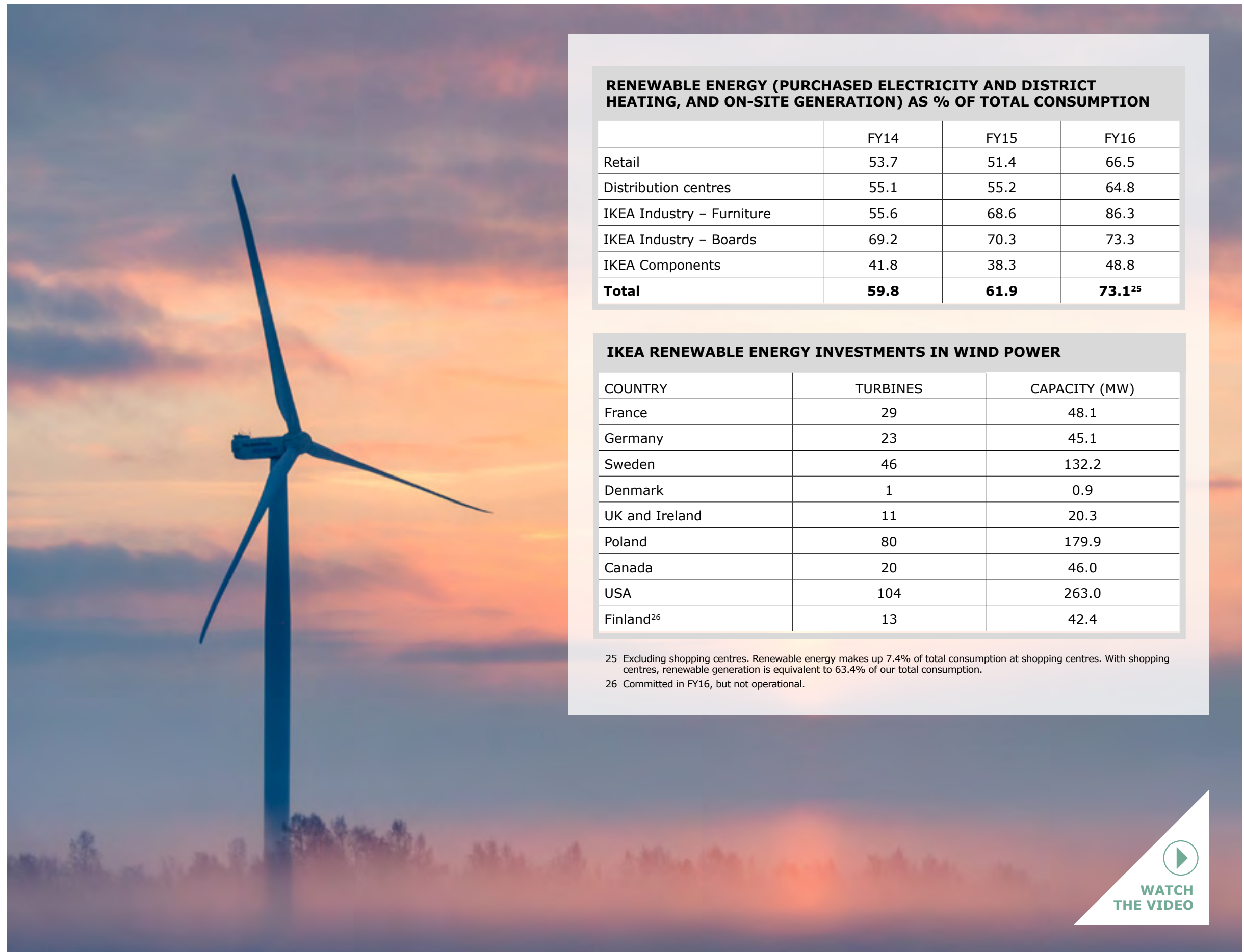
For more information on our partnerships to encourage renewable energy uptake, see [page 86](#).

### The challenge of energy storage

Our sites do not operate 24 hours a day, and some of the renewable energy is produced at times it cannot be used onsite. Until now, finding a way to store renewable energy has been difficult. Storage would enable us to smooth out the difference between supply and demand and provide flexibility to the grid.

In FY16 we began a pilot project in Australia and Sweden, exploring how to use lithium-ion batteries to store surplus electricity from solar panels. In the long term, we hope to be able to reuse lithium-ion batteries from our forklift trucks and other vehicles (see [page 47](#)). Even if they are no longer fit for vehicles, the batteries have the capability to store some energy. We hope to roll out this pilot in FY17.

We are exploring the possibility of powering LED fixtures using direct current from batteries, instead of alternating current from mains electricity. This could reduce fixture costs and further increase energy efficiency for LED lighting. Read more about LEDs on [page 16](#).



#### RENEWABLE ENERGY (PURCHASED ELECTRICITY AND DISTRICT HEATING, AND ON-SITE GENERATION) AS % OF TOTAL CONSUMPTION

	FY14	FY15	FY16
Retail	53.7	51.4	66.5
Distribution centres	55.1	55.2	64.8
IKEA Industry – Furniture	55.6	68.6	86.3
IKEA Industry – Boards	69.2	70.3	73.3
IKEA Components	41.8	38.3	48.8
<b>Total</b>	<b>59.8</b>	<b>61.9</b>	<b>73.1<sup>25</sup></b>

#### IKEA RENEWABLE ENERGY INVESTMENTS IN WIND POWER

COUNTRY	TURBINES	CAPACITY (MW)
France	29	48.1
Germany	23	45.1
Sweden	46	132.2
Denmark	1	0.9
UK and Ireland	11	20.3
Poland	80	179.9
Canada	20	46.0
USA	104	263.0
Finland <sup>26</sup>	13	42.4

<sup>25</sup> Excluding shopping centres. Renewable energy makes up 7.4% of total consumption at shopping centres. With shopping centres, renewable generation is equivalent to 63.4% of our total consumption.

<sup>26</sup> Committed in FY16, but not operational.



WATCH THE VIDEO

# EFFICIENT BUILDINGS



An illustration of our new IKEA More Sustainable Store in Kaarst, Germany, currently under construction and due to open in summer 2017. Making use of abundant natural light and environmentally friendly technologies, it will also feature green areas for play and a dedicated transportation concept.

We want to run all IKEA buildings – whether stores, shopping centres, offices, factories or distribution centres – as efficiently as possible to reduce carbon emissions and cut costs. Close collaboration and regular communication between our global, country and site-level teams allows us to learn from each other and set ambitious goals.

Our Energy, Emissions and Water management guidelines lay out the steps that our sustainability teams in each market can take to set country-level efficiency targets. Together with facilities managers and logistics teams, IKEA site managers translate these targets into action plans. They

must collect monthly data from each site and feed this through to the Group-level Energy and Water Performance Year Cycle.

To help Europe meet its 2020 energy efficiency targets, the EU Energy Efficiency Directive requires large companies to audit their energy consumption and identify ways to reduce it. We audited all our European stores and distribution centres in FY16, and plan to consolidate results and share findings between countries. Beginning in FY17, we will extend similar audits to non-EU countries, starting with Canada.

## INNOVATIONS TO BE MORE EFFICIENT

	IMPACT	REACH
<b>SMART BUILDING MANAGEMENT SYSTEMS</b>	Using clever software, we can regulate building systems such as ventilation, lighting, power and security systems. Managing these systems holistically means we can find efficiencies and cut costs – for example, the software might ‘learn’ when is the best time to cool or heat the building based on when lighting systems are in use.	We launched this technology at IKEA Hubhult, our office and meeting place in Malmö, Sweden, and some stores in Sweden. Our ambition is to extend this software to many more countries.
<b>LED LIGHTING</b>	Stores using LED lighting can expect to use 15 to 25% less electricity each year, with consumed energy savings around 1.4 GWh/store/year.	By the end of FY16, 232 existing stores had been retrofitted with LED lighting (or started retrofits). We will roll this out to another 64 stores during FY17 and FY18.
<b>POWER QUALITY OPTIMISATION (PQO)</b>	We are installing equipment to convert energy from the grid to a more suitable quality and quantity for the equipment using it. This reduces energy consumption, protects the equipment from power surges, and reduces energy bills and replacement costs. PQO can reduce energy use by more than 5%, and payback time is less than five years.	During FY16 we installed PQO equipment at 15 stores. Installations are now underway in Austria, Belgium, Canada, Italy, Poland and Switzerland. We will continue to install these units at another 35 stores during FY17.
<b>FUEL CELLS</b>	These cells convert fuel (natural gas and biogas) to electricity through a chemical reaction instead of using a traditional combustion engine. This is much more efficient and can contribute to lower carbon emissions.	During FY17 we will run pilots at five sites in the US, using fuel cells to store energy and generate electricity. This is estimated to save 104,000 MWh and over 1.3 million USD every year. Longer-term, we are exploring whether we could use hydrogen fuel cells to capture and store energy from wind turbines (see <a href="#">page 44</a> ).
<b>KITCHEN VENTILATION</b>	Energy-efficient kitchen ventilation systems can save 177 MWh per store or EUR 9,000 per year, with a payback of less than two years.	Efficient ventilation systems have now been installed in 115 kitchens, an increase of 15 compared to FY15. During FY17 we plan to install another 10 systems across Germany and Switzerland.
<b>USING BIO-WASTE FOR ENERGY</b>	We are exploring new partnerships with companies that produce small-scale generators powered with bio-waste.	IKEA Industry is working on a pilot project, due to be fully launched in FY17, which will use waste wood from the production process to provide green energy for heating, cooling and electricity.

**HUBHULT** – our global meeting centre in Malmö, Sweden, is Scandinavia's most environmentally friendly office building, certified to BREEAM 'Outstanding'.



### Sustainable store project

The IKEA Energy Model is a simulation tool that helps our building designers make each new store more sustainable than the last. In FY16 we used the tool to find efficiencies and cost savings in our 17 newly built stores, and will soon be rolling this out in some IKEA Centres too. Although initial construction costs can be higher, these are soon recovered through lower running costs.

We are going beyond this, using external standards for building efficiency. From FY16 we will require all new IKEA Group properties and large redevelopments to achieve a 'very good' performance rating from the Building Research Establishment Environmental Assessment Method (BREEAM) scheme. IKEA Hubhult, our office and meeting place in Malmö, Sweden, was our first building – and the first one in Scandinavia – to achieve the highest BREEAM certification, 'Outstanding'.

### IMPROVEMENT IN ENERGY EFFICIENCY COMPARED TO FY10 (%)<sup>27</sup>

	FY14	FY15	FY16	FY20 GOAL
Retail	15.1	14.6	15.5	30
Distribution centres	25	26.8	28.6	30
IKEA Industry Divisions Flatline and Solid Wood	17.9	12.6	14.0	30
IKEA Industry Division Board	-1.6	4.7	1.4	30
IKEA Components <sup>28</sup>	25.9	48.0	48.3	30

<sup>27</sup> IKEA Centres are excluded because this is the first year they are included in the scope of the data, therefore it is impossible to calculate percentage improvement.

<sup>28</sup> Baseline year: 2012.

## PRODUCT TRANSPORT

Millions of people around the world have an IKEA product in their home. Each product has been on a journey – sometimes thousands of kilometres – from supplier, to distribution centre, to store, before reaching its new home. We strive to make product transport more efficient to cut costs, reduce journey times, and minimise our environmental footprint.

**56.5m<sup>3</sup>** OF TRANSPORTED GOODS PER SHIPMENT IN FY16

Packing more products into each truck or container is one of the simplest and most effective ways of making transport more efficient. And as pioneers of flat pack furniture, this is central to the way that we design products. In FY16, the average volume of goods per shipment increased by 0.71% to 56.5m<sup>3</sup>. This has been a global effort, needing collaboration between product developers, packaging makers, suppliers and distributors. The biggest increase in FY16 comes from our internal Distribution Services, where volume per shipment increased by 1.2% from FY15 to 58.1m<sup>3</sup> between distribution centres and stores.

Thanks to our work to improve transport efficiency we have avoided over 98,000 shipments since FY13.

**29%** LOWER CARBON EMISSIONS PER M<sup>3</sup> OF TRANSPORTED GOODS COMPARED TO FY11

In FY16, total carbon emissions from product transport were 944 thousand tonnes. Relative to goods sold, this is 28.7% lower

than FY11, meaning we have far exceeded our 20% reduction by FY16 target. Read on for some of the ways we have achieved this reduction. Our ongoing target is to achieve a 30% reduction by FY20, compared to an FY12 baseline.

### Alternative modes of transport

We always look for new ways to reduce and replace fossil fuels in product transport. Currently the highest proportion of our carbon emissions comes from motor transport (50% in FY16). The rest is made up of rail and ocean transport – we do not transport any of our products by air.

It can take a long time to reduce the impact of ocean transport because the ships are so long-lived – some can be used for 20 to 30 years before they need to be replaced. But new vessels entering the market have significantly lower emissions, and total emissions for our sea freight are decreasing. Slow steaming – where ships travel below their maximum speed to save fuel and increase efficiency – and renovating existing engines, also contribute to lowering emissions. We are partnering with other industry members through the Clean Cargo Working Group to find new ways of reducing emissions from the global shipping industry.

Being flexible with modes of transport helps cut emissions. For example, our distribution centre in Piacenza, Italy, sends products to other European destinations by rail, sea, or uses trucks with alternative fuels, depending on the destination and transport types available. In FY16, IKEA Italy made 19,000 fewer truck journeys than the previous year.

Using alternatives to fossil fuels such as biogas and electricity can reduce a journey's carbon emissions by up to 90%.

In FY16, we worked on exciting projects in our markets:

■ **Vegetable oil-powered trucks:**

In Sweden, two of our main transport service providers are now using hydrogenated vegetable oil (HVO) to fuel their trucks. More than 30,000 shipments each year will now use this oil, which is left over from European meat production, local restaurants and households. HVO costs around the same as diesel and is available in 70 service stations in Sweden. Compared to diesel shipments, we expect to see annual savings of around 9,800 tonnes of CO<sub>2</sub>.

Our distribution centres in Älmhult and Torsvik, in Sweden, are also using HVO-powered vehicles for internal haulage. In FY16, 13 trucks used this fuel and reduced carbon emissions by 570 tonnes.

■ **Diesel-hybrid vans:** IKEA Altona in Hamburg, Germany, is using diesel-hybrid vans to make customer deliveries. These vehicles are powered with a combination of traditional combustion and electric motors, with lower emissions than normal vans. In 2015, more than 3,000 orders were delivered using these vans.

It is not just about product distribution and delivery to customers. The way we power the vehicles we use in stores and distribution centres can also contribute to reducing our environmental footprint.

■ **Electric shunting trucks:** Our Tejon Distribution Centre in the US has partnered with TransPower to introduce electric shunting trucks, which use the latest battery technology to propel

heavy-duty vehicles while minimising carbon emissions.

■ **Lithium ion forklifts:** From September 2016, new forklift trucks at IKEA stores in Europe and Asia Pacific will be powered by lithium-ion batteries. This technology is 30% more efficient than traditional lead-acid batteries, and will be the standard option for all new equipment in these regions.

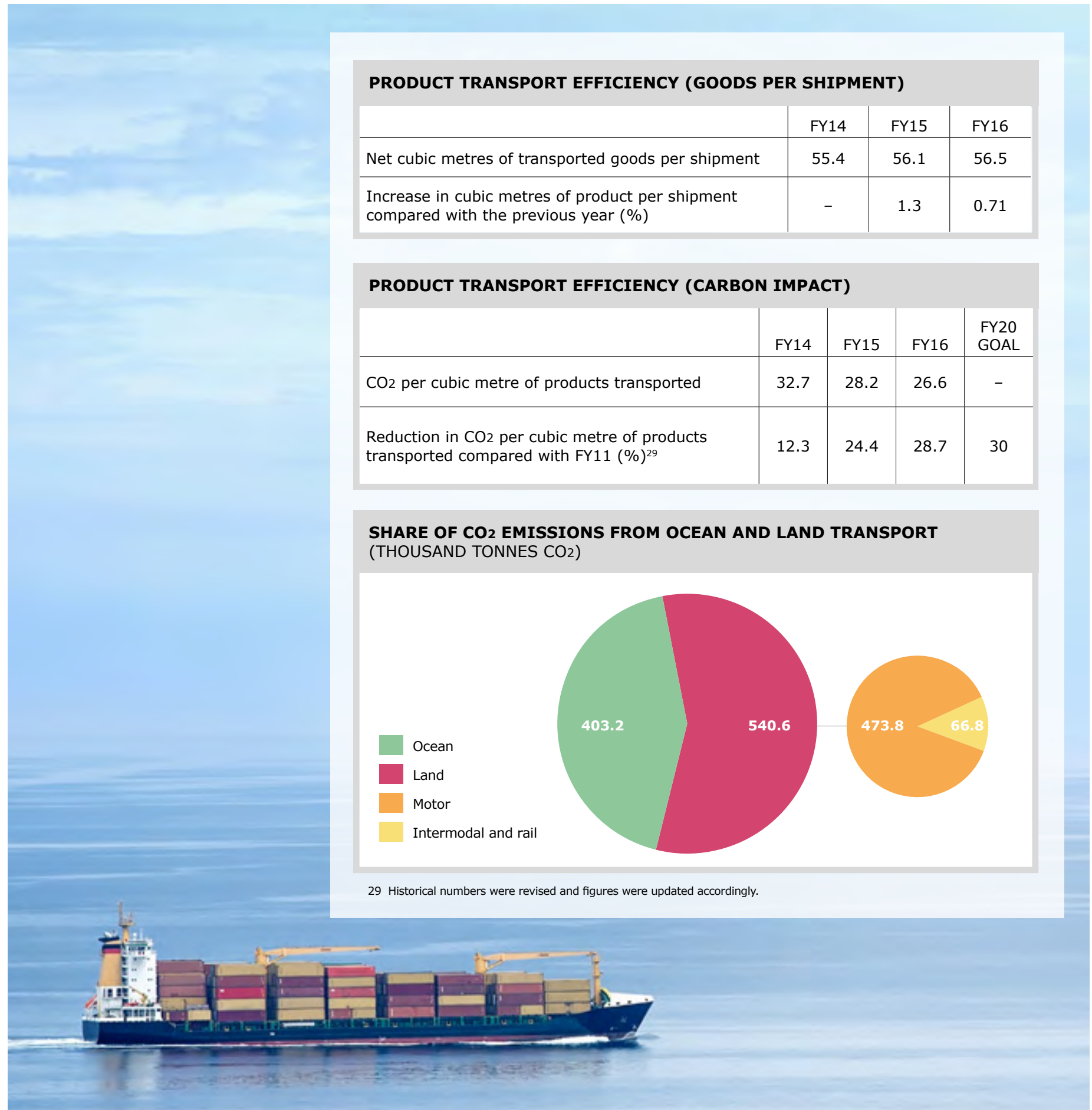
■ **Hydrogen fuel cells:** Our distribution centre in Lyon, France, was the first logistic centre in Europe to use hydrogen fuel cells to power its forklifts. Traditional cells take up to five hours to charge, while hydrogen fuel cells can be completely filled in just a few minutes. And if the hydrogen is produced using renewable energy, the trucks can run with zero emissions.

**Partnering with the transportation industry**

We were a founding member of Green Freight Asia (GFA), an industry-led NGO that aims to lower carbon emissions and shipping costs in the supply chain. In FY16 we qualified for the newly released GFA level 2 'green leaf', which recognises companies' commitment to adopting green freight practices.

In Europe, we are working with NGO Transport and Environment, and several of the biggest European retailers, to lobby the EU to adopt stronger fuel efficiency standards for trucks.

Truck drivers often face challenges regarding working conditions and fair pay, particularly when there are high socioeconomic variations between the region they come from and the countries where they actually work. See how we are addressing this on [page 66](#).



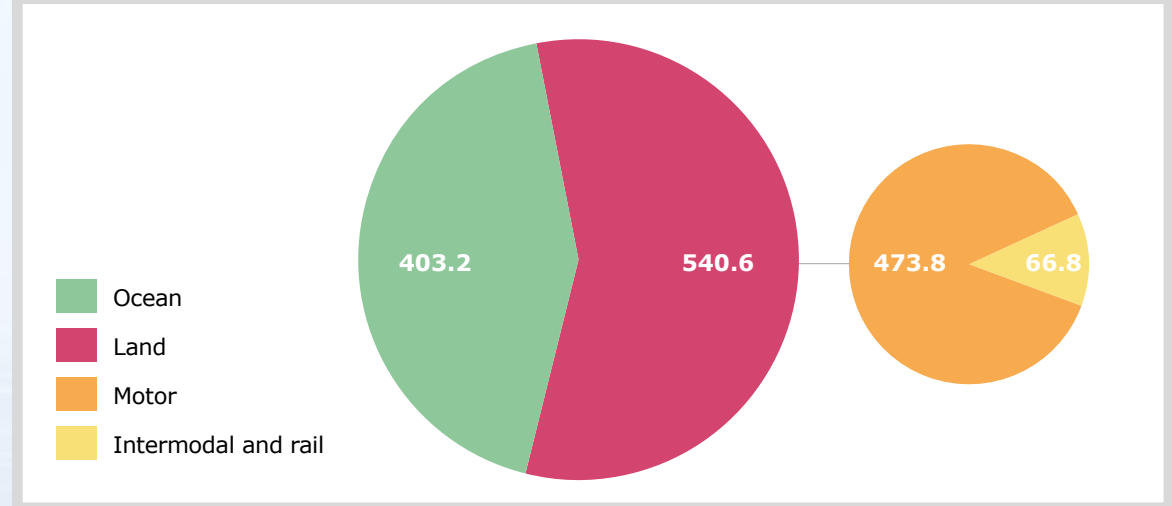
**PRODUCT TRANSPORT EFFICIENCY (GOODS PER SHIPMENT)**

	FY14	FY15	FY16
Net cubic metres of transported goods per shipment	55.4	56.1	56.5
Increase in cubic metres of product per shipment compared with the previous year (%)	-	1.3	0.71

**PRODUCT TRANSPORT EFFICIENCY (CARBON IMPACT)**

	FY14	FY15	FY16	FY20 GOAL
CO <sub>2</sub> per cubic metre of products transported	32.7	28.2	26.6	-
Reduction in CO <sub>2</sub> per cubic metre of products transported compared with FY11 (%) <sup>29</sup>	12.3	24.4	28.7	30

**SHARE OF CO<sub>2</sub> EMISSIONS FROM OCEAN AND LAND TRANSPORT (THOUSAND TONNES CO<sub>2</sub>)**



<sup>29</sup> Historical numbers were revised and figures were updated accordingly.

# TRAVEL

Not just products have to get to and from our buildings – but people too! We provide more sustainable travel options for customers and co-workers wherever possible, and encourage their use by making them more accessible and convenient.

## Customer travel

IKEA stores and shopping centres around the world had more than 1,145 million visits in FY16. Although most of our sites are outside town centres, more than 90% of them are accessible by public transport. In Croatia and Romania we are investigating opportunities for customers to travel to stores using hybrid buses. In the UK, we are working with Sustrans, a charity aiming to make travel by foot, bike or public transport easier. Co-workers at IKEA Bristol are working with Sustrans to improve a walking and cycle route to and from the store involving the local community and schools.

We now offer free electric vehicle charging stations at 186 of our stores in 23 markets. Some of our markets, such as Canada, offer these charging points at all stores nationwide. The IKEA Centre in Beijing, China, has committed to installing more than 150 charging points for electric vehicles, with plans to roll these out across additional Chinese shopping centres. In European Centres we have more than 30 chargers.

We want to make it easier for our customers to get to our stores, wherever they live. We now have 22 smaller units, known as 'Pick-up and Order Points', which bring our offer closer to customers and cut their travel. Customers can order products to pick up or for home delivery (often by low-emission vehicles – see [page 46](#)). A home delivery service is also

available at all of our regular stores, so that customers do not have to travel by car.

## Co-worker commuting

An easier, healthier commute makes our co-workers happier when they arrive at work, and can be better for the planet too. Some of the highlights from FY16 are listed below.

- Our distribution centres in Peterborough and Doncaster, in the UK, have installed on-site bike shelters, introduced personalised travel planning for employees, and host a 'Sustainable Travel Week'. Peterborough also promotes car sharing, and is launching a co-worker commuter bus, earning the distribution centre a place in the top three finalists for Best Workplace Travel Plan in the Sustainable Travel Awards 2016.
- IKEA Centres China encouraged co-workers to use green transport to honour World Car-Free Day in September 2015.
- We want to make commuting better for the many people, not just IKEA co-workers. In FY16 we worked with several partners to carry out Norway's largest traffic experiment. To help tackle congestion, IKEA Furuset and IKEA Slepden offered their parking lots as commuter parking for the citizens of Oslo. We also made the IKEA bus available for commuters.

## Meetings and business travel

Co-worker meetings are a vital part of life at IKEA. Our meetings should be as productive and creative as possible, with space for all to contribute. Of course, we want our meetings to be sustainable too – which means using



PHOTO: NAF (NORWEGIAN AUTOMOBILE FEDERATION)

more virtual meetings, avoiding travel where possible, and otherwise choosing sustainable transport and hotels.

The IKEA Meeting and Travel strategy outlines how we will achieve sustainable business travel by FY20. This includes working on cost, efficiency and quality of meetings and travel; health, safety and security; and sustainability.

In FY16, we launched a new solution for virtual meetings. After conducting 350 training sessions around the world, we are well on track with our goal for annual growth in the number of virtual meetings to exceed that of trips by FY18. The number of web and phone meetings increased by 40% between FY15 and FY16. This is far greater than the growth in the number of trips taken – which increased by 24% in the same period.<sup>30</sup> Even with the current technology available, physical meetings do have advantages. We continue to look for new ways to tackle this. Travel costs as a percentage of yearly sales rose from 0.41% to 0.42% but we are on track to meet our goal of 0.35% by FY20.

<sup>30</sup> Part of this increase is due to more accurate data collection. For example, the FY16 data includes figures for Russia, which were previously excluded.

## VIRTUAL MEETINGS AND ALTERNATIVES TO TRAVEL

	FY14	FY15	FY16
Number of web and phone meetings	235,121	303,933	432,424
Hours of video meetings	19,081	16,219	14,613
IKEA sites with the video meeting facilities	134	146	171

## RELATIVE COSTS OF TRAVEL

	FY14	FY15	FY16
Travel costs as a percentage of yearly sales (%)	0.39	0.41	0.42



**"In FY16 we ran two 'virtual large meetings' in the US, with more than 2,000 participants in total. They were a huge success – it saved travel time for co-workers, reduced emissions from travel, and helped create a sense of 'togetherness' for the project. Virtual meetings are possible in 42 US stores today, and we plan to roll out to nearly 100 stores by 2025. This is the future for IKEA!"**

**LARS PETERSSON**  
Country Retail Manager, IKEA Retail USA



# WATER

Just like any home, IKEA sites use water for heating, plumbing and cooling. Many of our manufacturing processes also require water. In FY16, we used around 10.6 million m<sup>3</sup> of water in buildings owned and operated by IKEA Group.

## Becoming water positive

Co-workers from across our operations have for a long time been working to make our business water positive – from the raw materials we source (see [page 29](#)), and the suppliers we work with (see [page 38](#)), to the way we manage our operations.

We have made slow progress towards our target to improve water efficiency in stores by 20% by FY17, and we know we need to scale up our efforts on water. In FY16, for the first time, we brought teams from across our operations to form the Water Working Group. The group has been working to share learnings from different parts

of the business, and create water stewardship road maps and action plans. We created a risk map to analyse which of our facilities are in areas with high water risk, and will use this to identify priority areas.

Some best practice examples already shared by the group include:

- rainwater harvesting
- movement sensors on taps and urinals
- aerators on taps and showerheads, saving up to 50% of water
- grease separators in kitchens to ensure that waste food oil does not contaminate water drainage
- waste water treatment plant filters to ensure water goes back to the sewer completely clean
- double release toilet flushing tanks
- strong communication to customers and co-workers about water-saving solutions.

As well as improving water efficiency in our own operations, the Water Working Group is working on ambitious projects to tackle water risk across our supply chain. Read more on [page 30](#).

## Water efficiency for IKEA Industry

The IKEA Industry Water Manual includes detailed information on different types of waste water and how to treat them. The manual contains a Water Positive Matrix, highlighting the specific actions sites can take to improve their water management and governance by 2020. See box (right) for examples of how IKEA Industry divisions are putting the manual into practice.

### WATER USE BY IKEA UNIT (M<sup>3</sup>)

	FY14	FY15	FY16
Retail	4,853,478	4,945,101	5,178,449
Distribution centres	197,953	179,981	196,922
Shopping centres <sup>31</sup>	-	-	3,795,355
IKEA Industry	2,468,498	1,494,951	1,480,355
IKEA Components	4,711	8,011	13,658
Other units			275,843
<b>Total</b>	<b>6,524,640</b>	<b>6,669,504</b>	<b>10,568,534<sup>32</sup></b>

<sup>31</sup> Water consumption for shopping centres cover common areas and tenants.

<sup>32</sup> FY16 total water consumption is significantly higher than FY15, due to the inclusion of IKEA Centres and other units.

## GOOD EXAMPLES FOR WATER SAVING

**DIVISION SOLID WOOD** needs a lot of water to keep logs wet during manufacture. Instead of fresh tap water, we are now using rainwater and recycled water.



**DIVISION FLATLINE** collects clean water from its roofs and sends it, without any contaminants, to local wetlands where it recharges precious groundwater.



**DIVISION BOARD** has started to treat and reuse water in its major water consuming processes.

# WASTE

We are moving away from the concept of 'waste'. We know that most materials that are left over from a process can be useful for something. Products that are no longer wanted can be revitalised or the materials recycled. And when a material truly has reached the end of its life, it can be used to create energy. We call this circular thinking – read more about how we contribute to a circular economy on [page 23](#).

We focus on reducing waste from our own operations, and finding efficient ways to recycle what we do produce. In FY16, we generated 560,650 tonnes of waste, of which 88.7% was recycled or incinerated for energy recovery.

One of our most successful programmes is the introduction of baling machines. These machines compress waste packaging into neat bales, making it much more efficient to recycle materials and cutting transport impacts by up to 80%. We will introduce more than 150 balers across 16 countries by FY19.

We are constantly working to improve the quality of the data we receive

from country Retail and Distribution Services organisations. As part of this, we are developing a new reporting and management system to track waste. This will be launched in FY18, along with new training for co-workers and an updated Waste Management Handbook.

Waste from IKEA stores makes up more than 77.2% of our total waste. We aim to cut this waste, relative to the volume of sold goods, by 10% between FY13 and FY20. This has been challenging, and in FY16 we reported a 16.5% increase compared to the FY13 baseline.<sup>33</sup> This is because our focus to date has been on increasing the share of waste that is recycled, rather than decreasing the amount of waste produced. Now, we will ensure a stronger focus on reducing waste relative to the volume of goods sold, and are embedding the target at the country level.

<sup>33</sup> Baseline year: 12.5 kg/m<sup>3</sup> in FY13.



## WASTE DISPOSAL RATES IN FY16 (% OF TOTAL)

	RECYCLED	INCINERATED FOR ENERGY RECOVERY	SENT TO LANDFILL	INCINERATED WITHOUT ENERGY RECOVERY
Retail	80.3	11.3	7.9	0.5
Distribution centres	81.7	13.7	4.0	0.6
Shopping centres	14.0	0.0	86.0	0.0
IKEA Industry	80.5	13.2	6.3	0.0
IKEA Components	96.4	2.8	0.8	0.0
<b>Total (average)</b>	<b>77.6</b>	<b>11.1</b>	<b>10.8</b>	<b>0.5</b>

## WASTE RECYCLING RATES (% OF TOTAL WASTE RECYCLED OR INCINERATED FOR ENERGY RECOVERY)

	FY14	FY15	FY16	FY20 GOAL
Retail	90	87.6	91.6	90
Distribution centres	92	96.5	95.4	90
Shopping centres	-	-	14.0	90
IKEA Industry	77	92	93.7	90
IKEA Components	100	99.7	99.2	90
<b>Total (average)</b>	<b>89</b>	<b>88.9</b>	<b>88.7<sup>34</sup></b>	<b>90</b>

## WASTE PRODUCED (TONNES)

	FY14	FY15	FY16
Retail	370,040	435,725	432,835
Distribution centres	39,196	46,710	50,594
IKEA Centres	-	-	24,347
IKEA Industry	47,983	49,561	49,526
IKEA Components	20,495	3,013	3,182
<b>Total</b>	<b>477,714</b>	<b>535,009</b>	<b>560,650</b>

<sup>34</sup> Because IKEA Centres' share of total waste generated by IKEA Group is only 4%, the impact on Group results is limited. Our ambition is to steer waste flows towards preferred treatment methods and close the gap between the IKEA Group average and IKEA Centres' performance in this area.

## Reducing product damage

A significant proportion of our waste comes from products or packaging being damaged during transport. By tackling this we can reduce the cost of replacing items, and the environmental impact of remanufacturing and redelivering products.

We do this by working with product and packaging designers, encouraging co-workers to detect early signs of damage or potential risks, and improving global reporting. This has reduced the cost of product damage by 15% between FY08 and FY16. We now spend EUR 180 million less on fixing damages during product handling (that occur in distribution centres, in-store or during product delivery).

In FY16, we launched an initiative at our stores and fulfilment units, called Handle with Care, to ensure that every product is well packaged and arrives at its destination in perfect condition. There are now dedicated co-workers at each store to monitor every delivery and detect, correct and report damaged goods. This allows us to spot any damaged products before they go on the shelf, investigate the cause of the damage and prevent it happening again. To avoid damage to the products when at the store, and for the safety of our co-workers and customers, we have introduced standard operational procedures for the safe handling of products.

Recovery Direction was launched in FY14 to give products that do get damaged a second chance by repackaging, repairing or selling them at discounted prices. Since launching this project, we have installed repackaging machines in 250 stores worldwide, and more than 80% of distribution centres. In FY16 we repackaged 29% of products that were damaged in store or returned by customers. Approximately 60% of the remaining products unable to be repacked were given a second chance through sales at discounted prices.

As part of the Democratic Design approach, we always aim to improve quality for the customer – less damage and better solutions to repair or repackage damaged products – see [page 36](#) for more information.

## Tackling food waste

Food waste is an important area to address in our customer and co-worker restaurants. This means increasing awareness around food waste, improving forecast accuracy in prepared food volumes and revising portion sizes.

By 2020, we aim to halve food waste and 90% of it should be recycled or turned into a resource such as compost or biogas.

We are starting to roll out a solution in our restaurant kitchens to help our food teams measure food waste volumes and identify ways to cut it. The roll out is staggered for our 48 markets over the next two years.

## Managing waste at IKEA Industry

The IKEA Industry Waste Manual provides detailed instructions on how to manage, handle, store and prevent waste. This is particularly important for hazardous waste where health and safety can be affected. IKEA Industry uses a number of chemicals in our manufacturing processes and it is important to dispose of them properly. We make sure that all relevant co-workers are trained on the best ways to work with chemicals in a variety of situations.

**BALING MACHINES** compress waste packaging into neat bales, making it much more efficient to transport and recycle.



**RECOVERY DIRECTION** gives products that get damaged a second chance by repackaging, repairing or selling them at discounted prices.





# A BETTER LIFE FOR PEOPLE AND COMMUNITIES

**People are at the heart of everything we do: the suppliers who make our products, our customers, co-workers and the communities around us.**

Our vision is to create a better everyday life for the many people. Whoever and wherever they are, everyone shares the same fundamental human rights. We have a responsibility to

protect and support the rights of everyone we come into contact with.

This means taking action to enhance the lives of our co-workers and people who work in our supply chain. It includes speaking up about what we believe in, and partnering with others to enable lasting positive change in communities close to home and further afield.

# CELEBRATING DIFFERENCE, WORKING FOR EQUALITY AND INCLUSION

## WE ARE ALL UNIQUE.

At IKEA Group, we believe equality should be about recognising everyone's right to be treated fairly, celebrating our differences, encouraging people to be themselves, and treating everybody with the same level of respect – regardless of who they are. Only then can we work towards a truly inclusive workplace and society.

We do not always get things right the first time, and we constantly draw on the experiences and knowledge of our co-workers, partners and suppliers to try to be the most inclusive company that we can.



The IKEA Group delegation to the Workplace Pride International LGBT Conference, July 2016.

*We became a member of the Workplace Pride Foundation – an organisation that strives for greater acceptance of LGBT+ (lesbian, gay, bisexual, transgender, and all other sexual orientations and gender identities) people in the workplace and in society.*

**“We want all our co-workers to be able to be themselves at work. We want them and our customers to know that we respect and support the LGBT+ community. Working with Workplace Pride and other LGBT-focused organisations will help us as we strive to reach greater acceptance and inclusion of LGBT+ people in our workplaces.”**



**ANTONIO CAVALLI**  
Diversity and Inclusion Specialist,  
IKEA Group

*We launched the new IKEA Gender Equality Plan, to create a truly gender-balanced organisation.*

**“We believe gender equality goes beyond the numbers. Once both men and women are represented equally in all levels of leadership and in all functions, we can focus on creating a truly inclusive culture where we acknowledge our differences and our unique contributions and use them to benefit our business.”**

**SARI BRODY**  
Diversity and Inclusion Manager,  
IKEA Group

*In FY16, we joined with others around the world to celebrate IDAHOT (International Day Against Homophobia, Biphobia and Transphobia) and take a stand on discrimination against the LGBT+ community. To coincide with this, our IKEA Group Diversity & Inclusion Network members created a short video, in which the main message: “Be Yourself! Your uniqueness makes IKEA better” was repeated in nearly 20 different languages. Below are some of many comments we received from co-workers in response.*

**“I grew up in a time where we had to hide and I had to defend who I was every day. So stoked to see this, and be a part of a company that is not only accepting but supportive! Thank you!”**

**“This is why IKEA is IKEA!”**

**“I am so proud to work for a company that truly cares about diversity!”**

*Vaishali Misra – Initiative Leader, Next Generation Social Entrepreneurs, IKEA of Sweden*

– spoke about the role of business in accelerating women's empowerment in global supply chains at the [BSR Women Deliver](#) conference in May 2016. She outlined how the IKEA Social Entrepreneurs programme is enabling social change in some of the world's poorest communities by empowering women through work. Read more about our work with social entrepreneurs on [page 74](#).

*From January 2016, Simona Scarpaleggia (CEO, IKEA Switzerland) took the lead as co-chair of the first ever United Nations High-Level Panel on Women's Economic Empowerment. The Panel will provide thought leadership and galvanise the political will to scale up actions that support women's economic empowerment. Additionally, the Panel will support and provide guidance on implementation of the 2030 Agenda for Sustainable Development (SDGs) to improve economic outcomes for women, and promote women's leadership in driving sustainable, inclusive and environmentally sensitive economic growth. Read more on [page 87](#).*



**Our suppliers often take the initiative to promote inclusion in their communities.** For example, one of our rug suppliers in South Asia has focused on empowering local women to work outside their homes. The supplier raised its female workforce to 25%, compared with a 3-5% local average, and worked with community leaders to foster a shared commitment to women's employment. Read more on [page 60](#).

# BETTER LIVES FOR OUR CO-WORKERS

WE WANT IKEA GROUP TO BE THE BEST PLACE TO WORK FOR EVERYONE – WHOEVER THEY ARE AND WHEREVER THEY COME FROM. AND WE KNOW THAT PEOPLE DO THEIR BEST WORK WHEN THEY FEEL VALUED, HEALTHY AND ABLE TO BE THEMSELVES.

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
Following the IKEA Group Diversity & Inclusion Approach (see <a href="#">page 56</a> ), every IKEA unit has defined actions to ensure a diverse co-worker population. Our goal is to reach gender balance in key leadership positions and to reflect the diverse nationalities of our market.		The Supervisory Board of INGKA Holding B.V. (the parent company of the IKEA Group) includes three women (43%) at the end of FY16, the same as in FY15. Group Management includes three women (33%), unchanged compared to FY15. <sup>1</sup> Extended Group Management <sup>2</sup> consists of 43% women, compared with 44% in FY15. 48% of all managers are women, the same as in FY15.
PEOPLE STRATEGY 2020 TARGETS	STATUS	PERFORMANCE IN FY16
Ensure every co-worker has an agreed, individual development plan.		76% <sup>3</sup> of our co-workers have an individual development plan, which includes regular meetings with their managers to review their career aspirations.
By FY20 50% of managers will be women.		48% of managers are women.
By FY20 achieve a Leadership Index result of 75 in our VOICE survey.		Achieved a Leadership Index result of 75 in our VOICE survey.
By FY20 achieve an index of 725 in our VOICE survey.		Achieved an index of 741 in our VOICE survey.

<b>LEGEND:</b>	Achieved	Ongoing	Not achieved
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- 1 This number has changed for FY17 due to new management structure.
- 2 The Extended Group Management list represents our 250 most senior management positions in IKEA.
- 3 Of the 74,523 co-workers who completed the VOICE survey and answered positively to: "Have you within the past twelve months together with your manager agreed on a development plan for the coming year?"

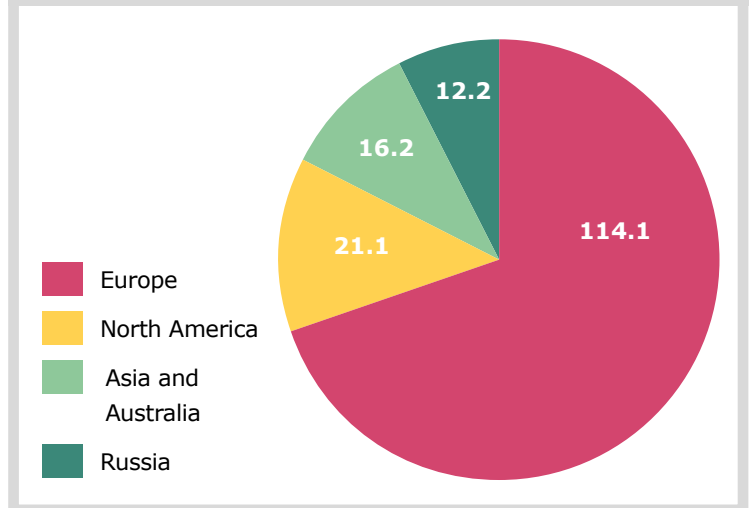
Each of our 163,600 co-workers is unique, and every one brings new perspectives and ideas. Whatever their aspirations and however long their journey with us, they all make an important contribution – from designing our products to giving a friendly welcome at our stores.

## Our co-workers in FY16

At the end of FY16, 54% of our co-workers were women (56% in FY15) and women occupied 48% of all management positions (48% in FY15).

In FY16, our total co-worker turnover was 18% (20% in FY15). The majority of our co-workers (56%) worked 34 hours or more per week (47% in FY15). Of the remainder, 31% worked between 20 and 34 hours per week (37% in FY15) and 13% worked 20 hours or less per week (16% in FY15).

CO-WORKERS PER REGION IN FY16 (THOUSANDS)



CO-WORKER FULL-TIME / PART-TIME SHARES AND TURNOVER (%)

	FY15 <sup>4</sup>	FY16
<b>Part time</b>		
20 hours or less a week	17.0	13.4
20-34 hours per week	36.0	31.1
34 hours or more per week	47.0	55.5
Turnover (all co-workers)	19.8	18.4

GENDER DIVERSITY (% of women<sup>5</sup>)

	FY14	FY15	FY16	FY20 GOAL
<b>All co-workers</b>				
	54.0	55.5	54.4	-
<b>All managers</b>				
	47.0	48.3	48.4	50

<sup>4</sup> In FY15, we changed our definitions of part time and full time workers. Data from FY15 onwards represents these revised categories.

<sup>5</sup> Data representing 85% of IKEA headcount.

# A VOICE FOR EVERY CO-WORKER



To learn and improve, we need to understand what our co-workers think of us. We encourage open conversations between co-workers and their managers (see [page 59](#)) and seek more formal feedback through our online survey for all co-workers – VOICE.

The VOICE survey covers three areas: the individual, the organisation and leadership. Each business unit participates at least once every two years, and we run the survey via an external organisation to ensure confidentiality. We look at the findings alongside customer feedback and financial data, to gain valuable insight into our performance and identify improvements.

VOICE RESULTS				
	FY14	FY15	FY16	FY20 GOAL
<b>VOICE index</b>				
	704	725	741	725
<b>Leadership index results</b>				
	73	75	75	75

In FY16, 74,523 co-workers completed the VOICE survey.<sup>6</sup> Our overall VOICE index was 741. A result of 700 or more for the VOICE index is classified as excellent by the company that conducts the survey, and suggests the organisation is “well equipped to generate business value”. Our VOICE leadership index was 75.

The survey also provides us with insight into our co-workers’ views on IKEA sustainability performance. In FY16:

- 78% of co-workers agree with the statement, “within my department, sustainability is a natural part of the everyday work”
- 83% of co-workers agree with the statement, “I am proud of the way that IKEA works with sustainability”
- 80% of co-workers agree with the statement “I feel responsible for minimising the negative impact on the environment in my daily job”.

Read more about how we engage co-workers in more sustainable living on [page 20](#).

<sup>6</sup> The results of VOICE are not directly comparable between years as different parts of IKEA and different numbers of people participate.  
<sup>7</sup> Most of the quotes in this section are collected from a co-worker journeys survey carried out in Älmhult, Sweden in FY16. Co-workers from different backgrounds and work areas were interviewed about their experience working with IKEA.  
<sup>8</sup> Tack! applies to all full-time co-workers who have been with IKEA for five years or more.

## OUR VALUES

Our humanistic values and culture guide everything we do ([read more on IKEA.com](#)). And we expect everyone who works with us to share them:

- Humbleness and willpower.
- Leadership by example.
- Daring to be different.
- Togetherness and enthusiasm.
- Cost-consciousness.
- Constant desire for renewal.
- Accept and delegate responsibility.
- Simplicity.
- Striving to meet reality.
- Constantly being “on the way”.



**“One of the big values that I relate to is cost-consciousness. It doesn’t mean making cheap furniture. It means making furniture that will last and that is good for your home. We are inclusive and we want everyone to have a better life.”**

**HECTOR BIANCHI**  
Project Controller, IKEA of Sweden<sup>7</sup>

## SAYING THANK YOU

A big part of our culture is to recognise the hard work and commitment of our co-workers, and to say thank you. Part of the way we do this is through our two programmes for IKEA Group co-workers: Tack! and One IKEA Bonus.

Tack! – ‘thank you’ in Swedish – is our loyalty programme. It provides an additional contribution to co-worker pension funds to show our appreciation for their commitment to IKEA and their role in our success. Regardless of position, salary or unit, all eligible full-time co-workers<sup>8</sup> within a country receive the same amount. [Read more here](#). In December 2015 we added EUR 105 million to the programme.

One IKEA Bonus is our performance-driven bonus system. It promotes togetherness by rewarding co-workers for achieving shared objectives within their unit.

Attracting, motivating and keeping our people requires more than salary and benefits alone. In FY16, we introduced the new IKEA Group Employment Standards – a global approach to improving the everyday experience of our co-workers. It addresses everything from employment relationships and contracts to working hours and scheduling.

Read more about our approach to responsible wage practices on [page 69](#).



# DIVERSITY AND INCLUSION



We believe that people should have access to the same opportunities and treatment regardless of their age, gender identity, sexual orientation, physical ability, ethnicity, race, nationality, religion or any other dimension of their identity.

Simply bringing people together does not necessarily mean they will work well together. We strive to give every co-worker the knowledge and skills they need to build and maintain an inclusive workplace. Everyone at IKEA Group shares a responsibility to welcome diversity, celebrate our differences and create an inclusive work environment.

The IKEA Diversity & Inclusion Approach follows a six-step model that guides us to take practical steps towards a more inclusive workplace.

Our message is simple: we want every co-worker to be themselves, because their uniqueness makes IKEA better.

## Strengthening our message

In FY16 we refocused our diversity and inclusion message by launching the revised IKEA Group Policy on Human Rights and Equality. The Policy defines our standpoint on human rights, including

our commitment to equality for all people involved in and affected by our business. We also updated The IKEA Group Guidelines on Human Rights in Communications based on the revised Policy. These guidelines aim to ensure our commitment to human rights is clear in everything we say, and we will communicate them during FY17 and FY18.

## Diversity & Inclusion training

By equipping co-workers with the right knowledge, capability and motivation, we can create a workplace where everyone feels welcomed, respected, supported and appreciated. Our new Diversity & Inclusion programmes include separate workshops for managers and co-workers, six interactive modules for all co-workers to raise awareness of diversity and inclusion, and a specific module on unconscious bias (read more below) as part of the IKEA Leadership Fundamentals programme.

By the end of FY17, all IKEA Group managers and co-workers will have been given the opportunity to attend Diversity & Inclusion training.

The unconscious bias training module examines the positive and negative stereotypes and prejudices that people can form about others without always being aware that they are doing so. These biases can impact how we think, feel, and behave. At work, these biases can cause people to hire or promote the wrong candidates, invest in less innovative ideas, or lose employees and customers who feel excluded. The training module offers practical strategies to leaders and co-workers, so that they can recognise and reduce their own biases.

## An inclusive environment for refugees

We want IKEA to be an inclusive workplace. By providing equal opportunities to people from different backgrounds we can make a positive

impact on society. This includes people who have been forced to leave their homes and build a new life in another country. In FY16, we clarified our position on refugees in the workplace, based on our inclusion model.

- Values driven culture: demonstrate inclusion of refugees in our daily behaviours in the same way we include all other members of our communities
- Diversity competence: understand and celebrate differences in values, expectations, beliefs and practices
- Emotional Intelligence: increase our awareness, consider our personal biases and take actions to minimise them
- Inclusive systems and practices: consider refugees in the same way we consider all other job applicants and give them a fair chance at recruitment.

Find out more about how we are working with refugees in our local communities on [page 78](#).

## Gender equality

Our wished position is for gender equality in all levels of leadership, in all functions and in all IKEA organisations. Equality is a human right and everyone has the right to be treated fairly and provided with equal opportunities. It is also a business necessity – mixed teams bring better profitability and creative solutions. Our focus is on creating equality beyond the numbers, where both women and men feel included and appreciated for their unique contributions.

In FY16, we launched the IKEA Group Gender Equality Plan. It introduces a structured way of working with gender equality, based on our six-step Diversity & Inclusion Approach. This is a global approach that can be customised to local needs – including issues such as equal pay for men

and women. It aims to create a truly gender equal organisation across all countries and regions, despite differing national laws. Our long-term plan is to carry out regular follow ups to measure progress.

The IKEA Women Open Network (IWON) has held six meetings between FY14-16 to create awareness and knowledge about gender equality.

## LGBT+

Everyone has the right to be treated fairly, regardless of their sexual orientation or gender identity. We support our LGBT+ (lesbian, gay, bisexual, transgender and all other sexual orientations and gender identities) co-workers' right to be themselves.

In line with our Diversity & Inclusion Approach, we are developing an LGBT+ inclusion plan. It aims to create a fully inclusive work environment and to contribute to a positive change for LGBT+ inclusion in all areas of our business and in society.

In FY16, we:

- We became a member of the Workplace Pride Foundation – an organisation that strives for greater acceptance of LGBT+ people in the workplace and in society
- We celebrated the IDAHOT (International Day Against Homophobia, Biphobia and Transphobia) – read more on [page 53](#)
- We advocated for human rights and equality – IKEA US joined nearly 200 other companies in signing an open letter from the Human Rights Campaign repealing North Carolina's anti-LGBT law that discriminated against the rights of transgender people.



# LEARNING AND DEVELOPMENT



**"I like leading people and helping them grow. It's what I wanted to do most, but it's also the most challenging. I try hard to create the right circumstances for co-workers to do a good job."**

**SOUZAN MEANA**  
Team Manager, IKEA Business Solutions

Every co-worker should be able to develop their potential to its full extent and be rewarded based on their merit and performance. We believe in people, and we want to make sure our co-workers are all given the same opportunity to fulfil their aspirations – whoever they are and whatever their ambitions may be.

In FY16 we trained 150 team facilitators to support teams in realising their full creative and productive potential. They use our new IKEA Team Development Guide and train teams to use the guide in their own daily work. Team development is integrated into the IKEA Leadership Fundamental Programme for new leaders and is used throughout IKEA Group.

Our launch of the IKEA Group Talent Approach continued with our first

Talent Focus Week in April 2016. All organisations in IKEA Group held unique and inspirational events and activities to highlight the key message: 'every person is seen as a talent'.

Across the week we emphasised two points: making the most of development talks and plans, and growing and developing in IKEA. This was supported with the launch of our new online tool, IKEA Journeys, which helps co-workers understand how to grow and develop in IKEA. Co-workers can find out more about the different organisations, work areas and roles within IKEA, and the many opportunities are highlighted through inspirational co-worker stories describing their career path and ongoing development.

At the end of FY16, IKEA Journeys had received 12,220 visitors.

## CO-WORKER JOURNEYS

Just as each of our co-workers is an important part of our journey, we are also part of theirs. Here are some of their stories.

**"I love being on the shop floor as a team leader. It's challenging and very fast-moving. You are a greeter, a cashier and always helping with so many questions. You learn so much when you are a team leader."**

**I like how we treat each other. We all see each other as equals – even the manager. I like the way IKEA hires people from all different cultures. They give everybody opportunities to work here."**

**JACKLINE KIBUNJA**  
Team Leader, Customer Relations, IKEA Malmö store



**"I started three years ago as a summer job. From that I was offered a permanent contract. They taught me about the production line in more detail and now I run one of the big presses. That's a lot of responsibility."**

**It's a big company, so you have a lot of opportunities. Even if you start as an operator, you can expand and try different things. Managers are not above us. They treat us as equals. That's a new experience for me."**

**SAMUEL BLOM**  
Operator and Safety Champion, IKEA Industry Hultsfred, Sweden



**"When I started as a centre manager I had to learn a lot more about building relationships and working together with the tenants. It's fun to create something with them that inspires customers to visit us."**

**It's my responsibility to make the values come alive in our work. Because if you don't do that as a leader it will only be words on the wall."**

**MARIA RANEHAMN ANDERSSON**  
Centre Manager  
Kungens Kurva Shoppingcenter, Stockholm



# HEALTH AND SAFETY

A safe and healthy working environment is essential. It enables our co-workers to do their best work, to enjoy each day, and to thrive. We encourage co-workers to take a shared responsibility for the wellbeing of each other and our customers, so that they feel able to speak up and act if there is something we could improve.

Wellbeing is not only about staying safe during the working day. It is about our co-workers' health, the food they share together during their breaks (read more on [page 24](#)) and their ability to enjoy a decent standard of living outside work (read more on [page 69](#)).

In FY16, there were 153 occupational accidents at our distribution centres (151 in FY15). There were 1,003 occupational accidents at our stores, compared with 1,116 in FY15. This decrease occurred despite an increase in overall co-worker numbers, and was a result of a continued focus on safety training and awareness raising across all units – see below. Our co-workers trained in first aid have saved the lives of several customers and co-workers.

At IKEA Industry, lost time accidents decreased from 153 in FY15 to 112 in FY16 – driven by a strong focus on co-worker training and behaviour change across all units (see right), alongside practical changes such as improved machine safety.

There was an increase in total reported occupational accidents at IKEA Industry from 2,360 in FY15 to 2,397 in FY16. This is a result of a new policy to report all minor accidents such as cuts and scrapes. Often these incidents only require basic first aid, but we encourage their reporting since investigating root causes can help us to avoid more serious accidents.

Across all IKEA Industry divisions, internal auditors from different units visit each other and perform audits. This enables benchmarking between factories and provides co-workers with fresh perspectives and mutual support. Incident

reporting remains a strong focus for IKEA Industry. Co-workers are encouraged to report unsafe conditions or situations to prevent accidents.

There were no fatalities on-site among IKEA co-workers in FY16.

We have made good progress in how we work with health and safety in FY16.

- **SecCheck process.** Our updated SecCheck process provides IKEA units (including stores, distribution centres and shopping centres) with an annual review of health, safety and security compliance. We have rolled out the new process to all IKEA Group stores and will do the same with distribution centres and shopping centres in FY17.
- **Serious threat awareness training.** We have updated guidelines for co-workers on preparing, identifying and acting in the case of a serious safety or security threat. In FY17, we plan to roll out training on these new guidelines to all co-workers.
- **Updated safety and security manuals.**
- **IKEA Industry safety champions.** We continued the training and development of safety champions in all our units, and celebrated World Day for Safety and Health at Work for the eighth year running. Units devised their own activities depending on local priorities. For example, in Sweden, IKEA Industry organised a health and safety fair with other local companies, including a focus on risk assessment and hazardous tasks. In Lithuania, co-workers focused on the importance of personal protective equipment.
- **IKEA Industry safety culture training.** More than 88% of the 19,850 IKEA Industry co-workers have been trained in safety culture, led by the 230 safety champions.

**“I am delighted to see the changes in the attitude of workers towards safety and health every year. Occupational safety has become an issue which is relevant to everyone.”**

**LIUDAS SUBAČIUS**  
Production coordinator and safety champion at IKEA Industry Lithuania



## IKEA STORES AND SUPPLY OCCUPATIONAL ACCIDENTS

Number of accidents requiring three days or more absenteeism <sup>9</sup>			
	FY14	FY15	FY16
<b>Stores</b>			
Total number	1,363	1,116	1,003
<b>Supply (Distribution Centres and Customer Distribution Centres)</b>			
Total number	149	151	153

## IKEA INDUSTRY OCCUPATIONAL ACCIDENTS

	FY14	FY15	FY16
<b>Total number</b>			
	1,739	2,360	2,397
<b>Lost time accidents</b>			
Accidents requiring one day or more absenteeism	159	153	112
<b>Lost time accident rate</b>			
Per million hours worked	4.6	4.3	3.3

<sup>9</sup> Reporting methods vary between IKEA Industry and stores & supply, so we currently report different metrics for occupational accidents.

# COMMUNICATION WITH CO-WORKERS

The diverse and valuable perspectives of our co-workers are important to us. They support, inspire, and challenge us to be a better company.

We need to know what matters to our co-workers, and what their hopes and concerns are. They need to know our expectations and stay up to date with new activities or messages.

We do not expect everyone to have the same style or preferences for communicating, so we use many different channels.

- IKEA Inside and IKEA Inside/Outside (for co-workers without an IKEA computer) is our intranet. It is the main point of contact through which co-workers can stay in touch with the latest news.
- Readme – our quarterly internal magazine – is available online, and we print 66,000 copies in 21 languages for those who prefer a physical version. Readme contains co-worker profiles and content from IKEA Group activities all over the world, so that every co-worker can feel engaged, informed and proud of our achievements.
- Regular meetings, newsletters, noticeboards, video screens and training enable co-workers to keep in touch with everyday developments and emerging IKEA stories or messages.
- Local channels vary between regions, depending on local needs. They include websites such as Yammer – a social media platform that enables co-workers to share ideas and stories.

In FY16, we completed the process of ensuring every IKEA co-worker has their own IKEA e-mail address. This is an important milestone, because it means we can keep in touch directly with every co-worker, no matter what their location or role. It also enables co-workers to access IKEA Inside/Outside and Readme from any device, anywhere.<sup>10</sup>

We encourage open conversations between co-workers and their managers, and we expect every manager to lead by example, by prioritising good quality communication. If a co-worker feels unable to discuss a specific matter with their manager or with human resources, they can use our trust line to report concerns – read more on [page 85](#). We respect the rights of co-workers to form, to join, or not to join a co-worker association of their choice without fear of reprisal, interference, intimidation or harassment.



**“Even though I’m only 21, my manager treats me just like everybody else – when I come to them with an idea they take me seriously.”**

**JAKOB DACKANDER**  
Bedroom Sales, IKEA Älmhult



Every co-worker now has their own e-mail address.



We encourage open conversations between co-workers.

<sup>10</sup> Except in Germany where co-workers cannot access it from private devices.

# BETTER LIVES FOR WORKERS IN OUR SUPPLY CHAIN

MILLIONS OF PEOPLE WORK FOR OUR SUPPLIERS AROUND THE WORLD. WE WANT TO ENSURE THAT ALL OF THEM ARE TREATED FAIRLY AND HAVE DECENT WORKING CONDITIONS.

Every IKEA product has a story. There are millions of people across our global supply chain – over 600,000 work for our tier 1 home furnishing suppliers alone.

They all play an important role in bringing each product to life – sourcing materials, creating components and constructing and delivering finished products to our stores and shopping centres.

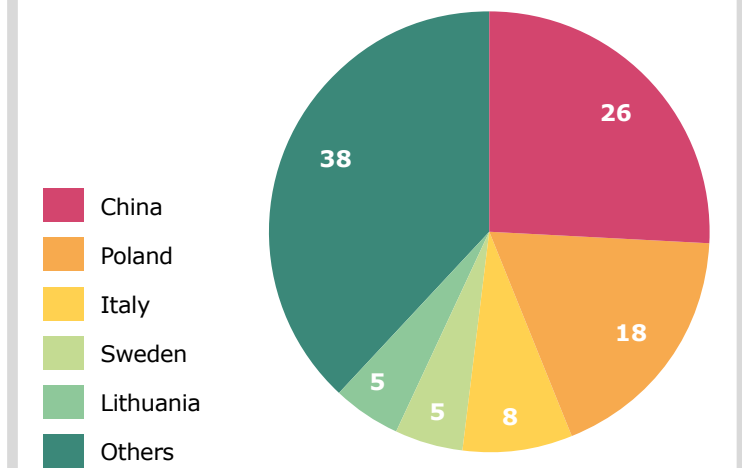
Our vision is to create a better everyday life for the many people. This includes the lives of people working in our supply chain. Whether they work for our direct suppliers (tier 1), or their suppliers (our sub-suppliers), it is our responsibility to work together to support and enhance their rights.

Our supplier relationships are based on shared values, built on foundations of mutual respect, trust and transparency. The IKEA supplier code of conduct – IWAY – is at the heart of this collaborative approach, and has been for more than 15 years. It sets out our minimum requirements on environment, social and working conditions, ensuring a mutual understanding with our suppliers – some of whom we have worked with for several decades.

IWAY is an important foundation, but our collaboration with suppliers is about more than audits and compliance. By working alongside our suppliers, we learn about their businesses as much as they learn about ours, and we challenge each other to find better solutions.



TOP 5 HOME FURNISHING PURCHASING COUNTRIES (% OF TOTAL FY16)



## READ MORE ABOUT:

- our approach to preventing child labour, supporting vulnerable groups in our supply chain and ensuring decent work across our supply chain on [page 68](#)
- our suppliers' environmental performance on [page 38](#)
- the IWAY Forestry Standard on [page 27](#).

### PEOPLE & PLANET POSITIVE TARGETS

#### STATUS

#### PERFORMANCE IN FY16

Maintain the social and environmental improvements reached through the 100% IWAY approval<sup>1</sup> of all suppliers of home furnishing and other key products and services.<sup>2</sup>



97% of home furnishing suppliers, 90% of land transport suppliers<sup>3</sup>, 86% of centrally contracted customer delivery service providers, 63% of global food suppliers and 97% of IKEA Components suppliers IWAY approved.

By August 2015, expand the reach of our supplier Code of Conduct, IWAY, by securing approval at local IKEA Food, Indirect Material and Services and retail suppliers within the scope of IWAY.<sup>4</sup>



84% of Indirect Materials and Services suppliers and 87% of retail suppliers IWAY approved. Work to map local food suppliers is ongoing.

By August 2017, go further into our supply chain by securing compliance to IWAY Musts<sup>5</sup> at all sub-suppliers of critical materials and processes.<sup>6</sup>



99% of critical home furnishing sub-suppliers compliant with IWAY Musts – based on the 218 sub-suppliers identified as critical.

LEGEND: Achieved Ongoing Not achieved

<sup>1</sup> IWAY approved suppliers are suppliers and service providers: without any open non-compliances; with open non-compliances, but within the period of 90 days after the audit date for implementation of corrective actions; that are new and within the first 12 months from their first delivery date; that are approved, but are being phased out due to reasons other than IWAY – in these cases, if the IWAY audit expires during the phase out period, the IWAY approval status can be extended by up to five months.

<sup>2</sup> Suppliers related to Home Furnishing, IKEA Components, Transport & Services, and Global Food.

<sup>3</sup> Excludes ocean transport providers. A new approach to IWAY in ocean transportation is currently being developed and audits were consequently postponed in FY16.

<sup>4</sup> For retail operations, the current IWAY focus is on cleaning, home delivery, security and waste management suppliers. IKEA Industry also now has a set of phased goals for the application of IWAY – see [page 67](#).

<sup>5</sup> IWAY Musts are the immediate requirements that IKEA suppliers must meet before a contract can be signed.

<sup>6</sup> Covers materials and processes which have an increased risk of sustainability concerns associated with the raw material or how it is sourced. For example cotton, leather, wood, down & feathers, palm oil, natural fibres and plants.

# IWAY – THE IKEA WAY



PHOTO: PER MIKAEISSON

## Working with IWAY

The IKEA Way on purchasing products, materials and services – IWAY – is our supplier code of conduct and our programme for working with suppliers across IKEA. It is a pre-condition for doing business with us, and sets out our minimum requirements on environment, social standards and working conditions. We regularly review and update IWAY requirements to reflect current and emerging issues – it is currently on version 5.1.

IWAY work is based on a range of relevant guidance, including:

- ILO Declaration 1998 – Fundamental Principles and Rights at Work
- The Ten Principles of the UN Global Compact Framework 2000
- UN Universal Declaration of Human Rights 1948

- UN Convention on the Rights of the Child 1989
- ILO Convention on Occupational Safety and Health 1983.

We have many different types of suppliers operating in different circumstances. To make the standard accessible to them all, we:

- translate it into 31 languages
- provide supporting documents in the form of IWAY Working Methods, to explain how the requirements apply to different supplier types or different circumstances
- create supplements to IWAY focusing on particularly complex or specialised issues – for example the IKEA Way on Preventing Child Labour and Supporting Young Workers, and the Forestry Section of the IWAY Standard.

## OUR SUPPLIERS<sup>7</sup>

CATEGORY	NUMBER OF SUPPLIERS	DESCRIPTION
Home furnishing	1,028 <sup>8</sup>	Make our home furnishing products. These were the first suppliers to work with IWAY when we launched it in 2000.
Transport and services providers – land and ocean	250	Transport our products to stores and distribution centres by road, rail, river and sea. No airplanes are used in our goods supply chain. <sup>9</sup>
Transport and services providers – customer delivery and customer services	94	Deliver directly to our customers and provide product picking in-store, assembly and installation services. Not all service providers are contracted centrally – see also Retail service providers below.
IKEA catalogue	31	Provide the pulp, paper and print services for our printed catalogue. <sup>10</sup>
IKEA Food (global suppliers)	88	Provide the food and ingredients for the core range in IKEA Bistros, Restaurants and Swedish Food Markets.
IKEA Indirect Material and Services (IKEA IMS)	371	Provide the products and services needed to run our business. This includes equipment in our stores (such as trolleys, racking and lighting), uniforms for our co-workers and services such as facilities management and printing.
Retail cleaning, security, waste management and customer delivery service providers	359	Service providers to our retail organisation: cleaning, security, waste management and customer delivery providers centrally contracted through our Transport & Services function.
IKEA Components	381	Provide components and materials to IKEA suppliers and sub-suppliers that are used in IKEA home furnishing products. <sup>11</sup>
IKEA Industry	805 <sup>12</sup>	Supplies solid wood, board on frame and board-based furniture to IKEA and companies in the IKEA supply chain.
Property facility management	185 <sup>13</sup>	Provide services such as cleaning, maintenance and waste management to all IKEA properties.

<sup>7</sup> Includes tier 1 suppliers within the scope of IWAY.

<sup>8</sup> Includes IKEA Group's own production operations.

<sup>9</sup> Except in exceptional circumstances.

<sup>10</sup> Does not include digital suppliers.

<sup>11</sup> Does not include some suppliers delivering to packaging units.

<sup>12</sup> Includes material suppliers and on-site service providers.

<sup>13</sup> This figure does not include suppliers providing services to Retail and IKEA IMS, which are listed separately in this table.

## Working with new suppliers

Suppliers are classified as "new" for the first 12 months<sup>14</sup> from their first delivery date. Before we sign a contract, we require any new supplier to comply with a core set of IWAY requirements in areas such as business ethics, child labour, forced and bonded labour, severe environmental and health and safety issues, minimum wages and accident insurance. We call these IWAY Musts, and we work with suppliers to maintain these at all times during our relationship.

Once a contract is signed, we work with suppliers to ensure they implement and uphold all IWAY requirements through a cycle of audits and, where needed, corrective action plans.

## Building strong relationships

Good relationships with suppliers form the strong foundation for a stable, efficient and creative supply chain. Our average supplier relationship is 11 years. Like any relationship, we take time to get to know each other, to build trust and develop shared expectations and values. Our regional business units, experienced Sustainability Developers and Auditors are the face of IKEA for all of our tier 1 suppliers.

Development and compliance are two sides of the same coin. By working on both, we can support our suppliers to achieve good environmental and social performance that goes far beyond passing an audit, and we can work with them to maintain compliance in between audits.

Sustainability Developers, across each of our seven categories (see [page 39](#)), collaborate with suppliers to find the best way forward on emerging sustainability concerns or to resolve IWAY compliance issues. Our 98 Sustainability Compliance Auditors regularly visit suppliers to check on IWAY compliance, but they are far more than box tickers. They each work with many different types of suppliers and face new challenges every day – learning and sharing as they go. They bring their knowledge back to IKEA so that we can continually improve IWAY and keep it relevant to all suppliers in every region.

## Challenges of IWAY

### Many varied suppliers

Different industries vary hugely. We tailor IWAY working methods accordingly so that IWAY requirements can be applied appropriately to different supplier types.

### Focusing resources

With such a big supply chain, we have to focus our resources where they can make the most difference. Our best performing suppliers are categorised as "IWAY Well Developed". Following initial IWAY approval and proof of consistent performance, they do not receive scheduled IWAY audits but do have unannounced audits and undertake self-audits. This enables us to pay closest attention to higher risk countries and suppliers that are likely to need more support in reaching and maintaining IWAY compliance. IKEA business teams – for example purchasers and technicians – often discuss specific IWAY topics with suppliers during their regular visits.

### Working with sub-suppliers

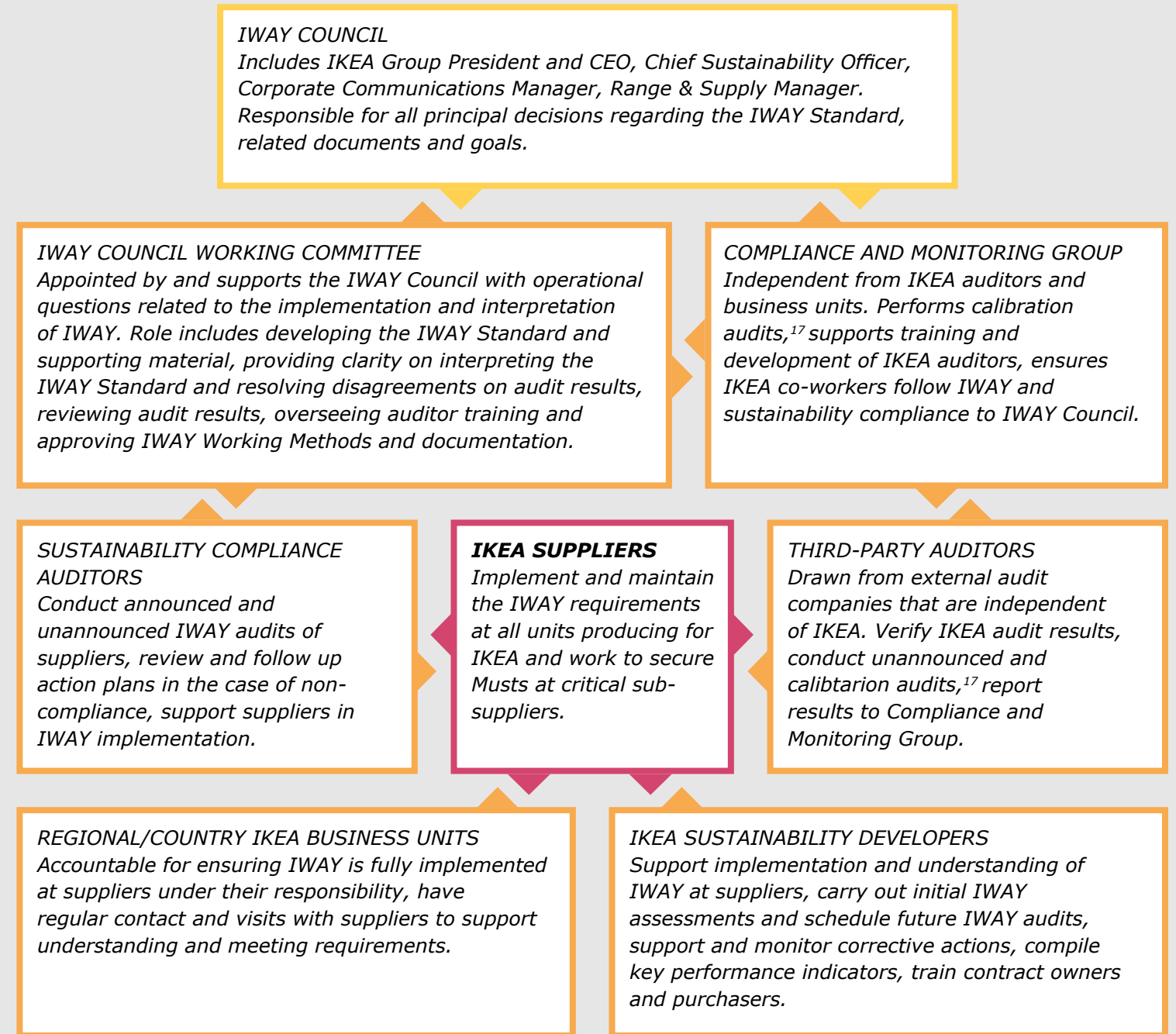
Our suppliers' own suppliers – our sub-suppliers – are a step removed from day-to-day contact with our teams and are not in a contractual relationship with IKEA. This can make it challenging to ensure that they share our approach to important issues such as the environment and human rights. We ask our tier 1 suppliers to communicate IWAY Must requirements with their own suppliers, and to register them on our sub-supplier tracking system. It is the responsibility of our tier 1 suppliers to audit their critical sub-suppliers<sup>15</sup> and ensure IWAY Must compliance. We support suppliers throughout this process and work with them to address any issues. We are working to extend our sub-supplier monitoring and development to other supplier types beyond our home furnishing supply chain.

<sup>14</sup> 15 months for Transport & Services

<sup>15</sup> Sub-suppliers are defined as critical if processes performed are considered to be potentially highly harmful to the environment, health or safety of the workers, or are in an industry or supply setup that is prone to child labour or forced and bonded labour.

## WHO IS INVOLVED?<sup>16</sup>

Many people are involved in shaping, implementing and checking the IWAY process.



Arrows signify the main lines of contact between the different groups.

<sup>16</sup> IWAY governance structures will be revised from FY17 onwards.

<sup>17</sup> Audits undertaken by the Compliance and Monitoring Group and third-party companies to verify and assess the work done by IWAY auditors and business teams, ensuring a common implementation and judgement level.

### **Staying up to date**

To maintain consistently high levels of IWAY knowledge and competence among co-workers, we provide training on four levels: basic, medium, advanced step 1 and advanced step 2. Basic training enables any IKEA co-worker to learn about the importance of IWAY, while the advanced training and ongoing competence development is focused towards our Sustainability Developers and Auditors. During FY16, the Compliance and Monitoring Group conducted two reviews of the Sustainability Compliance Auditors Approval working method to ensure their continued competence, one in East Asia and one in the Americas.

### **Protecting migrant workers**

Some workers in our supply chain have moved away from home to work in another part of their home country, or in another country altogether. We want to make sure that these migrant workers are treated with the same dignity and respect as every other worker in our supply chain. Complex recruitment processes, often outside our suppliers' influence, can make this challenging. Read more about our efforts to support and enhance the rights of migrant workers on [page 72](#).

### **Ensuring a stable, high compliance rate**

Audits provide a window on a single moment in time. They are an important indication of overall supplier performance, but they do not account for fluctuations in compliance with IWAY requirements in between auditor visits. We are therefore shifting our focus towards working with suppliers on continuous compliance – maintaining IWAY requirements at all times, regardless of where a supplier sits on the audit cycle. Read more on [page 64](#).



## **IWAY AT IKEA CENTRES**

Following our recent acquisition of IKEA Centres (read more on [page 41](#)), we produced an action plan to support the development and implementation of IWAY in our shopping centre business. This includes evaluating current IWAY status to secure IWAY approval and sharing experiences with other IKEA organisations. Suppliers at IKEA Centres include service providers, for example cleaning, guest services, security and technical maintenance. In Russia, the first steps in implementing IWAY started in FY15 and we will be rolling it out across all countries in FY17. This includes undertaking regional risk assessments to determine where we should focus our attention and resources.



## **IWAY IN CONSTRUCTION**

IMPLEMENTING IWAY ACROSS OUR CONSTRUCTION ACTIVITIES PRESENTS A CHALLENGE. MOST OF OUR SUPPLIER RELATIONSHIPS SPAN MANY YEARS, WHEREAS CONSTRUCTION PROJECTS TEND TO INVOLVE SHORT-TERM CONTRACTS WITH MANY DIFFERENT TRADES. THIS SHOULD NOT BE A REASON TO SHY AWAY FROM ENSURING GOOD WORKING CONDITIONS THROUGH IWAY.

We require health and safety to be secured at all times on construction sites, and we carry out checks using independent third-party auditors.<sup>18</sup> In FY14, we launched a pilot project to include IWAY Must verification at all of our construction sites in China. We want to ensure our suppliers understand and follow IWAY even when they are only on site for a short

time. In FY16, an approved third-party auditor checked IWAY Must compliance at these sites and noted improvements. Our Group Property function has worked to build on learning from this project. As a result, in May 2016 we started preparing country specific plans to work towards implementation of all IWAY requirements at all IKEA Group construction sites.

<sup>18</sup> This includes a mix of unannounced and announced audits.

# PERFORMANCE BY SUPPLIER TYPE

Each supplier category presents unique challenges and opportunities as we work to achieve and maintain IWAY compliance. We use a range of IWAY working methods and set goals appropriate to each type of supplier, so that we can focus our resources where they are most relevant and needed.

In FY16, there were 1,757 IWAY audits across all supplier categories, of which 724 were unannounced. Below, we summarise IWAY performance for each supplier type in turn – highlighting specific activities for FY16.

## Home furnishing suppliers

In FY16, there were 1,048 IWAY audits at home furnishing suppliers, of which 586 were unannounced (see table).

At the end of FY16, 97% of home furnishing suppliers were IWAY approved.

## Achieving continuous compliance

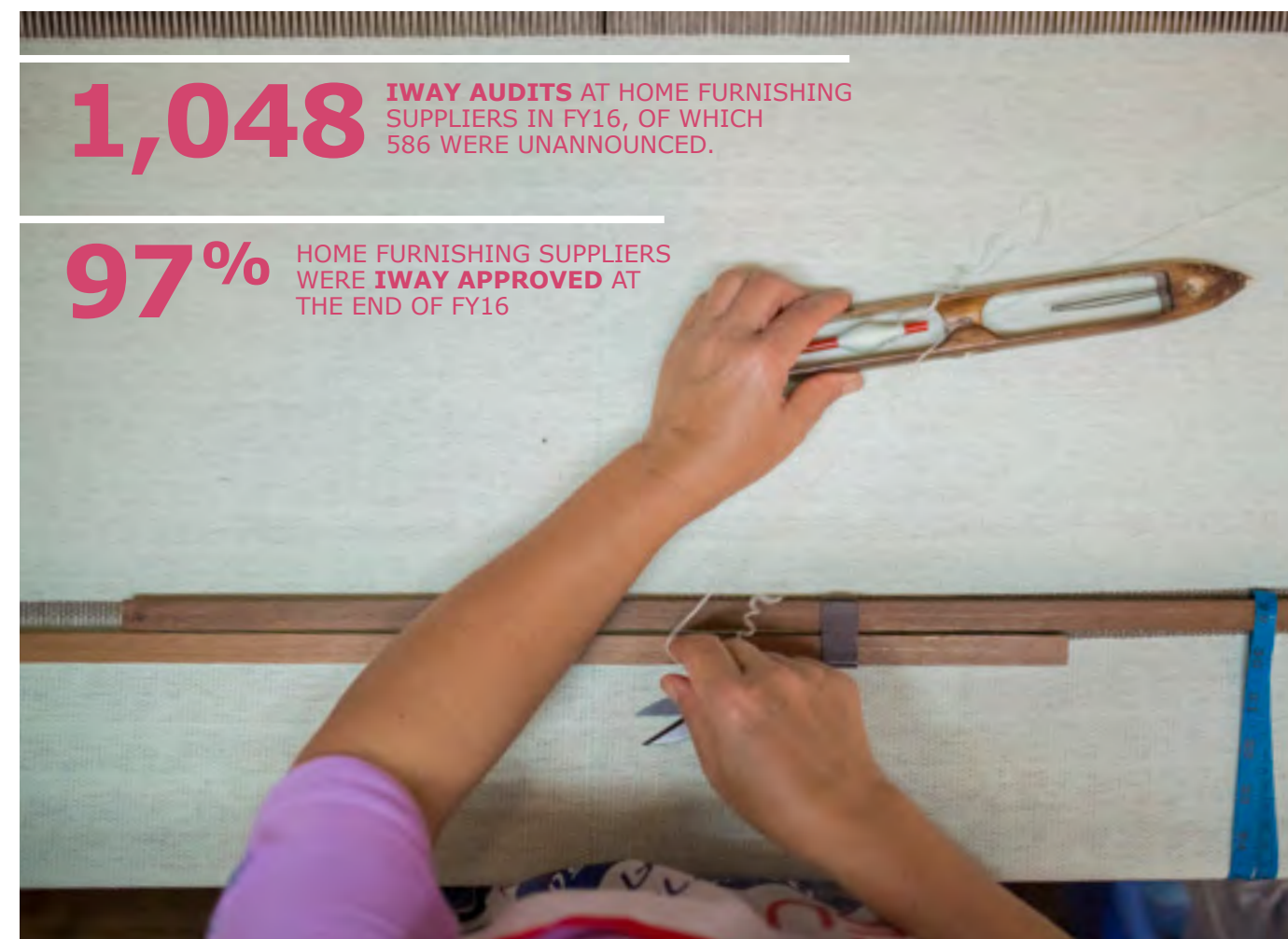
In FY16 we increased our focus on continuous compliance between audits. The result of an audit is important, but it can never tell the whole story of the people who work every day at our suppliers. We want to know if compliance with IWAY requirements fluctuates between audits, so that we can work with suppliers to make sure their workers are truly valued and supported at all times.

This requires:

- close collaboration with suppliers to work IWAY into their management systems
- understanding the challenges faced by suppliers in different regions, so that we can work with them to improve compliance on specific issues

IWAY AUDIT FOR HOME FURNISHING SUPPLIERS			
	FY14	FY15	FY16
<b>Number of IWAY audits/of which are unannounced</b>			
Europe	485/87	448/238	393/156
Americas	53/8	48/26	56/38
Asia	617/501	682/363	599/392
<b>Total</b>	<b>1,155/596</b>	<b>1,178/627</b>	<b>1,048/586</b>
<b>Number of IKEA compliance and Monitoring Group calibration audits<sup>19</sup></b>			
Europe	7	4	3
Americas	2	2	0
Asia	22	22	21
<b>Total</b>	<b>31</b>	<b>28</b>	<b>24</b>
<b>Number of third-party audits (unannounced)</b>			
Europe	32	63	70
Americas	3	10	2
Asia	88	83	105
<b>Total</b>	<b>123</b>	<b>156</b>	<b>177</b>
<b>Terminated businesses, number of suppliers<sup>20</sup></b>			
Exited due to IWAY non-compliance	18	12	15
Number of third-party child labour audits	305	350	253

IWAY APPROVAL AT HOME FURNISHING SUPPLIERS (%) <sup>21</sup>			
	FY14	FY15	FY16
Europe	100	100	98
Americas	96	98	98
Asia (total)	98	98	95
<b>Total (all regions)</b>	<b>99</b>	<b>99</b>	<b>97</b>



**1,048** IWAY AUDITS AT HOME FURNISHING SUPPLIERS IN FY16, OF WHICH 586 WERE UNANNOUNCED.

**97%** HOME FURNISHING SUPPLIERS WERE IWAY APPROVED AT THE END OF FY16

- developing the capability to collect high quality data from suppliers so that we can measure and track compliance rates.

Our Sustainability Developers and Auditors play an important role in this process – listening, supporting and challenging our suppliers where needed.

The current compliance rate across all home furnishing suppliers is 88.7%. We are collecting more detailed baseline data to measure ongoing compliance rates,

<sup>19</sup> Audits undertaken by the Compliance and Monitoring Group and third-party companies to verify and assess the work done by IWAY Auditors and business teams, ensuring a common implementation and judgmental level.

<sup>20</sup> Before FY15, terminations were categorised as "due to non-compliance" and "due to non-compliance and other reasons". In FY15,

and plan to use this as a key performance indicator in future years. Our Purchasing Operation Areas use this detailed information to help prioritise suppliers and specific challenges for IWAY development and maintenance.

We aim to achieve 100% compliance rate at all home furnishing suppliers, and will continue our persistent and consistent collaboration with suppliers to achieve this.

we replaced these categories with a single category to aid clarity. This means figures from FY15 onwards are not directly comparable with previous years.

<sup>21</sup> Data for home furnishing suppliers includes IKEA Industry factories.



## Home furnishing suppliers around the world

**Challenges and opportunities.** Sometimes suppliers find it difficult to meet specific IWAY requirements – including IWAY Musts – for example because of common industry practices or specific regional challenges. We work with these suppliers to focus on resolving issues as they emerge, for example through targeted training and regional programmes. Read more about these challenges and how we are addressing them below.

Across the world, many of our suppliers are proactive in launching projects to support their co-workers and local communities. We encourage such initiatives, which range from providing free childcare for workers' children and funding health insurance and scholarships for local people, to sharing product design knowledge with teachers and students. See [page 72](#) for more about our partnership with suppliers in China to reunite migrant workers with their children.

**China.** In FY15, we reached our goal of ensuring compliance with IWAY working hour requirements at all suppliers in China. But we face ongoing challenges to ensure continuous compliance, and have seen an increase in IWAY Must violations relating to working hours and business ethics. We have taken steps to address this, which include:

- launching the IWAY Independent Approach and Supplier Development Club to encourage suppliers to take ownership over IWAY compliance and share learnings with each other
- training suppliers and IKEA business teams to maintain IWAY competence
- working to stabilise the flow of orders with suppliers in China, which aids financial stability and supports IWAY compliance.

In Taiwan, we are working with the government's Direct Hiring Services to encourage responsible recruitment practices by enabling suppliers to lower the cost of employing migrant workers. Read more about our work with migrant workers on [page 72](#).

**South Asia.** FY16 has been a year of additional learning for our purchasing organisation in South Asia. We focused on competence development and clarifying IWAY standards internally and with our suppliers. This has led to improved supplier performance. To share our vision for the future of purchasing in this region, we ran workshops for suppliers and co-workers, as well as launching a new purchasing newsletter.

**Southeast Asia.** We faced some specific challenges in Southeast Asia in FY16, including:

- ensuring transparent and reliable systems for records of working hours and wages – most of the FY16 IWAY Must violations at suppliers in this region were due to manipulation of data or lack of transparency
- improving wage arrangements for home-based workers in Indonesia and Vietnam<sup>22</sup>
- ensuring contract workers in Indonesia receive permanent rather than temporary contracts
- ensuring onsite sub-suppliers are IWAY compliant
- building competence for suppliers to carry out IWAY audits at their own facilities and those of their sub-suppliers.

To support suppliers in maintaining compliance with IWAY requirements, we completed the IWAY Must violation prevention programme pilot – working with three suppliers to support compliance with IWAY Must requirements. Building on this pilot, we plan to roll out the programme for all suppliers in Southeast Asia during FY17. Focus areas include: effective IWAY communication, sustaining IWAY performance by worker involvement, and providing a set of guidelines to create critical processes in systematically securing IWAY Must requirements.

### Home furnishing sub-suppliers

In China, we support our suppliers to train and audit critical sub-suppliers in an effort to reach IWAY Must compliance.<sup>23</sup> We have extended the scope of IWAY at sub-suppliers to include green plant growers, and we continue to develop



## TRANSFORMING THE HANDMADE RUGS INDUSTRY

THE CITY OF BHADOHI IN INDIA IS KNOWN FOR ITS BEAUTIFUL HANDMADE RUGS. BUT HERE, GOOD WORKING CONDITIONS ARE FAR FROM GUARANTEED – MANY WEAVERS WORK IN COTTAGE INDUSTRIES WITH LIMITED REGULATION AND CHECKS.

One of our suppliers saw this as an opportunity – not only to ensure safe and fair working conditions, but also to empower local women to access skilled work outside their homes. With our support, the supplier:

- trained 200 people in weaving skills, directly employing 50
- raised its female workforce to 25%, compared with a 3-5% local average<sup>24</sup>
- worked with the local community to develop a shared commitment to women's employment
- collaborated with an Indian bank to offer employee bank accounts and an ATM facility – enabling transparency of wage payments and more independence for female workers.

By consolidating infrastructure, raising working standards and employing more female workers,

our supplier is contributing to a better life for people in the local area. Many women in the region are now able to work independently, earning money for their households and creating the possibility of a brighter future for their children.

This kind of supplier initiative complements our broader IKEA Handmade Rugs programme, which aims to improve the rug and carpet industry in India and Bangladesh as a whole. Rafael Elizondo, Category Manager, Textile Carpets says, "Our aim is to keep driving the profound transformation, which started six years ago, of an industry that is known for low or non-existent social welfare, unfair treatment and poor remuneration of the weaver's artisanship. IKEA is committed to maintaining the gains and further developing the industry towards a fair and transparent setup."

<sup>22</sup> This involves working with suppliers to determine what is a fair "piece rate" (amount of pay per article produced).

<sup>23</sup> Sub-suppliers are defined as critical if processes performed are considered to be potentially highly harmful to the environment, health or safety of the workers,

or are in an industry or supply setup that is prone to child labour or forced and bonded labour.

<sup>24</sup> 3-5% is the average for Varanasi state in India.

processes on how to secure IWAY compliance with a specific focus on critical supply chains such as cotton, wool, and recycled polyester.

In South Asia, all critical sub-suppliers have been audited and are IWAY Must approved, with suppliers taking ownership of their own supply chains. We support our suppliers to train and audit critical sub-suppliers at regular intervals in an effort to reach IWAY Must compliance. We have extended the scope of IWAY for sub-suppliers to other levels of the supply chain including non-critical suppliers. In our critical supply chains we are working together with our suppliers, encouraging them to take the lead in securing IWAY compliance throughout their own supply chains.

In Southeast Asia, all critical sub-suppliers have been audited and are IWAY Must approved. To further embed IWAY thinking within sub-supplier management systems, we conduct face-to-face training alongside ongoing support and communication with sub-suppliers in this region. We are working together with our Natural Fibre suppliers to extend IWAY to home-based workers where necessary. Read more on [page 73](#).

**99%** GLOBAL APPROVAL WITH IWAY MUSTS AT OUR CRITICAL HOME FURNISHING SUB-SUPPLIERS.

**HOME FURNISHING (HF) TIER 2 SUB-SUPPLIERS**

	FY14	FY15	FY16
Total number of HF tier 2 suppliers	16,561	18,954	19,492
Total number of HF tier 2 suppliers with identified critical materials and processes	1,691	1,897	1,933
Share of HF tier 2 suppliers with identified critical materials and processes compliant with 'IWAY Musts', % approved	91	92	99

**Transport and services suppliers**

**90%** IWAY APPROVAL FOR SUPPLIERS THAT TRANSPORT OUR PRODUCTS TO STORES AND DISTRIBUTION CENTRES BY LAND.

**86%** IWAY APPROVAL FOR CENTRALLY CONTRACTED TRANSPORT SUPPLIERS DELIVERING DIRECT TO CUSTOMERS.

We have had an IWAY standard for transport covering long-haul ocean and land transport providers since 2005, and customer delivery carriers since 2010.

In FY16, the approval rate for land transport providers decreased by 10 percentage points. This is because 22 carriers could not be audited on time. We are developing a new approach to IWAY in ocean transportation and audits were consequently postponed in FY16.

In South Asia, we collaborated with suppliers on a number of initiatives to enhance the lives of workers in our transport supply chain, including:

- introducing bank transfer payments and opening bank accounts for drivers in Pakistan
- improving pay levels above the average for this sector in Bangladesh
- HIV/AIDS awareness days at three suppliers in India, with plans for further sessions in Pakistan and Bangladesh
- celebrating Driver's Day in India – suppliers ran a session on safe driving and distributed personal protective equipment to their drivers.

Recently, there has been increasing awareness and concern about social conditions in the trucking industry, particularly within the European Union (EU). Free movement of transport and workers in the EU offers opportunities for workers and employers, but also presents the risk of exploitation. For example, some companies will pay drivers the minimum wage of their country of origin, but predominantly offer them work in countries with higher local wages. This makes it difficult for drivers to maintain a good standard of living while they work.

We recognise our responsibility to work with suppliers to ensure every truck driver can expect decent work for fair pay.

In FY16, we introduced a process and guidelines for IWAY Spot Checks of truck drivers transporting IKEA goods. Our Sustainability Developers in Europe and Asia Pacific visit IKEA distribution centres, consolidation points and stores.<sup>25</sup> Here, they carry out voluntary, confidential interviews with truck drivers to verify their working conditions and provide input to IWAY audits. Since January 2016, we have carried out 37 spot checks in 5 countries.

We continue to engage in dialogue with the transport unions so that together we can find ways to contribute to the positive development of the transport industry.

**IWAY APPROVAL OF TRANSPORT AND SERVICE SUPPLIERS**

	FY14	FY15	FY16
Customer delivery suppliers, % of centrally contracted suppliers approved	100	86	86
Ocean transport providers, % approved	100	100	N/A
Land transport providers, % approved	100	100	90

**Food suppliers<sup>26</sup>**

**63%** IWAY APPROVAL FOR GLOBAL FOOD SUPPLIERS.

In FY16, we expanded our IKEA Food sustainability team to strengthen our ways of working with IWAY. The focus of IWAY audits in FY16 has been to reach our goal of 50% IWAY approval for global suppliers. At the end of FY16 63% were IWAY approved. Our FY17 goal is for 100% of global food suppliers to be audited and approved.

Read more about our approach to sourcing food on [page 31](#).

**IKEA Indirect Material & Services (IKEA IMS) suppliers**

**84%** IWAY APPROVAL FOR IKEA IMS SUPPLIERS WITHIN IWAY SCOPE.

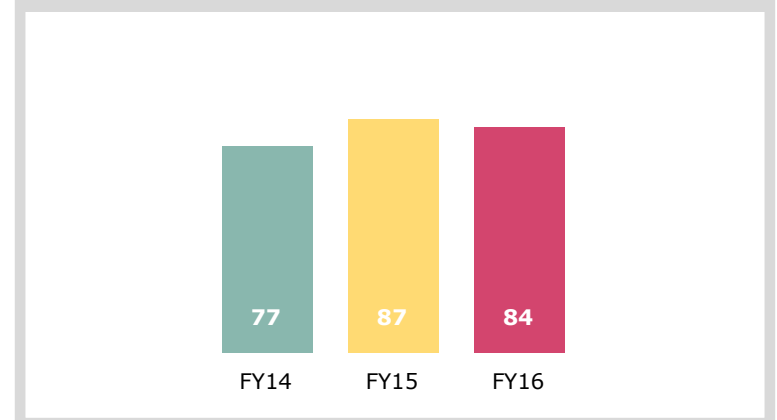
In FY16, we continued our focus on consolidating and standardising the IKEA IMS supply chain, and rolling out version 2 of our Sustainability Scorecard. This is similar to the IKEA Sustainability Product Scorecard – read more on [page 35](#). The Scorecard goes beyond IWAY requirements on issues such as packaging, sourcing and end of life, and is a useful tool in selecting new suppliers or working with existing suppliers to improve performance.

Our improved IWAY processes include conducting a more thorough risk assessment and performance evaluation prior to engaging a new supplier, as well as providing suppliers with more hands-on support to reach and maintain compliance.

In FY16, the approval rate decreased by seven percentage points due to natural expected variance, and because not all suppliers could be audited on time.

We continued working towards securing IWAY compliance with selected sub-suppliers by investing in building competence and hiring new Sustainability Developers to support this process.

**IWAY APPROVAL OF IKEA INDIRECT MATERIAL & SERVICE (IMS) SUPPLIERS (% IWAY APPROVED)**



<sup>25</sup> This can be in a planned or random manner, depending on local conditions.  
<sup>26</sup> Refers to suppliers to IKEA Food Services AB.

## Retail suppliers

**87%** IWAY APPROVAL FOR HIGHER RISK RETAIL SUPPLIER CATEGORIES (CLEANING, SECURITY, WASTE MANAGEMENT AND CUSTOMER DELIVERY SERVICE PROVIDERS<sup>27</sup>).

In FY16, we completed the roll-out of our new way of working with IWAY in Retail. This consolidates the approach for IKEA IMS and Retail with IWAY implementation managed by IKEA IMS (see [page 66](#)).

Sometimes there are challenges in reaching and maintaining IWAY compliance specific to a particular region, due to less developed markets or low levels of competition. In other regions, specific supplier categories are high performing regardless of IWAY, such as security suppliers in the Nordic countries where there are high legal demands and compliance.

By integrating IWAY for Retail and IKEA IMS, there is more hands-on contact between suppliers and IKEA Sustainability Developers, which:

- contributes to a higher level of IWAY compliance between audits
- enables a faster, more efficient audit process as there are fewer compliance issues
- builds stronger relationships and better value for products and services.

### IWAY APPROVAL OF RETAIL CLEANING, WASTE MANAGEMENT AND CUSTOMER DELIVERY SERVICE SUPPLIERS

	FY14	FY15	FY16
Total number of IWAY audits conducted at retail suppliers	179	314	181
Total number of retail cleaning, security, waste management and customer delivery service providers	448	389	359
Retail cleaning, security, waste management and customer delivery service providers, % approved	40	85	87

## IKEA Catalogue suppliers

**80%** IWAY APPROVAL FOR IKEA CATALOGUE SUPPLIERS WITHIN IWAY SCOPE.

By the end of FY16, we reached our goal of auditing all catalogue suppliers – based on annual audits of suppliers in China and biennial audits of all other suppliers.<sup>28</sup> All suppliers conduct biannual self-assessments on IWAY and industry-specific requirements for pulp, paper, print and digital.<sup>29</sup>

In China and the USA, it is challenging to continuously meet specific IWAY requirements: working hours, overtime and taking one day off in seven. We have established development plans with some of our Chinese suppliers and worked closely with one of our print suppliers in the USA to develop an action plan. The suppliers are now working through these plans to reach IWAY compliance while also respecting local laws.

We ask our tier 1 suppliers to audit their critical sub-suppliers against IWAY Must requirements and plan to have IKEA Auditors visit sub-supplier sites in the future.

Read more about the environmental performance of our suppliers on [page 40](#).

Where there were non-compliances, we worked with 163 suppliers to implement corrective action plans (see above for examples). Upon re-audit, 111 (68%) of these suppliers were then approved.

### IWAY AND INDUSTRY SPECIFIC APPROVAL AT IKEA CATALOGUE SUPPLIERS

	FY14	FY15	FY16
Catalogue paper and print suppliers, % IWAY approved	55	70	80
Catalogue paper and print suppliers, % approved according to the industry specific requirements for pulp, paper, print and digital	68	46	38

## IKEA Components suppliers

**97%** IWAY APPROVAL OF IKEA COMPONENTS SUPPLIERS.

IKEA Components suppliers follow the same approach to achieving and maintaining IWAY compliance as IKEA Home Furnishing suppliers. In FY16 we have focused on maintaining and developing IWAY Compliance, and implementing IWAY Musts for sub-suppliers.

We are extending the scope of IWAY to include more of the suppliers that deliver to our own packaging units. We have made good progress and aim to complete this work in FY17.

### IWAY APPROVAL AT IKEA COMPONENTS UNITS AND SUPPLIERS

	FY14	FY15	FY16
IKEA Components units, % approved	100	100	100
Total number of IKEA Components suppliers	242	252	381
Total number of audits conducted at IKEA Components suppliers	187	195	143
IKEA Components suppliers, % approved	99	99	97

## IKEA Industry suppliers

**38%** IWAY APPROVAL OF IKEA INDUSTRY SUPPLIERS WITHIN IWAY SCOPE.

In FY16 we focused on developing IWAY capability for our business teams and suppliers. Our newly formed Division Purchase Sustainability Team provides IWAY expertise and training, and supports the implementation of IWAY at suppliers, which is increasingly important as we move towards the FY17 goal of our phased supply chain approach. In FY16, we increased IWAY scope to include all direct material suppliers. We will continue to audit these

suppliers in accordance with our updated goals, as part of our new IWAY working method:

- End FY17 – all critical direct material suppliers will be IWAY audited and approved and all category 2 direct material suppliers<sup>30</sup> will have implemented IWAY.
- End FY18 – 80% of category 1 direct material suppliers<sup>31</sup> will have implemented IWAY.
- End FY19 – all category 1 direct material suppliers will have implemented IWAY.
- End FY20 – all category 2 direct material suppliers and a minimum of 10 category 1 direct material suppliers will be IWAY approved.

IKEA Industry service providers are now included in IWAY scope. In FY16, we developed a new guideline for securing IWAY at service providers and communicated this with all sites. We achieved IWAY approval of all permanent on-site service providers across FY15 and FY16. In FY17, we will continue the audit cycle with these suppliers, and any new service providers will also be developed and IWAY approved.

### IWAY APPROVAL AT IKEA INDUSTRY UNITS AND SUPPLIERS<sup>32</sup>

	FY15	FY16
Number of units and suppliers within IWAY scope	319	805
Number of audits conducted	261	99
IKEA Industry suppliers, % approved within scope	65	38

<sup>27</sup> Customer delivery service providers managed by our retail operations are in addition to those managed by our Transport & Services business.

<sup>28</sup> This excludes one new supplier scheduled for audit in FY17.

<sup>29</sup> These include aspects such as bleaching requirements for paper, energy efficiency of data centres, ventilation systems in printing rooms and presence of a written sustainability policy.

<sup>30</sup> Category 2 direct material suppliers: All direct material suppliers producing in one or more geographically defined site(s), and are not defined as category 1.

<sup>31</sup> Category 1 direct material suppliers: Suppliers with an estimated value below EUR20,000 per financial year; family companies with less than 5 employees; foresters with less than 5 employees; owners or leasers of land and forest, with no own personnel used in production; traders; co-operatives; distributors.

<sup>32</sup> Includes material suppliers and on-site service providers. Figures are not comparable with previous years as a result of the formation of a new organisation with a new fully defined supplier base.

# RESPECTING AND SUPPORTING HUMAN RIGHTS

WE AIM TO RESPECT AND UPHOLD THE RIGHTS OF INDIVIDUALS AND VULNERABLE GROUPS ACROSS OUR VALUE CHAIN, EMPOWERING THEM TO CREATE A BETTER EVERYDAY LIFE FOR THEMSELVES.

PEOPLE & PLANET POSITIVE TARGETS	STATUS	PERFORMANCE IN FY16
Develop and implement a transparent and reliable system for the responsible recruitment of migrant workers at first-tier suppliers in identified critical areas by August 2017.	●	Completed project to map a recruitment corridor in Southeast Asia. Became a founder member of the Leadership Group for Responsible Recruitment.
Continuously identify and develop setups for home-based workers to improve working conditions, protect labour rights and prevent child labour. By August 2020, all home-based workers are transitioned into improved set-ups and part of our handmade development programme.	●	Extended IWAY implementation and audit activity at tier 1 sub-suppliers in the natural fibre supply chain in Southeast Asia. Developed an action plan to tackle challenges in the natural fibre supply chain in Southeast Asia.
Advocate for children's rights by influencing policy development, raising awareness and supporting families in vulnerable communities.	●	Worked to raise awareness of UNICEF's Child Rights and Business Principles, and the IKEA approach to children's rights. Contributed to UNICEF training programmes, with a focus on how we develop our products. Developed a case study on our approach to children's rights for the Global Child Forum to share experience, learnings and inspire others.

**LEGEND:** ● Achieved   ● Ongoing   ○ Not achieved

The world and its people are constantly changing. Populations and workforces are increasingly mobile, with many people leaving their home countries to find a new home or look for work.

The number of international migrants has increased by 41% between 2000 and 2015, to 244 million.<sup>1</sup> This opens new opportunities for cultural exchange

and employment, but also presents challenges for integration and inclusion.

Throughout this, one thing remains constant: the value we place on people. We want respect for human rights to be at the centre of everything we do, so that we can empower people to create a better everyday life for themselves, whatever their circumstances.

Children are the most important people in the world, and the future of our planet. They will face challenges and opportunities that we do not yet know about. We pay particular attention to the rights of children, as well as focusing on other groups where we can make a big difference – migrant workers, home-based workers, and social entrepreneurs.



<sup>1</sup> <http://www.un.org/sustainabledevelopment/blog/2016/01/244-million-international-migrants-living-abroad-worldwide-new-un-statistics-reveal/>

# HUMAN RIGHTS GOVERNANCE



- The IKEA Way on Preventing Child Labour and Supporting Young Workers
- The IKEA Way on Purchasing Products and Services (IWAY), our supplier code of conduct
- IKEA Group Code of Conduct
- IKEA Group Policy on People
- IKEA Group Standard on People
- IKEA Group Policy on Sustainability
- IKEA Group Policy on Human Rights and Equality.

We monitor emerging risks and expectations to keep these documents up to date. They provide important guidance to our co-workers and suppliers, supporting our efforts to prevent any negative human rights impacts associated with our business.

By focusing on the parts of our supply chain at highest risk of human rights issues, we can use our resources most effectively for the greatest impact. Read more about our risk-based approach to monitoring and supporting our supply chain on [page 61](#).

When we identify a human rights risk within our supply chain, we strengthen due diligence processes and take action to remedy where needed.<sup>2</sup> We develop new guidance for issues where a strong message and clear process is required – for example our new Guidelines on Human Rights in Communications and Policy on Human Rights and Equality.

<sup>2</sup> The steps an organisation takes if it finds it has caused or contributed to human rights violations.

Respect for human rights is not a one-off goal; it is a way of thinking and a shared responsibility. That is why we place a strong emphasis on communicating the importance of human rights with co-workers and suppliers. We address human rights in several of our codes, policies and standards. These include:

# RESPONSIBLE WAGE PRACTICES



Our co-workers and our suppliers' co-workers should earn enough to meet their basic needs and those of their family. That includes access to education, food, healthcare, housing and transport. They also have a right to reasonable working hours, benefits and good working conditions.

Good working conditions help to attract and retain people and allow them to develop their skills. They contribute to co-workers feeling empowered and engaged – ultimately leading to high productivity, strong business performance and better products and services for our customers. In FY16, we introduced the new IKEA Group Employment Standards – a global approach to working conditions at IKEA. Read more on [page 55](#).

In many countries, the legal minimum wage does not match the changing cost of living, which can make it difficult for workers to meet their basic needs.

Since January 2013, we have worked with the Fair Wage Network to look at the current situation in our operations and supply chain. We started undertaking assessments and began making changes to better support our co-workers and those at our suppliers. Since FY13, we have:

- developed a partnership with the Fair Wage Network to use their assessment methodology in pilots in both our own operations and supply chain
- scaled up the pilot and conducted further assessments on wage practices in 10 countries – we are analysing findings and will take action accordingly
- established a Competence Network in Group Human Resources to guide the future development of wage practices.

Based on our assessments, we have already improved our wage structures in Japan and the USA. We will use the results of the pilots to continue to build our approach to responsible wages at IKEA.

# CHILDREN'S RIGHTS

Children are the most important people in the world. Every child has the right to survive, thrive, learn, grow, play, and have their voice heard – but many children do not have access to everything they need to flourish.

Everything we do has the potential to impact children's lives. We want to make sure that impact is positive, by supporting and enhancing children's rights wherever possible.

We were part of a reference group for the development of the [Children's Rights and Business Principles](#) (the Principles), launched jointly by Save the Children, the UN Global Compact and UNICEF in 2012. They offer a comprehensive framework for understanding and addressing the impact of business on the rights and well-being of children, covering three core areas: the workplace, the marketplace, and community and environment.

The Principles have helped us to look at every part of our business through a children's rights lens, including what we are doing well and where we need to do more. We are using them to structure our entire approach to children's rights.

## Embedding the Children's Rights and Business Principles

In FY16, we continued to use the Principles to communicate our position internally and externally, and to identify areas where we need to strengthen our approach. We worked with the Global Child Forum and UNICEF to share our approach and experience, and carried out internal training on the updated IKEA approach to preventing child labour and supporting young workers.

IKEA countries have started to integrate the Principles into their sustainability approaches. For example, in FY16 IKEA Retail Spain launched "El Poder del Infancia" (The Power of Children). Their plan puts the Principles at the heart of everyday actions, with the aim of creating a better life for



We work to protect children's rights in every part of our business.

The LATTJO collection was developed for children and grown-ups to play together.

children in Spain – more than a quarter of whom currently live below the poverty line. El Poder del Infancia focuses on four key strategies that reflect the IKEA Group approach to children's rights.

- 1 Place the best interest of children at the centre of everything we do.
- 2 Enable communities to create lasting change for vulnerable children and families.
- 3 Advocate and raise awareness for children's rights among Spanish society together with key stakeholders.
- 4 Communicate the IKEA Retail Spain position to stakeholders.

## Child labour and young workers

In FY16, we revised the IKEA Way on Preventing Child Labour and Supporting Young Workers. It clarifies and strengthens our position: by eliminating child labour, we do not want to also eliminate decent job opportunities for young workers under 18 who are legally allowed to work. Doing so risks young workers seeking jobs further along the supply chain, where there may be less scrutiny and a higher risk of hazardous conditions.

It is important that we work with suppliers so that they feel able to offer suitable jobs to young workers while ensuring no child labour – see feature on [page 71](#). We know we have more to do to meet this challenge, and we will pay close attention to particular areas of our supply chain such as food, leather and cotton. From FY17, we

will measure how many young workers are present in supplier factories.

We take any suspected cases of child labour within our supply chain very seriously. We focus on the interests and safety of the child, and guided by our IWAY working methods, we carry out a multi-step process from fact checking to confirming the business consequences for the supplier involved.

We have a thorough system for following up suspected child labour cases, developed with UNICEF, and always with the best interest of the child in mind. In FY16, there were three suspected cases of child labour. After a full investigation, we were able to confirm that these were not cases of child labour.

## The power of play

We are serious about play. Every child (and every adult!) has the right to play. It is learning for life – fuelling development and creativity, teaching us to work together and sparking curiosity. But our FY15 Play Report showed that many children do not have the space or time to play as much as they or their parents would like.

In FY16, we refocused our efforts within Children's IKEA to encourage the world to play more. Our approach is always to take the child's perspective. We base product development on sound knowledge and test every product with our most honest critics – children themselves. We have zero-tolerance towards any safety or health risks, and we take prompt action in the case of any safety or compliance issues – see [page 37](#).

Home is a great playground, and we want to make it a place where families with children love to play and live their dreams together – wherever they live and whatever their circumstances. In FY17 we will launch a new campaign designed to support children's rights to play and develop, Let's Play for Change. Read more on [page 81](#).

# STAKEHOLDER CHALLENGE ENSURING SAFE JOBS FOR YOUNG WORKERS



**Dear IKEA,**

"The second decade of life can be critical to ensuring the investments made in early childhood continue into adulthood. For young people, the transition from school to work is particularly important. This can have lifelong consequences: for youngsters, for society as a whole, and for companies who can gain significantly from investing in a valuable future workforce. Evidence shows that when adolescent girls and boys are supported and encouraged by caring adults, along with policies and services attentive to their needs and capabilities, they have the potential to break long-standing cycles of poverty, discrimination and violence.

**How does IKEA promote youth employment and skill building, while ensuring the protection of young people?"**

**SUBAJINI JAYASEKARAN**  
Corporate Social Responsibility Specialist  
UNICEF



**Hej Subajini!**

"We know that there is a shortage of decent jobs for young people, especially in less developed economies where educational opportunities may also be scarce. And we see this in our own supply chain, where the number of young workers has dropped significantly over the last decade.

Often, suppliers do not know about legislation surrounding young workers, or are afraid to be accused of child labour. Employing people under the age of 18 brings extra requirements around the type of work they can do – no hazardous

work, night work, or overtime. Some companies feel it is easier not to employ them at all.

We support the employment of young workers, and believe that the policy of not employing anyone under 18 but above the legal minimum working age is a discriminatory practice. We have updated our approach to child labour prevention and are supporting young workers to reflect this and tackle the issue in our supply chain.

And we are raising awareness of this both within IKEA Group and beyond, particularly with our suppliers. We want to make sure all our suppliers know that workers under 18 but above the legal working age are not necessarily classified as child labourers, and can be a valuable part of their workforce.

It will take time to change people's mindsets. But we believe this will eventually create more opportunities for decent employment of young workers within our supply chain, while ensuring the work is always safe and beneficial. It is a big task, and we have just started our journey."

**JOANA BARATA CORREIA**  
IWAY Development Manager  
IKEA Group

# MIGRANT WORKERS

Migration is woven into human history. For centuries, people have moved between regions and across borders, often in search of new work and opportunities. Today, an estimated 150 million people work in a country other than their country of birth,<sup>3</sup> and many more travel within their own country to seek new employment opportunities.

Labour migration can have many benefits. It offers people the chance to earn money to support their families, and to transfer income and knowledge back home. It also brings many challenges, particularly the protection of workers from exploitation as they enter into complex recruitment processes.

In the worst cases, migrant workers can find themselves in forced or bonded labour – subject to violence and abuse – as they work to pay off debts from large recruitment fees or are forced to hand over their passport to recruiters.

This is not acceptable – in our supply chain or in any industry. We are committed to the responsible recruitment of migrant workers and we do not tolerate forced labour or human trafficking. We set expectations for our suppliers through our supplier code of conduct, IWAY. It includes requirements that workers should not pay any fees for finding a job, that passports should not be retained and that migrant workers' rights should be respected. Read more about IWAY on [page 61](#).

## Mapping migrant workers

In FY16, we completed our project to map the recruitment corridor from suppliers in Southeast Asia back to the workers' home countries, in partnership with the [International Organization for Migration](#) (IOM). We aimed to gain a transparent overview of the labour supply chain, including a better understanding of the challenges and potential solutions.

<sup>3</sup> <http://www.ilo.org/global/topics/labour-migration/lang--en/index.htm>

## REUNITING DOMESTIC MIGRANT WORKERS WITH THEIR CHILDREN

IN CHINA, MORE THAN 200 MILLION PEOPLE LEAVE THEIR HOMES AND FAMILIES BEHIND EACH YEAR TO FIND WORK IN ANOTHER CHINESE PROVINCE.

Over 61 million children grow up without their parents.<sup>4</sup> The challenges of finding accommodation, schools and childcare mean that they must leave them behind to be raised by relatives, or sometimes alone. In most cases, the children will only see their parents once a year.

"I'm a migrant worker myself and have been separated from my children for many years. I regret that I couldn't stay with them and support them during their childhood and adolescence," says Chunan Lin, general manager of Dongguan MYS – a large IKEA packaging supplier based in Southeast China, with a staff including around 70% migrant workers.

Together with Dongguan MYS and another Chinese supplier, we have started the I Care project. It aims to ensure fewer workers in our supply chain have to face the difficult prospect of spending time apart from their children.

So far, Dongguan MYS has turned 35 of its dormitories into family dormitories – furnished with product donations from IKEA. They have talked to the local authorities to help the children of migrant workers get into local schools and created an after school activity room so that parents know their children are cared for until the end of the working day. This enables children to live with their parents, and enjoy a home life



PHOTO: PER MIKAELSSON



where they can play, learn and grow together as a family.

In FY17, we plan to expand the project to around nine more Chinese suppliers, focusing on those with a high share of migrant workers. In the long term, we would like to inspire all of our suppliers in China to implement similar solutions to reunite families.

For Chunan Lin, this is a personal mission, but one that also makes good business sense. "Most factories in China don't work in this way," he

comments. "But we are heading for long-term sustainable development with the aim to be a packaging giant in the future. Our workers are our biggest asset and the basis for keeping workers is to provide them with good benefits."

Read more [here](#), and watch a [video](#) about I Care from the link above. Read more about our approach to children's rights on [page 70](#).

<sup>4</sup> <https://www.statista.com/statistics/258434/number-of-rural-left-behind-children-in-china/>



We will use these findings to begin improving our standards and ways of working, and support our suppliers to do the same. We will examine where else we should focus by gathering data on migrant workers across different parts of our business, and work with IOM to carry out further mapping projects. We also plan to revise IWAY documentation and training to strengthen and clarify our requirements with respect to migrant workers.

### Partnering with others

Labour migration spans international borders and involves many different individuals and organisations, so protecting migrant workers is not something we can achieve alone. A broad global shift is required towards employers, not workers, bearing the cost of recruitment fees.

In recognition of the need for partnership and global change, in FY16 we became a founder member of the [Leadership Group for Responsible Recruitment](#) (LGRR). This group of multinational companies and non-governmental organisations, convened by the Institute for Human Rights and Business, has a bold and important aim: to eradicate worker fees over the coming decade. We call this the “Employer Pays Principle”. Together, we will develop a practical roadmap for other businesses to adopt the Employer Pays Principle with their suppliers and subcontractors. We will also:

- raise awareness of the damaging impacts of recruitment fees on both workers and business efficiency
- continue to prohibit recruitment fees within our own operations and ensure compliance throughout supply chains
- advocate with peer companies and government policy makers to deliver transformational change.

We welcome the introduction of the UK Modern Slavery Act, and will report all relevant requirements in 2017.

**“No one should have to pay for the right to work, particularly those who can least afford it. IKEA’s commitment to putting people first demonstrates the leadership necessary to tackle unethical labour recruitment practices. Its ‘no fees’ policy regarding the recruitment and employment of migrant workers in its supply chain is an important first step.**



**IOM is pleased to be a part of this journey and will continue to challenge IKEA and other companies to do more in their operations to ensure that migrant workers have access to decent work, without the ‘invisible chains’ of debt bondage and other exploitative practices. Sustainable workforces require fair treatment for all workers, including migrant women and men.”**

**AMBASSADOR LAURA THOMPSON**  
Deputy Director General,  
International Organization for Migration

Read more about our approach to workers’ rights in our transport supply chain on [page 66](#).

### Domestic migration

Migration does not necessarily mean crossing national borders. In some countries, like China, many workers leave rural areas for cities. This comes with a different set of challenges. See the feature on [page 72](#).

## HOME-BASED WORKERS



Home-based work in the ‘informal’ sector is common in many parts of the world. It enables people to fit work around their home life and other commitments, and can provide much needed income to families living in poverty.

This type of work also presents challenges. There is little guarantee of safe and fair conditions for workers and their families, and a high risk of child labour going undetected.

We are working closely with our suppliers to improve set-ups for home-based workers. Our focus is on creating better working conditions, protecting labour rights and preventing child labour. By August 2020, all home-based workers in our global supply chain will have transitioned into these improved set-ups and be part of our handmade development programme.

### Developing our strategy in Southeast Asia

The natural fibre supply chain in Southeast Asia (including materials like bamboo, rattan, seagrass and water hyacinth) is an important source of IKEA products. It is a category that traditionally

relies on home-based workers, particularly those offering unique weaving skills.

We are working with our natural fibre suppliers in this region to tackle challenges such as lack of transparency in the supply chain and difficulty in ensuring decent working conditions.

Our research collaboration with the [International Labour Organization](#) in FY15 showed us a lot about the current state of our natural fibre supply chain in Indonesia. In FY16 we launched a three-year project to develop a strategy to support home-based workers in Indonesia and Vietnam, led by our wood and fibre business category.

In FY16, we continued to work closely with tier 1 sub-suppliers in Indonesia and Vietnam to implement IWAY and carry out audits. At the end of FY16, 268 villages and all 98 weaving centres in our Indonesian and Vietnamese natural fibre supply chain were IWAY approved.<sup>5</sup>

<sup>5</sup> A weaving centre is defined as a place where five or more workers congregate to work. Often many households within a village are involved in IKEA production, so we register villages rather than individuals on our sub-supplier tracking system. IWAY approval of a village is based on the audit of a sample of households within a specific community.

# SOCIAL ENTREPRENEURS



Our work with social entrepreneurs creates livelihood opportunities for women and minority groups.

Our social entrepreneur initiative enables us to forge long-lasting partnerships with small businesses to create sustainable, positive social change in the communities where they work. It supports these businesses to be part of the IKEA supply chain where they ordinarily would not have access to our people or systems.

Our partnerships take two forms.

- **International partnerships.** We work with social entrepreneurs employing local artisans to co-create unique limited edition IKEA collections using traditional handicraft methods and materials. Most (82%) of these artisans are women in rural areas, who would traditionally not have access to an independent income. These collections are sourced centrally and available at stores in several countries.
- **Local partnerships.** Individual IKEA countries or stores collaborate with local

social entrepreneurs on a country level or in communities close to an IKEA store. Many of these local social enterprises offer work to immigrant and refugee women. This provides women and their families with vital income where they would otherwise struggle to enter the labour market, while producing local limited edition collections of upcycled IKEA textiles and in-store sewing services.

All of our partnerships promote the empowerment and inclusion of women and minority groups, and the majority of the social enterprises are led by women. By developing skills and securing regular incomes, the artisans, immigrants and refugees working with these organisations are able to gain independence, save money and plan for their future.

This is business, not charity. Our partners provide high quality handicraft collections and

services, and must match our expectations similar to any of our larger suppliers. It is a prerequisite and selection criteria that they also enable long-lasting positive social change.

## Extending and expanding IKEA collections

In FY16, we launched four new product collections, increasing the number of stores that stock these unique handcrafted products. We will launch three further international collections in FY17, with two more planned for FY18 – expanding production capacity and selling the collections in more countries. In FY17, we will start several new partnerships and our two partners in India will be ready to deliver a market-specific IKEA range.

We have learnt a lot from our local partnerships with local social entrepreneurs in Denmark, Sweden and the USA. And we have decided to scale up our approach by encouraging other IKEA countries to form local partnerships to develop:

- sewing services similar to the one in our Malmö, Sweden store (partnership with Yalla Trappan)
- collections of upcycled IKEA textiles similar to those produced in FY15 in Denmark (partnership with Place de Bleu) and the USA (partnership with Open Arms).

We are developing global guidelines for these two offerings. This will enable IKEA countries and stores to take a consistent approach, while developing partnerships that make a real and relevant difference in their local communities.



**VÄLBALANS** international collection with Doi Tung Development Project in Thailand. Available at 22 stores in four countries during FY16.

## Tracking progress

As our partnerships with social entrepreneurs expand, we want to make sure they remain consistent with our values by placing the same expectations on them as we would with other IKEA suppliers. Before we start production with new social enterprises, they must be compliant with IWAY Musts – a core set of requirements within our supplier code of conduct, IWAY (read more about IWAY on [page 61](#)). Our ambition is for all international partners to be completely IWAY compliant, having fulfilled every supplier requirement. In FY16, three partners became completely IWAY-compliant.

We want to measure the impact of our partnerships. In FY16, we developed a set of metrics to do so. Key performance indicators cover aspects such as % IWAY compliance, the number of women in leadership positions and the number of people working with IKEA production.

- Number of artisans creating and producing collections and services: 2,150
- Proportion of female artisans: 82%

It is four years since we started our first partnership. Now we can begin to assess the wider social benefit of these partnerships. In FY17 we will start our first social impact audit with Industree PT, our partner in India, performed by an external auditor.



**HEMTRAKT** international collection with Rangсутra and Industree in India. Available at 38 stores and one e-commerce location in seven countries.



**YALLA TRAPPAN** social enterprise provides a sewing service in our Malmö store.



**KRYDDAD** international collection with Rangсутra and Industree in India. Available at 40 stores in seven countries.<sup>6</sup>

<sup>6</sup> Correct as of November 2016.

## DIPTI'S STORY

**"Science is not the subject for girls, it is the subject for boys!"**

These words, like so many of the other challenges Dipti has faced throughout her life, only spurred her on to achieve what people said she couldn't.

Growing up in the state of Bihar, India, Dipti recalls how things used to be: "I was the eldest of two sisters and a brother. We girls were considered a burden on society. Life for us was quite a challenge. It was tough, especially for my mother as my father was studying and did not have a job."

Despite their circumstances, Dipti's mother maintained a strong belief in education, supporting her daughters to attend school and complete their studies. Dipti achieved a PhD in Physics, but still felt suppressed and lacking identity as she struggled to accept the restriction of freedom she experienced as a woman.

"I was living life according to others' choices," says Dipti. "One day I made the decision, and said no! I have one life. I can either live my life by others' choices or by my choices. And then I started changing my way of living, my way of thinking, my way of studying, my way of exploring the world and I found that people started loving me. I was walking towards the sunrise of women's empowerment."

Since then, Dipti has dedicated her life to the economic empowerment of women. She founded the Varanasi Weavers Foundation before moving to a job as Program Manager for social enterprise Rangсутra, managing the partnership with IKEA. She supports women to challenge cultural norms, to find their own profession and their own voice. And she has nothing but hope for the future: "The advice I



**WATCH THE VIDEO**

would give young Indian women is that right now you may be following male society, but the day will come when you will be followed by society."

Dipti's story is inspiring, and we hope that by continuing to develop our partnerships with social enterprises like Rangсутra, we can play a small part in many more women's journeys to empowerment.

Watch Dipti tell her story at the link above.

# LASTING CHANGES FOR COMMUNITIES

SOCIETY FACES SOME OF THE BIGGEST CHALLENGES OF OUR TIME, INCLUDING CLIMATE CHANGE AND ECONOMIC AND SOCIAL INSTABILITY. AS THE WORLD'S BIGGEST HOME FURNISHING RETAILER, WITH A VALUE CHAIN STRETCHING AROUND THE WORLD, WE HAVE A GREAT RESPONSIBILITY TO SUPPORT THIS GLOBAL COMMUNITY.

We want to use our reach and influence to have a positive impact for communities – from those surrounding our operations and supply chain, to those indirectly affected when we source and use resources.

At IKEA Group locations, we aim to enable and empower nearby communities to improve their lives. We focus wherever people's needs are greatest, creating long-term change through partnerships with local organisations, customers and co-workers.



## PEOPLE & PLANET POSITIVE TARGETS

### STATUS PERFORMANCE IN FY16

Engage customers and co-workers in annual campaigns for good causes to improve children's lives in some of the world's poorest communities. Each campaign will aim to contribute EUR 15 million a year.



Developed a new good cause campaign focusing on children's right to play and develop. The Soft Toys for Education campaign generated EUR 11.1 million. The Brighter Lives for Refugees campaign generated EUR 12.4 million.<sup>1,2</sup>

By August 2020, more than 500 co-workers from around the world will have participated in IKEA Foundation IWitness trips by visiting schools and communities that are supported by annual good cause campaigns.<sup>3</sup>



Since 2012, 373 co-workers from 34 IKEA countries have been on 59 trips across the globe.

All IKEA Group units will engage in local community activities in line with People & Planet Positive, based on local needs assessment and co-worker engagement.



Modified and developed the IKEA Group Standard, Rule and Guideline on Community Involvement.

**LEGEND:** Achieved Ongoing Not achieved

<sup>1</sup> Figures for both campaigns are from November and December 2015.

<sup>2</sup> The Soft Toys for Education and Brighter Lives for Refugees campaigns are partnership programmes between the IKEA Foundation (see [page 79](#)) and IKEA Group.

<sup>3</sup> IWitness is a partnership programme between the IKEA Foundation (see [page 79](#)) and IKEA Group. It provides an opportunity for IKEA Group co-workers to visit IKEA Foundation projects around the world. The IKEA Foundation is the philanthropic arm of Stichting Ingka Foundation, the owner of the IKEA Group.

# PARTNERSHIPS WITH LOCAL COMMUNITIES

Our co-workers and customers continue to amaze us with their creativity and enthusiasm for enabling and empowering others. Every year we see new types of local initiatives that contribute to a better life for people and a more sustainable environment.

We want to harness that enthusiasm, to make sure every IKEA community activity has the best possible impact.

## Progress in FY16

In FY16, we began work to strengthen both the IKEA Group Standard and the Rule on Community Involvement, to boost the existing work and create lasting positive change. These two documents will build on our current Rule on Community Involvement to provide our retail operations with a consistent approach to supporting the most vulnerable people in their communities.

Individual IKEA locations and countries are best placed to understand their own circumstances and local needs. We want to encourage them to tackle the needs of their communities as they see fit. The new guideline supports them with in-depth advice and best practice examples. We hope this guidance will encourage the different IKEA countries to:

- assess local needs and focus where they can have the greatest impact for the most vulnerable people
- partner with knowledgeable local organisations to ensure efforts are appropriate and lead to sustainable change

- engage and enthuse co-workers to lead community programmes
- maintain a transparent and inclusive approach, always reflecting IKEA culture and values
- explore ways to measure impact
- co-ordinate activities with other IKEA operations where possible.

Through our Community Involvement working group, we are examining which metrics we can collect on a consistent basis to track and demonstrate the overall impact of our community involvement activities. Once established, we will begin reporting against them.

IKEA Industry is also working to update its global strategy for community involvement, starting with the first meeting of the IKEA Industry Community Involvement Working Group in August 2016. This group shares a member with our retail-led working group to ensure a consistent approach. From September 2016, community involvement will be systematically assessed as part of IKEA Industry factory environment, health and safety grading audits. This will enable us to understand where we need to do more to work with local communities for positive change.

IKEA Industry units share learning and community involvement stories through the annual sustainability leaflet 'Connecting', with units tailoring content to communicate relevant local activities. It is currently produced by around 15 Industry units in local languages.

## PARTNERSHIPS

Here are some of the ways IKEA stores, shopping centres and IKEA Industry partnered with their communities in FY16.

**IKEA RETAIL CHINA** launched a project working with communities and suppliers to improve the self-confidence, dignity and inclusion of migrant children. Partnering with NGO Adream, they will provide education courses for the children and their parents at dedicated community centres. Projected impacts: 260 sessions per year for 7,800 migrant children and parents.



**IKEA INDUSTRY** led over 270 community involvement projects, almost half of which were education and awareness projects for children. Activities included renovation of an orphanage and support for a children's hospital (IKEA Industry Lubawa, Poland); cleaning up a river bank to enhance a local water supply (IKEA Industry Tikhvin, Russia); and teaching children about the importance of responsible forest management (IKEA Industry Dalian, China).



The IKEA office in **VIETNAM** partnered with The Library Project to renovate and equip a local elementary school. Impacts: 323 students benefiting from 1,000 books, 6 bookshelves and a library management system.

**IKEA RETAIL CANADA** celebrated 20 years of partnership with Tree Canada. Since the partnership began in 1996: more than EUR 845,000 (USD 750,000) donated, 27,679 trees and shrubs planted.

**IKEA RETAIL JAPAN** partnered with customers to launch the IKEA FAMILY Children's Fund – donating JPY 10 from every use of an IKEA FAMILY Card to fund makeovers of childcare facilities in the local community. Impacts: 25 facilities improved, benefitting more than 1,000 children.



**IKEA RETAIL RUSSIA** worked with disability NGO Perspektiva to increase awareness about the importance of inclusion in local schools and the community. Impacts: 15 schools across 3 locations; 146 disability awareness lessons involving 1,041 children; 278 attendees at teacher training sessions and seminars. All 14 Centres in Russia took part in the 'Change Campaign' that encouraged members of the public to exchange old clothes for vouchers to buy new ones. Over 60,000 people took part, donating over 320 tonnes of clothes.

# SUPPORTING REFUGEES

THERE IS A GLOBAL REFUGEE CRISIS. MORE THAN 65 MILLION PEOPLE AROUND THE WORLD HAVE BEEN FORCED TO LEAVE THEIR HOME, WITH MANY FINDING THEMSELVES IN UNFAMILIAR PLACES AND SITUATIONS AS A RESULT OF CONFLICT OR DISRUPTION IN THEIR HOME COUNTRIES. THIS IS HAPPENING ON THE DOORSTEP OF IKEA LOCATIONS.

**MORE THAN  
EUR 4m**

**FUNDING PROVIDED FOR  
IKEA LOCATIONS TO SUPPORT  
LOCAL REFUGEES THROUGH  
DONATIONS AND COMMUNITY  
PROJECTS, IN FY16**

Driven by our values, we believe that IKEA Group can play an important role in enabling support and inclusion for those who need it most – including refugees.

We are committed to supporting refugees, both now and in the long term. Immediate needs can be as basic as the provision of blankets, while aspects like employment and language skills are important in the long term for refugees to build decent livelihoods in their new homes.

We are currently developing our approach to supporting refugees, and we have a lot to learn about the challenges and opportunities that refugees are facing.

We take the same approach to integrating refugees into the workplace as we would with anyone else, based on our inclusion model – read more on [page 56](#). But we know there is a wider need to support refugee integration within many local communities outside the workplace.

With sensitivity to local circumstances and needs, we encourage IKEA Group locations



A multinational team at **IKEA RINGSAKER, NORWAY.**

Working to support refugees in **AUSTRIA.**

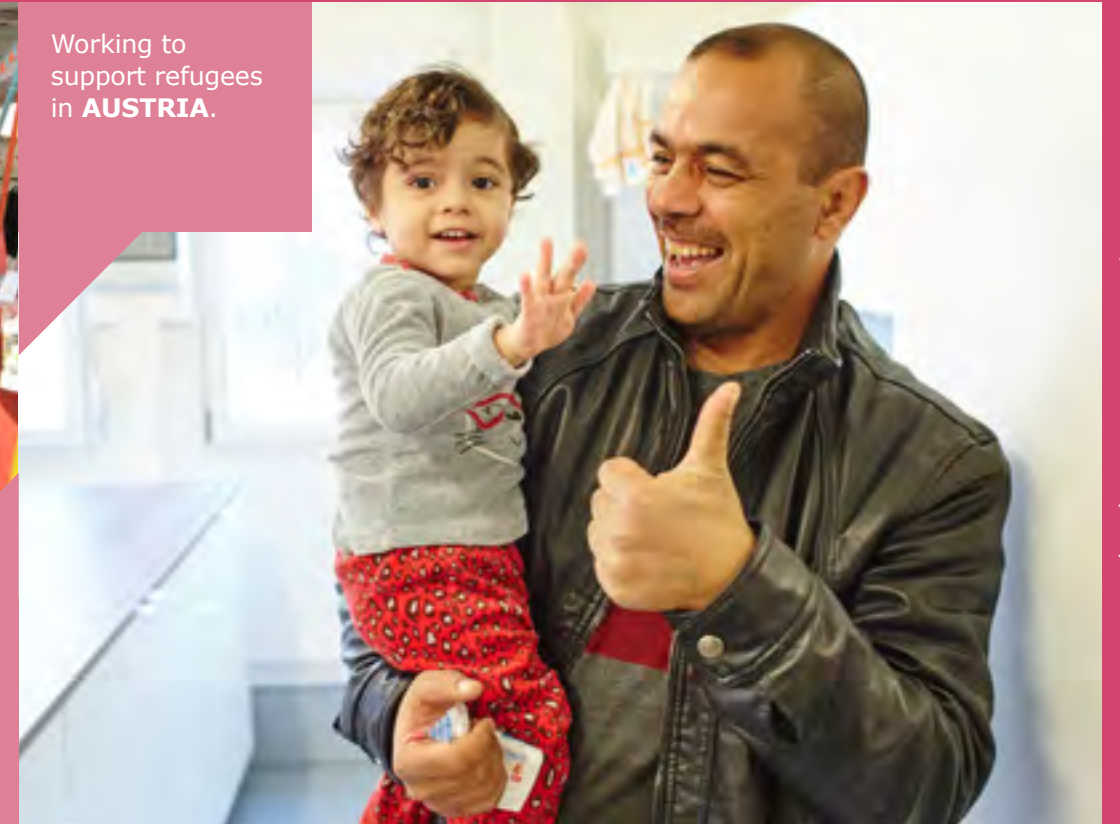


PHOTO: FRANK BRANDSÅS, HAMMAR ARBEJDERBLAD (LEFT)

to contribute to the inclusion and support of refugees – partnering with knowledgeable local organisations. In FY16 we launched the IKEA Group Refugee Support Fund alongside a global guideline to give IKEA countries the ability to create the most effective local response to this unforeseen crisis.

The response to the Fund has so far been fantastic. From the donation of products and food, to education projects and volunteering, co-workers have demonstrated how much they care. Here are some examples from FY16.

■ **IKEA Retail South East Europe** (Croatia, Romania, Serbia, Slovenia) collaborated with UNHRC and UNICEF to donate 500 bunk beds, bedlinen, towels and children products to transit camps in Serbia and a centre for asylum seekers in Croatia. They also set up child friendly areas in local refugee transit camps, where children can receive psychological support and take part in organised activities.

■ **IKEA Retail Germany** developed 'Dein Einsatz' ('Your Commitment'), a volunteering and product donation initiative that has so far seen more than 500 projects to support refugees. These include IKEA Stiftung funding Save the Children's first Child Friendly Space in the refugee centre at Berlin's former Tempelhof Airport – catering for the needs of 90 children each day.

■ **IKEA Retail Norway** collaborated with the local Red Cross to hold a friendship party for refugees and the local community, and provide a 150 person temporary home in Oslo. They also donated 800 kits, including soft toys and drawing materials, to refugee children.

■ **IKEA Retail Switzerland** opened its Refugee Inclusion Programme, offering six month internships to refugees in different departments across all the Swiss IKEA stores. This enables refugees to become familiar with the Swiss working culture and allows

co-workers to better understand the refugees' situations and learn how to avoid and solve cultural conflicts at work. After the internship, participants are provided with a reference and encouraged to apply for open positions at IKEA. Around 110 local refugees will benefit from the programme until FY19. Read more [here](#).

■ Our distribution centre in **Toronto, Canada** partnered with the Syrian Resettlement Program, the United Way of Peel Region and the Polycultural Immigrant and Community Services to distribute backpacks full of family range products and positive messages of support to Syrian refugees resettling in the local area.

Read more about IKEA Group Next Generation Social Entrepreneurs and its work with refugees on [page 74](#).

Read more about the IKEA Foundation's work with refugees on [page 80](#).

# THE IKEA FOUNDATION



PHOTO: VICTORIA BOWDEN

The [IKEA Foundation](#) is the philanthropic arm of Stichting INGKA Foundation, the owner of the IKEA Group.

The IKEA Foundation's mission is to create substantial and lasting change by funding holistic, long-term programmes in some of the world's poorest communities that address children's fundamental needs: home, health, education and a sustainable family income, while helping communities fight and cope with climate change.

The IKEA Foundation is working towards a world where children living in poverty have more opportunities to create a better future for themselves and their families.

All children should have a safe place to call home, a healthy start in life, a quality education and a sustainable family income. The IKEA Foundation funds programmes that address these needs, creating circles of prosperity for children living in poverty.

In 2016, the IKEA Foundation:

- estimates that it has made grants totalling EUR 140 million<sup>4</sup>

- committed EUR 400 million through 2020 to support families and communities who are most impacted by climate change
- committed to increase its grants to 200 EUR million a year by 2020
- partnered with IKEA Group and non-profit organisations to develop a new campaign to focus on children's rights to play and develop (read more on [page 81](#))
- launched a programme to empower 1 million women in India, together with UNDP, Indian Development Foundation and Xynteo
- hosted over 30 grantees in Älmhult for the first ever culture and values retreat, to share the IKEA values
- ran a democratic design challenge to show how design can help create a better everyday life for refugees living in cities and urban areas.

<sup>4</sup> Data from the IKEA Foundation reflects the period between 1 January 2016 to 31 December 2016. The IKEA Foundation Annual Review, to be published in February 2017, will include the final amount granted in 2016.

IKEA FOUNDATION TARGETS <sup>5</sup>	STATUS	PERFORMANCE IN FY16
By end of 2020, the IKEA Foundation will contribute EUR 400 million to support families and communities who are most impacted by climate change.		Confirmed four grant areas and distributed first grants.
By August 2019, the IKEA Foundation will develop programmes to help 1 million people secure access to clean water and proper sanitation, through its partnership with Water.org.		<p>Since launching the partnership in Bangladesh in 2013, over 178,000 people have benefited from improved access to water or sanitation facilities, or both.</p> <p>In 2015, the partnership was extended to India and Indonesia to support more than 1 million people. To date, it has reached more than 42,000 people.</p> <p>In 2016, agreements were signed with two new partners in India and one in Indonesia, and capacity building workshops were organised in Indonesia.</p>
By January 2018, the IKEA Foundation aims to help one million women in India develop the skills they need to manage their own businesses and social ventures, and successfully sell products to global and local customers.		<p>Completed an extensive scoping study to test the relevance of project design and secure partnership of Indian government and private companies.</p> <p>Launched 20 pilots to test new models of public-private partnerships, one led by IKEA Retail India.</p>

**LEGEND:** **Achieved** **Ongoing** **Not achieved**

<sup>5</sup> IKEA Foundation targets have been updated to reflect evolving focus and ambitions.

## Climate change

Climate change disrupts infrastructure and access to food and water, fuels conflict over limited resources and increases global inequalities. It is possibly the biggest threat to children in poverty.

In 2016, the IKEA Foundation set out four areas for grants from its EUR 400 million commitment to support families and communities who are most impacted by climate change.

- **Green grids.** Introduce or scale renewable energy as a principal source of power for those living in some of the poorest communities in the world – aiding some of the 1.3 billion people on the planet lacking access to electricity.
- **Climate-adapted agriculture for food security and sustainable income.** Strengthen agricultural value chains in Asia and Africa, targeting smallholder farmers to adopt climate sensitive techniques.
- **Matching funds for climate resilience.** Educate and empower vulnerable communities that wish to fortify or rebuild vital infrastructure in innovative, climate smart ways.
- **Private sector and citizen leadership for a carbon neutral world.** Invest in innovative ideas that can transform sectors, current practices, and consumer consciousness with respect to climate adaptation and mitigation.

Read more [here](#).

## Supporting and enabling refugees

Around the world, children and their families are forced to leave their homes because of conflicts or natural disasters. The IKEA Foundation aims to support these vulnerable people.

Over the past three years, the [Brighter Lives for Refugees](#) campaign has raised EUR 30.8 million for UNHCR, the UN Refugee Agency. This will provide light and renewable energy sources for refugee families living in camps in Asia, Africa and the Middle East. IKEA Foundation funding is enabling UNHCR to apply technological interventions in diverse cultural settings and address specific

energy needs. The funding will unlock education opportunities for young children, for example helping them transition from primary to secondary education.

In 2016, the IKEA Foundation launched a new initiative: the 'What Design Can Do Refugee Challenge', in partnership with UNHCR and Amsterdam-based design platform What Design Can Do. It challenges creative thinkers from around the world to create new design solutions to support the growing number of refugees in urban areas and help them integrate. Between February and June 2016, more than 600 entrants from 69 countries submitted ideas – from a flat-pack house that can be built in just a few hours, to a photo agency that aims to show refugees as people with the same ambitions as everyone else. [Five winners](#) were announced in July, each receiving EUR 10,000 to develop their concepts into reality. Read more [here](#).

Also in 2016:

- EUR 9.4 million donation to support children and their families who have been affected by the Syrian conflict (read more [here](#))
- The Better Shelter – a durable, safe, lightweight flat-pack shelter that began as a partnership between the IKEA Foundation and UNHCR, and is now a commercial product – was deployed in areas including Europe and Iraq (read more [here](#)). The Better Shelter was included in Time magazine's [Best Inventions of 2016](#)
- EUR 7.3 million partnership with Oxfam to improve disaster response in Bangladesh and Uganda (read more [here](#))
- EUR 12.4 million grant to Water.org to expand its WaterCredit model in India and Indonesia (read more [here](#)).



PHOTO: TOMASZ BIERNACKI

## IWITNESS

EACH YEAR, THE IWITNESS PROGRAMME ENABLES IKEA CO-WORKERS TO VISIT PROJECTS RUN BY SAVE THE CHILDREN, UNHCR AND UNICEF, AND SUPPORTED BY THE IKEA FOUNDATION THROUGH ANNUAL GOOD CAUSE CAMPAIGNS.

Read more about IWitness [here](#).

GOAL: AUGUST 2020

**500** AT LEAST 500 CO-WORKERS FROM AROUND THE WORLD WILL HAVE PARTICIPATED IN IKEA FOUNDATION IWITNESS TRIPS

SINCE 2012

**373** CO-WORKERS FROM 34 IKEA COUNTRIES HAVE BEEN ON 59 TRIPS ACROSS THE GLOBE



# ENABLING THE WORLD TO LEARN AND PLAY!

SINCE 2003, THE IKEA FOUNDATION HAS DONATED EUR 1 FOR EVERY SOFT TOY SOLD DURING THE SOFT TOYS FOR EDUCATION CAMPAIGN IN IKEA STORES IN NOVEMBER AND DECEMBER.

This longstanding partnership with Save the Children and UNICEF funded educational projects in some of the world's poorest communities. Thanks to the support of IKEA co-workers and customers, this 13-year campaign has:

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**EUR 88m** DONATED BY IKEA FOUNDATION AS A RESULT OF THE SOFT TOYS FOR EDUCATION CAMPAIGN

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**100** PROJECTS SUPPORTED IN 46 COUNTRIES

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**12m** ENABLED MORE THAN 12 MILLION CHILDREN LIVING IN POVERTY TO RECEIVE A BETTER EDUCATION

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After the success of the Soft Toys for Education campaign, IKEA Group and the IKEA Foundation want to do even more to support children's rights to play and develop, and to engage IKEA customers, co-workers and partners.

Together we have developed a new campaign – Let's Play for Change. It involves more partners, more IKEA products and more ways to take part!



# LET'S PLAY FOR CHANGE

**IKEA Group and IKEA Foundation working together**

**FOCUS:** Support children's rights to play and develop in some of the most vulnerable communities in the world

**DATES:** 20 November – 24 December 2016

**RANGE:** The entire play range

**DONATION:** EUR 1 from the IKEA Foundation for every children's book and toy sold during the campaign period

**PROGRAMME PARTNERS:** Handicap International, Room to Read, Save the Children, Special Olympics, UNICEF, War Child

This is a central part of the IKEA movement to encourage and enable play. Everybody should play more, including adults! And what better way to celebrate this than by kicking off the IKEA good cause campaign for children's rights to play and develop for the first time on Universal Children's day – 20 November 2016.

Let's Play for Change will enable people to participate in a good cause that has positive impacts both far away and close to home, by increasing local community involvement activities and co-worker engagement.

To support future good cause campaigns, the IKEA Group launched a new Good Cause Campaign Approach in FY16, based on our learnings from Soft Toys for Education and Brighter Lives for Refugees. It is a shared tool for people working with IKEA Good Cause campaigns, aimed at securing a consistent approach to creating, planning and executing future initiatives.

# GOVERNANCE & ETHICS

**Sustainability is central to the way we work, and one of the cornerstones of our business strategy.**

To achieve our ambition of creating a sustainable business that has a positive impact on people and the planet, we need to bring all of our co-workers on board.

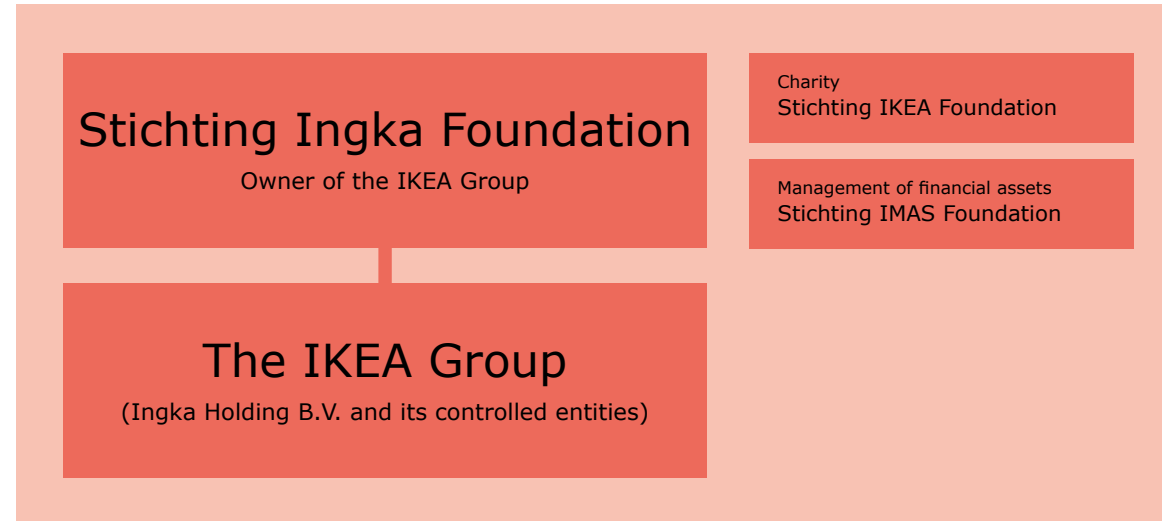
We can have a much greater impact when we work with others. We create strategic partnerships and listen to our stakeholders to make sure that we are always improving.



# ABOUT IKEA GROUP

## Ownership structure

The IKEA Group of companies (Ingka Holding B.V. and its controlled entities) has an ownership structure that ensures independence and a long-term approach. Stichting Ingka Foundation in the Netherlands is our owner, and its funds can be used in only two ways: it can be reinvested in the IKEA Group or donated for charitable purposes through the Stichting IKEA Foundation.



## IKEA Group of companies

Ingka Holding B.V. is the parent company of the IKEA Group, located in Leiden, the Netherlands. As per 31 August 2016, its Supervisory Board consists of: Lars-Johan Jarnheimer (Chairman), Jon Abrahamsson Ring<sup>1</sup>,

Stina Bergfors, Tore Bertilsson, Luisa Delgado, Jonas Kamprad, Göran Lindahl, Mark Newton-Jones<sup>1</sup>, Lone Fønss Schrøder and Ian Worling<sup>1</sup>. Ingvar Kamprad, the founder of IKEA, is senior advisor to the Supervisory Board. The IKEA Group is led by its President and CEO, Peter

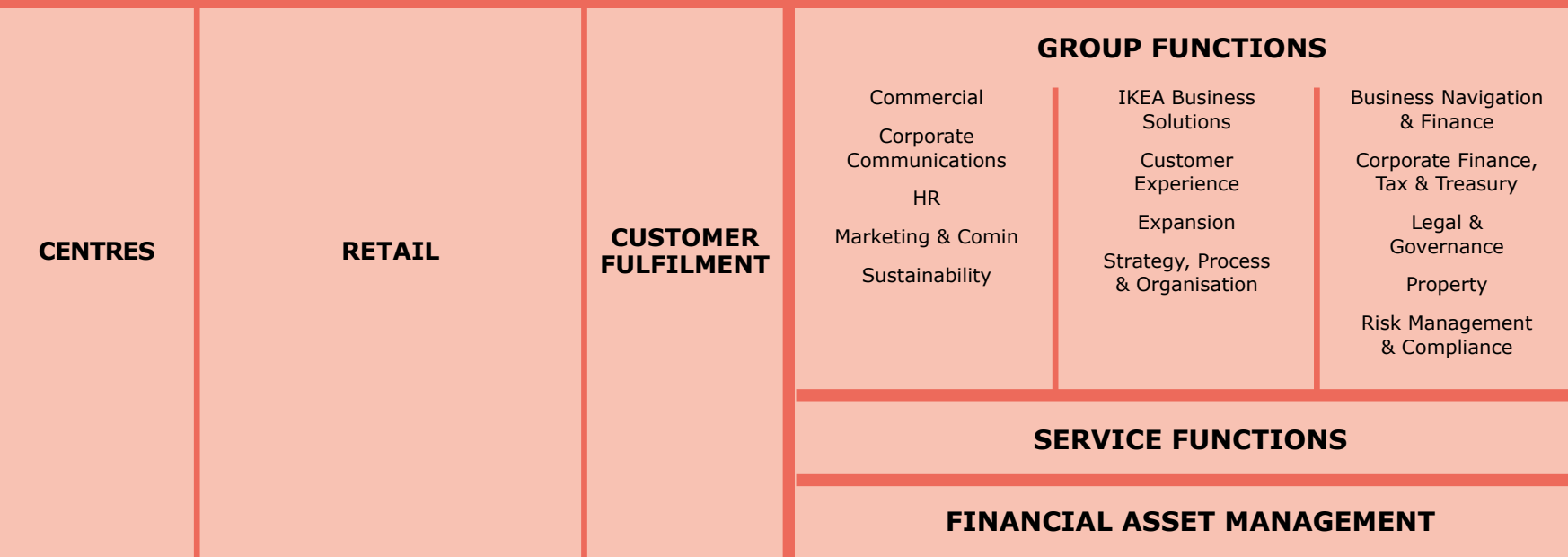
Agnefjäll, together with the Group Management team. The IKEA Group operates distribution and customer distribution centres, shopping centres and 340 stores in 28 countries.

<sup>1</sup> New member of the Supervisory Board from 29 November 2016.

## The IKEA Group

(Ingka Holding B.V. and its controlled entities)

Chairman of the Supervisory Board: Lars-Johan Jarnheimer  
President and CEO: Peter Agnefjäll



## The IKEA Group operates stores under franchise agreements

The IKEA Group is one of 13 franchisees, operating IKEA stores under franchise agreements with Inter IKEA Systems B.V., the owner of the IKEA Concept and the worldwide IKEA franchisor. Inter IKEA Systems B.V. is based in the Netherlands and owned by the Inter IKEA Group. Inter IKEA Group and IKEA Group are two separate groups of companies with different management and different owners. All IKEA franchisees pay a 3% franchise fee to Inter IKEA Systems B.V. The franchise fee gives us, as an IKEA retailer, the right to operate stores under the IKEA Concept and IKEA brand. It grants access to systems, methods and proven solutions as well as staff trainings, manuals and updates of the IKEA concept such as store layouts, fittings and display concepts.

## Sale of product development, supply chain and production companies

In May 2015, IKEA Group signed a letter of intent to sell its product development, supply chain and production companies, (IKEA of Sweden AB, IKEA Supply AG and IKEA Industry Holding B.V. and other connected companies) to Inter IKEA Group. The new structure simplifies the IKEA franchise system and allows IKEA Group<sup>2</sup> to focus even more on the customer and on development of multichannel retailing and distribution.

The transaction was completed according to plan on 31 August 2016 and the transfer of ownership was made through sale of shares. As a result, some 26,000 co-workers became part of the Inter IKEA Group.

<sup>2</sup> As of 31 August, 2016, the IKEA Group consists of three core businesses: Retail, Shopping Centres and Customer fulfilment.

# SUSTAINABILITY GOVERNANCE AND MANAGEMENT

## Sustainability at IKEA Group

Our vision is to create a better everyday life for the many people. Having a positive impact on people and the planet is fundamental to achieving that vision.

Sustainability is one of the four cornerstones of the IKEA Group direction, 'Growing IKEA Together'. Our Chief Sustainability Officer, Steve Howard, is a member of Group Management and reports directly to the Group President and CEO, Peter Agnefjäll. Our CSO oversees our performance against the sustainability commitments we have made in the People & Planet Positive strategy and Growing IKEA Together.

In September 2016, IKEA range, supply and production activities were transferred from the IKEA Group to the Inter IKEA Group. This change in ownership aims to improve the IKEA franchise system and enable the two groups of companies to focus on their respective core businesses. This will not change our commitment to have a positive impact on people and the planet. All the commitments in the People & Planet Positive strategy still stand, and the company groups will work closely together to ensure that we do not lose momentum in our sustainability efforts across the IKEA value chain.

Our CSO chairs the Sustainability Management Group, which brings together sustainability managers from the main business areas. Together they review performance against our targets and make strategic decisions on sustainability in IKEA Group. Progress towards our goals is reported to Group Management and the Supervisory Board every three months. In FY16 the Sustainability Management Group comprised the Heads of Sustainability Policy & Compliance, Sustainability Innovation, Sustainability Communication, and sustainability managers from Range & Supply, IKEA Industry and Retail & Expansion.

From September 2016, the Sustainability Management Group will comprise the IKEA Group Chief Sustainability Officer, the Heads of Sustainability Integration & Development, Sustainability Policy & Compliance, Sustainability Innovation and Sustainability Communication, and sustainability managers from IKEA Centres, IKEA IMS, Customer Fulfilment and IKEA Property.

Cross-organisational working groups provide leadership, best practices, research and support on specific sustainability topics. They bring together co-workers from across the IKEA value chain to share learnings, align approaches, and establish long-term action plans to achieve their sustainability goals. For example, the Water Working Group has improved water efficiency in our own operations, and is tackling water risk across our supply chain, see [page 49](#). Other cross-organisational working groups are covering topics such as energy, waste, circularity, community involvement and sustainability reporting.

Every co-worker is responsible for contributing towards our sustainability objectives and achieving our ambition of becoming people and planet positive. Our co-workers meet customers every day, learning and understanding their needs. They have the opportunity to inspire and enable people to live a more sustainable life at home, and to improve the way we work. Read more about our work to embed sustainability across IKEA on [page 19](#), and how we aim to make IKEA the best place to work on [page 54](#).

## Sustainability Risks

Group Sustainability reports any risks or concerns relating to sustainability to the IKEA Group Risk Committee, consisting of three members of Group Management. The committee meets around four times a year.

Sustainability risks are handled on different levels in the organisation. In FY16, we developed a risk management process and began rolling it out across the business. We also ran sustainability risk assessment pilots in Range & Supply and Purchasing.

## Working with others

We cannot achieve all of our goals alone. Across our value chain we partner with NGOs, governments, industry organisations and other businesses to increase our positive impact on people and the planet.

To find out more about some of our key partnerships in FY16, see the table.

## KEY PARTNERSHIPS

TOPIC	PARTNERSHIP	PAGE
<b>CIRCULAR ECONOMY</b>	<b>Ellen MacArthur Foundation CE100</b> – a global platform of companies and innovators aimed at accelerating the transition to the circular economy.	<a href="#">87</a>
<b>CLIMATE CHANGE</b>	<b>RE100</b> – an international initiative to support companies aiming to be 100% renewable.	<a href="#">13</a>
	<b>We Mean Business</b> – a coalition of organisations that brings together businesses, organisations and investors to accelerate action on climate change.	<a href="#">86</a>
<b>FAIR WAGES</b>	<b>Fair Wage Network</b> – an NGO committed to promoting fair wage practices in companies' own operations and in their supply chain.	<a href="#">69</a>
<b>MIGRANT WORKERS</b>	<b>International Organization for Migration (IOM)</b> – an inter-governmental organisation that works with migrants, governments and businesses to respond to growing migration challenges.	<a href="#">72</a>
<b>RESPONSIBLE SOURCING</b>	<b>Aquaculture Stewardship Council (ASC) and Marine Stewardship Council (MSC)</b> – leading organisations that provide certification for sustainable seafood and drive the sustainability agenda in these areas.	<a href="#">32</a>
	<b>Better Cotton Initiative (BCI)</b> – a multi-stakeholder initiative that aims to improve global standards in cotton production.	<a href="#">29</a>
	<b>Forest Stewardship Council (FSC)</b> – a multi-stakeholder initiative that aims to promote responsible management of the world's forests.	<a href="#">25</a>
	<b>Sustainable Palm Oil Initiative</b> – a major public-private partnership that supports the sustainable production of palm oil while minimising adverse social and environmental impacts.	<a href="#">31</a>
	<b>World Wide Fund for Nature (WWF)</b> – an international NGO. We work together to transform the market for cotton and wood towards more sustainable sources.	<a href="#">26</a> <a href="#">27</a> <a href="#">30</a>

# BUSINESS ETHICS

## Ethical conduct

Honesty, respect, integrity and fairness are at the heart of everything we do. It is essential that our co-workers respect and live these values every day.

We expect all our co-workers and partners to comply with our Code of Conduct, Good Business with Common Sense, the IKEA Group Standard on Anti-Corruption and the IKEA Group Policy on Anti-Corruption. We take a zero tolerance approach to corruption, harassment, and alcohol and drug abuse.

## Misconduct

We offer clear guidance on how to manage co-worker misconduct and undertake regular risk assessments in this area on a regional and national level. If any policy breaches do occur, we investigate quickly and carefully. We ensure a consistent and accountable approach to our internal investigations through the IKEA Group Rule of Investigation.

## Anti-corruption

The principles of transparency and fairness are key values of IKEA. Corruption is contradictory to the objective of doing good business. It damages the confidence our co-workers, suppliers, customers and other stakeholders have in us. We do not tolerate corruption of any kind. Anyone acting on behalf of IKEA Group must not engage in corrupt practices, such as accepting or offering kickbacks or loans. In FY16, we completed an extensive risk-mapping exercise across the business, including finance, industry, property, retail, supply and IKEA centres.

## Training

We train our co-workers on our Code of Conduct, the IKEA Group Standard on Anti-Corruption and the IKEA Group Policy on Anti-Corruption to ensure they understand how to act on behalf of IKEA. Our purchasing organisation, Range & Supply, is more exposed to corruption risks and receives more in-depth training on business ethics.

## Raising concerns

At IKEA we promote an open culture of trust and honest communication, built on a foundation of respect and fairness. All co-workers are encouraged, and should feel empowered, to come forward in good faith and raise any concern they may have.

Concerns are normally raised with the people involved. If this is not appropriate, they are raised with the respective manager, senior management, human resources or worker representatives. Any work-related concerns about corruption or misconduct can be reported to the IKEA Group Trust line.

In FY16, the Trust line was available 24/7 online and by phone in local languages across 44 countries. When an issue is raised, Trust line managers evaluate it and escalate to Human Resources or Risk managers where appropriate. In FY16, we rolled out the Trust line to the United Arab Emirates. We aim to make it available to third parties, such as suppliers and shopping centre tenants towards the end of FY17.

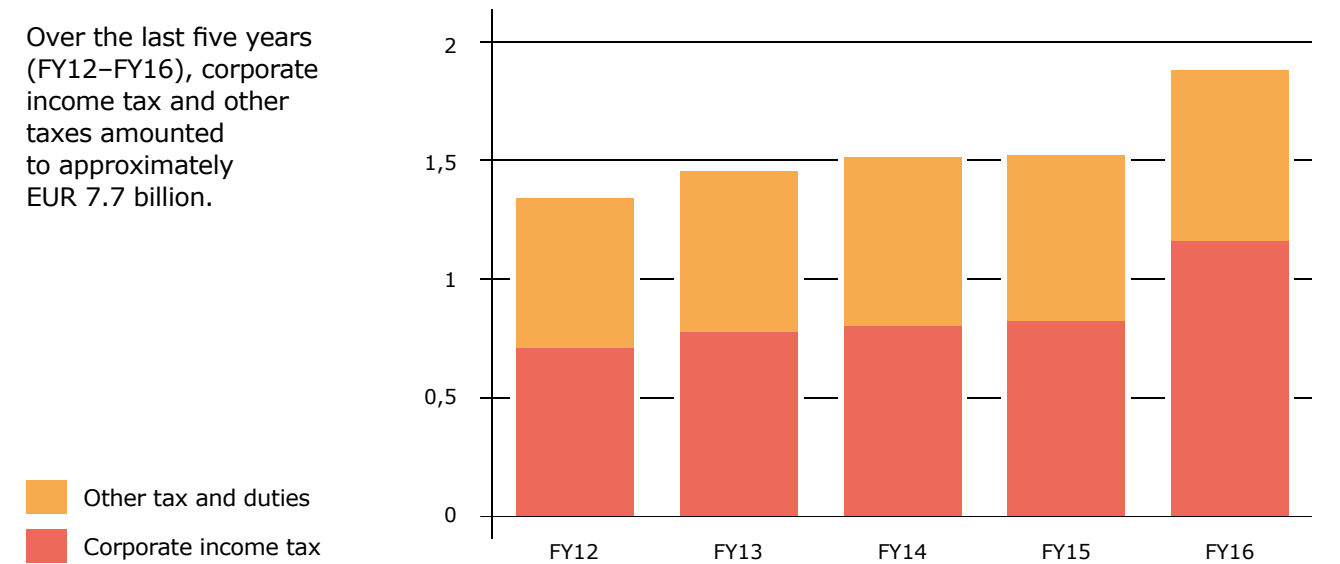
In FY16, the Trust line received 165 reported incidents, 33 were investigated, of which 6 were allegations relating to corruption. We did not investigate concerns that were considered out of scope, as they did not include IKEA co-workers, or there was not enough information available to substantiate the matter.

# TAXES

## FY12–FY16 TAX

(BILLIONS OF EUROS)

Over the last five years (FY12–FY16), corporate income tax and other taxes amounted to approximately EUR 7.7 billion.



We have a strong commitment to manage our operations in a responsible way and to contribute to the societies where we operate.

We want to create long-term value through growth, customer experience and a positive impact on people and the planet. Over the years, IKEA Group has had a good development and created tens of thousands of jobs directly in our stores and warehouses and indirectly at our external suppliers which in turn generate taxable incomes. We continuously invest throughout our business in stores, shopping centres, distribution, renewable energy and lower prices to customers.

We pay our taxes in compliance with national and international tax rules and regulations in a responsible and sustainable way. We enter into and maintain long-term relationships

with our stakeholders with regard to tax, based on trust and transparency. We do our utmost to ensure that our tax statements are true, timely and transparent.

In FY16, IKEA Group corporate income tax was EUR 1.2 billion globally, which equals an effective corporate income tax rate of 21.6% (18.9% in FY15). In FY16, our total tax bill, including other taxes and duties amounted to approximately EUR 1.9 billion. Over the last five years (FY12–FY16), corporate income tax and other taxes amounted to approximately EUR 7.7 billion.

In addition, we collected substantial tax amounts on behalf of governments, such as VAT and employee taxes.

# PUBLIC POLICY AND ADVOCACY

## Approach

We have big ambitions to become people and planet positive. Acting alone, we cannot achieve transformational change; it is by taking a clear stand on important issues and engaging in dialogue that we can have a much wider impact.

We participate in public policy debates and work with NGOs, governments and other businesses to achieve our ambitions.

## Four key areas of action

Our Public Affairs Plan focuses on four key areas of action:

- **Our contribution to investments and growth in society.** We explain how our growth, expansion and investment plans bring value to society at large and environmental solutions.
- **Product market requirements.** We are working on product safety, standardisation, chemical requirements, labelling and communication for consumers, and healthy, safe and sustainable food.
- **People & Planet Positive.** We advocate for change in society that benefits people and the planet, including policies that tackle climate change and unlock the business innovation and investment needed to accelerate the transition to a low-carbon economy.
- **IKEA as a great place to work.** We will show what we do as a responsible employer while also responding to customers' expectations and needs. We will strive for co-worker relations that reflect our values, with equality and human rights as top priorities.

At the end of FY16, we piloted the Public Affairs plan in China, France, Germany, India, Poland, Russia, Sweden and the USA. In FY16, our engagement efforts in these countries contributed to making some important progress.

- The team at IKEA Retail India has started discussions with national and local authorities and stakeholders ahead of the opening of our first Indian store, located in the city of Hyderabad. Their initiative – IKEA meets Hyderabad – has consisted of a series of meetings and forums with stakeholders at both the store and state level, covering topics such as customer expectations, sustainability and gender equality.
- IKEA Retail Poland Country Retail Manager, Evelyn Higler, was invited to present our climate and sustainability ambitions to the Vice President of the European Commission, Maroš Šefčovič, along with several other leading companies. We have since been invited to become a corporate energy ambassador to the European Commission, to share our experiences and advocate for wider support for investment in renewables.
- The Chinese government has proposed new chemical requirements on emission limits and testing, which deviate from the international standards without adding value to the health and safety of our customers. We take product safety seriously, and have been working together with key industry organisations, the European Commission and the Swedish government to voice our concerns and invite China to bring its proposals for discussion. We aim to ensure that health and consumer protection are put at the centre of the discussion.



## Advocacy

In FY16, we engaged with local, national and regional governments on a range of issues. Our main public policy activities focused on:

### Climate change

Strong policies and leadership are needed to mitigate the worst impacts of climate change. We are committed to using our influence and advocating for action.

In 2015, world leaders gathered in Paris at COP21 to make bold commitments to tackle climate change. In the lead up to and during COP21, we played an active role in advocating for a low-carbon economy. Our President and CEO, Peter Agnefjäll, spoke at many events in Paris, including

the UN Global Compact's Caring for Climate Business Forum. We are creating momentum on climate action by encouraging other companies to set goals that contribute to a low carbon economy. We helped establish both We Mean Business - which our Chief Sustainability Officer (CSO) co-chairs - and RE100. In the lead up to COP21, at the UN Framework Convention on Climate Change (UNFCCC) in Bonn in 2015, IKEA Group and the IKEA Foundation committed a total of EUR 1 billion for climate action. In FY16 we registered our commitments for climate action with the Non-State Actor Zone for Climate Action (NAZCA). NAZCA aims to track what companies, states and investors are doing to implement the Paris Agreement. Find out more about our approach to tackling climate change on [page 13](#).

## Equality

We believe that everyone should have access to equal opportunities, whoever they are and wherever they come from. Equality is fundamental to achieving sustainable development. And our Chief Sustainability Officer, Steve Howard, took a stand for equality at the launch of the Sustainable Development Goals in September 2015.

IKEA Retail Switzerland Country Retail Manager, Simona Scarpaleggia, was invited to co-chair the first UN Secretary General's High-Level Panel on Women's Economic Empowerment promoted by UN Women. Simona has been at the forefront of women's empowerment, founding and leading several groups that promote women in management positions. Simona's position as chair is a great opportunity for IKEA to contribute to the United Nations 2030 Agenda and share our principles on how businesses can drive a positive change in society by supporting equal rights. Find out more about our approach to supporting equality on [page 53](#).

## Transport

Road transport accounts for a fifth of Europe's carbon emissions. In FY16, we joined an alliance of companies including Philips and Nestlé, calling on the European Union to pass new laws to cut truck and trailer emissions within two years, in order to meet promises made at the Paris climate conference.

We also engaged with the United States Environmental Protection Agency (EPA) alongside fleet owners, investors and other shippers, to encourage stronger emissions standards for medium and heavy-duty vehicles. In 2017, the EPA will phase in new emissions standards, decreasing greenhouse gases by reducing the fuel consumption of medium and heavy-duty vehicles operating in North America.

## Circular economy

We believe that in a world with limited resources, we must move away from a linear take, make, waste approach, to a circular use of resources.



**SIMONA SCARPALEGGIA**, IKEA Retail Switzerland Country Retail Manager, co-chairs the first UN Secretary General's High-Level Panel on Women's Economic Empowerment.

**STEVE HOWARD**, IKEA Group CSO, addressing the Business & Climate Summit in London, June 2016.

Only in this way can we drive sustainable growth. We are using our influence and outreach to advocate for this shift in approach.

In FY16, we joined a coalition supporting a circular economy, called CE8. Together with Michelin, Phillips, Unilever, DSM, Suez, Tetra Pak and Umicore, we are advocating for changes to the European Union's Circular Economy Package. The package aims to help European businesses and consumers transition to a stronger and more circular economy.

But we need more support from the EU that will allow us to continue to invest in the circular economy. In a letter addressed to all member states of the EU, the coalition called for an EU regulatory framework that contributes to:

- securing access to primary materials via sustainable sourcing and bio-based raw materials
- stimulating demand and supply for quality Secondary Raw Materials while ensuring a fair and competitive business environment
- stimulating innovation for services and higher resource utilisation at component and product levels.

We often organise various stakeholder events. One key event in FY16 with the CE8 coalition explored sustainable production and consumption, and was opened by the European Commission's Vice-President, Jyrki Katainen. We also held an event with the Retail Forum for Sustainability and Retailers' Environmental Action Programme (REAP) which focused on circular thinking in the retail sector.

In FY16, our Chief Sustainability Officer, Steve Howard, spoke about circular economy in a number of high-profile events, including Fortune Brainstorm E – Fortune magazine's energy, technology, and sustainability summit. We continued to work with other businesses through the Circular Economy 100 (CE100) and the Ellen MacArthur Foundation.

To find out more about how we are supporting the shift to a circular economy, see [page 23](#).

# ABOUT OUR REPORTING





# ABOUT OUR REPORTING

## THE REPORT

### Scope

This Sustainability Report updates stakeholders on our progress against the objectives set out in our People & Planet Positive Strategy, and KPIs relating to other IKEA strategies, where necessary. We are ambitious in our objectives, which means that sometimes there are setbacks and sometimes we make mistakes. We are open about these challenges and dedicated to doing what is required to get back on track.

The information in this report covers the financial year 2016 (FY16) from 1 September 2015 to 31 August 2016, unless otherwise stated. Data from the IKEA Foundation applies to the calendar year from 1 January 2016 to 31 December 2016, unless otherwise stated.

This report covers all wholly owned companies in the IKEA Group during FY16. In September 2016 (beginning of FY17) IKEA range, supply and production activities were transferred from IKEA Group to Inter IKEA Group (see [page 83](#)). For the first time, this report includes IKEA Centres, our new global shopping centre organisation, which became part of IKEA Group during FY15.

In FY16, we opened 12 new stores and 19 Pick-up and Order Points, and we now own 45 centres across 11 countries (see [page 41](#)). IKEA Industry began operations in one new factory in Russia and sold a unit in Latvia.

### Data

IKEA Group's reporting and data collection processes involve many internal and external stakeholders. The majority of data is collected from primary sources and entered into reporting systems. Energy-related information is usually obtained from real-time meters at each site, from invoices or from transport providers.

The primary unit used in energy reporting is MWh. Carbon emissions from own operations and tier 1 suppliers are typically calculated based on real measured energy and fuel usage, while models and estimations are used to assess value chain impacts.

We calculate our energy and carbon footprint in accordance with the GHG Protocol Corporate Standard using the operational control consolidation approach, and it is externally assured (see [page 96](#)). However, the data may be affected by uncertainties in scientific knowledge or in the contextual data used in calculations, especially for Scope 3. We use emission factors from publically available sources like DEFRA (2015) and IEA (2015), and from local electricity and heat suppliers. In some cases, data is estimated, which is indicated in the text. Scope 2 emissions are calculated in accordance with the GHG Protocol Scope 2 Guidance applying both the market and location based approaches.

We aim to ensure all information and data is relevant, transparent, consistent, accurate and complete, and that it provides an objective picture of IKEA Group's operations. Data for IKEA stores not owned by the IKEA Group, but by other franchisees (see [page 83](#)), is not covered within the scope of this report. Information and data on the IKEA catalogue is provided by Inter IKEA Systems B.V. Any other exclusions are stated in the report.

### Global Reporting Initiative (GRI)

We use the Global Reporting Initiative guidelines to inform our reporting, though we do not report against the guidelines. We are inspired by the GRI's G4 focus on materiality and reporting of impacts across the value chain. We align with this approach by focusing our reporting on our People & Planet Positive strategy, which covers our material impacts across the value chain.

## OUR PRIORITIES

### Deciding what matters

We focus our efforts and reporting according to the three change drivers of our People & Planet Positive strategy.

The strategy considers our full value chain, stretching across three change drivers (see [page 9](#)). It is framed within, and is a reaction to, the external megatrends that our world is facing. All three change drivers are critical to becoming a more sustainable business within this context, and to achieving our vision "to create a better everyday life for the many people".

In developing the strategy, we consulted with stakeholders across our business and externally, to identify the most important areas. For example, we use many different raw materials for IKEA products, all of which have an impact on the environment in some way. Together with an external organisation, we analysed our value chain and purchasing volumes for each material to assess where we can have the greatest impact. The two biggest materials are wood and cotton. This is where we focus our efforts and aim to have a positive impact both in our own supply chain and beyond in the wider industry. There are many other materials across our value chain, some of which are critical to the health of the planet, and we include these in our strategy and reporting.

We regularly update our strategy to reflect the latest developments and ensure that we always maintain a strategic focus. We do this through our own expertise in the topic areas, and by listening to others. In FY17 our business will change (see [page 83](#)). We are determined to maintain a strong commitment to sustainability throughout our value chain.

### Learning from stakeholders

We learn a lot from our stakeholders. We engage with customers, suppliers, NGOs and other businesses to get feedback on our sustainability performance and direction. And we partner with organisations to increase our positive impact (see [page 84](#)).

We take a strategic approach to engaging stakeholders. Following our extensive stakeholder mapping exercise in FY15, we identified the most critical people and organisations to engage with. In FY16, we supported countries in mapping stakeholders at a local level. We continued to engage with our stakeholders throughout the year and ran a stakeholder engagement forum in Sweden with over 80 opinion leaders from NGOs and policy making.

Our dedicated People & Planet Advisory Group, established in 2013, is a group of NGOs and partners who provide valuable insights to help us improve and develop our People & Planet Positive strategy. The Advisory Group did not meet in FY16 as the meeting was postponed to early FY17.

In April 2016, we held a stakeholder roundtable event in London, UK, to gain feedback on our FY15 Sustainability Report. We gathered a group of peers, partners and experts and asked them about the format of the report, its content and the interpretation of performance. Overall, the report was well received, but that does not mean that there is no room for improvement. The stakeholders asked for more information on how materiality is decided, more challenging stakeholder input, and improved navigation to guide the reader. We have used this feedback to develop our FY16 report.






# THE UN GLOBAL COMPACT INDEX



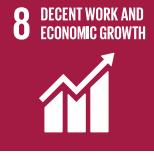


We are a signatory to the United Nations Global Compact, a set of 10 principles in the areas of human rights, labour, environment and anti-corruption. The UN Global Compact reference table (below) shows our progress regarding the 10 principles.


UNITED NATIONS GLOBAL COMPACT (UNGC) PRINCIPLES		LOCATION IN FY16 REPORT
<b>Human rights</b>		
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and	<ul style="list-style-type: none"> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> </ul>
Principle 2	make sure that they are not complicit in human rights abuses.	<ul style="list-style-type: none"> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> </ul>
<b>Labour</b>		
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	<ul style="list-style-type: none"> <li>Better lives for our co-workers, <a href="#">page 54</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> </ul>
Principle 4	the elimination of all forms of forced and compulsory labour;	<ul style="list-style-type: none"> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> </ul>
Principle 5	the effective abolition of child labour; and	<ul style="list-style-type: none"> <li>Responsible sourcing, <a href="#">page 24</a></li> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> <li>Better lives for our co-workers, <a href="#">page 54</a></li> </ul>
Principle 6	the elimination of discrimination in respect of employment and occupation.	<ul style="list-style-type: none"> <li>Better lives for our co-workers, <a href="#">page 54</a></li> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> </ul>
<b>Environment</b>		
Principle 7	Businesses should support a precautionary approach to environmental challenges;	<ul style="list-style-type: none"> <li>Resource and energy independence, <a href="#">page 22</a></li> </ul>
Principle 8	undertake initiatives to promote greater environmental responsibility; and	<ul style="list-style-type: none"> <li>A more sustainable life at home, <a href="#">page 12</a></li> </ul>
Principle 9	encourage the development and diffusion of environmentally friendly technologies.	<ul style="list-style-type: none"> <li>Responsible sourcing, <a href="#">page 24</a></li> <li>Respecting and supporting human rights, <a href="#">page 68</a></li> <li>More sustainable operations, <a href="#">page 41</a></li> <li>Better lives for workers in our supply chain, <a href="#">page 60</a></li> <li>Better lives for our co-workers, <a href="#">page 54</a></li> </ul>
<b>Anti-corruption</b>		
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"> <li>Business ethics, <a href="#">page 85</a></li> </ul>

# OUR CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

We support the United Nations Sustainable Development Goals (SDGs) in their ambition to achieve a better world for all. As a global business, we have a role to play in contributing to achieving the SDGs. Many of our People & Planet Positive targets contribute to several of the SDGs. Find out more about our approach on [page 10](#), and how we contribute to each of the goals in the table below.

SUSTAINABLE DEVELOPMENT GOAL	PEOPLE & PLANET POSITIVE STRATEGY	WHAT IKEA GROUP IS DOING
 <p>1 NO POVERTY</p> <p>End poverty in all its forms everywhere</p>	<p>Our vision is to create a better everyday life for the many people. We are committed to having a positive influence on people's lives across our value chain; supporting positive economic, social and environmental development, promoting equality and placing respect for human rights at the centre of what we do.</p>	<ul style="list-style-type: none"> <li>Contributing to better lives for people and communities throughout our value chain, <a href="#">page 52</a></li> <li>Working with social entrepreneurs to effect social change, <a href="#">page 74</a></li> </ul>
 <p>2 ZERO HUNGER</p> <p>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</p>	<p>We aim to enable and encourage a more balanced and healthy diet, and we strive to source our ingredients from more sustainable sources that are better for people and the planet</p>	<ul style="list-style-type: none"> <li>Responsible sourcing of ingredients for IKEA Food products, and promoting sustainable farming practices, <a href="#">page 31</a></li> <li>Offering healthier and more sustainable food products for our customers and co-workers, <a href="#">page 15</a></li> </ul>
 <p>3 GOOD HEALTH AND WELL-BEING</p> <p>Ensure healthy lives and promote well-being for all at all ages</p>	<p>We want to inspire and enable our customers to live a more sustainable and healthy life at home.</p>	<ul style="list-style-type: none"> <li>Promoting and enabling a more sustainable and healthy life at home through our products and solutions, <a href="#">page 15</a></li> </ul>
 <p>4 QUALITY EDUCATION</p> <p>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>	<p>We offer our co-workers excellent learning and development opportunities in their daily work. Our global campaigns for a good cause, such as Soft Toys for Education and Let's Play for Change, engage customers and co-workers to improve children's lives.</p>	<ul style="list-style-type: none"> <li>Launching a new way of working with talent, succession and learning for all co-workers, <a href="#">page 57</a></li> </ul>
 <p>5 GENDER EQUALITY</p> <p>Achieve gender equality and empower all women and girls</p>	<p>We want to create a fairer and more equal society. Starting in our own operations, our goal is to reach gender balance in key leadership positions.</p>	<ul style="list-style-type: none"> <li>The IKEA Group Diversity and Inclusion Approach guides our leaders in creating a diverse and inclusive workplace, <a href="#">page 56</a></li> <li>Supporting more women into leadership positions through the IKEA Women's Open Network (IWON), <a href="#">page 56</a></li> <li>Launching the IKEA Group Gender Equality Plan, <a href="#">page 56</a></li> <li>Partnering with social enterprises that employ artisans – mostly women who live in rural areas – and empowering them to develop sustainable incomes, <a href="#">page 74</a></li> </ul>

SUSTAINABLE DEVELOPMENT GOAL	PEOPLE & PLANET POSITIVE STRATEGY	WHAT IKEA GROUP IS DOING
 <p>6 CLEAN WATER AND SANITATION</p> <p>Ensure availability and sustainable management of water and sanitation for all</p>	<p>We aim to become water positive by promoting water stewardship throughout our value chain. We contribute to improved water management in water stressed areas where we operate, focusing on both water use and water quality, and improving access to clean water.</p>	<ul style="list-style-type: none"> <li>Supporting our suppliers to improve their water management and water treatment practices, <a href="#">page 38</a></li> <li>Reducing the amount of water we use in our own operations, <a href="#">page 49</a></li> <li>Developing products that enable customers to reduce water use, <a href="#">page 17</a></li> <li>Working with WWF on water projects in India and Pakistan, <a href="#">page 30</a></li> </ul>
 <p>7 AFFORDABLE AND CLEAN ENERGY</p> <p>Ensure access to affordable, reliable, sustainable and modern energy for all</p>	<p>We will become energy independent by being a leader in renewable energy and improving energy efficiency in our operations. By August 2020, we will produce as much renewable energy as we consume in our operations.</p>	<ul style="list-style-type: none"> <li>Invested EUR 1.5 billion in renewable energy since 2009, and committed another EUR 600 million in 2015. By 2020, we aim to generate renewable energy equivalent to all the energy we use, <a href="#">page 43</a></li> <li>Making residential solar panels affordable for our customers, <a href="#">page 16</a></li> <li>Improving energy efficiency in our own operations, <a href="#">page 45</a></li> </ul>
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p> <p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>	<p>We contribute to a better life for the people and communities across our value chain, from supporting decent work throughout our supply chain, to being a great place to work for our own co-workers.</p>	<ul style="list-style-type: none"> <li>Employing 163,600 co-workers around the world (<a href="#">page 54</a>), and stimulating employment for millions of people throughout our extended supply chain, <a href="#">page 60</a></li> <li>Improving environmental and social standards in our supply chain through IWAY, our supplier code of conduct, including respect for human rights and promoting safety and health at work, <a href="#">page 60</a></li> <li>Assessing wages against the cost of living and extending our approach to suppliers, <a href="#">page 69</a></li> <li>Improving working conditions for migrant workers and home-based workers, <a href="#">pages 72 and 73</a></li> <li>Promoting a diverse and inclusive workplace for all through the IKEA Group Diversity and Inclusion Approach, IKEA Women's Open Network, IKEA LGBT+ project and Diversity &amp; Inclusion Network, <a href="#">page 56</a></li> <li>Partnering with social enterprises who employ vulnerable groups, so they can create independent and sustainable incomes, <a href="#">page 74</a></li> </ul>
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> <p>Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation</p>	<p>Sustainability drives innovation and transformational change across our business, from factories and farms, to stores, customers' homes and our products' end of life.</p>	<ul style="list-style-type: none"> <li>Working with our suppliers to improve resource and energy efficiency, <a href="#">page 38</a></li> <li>Investing in sustainable technology and innovation throughout our supply chain, <a href="#">page 41</a></li> </ul>
 <p>10 REDUCED INEQUALITIES</p> <p>Reduce inequality within and among countries</p>	<p>We want to create a more equal world for the people and communities our business reaches. And we support children, vulnerable groups and communities to build a better everyday life.</p>	<ul style="list-style-type: none"> <li>Respecting human rights, including specific groups in our extended supply chain, such as migrant workers, home workers and social entrepreneurs, <a href="#">page 68</a></li> <li>Assessing wages against the cost of living and extending our approach to suppliers, <a href="#">page 69</a></li> <li>Working to secure children's rights across our entire value chain, <a href="#">page 70</a></li> </ul>

SUSTAINABLE DEVELOPMENT GOAL	PEOPLE & PLANET POSITIVE STRATEGY	WHAT IKEA GROUP IS DOING
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> <p>Make cities and human settlements inclusive, safe, resilient and sustainable</p>	<p>We take a lead, together with our customers and others in society, in re-thinking the nature of future homes and communities to enable attractive, affordable and sustainable living.</p>	<ul style="list-style-type: none"> <li>Reducing waste, increasing the amount we recycle (<a href="#">page 50</a>) and encouraging customers to recycle through awareness raising and our products and solutions, <a href="#">pages 17</a> and <a href="#">19</a></li> <li>Developing products and solutions to enable and inspire people to create a more sustainable life at home, <a href="#">page 12</a></li> </ul>
 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> <p>Ensure sustainable consumption and production patterns</p>	<p>We strive to make all our home furnishing materials either renewable, recyclable or recycled. We take a lead in turning waste into resources. We will develop reverse material flows for waste material, ensure key parts of our range are easily recycled, and take a stand for a closed loop society.</p>	<ul style="list-style-type: none"> <li>Using renewable, recycled and recyclable materials in our products, <a href="#">page 34</a></li> <li>Converting to a circular economy, <a href="#">page 23</a></li> <li>Creating products that enable sustainable living, and inspiring our co-workers and customers to live more sustainable lives at home, <a href="#">page 12</a></li> </ul>
 <p>13 CLIMATE ACTION</p> <p>Take urgent action to combat climate change and its impacts</p>	<p>We are going all-in to tackle climate change, for example by committing to produce as much renewable energy as we consume in our operations by 2020, and switching our entire lighting range to LED. We are joining with others to take a stand and call for positive change, and inspiring others, including our customers, to take action.</p>	<ul style="list-style-type: none"> <li>Going all-in to tackle climate change across our value chain, <a href="#">pages 13</a> and <a href="#">42</a></li> <li>Advocating for strong policies on climate change and supporting the transition to a low-carbon economy, <a href="#">page 86</a></li> <li>Improving the sustainability of our operations, for example by producing more renewable energy and improving energy efficiency, <a href="#">page 41</a></li> <li>Creating products and solutions to enable our customers to live a more sustainable life at home, <a href="#">page 12</a></li> </ul>
 <p>14 LIFE BELOW WATER</p> <p>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</p>	<p>We promote sustainable fisheries and aquaculture by sourcing our fish and seafood from responsible sources.</p>	<ul style="list-style-type: none"> <li>Sourcing the fish and seafood for our bistros, restaurants and Swedish Food Markets responsibly, from ASC or MSC sources, <a href="#">page 32</a></li> </ul>
 <p>15 LIFE ON LAND</p> <p>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss</p>	<p>We take a lead in the responsible sourcing of raw materials. All of the cotton and 61% of the wood we use now comes from more sustainable sources.</p>	<ul style="list-style-type: none"> <li>Sourcing our key raw materials, like cotton and wood, from more sustainable sources, <a href="#">page 24</a></li> <li>Using only FSC certified paper to produce our catalogue – the world’s largest print run ever to be produced using 100% FSC certified paper, <a href="#">page 40</a></li> </ul>
 <p>16 PEACE AND JUSTICE STRONG INSTITUTIONS</p> <p>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</p>	<p>We want to create a better life for the people and communities impacted by our business. Through our Code of Conduct and our supplier Code of Conduct, IWAY, we promote ethical and sustainable business practices throughout our value chain.</p>	<ul style="list-style-type: none"> <li>Supporting human rights (<a href="#">page 68</a>), and creating a better everyday life for the many people and communities across our value chain, <a href="#">page 52</a></li> <li>Ensuring an ethical approach to the way we do business, through our Code of Conduct, <a href="#">page 85</a></li> </ul>
 <p>17 PARTNERSHIPS FOR THE GOALS</p> <p>Strengthen the means of implementation and revitalise the global partnership for sustainable development</p>	<p>By building collaborations and partnerships with other companies, suppliers, NGOs and UN bodies, we work towards becoming people and planet positive and contributing to change in society.</p>	<ul style="list-style-type: none"> <li>Partnering with organisations to extend our impact beyond our own business across many areas, from climate change to migrant workers, <a href="#">page 84</a></li> <li>Partnering with others to take clear positions on the issues that matter most, and advocating for stronger climate policy, the transition to a low-carbon economy, sustainable forestry, resource efficiency and waste management, <a href="#">page 86</a></li> </ul>

# PERFORMANCE AGAINST TARGETS

## ENABLING CHANGE

Commitments	Goals	FY15	FY16
Enabling change throughout our business to become people and planet positive.	By August 2017, 95% of IKEA co-workers state that "sustainability is a natural part of the everyday work".	79% <sup>1</sup>	78% <sup>2</sup>
	By August 2017, at least 95% of co-workers view IKEA as a company that takes social and environmental responsibility. <sup>3</sup>	82% <sup>1</sup>	83% <sup>2</sup>
	By August 2015, 70% of customers view IKEA as a company that takes social and environmental responsibility. <sup>4</sup>	41%	43%

## A MORE SUSTAINABLE LIFE AT HOME

Commitments	Goals	FY15	FY16
Take the lead in developing and promoting products and solutions that enable customers to live a more sustainable life at home.	By August 2020, achieve more than a fourfold increase in sales from products and solutions inspiring and enabling customers to live a more sustainable life at home. <sup>5</sup>	EUR 1,311 million (51% of target sales)	EUR 1,802 million (70% of target sales)
	Take a lead in more sustainable food by enabling and encouraging a balanced diet.	See <a href="#">page 15</a>	

## RESOURCE AND ENERGY INDEPENDENCE

Commitments	Goals	FY15	FY16
Strive for resource independence; securing long term access to sustainable raw materials, ensuring a positive impact on the communities where we source and using resources within the limits of the planet.	By August 2017, at least 50% of our wood will come from more sustainable sources. By August 2020, we aim to source 100% of our wood, paper and cardboard from more sustainable sources. <sup>6</sup>	50%	61%
	By August 2015, all cotton used in IKEA products will be sourced from more sustainable sources <sup>7</sup> and we will continuously investigate complementary fibres with improved sustainability performance compared to cotton.	100%	100%
	By August 2020, 90% of the total sales value will come from home furnishing products classified as more sustainable. <sup>8</sup>	54%	55%
	By August 2015, all our main home furnishing materials, including packaging, will be either made from renewable, recyclable (in at least one market on an industrial scale) or recycled materials.	98% <sup>9</sup>	Approx. 98% <sup>9</sup>

1 Results are based on the VOICE survey of 112,027 co-workers. Results are not directly comparable between years as different parts of IKEA and different numbers of people participate.

2 Results are based on the VOICE survey of 74,523 co-workers. Results are not directly comparable between years as different parts of IKEA and different numbers of people participate.

3 Measured through the VOICE question "I am proud of the way IKEA works with sustainability" and Brand Capital.

4 Based on response to the Brand Capital survey.

5 A fourfold increase corresponds to sales of approximately 2.6 billion euro per year, as of FY20 with baseline year FY13.

6 Currently defined as FSC® certified or recycled wood.

7 Includes cotton grown to the Better Cotton Standard; by farmers working towards Better Cotton; recycled cotton and more sustainable cotton from the USA (such as the 'e3 Cotton Program').

8 Through the sustainability product scorecard.

9 This is an estimate. For more information, see [page 35](#).

## RESOURCE AND ENERGY INDEPENDENCE (Continued)

Commitments	Goals	FY15	FY16
Strive towards energy independence through being a leader in renewable energy, and becoming more energy efficient throughout our operations and supply chain.	Become 20% more energy efficient in our own operations by August 2015 and 30% by August 2020, compared to FY10. <sup>10</sup>	Retail: 14.6% Distribution centres: 26.8% IKEA Components <sup>11</sup> : 48% IKEA Industry Group Divisions Flatline and Solid Wood: 12.6% IKEA Industry Group Division Board: 4.7%	Retail: 15.5% Distribution centres: 28.6% IKEA Components <sup>11</sup> : 48.3% IKEA Industry Group Divisions Flatline and Solid Wood: 14% IKEA Industry Division Board: 1.4%
	By August 2020, on Group level, produce as much renewable energy as we consume. <sup>12</sup>	53%	71% <sup>13</sup>

## BETTER LIFE FOR PEOPLE AND COMMUNITIES

Commitments	Goals	FY15	FY16
Contribute to better lives for workers by supporting decent work throughout our supply chain.	Maintain the social and environmental improvements reached through the 100% IWAY approval of all suppliers of home furnishing and other key products and services. <sup>14</sup>	Home furnishing suppliers: 98.9% Transportation suppliers: 96% Global food suppliers: 55% IKEA Components suppliers: 99.2%	Home furnishing suppliers: 97% Land transport suppliers: 90% <sup>15</sup> Centrally contracted customer delivery service providers: 86% Global food suppliers: 63% IKEA Components suppliers: 97%
	By August 2015, expand the reach of our supplier Code of Conduct by securing IWAY approval at all local IKEA Food, Indirect Material and Services (IMS) and retail suppliers within the scope of IWAY. <sup>16</sup>	IMS suppliers: 87% Retail: 85%	IMS suppliers: 84% Retail suppliers: 87% Food suppliers: We are working to map local food suppliers
	By August 2017, go further into our supply chain by securing compliance to IWAY Musts <sup>17</sup> at all sub-suppliers of critical materials and processes.	92%	99%
	Develop and implement a transparent and reliable system for the responsible recruitment of migrant workers at first tier suppliers in identified critical areas by August 2017.	See <a href="#">page 72</a>	
	Continuously identify and develop setups for home-based workers to improve working conditions, protect labour rights and prevent child labour. By August 2020, all home-based workers are transitioned into improved setups and part of our handmade development programme.	See <a href="#">page 73</a>	

10 Compared to FY10 in relative terms, measured by kWh/m<sup>2</sup> for retail operations and kWh/m<sup>3</sup> purchased goods for trading operations. Not including IKEA Centres, which were not part of our operations in the base year, FY10.

11 Baseline year: FY13

12 Own operations relate to distribution centres, stores, offices, IKEA Industry Group factories.

13 Excluding shopping centres. With shopping centres we produced 61%

14 Suppliers related to Home Furnishing, IKEA Components, Transport & Services, and Global Food.

15 Excludes ocean transport providers. A new approach to IWAY in ocean transportation is currently being developed and audits were consequently postponed in FY16.

16 For the retail operations, the current IWAY focus is on cleaning, home delivery, security and waste management suppliers. IKEA Industry also now has a set of phased goals for the application of IWAY – see [page 67](#).

17 IWAY Musts are the immediate requirements that IKEA suppliers must meet before a contract can be signed.

# ASSURANCE STATEMENT

## ASSURANCE REPORT OF THE INDEPENDENT AUDITOR WITH RESPECT TO THE CARBON FOOTPRINT FY16

### To: The shareholders and supervisory board of IKEA Group (Ingka Holding B.V. and its controlled entities)

We have performed assurance procedures on the Carbon Footprint FY16 (year ending 31 August 2016) from the Scope 1, 2 and 3 emissions of the activities of IKEA Group, for the period 1 September up to and including 31 August 2016 (hereinafter: Carbon Footprint). This Carbon Footprint is reported in the Sustainability Report FY16 of IKEA Group.

### Limitations in our scope

Carbon Footprint quantification is inherently subject to uncertainty due to the use of variables such as emissions factors that are used in mathematical models to calculate CO<sub>2</sub> emissions, and the inability of those models to precisely characterize under all circumstances the relationships between various inputs and the resultant emissions because of incomplete scientific knowledge on this topic.

No assurance engagement was performed on the information of the Carbon Footprint for the period before FY16 that is presented in the sustainability Report. We therefore do not provide assurance on the corresponding Carbon Footprint information for the period before FY16.

### Criteria

IKEA Group has defined criteria to determine its Carbon Footprint. These criteria are described in the section "About Our Reporting" in the Sustainability Report FY16. The criteria have been developed in accordance with the Greenhouse

Gas Protocol – Revised edition (WRI/WBCSD). We deem these reporting criteria suitable for our assurance engagement.

### Management's responsibility

The management of IKEA Group is responsible for the preparation of the Carbon Footprint in accordance with the criteria developed by the entity, as disclosed in the section "About Our Reporting" in the Sustainability Report FY16.

This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the Carbon Footprint in accordance with the criteria that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion with a limited level of assurance on the CO<sub>2</sub> emissions from Scope 1, 2 and 3 based on the procedures performed and the evidence obtained. We conducted our limited assurance engagement in accordance with Dutch law, including the Dutch Auditing Standard 3410, "Assurance engagements on emission reports". This requires that we comply with ethical requirements, including requirements relating to our independence, and that we plan and perform this engagement to obtain limited assurance about whether the CO<sub>2</sub> emissions from Scope 1, 2 and 3 as presented in the Carbon Footprint are free from material misstatement.

The procedures performed in obtaining limited assurance are aimed on the plausibility of information which does not require exhaustive

gathering of evidence as in engagements focused on reasonable assurance. The performed procedures consisted primarily of making inquiries of management and others within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently an engagement aimed at limited assurance provides less assurance than an engagement aimed at reasonable assurance.

### Procedures performed

Our main procedures included the following:

- Evaluating whether the reporting criteria developed by the entity are suitable for the preparation of the Carbon Footprint and have been consistently applied
- Evaluating the reasonableness of the (accounting) estimates made by management
- Obtaining an understanding of the control environment and information systems relevant to emissions quantification and reporting, including the design of particular control activities such as consolidating data at corporate level
- Evaluating the plausibility of the CO<sub>2</sub> emission data, mainly by:
  - performing analytical reviews of the data and trend explanations
  - reconciliation of the data with underlying data systems and where relevant on a test basis with internal and external documentation that are the basis for the (calculation of the) CO<sub>2</sub> emission data

- Site visits to review the data collection methods, source data and relevant assumptions applicable to the sites by interviewing relevant staff responsible for providing the data to be reported in the Carbon Footprint
- Evaluating the overall presentation of the Carbon Footprint

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

### Conclusion

Based on our procedures performed, and with due consideration of the limitations described in the paragraph Limitations in our scope, nothing has come to our attention that causes us to conclude that the Carbon Footprint FY16 (year ending 31 August 2016) is not prepared, in all material respects, in accordance with the criteria developed by IKEA Group as disclosed in the section "About Our Reporting" in the Sustainability Report FY16.

Rotterdam, 2 December 2016  
Ernst & Young Accountants LLP  
Signed by R.T.H. Wortelboer





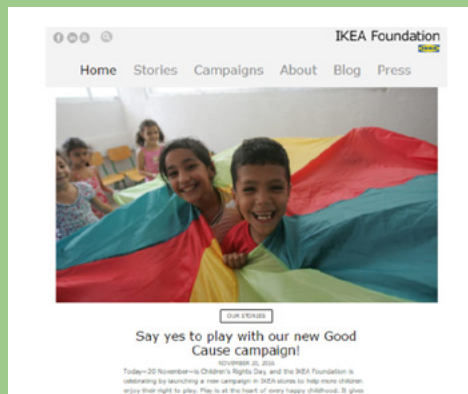
## READ THE IKEA GROUP YEARLY SUMMARY

Find out what happened in IKEA Group in FY16 – get facts, read stories and see where we're headed in the future.



## PEOPLE & PLANET POSITIVE

Visit the People & Planet Positive section of IKEA.com



## IKEA FOUNDATION

Discover what the IKEA Foundation is doing to improve the lives of children around the world.

