

To Mr. Alain Lamassoure  
Member of the European Parliament  
Chair of Special Committee TAXE 2  
European Parliament

Luxembourg, 31 March 2016

Dear Mr. Lamassoure,

At the TAXE 2 Committee meeting March 15, where Inter IKEA Group participated in an exchange of views with Members of the European Parliament and invited companies, we were asked to provide written comments to the report presented in February this year by the Greens/EFA Group of the European Parliament. I am pleased to offer Inter IKEA Group's comments on this report, which we will call the "Greens Report" in the following.

First, let me restate what I said at the exchange of views. The Greens Report refers to different groups of companies, which are independent from each other. I can only speak for Inter IKEA Group.

On vital points, the Greens Report is based on incorrect assumptions and misunderstandings, leading to false conclusions. We will focus on two issues here below. Both these issues are highlighted in the executive summary of the Greens Report. The calculations made by the author, based on these two issues, make up a large portion of the alleged tax effects that the Greens Report presents.

There are several further errors in the Greens Report, and several issues that we disagree with, but of less importance for the conclusions. We do however give some examples of other errors in the report.

Respectfully,



Søren Hansen

CEO Inter IKEA Group

### **Inter IKEA Group answer to the TAXE 2 Committee regarding the Greens Report**

IKEA is a brand and not one company, or one group of companies. The IKEA brand is used by many companies around the world having different ownership. We can naturally only answer to questions regarding Inter IKEA Group.

### **The IKEA Franchise System makes business sense**

The Greens Report states that "*IKEA is paying royalties to itself*". This is not correct. All IKEA franchisees pay a franchise fee to the global IKEA franchisor, Inter IKEA Systems B.V.

Inter IKEA Systems B.V. (part of Inter IKEA Group) in the Netherlands is the owner of the IKEA Concept and global IKEA franchisor, since 1983.

Franchising has been found to be a great way to keep the IKEA Concept together, to expand the business based on the IKEA Concept, and to maintain an entrepreneurial spirit.

There are today 13 different owners of IKEA franchisees around the world. All of them are independent from Inter IKEA Group (see full list below).

INGKA Group (sometimes referred to as IKEA Group) is one of them. Please note that INGKA Group and Inter IKEA Group are also independent of each other and have different owners and management.

INGKA Group operates IKEA stores on 28 markets. The other 12 groups operate IKEA stores on 23 markets. All companies operating IKEA stores have franchise agreements with Inter IKEA Systems B.V.

<b>Owners of Franchisees</b>	<b>IKEA stores</b>	<b>Markets</b>	(as at 23 March 2016)
Al-Futtaim Group	4	Egypt, Qatar, United Arab Emirates	
Al Homaizi Group	3	Jordan, Kuwait, Morocco	
Al-Sulaiman	3	Saudi Arabia	
Cebas	2	Australia South West	
Dairy Farm Group	8	China Hong Kong, Taiwan	
House Market Group	7	Bulgaria, Cyprus, Greece	
IKANO Group	5	Malaysia, Singapore, Thailand	
INGKA Group (sometimes referred to as IKEA Group)	334	Australia East, Austria, Belgium, Canada, China, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States	
Mapa	5	Turkey	
Miklatorg Group	2	Iceland, Lithuania	
Northern Birch	3	Israel	
PT Hero	1	Indonesia	
Sarton Group	5	Dominican Republic, Spanish Islands	
Owned by the franchisor	1	IKEA Delft in the Netherlands is owned and operated by Inter IKEA Systems B.V.	

### **The global IKEA franchisor Inter IKEA Systems B.V.**

The Greens Report claims that "*Inter IKEA Group seems to have used a Dutch conduit company to avoid paying tax*". That is incorrect.

Inter IKEA Systems B.V. is a genuine, fully operational company, conducting substantial and important business in and from the Netherlands with functions for i.e. concept development, expansion, business & consumer intelligence and competence development having qualified staff, and training facilities in its Concept Store in Delft.

Our franchise division employs more than 1000 full time employees. They work hard every day, committed to the development and implementation of the IKEA Concept and to support IKEA franchisees worldwide.

The franchise agreement gives the franchisee the right to operate an IKEA store in a specific market and to market and sell IKEA products under the IKEA brand in that market. Through the franchise agreement with Inter IKEA Systems B.V., the franchisee also gets access to systems, methods and proven solutions to operate IKEA stores and

sell IKEA products, IKEA know-how, store layouts, staff training, manuals, market research, and ongoing development of the IKEA Concept.

The franchise fee paid to Inter IKEA Systems B.V. amounts to 3% of the franchisee's annual turnover. Inter IKEA Systems B.V. in the Netherlands is the end receiver of the franchise fee.

A franchise fee is, like most costs of doing business, a deductible cost for a franchisee. For the franchisor, the franchise fee is taxable income. Inter IKEA Systems B.V. is fully subject to Dutch Corporate Income Tax and pays taxes in accordance with laws and regulations in the Netherlands.

Inter IKEA Systems B.V. is owned by Inter IKEA Systems Holding B.V. in the Netherlands, which is owned by Inter IKEA Holding SA, a Luxembourg based company, which in its turn is owned by Interogo Foundation, a Liechtenstein foundation.

### **Example of other factual mistakes in the Green report**

There are lots of other factual errors and incorrect statements in the report. Let us share some examples.

The report claims that between 2012 and 2014 an amount of €587 m was paid in royalties and interests to undisclosed recipients. This is not correct. Other charges is composed of other operating expenses for the whole of Inter IKEA Group, and paid to unrelated parties such as marketing, services, rent, etc. There are no royalties or interest payments hidden behind these numbers.

The statement that between 1991 and 2011 the so called "other charges" totalled €10.5 billion representing 95% of the income generated by franchise and license fees. This is impossible since total franchise fees collected during that period is less than the €10.5 billion mentioned in the report.

Regarding the tax ruling in Luxembourg from 2009, it was related to changes in Luxembourg law and some organizational changes we made at that time. The purpose then was to verify that our interpretation of the changed law was correct. The group never reaped a benefit from this so called advantage that is referred to in the report.

Inter IKEA Group has a need for a well-functioning treasury function (cash management and internal financing), and must have the ability to lend to subsidiaries of the group where and when needed. This is the role of Inter Finance SA (previously called Inter IKEA Finance SA), based in Luxembourg and with a branch in Switzerland. The profit before tax of this operation fluctuates between €10 m and €15 m peer year. This income is taxed at a rate below 2%.

Intra group lending and borrowing is done on highly competitive market conditions. Also worth noting is that our operational companies have sufficient capitalization to run their business with a long term perspective.

Company taxes are mainly paid by our subsidiaries. Dividends received by the parent company from the subsidiaries are exempt from tax under the EU Parent-Subsidiary Directive. Dividends from subsidiaries are tax exempt in all EU countries, not only in Luxembourg.

In 2014, Inter IKEA Group paid €85 million (€76.6 million in 2013) in corporate income tax. Which on our ordinary taxable income is equivalent to a 15.5% (14% in 2013) total effective corporate income tax level. Our annual report for 2015 is not yet published but the level of corporate income tax is expected to be around the same level as the last years.

## **Interogo Foundation – the owner of Inter IKEA Group**

The report also contains several factual errors regarding Interogo Foundation, the owner of Inter IKEA Group. Let us share some basic facts.

Inter IKEA Group is owned by Interogo Foundation in Liechtenstein. The purpose of Interogo Foundation is to secure the independence and longevity of the IKEA Concept and Inter IKEA Group. Interogo Foundation may only apply its funds to:

- Support and invest in the Inter IKEA Group and the IKEA Concept
- Hold a reserve for rainy days, if the IKEA Concept sometime in the future would face serious challenges
- Make donations to philanthropic causes

Interogo Foundation is a self-owned entity, and there is no and cannot be any individual beneficiary. Interogo Foundation shall exist for an unlimited period of time.

As a consequence of Interogo Foundation owning Inter IKEA Systems B.V. (the owner of the IKEA Concept), the IKEA Concept will remain under undivided control. In this way a fragmentation of ownership that potentially could occur, if it would have been family owned or publicly listed, is prevented.

## **We strive to simplify our business and to clarify misunderstandings**

We have followed the debate on corporate taxation over the last couple of years, and also listened to the criticism against international companies, and against Inter IKEA Group. We do not agree with all the assumptions and conclusions made, but believe there are things we can learn from the debate.

Some of the debate related to us is about misunderstandings regarding the IKEA franchise system and mix-up between the different so called IKEA companies and their ownership. We try to learn from the views that our structure is perceived as too complex and difficult to understand.

We and our business partners have together been very successful in building one strong brand in the minds of the consumers. We believe we have done a lot over the past years to simplify and become more transparent. The structure has however been complex and we have not been clear enough in explaining the franchise system and the different ownership of the companies operating under the IKEA brand. We can therefore not blame anyone else but ourselves for the misunderstandings.

Inter IKEA Group is not publicly listed, but we have anyhow decided to go beyond required transparency.

The publication of Inter IKEA Group annual reports since 2011, combined with openness around governance and our owner foundation and a continuous simplification of our structure, are all efforts intended to simplify and improve knowledge about our business. In addition, it also supports our efforts to create more clarity and transparency towards all stakeholders.

We are committed to continuously improve, simplify and clarify our business and the IKEA franchise system.

You can find more information about Inter IKEA Group on our website, [www.inter.ikea.com](http://www.inter.ikea.com).