



Social & Environmental Responsibility Report 2005

Scope

This report describes the work of IKEA in the area of Social and Environmental Responsibility, and shows the achievements made on a global and local level. It covers the IKEA Group's financial year 2005: 1 September 2004 to 31 August 2005.

The main purpose of the report is to provide information to anyone who is interested in learning more about the social and environmental work that IKEA carries out.

Covering a broad range of activities, this report strives to provide both general and specific information on where IKEA stands today and where we are heading.

For the first time, featured in this year's report is a chapter titled "Our co-workers" about our approach to human resources and related issues within IKEA. Another addition is the chapter "Our involvement in the community".

The report also plays an important role in helping IKEA to monitor results step by step as they are achieved. This, in turn, helps to shape future social and environmental activities.

Additional information

The brochure "Social and Environmental Responsibility" gives more general information. You can find out more at www.ikea-group.ikea.com/corporate/

Contact address

We appreciate your feedback. Please feel free to contact us through the local IKEA press contact. You will find contact addresses at www.ikea-group.ikea.com/corporate/



| | |
|-----------|--|
| 3 | Our social and environmental approach |
| 6 | Our President's message |
| 8 | Our business |
| 10 | Our co-workers |
| 13 | Our products and materials |
| 19 | Our supply chain |
| 36 | Our environmental work in IKEA units |
| 42 | Our involvement in the community |
| 53 | Our stakeholders and partners |
| 58 | Our key figures |

Cover photo: Customers at IKEA measure a wall cabinet for their new kitchen.
 "Social & Environmental Responsibility – Report 2005" – produced by Corporate PR, IKEA Services AB.
 Photos by Hans-Jürgen Burkard, Jann Lipka, David Orr, Save the Children, UNICEF, WRI, WWF and IKEA.



Our social and environmental approach

One IKEA ambition is to make work with social and environmental issues an integrated and natural part of daily business. Although many things remain to be done, great achievements have been made over the years. We regard the work as a continuous process and work step by step to achieve the goals we have set.

The IKEA vision "To create a better everyday life for the many people" also refers to the environment and the employees working for IKEA suppliers.

Low price – but not at any price

Low prices are the cornerstone of the IKEA vision, business idea and concept. At IKEA we talk about low price – but not at any price. This means that all IKEA products must be manufactured under acceptable working conditions by suppliers who take responsibility for the environment.

To achieve this goal IKEA supports a variety of activities that protect the environment and improve the lives of people who work at our suppliers.

Honesty is the core of our work on long-lasting, close relationships with customers, co-workers and suppliers. IKEA suppliers must follow our code of conduct stating our minimum requirements on social and working conditions, as well as a range of environmental issues.

The vision and business idea

The IKEA vision and business idea encourage social and environmental responsibility. The vision “To create a better everyday life for the many people” refers not only to IKEA customers, but also to the environment, co-workers and the employees working for IKEA suppliers.

“To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford to buy them” is the IKEA business idea.

Ever since IKEA was founded in 1943, we have tried hard to avoid wasting resources – everything from

natural resources to other resources such as time and money. This approach is essential in order to produce and sell home furnishings at low prices while reducing environmental impact.

Close co-operation with suppliers, together with our own distribution chain, has resulted in cost- and resource-effective production and distribution. The design and manufacture of products should be undertaken in a way that ensures the products are safe from a health perspective and environmentally adapted.

Co-workers make the vision and business idea real

“To give down-to-earth, straightforward people the possibility to grow, both as individuals and in their professional roles, so that together we are strongly committed to creating a better everyday life for ourselves and our customers” is our human resource idea. It is the co-workers at IKEA who turn the IKEA vision and business idea into reality.

The IKEA culture is based on shared values and founded on respect for resources, an innovative mindset and the courage to assume responsibility.



IKEA PS ELLAN chair is made of recyclable polypropylene and wood fibres from sawmill waste.

A natural part of daily business

Areas of priority

- The implementation of our code of conduct “The IKEA Way on Purchasing Home Furnishing Products” (IWAY). This states our minimum requirements for social, working, and environmental conditions and is primarily based on UN and ILO declarations and conventions. It also includes demands relating to forestry
- Offering safe and healthy products, including food served in IKEA restaurants.
- Reduction of emissions caused by transportation of IKEA products and people.
- Environmental work in IKEA units, with special focus on our stores and distribution centres.

Awareness, knowledge and responsibility

Training is an essential part of environmental and social work at IKEA. The goal is to create awareness, knowledge and a sense of responsibility. All co-workers receive basic training in these issues.

E-learning, a computer-based training method, offers a flexible approach to training and gives each co-worker an opportunity to take charge of his/her own development. Additionally, in depth and special training is given to local environmental co-ordinators and auditors in the supply chain.

Operational responsibility for social and environmental issues lies with the person responsible for each of the various IKEA countries and business units. This ensures that social and environmental issues are a natural part of daily business.

Valuable co-operation

IKEA co-operates with companies, trade unions, organisations and authorities throughout the world. We work closely together with Save the Children, UNICEF, and WWF, which enables us to achieve more than we could by working on our own with social and environmental issues.

IKEA puts special focus on the prevention of child labour and the promotion of responsible forest management in its supply chain. IKEA does not accept child labour at its suppliers or their sub-contractors. IKEA does not use timber, veneer, plywood, or layer-glued wood from intact natural forests or forests with a clearly defined high conservation value.



IKEA Inside is the IKEA intranet, a network of web sites within the IKEA Group of companies. The site about Social & Environmental Affairs presents updated information within this field.



Readme is the co-workers' magazine for the IKEA Group. The aim is to contribute to a sense of togetherness and to increase knowledge about IKEA as a whole. It regularly covers social and environmental issues.



Our President's message

“We firmly believe it is possible for IKEA to be a good company showing respect for people and the environment, and at the same time selling products at low prices,” writes Anders Dahlvig, President and CEO of the IKEA Group.

Anders Dahlvig, President and CEO of the IKEA Group, at the IKEA store in Kungens Kurva, Stockholm, Sweden.

“Our ambition is to always strive forward and become better”

At IKEA we often talk about taking “many small steps forward”. This is the way IKEA has been built up over the years, and we adopt the same approach when it comes to social and environmental responsibility.

We know how difficult it is to change minds and break habits, but we believe that progress can be made and goals can be reached by moving forward step by step.

Our ambition is to always strive forward and become better. This also applies to our co-operation with suppliers. All social and environmental activities help us and our suppliers produce more efficiently and profitably. Factories are run better and working conditions are improved, which benefits owners as well as employees. It is a win-win situation.

Working toward common goals

IKEA works toward sustainable business with complete commitment as we believe in sourcing from emerging markets. To succeed, all parties involved should understand the challenges involved, and work jointly toward common goals. In my opinion, it is important that all stakeholders – IKEA, suppliers, governments, labour and employer organisations – understand and share the same view.

All of us must agree to long-term goals such as meeting demands for working conditions and the environment. These goals have to be defined in legislation, global standards and each company's code of conduct.

Doing business in emerging economies is overwhelmingly positive; production costs are lower, our customers get better prices, and IKEA remains competitive. More so, it benefits communities and society at large.

Focus is key

We focus on two main types of activities. Firstly, we work to follow the requirements in our code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY). A significant aspect of this job is to make sure our suppliers and their sub-contractors fulfil the requirements in IWAY.

Secondly, we work with projects and activities that respond to specific needs or situations. The IKEA Group works jointly with well-known and respected organisations such as Save the Children, UNICEF, WWF and others that offer expertise, experience and a presence in many areas throughout the world.

Most things remain to be done

We have seen a very good rate of improvement over the past years. Suppliers are working continuously towards fulfilling our minimum requirements. Although we are pleased with the rate of development, a lot of work still remains to be done. It is a process that consists of many small steps, and with each one we learn, improve and raise our ambitions.



Anders Dahlvig
President and CEO
of the IKEA Group



Our business

The IKEA vision is to create a better everyday life for the many people. The business idea is to offer a broad range of well-designed, functional home furnishing articles at prices so low that as many people as possible will be able to afford them.

IKEA stores offer everything for the home. All under one roof: beds, sofas, tables, chairs, textiles, rugs, flooring, kitchens, bathrooms, lamps, plants and much more.

The IKEA Group in brief

Summary of Financial Year 2005

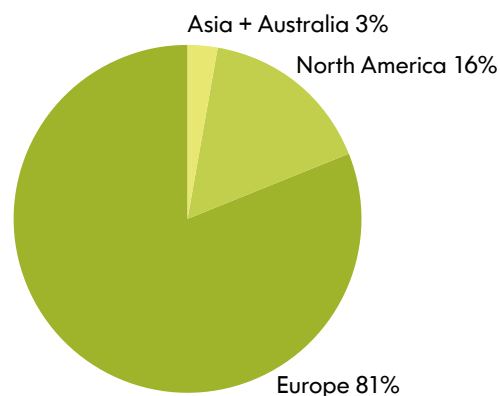
(1 September 2004 to 31 August 2005)

- IKEA opened 18 new stores in Europe and North America. As of August 2005, there were 220 IKEA stores in 33 countries and/or territories. The IKEA Group owns 196 stores in 23 countries. The other 24 stores are owned and run by franchisees outside the IKEA Group in the following 15 countries/territories: Australia (1), United Arab Emirates (2), Greece (2), Hong Kong (4), Iceland (1), Israel (1), Kuwait (1), Malaysia (1), Netherlands (1), Saudi Arabia (2), Singapore (1), Spain (3), Taiwan (2), Turkey (1) and USA (1).

- IKEA Group sales totalled 14.8 billion euros, compared with 12.8 billion euros the previous financial year.
- A total of 410 million people visited IKEA Group stores worldwide.
- The number of co-workers at the IKEA Group rose to 90,000 from 84,000 in the previous year; the IKEA Group operates in 44 countries.
- The IKEA Group has 46 trading service offices, situated in 32 countries.
- The IKEA Group has 1,300 suppliers, situated in 53 countries.

- The Swedwood Group, the IKEA industrial group producing wood-based furniture and components, has 13,000 co-workers and 35 factories and sawmills located in nine countries.
- IKEA has 28 distribution centres situated in 16 countries, responsible for supplying goods to IKEA stores.
- The product range includes 9,500 items and is the same for IKEA stores throughout the world.
- The IKEA catalogue was printed in 160 million copies.
- The IKEA website attracted more than 125 million visits.

Sales by region



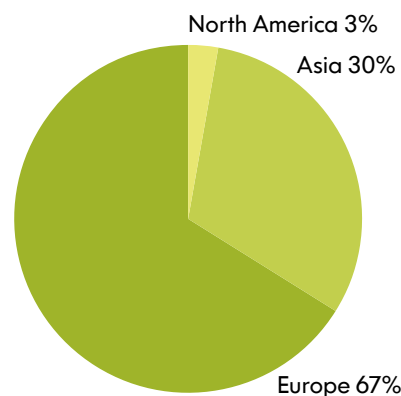
Top five sales countries

| | |
|----------------|-----|
| Germany | 19% |
| USA | 11% |
| United Kingdom | 11% |
| France | 9% |
| Sweden | 8% |

Top five purchasing countries

| | |
|---------|-----|
| China | 18% |
| Poland | 12% |
| Sweden | 9% |
| Italy | 7% |
| Germany | 6% |

Purchasing by region



Additional information

The brochure "Facts & Figures" is published annually and provides information about the IKEA Group, www.ikea-group.ikea.com/corporate



Our co-workers

Today, IKEA is a worldwide organisation employing more than 90,000 people in 44 countries. A key success factor is the recruitment of people who share the IKEA vision and work together to make it happen.

Co-workers at IKEA with a new packing solution – the brown package is simply stripped away to expose the products.

Giving people the opportunity to grow

The IKEA human resource idea is to give opportunities to co-workers to grow, both as individuals and in their professional roles.

In addition to the ability to do a job, we look for personal qualities such as a strong desire to learn and improve, common sense, the ability to lead by example, efficiency and humility.

At IKEA we prefer to talk about “co-workers” rather than “employees.” The word “co-worker” better reflects the IKEA way of working.

Shared values such as togetherness, cost-consciousness, respect and simplicity define the IKEA company culture. IKEA also encourages people to always look for new and better ways of doing things in every aspect of their work. These common values contribute to a stable company culture and help IKEA become innovative, flexible and responsive. And, of course, co-workers need to have a heartfelt interest in home-furnishing.

IKEA works to promote diversity and to provide equal opportunities for everyone. We want to attract a group of people as diverse as possible. A workforce made up of co-workers with different backgrounds and outlooks, makes IKEA more creative and dynamic.

Balancing responsibility and freedom

IKEA offers co-workers opportunities and responsibilities, and encourages professional development and work in different roles and locations in the company.



Diversity among our co-workers makes IKEA creative and dynamic.

Co-workers can expect IKEA to offer:

- a role in a growing company with a viable business idea
- the opportunity to develop professional skills
- the chance to work in different positions in the company
- an environment where people and team spirit are central values
- fair and reasonable working conditions
- recognition of a job well done and the chance of advancement

In return, IKEA expects co-workers to:

- do the job as well as possible according to the best of their ability and experience
- take responsibility for their actions
- be service-minded and always focus on the customer's best interests
- be willing to develop continually
- challenge the established way of doing things and make improvements
- act in an open and straightforward manner
- be cost-conscious

Leadership by example

IKEA selects people who are strong leaders and who embrace the IKEA vision and culture. We make sure managers have the right training and ability to ensure the professional development of the people in their team.

IKEA managers are expected to act as role models for their teams. IKEA supports managers by providing training for a thorough understanding of the company's culture and values.

One important development programme is called “My conscious leadership”. Managers are invited to examine their leadership from different angles. The programme is mainly built on self-reflection in an open climate as well as sharing experiences and learning from others.

Another programme called “The IKEA Way” is designed to develop the participant as a person and manager by increasing know-how about the IKEA Concept and IKEA Culture. Having participated in the programme makes it possible to get a deep understanding of what the IKEA Way is – and how to bring it back home by personal leadership and management based on the IKEA Way.

Getting to know IKEA

Each new co-worker goes through an introduction programme, which covers topics like the culture and values of IKEA, social and environmental issues, as well as how individual co-workers can contribute.

The IKEA approach to meeting individual needs promotes life-long careers within the company. IKEA supports this by providing:

- an introduction programme on job knowledge and company culture
- feedback on performance and potential development areas
- annual development talks to discuss future ambitions and opportunities
- the opportunity to seek and apply for other jobs within IKEA globally
- a job catalogue to help guide professional development
- training for current as well as future jobs.

The IKEA Way programme also exists for co-workers, where the focus lies on increasing the co-workers' understanding of the IKEA organisation and how their own area of responsibility fits into the bigger picture.

Listening to the co-worker

Our success depends on co-workers who are committed, creative, and have skills they need to fulfil their goals.

Since 2002 IKEA uses the so-called VOICE survey as a tool to identify areas of improvement seen from the perspective of our co-workers. It helps IKEA to gain a better insight into the forces that drive our co-workers.

Every year, thousands of IKEA co-workers are asked to fill in a questionnaire anonymously on issues

that clarify what motivates them and what they are not satisfied with.

IKEA managers use the results of the survey to follow the progress of their organisation from a co-worker's point of view. The goal is to improve ways of working with the input from co-workers. We measure areas like given and taken responsibilities, diversity, co-operation, customer competence and leadership.

In 2002 we began conducting the survey as a pilot project in two of our organisations. Today, all IKEA organisations conduct the survey. They can choose to run the survey either once a year or once every two years.

In 2005, 62,800 co-workers participated in the survey; a response rate of 88 percent reflects the high interest of IKEA co-workers to provide feedback.

The survey showed high scores on issues such as leadership, customer understanding, openness in the organisation, and professional development. The survey results also show areas of improvements, for example, in co-operation between IKEA departments and units, and providing co-workers with even more responsibility.



Our products and materials

When IKEA creates a new product, we consider the impact the product has on the environment and on the health of the user. This ensures that products meet strict IKEA requirements for durability, design, use, safety and the environment.

Designers and joiners work together to develop new products at IKEA of Sweden in Älmhult.

Making the most of resources

IKEA has a “maximum benefit from minimum resources” approach to product development. This means using the smallest amount of resources to make the best possible product.

All product development is done by IKEA of Sweden in Älmhult, Sweden. To reduce the amount of resources used, we use renewable and recycled raw materials where possible. This allows us to be more environmentally friendly and keep prices low for our customers.

IKEA encourages smart solutions which minimise material use, without negatively affecting the functionality or appearance of the product. For example, IKEA designers started using hollow legs instead of solid legs on some tables and particleboard cores instead of solid wood on other items.

Some of the environmental progress made in 2005:

- The use of nickel-free stainless steel in our products has increased
- 80 percent of all children’s products are manufactured without solvent-borne lacquers
- Lyocell, a cellulosic fibre derived from wood, is used as filling material in an increased number of quilts and pillows.

Ensuring quality and safety standards

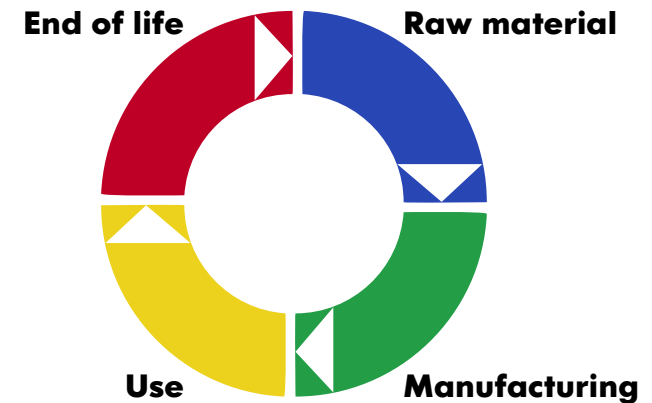
IKEA products shall be free of questionable substances and IKEA applies the precautionary principle regarding chemicals and materials, phasing out those that do not fulfil our requirements. IKEA put restrictions on the use of chemicals in its products. Random checks and tests are made by a third party.

Quality and safety work at IKEA begin with a risk analysis to detect possible hazards. The risk analysis is conducted both during the development of the product and when the product is finally put into production.

IKEA products are tested, approved and documented before sales start, and then on a regular basis.

All products developed and sold by IKEA must comply with a number of demands. These could include consumer requirements such as durability, design and usage value, or relate to statutory requirements concerning safety, environmental matters, materials, product marking etc. They could also relate to demands we set ourselves in order to live up to our business idea, policies and aims.

IKEA makes use-and-abuse tests of the products according to applicable international standards at accredited internal and external test laboratories. The great majority of these tests are carried out in our own accredited test laboratory which is ISO 17 025 certified and checked once a year by external auditors.



Evaluating environmental impact.

IKEA has designed the “eWheel” to help us understand and evaluate the environmental impact of products as in:

- which materials perform best, in terms of design, functionality, safety and the environment
- the use and handling of materials in the production process
- the environmental impact of materials during production
- the impact of products on indoor environments
- a product’s optimal life span in terms of how customers use it
- whether a product’s material can be reused or recycled.



Raw materials

Wood, metal, plastic, glass, rattan and textiles are the main raw materials used in IKEA products.

Wood plays a special role at IKEA, as nearly 50 percent of our products are made from wood or wood fibre. The material offers many environmental advantages because it is recyclable as well as renewable.

Traditionally, between 10 and 20 percent of the birch wood felled is used, as furniture manufacturers are only interested in the blonde sapwood. IKEA believes this to be a waste of resources. For many years IKEA has been investigating ways to make better use of birch timber. The first step was to use “knotty birch” in NORDEN dining table and other products a few years ago. Thanks to a new technique, it is now possible to use the heartwood for ordinary home furnishings as well.

Since the 1980s IKEA has worked to produce a

strong, durable material from recycled products for furniture manufacturing. Recently we discovered a way to use wood fibre composite (WFC) for home furnishings. The material has been used for park benches and noise barriers for years, especially in the USA. We combine recyclable polypropylene and wood fibres from sawmill waste to make products such as IKEA PS ELLAN and IKEA PS APELVIK chairs. Replacing expensive plastic with wood fibre enables us to use recycled material and sell the product at a lower price.

Manufacturing

Suppliers are required to follow our code of conduct “The IKEA Way on Purchasing Home Furnishing Products” (IWAY). This document describes amongst other things, our regulations for factory emissions to air and water, and for handling chemicals.

IKEA PS EDEN table is an example of using heartwood – the innermost, reddish-brown part of the trunk – which is used today as pulpwood or burned for energy.

For example, the supplier can reduce air and water emissions by using oxygen instead of bleach to produce paper napkins. This is a better choice for the environment, and for the people who manufacture the napkins.

Transportation

Smart packaging is the most effective way for IKEA to reduce the negative impact of transport emissions on the environment. Product packaging and transportation are planned for during the early stages of the design process. Clever design and flat packaging help us squeeze more products into every load-carrying unit, whether by ship, truck or train. For example, LYCKSELE sofa bed has been redesigned as a flat pack item. Twice as many sofa beds can now fit in one container, which leads to a reduced number of freight shipments (and emissions) and lower transport costs.

Usage

When developing the IKEA range the customers' needs are always the focus. From the beginning of the product development process, function, quality, price, material and technical aspects must be taken into consideration as much as the actual design.

The IKEA product development team considers how products function when customers use them at home. Products must be free from irritating substances, which could cause allergies, or other substances potentially harmful to people's health or the environment.

End of life and recycling

When IKEA products reach the end of their life, we try to recycle the goods and re-use them as new raw material. Unfortunately, not all countries have the

opportunity to recycle. Some materials are quite controversial. In the case of PVC (polyvinyl chloride), IKEA has decided to search for an alternative. The replacement material is called EVA (ethylene vinyl acetate). It is durable, easy-to-use, inexpensive and less damaging to the environment and human health. However, PVC must still be used in our electric leads until we find a suitable replacement.

IKEA also uses recycled PET plastic, one of the most common plastics used for bottling soft drinks, mineral water and other liquids (IKEA PS BÖLSÖ table is made of this material). IKEA also uses a variety of other recycled material, such as pasteboard, milk cartons and even materials left over from the manufacture of disposable nappies.

GULLUNGE babycare mat is made of EVA foil (ethylene vinyl acetate).



IKEA sells light bulbs that consume less energy than standard bulbs and contain smaller amounts of mercury. Customers are encouraged to return the used bulbs so we can dispose of them properly.

Making rag-rugs, an old tradition in many countries, is a smart way of using worn-out clothing and household linen. IKEA uses this recycling technique to create new rag-rugs, using remnants from the textile industries in India. The rugs are woven from rags of cotton or synthetic fabric in different colours and are sometimes dyed afterwards.

Recall management

To ensure that products meet required standards regarding the environment, health and safety, IKEA analyses the quality assurance of production processes. Despite this, in some instances products have not met the required demands. In such cases, a recall management system ensures that sales are stopped and that customers are informed of the situation and told that they can return the product. A fast and professional recall is of utmost importance to ensure high levels of product safety and quality for IKEA customers.



Nickel is often added to stainless steel to make it more pliable when creating interesting shapes. However, as nickel may cause allergic reactions, we avoid using nickel when, for example, manufacturing stainless steel IKEA 365+ cookware.

Towards a sustainable production of the IKEA catalogue

The IKEA catalogue is one of the cornerstones of the IKEA Concept. It is distributed annually to more than 100 million households in more than 30 countries and 160 million copies are printed.

As early as the early nineties IKEA decided to focus on a more environmentally friendly catalogue production process. It was decided to use chlorine-free pulp in the production of the catalogue.

Inter IKEA Systems B.V. is the owner and world-wide franchisor of the IKEA concept and responsible for producing the IKEA catalogue annually. During 2005, INGKA Holding, the parent company for all IKEA Group companies, together with Inter IKEA Systems developed a code of conduct regarding all marketing products and services. This will be effective for productions starting 2006; ensuring that social and environmental conditions are put to use regarding the catalogue and the production of other marketing materials.

Similar to the environmental part of IWAY, the suppliers of the catalogue have to fulfil minimum requirements. The requirements are followed up every other year; parallel to this we conduct audits on site on a regular basis. Today, there are indicators for catalogue 2003 and 2005, which enable us to monitor and improve environmental practices.



The IKEA catalogue 2006 was printed in 160 million copies. Since the early nineties chlorine-free pulp has been used in the production.

Key areas which are examined as part of the current environmental strategy are:

- Environmental management
- Paper (use of resources)
- Energy and transport (climate change)
- Emissions to air – VOC (Air quality)
- Emissions to water – COD (Water quality)

The production of pulp and paper does not include any bleaching processes involving elementary chlorine. The suppliers of paper are also required to implement a certified environmental management system. Additionally, the use of wood and fibres in the production process must follow required procedures and specifications.

| Environmental management | FY03 | FY05 |
|---|------|------|
| Certified paper suppliers | 100% | 92%* |
| Certified artwork/repro, gravure and offset suppliers | 32% | 28% |

| Paper (use of resources) | FY03 | FY05 |
|--------------------------------------|--------|--------|
| Volume in tonnes of paper | 65,000 | 83,000 |
| Printed catalogue copies in millions | 116 | 160 |
| Fibres from certified forestry | 74% | 70% |
| Recycled fibres | 1.7% | 5.2% |

| Energy and transport (climate change) | FY03 | FY05 |
|---------------------------------------|--------|--------|
| Fossile CO ₂ per catalogue | 0.80kg | 0.55kg |

| Emissions to air (air quality) | FY03 | FY05 |
|--|------|------|
| VOC (volatile organic compounds) per catalogue | 1.3g | 0.7g |

| Emissions to water (quality) | FY03 | FY05 |
|--|------|-------|
| COD (chemical oxygen demand) per catalogue | 2.7g | 3.3g* |

* Due to the fact that we have begun to buy paper for the catalogue in North America to optimise transport.



Our supply chain

IKEA believes in safe, healthy, non-discriminatory working conditions and the protection of the environment at our suppliers as a prerequisite for doing good business.

IKEA Distribution Centre
in Älmhult, Sweden.

Working together with our suppliers

Being close to our suppliers is the key to rational, long-term co-operation. We buy products from 1,300 suppliers in 53 countries.

Co-workers in the trading service offices monitor the production of IKEA products. This enables them to test new ideas, negotiate prices and check quality while observing social and working conditions among suppliers.

IKEA has 46 trading service offices in 32 countries. IKEA also has 28 distribution centres in 16 countries that supply goods to IKEA stores.

In addition to having suppliers of IKEA products all over the world, IKEA buys products from Swedwood. The Swedwood Group is an industrial group owned by IKEA. Swedwood produces wood-based furniture and wooden components and employs 13,000 people in 35 industrial units in nine countries.



IKEA PS VÄLLÖ water can. Clever design helps IKEA to squeeze more products into every load-carrying unit.

Our Code of Conduct

IKEA products must be manufactured in a responsible way. For that reason, in 2000 we established a code of conduct “The IKEA Way on Purchasing Home Furnishing Products” (IWAY).

The document consists of:

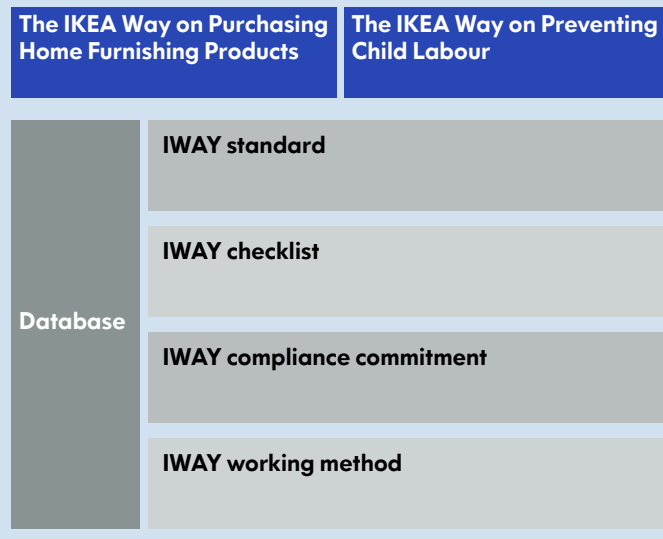
- “The IKEA Way on Purchasing Home Furnishing Products” (IWAY)
- “The IKEA Way on Preventing Child Labour”
- “The IWAY Standard” (specification of the demands in the code of conduct)

“The IKEA Way on Purchasing Home Furnishing Products” is based on international conventions and declarations, and includes provisions mainly based on the UN Declaration of Human Rights, 1948, the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work (the eight core conventions), 1998, and the Rio Declaration on Sustainable Development, 1992. The specification of all the international conventions and declarations on which IKEA’s code of conduct is based, is available in the IWAY Standard.

IKEA has a special forum called the IWAY Council for issues relating to its code of conduct. The IWAY Council is headed by the Group President.

IWAY document structure

Our code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY), was introduced in the year 2000 and defines what suppliers can expect from IKEA and what IKEA requires from its suppliers in terms of legal requirements, working conditions, the active prevention of child labour, external environment and forestry management.



The IKEA Way on Purchasing Home Furnishing Products (IWAY)

Start-up requirements

Prior to starting up a business relationship with IKEA, potential IKEA suppliers must fulfil the start-up requirements:

- no forced or bonded labour
- no child labour
- no wood from intact natural forests or high conservation value forests. Timber origin must be known for IKEA products containing solid wood, veneer, plywood, and layer glued wood.

In addition, IKEA requires the supplier to make an action plan including a timeline for fulfilling the rest of the criteria of IWAY demands.

Suppliers can expect IKEA:

- to be reliable
- to adapt our products to production
- to contribute to efficient production
- to care for the environment
- to support material and energy-saving techniques
- to take a clear standpoint on working conditions
- to respect different cultures
- to have clear and mutually agreed commercial terms

IKEA requires its suppliers to comply with national laws and regulations and with international conventions concerning the protection of the environment, working conditions and child labour.

Working conditions

IKEA expects its suppliers to respect fundamental human rights, to treat their workers fairly and with respect.

Suppliers must:

- provide a healthy and safe working environment
- pay the legal minimum wage or the local industry standard and compensation for overtime
- if housing facilities are provided, ensure reasonable privacy, quietness and personal hygiene.

Suppliers must not:

- make use of child labour
- make use of forced or bonded labour
- discriminate
- use illegal overtime
- prevent workers from associating freely with any worker's association or group of their choosing, or engaging in collective bargaining
- tolerate any form of mental or physical disciplinary action, including harassment.

Environment and Forestry

At IKEA, we strive to minimise any possible damaging effects to the environment, which may result as a consequence of our activities. Therefore, IKEA and its suppliers shall continuously reduce the environmental impacts of operations.

Suppliers must:

- work to reduce waste and emissions to air, ground and water
- handle chemicals in an environmentally safe way
- handle, store and dispose of hazardous waste in an environmentally safe manner
- contribute to the recycling and reuse of materials and used products
- use wood from known areas and from sources that are responsibly managed, and preferably independently certified as such.

Suppliers must not:

- use wood originating from natural parks, nature reserves, intact natural forests or any areas with officially declared high conservation values, unless certified.

Compliance

The management of the trading service office is responsible for compliance with the IWAY demands, thereby ensuring that social and environmental issues are integrated into daily business.

In total IKEA has 70 (full or part time) auditors at the trading service offices. The auditor's task is to support the suppliers, including agreeing on action plans for improvements as well as explaining the requirements, performing monitoring and consultation visits and offering and executing training. The auditor has a checklist of approximately 90 detailed criteria on working conditions, including child labour, on the environment and on timber and wood.

The Compliance and Monitoring Group

In order to make sure that the same standards are followed throughout the organisation IKEA has a Compliance and Monitoring Group (CMG). The CMG is responsible for calibrating assessments worldwide, for training and support of the auditors at the trading service offices, and for conducting its own compliance audits.

A third-party auditor is always present at the CMG audits, in order to verify the results by interviewing the employees and to secure that local law and standards are followed. The work is done together with the trading service offices.

External and third-party auditing

In order to ensure objectivity and verification, IKEA uses external auditing companies to verify its working methods and results and to make actual audits at suppliers. These are KPMG, PwC (PricewaterhouseCoopers) and ITS (Intertek Testing Services).

In addition, in Bangladesh, India and Pakistan, IKEA has assigned KPMG to monitor child labour by carrying out unannounced checks of suppliers and their sub-contractors.

Corrective actions

When deviations are found, the auditors require – in writing – an action plan from the supplier detailing how the non-compliance will be rectified. An action plan must be sent to IKEA within one month following the audit. The action plan includes a description of the corrective action, the person responsible and timelines for each non-compliance issue to be rectified. The IWAY auditors then follow up to make sure that the supplier has completed the necessary corrective actions according to the approved action plan and timelines.

During FY05, non-compliance with our code of conduct was the main reason for terminating business relationships with eight suppliers, and it was one of several reasons for terminating business with another 24 suppliers.



An audit at an IKEA supplier in Russia.

Approval of IWAY

When all planned actions have been verified and approved by the auditors, the supplier is IWAY approved. This process may include several re-audits. The approval by the local IKEA auditor can later be challenged and changed by the Compliance and Monitoring Group (CMG) and third-party auditors, when they conduct their verifying and monitoring work. On several occasions this has been the case.

IKEA auditors perform regular re-audits of IWAY approved suppliers – as a minimum – every two years to make sure the IKEA supplier maintains its IWAY approved status. However, all Asian trading service offices have decided to do re-audits more frequently, once a year or every six months.

| Number of IKEA audits | FY03 | FY04 | FY05 |
|-----------------------|-------|-------|-------|
| Europe | 555 | 743 | 436 |
| Asia | 523 | 613 | 540 |
| Americas | 42 | 52 | 36 |
| Total | 1,120 | 1,408 | 1,012 |

IKEA suppliers* that are IWAY approved by IKEA Trading (have fulfilled all the 90 criteria in the auditor's checklist).

| | FY03 | FY04 | FY05 |
|----------|------|------|------|
| Europe | 51% | 54% | 71% |
| Asia | 11 % | 14% | 16% |
| Americas | 45% | 46% | 58% |
| Total | 32% | 36% | 47% |

* Including IKEA's own industrial group Swedwood

Average IWAY fulfilment of the 90 criteria

| | FY03 | FY04 | FY05 |
|----------|------|------|------|
| Europe | n/a* | 96% | 97% |
| Asia | n/a* | 75% | 80% |
| Americas | n/a* | 96% | 98% |
| Total | n/a* | 88% | 90% |

* Not applicable

Number of audits by IKEA Compliance and Monitoring Group (CMG)*

| | 2000–2003 | FY04 | FY05 |
|----------|-----------|------|------|
| Europe | 68 | 22 | 27 |
| Asia | 112 | 21 | 23 |
| Americas | 6 | 0 | 3 |
| Total | 186 | 43 | 53 |

*A third-party auditor is always present at the CMG audits, in order to verify the results by interviewing the employees and to remain informed about local laws and standards.

Number of third-party audits

| | 2000–2003 | FY04 | FY05 |
|------------------------------|-----------|------|------|
| Number of third-party audits | 137 | 7 | 26 |

Challenges to IWAY

The basic rule is that all suppliers shall follow national laws. The IWAY demands, though, are not limited to the requirement of national law, and the demands are the same worldwide.

The areas where the majority of the violations against IWAY compliance can be found are the handling of hazardous waste, chemicals, storage of waste and fire prevention – which are concerns with an international perspective.

Other problem areas are overtime and compensation for overtime, offering appropriate dormitories for workers together with limitations of the right to associate freely. These issues are mainly found in emerging economies, due to the fact that the industry standards in general are lower.

Sub-contractors

IKEA states in IWAY that suppliers must forward the requirements to their sub-contractors. Today IKEA audits only its suppliers, but we are in the process of starting up limited auditing of sub-contractors. This will, however, only be when sub-contractors have a substantial part of the production of any IKEA product; it would not be realistic to monitor all sub-contractors in a responsible manner.

Tools for improvement

IKEA is continuously engaged in a dialogue with the suppliers in order to set action plans for improvement. An important part of this is education, where IKEA takes responsibility in training the suppliers in how to improve the situation, and more importantly, the reason why they should introduce these changes.

Education is an important part of work with the code of conduct. We are working with different types of training and information depending on the target groups:

Internal

- Information about IWAY to IKEA co-workers working outside the trading service offices, e.g. product development and retail.
- Training for new auditors
- Training for experienced auditors
- Training for co-workers at the trading service offices
- Information about IWAY for new staff at the trading services

External

- Introduction trainings for new suppliers
- Training and workshops for new and existing suppliers

IWAY fulfilment

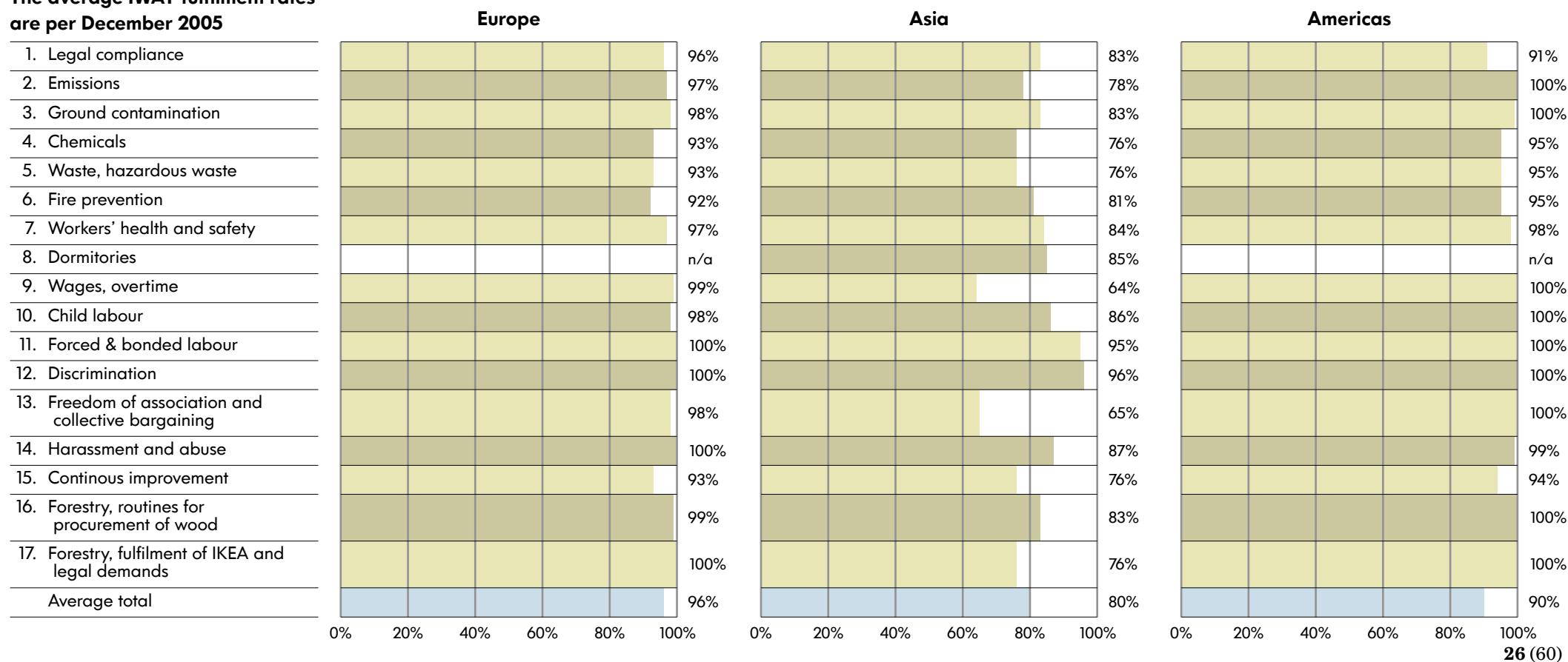
The following graph shows results based on reported figures from IWAY auditors at the trading service offices. The 90 questions in the IWAY checklist are summarised into 17 chapters/main areas.

The main purpose of this diagram is to show the rate of IWAY fulfilment by IKEA trading audits.

The diagram shows that most suppliers are in compliance with a majority of the issues.

An average IKEA supplier fulfils approximately 90 percent of the requirements. 47 percent of IKEA suppliers fulfil all the 90 criteria in IWAY. Most of the violations against IWAY occur in a few areas.

The average IWAY fulfilment rates are per December 2005



Improving supplier standards

IKEA believes in long-term relationships and does not break off relations due to non-compliance only, if there is a willingness to improve with an agreed plan of action within an acceptable time frame.

IKEA believes the only way to contribute to positive development is by being present and building long-term relationships with suppliers who share our commitment to promote good practices, and who want to grow and develop together with IKEA. By working together in this way, we can contribute to developing suppliers towards more competitive production, improved working conditions, and reduced environmental impact.

In cases of non-compliance, IKEA considers its support role as essential for the development of the supplier and the continuity of the business relation. But if repeated violations occur and the supplier shows no interest in improving, IKEA terminates its relationship with the business.



The Effluent Water Treatment plant is based on activated sludge technology.

Effluent treatment plant installations in Pakistan

Since the beginning of IWAY implementation, a major problem has been untreated waste water discharges. The main reason is lack of compulsion by the government to meet environmental laws.

As a result, the very first step was taken by a supplier in Pakistan to start an Effluent Treatment Plant (ETP) construction in 2003. This initiative became a good example. The first ETP in Pakistan was commissioned in mid 2005.

ETP is based on activated sludge technology, which is widely used for industrial waste water treatment. It involves primary stage treatment through chemicals and clarification and secondary treatment through biological action.

It has a capacity to treat 6,500 m³ of waste water per day.

Subsequently, the remaining suppliers also started ETP construction and by mid 2006 all suppliers in Pakistan are expected to have a fully functioning ETP.

IKEA has supported suppliers by providing training in ETP technology and ongoing progress reviews.

Achieving liquid effluent requirements, does not mean that the pace for achieving environmental improvement has slowed down. IKEA, along with its suppliers, is now working on environmentally friendly and sustainable solutions for sludge management.

Provident Fund Implementation in India

The Employees' Provident Funds and Miscellaneous Provisions Act (PF) aims to provide for the institution of provident funds, family pension fund and deposit linked insurance fund for employees in factories and other establishments. Though the law has been enacted since 1952, the implementation has not been strictly followed-up.

Since 2000 more than 100 IKEA suppliers have been legally covered under the Act. However, no more than 25 had been following the regulation. Implementation was difficult as there were numerous counter-arguments from the suppliers, ranging from the view that it was the workers themselves who were not interested in having their PF contribution deducted from their salaries, to the fact that it would just give the enforcement authorities more reason to indulge in corruption.

IKEA strongly defended its standpoint that it is mandatory for all IKEA suppliers to implement the provisions of the PF Act. Implementation was a gradual process, resulting in phasing out a few suppliers who were unwilling to implement PF. Suppliers are required to pay PF to all workers including the contract workers engaged in their factories. As a result of PF implementation, over 85,000 workers employed at IKEA suppliers have benefited so far.



Textile suppliers in India invest in salt recovery plant

Two Indian textile suppliers have invested in a salt recovery plant which removes salts from the dye-bath water. The dye-bath water is then reused in the process, and only the wash water is sent to the Common Effluent Treatment Plant. This is to reduce the amount of untreated water released from the suppliers' factories.

Since installation, the approximate reduction in volume of waste water discharge is 15 percent at one of the suppliers. At the other supplier 85 percent water and salt are being reused as liquid in the dyeing process.

A salt recovery plant at an IKEA supplier in India removing salt from the dye-bath water.

Focus area: child labour

Child labour is an unacceptable reality in certain countries. IKEA is aware of the complexity of the problem and works actively to prevent child labour among its suppliers or their sub-contractors.

IKEA has a special child labour code of conduct: “The IKEA Way on Preventing Child Labour”. IKEA supports the United Nations Convention on the Rights of the Child (1989), with the basic principle to always keep the best interests of the child in focus. The work IKEA does in this regard is also based on the International Labour Organisation (ILO) convention number 138 (1973) concerning minimum working age, and the ILO convention number 182 (1999) concerning the worst forms of child labour.

Because of the complexity of the child labour issue, it requires input and influence from many parties. By co-operating closely with international organisations like UNICEF and Save the Children, IKEA is trying to create a broad-based support structure that is necessary to tackle the root causes of child labour and to achieve a sustainable solution. IKEA co-workers must constantly raise the issue of child labour when visiting suppliers.

IKEA Children’s Ombudsman

The IKEA Group “Children’s Ombudsman” is responsible for ensuring that IKEA maintains a clear focus on the best interests of the child, and that we comply with the UN Convention on the Rights of the Child (1989).

In addition IKEA employs one person in India, whose specific task is to work on child labour issues and on social projects with the aim of protecting children’s rights in South Asia.

In the best interests of the child

If child labour is encountered on any production premises, IKEA requires the supplier to implement a corrective and preventive action plan regarding the child’s best interests. Additionally, there are business consequences for the supplier, who is placed on probation for at least six months. During this period the supplier is required to demonstrate that effective systems to prevent the recurrence of child labour are in place. IKEA monitors the action plan and business is resumed with the supplier only when the situation is satisfactory.

The supplier is responsible for the full rehabilitation of the child concerned. Care must be taken not merely to move child labour from one supplier’s workplace to another, but to provide more viable and sustainable alternatives, such as providing educational opportunities for the child.

Preventive and corrective actions are monitored by IKEA; for example, visits to the school the child attends and unannounced visits to supplier’s premises where the child was found working. If corrective action is not implemented within an agreed time frame, or if repeated violations occur, IKEA will terminate all business with the supplier concerned.

The IKEA Way on Preventing Child Labour

- All actions shall be in the best interests of the child.
- Suppliers must take appropriate measures to ensure that no child labour occurs on their own production premises or on those of their sub-contractors.
- Each supplier must agree to provide lists of all places of production (including those of the supplier’s sub-contractors) and allow IKEA co-workers as well as representatives of an independent third party, as and when commissioned to do so by IKEA, to carry out unannounced visits at any time.

Find out more at: www.ikea-group.ikea.com

Handling child labour violations

As IKEA always takes special care to protect and promote the best interests of the child, the emphasis is to empower any child labour found in its supply chain through education and training. The supplier concerned takes full responsibility for the child's rehabilitation and IKEA monitors the entire process and outcome.

Child labour training sessions

As child labour is a complex issue, it is necessary to interact constantly with suppliers, co-workers and third-party auditors. During the past year, more than 20 interactive workshops were conducted in South Asia with suppliers, sub-contractors and co-workers.

To gain a greater sense of participation and mutual awareness three different kinds of training programmes are conducted with all significant partners.

Firstly, workshops are held in the suppliers' factories so that their co-workers, sub-contractors and weavers can also participate and bring to light problems that they encounter on an everyday basis. This facilitates agreement on solutions besides adding to our knowledge on how best to implement the IKEA code of conduct.

Secondly, all new co-workers at IKEA undergo training, so that they are fully conversant with IKEA's way of handling child labour violations.

Finally, calibration exercises are conducted with third-party auditors to ensure that there is a consen-

sus on how to conduct audits in an atmosphere of partnership with our suppliers.

South Asia

Child labour is encountered most frequently in South Asia. The widespread home-based production system, typical of home-based industry in South Asia, makes it impossible for IKEA to guarantee that no children are involved in the production of an IKEA product.

During FY05, four cases of child labour were encountered in India and Bangladesh.

China

In China child labour presents a different kind of concern. In China nine years of schooling is compulsory. Children are allowed to start school at the age of six at the earliest, which means that some will finish school at the age of 15. Although Chinese law states that children are not allowed to work until sixteen years of age, some parents send their children to work in factories after they have finished their education.

If IKEA discovers a fifteen-year old working in one of its suppliers' factories, the child is taken out of work and the supplier must agree to offer the child an opportunity to return to the workplace when he/she has turned sixteen.

During 2005, seven cases of child labour concerning 18 children were encountered in China. The average age was 15.5 years; the youngest child was 14.5 years (this is the first case below 15 years). IKEA



IKEA has a special child labour code of conduct – The IKEA Way on Preventing Child Labour.

Number of third-party monitoring in South Asia (conducted by KPMG)

| | FY04 | FY05 |
|--|------|------|
| | 587 | 436 |

followed up the cases carefully with the suppliers to ensure that the children were not working, and to secure solutions for short-term additional education programmes.

IKEA is watching this development carefully. As the labour shortage in coastal industrial areas is developing, we may unfortunately face more cases in the future. Therefore, IKEA is in the process of developing more proactive measures to address this issue in China.



Chandralekha, second from left, with friends at school.

Chandralekha goes to school

IKEA's textile team found 11-year old Chandralekha winding thread at a sub-contractor's site in South India. The supplier responded by following IKEA requirements and paid for her to attend school. He also donated money to improve the infrastructure of the school where she enrolled and also promised to subsidise Chandralekha if she wants to pursue higher education.

IKEA is following Chandralekha's progress at school. English is her favourite subject and she recently scored 95 percent on her final exam in the subject. Today her confidence has increased to the degree that she is determined to become a teacher and help other children.



Selvam is today a skilled labourer after having attended vocational school.

Paneer Selvam joins a vocational centre

Selvam was thirteen years old and working on a loom when our third-party auditors found him at a supplier's sub-contracting site. The supplier agreed to meet IKEA requirements and sponsored the boy's education. Selvam did not want to go to school, and when he ran away from school for the third time, he got the opportunity to attend vocational school. Today Selvam is 15 years old and works as a skilled labourer for the same IKEA supplier. He also has a greater chance of finding jobs in the future at one of the many sewing or tailoring shops near his village.

Focus area: forestry

IKEA sees the forest as a valuable resource, and therefore works to ensure that the wood used in IKEA products comes from well-managed forests that will continue to provide goods and services for future generations.

The world's forests are important because of the essential functions and services they provide to regional and global environments, including balancing water cycles, storing carbon and housing a vast proportion of the world's bio-diversity.

IKEA recognises wood as an excellent material from both a functional as well as an environmental point of view. Wood has the right properties for being the principal material in approximately 50 percent of IKEA products. In addition, wood is renewable and recyclable. However, for wood to be the good environmental choice, it should originate from responsibly managed forests.

Certified forests are the long term goal

IKEA does not accept timber, veneer, plywood or layer-glued wood from intact natural forests or from forests with a clearly defined high conservation value. The timber used to manufacture wood-based products sold by IKEA comes from 44 countries. IKEA works with a step by step approach to implement forestry requirements at suppliers.

The long-term goal for IKEA is to have all wood in the IKEA range from third-party verified, well-managed



The IKEA forestry specialists, here in an intact natural forest in Siberia.

forests. The only current standard that meets this goal is that of the Forest Stewardship Council (FSC).

The FSC is an international organisation that promotes the environmentally appropriate, socially beneficial and economically viable use of the world's forests. For FSC certification, forestry must, among other things, respect the rights of indigenous peoples and manage high conservation value forests in a way that preserves the natural values of the area.

All solid wood used in the IKEA range is subject to the same minimum requirements for forestry. Wood

WWF and IKEA on the ground in Russia:

In 2002-2005, the WWF and IKEA Co-operation on Forest Projects in Russia included work on these issues:

- Monitoring illegal logging and promoting legal compliance
- Increasing certification capacity and awareness
- Establishing an anti-timber poaching brigade in one area of the Russian Far East.

The trade in illegal timber can only be stopped by a combination of on-the-ground actions and high-level lobbying. That is why the WWF and IKEA Co-operation developed an 'anti-timber poaching brigade' in the Russian Far East. The six-member team works in a remote and vast area, hunting for timber thieves to prevent the illegal felling of valuable timber. The team has made great progress in a short time. In the first year the team was responsible for exposing a quarter of all the region's known cases of illegal logging.

The brigade has now been fully anchored in the regional administration and is being used as a model by the Far Eastern Federal District of the Ministry of Natural Resources to reorganise all their forest inspection teams.

Find out more at: www.panda.org/forests/ikea

used in IKEA garden furniture in FY05 came from eastern European and South-East Asian countries. No high value tropical hardwood and no wood from natural tropical forests was used.

Monitoring and follow-up

IKEA suppliers are checked for compliance with minimum requirements for forestry during the IWAY audits that are performed by IKEA trading service offices. On an annual basis, the trading service offices carry out a forest tracing survey to trace the origin of the timber used in IKEA products. Suppliers complete a questionnaire about the origins of the wood (solid wood, plywood, veneer and layer-glued wood). This enables IKEA to identify which “level” on the staircase the various sources of timber raw materials for its products have reached.

In 2005, IKEA developed a forest tracing survey for bamboo and rattan in addition to timber. Minimum requirements on these fibres are also included in the IWAY standard.

Wood supply chain audits

In addition to the IWAY audits, the suppliers must also accept wood supply chain audits that are performed by IKEA forestry specialists. This inspection allows the forestry professionals in IKEA to trace the wood from the supplier all the way back to the forest of origin to verify the information in the forest tracing survey.

IKEA forest specialists

IKEA has 12 forestry professionals working in different locations around the world. Their task is to support IKEA trading service offices to implement forestry requirements at IKEA suppliers. They also help suppliers to source timber that has been harvested in responsibly managed forests.

IWAY fulfilment

| according to forest tracing reporting | 2000–2003 | FY04 | FY05 |
|---------------------------------------|-----------|------|------|
| | 97% | 96% | 90%* |

*The accuracy of our forestry auditing and reporting improves each year that we work with the issues and develop knowledge within our suppliers. Reasons for a lower figure in FY05 forest tracing reporting include stricter judgement on lack of information, incorrect information, and non-transparent wood origin in the forest tracing surveys.

Total amount of timber used (cubic metres of round wood logs)

| | FY03 | FY04 | FY05 |
|--|-------------|-------------|-------------|
| | 5.5 million | 6.0 million | 6.4 million |

Status of FY05 wood volumes according to the IKEA staircase model

| Level | 1 | 2 | 3 | 4 |
|-----------------------|---------|-----------|----|-----------|
| Volume m ³ | 640,000 | 4,950,000 | 0* | 780,000** |

* IKEA Level 3 standard was revised in 2005, therefore no volume is recorded for this year.

** FSC certified timber with chain of custody until the IKEA supplier.

Top 5 tree species used in IKEA products

| Pine | Birch | Spruce/Fir | Beech | Walnut |
|------|-------|------------|-------|--------|
| 47% | 18% | 14% | 9% | 2% |

Top 5 wood sourcing countries

| 1 | 2 | 3 | 4 | 5 |
|--------|--------|-------|---------|--------|
| Russia | Poland | China | Romania | Sweden |

Wood Supply Chain Audit Results

| | |
|---|----------------------------|
| Total number of wood supply chain audits: | 68 |
| Total supplier volume audited: | 1.6 million m ³ |
| (26% of total IKEA wood volume) | |
| Total audited volume approved according to IKEA minimum requirements: | 71% |

IKEA criteria for timber suppliers – step by step

IKEA places demands on its suppliers in the form of a staircase model. The different steps illustrate the increasing demands on the timber that IKEA uses. The demands apply to all suppliers of products that contain solid wood, plywood, veneer and layer-glued wood.

Level One – entry level

Suppliers must comply with the following requirements to be allowed to supply to IKEA:

- Suppliers must be able to verify the country of origin of the timber and the region in the country where the timber was felled.
- The wood must not originate from intact natural forests (INF) or high conservation value forests (HCVF).
- High value tropical tree species must be certified according to the Forest Stewardship Council (FSC).

Level Two – IWAY

Together with Level 1, these requirements form part of the IKEA code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY).

- Timber must be felled in accordance with national and regional legislation.
- No timber may originate from protected areas.
- Timber must not originate from plantations in tropical or sub-tropical regions that have been established after November 1994 by replacing intact natural forests.

Level Three

Level Three ‘4Wood’ is a standard developed by IKEA with the aim of making it easier for suppliers to make the transition from the minimum requirements (Level 2) to Level 4. The 4Wood standard that IKEA finalised in 2005 emphasises the use of a wood tracking procedure and other routines at the supplier to better control the wood from procurement through production.

Level Four – certified responsibly managed forests

Level 4 corresponds to the criteria for responsibly managed forests that are certified in accordance with an official standard. This standard must comprise approved performance levels that have been developed in co-operation with organisations that represent environmental, economic and social interests, and it must be verified by an independent third party. At present the Forest Stewardship Council (FSC) is the only certification system corresponding to the requirements of Level 4 which is recognised by IKEA.

Distribution of IKEA home furnishing products

Efficient distribution plays a key role in creating the low price, and contributes to minimise the environmental impact of our activities.

The route from supplier to customer must be as direct, cost-effective and environmentally adapted as possible. Flat-packs play an important role in achieving this goal.

IKEA buys products from 1,300 suppliers in 53 countries. There are 28 distribution centres in 16 countries that supply goods to IKEA stores. The majority of IKEA furniture is distributed in flat packs, enabling transport of larger quantities and with less impact on the environment.

Packing flat and filling space

IKEA increased its filling rates in 2005 by one percent compared to the previous year. The filling rate measures how efficiently a container, truck or other space is filled with products for transportation via road, rail or sea.

Demands on our distribution suppliers

IKEA uses the services of 225 freight companies all over the world. All carriers have to meet certain requirements, such as having their own environmental policy and action plan. The environmental demands of IKEA promote modern vehicles, clean fuel, and fuel-efficient driving techniques. Freight suppliers must also report their environmental progress.

Many customers choose to have the products delivered to their home. IKEA is requiring short-distance delivery companies to fulfil the same environmental demands as our other transport suppliers.

By sea and by land

IKEA moved six percent of products by rail and ten percent by combined transport solutions in 2005, whilst 17 percent of booked volume was transported by sea. The aim is to reduce the share of transport by road.

Rail and sea carriers are subject to the same type of rigorous environmental demands as road transport suppliers. Each supplier must have an environmental plan and must report to IKEA regularly.

“The IKEA Way on Distributing Home Furnishing Products”

The implementation of “The IKEA Way on Distributing Home Furnishing Products” is scheduled to start in FY06. Final preparations made in 2005 included tests of the concept, the requirements and the follow-up procedure at rail, road and ocean transport companies, as well as warehouses and distribution terminals in Asia, Europe and North America.

Meeting environmental requirements

In 2005 78 percent of all IKEA transport service providers met our requirements.

Fulfilment of environmental demands on transport suppliers.

| | FY03 | FY04 | FY05 |
|-----------|------|------|------|
| Road | n/a* | 80% | 83% |
| Rail | n/a* | 96% | 82% |
| Sea | n/a* | 88% | 93% |
| Short sea | n/a* | n/a* | 80% |
| Barge | n/a* | n/a* | 100% |

* Not applicable

Purchasing of food in IKEA stores

Each year millions of people throughout the world eat a meal or have a snack at IKEA restaurants and buy food products at the Swedish Food Markets.

IKEA strives to make sure the food sold in the stores is healthy and safe. All customers should have confidence in the food they buy in the store, safe in the knowledge that it has been produced with respect for animals and in a manner designed to have minimum impact on the environment.

Fresh and packaged food at IKEA is purchased both locally and centrally. The centrally purchased range is the same for IKEA stores worldwide. The local range is decided in each country.

Organic products in the Swedish Food Market range

The stores have on average of 100 products, out of a total of 150 products.

| FY03 | FY04 | FY05 |
|------|------|-------------------------|
| 0 | 2 | 3 (+1 seasonal product) |

The IKEA Way on Purchasing Food

IKEA has formulated its minimum requirements on the suppliers in a code of conduct “The IKEA Way on Purchasing Food”. The following actions have been taken:

- In 2001 all suppliers were informed about IKEA ambitions regarding food products and the environment.
- In 2002 all IKEA food managers in the retail countries and food purchasers in the IKEA organisation received training in the IKEA Group’s demands on food suppliers.
- In 2003, all central suppliers received a questionnaire with a series of questions based on the demands laid down by IKEA.
- In 2004, major preparatory steps were taken in order to include the social and environmental demands in IWAY on Food, which will be implemented during the coming years.
- In 2005, discussions and exchange of information with other restaurant chains and food retailers regarding social and environmental policies took place, aimed at finding similarities and opportunities for co-operation. Furthermore, a new, updated code of conduct on food products was drafted.
- The new “IKEA Way on Purchasing Food” is in line with the demands we place on our suppliers of home furnishing products.
- In 2006, on-site test audits at a selected number of food suppliers will take place in order to evaluate the applicability of the new code of conduct.



KÖTTBULLAR – the famous Swedish meatballs are sold at IKEA stores all over the world.



Our environmental work at IKEA units

IKEA strongly believes that taking an environmentally responsible approach is the only sensible way to run a healthy and sustainable business. It is about looking at the big picture, from saving energy to reducing carbon dioxide emissions.

The IKEA shuttle bus on its way to the IKEA store at Kungens Kurva, Stockholm, Sweden.

A responsible approach

IKEA aims to improve all environmental aspects of business. In addition to using resources wisely, IKEA strives to minimise the negative environmental effect caused by business activities.

IKEA focuses its environmental efforts on activities that we believe have the greatest impact. Today we work on an overall level in major areas such as reducing carbon dioxide emissions, using alternative energy sources, managing waste, and decreasing energy consumption. Additionally, IKEA conducts environmental activities in units throughout the world.

Good housekeeping is about basic, methodical environmental work that takes place at all IKEA locations. However, the focus is on the stores and distribution centres where the major part of operations takes place. This is also where the majority of IKEA co-workers work, and where the impact will be the greatest.

Environmental co-ordinators

Environmental co-ordinators plan and implement measures to ensure that stores and warehouses take environmental responsibility. Each unit has its own action plan detailing the work towards achieving the goals that IKEA has set for social and environmental training, waste management, saving energy and water, as well as minimizing environmental impact from transportation.

Each store has a full-time or part-time environmental co-ordinator and every country has a national co-ordinator responsible for environmental issues. In FY05 this amounted to 259 people, equivalent to 86 full-time co-workers dealing with social and environmental issues.

Each distribution centre has an environmental co-ordinator. Each distribution area, often consisting of more than one country, also has an environmental manager.

In addition, there are environmental co-ordinators at IKEA of Sweden and at different units in the supply chain.

Training to raise awareness

About 75 percent of all IKEA co-workers work in the stores. All new co-workers are given introductory training and attend basic training courses dealing with environmental issues in greater depth. The aim is that all co-workers should take part in training on a regular basis.

During FY05 some 13,600 IKEA co-workers (equivalent to 20 percent of the total number of co-workers in the stores) received basic training. An additional 350 co-workers at the distribution centres received training.



FANTASTISK napkins are produced by so called TCF paper (Totally Chlorine Free).

| Basic environmental training/e-learning | | | |
|---|-------|--------|--------|
| | FY 03 | FY04 | FY 05 |
| Stores | 9,650 | 11,800 | 13,600 |
| Warehouses | n/a* | 2,000 | 350 |

* Not applicable

Reviews – a tool for improvement

The stores and distribution centres progressively introduce tougher demands in the area of environmental management, such as energy consumption and waste management. They must also demonstrate that they have effective and reliable methods for monitoring progress. There are annual reviews, focusing on issues related to environmental management set-up, evaluation of actual performance as well as occupational health and safety.

The share of units that are approved has increased continuously over the past years. 75 percent of the stores were approved at an initial review in FY05, and four out of five distribution centres reviewed passed. The remaining units have subsequently produced action plans in order to remedy their shortcomings and are facing follow-up visits to ensure the development. An important part of the review process is about exchanging knowledge and experiences while looking at the specific challenges and needs for the unit.

In FY05 the distribution centres focused on activities such as environmental performance reviews and the creation of a common energy-saving strategy for all distribution centres. For example, IKEA co-workers carried out energy-saving studies at the distribution centres in Jarosty, Poland, and Werne, Germany, identifying potential savings of 13 to 15 percent to be achieved without significant investment. The distribu-

tion centre in Jarosty succeeded in achieving its goal by 2005 and aims to cut energy consumption by a further 10 percent in 2006.

Waste management saves money

It is important for IKEA to reduce the amount of waste generated by business activities, for example by re-using transport packaging and reducing the damage to products during goods handling and transport operations. Recycling large quantities of material not only helps to save resources but can also result in considerable savings. Charges for the disposal of waste can be minimised, and in some cases it is possible to sell materials that can be reclaimed or recycled.

Most stores and distribution centres sort waste into many different fractions; separating cardboard, paper, different kinds of plastic, wood, metal, glass, etc. Customers can bring back certain types of waste – for example discarded packaging, spent batteries and low-energy bulbs – to most IKEA stores.

Recovery

IKEA endeavours to adopt various preventive measures to minimise damage to products. However, when damage does occur, IKEA attempts to repair products rather than simply scrap them. These products can then be used as spare parts or they are sold in special “bargain corners” in the store.

Waste reduction and management at IKEA stores

- IKEA generated 200,490 tonnes of waste in the stores.
- Waste generated per cubic metre sold remained at 14 kg.
- Waste to landfill was 3 kg per sold cubic metre.
- 80 percent of the total waste was recycled or energy recovered, 72 percent sorted at the IKEA stores, the rest handled by local recyclers.
- IKEA collected 1,257 tonnes of hazardous waste, including batteries, low-energy bulbs, electrical and electronic equipment, paint, etc.

Waste recycled, reclaimed or used in energy production in IKEA stores

| | FY03 | FY04 | FY05 |
|------------------|------|------|------|
| Europe | 77% | 85% | 86% |
| North America | 57% | 54% | 64% |
| Asia | 59% | 73% | 69% |
| Stores total | 73% | 77% | 80% |
| Warehouses total | 78% | 80% | 86% |

Improved waste management at Distribution Centres

The total waste volume was 33,308,257 kg.

The total waste volume sorted for recycling and/or energy recovery was 28,761,104 kg.

| | FY02 | FY03 | FY04 | FY05 |
|--------------|------|------|------|------|
| Sorted waste | 65% | 76% | 78% | 86% |



The Good Housekeeping competition resulted in an overall reduction of 10 percent waste per sold cubic metre.

Good Housekeeping Competition

The Good Housekeeping competition in 2005 was open to all IKEA units with the objective to raise awareness about waste and its environmental impacts, and to minimise the amount of waste generated and increase recycling efforts. Another goal was to reduce the costs associated with waste and to explore new possibilities to recycle more fractions.

134 units in 21 countries participated, involving 21,500 co-workers. The competition resulted in an overall waste reduction of 10 percent waste per sold cubic metre and an increased recycling index by 0.35 kilogrammes.

Energy consumption

The goal of IKEA is to reduce the energy consumption in relation to the quantity of products sold at IKEA stores and cubic metres moved in the Distribution Centres. Energy use is continuously monitored at each store. Action plans based on these results are made in

Recovered or reused products in IKEA stores

| | FY03 | FY04 | FY05 |
|---------------|------|------|------|
| Europe | 58% | 65% | 64% |
| North America | 63% | 66% | 66% |
| Asia | 60% | 70% | 73% |

Examples of how IKEA stores reduced energy use

Cutting electricity consumption: Co-workers at all IKEA stores in Norway were trained to analyse the electricity consumption patterns to improve energy management. Weekly analysis and rapid response to problems reduced consumption by an average of 10 percent.

Studying how energy is used: Co-workers in Europe and North America studied how each unit consumes energy, what determines energy use, whether consumption is efficient, and how to better match energy use to IKEA business needs. The studies will help the units reduce consumption and helped other IKEA units modify their standards for energy consumption.

Energy consumption in relation to sold cubic metre

| | FY03 | FY04 | FY05 |
|------------------------|------|------|------|
| Stores electricity | -1% | -2% | 2% |
| Stores heating | -1% | -1% | 3% |
| Warehouses electricity | 8%* | -4% | 0% |
| Warehouses heating | n/a | -11% | 0% |

* The reasons for the increase in energy consumption are partly the construction and extension of several distribution centres, partly the introduction of more shifts. Six distribution centres have been brought into operation or extended in size during the financial year.

Units with renewable energy installations

The units that have renewable energy installations so far include:

Geothermal installations: Amsterdam, Bahrendrecht, Breda, Groningen and Harleem (Netherlands), Jarosty (Poland), Peterborough (United Kingdom), Pratteln and Lyssach (Switzerland), Slependsen (Norway), Torsvik (Sweden).

Solar panels: Anderlecht (Belgium), Bologna (Italy), Breda, Groningen and Haarlem (Netherlands), Dortmund (Germany), Asturias, Barakaldo, Madrid, Valls (Spain), Wels (Austria).

Green electricity: Firenze and Piacenza (Italy), Taasturp (Denmark), Valls (Spain).

Renewable energy

| | FY03 | FY04 | FY05 |
|-------------------------|------|------|-----------------|
| Stores electricity | 21% | 30% | 37% electricity |
| Warehouses total energy | 2%* | 19% | 17 total energy |

*Calculated in a different way in FY03, hence the big difference.

More IKEA units purchased electricity produced from renewable energy, including:

- All stores, distribution centres and offices in Sweden are purchasing 95 percent water and 5 percent wind power until the end of 2006
- All UK units are purchasing 100 percent renewable source energy, which also qualifies for UK government support until 2007
- All units in Germany, except three, are purchasing 10 percent hydro-power in 2006 and increasing to 20 percent in 2007
- The majority of Italian stores and the distribution centre were purchasing 100 percent hydro-power until the end of 2005

order to improve efficiency and raise awareness among co-workers.

As an example, IKEA is developing a new environmental building standard to promote the production and use of green energy. It will also provide incentives to the IKEA stores to use renewable energy and reduce consumption. This standard will be implemented over the course of the next few years.

A new common IT platform and the new building standard are two examples of new global environmental efforts in FY05. Co-workers can now use the IT platform to report energy consumption and emissions efficiently. The goal is to gain an overview – both on a local and global level – of current consumption levels, challenges and improvements.

Renewable energy

Each IKEA unit plays an important part in helping IKEA to ensure that, step by step, a larger part of the energy used comes from renewable energy sources. Investment in renewable energy is primarily in the form of “green” electricity, the term used to describe electricity that is generated by energy sources other than fossil fuels, such as hydro-electric power and wind power. Some investments have also been made in geothermal energy and solar panels. Since 2003, IKEA has increased its number of units with renewable energy systems. In FY05, there were more than 20 geothermal energy parks or solar panel sites.

Transport

IKEA has decided to reduce carbon dioxide emissions caused by the transportation of products and people to and from the stores, and is working towards more environmentally adapted transport solutions.

The impact exerted on the environment as a result of transport activities related to IKEA operations is considerable. IKEA has invested in acquiring a greater insight into this relationship, not least to stipulate environmental criteria when negotiating the future provision of transport and goods forwarding services.

IKEA is a member of several international networks, working on developing methods to calculate the impact of transport on the environment, as well as on strategies that will enable them to influence the worldwide development of environmentally adapted transport solutions (see chapter Our Stakeholders and Partners).

Transportation of IKEA products

A product’s route from supplier to store can be long. Smart packaging is the most effective weapon to reduce the environmental impact of transport. This reduces both emissions and transport costs. IKEA can never fully utilise the volume capacity in a trailer as the filling rate is limited by various factors such as the weight of goods. Therefore, it is important to make optimum use of the available space.

Transportation of IKEA products

| | FY03 | FY04 | FY05 |
|--|------|------|------|
| Inbound filling rate (supplier to warehouse) | 57% | 57% | 58% |
| Outbound filling rate (warehouse to store) | 54% | 57% | 58% |

Modes of transport (goods volume)

| | FY03 | FY04 | FY05 |
|----------------------------------|------|------|------|
| Road | 78% | 76% | 67% |
| Sea | 3% | 3% | 17% |
| Rail | 10% | 10% | 6% |
| Combined transport (road + rail) | 9% | 11% | 10% |

Transportation of IKEA customers

| | FY03 | FY04 | FY05 |
|---|------|------|------|
| % of IKEA stores served by efficient public transport | 77% | 88% | 89% |
| % of customers using public transport | 10% | 10% | 8% |

Building stores closer to customers

When investigating potential locations for new stores IKEA attempts to take into account the amount of traffic generated by the store. This means that in some cities IKEA now opts to increase the number of stores, reducing the distances its customers need to travel.

Customer journeys

Most IKEA customers travel to and from the stores by car. IKEA studies show that only about 8 percent of visitors use public transport. This means that the major source of carbon dioxide emissions is from the customers' own journeys to and from the store.

Public transport

As a general rule, IKEA endeavours to locate its stores in areas served by efficient public transport. Some IKEA stores have their own shuttle buses linking them with the city centre. IKEA has formulated a list of requirements for what constitutes "efficient public transport":

- public transport, preferably rail transport or equivalent, linking the store to the city centre or to a regional transport hub.
- there must be an embarkation/disembarkation point within 150 metres of the store exit.
- timetables must be clearly displayed at the exit to the store.
- there must be at least one trip in each direction every hour during store opening hours.

IKEA encourages co-workers to use public transport, to share cars to and from work, or to cycle in order to reduce journeys by car. It is also important to make customers aware of how passenger traffic affects carbon dioxide emissions, and to inform them of alternative means of transport to and from the store.



Transporting IKEA goods by rail - the flat pack system enables IKEA to reduce both emissions and transport costs.

Home delivery

IKEA customers can use the home delivery service for goods. In most stores this service is provided by independent companies; in most instances IKEA places environmental demands on these contractors as well.



Our involvement in the community

IKEA initiates and supports a wide range of activities and projects globally as well as locally. On an overall level we work mainly to improve health and education, focusing on children and women, and to protect the environment where the focus is on forestry.

A woman in a self-help group in India embroidering a cushion cover for IKEA. The Income Generation Initiative was designed by IKEA in order to strengthen the position of women in the self-help groups.

Working globally and locally

IKEA co-operates with partners throughout the world on social and environmental issues. The result is a wide range of activities; from vaccination programmes for thousands of children in South Asia to rehabilitation of burned and degraded rain-forests in Malaysian Borneo.

IKEA is involved in the community at both global and local level. First and foremost IKEA supports activities and projects in the countries where it has business operations, or in communities close to IKEA stores, suppliers or their sub-contractors. As a result, our involvement in the community takes various forms to suit the varying needs of our stakeholders.

Activities and projects are often conducted in close co-operation with established IKEA partners, such as UNICEF, Save the Children and WWF.



IKEA supported the UNICEF “Right to Play” programmes, that help children affected by wars and/or AIDS in Angola and Uganda.

Global activities

Child rights project in northern India

In August 2000, IKEA and UNICEF initiated a joint child rights project in the northern Indian state of Uttar Pradesh, from where IKEA sources many of its carpets. The aim is to prevent and eliminate child labour in “the carpet belt” by addressing the root causes, such as debt, poverty, lack of access to education, disability and ill health.

The project currently includes 500 villages and approximately one million people will benefit from it.

Alternative Learning Centres – The project aims to create awareness about the prevention of child labour and mobilise rural communities in India. The IKEA initiative complements the government’s efforts to enroll all six to twelve-year-olds in the project area into primary school.

To help children who have not joined school at the right age, Alternative Learning Centres (ALCs) act as bridge schools, so that the children eventually can be mainstreamed in the formal educational system. The ALCs are conducted by local teachers specially trained in the “joyful learning” technique.

As villagers begin to experience the positive impact of the initiative they have become more positive towards of the education of their children. The community has consequently become aware of the importance of education and child rights.

Female empowerment –

Another aspect of the project is the setting up of women’s self-help groups. The self-help groups are the key change driver.

By putting aside small sums of money, these women create their own funds so that they do not have to seek help from unscrupulous money lenders when they need money for medical emergencies and pressing family needs. This helps break the vicious cycle of debt that forces parents to put their children to work. Other activities that take place are information about children’s rights, health and nutrition etc.

Health initiative – Healthy Start for Children is an add-on health initiative of IKEA, WHO and UNICEF that started in mid-2002. While working on education and rural indebtedness, it was realized that inadequate immunisation coverage was primarily responsible for illness among children in the project villages.



The IKEA and UNICEF child rights project directly benefits approximately 75,000 children: they would otherwise have received no schooling and were at risk of becoming child labourers.

It is widely known that illness often leads to indebtedness in poor households, which can mean that children are forced into work.

During a five-year period, the project aims to inoculate 140,000 infants and 150,000 mothers-to-be in 3,326 villages. This measure would protect children against major childhood diseases and enable them to have a strong start in life.



Routine immunisation programmes help prevent child labour.

This added health input has shown results in terms of increased awareness and demand-generation; among communities for immunisation programmes women are taking up the charge of monitoring the immunisation drives in their respective villages. In this way, routine immunisation programmes also help prevent child labour.

Income Generation Initiative – Financially, stronger families mean fewer children having to work and better chances of getting education. This is why IKEA in co-operation with UNICEF launched an Income Generation Initiative in 2005, where women from mature self-help groups embroider cushion covers for IKEA. This helps women earn additional

income for their families and gives them self-esteem besides acquiring entrepreneurial skills.

The initiative was designed by IKEA in order to further strengthen the women in the self-help groups. IKEA designers have visited the project area to familiarise themselves with the traditional skills of women in the region. This gave them an understanding of the capabilities of the women and, accordingly, cushion covers were designed especially to be produced by these women.

One of IKEA's oldest carpet suppliers provides logistical support, raw materials and regular payment to the women.



Girls practising hand writing in Luanda, Angola in a joint UNICEF and IKEA project.

Promoting children's right to play

The 1989 Convention on the Rights of the Child states that every child has the right to play in a safe environment. Yet millions of children are deprived of this vital element of their development because of political conflicts, diseases and exploitation.

From August 2003-August 2005, the IKEA Group donated €2 for every IKEA PS BRUM soft toy purchased throughout its stores to UNICEF "Right to Play" programmes. The result was €2,170,302 in support of activities for children suffering from traumas and affected by both wars and AIDS in Angola and Uganda. Apart from food, shelter and clothing these children are in great need of care and counselling in order to develop. Play is an important

part of their rehabilitation; the BRUM money helps a lot of children to treatment and care.

Angola has emerged from a war that lasted three decades. The IKEA contribution reaches some 80,000 children through “Education for Life and Peace” (ELP), a non-formal education effort that targets out-of-school and vulnerable children between the ages of 5–14, using learning through play and teaching techniques applied by community volunteers.

Trained educational activists, based at the community level promote the programme and seek educational commitment from local communities. The key objective is to promote playing activities for children and adolescents. The programme is designed to communicate messages of self-care, conflict resolution and communication skills through participatory activities led by the facilitator. Further complementary activities include group games and sports in order to make links between sports and personal development.

In Uganda, civil conflicts have ravaged the nation for almost two decades and caused massive population displacement of an estimated 1.4 million people. The vast majority of internally displaced people live in temporary shelters in congested camps with limited access to land and few opportunities to generate income. The children affected by the conflict, including formerly abducted children, children living in camps, and night commuters are vulnerable to violence, abuse, exploitation, neglect and discrimination.

Many are traumatised by their experiences of the conflict and in desperate need of psychosocial care and stimulation for development. Support from IKEA goes to promote and fulfil the rights to education and psychosocial recovery through improving access to child care centres, and recreational activities. The IKEA supported project has also helped improve the access of young people to key information on HIV/AIDS and health issues through recreational activities.

Donation of tables to Liberia and Burundi

The fourteen years of civil crisis in Liberia brought a dramatic decline in the provision of basic social services. The whole infrastructure has been destroyed or looted: school buildings, health clinics, transport system and water supply. The state of education is desperate, with destroyed schools, repeated population displacements, and years passing with teachers not receiving their salaries. Reports tell that 75 percent of the education infrastructure has been severely damaged or destroyed, leading to a virtual



One of the 18,000 NORDEN tables that was donated to schools in Burundi and Liberia.

collapse of education services. Illiteracy levels are greater than 70 percent.

IKEA has supported UNICEF Liberia through a donation of 9,000 NORDEN tables. The tables are used at schools to improve learning space for children in needy communities. These efforts contribute to the revitalisation of the education system and to the child's opportunities in life.

The NORDEN tables are also used by primary healthcare clinics, hospitals and health training institutions. Most of health facilities need support in reactivation or rehabilitation.

A similar donation of 9,000 tables has been made by IKEA to Burundi in order to boost the Back to School

Campaign's activities. This contributes to revitalise an education system that has been seriously eroded by more than ten years of civil strife.

The co-operation between UNICEF and IKEA in the Burundi context helps to resolve some long outstanding humanitarian problems. For a very long time, provincial school heads have asked UNICEF to assist in providing furniture for teachers and classrooms. This is certainly so in the specific case of the tables that have been donated.

The tables are used by schools throughout Burundi, and are mainly used by teachers as desks. In the majority of the 14,000 classrooms in the Burundian schools, there are virtually no teachers' tables. School headteachers may also equip their offices, and in certain schools in the more advanced towns and cities, they are used in school libraries by students.

Sow a Seed in Borneo

The Sow a Seed project work is done in a co-operation between IKEA, the Swedish University of Agricultural Sciences, Yayasan Sabah and the Malaysian forestry company RBJ.

The Sow a Seed Foundation was initiated by IKEA in 1998 in order to rehabilitate burned and degraded rainforest in the state of Sabah in Borneo, Malaysia. In an initial phase, IKEA customers contributed generously with start-up funding for the Sow a Seed project. Since then, IKEA has taken the responsibility to continue the project and ensure planting and



The Sow a Seed project ensures planting and maintenance of lowland rainforests in the state of Sabah in Borneo, Malaysia.

maintenance of 18,500 hectares of lowland rainforest over the coming years.

In addition to protecting the reforested area from logging for a 50 year period, the project has contributed to the building of homes, meeting places for social events, and field accommodations for the more than 150 workers and their families who are involved in the project.

In 2005, the project operations facilities and community buildings were evaluated against the IWAY Standard to ensure that social, environmental, and working conditions were meeting IKEA requirements.

Mapping of intact natural forests

The non-profit organisation Global Forest Watch maps intact natural forests in various parts of the world, compiling the results in special atlases for the respective countries. IKEA has supported this work in Russia, Lithuania, Latvia, Estonia, Romania, Indonesia, Canada, south east Venezuela and Chile. IKEA has also partly supported mapping in Brazil. The data produced by Global Forest Watch enables IKEA forest managers and suppliers to identify areas from which IKEA can not accept timber, unless the forests are certified according to a credible certification scheme.

Small forest owners in Latvia, Lithuania and Estonia

In 2002 WWF, the global conservation organisation, and IKEA joined forces to promote responsible forestry. The WWF and IKEA Co-operation on Forest Projects contributes to the spread of information and education, and supports the certification of responsible forest management.

During the co-operation the two organisations committed to carry out a series of projects that contributed to the development of global toolkits on forestry issues and promoted responsible forestry



Romania is one of the countries where WWF and IKEA are promoting responsible forestry.

on the ground in priority regions. Several joint projects were completed, for example supporting the establishment of "producer groups" in which manufacturers of timber products work together to facilitate FSC certification of raw materials. Projects were implemented in Russia, China, Estonia, Latvia, Lithuania, Romania and Bulgaria.

The co-operation between WWF and IKEA supports the implementation of the IKEA forest action plan and is based on the common goal of the two organisations to better care for the world's forests. In 2005, WWF and IKEA agreed to co-operate in a second phase of

projects to be implemented from 2005–2008.

As part of the WWF and IKEA Co-operation on Forest Projects, IKEA supported training and other regional activities to increase awareness of forest certification and responsible forestry practices among forest owners in the Baltic countries. Implementation of responsible forestry practices in the region requires training and outreach to private forest owners. In Latvia, five demonstration forests were established to show forest owners and managers the benefits of responsible forestry.

Find out more at: www.panda.org/forests/ikea

Scholarships to study responsible forest management

IKEA recognises the need to contribute to capacity building for forestry knowledge in the countries where we source our timber.

Although many of the forests where our wood comes from are similar in biological terms, the people, traditions, legislation and forest practices may differ markedly. In 2001, in order to facilitate information exchange and relationship-building between countries near the Baltic Sea, IKEA, together with the Southern Swedish Forest Research Centre established an international one-year programme in sustainable forestry.

In 2005, 23 students from Latvia, Lithuania, Poland, Russia, Ukraine, and Germany were sponsored by IKEA to attend the course in Alnarp, Sweden. Find out more at: www.slu.se

Tsunami Relief

At the end of 2004, the tsunami in Asia caused a huge loss of life, killing hundreds of thousands, and leaving millions of people homeless and in desperate need of help. The IKEA Group and local units responded to the needs of the survivors of the natural disaster.

IKEA decided to support activities to make long-term contributions focusing on children's health and education in affected areas. IKEA supported the work by UNICEF's to address issues of school enrolment, psychological care of children, supplementary education and child protection for those affected by the

tsunami in Tamil Nadu in southern India. The contribution from IKEA covers 25 severely affected villages to benefit thousands of children in one of the worst affected districts in the state.

The IKEA Group contributed with in-kind donations of 125,000 bed sheets, 100,000 quilts, 18,000 blankets, 145,000 toys and 300 mattresses to UNICEF in Indonesia, Sri Lanka and Chennai, India.

Additionally, IKEA stores all over the world organised activities to support the victims of the tsunami. Many stores gave space to UNICEF and Save the Children for local activities, for example collecting boxes placed at the cash-lines, or space was given to communicate how customers could send their money directly.

In many countries money was collected among co-workers and this money then often was doubled by IKEA. In addition, many co-workers volunteered in various other ways. Several IKEA retail countries donated textiles and toys to UNICEF, Red Cross and Save the Children. Selected products have also been sold in IKEA stores for the benefit of the victims.



Children at Kadambadi shelter in Tamil Nadu, India, in training for a theatre performance.

National and local activities

Local IKEA efforts are primarily driven by co-workers in the IKEA stores. The support consists, for example, of material and financial resources.

The stores work locally in partnership with the community, by targeting particular problems or areas in need of improvement. Many IKEA stores are involved in redesigning and refurbishing rooms in schools and hospitals as well as helping local organisations to offer a service benefiting the community.

Here are some examples of social and environmental activities during FY05.

The IKEA Stiftung in Germany

The IKEA Stiftung was founded by the German IKEA companies in 1981. It supports projects focusing on “improving the personal and living situation of children”. The foundation is an independent non-profit organisation which is subject to the national foundation board.

Three examples of projects funded during FY05:

IKEA Stiftung supported a schooling project run by Kindernothilfe in the Hai El Siref refugee camp in Darfur, Sudan. This camp provides shelter for about 32,000 people, more than half of them children. Due to the situation in the camp, the children are exposed to extreme social stress. In order to make their time in the camp more bearable, the project aims to make schooling available to those children.

Day after day, thousands of children are victims of



A schooling project at the refugee camp at Hai El Siref in Darfur, Sudan.

sexual violence. The German project NINA wants to close the gap between the enormous need for information and counselling on the one hand and a much needed refuge on the other. NINA is the first centralised, telephone-based information number and help-

line for adults that offers help and advice with these issues. Nationwide media coverage was used throughout Germany with the aim of increasing public sensitivity and knowledge about this topic.

“Mission Possible” has been helping children and

adolescents in Eastern Europe since 1995. The work in Moscow, Russia, aims to keep children off the streets and lead them back to a normal life. Several so-called “street patrols”, a shelter home and a centre for rehabilitation, take care of up to 700 children and adolescents over the course of a year.

Collecting aluminium cans in Poland

IKEA stores in the Warsaw area (Janki and Targowek) installed machines for collecting aluminium cans. The money is donated to PAJACYK (“wooden puppet”), a programme of the Polish Humanitarian Organization (PHO) to feed hungry children from the poorest regions of Poland.

This programme reflects two social goals of IKEA: to support children in need and protect the environment. Additionally, the recovery organisation RECAN pays an extra 5 percent of the money earned by selling collected cans. Other IKEA stores in Poland will now be equipped with the machines.



“Mission Possible” in Moscow, Russia aims to keep children off the street and lead them back to a normal life.

Improving the lives of needy children in Portugal

IKEA Portugal worked with the local government to create a centre for needy children. The local government rebuilt a 19th century mansion and IKEA furnished and decorated it.

The centre accommodates 16 children, from new-

borns to twelve-year-olds, who have been removed from their families and suffer from hunger, abuse, exploitation and neglect. The children live in the centre until they can be placed in a foster home. The children are also able to receive medical, educational and psychological assistance while in the centre.

Reaching out to schools in the UK

IKEA UK stores have decided to emphasise the educational aspect of their community relations work. Many stores arrange curriculum visits to the store, where there are opportunities to link IKEA with a particular aspect of the syllabus, such as design and technology, business and business ethics, health and safety at work, environmental impact and recycling. Some IKEA UK stores also give job opportunity talks and run interview programmes to help students prepare for the world of work.

IKEA Wednesbury took its educational support a step further. Together with a group of teachers the store arranged the development of a training CD-Rom and DVD. The result is training material which gives design and technology students an understanding of the industrial aspect of the subject.

Hurricane Katrina Relief in the US

Responding to Hurricane Katrina in the southern USA, IKEA US organised a number of activities to aid the survivors and their families. For example, IKEA US donated 6,000 mattresses, sheets and

pillows to the emergency shelters in the immediate aftermath of the disaster.

IKEA stores in the US also gave thousands of soft toys to children in the emergency shelters, to provide some comfort and play opportunities, which is especially needed when a child is under stress. Also, all sales from the IKEA FAMNIG heart soft toy for September and October 2005 were donated to the American Red Cross.

IKEA co-workers contributed to the American Red Cross hurricane relief and IKEA US matched all the donations. In addition, IKEA Houston provided thousands of meals, supplies and a child's play area at the emergency relief centre in Houston.

Helping families and children in need in Italy

IKEA Italy, is active in helping families and children in need improve their quality of life.

For example in Milan, IKEA supported First Aid, a medical and sleeping centre for the homeless. IKEA designed and furnished new lodgings in a public building which was a former school. After the renovation it was transformed into a safe and positive environment for homeless families and single mothers.

Other IKEA activities in Milan, include the renovation and refurbishment of a local hospital and psycho-

motricity centre which supports new mothers. The renovation and refurbishment has created a better environment in the centre, which works with new mothers to overcome and prevent baby-blues and loneliness. The centre's work is effective especially in regard to helping immigrant mothers, who often face more difficulties with respect to their different cultural background.



Children playing in the play area provided by IKEA at the George Brown Convention Center that was used as one of many hurricane relief centres.

In Naples, IKEA has worked to create a pleasant family environment for children who have suffered from abuse and neglect. In the home, children are welcomed to a family-like community run by specially trained staff. Children learn the importance of a community life, receive psychological assistance and re-introduction to schooling.

Children in the centre are often awaiting court rulings on the possibility of family reunions or adoptions.

Additionally, in Padua, IKEA has been involved in renovating and refurbishing the classrooms of the local children's hospital. The children in the hospital ward are cancer patients who are undergoing chemotherapy, and the refurbishment is a positive influence towards their recovery. To ensure that the children have as normal a life as possible, government teachers conduct lessons at the hospital in accordance with the national educational programme.



In Italy IKEA has worked to create a positive environment for children in need.



Our stakeholders and partners

IKEA has chosen to co-operate with a number of companies, trade unions and organisations throughout the world. These partnerships enable us to share their experiences and accomplish more than we could have done by working on our own with social and environmental issues.

IKEA and Save the Children work jointly both at global and local level, and have a long relationship working on projects mainly related to preventing child labour.

Confidence among stakeholders

Our main stakeholders are customers, co-workers, suppliers, non-governmental organisations (NGOs) and authorities. It is essential for IKEA to know and understand our stakeholders, to be aware of what they expect from us and to receive their feedback.

To collect feedback from customers, IKEA carries out market research in the form of Market Capital – a tool to monitor and follow up each store's implementation of the IKEA concept and assess how well it works in each market.

The survey is carried out once every three years. For some years the survey has included questions about stakeholder confidence, which has produced scores of between 45 and 64 percent from our customers.

Confidence among co-workers

IKEA evaluates how we are moving towards our social and environmental goals by asking co-workers if they agree that “IKEA is a company that shows in action that it takes social and environmental responsibility”.

In the 2005 confidence survey in which 12,189 participated (14 percent of all IKEA Group co-workers), 68 percent agreed with this statement. The results also showed that the work IKEA does regarding social and environmental issues makes it an attractive company to work for and makes IKEA co-workers proud.

Supplier feedback

Every three years since 1993, a supplier survey has been conducted with all current IKEA suppliers with the aim of receiving feedback on strengths and weaknesses and how we can improve our work. The survey is conducted anonymously by a third party.

The last survey had a 66 percent response rate and showed among other things that 92 percent of the suppliers think that IKEA takes social and environmental responsibility.

Customer Satisfaction Index

Another tool IKEA uses to collect feedback from stakeholders is the Customer Satisfaction Index, CSI. This survey is carried out twice a year to investigate customers' satisfaction with the IKEA stores. It provides an international benchmark and ensures that customer satisfaction issues are addressed regularly. IKEA can see a positive development regarding the overall Customer Satisfaction Index.



Our customers are one of the main stakeholders in IKEA. Twice a year customers take part in a survey to investigate their satisfaction with the IKEA stores.

Valuable co-operation on global level

The following list briefly describes the organisations IKEA currently works with, and explains the co-operation with each organisation. The organisations are listed in alphabetical order.

Business Leaders' Initiative on Climate Change – BLICC runs a forum for companies to measure, report and reduce carbon dioxide emissions. Each company contributes to an annual report on emissions as related to their business activities. IKEA and The Body Shop initiated the BLICC programme in 2000.

Read more about BLICC at www.respecteurope.com

Building and Wood Workers' International – BWI In 2005, The International Federation of Building and Wood Workers (IFBWW) and the World Federation of Building and Wood Workers (WFBW) created a new global union federation, the Building and Wood Workers' International (BWI) with more than 12 million members in the building, building materials, wood, forestry and allied industries.

In 1998, IKEA signed an agreement with BWI. In 2001, the parties entered a new agreement based on the IKEA code of conduct, "The IKEA Way on Purchasing Home Furnishing Products" (IWAY).

IKEA and BWI meet twice a year to exchange experiences on working conditions and social responsibility.

Read more about BWI at www.ifbww.org

Business for Social Responsibility – BSR is a global, non-profit organisation that helps member companies achieve business success with respect to ethical values, people, communities and the environment. BSR provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies. IKEA is a member of the organisation.

Read more about BSR at www.bsr.org

The Clean Cargo Working Group – CCWG organised by Business for Social Responsibility (BSR) promotes sustainable goods transportation through integrating environmentally and socially responsible business principles into transportation management practices. Members are leading multinational retailers and manufacturers (shippers) and freight carriers (ocean, rail, road, and air service providers). IKEA is a member of CCWG.

Read more about the organisation and working group at www.bsr.org/CSRResources/WGO/CC-GF/index.cfm

The Global Compact was founded by the United Nations in 2000. It promotes responsible corporate citizenship and works to ensure that business is involved in solving the challenges of globalisation. The Global Compact encourages companies to work with UN agencies, labour and civil society to support universal environmental and social principles. Ten universal

principles are the core of the organisation's activities. The ten principles promote human rights, labour rights, environmentally sustainable business practices and anti-corruption. The organisation provides policy dialogues, training, and networks. IKEA has been a member of the Global Compact since 2005.

Read more about The Global Compact at www.unglobalcompact.org and find out more about the ten universal principles at www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html



IKEA supports Global Forest Watch in their mapping project in several countries.

Global Forest Watch – GFW is a non-profit organisation mapping intact natural forests and compiling the maps in atlases for countries all over world. The atlases are valuable tools for IKEA forest managers and suppliers in helping them identify the areas from which we do not accept timber. IKEA supports the mapping project in Brazil, Canada, Chile, Estonia, Indonesia, Latvia, Lithuania, Romania, Russia, and south-eastern Venezuela.

Read more about GFW at www.globalforestwatch.org

Greenpeace is a non-profit organisation focusing on the most crucial worldwide threats to the planet's biodiversity and environment. Greenpeace campaigns to stop climate change, protect ancient forests, and save the oceans. IKEA discusses forestry and related issues with Greenpeace, but does not work on any joint projects with the organisation.

Read more about Greenpeace at www.greenpeace.org

The Green Power Market Development Group is run by the World Resource Institute and IKEA is a member of the organisation. Working alongside companies like Interface, Nike, Holcim and Dupont, IKEA is developing tools and strategies that increase the use of electricity generated from renewable sources.

Read more about the organisation at www.thegreenpowergroup.org

Forest Stewardship Council – FSC is a non-profit member organisation promoting responsible management of the world's forests. The Forest Stewardship Council (FSC) strives to promote environmentally appropriate, socially beneficial, and economically viable management of the world's forests. The long-term goal of IKEA is to buy all wood from well-managed forests that are verified by a third party. The Forest Stewardship Council (FSC) is the only organisation today that provides a standard to help IKEA meet this goal.

Read more about FSC at www.fsc.org



Children in a classroom at a Save the Children project in China.

Save the Children helps millions of children and adults around the world to improve their lives. IKEA and Save the Children work jointly both at global and local level, and have a long relationship working on projects mainly related to preventing child labour. The organisation helped IKEA define a special code of conduct to address child labour issues.

Read more about Save the Children at www.savethechildren.net

The Swedish University of Agricultural Science in Alnarp, Sweden and IKEA established an international one-year programme in sustainable forestry in 2001. The programme aims to encourage an exchange of ideas and information among the countries in the Baltic region. In 2005, students from Latvia, Lithuania, Poland, Russia, Ukraine and Germany attended the programme at the university.

Read more about the university at www.slu.se



IKEA and UNICEF have a ten-year long partnership, working together both globally and locally on several projects.

UNICEF is the world's leading organisation for children. IKEA has supported UNICEF programmes around the world for more than ten years and has a corporate partnership with the organisation working together at global and local level. For example, IKEA stores sell UNICEF greeting cards and do fundraising and promotional activities. In 2000, IKEA and UNICEF initiated a children's rights project to prevent and eliminate child labour in northern India, currently covering more than 500 villages with more than one million inhabitants. IKEA also supports a five-year immunisation programme for hundreds of

thousands infants and mothers-to-be in 3,000 Indian villages.

Read about IKEA and UNICEF joint projects at www.unicef.org/corporate_partners/index
Read more about UNICEF at www.unicef.org

WWF, the global conservation organisation, emphasises three global goals: conserving the world's biological diversity, ensuring the sustainable use of renewable natural resources and reducing pollution and wasteful consumption. The WWF and IKEA Co-operation on Forest Projects contributes to the spread of information and education, and supports the certification of responsible forest management. The aim is to carry out a series of projects contributing to the development of global toolkits on forestry issues and promoting responsible forestry on the ground in priority regions.

Read more about WWF and IKEA joint projects at: www.panda.org/forests/ikea
Read more about the WWF at: www.panda.org

An anti-poaching brigade established by WWF and IKEA Co-operation on Forest Projects has helped reduce illegal logging, preserve valuable forests, and curb corruption in Russia.





Our key figures

IKEA uses key performance indicators – commonly referred to as KPIs – as an important tool to achieve set goals and to continuously improve its work with social and environmental issues.

Logging in WWF's Pskov Model Forest in Russia. Since 2002 IKEA and WWF have joined forces to promote responsible forestry.

Monitoring progress

The IKEA Group tracks the business performance of all units in the company from a social and environmental perspective. Key performance indicators (KPIs) are the globally accepted way to measure business performance and to monitor progress towards achieving them.

Since 2000, IKEA has seen a very good rate of improvement. Suppliers have made positive development and work continuously toward fulfilling the requirements set up by IKEA.

However, IKEA is aware that there is still a lot of work to be done. Work on social and environmental issues is a continuous process and we have adopted a step by step approach to achieve set goals.

Social and environmental performance has been measured via KPIs since 2003. Consequently, there is only comparable information available for the past three years, which means a relatively short KPI history.

All KPIs are per 31 August, unless otherwise stated.

Our products and materials

Catalogue

Environmental management

| | FY03 | FY05 |
|---|------|------|
| Certified paper suppliers | 100% | 92% |
| Certified artwork/repro, gravure and offset suppliers | 32% | 28% |

Paper (use of resources)

| | FY03 | FY05 |
|--------------------------------|------|------|
| Fibres from certified forestry | 74% | 70% |
| Recycled fibres | 1.7% | 5.2% |

Our supply chain

IKEA suppliers* that are IWAY approved by IKEA Trading

(have fulfilled all the 90 criteria in the auditor's checklist).

| | FY03 | FY04 | FY05 |
|----------|------|------|------|
| Europe | 51% | 54% | 71% |
| Asia | 11 % | 14% | 16% |
| Americas | 45% | 46% | 58% |
| Total | 32% | 36% | 47% |

* Including the IKEA industrial group Swedwood

Average IWAY fulfilment of the 90 criteria

| | FY03 | FY04 | FY05 |
|----------|------|------|------|
| Europe | n/a* | 96% | 97% |
| Asia | n/a* | 75% | 80% |
| Americas | n/a* | 96% | 98% |
| Total | n/a* | 88% | 90% |

* Not applicable

Focus area: forestry

IWAY fulfilment

according to Forest Tracing Reporting

| | FY03 | FY04 | FY05 |
|--|------|------|------|
| | 97% | 96% | 90%* |

*The accuracy of our forestry auditing and reporting improves every year as we work with the issues and develop a strong knowledge base with our suppliers. The reason for a lower figure includes: stricter judgement on lack of information, incorrect information and un-transparent wood origin in the forest tracing surveys.

Our environmental work in IKEA units

Basic environmental training/e-learning

| | FY03 | FY04 | FY05 |
|------------|-------|--------|--------|
| Stores | 9,650 | 11,800 | 13,600 |
| Warehouses | n/a* | 2,000 | 349 |

* Not applicable

Waste management

| | FY02 | FY03 | FY04 | FY05 |
|--------------|------|------|------|------|
| Sorted waste | 65% | 76% | 78% | 86% |

Waste recycled, reclaimed or used in energy production

| | FY03 | FY04 | FY05 |
|------------------|------|------|------|
| Europe | 77% | 85% | 86% |
| North America | 57% | 54% | 64% |
| Asia | 59% | 73% | 69% |
| Stores total | 73% | 77% | 80% |
| Warehouses total | 78% | 80% | 86% |

Recovered or reused products in IKEA stores

| | FY03 | FY04 | FY05 |
|---------------|------|------|------|
| Europe | 58% | 65% | 64% |
| North America | 63% | 66% | 66% |
| Asia | 60% | 70% | 73% |
| Russia | 52% | 56% | 60% |

Energy consumption in relation to sold cubic metre

| | FY03 | FY04 | FY05 |
|------------------------|------|------|------|
| Stores electricity | -1% | -2% | 2% |
| Stores heating | -1% | -1% | 3% |
| Warehouses electricity | 8%* | -4% | 0% |
| Warehouses heating | n/a | -11% | 0% |

* The reasons for the increase in energy consumption are partly the construction and extension of several distribution centres, partly the introduction of more shifts. Six distribution centres have been brought into operation or extended in size during the financial year.

Renewable energy

| | FY03 | FY04 | FY05 |
|-------------------------|------|------|------|
| Stores electricity | 21% | 30% | 37% |
| Warehouses total energy | 2%* | 19% | 17% |

*Calculated in a different way in FY03, hence the large difference.

Distribution of IKEA home furnishing products

Fulfilment of environmental demands on transport suppliers

| | FY03 | FY04 | FY05 |
|-----------|------|------|------|
| Road | n/a* | 80% | 83% |
| Rail | n/a* | 96% | 82% |
| Sea | n/a* | 88% | 93% |
| Short sea | n/a* | n/a* | 80% |
| Barge | n/a* | n/a* | 100% |

* Not applicable

Transportation of IKEA products

| | FY03 | FY04 | FY05 |
|---|------|------|------|
| Inbound filling rate (supplier to warehouse) | 57% | 57% | 58% |
| Outbound filling rate (warehouse to store) | 54% | 57% | 58% |

Modes of transport (goods volume)

| | FY03 | FY04 | FY05 |
|----------------------------------|------|------|------|
| Road | 78% | 76% | 67% |
| Sea | 3% | 3% | 17% |
| Rail | 10% | 10% | 6% |
| Combined transport (road + rail) | 9% | 11% | 10% |

Transportation of IKEA customers

| | FY03 | FY04 | FY05 |
|---|------|------|------|
| IKEA stores served by public transport | 77% | 88% | 89% |
| Customers using public transport | 10% | 10% | 8% |